Management of innovation in small service companies

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Abstract

The objective of our study is to explore how the innovation practice of a small service company can be identified and developed from the managerial point of view. The study is based on the intensive case study strategy utilizing observational and interview data. The analysis shows how a new theoretical approach (the practice approach) and a new methodological tool (the CODE-method) can be used in the study of innovation management. The results show the innovation practice of the case company was based on five distinctive innovation processes initiated by different actors inside and outside of the company. Utilizing the full potential of these five processes would however require solving two problems: managing and organizing all five processes more efficiently and relaxing the CEO-centricity of the innovation practice.

Key Words: Innovation practice, Service innovation, Innovation management, Practice theory
Researchers argue that the non-technological, or the human side of innovation has remained little studied. Two comprehensive reviews about innovation research conclude innovative organisations have remained poorly understood (Wolfe, 1994), and furthermore that “…Innovation itself remains unpredictable, non-calculable, indistinct and fuzzy. One major reason for the blackness of the innovation box stems from the diversity of players with different intentions contributing during the innovation process” (Pohlman et al., 2005).

Broader definitions recognise different types of non-technological innovation such as service innovation, business model innovation, and design innovation. Although innovation literature increasingly recognises the relevance of various types of innovation and innovative activities for the survival of organisations (Dougherty, 2006), these are far less studied than the traditional technology-related product and process innovation. Even though service innovation is gaining more interest among the researchers, it has been little studied especially in the small entrepreneurial business context.

Yuan and Woodman (2010) have pointed out that innovation research in general has a strong tendency to rely on the efficiency perspective, which assumes organisations decide rationally concerning their innovative activities. They also point out that there is a growing interest among innovation researchers in “How innovation is actually carried out than how it should be done”.

Attention to how innovation is carried out indicates conceptualising innovation as something that is “done” through the interaction of people, activities, artefacts and contexts (Montonen and Eriksson, 2013a, 2013b). In our study, the interest in innovation practice refers to the question of how innovation is carried out while interaction as a collective effort among people, activities and objects in a specific business context.

**Objectives**

Our research case targets the earlier mentioned gaps in innovation research literature by investigating innovation practice in one small Finnish service company led by the owner-entrepreneur. The main purpose of our study is to explore how the innovation practice of a company can be first identified and then developed further from the managerial point of view.

**Conceptual Framework**

The interest in how innovation is carried out is grounded in the growing interest in “practice” within organisation and management research (Golsorkhi et al., 2010). A key argument has been, what practitioners do in practice, cannot be understood with theories that do not acknowledge practitioners as experts (Salaman and Storey, 2002) nor pay attention to their work as a “practice” (Dougherty, 2006). The practice debate has further criticised scientific management theories for mechanic and static world views, which do not acknowledge meaning-making as a key activity of human action (Sandberg and Tsoukas, 2011).
Schatzki (1996) argues that although practice theories rest on divergent definitions of “practice”, they all agree social life is a constellation of multidimensional and complicated practices (Schatzki et al., 2001; Corradi et al., 2010; Gherardi, 2012; Nicolini, 2013). Practices are central to social life because they are the sites of human understanding, which is articulated through action.

Reckwitz (2002) suggests all practice theories are “cultural theories”, which aim at understanding action through symbolic structures of meaning. According to Reckwitz (2002) a practice can be defined as “a routinised way in which bodies are moved, objects are handled, subjects are treated, things are described and the world is understood”. Therefore, the study of “innovation practice” moves the focus from individuals’ to questions such as how people interact within and across organisations, what artefacts are involved (for example: Documents, computers, software, tools, etc.), and how context is involved in all this.

In conclusion, the key focus in studying innovation practice is the analysis of interactions among people, activities and artefacts in a specific business context. This is also the focus of our research case.

**Methodology**

The case company of our study is a franchising-based rental and real estate micro firm, which has five to seven full—time employees depending on the season. The company was established by the current entrepreneur-CEO in 1999 to provide rental apartments for students. Since then, it has expanded to serve other customers as well, recently expanding to the real estate business also. The company is committed to the continuous development of its services and the company culture enhances intensive co-operation between Management and employees.

The practice-theoretical approach of our study requires the use of qualitative research methodology. We have chosen the intensive case study strategy (Eriksson and Kovalainen 2008) using many different data sources. The data collection has been carried out in three phases. First, we have collected participant observation data shadowing the CEO and employees in their work. During observations, we have asked how innovation is done in the company and why it is done in that specific way. When making observations, we paid special attention to the following issues: What kind of innovation-related tasks and activities the CEO and the employees perform? How are these tied to a certain time and place? What kind of meanings do the CEO and the employees give to the innovation-related tasks and activities? Who works together; how and why? What principles guide innovation-related tasks and activities? How do spaces and tools shape innovation-related tasks and activities?

Second, we have interviewed the CEO and the employees. The interviews were focused on the following themes: How and when innovation (for example: New services business development) is initiated and carried out in the company? Who are the initiators of new ideas and who leads the processes resulting in new services and business development?
Third, to gain a better understanding of the innovation practice, we arranged a two-day workshop in which the CEO and employees participated in a self-reflection process. In the workshop, which was video-taped, we used the CODE-method, which we designed according to the practice—theoretical framework by Reckwitz (2002). The CODE-method focuses on the deep analysis and self-reflection of the competence, doings, objectives and emotions involved in innovation practice (Figure 45.1, see also Aromaa et al., 2013).

All data has been transcribed in text and analyzed with the qualitative content analysis method (Eriksson and Kovalainen, 2008) focusing on how various aspects of the innovation practice are described and understood by company actors.

Figure 45.1. The CODE-method (modified from Aromaa et al. 2013)

Case Analysis

The analysis of our research case shows, even in a small service company, innovation practice consists of several distinct and identifiable processes through which innovation is carried out. In our case company the innovation practice rests on five interlinked processes, which are different according to the initiator of the process. These processes are:

- The CEO-initiated innovation process.
- The employee-initiated innovation process.
- The new employee-initiated innovation process.
- The customer-initiated innovation process.
- The franchising chain supported innovation process.

In the following, we describe each process in detail paying attention to the constellations of actors, actions, artefacts, and emotions in producing innovation (Reckwitz, 2002).
The CEO-Initiated Innovation Process

The owner-entrepreneur who works as the CEO of the company frequently initiates new ideas that generate radical innovation in the service products and business of the company. These ideas often emerge during her leisure time (weekends, nights, and holidays) and she writes them down in her black note book. Thus, the employees perceive innovation in the company as coming from the CEO’s black idea notebook, which she takes with her everywhere.

Whenever the entrepreneur-CEO gets a new idea, she first refines it at home by talking with her partner, and then shares the idea with another entrepreneur and with few of her long—time customers. When the new idea is finally presented to her employees, their first reaction is to oppose it critically. Although having a positive attitude towards new ideas in general, the employees sometimes find it hard to be motivated about the more radical ideas presented by the CEO. When the employees start to better understand the idea, they also start to question it from the view of their areas of expertise (for example: Finance, marketing, customer service, and technical know-how).

The employees typically ask many questions about the idea and assess its profitability relations to other services, estimated work load, and other practical issues. By asking questions the employees shape, mould and refine the CEO’s original idea. The CEO listens to the views presented by the employees and give positive feedback on their counter-arguments and comments that take the idea further. Discussions with the employees often raise many emotions and, accordingly, the CEO describes a cycle of ten emotions she experiences time after time when introducing her new ideas to employees.

When proceeding with a new service or business development process further, the CEO chooses one of the employees to work closely with her. The chosen employee has the main responsibility for organising the creation of the objects and instructions related to the new service (For example: Files, folders, tables, and maps). When the first viable version of the new service and the first version of the written instructions are completed, the CEO wants to test the service with his or her trusted long-term customers as soon as possible.

The Employee-Initiated Innovation Process

The employees produce many new ideas, which focus on incremental improvements in the customer service routines. The employees produce their ideas at the office and talk about them collectively in the morning before the office is opened for customers. The starting point for a new idea focusing on customer service can be a long-term experience or a more spontaneous feeling of frustration according to which a specific object used in customer service (For example: Document, contract, or form) does not serve its purpose anymore. These everyday problems generate incremental innovation in the everyday work activities and, in this way, also improve customer service.
A new idea produced by the employees typically leads to a process in which the written object is collectively refined by the employees themselves. In this process, the oldest employee, who has been working in the company for the longest time, rewrites the written object. Then she prints out the first version of it, which is then circulated from one employee to another until they are all satisfied with it.

**The New Employee-Initiated Innovation Process**

Every summer the company hires some short-term employees (students), who sometimes remain in the company after the summer and become permanent employees. In addition to speaking out her appreciation towards the ideas generated by her current employees, the CEO claims the young summer employees always bring with them fresh perspectives to the company. The older employees argue, however, a new employee must work in the company for a couple of years to get familiar with the routines; to get a hold of “how things are done around here” until they are able to give any useful insights into how things could be improved.

The CEO in turn argues, the existing employees of the company are a bit “thin-skinned” to appreciate the knowledge and skills of the new employees. She concludes the existing employees react to new employees’ contributions with a not-so-good attitude saying: "Don’t you come here to give us advice on how to do our job". Despite of knowing about the existing employees’ bad attitude towards the new employees, the CEO encourages the new employees to think differently and to raise questions about why certain tasks are done in a certain way, and not in some other way. She emphasizes, however, it is important for the new employees to learn to "Ask nicely" because she agrees, new employees should not question too much, nor suggest any radical changes.

**The Customer-Initiated Innovation Process**

During the last few years, both the CEO and the employees have talked much about customers as the central resource for innovation and company development. During our research project, however, the CEO and the employees have realised their customers have not been a key source of innovation; they could identify only one radical service innovation that has been initiated by a customer. In our joint workshop, the CEO initiated an open debate about the topic. From her view, the routinization of the basic service process over the years has reduced the need to listen to customers’ needs and expectations, or analyze them in more detail. Accordingly, the employees do not have as close relationships with customers as the CEO, who is used to having intensive informal discussions about their experiences, expectations and problems on a continuous basis.

**The Franchising Chain Supported Innovation Process**
There have not been too many new ideas coming from the Franchising Chain Manager neither, nor has the company been able to engage the other companies of the franchising chain into a dialogue about the ideas for business development. The CEO says the Chain Manager does not know the working practices in the local offices and, therefore, it is difficult for him to come up with any new ideas by himself. The Chain Manager has, however, an important role as a supporter and mediator of ideas coming from the single companies in the chain. If the Chain Manager considers the new idea feasible, he will begin to promote the idea and its implementation to all thirteen companies within the chain. This does not, however, happen too often.

**Diagnosis and Recommendations**

Our diagnosis of the innovation practice of the case company suggests the company know how to organise and manage the first two innovation processes, CEO-initiated and employee-initiated, to a degree – although these processes have their problems. While the first two processes currently form the core of innovation practice in the case company, the three latter ones have much more un-used potential. Particularly the customer-initiated innovation process could be increasingly important in the future. Furthermore, the entrepreneurial company is part of a franchising chain which does not bring much value in business development.

Based on the analysis and diagnosis presented in the previous section, we have identified two interlinked areas in which further development could considerably improve the innovation practice of the company.

**Organising and Managing the Innovation Processes more Efficiently**

Both the entrepreneur-CEO and the employees contribute to the ideation phase of all five innovation processes. The company allocates, however, an excessive amount of resources to the front end phase of innovation at the cost of managing and organizing the later phases focusing formal service product development and implementation. While the front end phase is characterized by ad hoc decisions (Montoya-Weiss and O’Driscoll, 2000) and, therefore, takes a lot of time and energy the company would benefit from re-allocation of working hour devoted to different phases of the innovation processes. An increased amount of resources could be given to the collective evaluation of ideas and monitoring the implementation phase.

While the employees participate in the idea generation phases of all innovation processes, the CEO tends to refine and develop the ideas further by herself or with only one employee participating in this. The employees, who have not been involved in the refinement and development phase, are rather reluctant to participate in the implementation of the new service product. Thus, the company would benefit from the adoption of more participative management practices empowering the employees to be more active during the later phases of all five innovation processes.
As it seems, the case company has put far more emphasis on the CEO-initiated and employee-initiated innovation processes while the potential of the other three processes has remained less used. Furthermore, in service and business development, the innovation practice rests strongly in the hands of the entrepreneur-CEO. This is typical to small entrepreneurial companies which would, however, benefit from a larger base of ideas initiated by the other business actors in addition to the CEO. New ideas produced by the existing and new employees and customers and company partners could introduce fresh perspectives to the business. Therefore, an increased organising and management effort should be targeted to the new employee and customer initiated and the franchising chain supported innovation processes in addition to CEO-initiated and employee-initiated processes.

Relaxing the CEO-Centricity of the Innovation Practice

In the case company, the entrepreneur-CEO takes care of most business-related tasks, which require problem solving skills. This behaviour is due to the strong emotional distress that she feels every time she leaves the employees to deal with business-related problems by themselves. Attempting to solve the problems by herself, however, the CEO prevents her employees to develop their problem solving competence and skills. This custodial management practice burdens both the CEO and her employees.

The entrepreneur-CEO is also the key innovation actor in the company who produces most of the new service and business ideas. Whenever she gets new ideas, she encourages the employees to challenge these, and the employees do present meticulous questions about. The employees are especially concerned about the consequences that the new service products have the daily work with customers. From the employees point of view the problem is that the CEO cannot provide clear answers to these questions until the idea has been tested in practice. The uncertainties related to the implementation of new ideas de-motivate the employees even though the entrepreneur-CEO tries to assure them that some degree of uncertainty is a natural part of all innovation processes. Overall, the difference between a more systematic and linear model of innovation desired by the employees and the CEO’s understanding of innovation as emergent and less certain makes the innovation practice of the company especially challenging.

Another difficulty is that the entrepreneur-CEO reacts in an emotional way when the employees challenge her ideas. She feels that the purpose of the employees’ meticulous questions is to reject her ideas even though she also feels that these questions are helpful in order to refine the new service products in a cost-effective manner. Whenever ideation takes place in interaction with the employees or when she presents her own ideas to them, her feelings range from great enthusiasm to deep anger. Her fluctuating emotions are then transferred to the employees who detest this emotional contagion. As a result, the employees wish that ideation would be managed in a more professional manner without the emotional strain. However, they also consider that the enthusiasm of the entrepreneur-CEO is a highly valuable resource for business development.
Overall, the CEO is used to do new things first herself, and this is what the employees have learned to expect. During the years, “The CEO first” has become the unwritten rule of the company in most matters, also other than innovation-related ones. The consequence is the employees are reluctant to make any decisions even though the CEO encourages them to do so. Instead, they ask the CEO to decide because it is safer and easier to rely on him or her. The employee’s recognise the uncertainty concerning decision making dates from the time when they were new employees and when they learned the trade by asking the CEO and their seniors. However, the company should try to think about new ways of relaxing the CEO-centricity.

Conclusions

The case study has illustrated the innovation practice of a small service company is complex and requires fine-grained qualitative analysis. Our study has further indicated, analyzing and developing the innovation practice of a small service company is challenging because innovation-related activities are not always explicit, visible, and easily recognisable even to the innovators themselves. In addition to planned and organised activities and explicit knowledge, the innovation practice is also infused by intuition, taken-for-granted assumptions and tacit knowledge. Finally, our study has shown in detail how a new theoretical approach (The practice approach) and a new methodological tool (The CODE-method) can be useful in exploring the innovation practice for trying to develop it further.

The CODE method was particularly useful in identifying the innovation practice and its management. This method enabled the CEO and the employees to collectively reflect on how the company innovates. This self-reflection was helpful in surfacing taken-for-granted beliefs and assumptions, hidden desires and understandings about right and wrong as well as conflicting view about the innovation practice of the case company. Furthermore, the method enables the identification of innovation management-related meta-practices such as ‘the CEO first’ which has become the unwritten rule of the case company. The transformation or removal of meta-practices is difficult but when successful it would affect the innovation practice of the company in several ways. Most importantly, it would give the employees the possibility to learn how to deal with business-related problems and make decisions more independently. Overall, the employees could take more responsibility on the renewal of the company and its business. In addition, the work-related stress of the CEO could be reduced.

CODE method also helped the case company to evaluate its innovation practice in a way that avoided negative feedback. This is valuable for micro business companies with only a handful of people with close personal relationships working in them. In addition, the CODE method helped to open up how and why strong emotions were involved in the CEO-led innovation process. While innovation literature rarely gives any detailed attention to emotions, there is also a lack of methods that would help in managing emotions in the context of innovation. The CODE method provides one tool for doing this.
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