



## Towards a model of dynamic capabilities in innovation-based competitive strategy: Insights from project-oriented service firms <sup>☆</sup>

Sandeep Salunke <sup>a,\*</sup>, Jay Weerawardena <sup>b,1</sup>, Janet R. McColl-Kennedy <sup>b,2</sup>

<sup>a</sup> Australian Centre for Entrepreneurship Research, Queensland University of Technology 4001, Australia

<sup>b</sup> UQ Business School, University of Queensland 4072, Australia

### ARTICLE INFO

#### Article history:

Received 19 August 2009  
Received in revised form 5 June 2011  
Accepted 3 October 2011  
Available online 5 November 2011

#### Keywords:

Dynamic capabilities  
Service innovation  
Competitive strategy  
Project-oriented service firms  
Service entrepreneurship

### ABSTRACT

With the growing significance of services in most developed economies, there is an increased interest in the role of service innovation in service firm competitive strategy. Despite growing literature on service innovation, it remains fragmented reflecting the need for a model that captures key antecedents driving the service innovation-based competitive advantage process. Building on extant literature and using thirteen in-depth interviews with CEOs of project-oriented service firms, this paper presents a model of innovation-based competitive advantage. The emergent model suggests that entrepreneurial service firms pursuing innovation carefully select and use dynamic capabilities that enable them to achieve greater innovation and sustained competitive advantage. Our findings indicate that firms purposefully use *create*, *extend* and *modify* processes to build and nurture key dynamic capabilities. The paper presents a set of theoretical propositions to guide future research. Implications for theory and practice are discussed. Finally, directions for future research are outlined.

© 2011 Elsevier Inc. All rights reserved.

### 1. Introduction

The growing significance of services in driving productivity, economic growth and employment in countries which have traditionally relied on manufacturing is increasingly evident. Accordingly, the share of revenue derived from services in Fortune 500 companies has grown considerably over the past few decades,<sup>3</sup> forcing organizations to calibrate their existing business models to adopt a service-centric view. For example, IBM, which was once viewed as a manufacturing giant, has reoriented its business to provide solution based service, positioning itself as the 'largest service business' in the world (Zeithaml, Bitner, & Gremler, 2009). As services increasingly drive firm value, innovation becomes an effective way to accelerate growth and profitability, contributing to novel ways of new value creation (Berry, Shankar, Parish, Cadwallader, & Dotzel, 2006).

Service innovation has been characterized as distinct from manufacturing innovation, with several researchers suggesting that there are important differences. For example, co-creation at the

client-provider interface; the incremental and continuous nature of service innovation; the 'fuzzy' nature of the service innovation output; the absence of 'developmental stages' and R&D departments in service firms – all suggest that service innovation may be inherently different from manufacturing innovation. Similarly, Service Science literature emphasizes co-creation of value *with* customers/clients. Unlike the traditional manufacturing-based approach where value is created *for* the customer, a service approach entails creation of value *with* the customer as a collaborative partner (Kowalkowski, 2011; Ordanini & Parasuraman, 2011; Vargo & Lusch, 2004). Here value creation is driven by unique client needs and based on the principle of reciprocity between the service provider and the client. Yet, service innovation thought is still largely based on a manufacturing mindset (Gallouj & Windrum, 2009), even though innovation in services has been shown to be different in that imitation is widespread, especially, in the financial services sector (e.g., Davison, Watkins, & Wright, 1989; Teixeira & Ziskin, 1993). While there has been a strong emphasis in service innovation literature on the success factors (Avlonitis & Papastathopoulou, 2001; Cooper & de Brentani, 1991; De Brentani, 1991; Easingwood & Storey, 1993), there has been less research on how new value is co-created and sustained through innovation. This service centered view which is more customer-oriented and relational needs closer examination in relation to value co-creation and the sources of competitive advantage (Bharadwaj, Varadarajan, & Fahy, 1993).

Although it is commonly understood that service innovation-based advantages cannot be sustained, this observation is predominantly based on research conducted in financial services where

<sup>☆</sup> The double-blind review process for this paper was conducted by Peter LaPlaca, Editor-in-Chief of IMM rather than the guest editors for this special issue since Jay Weerawardena, one of the authors, is also one of the guest editors.

\* Corresponding author. Tel.: +61 7 3138 9941; fax: +61 7 3138 5250.

E-mail addresses: sandeep.salunke@qut.edu.au (S. Salunke), j.weerawardena@business.uq.edu.au (J. Weerawardena), j.mccoll-kennedy@business.uq.edu.au (J.R. McColl-Kennedy).

<sup>1</sup> Tel.: +61 7 3346 8093; fax: +61 7 3346 8166.

<sup>2</sup> Tel.: +61 7 3346 8178; fax: +61 7 3346 8166.

<sup>3</sup> (Moller, Rajala, & Westerlund, 2008).

imitation is rampant. However, a growing number of researchers suggest that service innovation-based advantages can be sustained (e.g., Bharadwaj et al., 1993; Gustafsson & Johnson, 2003; Kandampully & Duddy, 1999). While this debate remains inconclusive, it highlights the need for research to model the antecedents of service innovation and to examine innovation-based strategy in industry settings where long-term customer/client involvement is evident. Overall, there is a need for a theoretical framework that captures the antecedent factors driving innovation-based competitive strategy in service firms.

Addressing this need, this paper attempts to build a coherent theoretical framework of innovation-based competitive strategy in project-oriented service firms<sup>4</sup> by drawing on the dynamic capability-based view of competitive strategy and using multiple case study evidence. Project-oriented firms are characterized by relatively long project life cycles where the provision of service often involves close collaboration with the client, reflecting client input to the innovation process. These firms co-create value by working closely with clients on a continuous basis to provide effective solutions. Providing solutions not only needs technical knowledge, but also requires an in-depth understanding of the client's industry and business processes. Therefore, project-oriented firms provide an appropriate setting to examine service innovation-based competitive strategy. Findings from in-depth case interviews with 13 project-oriented firms suggests that service entrepreneurs build and nurture a set of dynamic capabilities that drives the service innovation and competitive advantage process. This evidence is used to develop an emergent model of service innovation-based competitive strategy, together with a set of testable propositions.

The paper is structured as follows. First, the theory of competitive strategy is briefly revisited with specific attention given to the dynamic capability-based view of competitive strategy. Second, the literature on service innovation-based competitive strategy is reviewed highlighting existing gaps in the literature. This is followed by a brief discussion of the research method. Third, drawing on the literature and case study findings, a new conceptual model is developed with a set of theoretical propositions. Finally, the implications of the emergent model for theory and practice as well as directions for future research are presented.

## 2. Conceptual background

### 2.1. The dynamic capability-based view of competitive strategy

The dynamic capability-based view (DCV) of competitive strategy attempts to explain why some firms gain competitive advantage in continually changing environments (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997). Dynamic capabilities are the antecedent organizational and strategic routines by which managers alter their resource base – acquire and shed resources, integrate them together, and recombine them – to generate new value-creating strategies (Grant, 1996; Pisano, 1994), which essentially is an act of innovation (Porter, 1990). Unlike its predecessor, the resource-based view (RBV) (c.f. Barney, 1991), the DCV assigns a prominent role to the firm's strategic leadership in the nurturing and building of dynamic capabilities critical to the value generation process.

Although early research on dynamic capabilities suggests a link to competitive advantage (Griffith & Harvey, 2001; Lee, Lee, & Rho, 2002; Teece et al., 1997), there has been lack of agreement on the nature of this relationship. For example, Cepeda and Vera (2007) argue that the link between dynamic capabilities and competitive advantage as presented in early definitions of dynamic capabilities is tautological as researchers have tended to claim dynamic capabilities post hoc, inferring their existence from successful organizational

outcomes such as profitability and growth. Eisenhardt and Martin (2000, p. 1107) provide an alternate view and argue that 'dynamic capabilities are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die'.

More recently, Helfat et al. (2007) building on prior literature define dynamic capabilities as "the capacity of an organization to purposefully create, extend or modify its resource base" (p. 4). This definition while highlighting the key processes involved in the dynamic capability-building process, comprehensively captures the essence of prior work in this area. The current paper combines Helfat et al.'s (2007) definition with Zollo and Winter's (2002) view to formulate a knowledge-oriented definition of dynamic capabilities. Here, dynamic capabilities are defined as: *The capacity of an organization to purposefully create, extend or modify its knowledge-related resources, capabilities or routines to pursue improved effectiveness*. This knowledge-based view of dynamic capabilities implies that organizations learn from internal and external sources to build and nurture knowledge assets where organizational learning refers to the process of improving actions through better knowledge and understanding (Fiol & Lyles, 1985).

Consistent with this view, the competitors' inability to easily duplicate a capabilities-based value creating strategy is suggested as a key source of sustained competitive advantage (Grant, 1991, 1996). The sustainability of competitive advantage relies on the "capability differential" on which the competitive strategy is founded (Hall, 1993). Further, Eisenhardt and Martin (2000) point out that 'long-term competitive advantage lies in resource configurations that managers build using dynamic capabilities, not in the capabilities themselves' (p. 1117). Thus, the dynamic capability view of competitive strategy provides a robust theoretical foundation to understand how a firm creates new resource combinations in its pursuit of competitive advantage and to model the antecedents of service innovation in a project-oriented context. We conjecture that dynamic capabilities enable project-oriented firms to create new knowledge-based resource combinations enabling them to undertake service innovation. Although this view has been discussed in prior research (e.g., Bharadwaj et al., 1993; Hall, 1993), it has escaped empirical scrutiny. The competitors' inability to imitate dynamic capabilities is a source of sustained competitive advantage.

### 2.2. Literature on service innovation-based competitive strategy

The literature on service innovation-based competitive strategy has progressed around four key themes: (1) modeling the service development process; (2) conceptualization of the service innovation construct; (3) the role of the strategist in the innovation process and; (4) the issue of sustaining the innovation-based competitive advantage. Each is discussed in turn.

#### 2.2.1. Modeling the service development process

Service innovation researchers have attempted to capture the key activities that constitute the service development process and have developed linear or sequential models detailing the process activities and stages. The majority of these efforts looked at how different stages in the development process are carried out and had an implicit emphasis on improving firm performance based on an efficient service development process. Early innovation models reflect a heavy reliance on new product development (NPD)-based models (c.f. Bowers, 1989; Scheuing & Johnson, 1989) and reflected improvements over the initial normative process model proposed by Booz-Allen and Hamilton (1982). Subsequent research suggested that many stages in the service development process overlap and cannot be clearly identified (e.g., Alam & Perry, 2002; Edvardsson, Haglund, & Mattsson, 1995). Much of this latter research established that the service development process is inherently different from the NPD process (c.f. Johne & Storey, 1998).

<sup>4</sup> Project oriented firms deliver services to clients using projects (e.g., engineering and construction firms, consultancies, system integrators and architectural firms).

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات