

New Service Development and Competitive Advantage: A Conceptual Model

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Abstract

During the last decade the literature on new service development (NSD) has increased in significance, reflecting the rapidly increasing contribution of services to the economy. A growing number of researchers suggest that NSD leads to service firm competitive advantage. However, the literature on NSD-based competitive strategy is fragmented. This paper attempts to model the antecedents of NSD-based competitive strategy. Specifically, the framework presented in this paper argues that entrepreneurial intensity, distinctive learning capabilities and NSD comprise key components of a model that examines the role of NSD in gaining sustained competitive advantage in service firms. Key theoretical constructs within the model are explored and research propositions presented.

Keywords: New service development, services, competitive advantage

1. Introduction

Within the rapidly changing business environment there has been a resurgence of interest among marketing researchers regarding the role of innovation in gaining competitive advantage. This literature to date has focused on manufacturing innovation. However, services innovation literature has grown in significance over the last decade, reflecting the increased contribution of service industries to the national economy. But the limited literature on new service development (NSD) remains fragmented.

Although the capability-based theory of sustained competitive advantage has gained prominence in the competitive strategy literature during the last decade, to date it has not been applied to service firms. We argue that entrepreneurial intensity, learning capabilities and NSD comprise key components of a theoretical model that explains how sustained competitive advantage (SCA) may be achieved in service firms.

This paper is structured as follows. First, the links between NSD and SCA are examined. Second, the key propositions of the capability-based theory of SCA are discussed. Third, the foundations of the capability-based model of service firm competitive strategy are developed. Particular attention is given to exploring the key theoretical constructs and developing a core set of

research propositions. Next, the issues relating to the operationalisation of the model are discussed. The paper concludes with a discussion on the implications of the model for theory and practice.

2. Literature Synthesis

2.1 New Service Development and Competitive Advantage

Porter (1985) suggests that firms achieve competitive advantage by conceiving new ways to conduct the activities of the value-chain to deliver superior value to customers, which may be defined as an act of innovation. This suggests that innovation and the competitive advantage process are inter-connected. However, empirical evidence supporting the view that innovation leads to sustained competitive advantage has been confined to manufacturing industries. While innovation is recognised as important for national competitiveness and economic growth, services tend to be viewed as innovation laggards that make little or no contribution to either productivity or growth (Windrum and Tomlinson 1999). However, the move by organisations to a major dependence on services, plus an increasing intensity of competition and changes in technology, would point to the importance of innovation as a key ingredient for competitive advantage for service firms (Martin and Horne 1993). Indeed, a growing number of researchers suggest

that service innovations enable firms to gain competitive advantage (Coyne 1993; Easingwood and Mahajan 1989; Kaplan 2000; Morris and Westbrook 1996).

Several issues remain to be addressed in formulating a conceptual model in NSD-based competitive strategy for services. First, researchers have often used the words 'new service development' and 'new product development' interchangeably, highlighting the need for a working definition of NSD (Johne and Storey 1996). Second, the bulk of published literature has been concerned with the development of new financial services and it is only in recent years that researchers have begun to address issues concerned with the wide span of services offered today (Johne and Storey 1996). Third, services differ from products in terms of a number of key characteristics. Some aspects commonly recalled in the literature (Miles 1993) are: (a) a close interaction between production and consumption (co-terminality), (b) a high information-intangible content of services products and processes, (c) an important role played by human resources as a key competitive factor and (d) a critical role played by organisational factors for the firm's performance. Several researchers have stressed that the interaction with the customer in the service development process is an important factor that distinguishes NSD from new product development. As observed by (Johne and Storey 1996, p.186),

"While tangible products may be offered with or without customer service elements, such support is always required in marketing service products. Nearly all service products involve close interaction with customers. Interaction is the distinguishing feature of service offerings. Because, the interaction process is typically an integral part of service, the development of a new service is usually far more complex, conceptually, than the development of a new tangible product".

Extending this view Edvardsson and Olsson (1996) argue that the customer is a 'co-producer' of services. In the case of manufactured products, the customer is not present at the manufacturing process nor does he/she participate in that process. However, in the case of services the customer's presence as a co-producer influences the outcome in terms of added value and quality and thus the NSD process differs from new product development process. Furthermore the new product development literature suggests that customers are an important source of idea generation. However in the case of services, customers form an integral part of the NSD process. Notwithstanding these contributions, the majority of the

literature on NSD based competitive strategy is prescriptive and lacks a strong empirical base. This reflects the need for a theoretical framework that can be adopted to examine the NSD based competitive strategy.

2.2 Theory of Sustained Competitive Advantage (SCA)

Simply stated, competitive advantage is the ability of a business to derive abnormal profits or rent in a competitive industry (Aharoni 1993), based on a value-creating strategy not simultaneously implemented by any current or potential competitors. Competitive advantage grows out of the way the firm organises and performs discrete and connected activities of the value-chain. This competitive advantage is sustainable when the advantage resists erosion by competitors' actions (Porter 1985) and when competitors are unable to duplicate the benefits of the strategy (Barney 1991).

The capability-based theory of SCA that has gained prominence over the last decade, suggests that a firm can achieve competitive advantage through the distinctive or core-capabilities possessed by the firm (Grant 1991; Hayes et al. 1996; Prahalad and Hamel 1990). This capability-based theory effectively explains the value creation process by assigning a proactive and dominant role to the strategic leadership of the firm. Distinctive capabilities that enable firms to gain competitive advantage are developed consciously and systematically by the wilful choices and actions of the firm's strategic leaders (Child 1972; Grant 1991; Hayes et al. 1996; Lado et al. 1992). In this paper, organisational distinctive capabilities are defined as a service firm's capacity to perform a range of organisational routines (sequence of coordinated actions) for the purpose of delivering services to the market in a manner that outperforms competitors.

The inability of competitors to duplicate distinctive capabilities is the key source of sustainability under the capability theory of competitive advantage (Grant 1991; Hayes et al. 1996). The sustainability of competitive advantage relies on the 'capability differential' on which competitive strategy is founded (Coyne 1986; Hall 1993) although the sustainability of competitive advantage in the provision of services is widely felt to be more difficult to sustain due to the ease with which services can be commonly replaced or copied.

Given that the strategist plays a vital role in building and nurturing organisational capabilities, the capability-based theory provides a meaningful framework to examine the antecedents of NSD based competitive strategy. Clearly, innovations cannot occur in the absence of an

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