



## Enhancing the Strategic Service Competitiveness and Firm Performance through Competitive Forces, Service-Based Resources, and Strategic Entrepreneurship

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**ABSTRACT:** *The nature of service industry required different comprehensive measures to acknowledge its very specific nature. This conceptual paper tried to propose a research model for that purpose. Four strategic constructs are considered important to enhance the measurement of service firm performance. Strategic Service Competitiveness variable was then specifically developed with a theoretical and empirical strong link to service excellence-performance. Three strategic constructs of Competitive forces, Service-based Resources, and Strategic Entrepreneurship were strongly linked to the two previous target variables. This proposal agenda was expected to contribute to the discussion in the strategic service realm; and thus it is implicated in the applied business.*

**Keywords:** *Service firms, Competitiveness, Performance*

### I. BACKGROUND

Service firms had a very specific nature contrary to the commonly-used method in manufacture industry. A better performance evaluation would be more beneficial for practical use; furthermore, it should contain strategic factor so that it could contribute more to the competitive advantage of service firms, in order to gain better knowledge of its competitive industry and performance measurement. How to measure firms' performance had been quite stacked with different models and analysis. Historically, Bruns noted the double entry accounting in the middle age as the initial start of structured measurement, designed to avoid misunderstanding among traders. This method had been successful in recording their financial activities yet. As the Industrial Revolution commenced and the ownerships of firm were getting stratified, Return on Investment (ROI) as a measure of firm performance developed to appreciate the shareholders' interest was then used up to now (Bruns, 1998 and Johnson, 1983; as cited in Kennerley & Neely, 2003).

Johnson and Kaplan famous book of *Relevance lost* in 1987 had rung the alarm of the established use of ROI. They argued that the over excessive use of financial measure was no longer "relevant", for modern competition had pushed the companies to wander not only internal factors but also external factors. Thus, it required a fast response to deliver excellent performance (Kennerley and Neely, 2003).

Service industry needed different measure and scientific management would not sufficient to explore the breadth of this topic. Another reason was that a competition in service to reach customers' attention was essential to achieve competitive advantage (Gronroos, 1994). Levitt initially argued that most important factor in achieving excellency was consistency; furthermore, the efficiency of manufacture companies to replace high cost activities with a cheaper work flow was the key to marketing and service firms (1972: 44). That opinion was strongly opposed by Shostack, calling it "myopic" for not realizing the difference of service knowledge and product knowledge. Thus, the more intangible a business entity, the more different its marketing endeavor had to be recognized (1977).

This study tried to raise the issue of performance measurement of service management as presented by Kaplan and Norton (2010) where performance management with various aspects of intangibility should use the intangible measure as well. This was in line with the concepts advocated by academics such as Grönroos from the Nordic School that "service" is an interdisciplinary field that takes a special Services Management (Hallowell, 1996; Grönroos, 2006; Parasuraman, Barry, & Zeithaml, 1985). From the above description, we can draw the relationship between performance measurement of service company, and its relevance to the competition where the company is located. Internal-external strategic environment of companies (Hoskisson,

1999) determined the fate of a company engaged in service activities (Tavitiyaman, Qu, & Zhang, 2011; Ray, Muhanna, & Barney, 2004). Selection of appropriate strategies would lead to the company's strategic competitiveness, thereby resulting in an increase in the company's performance (Hitt, Ireland, Hoskisson, 2007: 104).

Strategies to generate competitive advantage, leading to the performance should be dissected indepthly to gain a deeper understanding. This research specifically tried to investigate internal and external factors strategic (Hoskisson, 1999; Porter, 1979, 1980, 1985, 2008; Wernerfelt, 1984), and the capability of managers in developing an environment that was able to encourage the emergence of an atmosphere of entrepreneurship in the company—actions to continually exploit the advantages and at the same time explore new opportunities, so the company was able to create add value on an ongoing basis (Hitt et al. 2001; Hitt et al. 2011). Comprehensive understanding in maximizing the internal - external factors and strategic entrepreneurship will ultimately enhance the company's ability to create strategic competitiveness, thus leading to company performance.

## II. METHODOLOGY

### a. Study Design

This research is a literature-based study. So the analysis will be theoretical, and the selection and discussion of the material are made as long as the material is in line with the topic above. Thus, this research tried to reach a conclusive proposal of the model of strategic service industry by providing relevant proofs. An inductive analysis is employed to assess the state of the art of the concept discussed and to draw a valid conclusion.

### b. The Sources of Data

This paper will try to collect all relevant material with the subject of this paper. The sources will be mostly from books and journals, though other relevant sources are possible as long as they comply with the topic and are reliable in term of the statements mentioned. Most of the sources were collected from renowned sources, such as Google Scholar, Ebsco, and Proquest and other leading sources of literatures in this paper, for they provide the pool of renowned journals with good explanation and clarity. The citation of the papers was also part of the selection decision.

## III. Analysis and Discussion

### a. Defining Competitive Forces

The man who first discussed the competitive force was Michael E. Porter (1979) in his seminal article in the Harvard Business Review. That historical paper was the one that led strategic management strategy to gain its place in the science of management. In its introductory, he opened it with a direct mention to the five forces that shape the competitive environment of a business. These forces are (1) Threat of Newcomer; (2) Customer bargaining power; (3) Distributors Bargaining Power; (4) The threat of substitutive products; and (5) The rivalry between the existing company. The essence of strategy formulation was thus to cope with competition. The five forces above were rooted in and covers all industries where the company was located. Knowledge of the fundamental sources of competitive forces will be the very foundation of a strategic action agenda. The five powers were varied fundamentally from its ability to generate profits as a collective force (Porter, 1980: 4).

This concept took its root on structure-conduct-performance (SCP) by Bain (1956,1968) and Mason (1939). Its focus was on the external factors that shape competition. Deductive measurement with large sample of data was the signature of this school of thought. According to Porter, the core idea of this concept was that the organization performance was the function of industrial environment in which the company competed. The structure of the company would determine what is done or conducted, by that action, the organization performance could be realized. Furthermore, Porter expanded to strategic actions in the form of generic strategies. thorough understanding of the competitive environment would determine the appropriate competitive strategy—Cost Leadership, Differentiation and Focus Strategy (1985). Several critics to this concept came at least from two streams; *First*, the challenge from internal-excellence proponent theories (Wernerfelt, 1984; Grant, 1991, etc); *second*, the digitilization, globalisation, and deregulation creating easiness to firms to establish customer basis in cheaper means, in contrary to what Porter propose (Daiken, 2014). In service firms, Tavitiyaman, Qu, and Zhang gave support to force factor relation to competitiveness and performance as it created a stronger brand image. Though, the case in Indonesia could be different, the function of environmental mapping in tourism/hospitality business was critical to gain supporting knowledge to increase service-firm competitive advantage.

**b. Service-based Resources**

The seminal work of Birger Wernerfelt in *Strategic Management Journal*, titled *A Resource-based View of the Firm* in 1984, was the first to push the internal-excellence concept to the forefront of Strategic Management. It came up as the opposite polar of the previous renowned concept of Porter Generic Strategies. Focusing on the effort of possessing strategic resources, capable of creating hard-to-get advantage over competitors (1984), Barney divided excellent resources to have several characteristics such as: Valuable, Rare, Inimitability, and Non-Substitutable (1991). Grant (1991) argued that the excellent capability to maximize resource possession was critical to gain superior performance. Peteraf posited four assumptions to create excellent Resource-Based View (RBV), such as Heterogeneity, Ex post limits to competition, imperfect mobility, and Ex ante limits to competition (1993).

Several academics proposed the concept of Knowledge-based View as important resources (Kogut & Zander, 1992; Grant, 1996; Conner & Prahalad, 2003; Curado, 2006). Other proposed Dynamic Capabilities as important to condition a company which was ready to explore external opportunities, and exploited internal excellences. In the service industry, Ray, Barney, and Muhanna advocated different measures of RBV to appreciate its distinct nature to manufacture; they are Service Climate, Investment in Customer Service, and Technology Resources in Customer Service (2014). The effort to create a different approach to assess potential resources to appreciate the nature of service industry was what inspired this conceptual paper.

As previously disclosed, RBV theory was the opposite of the theory of the Porter's Five-Forces Factors. The empirical debate lasting until today, although the trend studies indicated the role of Resources as a more important factor for the company. It was Schmalensee who first to test empirically the concept of Porter and find support for the theory (1985). Rumelt, inspired by the new theory of RBV, then tried to compare between the concept of Porter and RBV, and found business-specific functions (RBV) as the most important factor to get a good profit (1991). Powell's own study results supported the concept of Porter (1996). McGahan and Porter tested those two concepts and found them to be positively supporting organizational performance and competitiveness of the company; however, RBV had a greater influence. Mauri and Michaels results from 264 businesses from 69 industries concluded RBV factors as the more important factors (1999). Hawawini, Subramanian and Verdin found an agreement with the concept of Porter despite their conceptual formulation to suggest otherwise (2003). Another academic who actually considered the concept Porter would not work optimally and advised not to depend on the concept too much (Sheehan, 2005). Lieu and Chi conducted a case study in Taiwan and concluded RBV had a more important role for the company than the industrial Forces (2006). O'Cass and Ngo actually found the opposite to support the concept of Porter (2012). The test results of Galbreath and Galvin at 285 companies found the company's resource factors to play a more important for companies (2008). The study of Birkinshaw, Hood and Young concluded qualitatively that startups usually focused on the internal or RBV, and over time as it was getting matured, it focused on the external side (2008). Weerawardena and O'Cass suggested industrial factor was important for decision making (2010). In service and hospitality business, Tavitiyaman, Qu and Zhang supported the important role of environmental mapping by using the concept of Porter to achieve strategic competitiveness and lead to improvements in performance (2011). Overall mixed results indicated that this topic was an interesting topic that would provide valuable input to the knowledge enrichment and practical use. The use of those two-debated concepts in service industry had to be adjusted to gain a larger predictive power.

**c. Strategic Entrepreneurship**

The two concepts that seemed to be conflicting previously possessed explanatory power that had been tested in various studies. However, an atmosphere that can support the acculturation of these two concepts was required. The concept of Strategic Entrepreneurship was one that could answer that situation. The idea was to take the concept of entrepreneurship and incorporate it into the company's strategic level (Kuratko & Audretsch, 2009). This concept is often equated with the Entrepreneurial Strategy defined by Morris et al. as a "trend throughout the organization, and vision focused on, using entrepreneurial behavior that is constantly renewed and deliberately create enterprise workflow through the search and exploitation of entrepreneurial opportunities (2008, in Kuratko & Audretsch, 2009). In particular, this concept was the adoption of the company's ability to innovate constantly in order to pursue the company's competitive advantage. Integration of internal and external concepts was conveyed more clearly by Ireland et al. (2003) which called entrepreneurship as a strategically-managed resources so as to facilitate the use of "chance" which occurred simultaneously and integratively; it could be a behavior that focus on strengthening competitiveness. Or in other words it took entrepreneurial action with a strategic perspective so as to create wealth creation through the exploitation of external opportunities and develop it into internal competitive advantages that were ready to be exploited whenever needed. This concept challenged big companies to develop entrepreneurs' mindset and small companies to act more strategically; thus, the concept was applicable in all sizes of companies (Hitt, et al., 2011).

#### **d. Strategic Service Competitiveness**

This study tried to raise the issue of performance measurement through services management as presented by Kaplan (2010) where performance management with various aspects of the intangible should use the intangible measures as well. This was in line with the concepts advocated by academics such as Grönroos from the Nordic School that "service" is an interdisciplinary field that it required specific Services Management to discuss (in Hallowell, 1996; Grönroos, 2006; Parasuraman, 1985).

From the above description, we could draw the relationship between performance measurement of service firms and its relevance to the competition where the company was located. Internal-external strategic environment of companies (Hoskisson, 1999), determined the fate of a company engaged in service industry (Tavitiyaman, Qu, & Zhang, 2011; Ray, Muhanna, & Barney, 2004). Selecting appropriate strategies would result in the company's strategic competitiveness, thereby resulting in an increase in the company's performance (Hitt, Ireland, Hoskisson, 2009: 104). Fred R. David textbook of Strategy Management had underlined that certain successful strategies would produce distinctive competencies as a source of competitive advantage (competitive advantage) companies. These distinctive competencies would generate competitive advantage, leading to the performance of the companies (David, 2011: 94; Ireland, Hoskisson & Hitt, 2009: 125)

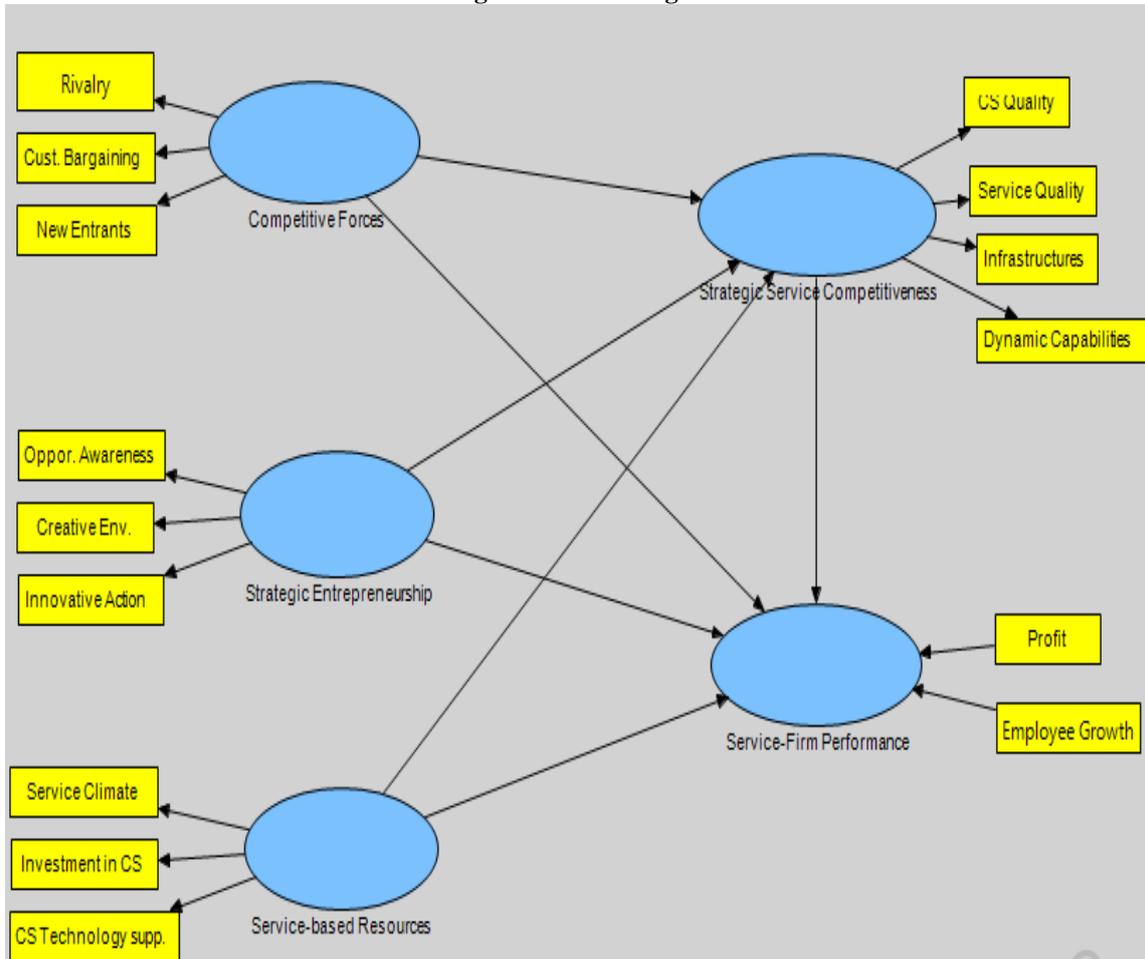
The debate over the concept of Competitiveness was very diverse in the academics' realm, among others factors are Resources (Wernerfelt, 1984; Grant, 1991), Organizational Structures (Peters, 1988), competitive environment (Porter, 1979, 1980, 1985), Balance of System (Mintzberg, 1991), Suitability of the internal structure of the organization and its environment (Powell, 1992a), Strategic Planning (Powell, 1992b), the offer to the customers (Mathur, 1992), the system intelligence (Ghoshal and Kim, 1986), Information (Porter & Miller, 1985), Value-added (Kogut, 1985), or quality (Mahmoud et al. 1985). In the context of a family company, Craig, Dibrell, and Davis stated that strong family identity of the company would influence the orientation of the competitiveness of enterprises, both for the customer and product, and the company's performance in its business. In other words, a strong family identity would enhance the ability to persuade customers based on the image of the company, leading to a better company's performance (2007). Those previous research had provided the light of the possible development in the context of measuring competitiveness.

#### **3.4 Service Firms' Performance**

Normally, profit was the ultimate goal of firms' endeavor, though sustainability of such positive income was a better aim instead of merely temporary high-financial benefits. Measuring performance had been done for centuries since the recording of financial activities in the middle age of Italy. As ocean-going vessel of traders was in need of avoiding misunderstanding in their transactions, double-entry accounting was introduced by Paccioli, and since then used to handle that issue of trade performance (Bruns, 1998, as cited in Kennerley & Neely, 2003). Industrial revolution also marked the use of Return of Investment (ROI). As the ownership of a company was getting divided, a new measure to handle this new circumstance was the job assigned to ROI yet. Since then, varieties of new measures such as Balanced scorecard (Kaplan & Norton, 1992), Cambridge performance measure (Neely, Mills, Platts, & Gregory, 1996), or *Tableau De Bord* (Bourguignon, Malleret, & Norreklit, 2004) were introduced.

The nature of service industry with its intangibility characteristics' value deserved different measure. This was the job assigned to service management (Shostack, 1977); for, the intangibility in its operation required intangible measure as well (Kaplan & Norton, 2010). This was in line with Gronroos of Nordic School, whom advocated the service industry as an interrelated discipline of science that required specific service management to discuss (as cited in Hallowell, 1996; Gronroos, 2006; Parasuraman, 1985). As the aforementioned arguments of important variables to consider in service industry, this conceptual paper hence proposed them in this relationship agenda:

**Image 1. Research Agenda**



#### **IV. Discussion of Research Model**

The above descriptions of each potentially-contributing constructs were combined into a relationship in image 1. The conceptual model above was specifically designed to meet the current demand of service industry’s performance measurement. The ultimate goal was the performance of service firms as measure by profit and employee growth. The original concept of Porter’s Five Forces consisted of five important factors determining the external environment strategically important. But in service industry two factors were considered unnecessary; they are bargaining power of distributors and threats of substitutes. The bargaining power of distributors depended on the tangibility of the service offered; for, the more tangible a service the more tangible the needs to distributors. For example, an online travel did not need tangible resources in its operation, for the main core of its business lied on its ability to provide great response through its website or application. On the other hand, restaurants required a constant stream of food supply, that—for instances—vegetables supply were not harvested timely; the cycle of production would be under serious threat. This meant that analyzing service firms required an in-depth understanding over its business activities; and generalizations of its external needs would decrease the predictive power of the concepts. The substitute threats also required a specific assessment. Hotel industry did not have substitutes over its business, while fast-food outlets could be exchange easily by other foods, provided a problem occurred.

The conceptual model above deleted those two factors for it required an extra care to its application in service firms; hence, careful considerations were advised. Tavitiyaman, Qu, and Zhang had analyzed the force factors of Porter in hospitality context and found a realizable relations between force factors—bargaining power of customers and new-entrant threat—and strategies-performance importance (2011). In industrial setting, Schmalansee was the first to empirically analyzed Porter’s concept (1985), followed by numerous research such as McGahan and Porter (1997), O’Cass and Weerawardena (2010), etc. This gave support to the conceptual model above.

Kaplan and Norton had advocated that management performance with various intangible aspects required intangible measure as well, and one of that was the underlying resource (2010). Obtaining potentially-advantageous resources would put the company in the front row, in term of competitiveness—thus leading to realizable positive performance (Wernerfelt, 1984). The relationship between customers and employee was critical to note in this effort, and hence service firms needed to invest its money on the excellent service offered to customers. Thus, the model above proposed several intangible critical resources such as service climate, investments in customer service, and investment in customer-service supporting technologies. The three indicators were drawn from Ray, Muhanna, and Barney paper, investigating resources in servicescape. The importance of excellent resources was empirically supported by many academics such as Rumelt (1991), Mauri and Michaels (1999), Sheehan (2005), Lieu and Chi (2006), Galbreath and Galvin (2008), etc. Their worked provided strong supports over the role of strategic resources over its competitiveness and finally service-firm performance.

The reason this study using Strategic Entrepreneurship as the determinant of the success of the service companies was this concept would provide interesting overview over the company's ability in managing an environment favorable to the active-seeking opportunities by maximizing internal capacity of the business toward innovativeness. If entrepreneurship was a concept that attempted to explain individual efforts in new business, the strategic entrepreneurship was a concept that can be seen on either new ventures or business that is already stable. Service companies possessing strategic entrepreneurial competence would become a dynamic company, with the ability to maximize the service element in the company and at the same time, keen to see the opportunities to increase competitive capacity. Hospitality business was marked by the closely-related employees and traveler relations, making this relationship had important strategic value. Hotels with an entrepreneurial spirit and strategic would look at the behavior of employees who were willing to improve the company competitively compared to other hotels. Some of these behaviors would appear on innovation, risk-taking behavior, and the proactive attitude of employees. Establishing employees with values described above became relevant when applied to the general corporate level, rather than relying on the hope to get employees like that (Calisto, 2014). Furthermore, strategic entrepreneurship could be an important strategic link between the strengthening of external assessment (Porter, 1979) and internal empowerment (Wernerfelt, 1984), which were examined in this proposed model. The unification of these three concepts in one model would generate a more powerful estimation method to enhance the competitiveness of companies and ultimately increase the company's performance, particularly in the service sector.

Dess, Lumpkin, and Covin were some of the first examiners to test the relationship between entrepreneurial strategy making and the creation of competitive advantage of the company and, thus the company's performance . By taking a sample of 32 companies competing in various lines of business, the results of their studies found a positive result on the predictive power of decision-making strategies of entrepreneurship, strategy and performance of the company (1997). Mol and Birkinshaw also found the evidence to support the importance of managerial innovation as the consequences of internal-external factors upon seeking new knowledge in the companies (2011). Wu found the relevance of entrepreneurship resource as the trigger of Dynamic Capabilities, and finally leading to increasing performance of start-up companies in Taiwan. Those studies provided foundations to the establishment of the relationship between strategic entrepreneurship, competitiveness, and performance. Service firms with specific innovative mindset would gain the more benefits as long as customers saw that as an effort to provide potential benefits for them. Thus this variable would provide a good understanding of service management.

Combining Competitive Forces, Service-based Resources, and Strategic Entrepreneurship, it would be expected that they would provide support to the competitiveness of firms. Such competitiveness had to leverage the ability of firms to provide excellent service; thus, strategic service competitiveness was a better proxy to the intangible excellence of firms. This service-related competitiveness would consist of Quality of Customer Service, Service Quality, Infrastructure, and Dynamic Capabilities; furthermore, it was expected to lead to service-firms performance. The debate over the source of Competitiveness was also very diverse among academics like Resources (Wernerfelt, 1984; Grant, 1991), Organizational Structure (Peters, 1988), Environment Competition (Porter, 1979, 1980, 1985), Balance of System (Mintzberg , 1991), Suitability of the internal structure of the organization and its environment (Powell, 1992a), Strategic Planning (Powell, 1992b), the offering to the customers (Mathur, 1992), the system intelligence (Ghoshal and Kim, 1986), Information (Porter & Miller , 1985), Value-added (Kogut, 1985), or quality (Mahmoud et al. 1985). For the context of a family company, Craig, Dibrell, and Davis considered strong family identity of the company would influence the orientation of the competitiveness of enterprises, both in the customer and the product itself, and the company's performance in its business. In other words, a strong family identity should enhance the ability to persuade customers based on positioning taken by the company, and culminate in the performance of the company (2007).

The discussion provided evidence of the various points of view upon seeking competitive advantage. Developing a specific measure that was corresponded to the nature of service industry had to appreciate the nature of its intangibility realm. Thus, those indicators above were thought to provide strong support to the service-firms' performance. Strategic Competitiveness was obtained when the company had the ability to satisfy the pool of customers using competitive advantages as the basis for competition in the market of individual products (Ireland, Hoskisson & Hitt, 2007: 125). This study proposal specifically developed Strategic Service Competitiveness to focus the special competence of the company's competitiveness in services industry. Although this concept could be applied to the manufacturing business, but it was clear that the greater predictive and applied power could be obtained from the service sector. All concepts, based on previous references, either directly or indirectly, would lead to the performance of the organization or financial performance (Li , Huang and Tsai, 2008). Kottler stated that the organization would achieve their targets if they were able to satisfy their customers in a maximum efficiency and effectiveness compared to the other competitors (1984, as cited in Neely, Gregory & Platts , 2005).

## V. CONCLUSION

This paper proposed a conceptual model that could be tested in empirical research. The questionnaire could be developed based on the indicators explaining the latent variables. Such questionnaire had to be able to reflect the reality in service industry, thus able to provide a more-powerful predictive power. The performance of service firms was the function of its strategic service competitiveness—enhanced through their ability to gain beneficial insights of Competitive Forces, Service-based Resources, and Strategic Entrepreneurship. Appreciating the nature of service industry in a specific manners above would provide a better explanation to foster the knowledge obtained.

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*Enhancing The Strategic Service Competitiveness And Firm Performance.through Competitive Forces, Service-based Resources, and Strategic Entrepreneurship.*

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