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# New Service Ventures – Struggling for Survival

Jörg Freiling  
University of Bremen  
Germany

## 1. Introduction

While the tertiary sector of the economy is, in most countries, the dominating one, the entrepreneurial activity of this sector accounts for about 83% of the total entrepreneurial activity (KfW, 2011). Facing this fact little has been said about the peculiarities and challenges new service ventures have to face in general, i.e. beyond the particular issues of certain service industries. This paper intends to fill this gap. It is argued that there are in fact general peculiarities of service ventures that make a difference to other modes of venturing. More, due to the very nature of services, ventures of this realm face particular problems of achieving a state of sustaining establishment in the target market. To address these challenges in more detail, we introduce the ‘liabilities of serviceness’ as another category of liabilities young firms typically face beside the well-known liabilities of newness, adolescence, and smallness (King, 2006). As a consequence, the drop-out rate in many service industries is very high. Accordingly, we consider the struggling for survival of new service ventures an appropriate sub-title of this chapter. To better understand this process and to focus our analysis we raise the guiding question which factors particularly make a difference at the cross-road of survival and failure.

Since we do not conduct primary empirical research, we consider it useful to ground our analysis on a sound theoretical framework that frames our analysis. In this connection, particularly approaches from economic theory address issues of failure and survival. As the dominating frame of reference in management studies competence research allows for a solid understanding of the issues relevant to this chapter. Thus, we employ competence-based theory (Teece et al., 1997; Sanchez & Heene, 1996; Freiling et al., 2008) and adapt competence-based reasoning to the service peculiarities by referring to the so-called ‘service-dominant logic’ of Vargo and Lusch (2004). The service-dominant logic (henceforth: SDL) addresses the transition and transformation of value-added processes from a goods orientation to a service orientation. Service orientation does not primarily and exclusively mean the provision of services but rather implies thinking in terms of serving the customer and implementing a value co-production by both the supplier and the customer.

The chapter proceeds as follows: In section 2 we portray briefly the very nature of services and the particular situation of service ventures to the end of a first understanding what ‘liabilities of serviceness’ might be about. Subsequently, in section 3 we mirror these liabilities against competence-based theory. To this end, we refer to the open system view of the firm and develop Sanchez and Heene’s (1996) framework to better respond to

peculiarities of service ventures. With this newly developed framework we can specify the challenges in case of service ventures struggling for survival. The chosen causalities are transformed into propositions that may guide future research. In section 4 we portray the managerial conclusions of the debate. The aim is responding to the question what service ventures can do to overcome critical liabilities of venturing and to achieve a state of sustaining establishment in the market. Finally, in section 5 the chapter concludes with a brief outlook.

## **2. New service ventures, peculiarities of services, and liabilities of serviceness**

### **2.1 On the nature of services**

What is different in case of services in general and in case of service ventures in particular? Services are different from other goods in numerous ways (Lovelock & Wirtz, 2007; Bruhn & Georgi, 2006; Desmet et al., 2003). Most often, researchers point to the intangible nature of services. Indeed, services are predominantly of intangible nature. However, we need to be careful when contrasting goods and services. Neither it is correct that all goods are purely tangible nor can we say that every service is solely intangible. In case of goods it is mandatory that a tangible core offering is accompanied by services, sometimes as pre-sales services, sometimes as after-sales services, and sometimes as sales-related services. It is simply impossible to market goods without any kind of service provision. Services, instead, can be provided without any tangible add-on. Nevertheless, in most instances this is simply not the case. E.g., in case of business consulting, a typical service with a high level of intangibility, elements of the final result are tangible (final report, documentation, etc.). Insofar, intangibility is an important, but not pervasive feature of services. Against this background we challenge the typical notion of the intangibility of services (Lovelock & Wright, 2002) and specify them in the above mentioned manner. However, in case of intangible solutions customers face a problem to evaluate the quality items. This restricted and sometimes lacking transparency increases the likelihood that customers do not make a purchasing decision simply because of the fact that the transaction-related risk might get out of control. For service ventures, the intangibility of their solutions is thus a first core challenge they have to cope with in their long and uncertain process of getting established in the market. It is worth noting that the (predominant) *intangibility* is an *output peculiarity* of services.

What else characterizes services? Apart from this output feature there are other criteria that refer to the input or *throughput dimension*. Serviceness is particularly characterized by the process of service provision (throughput peculiarity). This motivates scholars to stress that services are processes (Bruhn & Georgi, 2006). In this context, services always require the participation of the single customer in the value-added process (Grönroos, 1990; Marion, 1996; Lovelock & Wright, 2002). Sometimes this phenomenon of *customer participation* is also called 'customer integration' (Bruhn & Georgi, 2006). The term indicates that the customer and/or information and/or objects of the customer are integrated in the sphere of the supplier - at least temporarily. Thus, the customer participates via providing information, objects of his own sphere (e.g. machines to be repaired), and/or people. This integration of external factors is mandatory to trigger the final value-added process with the end to supply a customized solution. The simple fact that the customer is directly or indirectly involved in

the process of service provision reveals the decisive service encounter of the supplier and the customer. Due to the interaction between the two parties, the service encounter is relevant to the customer's evaluation of the supplier and the solution to be provided. More than that, the encounter itself is relevant to the quality of the service, for customer and supplier agree on the service design and the related specifications. Moreover, they make first steps of co-producing the service - and oftentimes of co-developing a tailored solution (Toffler, 1980; Vargo & Lusch, 2004). Therefore, customer participation is inseparable from the phenomenon of value co-production (Cowell, 1984; Rodie & Schultz, 2000). As for newly founded service companies, customer integration is a challenge. Those firms have neither sufficient customer-related experience available, nor a sound database at hand, nor are they fully aware of the implications of customer participation. Thanks to their newness they often had no chance to build routines of customer integration and hence face problems related to the service encounter. This leads to disadvantaged situations compared to established companies.

So far, customer integration is an integral part of the very nature of services. As for the process dimension of services, the debate on the so-called 'service-dominant logic' (Vargo & Lusch, 2004) sheds light on another service peculiarity: it is simply not enough to view the value-added process of the supplier the customer is involved in. Oppositely, the customer/supplier interaction does not finish when the solution is provided. Different from that, the supplier is in many instances welcome to support the utilization process of the customer. In order to make the most of the solution provided, customer and supplier continue their joint operations, but now also containing *supplier integration* in the customer's sphere. E.g., business consultancies do not leave their clients alone when they provided their solution. Instead, they are usually open for any kind of feedback or requests from their client(s). This supplier integration in case of services is, compared to customer integration, not mandatory but often takes place. The reason for this is that the supplier comes with considerable use-related know-how that may leverage the customer's benefit considerably. Once again, new service ventures are forced to develop skills of supplier integration that require empathy to better understand what the customer really needs and expects.

Next, we analyze service peculiarities before the value-added process starts so that we consider the *input dimension* as well. In this respect, services are, in fact, very different from other goods. In the moment of the sales-act, services may simply be referred to as non-finished goods. The supplier provides services always after an agreement with the customer on the specifications and terms of trade. Insofar the supplier promises future performance but does not sell something finished 'right from shelf'. The typical run of events of production followed by the sales-act is inverted. With the agreement, the customer buys a 'promise'; this promise triggers follow-up value-added processes - independent from the possible situation that the supplier might be prepared for service transactions to some extent. Alchian and Woodward (1988) differentiated in this sense between contracts and exchanges, the first one being relevant to services. Contracts promise future performance. Thus, customers have to believe in the quality of the service and the competence and willingness of the supplier. In case of new service ventures the customer is often unaware of the skills and competences of the supplier due to newness reasons. For new service ventures this may be a serious obstacle of the establishment process since it is very hard to convince customers with an organizational competence that is just developing.

There are many more items of services presented in literature (Lovelock & Wright, 2002; Desmet et al., 2003; Bruhn & Georgi, 2006; Lovelock et al., 2009): variability of inputs and outputs, people as part of the product, perishability, lacking inventories for services, etc. We state that all these items are derived from the one we listed above. Moreover, there are features mentioned in literature (Desmet et al., 2003), that simply do not reflect the service nature. One example is the argument of simultaneity of production, selling, and consumption. As outlined above, the value-added process of services follows the final agreement and thus the contract and the sales-act. Furthermore, using the provided solution might last much longer than production. In this vein, we differentiate between customer integration in the value-added process and supplier integration in the usage process. Thus, *services are predominantly (but not necessarily entirely) intangible solutions (output) that rest on mandatory processes of customer integration (with people, information, and/or objects of the customer as external factors to be integrated in the supplier's sphere at least temporarily). Services are contract goods with an agreement between customer and supplier prior to the final value-added process.*

These peculiarities challenge newly founded service firms considerable. Most of the problems are connected with quality evaluation by the customer and quality assurance by the supplier. The next sub-section portrays these challenges in more detail.

## **2.2 Liabilities of service ventures and liabilities of serviceness**

Population ecology of organizations (Hannan & Freeman, 1977; 1984) tells us that organizational evolution goes along with different problems and challenges depending on the phase of evolution. Older firms face other problems than younger firms. Among the most prominent problems of young firms, entrepreneurship research usually deals with 'liabilities of newness', 'liabilities of adolescence', and 'liabilities of smallness'. We briefly tie in this discussion. Our main point, however, is to portray another category of liabilities that we termed 'liabilities of serviceness'. The latter directly refers to the issues we raised in the preceding sub-section.

Hannan and Freeman (1984) point to the particular situation of newly founded firms (liabilities of newness). From the outset, their embeddedness in markets and society is rather low and they are forced to build business relationships fast. Firms with higher levels of reliability have much better chances to survive. The same holds true for other factors such as reputation as well. Young firms are disadvantaged in this respect. This makes them prone to crises. Liabilities of newness occur right from the beginning of the venturing process, so that already in the seed-phase the first problems appear, followed by challenges in the start-up phase. Population ecologists (Hannan & Freeman, 1984) argue that liabilities in later steps of the organizational evolution appear as well. Similar to human life, the liabilities of adolescence refer to the phenomenon that in earlier stages of organizational development processes do not run in the smooth manner that is typical for well-established firms. Instead, due to an under-developed resource endowment, the younger firms face different resource bottlenecks they have to deal with. In financial regards, young firms need to manage stage financings (in particular seed, start-up, expansion, and bridge financing, cf. Volkmann et al., 2010; Freiling, 2006) several times which is in most cases an open and uncertain process. Another issue is coping with barriers to growth. Since growth challenges the given structures, restructuring is necessary every once in a while.

Whereas the two above-mentioned liabilities directly refer to the age of the firm, the liabilities of smallness focus the problems connected to the size of the organization (Amburgey et al., 1994). These liabilities decrease the likelihood of survival in particular due to the following reasons: limited access to capital markets, limited cost efficiencies and economies of scale, and limited access to high-potentials. The entire resource endowment is limited and bottlenecks are more likely to appear.


As for service ventures we can state that all the mentioned liabilities might appear. How far they might affect the organizational evolution of these ventures depends on the situation. In fact, there are service industries and service businesses, where corporate size does not matter or at least is of less interest. Nevertheless, we should not under-estimate these factors and analyze them in connection with the debate on potential '*liabilities of serviceness*'.

What are the liabilities of serviceness? We can answer this question by directly referring to the considerations above. A first liability is the problem to demonstrate the quality of the output. Nelson (1970) and Darby and Karni (1973) differentiated three different categories of quality perceptibility of products. Search qualities, as obvious items (e.g. color, material), are easy to assess prior to purchase (ex ante) by simply inspecting a finished good. We learned that due to the contract character of services the solution is not finished, yet, but has to be provided. Search qualities of the solution are thus simply non-existent. Experience qualities are those attributes of a solution that cannot be immediately assessed. The solution has to be used in the utilization process of the customer so that experience-based learning paves the way to customer's quality evaluation (ex post). Many items that are typical for services belong to this category, such as reliability, fitness for use etc. Many service items are experience qualities so that quality assessments are possible (only after the transaction has taken place) but at the same time require some costs as well. The third category refers to the so-called 'credence qualities'. Customers are at no time able to assess the quality of these items. If a guru of a religious sect promises eternal life, then we can speak of real credence qualities. Different from the view in literature (e.g. Desmet et al. 2003), there are only a few attributes that belong to this category. In most cases it is possible to assess the quality at least by third-party support (e.g. experts). However, customers do not take this chance due to cost and/or convenience reasons. In those instances, when quality judgment is possible but de facto does not happen, the situation changes. Figure 1 portrays that in those cases we can speak of so-called 'calculus credence quality' (Welling, 2006; Sohn & Freiling, 2011). Following Welling's (2006) train of thoughts, service transactions take place in constellations that can be called 'Akerlof situations' (according to Akerlof, 1970).


Against this background, services go along with considerable problems of the customer to evaluate the quality of the solution to be provided. Oftentimes, the customer makes use of surrogates that might indicate whether the quality of the solution will conform to requirements or not. In particular, the supplier can be such a surrogate. The customer figures out the skills and motivations, asks for references and testimonial letters to reduce his personal risks. In case of service ventures, this liability of serviceness comes to a serious issue. The supplier is completely new in the market. There is simply no reliable information on the supplier available that can fill the information gap of the customer. Insofar, liabilities of serviceness and liabilities of newness or adolescence form a *liaison dangereuse* from the supplier's point of view. The intangibility of the output as well as the contract character of services play a pivotal role in this respect.

**Possibility of quality judgment by the customer**


		Before exchange	Only after exchange	Neither before nor after exchange
<b>De facto judgement</b>	Before exchange	<b>Search quality</b>	-	-
	After exchange	<b>Calculus experience quality</b>	<b>Experience quality</b>	-
	Neither before nor after exchange	<b>Calculus Credence Quality</b>	<b>Calculus Credence Quality</b>	<b>Credence quality</b>



**Nelson situations**



**Akerlof situations**



**Arrow situations**

Source: Welling, 2006: 168; Sohn & Freiling, 2011: 13

Fig. 1. Quality Judgment in Case of Services

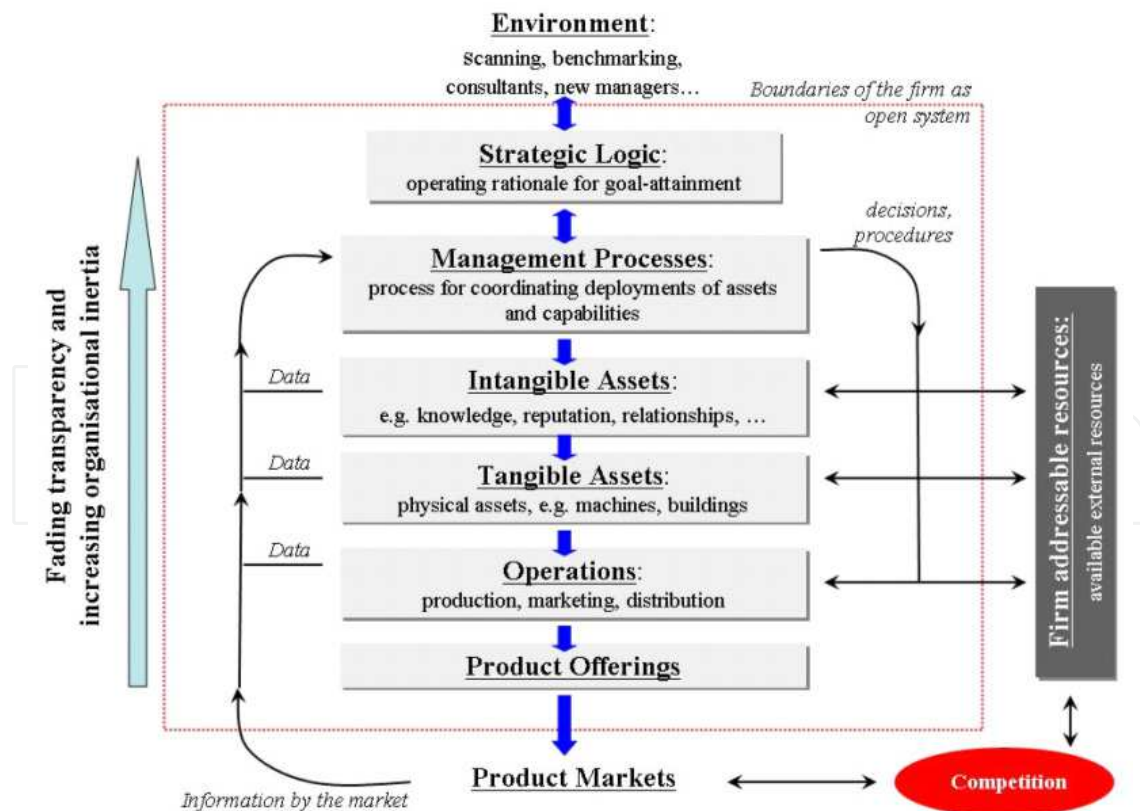
Another liability of serviceness rests on the phenomenon of customer integration. Taken seriously, customer participation in the value-added process implies that the quality of the solution is not solely dependent on the supplier and his operations. Instead, by providing external factors of the customer to be integrated in the value-added process of the supplier (Bruhn & Georgi, 2006), the customer contributes considerably to the quality of the solution. In this respect, quality is a function that depends on the quality of customer's and supplier's production factors and operations. Business consultancy illustrates the problem. Following the logic of 'garbage in, garbage out' in case of misleading information on the customer's basic problem, a consultant is simply unable to deliver a solution that fixes the customer's problem. Service quality is therefore not perfectly manageable by the supplier alone. Consequently, he is forced to manage the entire customer integration process as well. In many cases, this is only possible in case of bilateral adaptations. This liability of serviceness is accompanied and reinforced by the liabilities of newness (no considerable adaptations took place so far) and the liabilities of smallness (absolute lack of inputs and resources). Once again, we have a dilemma in case of service ventures. Service firms can replace lacking control of the quality management process by available routines and capabilities. This, however, is often impossible in case of service ventures.

We can conclude that liabilities of serviceness do exist. However, what is more important is the fact that they interact with other liabilities. The oftentimes self-reinforcing effects might threaten the survivability of the new service ventures. Next, we employ theory to better understand the background.

### 3. Establishing service ventures in competition - a competence-based perspective

#### 3.1 An open system view on service value-added processes

Organizational competences are repeatable, non-random abilities to render competitive output that are based on knowledge and experience and channeled by rules and patterns (Sanchez et al., 1996; Teece et al., 1997; Freiling, 2004; Freiling et al., 2008). Research on organizational competences suggests that the availability and utilization of organizational competences is vital to firm’s competitiveness and survival in competition (Freiling et al. 2008). Insofar, also new service ventures are well-advised to build and leverage organizational competences. Once developed, they stabilize the often under-developed process structures of young service companies. This may lead to more predictable and reliable output. Moreover, existing competences that are perceptible by customers or business partners work as surrogates in the above-mentioned sense. Since services have no search qualities on the product/output level, competences at hand might be a search or experience quality - not of the product but of the supplier. In this respect, customers are able to reduce their transaction-related risk when organizational competences of the supplier are available and evident. More generally, competences are a response to all the liabilities of serviceness mentioned above besides (or in addition to) the liabilities of young and small-sized firms. This is the reason why we employ a theoretical approach that directly addresses the role of competences in competition and the issues of competence building and leveraging.



Source: Sanchez & Heene 1996: 41.

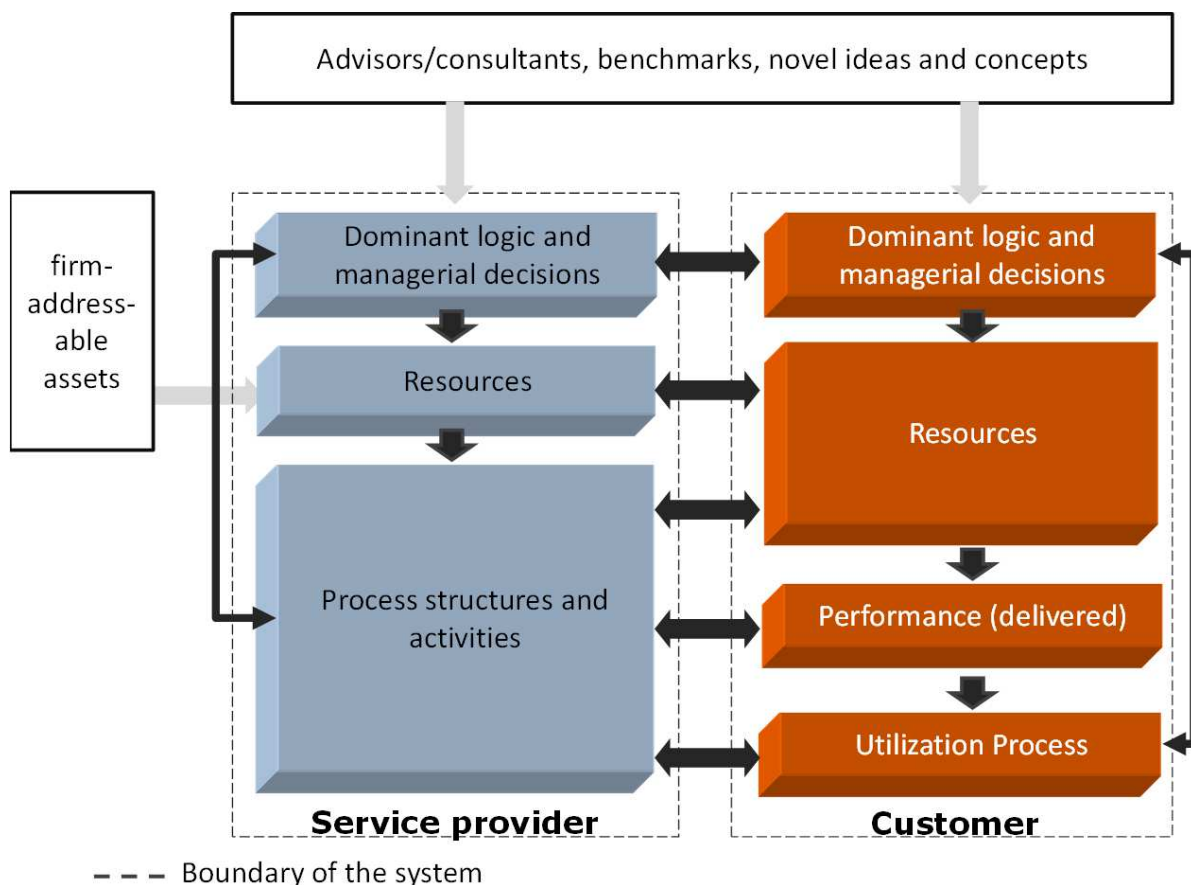
Fig. 2. The Open System View of the Firm



Within the competence-based theory of the firm we focus our attention on the model of the firm as an open system, following the initial proposal by Sanchez and Heene (1996) which is displayed in figure 2. Sanchez and Heene argue that the firm consists of different system elements that closely interact with each other. Among the system elements, the strategic logic is in a certain way the driving force of all processes. The reason for this is that the strategic logic consists of the decision-making rules and patterns of the entrepreneurs and the other managing workforce that drive the whole value-added architecture of the firm. As such, the strategic logic rests on previously learned knowledge and experience. This logic steers the process of information selection and processing as well as the application of available interpretation schemes. In Sanchez and Heene's (1996) model the strategic logic permanently interacts with the management processes. In fact, no management process can evolve without an impulse of the strategic logic. Oppositely, every management process will be, to some extent, reflected by the decision-makers. Insofar, we clearly see the link between these two phenomena. For the sake of parsimonious model building and simplification, we question the independent state as two autonomous system elements because they are inseparably linked. In this vein, we model the strategic logic and the related management processes as only one system element henceforth. Subsequently, Sanchez and Heene (1996) model the intangible assets, the tangible assets, the operations, and the product offerings as separate system elements. Once again, we question this variety of system elements in the light of the service peculiarities and make some modifications we explain in more detail below. First, there is no convincing proof why a differentiation between tangible and intangible assets is meaningful and, thus, necessary. Despite some minor differences such as limited imitability of intangibles (Hall, 1991; 1992), there is no reason for fundamental differences. Later on, within the debate on the service-dominant logic (Vargo & Lusch, 2004) we come back to the need of distinguishing between different resource categories. However, at this point of reasoning we simply model the resources at hand without any further differentiation. We follow Sanchez and Heene (1996) insofar as we consider the value-added processes and activities an independent and meaningful system element of service provision. Here, the resources represent the input dimension of services and the value-added processes the throughput dimension. Notwithstanding, facing the service peculiarities we must be careful when considering the output dimension. As outlined above, the output is co-produced. Moreover, services involve in most cases no transfer of property rights to products, although we might think of certain ways to define them. Facing the fact that the customer is deeply involved in developing the solution and considering that thereafter the customer makes use of it, we believe that it is better to assign the performance delivered to the customer - and not to the supplier. The logic that a supplier produces goods to be marketed belongs to the goods-related paradigm. Services are different, as we pointed out above. Consequently we depart from the Sanchez and Heene (1996) model once again - and this time considerably, for we do not only model the supplier but, as shown in figure 3, the customer as well - be it a consumer (b-to-c) or an organization (b-to-b or b-to-a). We do so for reasons we explain in more detail in the follow-up sub-section below.

Before, we clarify two more basic principles of the open system view of the firm. First, the role of competences in this system view is still open. One can argue that competences are nothing else but (intangible) resources so that they are already considered within the system element 'resources'. This would be less than a half-truth. The reason for this is the simple fact that the interplay of the internal system elements is to be managed and mastered.

Insofar, every firm needs capabilities that translate between the system elements and that ‘keep the wheels on rolling’. A competence thus resides in managing the dynamic interplay between the system elements. This does not exclude that the firm’s competences might reside in other system elements as well. However, the basic ‘top-down’ and ‘bottom-up’ processes in this system rest on capabilities in use.



Source: Own Illustration

Fig. 3. The Modified Open System View of Service Firms

Second, the firm is an *open* system. The firm, young or old, small or big, is embedded in a business and social environment. To better understand the drivers of survivability in particular of young and small firms, the open system view deals with the external system element called the ‘firm-addressable assets’. When service ventures are challenged by scarce resources and bottlenecks, access to firm-addressable assets mitigates the problems and might keep the organization alive. This reasoning is fully in line with the resource-dependence view with Pfeffer and Salancik (1978) as the main protagonists (cf. Freiling, 2008, for the relationship between resource-dependence theory and the resource-based and competence-based view). Anyway, accessing firm-addressable assets is an endeavor that rests on the availability of capacities as well, since the young firm needs to identify promising assets, find a way to assimilate them, and to integrate them in its own value-added system. The debate on the absorptive capacity (Cohen & Levinthal, 1990) provides us with a basic understanding how this may proceed - with the absorptive capacity as a cumulative capability to access external knowledge.

Figure 3 displays two more links of the firm as an open system to the environment. One is the link to the market, the other the link to external advisors. Firms, in particular new service ventures, are well advised not only to participate in market processes for the sake of sales but to learn in the market. In particular, they need to know how far their value-added architecture is ready to pass the market test. In many cases adaptations are strongly required and major as well as minor changes almost unavoidable. What differentiates service firms from other companies is the fact that market interactions are very much more located on a one-to-one level. This implies that service ventures receive direct feedback from their business relationships to customers, not primarily from anonymous market structures. To this end and different from the Sanchez and Heene (1996) model, there are feedback processes between the customer and supplier related to every system element.

The link between the firm and external advisors is decisive as well, particularly from a viewpoint of a new service start-up. The young entrepreneurs typically have a certain sense of direction how to position the company, how to access the market, and how to do the business. These considerations are mirrored in the strategic logic and the management processes as well. The open system view tells us that a strategic logic is usually prone to organizational rigidities. This is not surprising at all for a strategic logic is grounded in basic beliefs and attitudes. Planned change of these phenomena is often impossible. If change happens then the change emerges over a rather long time. These rigidities might threaten the survivability of the young service firm because in unfavorable situations the entrepreneurs might get disoriented and lose their open-mindedness. In those cases it is vital to have access to external advisors they can trust. Insofar, the problem of 'mental rigidities' can be circumvented as long as the entrepreneurs are open-minded as well as willing and able to integrate external advice.

Finally, we condense our considerations by formulating research propositions that may guide future empirical work on this issue. Against the background of this sub-section and keeping in mind service ventures struggling for survival, we propose:

*Proposition 1.1.* Rigid strategic logics of service ventures decrease the likelihood of survival.

*Proposition 1.2.* Absorbing external advice decreases rigidities of the strategic logic and increases the likelihood of corporate survival.

*Proposition 2.1.* Limited access to firm-addressable assets decreases the likelihood of survival.

*Proposition 2.2.* Absorptive capacities as for all kinds of assets fill critical resource gaps and increase the likelihood of corporate survival.

*Proposition 3.1.* Lacking capabilities of managing the value-added architecture prevent the service ventures from smoothly running operations and hence decrease the likelihood of survival.

*Proposition 3.2.* Permanent competence building and leveraging in the realm of the value-added architecture increase the likelihood of corporate survival.

We already addressed learning in the market process. However, within the scope of our next sub-section we can specify the considerations so that the respective propositions are developed below.

### 3.2 The survival of service ventures in the light of the service-dominant logic

When comparing the original and the modified open system view in the light of service ventures, the most striking difference is that there are two open systems with the customer and the supplier. What is this differentiation good for? The answer can easily be given by pointing to the basic understanding and intent of the service-dominant logic (henceforth: SDL), developed by Vargo and Lusch (2004). SDL departs from the value-added principle of 'make and sell' to 'sense and respond'. Customer and supplier interact, co-develop, and/or co-produce what the customer needs. This requires a mutual openness and often intense bilateral adaptations so that the metaphor of a temporary unit of both parties well fits the basic character of cooperation (Vargo & Lusch, 2004; Lusch & Vargo, 2006). Whereas Vargo and Lusch (2004) suspect that the SDL implies a shift from a single transaction to a long-term business relationship of a customer and a supplier, surrounded by a number of different service transactions, we do not need to go so far. More important is the notion that a temporary collaboration of the close kind develops. This implies a different kind of governance. Whereas in many anonymous markets many suppliers stand *vis-à-vis* many customers, service markets are personalized to an extent that relational governance replaces market governance. If this holds true, it does not make sense any longer to model markets as the centerpiece of feedback from the other side of the market. Instead, learning in the market is nothing else but learning from a single customer and transferring the insights internally to all system elements of the supplier according to figure 3. A key facilitator of these learning processes is customer integration in the value-added process on the one hand and supplier integration in the utilization process on the other. This viewpoint reveals that it is too myopic focusing only on the value-added process and the related transaction between customer and supplier. The utilization process enhances our view as usage is particularly relevant to a sound understanding of the service nature. Again, we propose:

*Proposition 4.1.* New service ventures with a low intensity of learning from the customer and in the market are more likely to fail.

*Proposition 4.2.* With developed capabilities of both customer integration and supplier integration new service ventures decrease the likelihood of corporate failure.

We already raised the question which resources might be of utmost importance to corporate survival. SDL tells us that two different kinds of resources exist, both with completely different roles within the corporate value-added architecture: operant resources and operand resources (Constantin & Lusch, 1994; Vargo & Lusch, 2004). *Operant resources* are those that act upon other resources to create value. They are deeply embedded in the firm's resource endowment, enable a smooth run of activities, and are virtually not affected by depreciation. Instead, in most cases their value increases in use. Knowledge, skills, capabilities are prominent examples of this category. *Operand resources*, however, are those which must be acted on to create value. The typical production factors (materials, energy, machines etc.) belong to this category. Having said this, our next propositions are:

*Proposition 5.1.* Resource gaps decrease the likelihood of the survival of new service ventures.

*Proposition 5.2.* Among the resources, the availability and development of operant resources allow for an increasing likelihood of the survival of new service ventures.

So far, we addressed all the system elements modeled in the modified open system view of new service ventures, some of them directly, others indirectly. The research propositions are intentionally formulated in a more general fashion. It is up to on-going research to specify or modify the propositions in the light of empirical research. Next, we introduce some selected managerial consequences and discuss our findings.

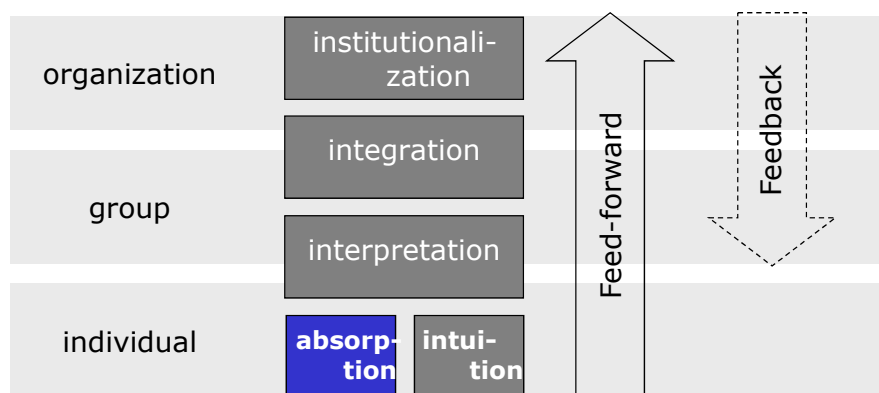
#### **4. Managerial implications and discussion**

New service ventures find themselves confronted with different liabilities when running a new business. These liabilities are in most cases highly interrelated. The aim of this chapter was to highlight managerial challenges and to locate ways to circumvent the above-mentioned liabilities. To this end, we developed, one by one, propositions as for corporate failure as well as for ways how to cope with these challenges. This section is to translate the theoretically founded findings into a more application-oriented format. The question is: what do entrepreneurs and/or managers in new service ventures have to do to make survival in competition more likely?

A first basic insight is that new service ventures need to care for an entire quality management system. We learned that quality challenges appear coevally at the input, throughput, and output level. Moreover, we are aware that not only the supplier produces service quality but the customer as co-developer and/or co-producer as well. This challenge is demanding, for it is not enough to establish a system of company-wide quality control but a system that crosses firm's boundaries. Facing the liabilities of newness, adolescence, and smallness, new service ventures need to find solutions that save scarce resources while providing a high degree of efficacy. In this dilemma-like situation, new service ventures are not left alone. In fact, there are proven techniques of service quality management that allow for escaping from trade-offs. In this realm, service blueprinting (Shostack, 1984; 1987; Kingman-Brundage et al., 1995) is a technique that supports process management while considering input and output issues as well. The technique was developed for service value-added processes and thus carefully considers all activities connected to customer and supplier integration including all processes in the 'back-stage' area of the supplier. Blueprinting is a technique that can be supported by modern software solutions. Practiced in a more informal manner, young and small companies find sound opportunities to employ this method.

Practicing techniques, such as service blueprinting, is already a first step into the direction of fostering capability maturity. We know the capability maturity models and systems from other discussions (e.g. quality and reliability of software systems, cf. April & Abran, 2008) and, particularly, from bigger companies longing for professionalizing their activities. In this vein, new service ventures are forced to improve the stability of all operations. To this end, it is useful to develop organizational routines (Pentland & Feldmann, 2008). Mastering a service blueprint already implies the development of routines. People become aware of and familiar with a planned run of events. The more they practice it, the more the routine becomes internalized and hence deeply embedded in the cognitive structures of people. Routines themselves are elements of organizational competences. It is up to service ventures to control this process and to transcend practices from the micro level of the individual to the macro level of the firm. These processes rest to a large extent on organizational learning. Figure 4 describes the process from individual intuition to develop something new, patterns

or routines included. The model developed by Crossan et al. (1999) indicates how this momentum, created by intuition or, as Freiling and Fichtner (2010) extend, by absorption of external impulses, translates into action sequences beyond the individual by processes of interpretation, integration and, finally, institutionalization in the feed-forward manner. The feedback way of learning allows for refreshing and deepening what was previously learned. From a managerial viewpoint it is up to entrepreneurs and/or managers in service start-ups to keep these feed forward and feedback processes alive that spread between different ontological levels (individual, group, organization). If these processes work, it is most likely that organizational competences develop.



Source: Freiling & Fichtner 2010: 161.

Fig. 4. The Modified Crossan et al. (1999) Organizational Learning Model

Competence-based research suggests that competences are the main reason why firms are able to withstand the competitive pressure. However, having and utilizing competences is not enough, in particular in the service business. When new service ventures find themselves struggling for survival, they need to ensure that available competences can be communicated so that also customers get aware of them. This is by no means an easy endeavor for competences are rather implicit and equipped with a high degree of opacity and causal ambiguity (Dierickx & Cool, 1989). Customers will not get aware of the supplier's competences easily. Nevertheless, without demonstrating this potential of the supplier to fix problems in a predictable and reliable manner, customers cannot reduce the uncertainty as for a particular supplier. Without a minimum reputation in this regard, service transactions will not take place. Thus, signaling available competences becomes an issue for new service ventures as well. Although this might not be easy at first glance, service start-ups should be aware of the oftentimes hidden chances in this respect. With every process of customer and supplier integration the two parties work together closely. It is useful to take the chances of these 'moments of truth' to clarify the competence at hand. In this sense, customer interaction management comes to an issue.

## 5. Outlook

This chapter intends to advance our understanding of service ventures in particular as for the so-called 'liabilities of serviceness'. We coined this term to pinpoint the challenging situation most of the service ventures are in. What we need to know is how far these liabilities cause higher failure rates of service start-ups or whether service ventures develop

particular skills to cope with this issue. It is up to on-going empirical surveys to research on that.

We modeled the system elements of the supplier - and the customer as well. As for these system elements we need to know more about the relevance of particular types of resources. Maybe the differentiation of operant and operand resources is already useful in this regard. However, we need more empirical research to make a precise statement on that.

Finally, we need to know more about the peculiarities of competence development in service ventures. Is it so that service start-ups can overcome obstacles to competence development? And if so: what are the most important levers?

Insofar, the chapter raised follow-up questions that can fuel more research activities on this relevant but highly neglected field of research.

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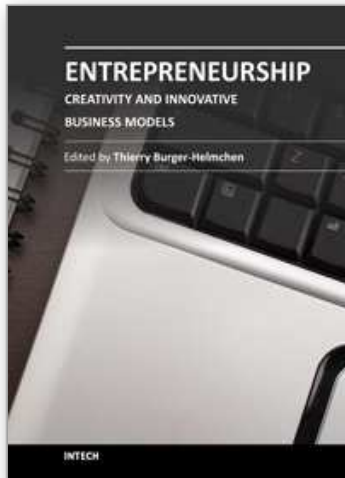
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Edited by Prof. Thierry Burger-Helmchen

ISBN 978-953-51-0069-0

Hard cover, 190 pages

**Publisher** InTech

**Published online** 29, February, 2012

**Published in print edition** February, 2012

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Unit 405, Office Block, Hotel Equatorial Shanghai  
No.65, Yan An Road (West), Shanghai, 200040, China  
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Phone: +86-21-62489820  
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