



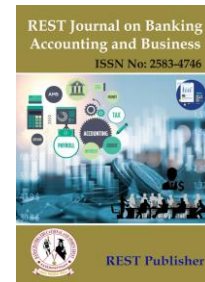
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Innovation Capability and Entrepreneurial Development: A Pathway to Competitive Advantage in Services Marketing

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Abstract: Service firms have to be found in an environment where the service product is intangible, is a heterogeneous mix, and can be imitated rapidly, making it more difficult for these firms to find any sources of durable competitive advantage as compared to product-based industries. This paper proposes a conceptual framework of innovation capability and entrepreneurial development as co-factors of sustainable competitive advantage in services marketing. Based on the resource-based view and the dynamic capabilities perspective, the paper reviews recent empirical and conceptual studies on entrepreneurial orientation and innovation capability, organisational learning and absorptive capacity, and market performance, and concludes with an integrative framework, where entrepreneurial development creates capacity to sense and seize opportunities, innovation capability creates new service offerings and processes, and customer value creation is a mechanism that transmits these capabilities to a defensible market position. Involving six research propositions are presented to guide the future empirical test. The paper advances services marketing literature in two ways: First, it refocuses entrepreneurial development as a capability development process rather than a personality trait and second, it elucidates the mediating and moderating roles between innovation activity and competitive outcomes. Managerial implications for service sector SMEs, practical suggestions for fostering innovation-oriented entrepreneurial cultures, and the need for a more impractical approach are also explored, as well as a call for further empirical research.

Keywords: Innovation Capability; Entrepreneurial Development; Service Innovation; Entrepreneurial Orientation; Competitive Advantage; Services Marketing; Customer Value Creation

1. INTRODUCTION

Although competitive advantage has been recognized as the principal outcome variable in strategic marketing research, how service organizations get there remains a subject of debate. In contrast to manufacturing companies, services companies contend with intangible, co-produced, and easily replicable products and services, and product and price-based benefits are fleeting (Distanont, 2020). This problem has been approached from two different angles, in two literatures. The first one, which stems from entrepreneurship research, defines entrepreneurial orientation and entrepreneurial competencies as a behavioural disposition that enables firms to detect and act on opportunities before other firms do, thereby creating an entrepreneurial advantage (Aidara et al., 2021; Hwang et al., 2020). The second perspective, based on the resource-based view and dynamic capabilities theory, sees innovation capability as the organizational level process needed in converting opportunity recognition into new products, processes and services (Liu et al., 2020; Vu, 2020). The two literatures converge on the conclusion that neither disposition nor capability is enough: A firm with a high level of entrepreneurial orientation but no level of innovation capability will not be able to capitalize on the opportunities it uncovers, and a firm with high innovation capability but low entrepreneurial orientation will not have the risk-taking positive mind-set required to successfully launch a novel offering. This paper seeks to fill a direct line of inquiry from this observation. Few conceptual studies have examined the developmental progression that links entrepreneurial development to the antecedent of innovation capability and innovation capability to the subsequent product of customer perceived value and, in turn, to competitive advantage, and comparatively little empirical literature has explored the developmental sequence of how entrepreneurial development first generates the underlying capacity from which innovation capability is then drawn, and how both are subsequently channelled into customer perceived value via services marketing activity, which is in turn linked to competitive advantage. The aim

of this paper is three-fold: to synthesize the recent literature on entrepreneurial orientation, entrepreneurial competencies, innovation capability, and competitive advantage in the context of services marketing, to outline an integrative conceptual framework that places entrepreneurial development as an upstream process of building capabilities and innovation capability as the downstream process that turns the former into downstream outcomes that face the market, and to propose a set of research propositions to guide future empirical tests in the context of services marketing. The paper continues in the following manner. The literature review in the second section aims at reviewing the literature on the phenomenon of innovation capability, entrepreneurial development and entrepreneurial orientation, competitive advantage and the specific characteristics of services marketing. In part 3, the conceptual framework and the corresponding research propositions are presented. The implications of the framework for theory and practice are discussed in Section 4 and limitations and directions for further research are outlined in Section 5.

Research Objectives

This paper follows two research objectives:

- To review in the light of recent literature on how entrepreneurial development (firm-level entrepreneurial orientation and individual-level entrepreneurial competencies) fosters innovation capacity of service firms.
- To create an integrative conceptual framework and a set of research propositions that link the innovation capability with the entrepreneurship development, which in turn are associated with the creation of customer value within the service marketing activity, to the sustainable competitive advantage.

Significance of the Study

This study is important since it fills a structure void in the existing literature on entrepreneurship and services marketing by addressing the drivers of competitive advantage. The paper contributes to the research field by synthesising literature into one sequential framework, which enables the researcher, the service-sector manager, the SME owner-manager and the government/business-support agency to form a clearer picture of how these constructs relate to each other, and to provide them with a more precise and testable account of the relationships among these constructs; a more precise understanding of the sequencing of investment in entrepreneurial development, innovation capability and marketing activity for the SME owner-manager; and a sharper rationale for pairing entrepreneurship training with innovation and marketing capability-building instead of funding each of these areas independently for the government/policy agency.

2. METHODOLOGY

The approach taken in this paper is a conceptual and narrative literature synthesis approach rather than one that is empirical or systematic review. Twenty peer-reviewed and conference-indexed studies, which were purposively selected because of their direct relevance to entrepreneurial orientation, entrepreneurial competencies, innovation capability, and competitive advantage in SME, service, and marketing contexts, were read and thematically coded based on the constructs of entrepreneurial development, innovation capability, competitive advantage, and services marketing, and compared for convergence and divergence in the reported mediating and moderating relationships.

3. LITERATURE REVIEW

Innovation Capability

The capability of innovation is the ability of the organization to continuously convert knowledge and ideas into new products, processes, and systems that benefit the organization and its stakeholders (Liu et al., 2020). In the resource-based view, the innovation capability of a firm is considered a higher-order-level capability, which is the ability to integrate and reconfigure the resources a company possesses into new product ideas that competitors are unlikely to be able to imitate (Ávila, 2022). Liu et al. (2020) demonstrate that network activities can be seen as a critical antecedent of the innovation capability of an organisation, and that innovation capability is not a one-off, but is a result of the organisation's continuous activity, as it lies in the middle of the relationship between the resources provided by the network and the competitive advantage. Likewise, Ávila (2022) found that knowledge absorptive capacity is a key driver of competitive advantage, which to a large extent is because it flows through the innovative capability channel, not as a direct and unmediated source of advantage.

Entrepreneurial Development and Entrepreneurial Orientation

Entrepreneurial development in this paper is defined as the development of skills, attitudes and abilities that facilitate proactive and risk-taking, innovative behavior, leading to entrepreneurial actions, by individuals and organisations. Entrepreneurial orientation, with the components of innovativeness, proactiveness, and risk-taking, and entrepreneurial competencies at the individual level (Aidara et al., 2021; Hwang et al., 2020), are most widely used in the literature to operationalize this process. While entrepreneurial competencies relate to competitive advantage, this connection is found to be significantly mediated by the innovation capability in this study by Hwang et al. (2020) as direct evidence of the developmental sequence proposed in this paper: entrepreneurial competencies foster the disposition and capacity to implement innovation capability, which in turn translates into market outcomes.

Competitive Advantage

The conventional definition of competitive advantage is that of a firm being able to generate more economic value for its customers than its "marginal competitor" (Distanont, 2020). Distanont (2020) points out that one of the most consistent and theoretically sound paths to competitive advantage is innovation, which enables firms to distinguish their product offering and to do so in a manner that makes it difficult for competitors to replicate. This finding is also supported by the reviewed literatures, which presented by Sulistyo and Ayuni (2020), Elgarhy and Abou-Shouk (2023), and Farida and Setiawan (2022) indicate that there are empirical evidences that suggest that innovation related capability is a significant variable that clearly affects the competitive advantage of the business, but the architecture of the mediating and moderating variables is different in each study.

Services Marketing as a Distinct Context

Services marketing is different from product marketing in ways that have tangible implications for the role of innovation capability and entrepreneurial development in creating an advantage. Positioning competitive services requires strong attention to quality of the customer experience and to the firm's ability to innovate in the design of the service it provides and not in physical product characteristics, as services are intangible, heterogeneous and are often produced and consumed at the same time (Gomes et al., 2022; Olazo, 2023). Olazo (2023) concludes that marketing competency and marketing innovation act as the two key ingredients to creating sustainable competitive advantage among SMEs, and that services and marketing intensive firms require both innovation capability and a marketing capability that goes beyond just core service design to other aspects of the marketing mix such as branding, customer engagement and marketing channel innovation. In addition, the authors Ferreira and Coelho (2020) found that the influence of innovation capabilities and branding capabilities on competitive advantage and on SME performance is moderated by entrepreneurial orientation, which is directly relevant for service and knowledge-intensive SMEs, which compete significantly on brand and relational trust, and not only product features.

Linking Entrepreneurial Development, Innovation Capability, and Services Marketing

The above literature review leads to the following three related claims. Firstly, entrepreneurial development at both the firm and individual level (as entrepreneurial orientation and entrepreneurial competencies, respectively) is viewed as an antecedent capability that influences the capacity of a firm to learn, absorb external knowledge, and innovate (Hwang et al., 2020; Makhoulfi et al., 2021). Second, the innovation capability acts as an intervening variable, transforming this entrepreneurial capability into tangible new offerings, processes, and marketing activities, and it is this intervening role that is most consistently observed across the studies reviewed to explain variance in competitive advantage (Ávila, 2022; Ferreira et al., 2021; Liu et al., 2020). Third, in the case of services marketing specifically, the diffusion of capability of innovation is a significant way of gaining competitive advantage, not only through product innovation, but also through the process of creating value for customers, such as branding, marketing competence, and design of the service encounter (Ferreira & Coelho, 2020; Olazo, 2023). This approach is also backed by the results of Adinata et al. (2023) that demonstrates that the interaction of innovation capability and entrepreneurship capability affects e-marketing performance, mediated by competitive advantage, and is similar to the sequence proposed in this paper in a culinary SME context. In examining this larger body of literature, Lestari et al. (2020) and Vu (2020) found that dynamic, innovation, and entrepreneurial capabilities are conceptually distinct and yet empirically and developmentally related, which is the basis for this paper to propose an integrative framework.

Conceptual Framework and Research Propositions

Than a set of independent predictors for each other. The proposed framework links entrepreneurial development with the upstream construct, capability building; links innovation capability with the intermediate construct, capability deploying; links customer value creation in service marketing with the transmission mechanism; and sustainable competitive advantage with the terminal construct. Organisational learning capability and absorptive capacity are

identified as boundary conditions to strengthen or weaken entrepreneurial-development to innovation-capability link, as in Makhouloufi et al. (2021) and Ferreira et al. (2021). Conceptually, the framework can be seen as a chain of entrepreneurial development, innovation capability, services-marketing based value creation, sustainable competitive advantage, where organisational learning capability and absorptive capacity moderate the first link in the chain and where the turbulence of the market/environment moderates the link between innovation capability and value creation.

Within this context the following research propositions are presented:

- **P1.** The entrepreneurial development, both entrepreneurial orientation and entrepreneurial competencies of a service firm, has a positive relationship with the innovation capability of a service firm.
- **P2.** Entrepreneurial development is positively associated with the innovation capability, and organisation's learning and absorptive capacity serve as the bridge which firms employing entrepreneurs with greater entrepreneurial disposition are better able to convert entrepreneurial disposition into innovation capability.
- **P3.** Entrepreneurial development influences service firms' sustainable competitive advantages indirectly via innovation capability, and this relationship is stronger than the direct (unmediated) relationship between entrepreneurial development and sustainable competitive advantage.
- **P4.** The impact of innovation capability on sustainable competitive advantage is partially moderated by the marketing and branding competency, service encounter design and marketing activities of services marketing.
- **P5.** The relationship between innovation capability and customer value creation is moderated by environmental turbulence, and is stronger in high market turbulence.
- **P6.** When entrepreneurial development and innovation capability are considered together, the joint effect of the two constructs accounts more variance in the sustainable competitive advantage than either construct alone, suggesting that entrepreneurial development and innovation capability are complementary constructs, not substitutes.

4. DISCUSSION

The framework and its corresponding propositions have some implications for the theory of services marketing. The first is that a model of entrepreneurial orientation and innovation capability as parallel and independent predictors of competitive advantage, may be mis-specifying the underlying causal structure. The pattern that comes from the literature reviewed, where innovation capability is found consistently as an important mediator of entrepreneurial and dynamic-capability effects (Ávila, 2022; Ferreira et al., 2021; Hwang et al., 2020), suggests instead that entrepreneurial development should be considered as being upstream of innovation capability, rather than as a co-equal parallel antecedent. Second, the framework notes that service marketing activities do much of the work to transform the capability into customer-perceived and market-identified advantage, not so much the innovation activity itself. This corroborates previous studies that found that marketing competency and branding ability moderate or mediate the innovation-advantage link in the SME and service settings (Ferreira & Coelho, 2020; Olazo, 2023). The framework suggests that service-sector managers, especially in SMEs, should view entrepreneurial development (including management training, opportunity-recognition routines, and risk-tolerant decision processes) as an investment, which will yield the innovation capability, rather than as an end of its own. It also suggests that innovation investment in service companies must be complemented strategically with the capability of services marketing which includes branding and designing the customer experience, because it seems that innovation capability alone is not enough to create competitive advantage without a transmission mechanism (Adinata et al., 2023; Farida & Setiawan, 2022). In a service market environment, where turbulence or rapid change exists, as P5 do in the service market, the link between innovation and value creation may be relevant and significant to manage intentionally, because Rahayu (2020) argues that the role of entrepreneurial marketing capability is more significant under turbulent environment.

Theoretical and Managerial Implications

This paper, on a theoretical level, can be seen as a contribution to the services marketing and the strategic entrepreneurship literature, as it offers a proposed integrative, sequential framework that brings together two literatures that have evolved largely in tandem. It moves entrepreneurial development from a trait or orientation to a capability building process and downstream effect on innovation capability, and defines the services-marketing value-creation

activity as an under-researched transmission mechanism between innovation capability and competitive advantage. The framework also puts greater emphasis on the boundary conditions of organisational learning capacity and absorptive capacity, which helps to reconcile the conflicting results in the literature on the relationship between entrepreneurial-orientation and innovation-capability. Managerially, the frame provides a logic for how service-sector leaders and SMEs owner-managers can sequence their investments in enterprise capabilities – in entrepreneurial orientation and competencies first, then in organisational learning and absorptive routines, then in services marketing activity to engineer an innovation capability, and then in the expectation of gaining competitive advantage from the entire sequence rather than any one of its constituent parts. The framework also suggests that to positively affect SME competitiveness, entrepreneurship training programmes should be accompanied by investment in innovation capability and marketing capability, in line with the joint-capability results of Sulistyo and Ayuni (2020) and Gomes et al. (2022).

Limitations and Future Research Directions

This paper is conceptual and will synthesize secondary literature instead of providing new primary data; the propositions presented here must thus be tested empirically before they can be considered as established relationships. The proposed framework needs to be tested on samples from the services sector by using structural equation modelling to verify whether innovation capability has a full or partial mediating effect on entrepreneurial development-competitive advantage relationship, as confirmed by the reviewed studies, in which the mediation strength has been reported as mixed (Elgarhy & Abou-Shouk, 2023; Hwang et al., 2020). The boundary conditions for the future could also be discussed based on the type of service, intensity of contact with the customer and the level of market turbulence, as the reviewed literature covered culinary SMEs (Adinata et al., 2023), exhibition services (Vaničková et al., 2020), and educational services (Gryshchenko et al., 2021). Finally, the synthesis has been based on research employing a range of measures for entrepreneurial orientation, entrepreneurial competencies, and innovation capability, thus research is needed in future that can be done with a harmonised measurement approach in order to be able to compare across studies to a greater extent than is possible in this synthesis.

5. CONCLUSION

The nature of innovation capability and entrepreneurial development has been argued in this paper not as separate antecedents of competitive advantage, but rather, as a sequence of capabilities, where entrepreneurial development builds up disposition and capacity that in turn enables the delivery of innovation capability which is then translated into customer recognised and market recognised competitive advantage through the medium of services marketing activity. Based on the recent literature in the fields of SME, hospitality, exhibition, educational, and culinary service, the paper recommends an integrative conceptual framework and six research propositions that will serve as the guideline for future empirical research. The main take-away for the service company is that entrepreneurial orientation, investment in innovation, and marketing activities will not necessarily guarantee a competitive advantage if they are done separately, but if they are done sequentially and integrated, then it is more likely to guarantee a competitive advantage in services marketing.

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