

Strategic Resource Management within the Service Business

Timo Rinne

Aalto University School of Economics, Department of Management
and International Business, P.O. Box 21290, FI-00076 Aalto

Abstract. Recent development in the global economy from the manufacturing business to the service business has generated increasing interest in the research of services. This paper is a theoretical analysis of the service business and its requirements to the management of organizations in entrepreneurial firms. Identified requirements have direct links to the concept of strategic entrepreneurship, which offers a good theoretical framework for the management of organizations within the service business. Based on the findings in the service business and the concept of strategic entrepreneurship, this theoretical paper conceptualizes a new strategic resource management model for entrepreneurial service organizations.

Keywords: entrepreneurship, strategy, organization, human resources, services.

Introduction

Global economy is currently in the middle of transition processes from a manufacturing economy to a service economy and from goods-oriented suppliers to service providers. These global transition processes have created an increasing demand for service-related research and development (VTT, 2009).

Previous research has shown that the service business sets different requirements to firm's organization, working culture and skills of personnel than the manufacturing business. These requirements have impacts on organization and resource management practices in a firm (Othman 1999, Penttinen 2007, Hyötyläinen 2009).

Within the past ten years, a synthesis of research work in the areas of entrepreneurship and strategic management has created a new concept called strategic entrepreneurship (Ireland et al., 2003). According to previous research, entrepreneurship and strategic management are complementary disciplines which should not be subdivided from each other. The concept of strategic entrepreneurship is seen as a process, which enables firms to develop competitive advantages while maintaining continuous opportunity-seeking and advantage-seeking behaviors (Ireland et al., 2003)

However, the research in the area of strategic entrepreneurship has been mostly theoretical conceptualization without any link to specific type of businesses like the service business (Ireland et al 2003, Schindehutte et al. 2009, Kraus and Kauranen 2009). Recent studies of strategic transition processes from the product business to the service business have focused on large firms (Hyötyläinen 2010, Penttinen 2007), and very few studies exist of organization management in entrepreneurial firms within the service business.

This paper explores special characteristics of the service business and their requirements to organizations and personal skills. Development of organization and human resources is analyzed through the concept of strategic entrepreneurship. This paper conceptualizes a model for managing organizations and human resources in an entrepreneurial firm.

In the first chapter I analyze special characteristics of services and their implication to required skills in organizations. In the second chapter I review the concept of strategic entrepreneurship in the light of identified characteristics of services. In the third chapter I synthesize the findings in service business and strategic entrepreneurship, and introduce a model for organization management and development of human resources in an entrepreneurial firm.

Service Business

In this chapter I present the characteristics of the service business and services and their implications to the management and development of organizations. It is logical to analyze the characteristics of the service business by comparing it to the manufacturing and product business. I use this approach through this chapter.

Characteristics of Services

Recently there has been a wide interest in research of services (Ostrom et al. 2010). The firms have realized that in many cases selling services is much more profitable than selling products. According to Penttinen (2007), the firms have seen that offering services is a better way to generate steadier revenue streams than selling products. The service business also offers higher potential for company growth than the product business. Lee et al (2007) argue that services is the only sector since the beginning of the 1990s, which has succeeded to grow significantly the employment rate in Europe, mainly in welfare services, finance and business services, commerce and distribution, hotels and catering. European Union has also nominated services as a strategic sector of the EU's new employment policy, as a key factor in creating wealth within the EU (Lee et al. 2007).

Katzan (2008) defines services very generally as “a work performed by one person or a group that benefits another”. Service business provides intangible assets like assistance and expertise rather than tangible assets like products. Services can also be understood as a process or set of activities for producing intangible assets. This approach is supported by Hyötyläinen (2010), as he argues that services are more like performances rather than objects.

Othman (1999) defines four characteristics which differentiate services from manufacturing and products. Firstly, services are consumed and the purchaser of a service does not take possession of a tangible product. Secondly, the production and consumption of the service

takes place at the same time. Production and consumption may take place in the presence of the service provider, depending if the service is produced by humans, like for example in professional services, or by equipment, like for example in ICT services. Thirdly, the service is time and location bound, meaning that the service must be delivered when the customer needs it and in the place where the customer wants to consume the service. Othman (1999) also reviews differences in the quality control between services and manufacturing. In manufacturing, the quality control can be implemented and measured fully after the product leaves the factory but before it gets into consumer's possession. In the service business, the quality of the service cannot be fully controlled or measured before the service has been delivered.

Services can be analyzed in the higher level as a service system. Katzan (2008) says that "a service system is a socially constructed collection of service events in which participants exchange beneficial actions through a knowledge-based strategy that captures value from a provider-client relationship". Further on, a service system can be understood as a dynamic process that coordinates all elements which are needed for production of services like infrastructure, organization, employees, partners, and clients.

It is important to understand that all services are not produced in the same way and the content of the service offerings can be very different depending on the type of service. Service can be delivered only by service persons without any technical equipment involved in service delivery. These types of services are traditionally professional services requiring special knowledge or simple manual services. These kinds of services require direct contact with the person who provides the service. At the other end we can find very technical concepts like ICT services, where the service is delivered mainly by using ICT equipment and data communication lines.

Chase (1978) presents categorization model for different services based on the level of direct contact with the customers. Chase (1978) separates people-based services and equipment-based services by four different categories: 1) pure services, 2) mixed services, 3) quasi-manufacturing and 4) manufacturing. The level of customer involvement has influence on the skills required from the service provider. It was also concluded, that the services which require more customer contact, are more difficult to control and rationalize (Chase, 1978).

Requirements for Organizations and Competence

Services have certain characteristics that influence to the skills required from the service provider's organization and personnel. There exist similar skills which are required to sell and deliver the products and services, but some skills are emphasized in the service business. In the following paragraphs I review the most important characteristics of services which require special skills from the organizations and persons in the service business.

Intangibility is one of the most important characteristics of services when comparing to products. Intangibility means that the customers cannot see or experience the service before it is delivered. Hyötyläinen (2010) discusses in his dissertation about intangibility of services and service provider's need to control intangibility in the front of the customer (Hyötyläinen, 2010). One of the most important skills of a service provider is to convince the customer of the quality and content of service delivery so that the customer is ready to pay for it. Hyötyläinen (2010) discusses about intangibility of services in ICT perspective but this finding can be generalized to other service areas as well.

Cruz-Ros (2009) has studied intangibility of services from organizational and firm management perspective. She has found that organizational and managerial resources are the key ingredients of firm's capabilities in the service business. Organizational resources are the source for innovation, organizational learning and dynamic resource co-ordination. Managerial resources are important in further development of the organization and the skills of people and in other human resource processes like recruiting.

Further on, Cruz-Ros (2009) emphasizes the importance of three competences required in the service business. Firstly, service provider's employees must be able to communicate with the customer. This skill is essential in order to understand the needs of the customer. Secondly, the employees must have a good understanding of particular circumstances of time and place and to act according to existing conditions. Thirdly, employees must be able to fulfill customer's needs according to the needs and surrounding environment and conditions.

These types of competences are good examples of tacit knowledge, which is created during a long period of time and in close relationship with customer organization. Managerial capabilities and skills are considered crucial to maintain the people, who have accumulated such knowledge and skills, in the company. Cruz-Ros (2009) says that traditional managerial monitoring devices and hierarchical power become useless in the service firms, and managerial leadership with minimal formality is the key competence in attracting and retaining the key people in the firm.

Kannan and Proenca (2010) identify variability as an important characteristic of services which must be managed by the service provider. Variability in the service systems is often resulted from different usage situations and conditions. A standardized service system can be used in several different ways and in different conditions which creates variability in the service experience towards the customer. For example, a music concert is totally different experience in a clean, air-conditioned concert hall in a big city, than in an outdoor festival in countryside when it is raining during the performance. Customer-introduced variability exists when customers realize potential different options and variations in a service offering. Customer-introduced variability can increase complexity in service offerings if the service provider is not able to manage this type of variability. Customer-introduced variability can be managed for example through different pricing strategies. In addition to pricing, this type of variability can be also managed by training employees for advising customers to select only limited set of different options in the service offering.

Othman (1999) has found significant differences in employee selection process and human resource management (HRM) practices between the manufacturing firms and the service firms. In his empirical study of Malaysian service firms, it was found that when hiring a new employee, the manufacturing firms focus on evaluating job skills of the candidate. The service firms evaluate the job skills as well, but they focus more on the candidate's experience, personal background and also referee statements. This finding supports other arguments which emphasize the importance of tacit knowledge in the service business.

Further on, Othman (1999) calls for long-term planning and strategy for HRM practices in the service firms. Human resources should be valued as one of the most important asset for the service firm. Service organizations need to invest in developing the competence and required skills of their employees. It was also found that training is an important element in

retaining current employees and attracting the new key persons to the firm. If the firm invests to the training of its employees, they feel that the firm is ready to invest into its employees and their skills. It was found that the service firms invest much more into employee training than the manufacturing firms. Appraisal and remuneration programs were also more structured and better organized in the service business than in the manufacturing business. As a conclusion, human resources and individual persons are seen much more important asset for the firm in the service business than in the manufacturing business. HRM has also more central role in internal operations in the service firm than in the manufacturing firm.

Figure 1 explains connections between the service business characteristics and required skills from employees and managers. Services are intangible, location bound, they tend to have variability due to changing environment or generated by the customer, and finally, services can be based purely on human activities or, different equipment can be used for delivering the services. An employee must be able to communicate with the customer in order to understand customer’s needs. She needs to be aware of surrounding environment and manage variability generated by the customer or environment. An employee needs to create or configure the service based on customer’s needs and potential, acceptable level of variability. In the next step she needs to convince the customer to pay for the service. After customer’s positive decision, the service is delivered, and, what is characteristic to service business, the quality of the service can be measured and managed after the delivery. These types of skills create tacit knowledge, which needs to be sustained and developed with managerial skills.

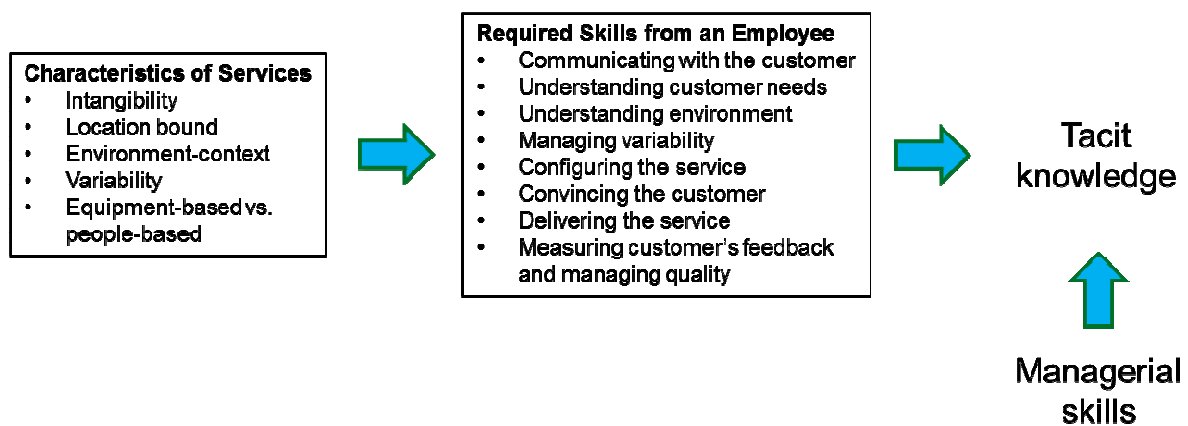


Figure 1. Influence of service characteristics to the required skills of employees and managers

Strategic Entrepreneurship

In this chapter I review the concept of Strategic Entrepreneurship and its domains. The focus of the review is in strategic human resource management in the light of the requirements that the service business brings to this area. Concepts of dynamic capabilities and absorptive capacity has a strong impact on the management of organizations and people, and therefore these concepts are covered as well.

The Concept of Strategic Entrepreneurship

Strategic Entrepreneurship (SE) is a fairly new concept within the field of entrepreneurship, which represents intersections between strategic management and entrepreneurship (Kuratko&Audretch, 2009). SE has not been studied very much so far. Many scientists are still discussing the concept itself and what areas of entrepreneurship research the concept should address (Kraus 2009, Schindehutte&Morris 2009, Kuratko&Audretsche 2009). According to Kuratko and Audretsche (2009), SE starts after an entrepreneur has managed to survive over the first year or two, by so far using all available time for taking care about short term survival, and is now able to focus more in the issues related to strategy development, geographical expansion, market orientation, etc. Kuratko and Audretch also say that SE is a mixed process of continuous opportunity-seeking and exploitation, and simultaneously creating and sustaining competitive advantage of a firm.

During the past decade, several articles have been published about the concept of SE (Ireland et al. 2003, Kraus 2009, Schindehutte&Morris 2009, Kuratko&Audretsche 2009). One of the most cited concepts is published by Ireland et al. (2003). They see SE as a model for developing competitive advantage for a firm through a certain process (figure 2). Their model consists of four dimensions - entrepreneurial mindset, entrepreneurial culture and entrepreneurial leadership, the strategic resource management and applying creativity and developing innovation. I use this model to review the concept of strategic entrepreneurship in the following sub-chapters. Special focus in my review is in the connections to the characteristics of the service business.

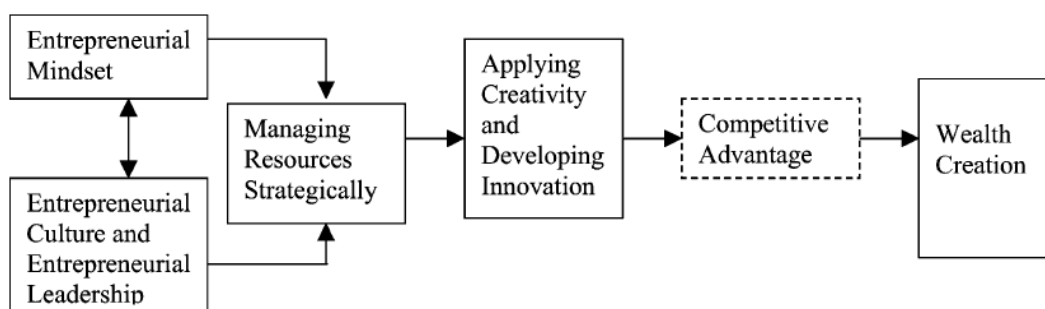


Figure 2. A conceptual model of strategic entrepreneurship (Ireland et al. 2003)

Entrepreneurial Mindset

Entrepreneurial mindset is the driving force for the whole process. A person with an entrepreneurial mindset is able to recognize entrepreneurial opportunities and is always alert to surrounding environment and its signals of new opportunities. Ireland et al (2003) separate opportunity-seeking and advantage-seeking behaviors from each other. Opportunity-seeking behavior means capability to identify opportunities but advantage-seeking behavior includes the function of making opportunities into real, profitable businesses. In a firm level, identified opportunities can be collected as a register, which can be used for sharing information of opportunities to multiple persons in the company, regardless if the opportunity could be exploited or not (Ireland et al, 2003).

Real-options logic is an important approach to any entrepreneur. Real-options logic is a strategy to optimize the efficiency of investments for new opportunities. Investments should be avoided or minimal when it is not clear that the opportunity can be fully exploited. When the degree of certainty with a specific opportunity increases, the firm can quickly increase its investments to be capable of exploiting the opportunity (Ireland et al. 2003, McGrath 1999). Entrepreneurial mindset requires also a good ability to manage uncertainty which is a natural element in its all levels for an entrepreneur (Kraus & Kauranen, 2009).

Entrepreneurial Culture

An organization with entrepreneurial culture expects and promotes new ideas and creativity as well as encourages for risk taking. Continuous change, tolerance for failure and promotion of learning and innovativeness are important elements of entrepreneurial culture (Ireland et al. 2003). In entrepreneurial culture both leaders and employees have entrepreneurial mindset. The leaders of a firm are an important part of entrepreneurial culture. They need to have entrepreneurial mindset themselves and they are responsible for developing and maintaining entrepreneurial culture in their organizations. Entrepreneurial culture is a necessary precondition for entrepreneurial orientation in an organization (Kraus & Kauranen, 2009).

The leaders in entrepreneurial organization are the key persons in creating and developing human resource strategy in a service firm. As discussed earlier, human resources should be valued as one of the most important asset for the service firm (Othman, 1999). Employees in a service firm need to be treated as individuals and HRM practices and employment conditions need to be attractive for the employees (Othman 1999, Cruz-Ros 2009). Competence of employees in service firms is based mostly on tacit knowledge and experience, and therefore it is important that the employee exchange rate is low (Othman 1999, Cruz-Ros 2009). It is very difficult to replace a key employee with a deep tacit knowledge in a service firm, which is, on the other hand, easier in manufacturing firm, where the skill requirements are more related to the job and can be trained faster to replace leaving employee (Hitt et al 2001).

Entrepreneurial Leadership

Ireland et al (2003) describe entrepreneurial leadership in six elements – 1) nourish an entrepreneurial capability, 2) protect innovations threatening the current business model, 3) make sense of opportunities, 4) question the dominant logic, 5) revisit the “deceptively simple questions” and 6) link between entrepreneurship and strategic management. I shortly

review all these elements from the service business point of view as some of these elements have a clear link to specific requirements of the services business.

Nourishing an entrepreneurial capability means promoting and encouraging entrepreneurial behavior and entrepreneurial culture. Creativity is one of the most important skills for employees in a service firm. Employees need to continuously interact and communicate with the customers and to solve customer's problems. Encouragement to creativity therefore supports the employees in the service business.

Protection of innovations that threaten the current business model, support the service business requirements by setting a high need for internal communication. Entrepreneurial leaders should transparently share information with the employees to describe new innovations' potential benefits, even if these innovations might seem to threaten the current business model. From the service business perspective, open communication is needed to create and support tacit knowledge, which is considered one of the most important skills in service organizations.

Making sense of new opportunities does not have any specific meaning or importance specifically for the service business. It is a general skill required from any leader to communicate and convince the organization and its members about the benefits of new business opportunities. However, in the service business it is clear that the employees need to be motivated in a different level than in the manufacturing business. Therefore explaining and communicating the reasons why to use resources for a certain opportunity, has more importance in a service organization than in manufacturing organization.

Questioning the dominant logic and revisiting the "deceptively simple questions" are both related to continuous awareness and seeking for new opportunities. The organization should always challenge existing business models and try to find new ways of doing business. These elements have medium level connection to the service business by encouraging creativity and new thinking which are specific requirements for a service organization and its employees.

Linking entrepreneurship and strategic management is especially important element for the service business. The service business has many requirements which are similar to entrepreneurial mindset like creativity and importance of tacit knowledge. Also management skills are considered as very important success factor for the service business firms in order to attract the best people and to make them staying in the firm (Cruz-Ros, 2009). For the service firms, it is important to be strategically entrepreneurial and, on the other hand, to have entrepreneurial elements in its organizational behavior and culture as well as management and leadership.

Strategic Resource Management

According to Ireland et al., (2003), "resources are managed strategically when their deployment facilitates the simultaneous and integrated use of opportunity- and advantage-seeking behaviors." This definition is fundamental for strategic resource management in an entrepreneurial firm and it separates the firm from non-entrepreneurial firms. This definition also summarizes the spirit of SE. A firm has developed and implemented a strategy for its operations but simultaneously, it is continuously capable for, not only seeking for new opportunities, but also exploiting the identified opportunities. From the resource

management perspective, the lack of resources or the skills in a firm should not be an obstacle for exploiting the opportunity.

Resource management in entrepreneurship has been, and still is, based strongly on the theory of Resource Based View (Ireland et al 2003, Kraus & Kauranen 2009, Foss et al 2008). RBV is a good theoretical background for research of strategic resource management in entrepreneurship as RBV is one of the most widely accepted theoretical approaches in strategic management (Newbert, 2007). In RBV based strategy, a firm tries to create a resource position and competitive advantage which are unique when comparing this position to the competitors of the firm. In strategic level, RBV means building competitive advantage through resources that the firm develops or acquires to implement its market strategy (Wernerfelt 1984).

According to RBV theory, a firm can own several different resource pools which are heterogeneous and different in nature (Barney 1991, Ireland et al 2003). Resources or resource pools can be tangible like financial capital and other monetary resources that a firm may use to acquire other resources like employees or machines. Resources can also be intangible like human resources or social resources, the first meaning mainly employees and the latter meaning contacts and networks between the people and organizations.

In RBV strategy, a firm wants to create a unique resource position which is difficult to copy. Intangible resources, like for example human resources, are more likely to produce a unique resource position and competitive advantage over the competitors than tangible resources. The reason is that intangible resources are often rare and socially complex and they are therefore more difficult to copy by other firms (Barney 1991, Hitt et al. 2001). The skills and competences of human resources, especially in the service firms, are based on tacit knowledge, which more difficult to copy or transfer than articulable knowledge like for example skills of a certain job (Hitt et al 2001).

One of the recent dimensions of RBV, and especially important approach for entrepreneurship, is dynamic resource management. Surrounding business environment is becoming more and more dynamic and fast-moving and creating day by day more rapidly changing requirements but also opportunities to the firms. The firms need to be able to respond to these fast changes and to plan their resource management practices accordingly. Wernerfelt (1984) has introduced a resource-product matrix as a model for managing resources according to the needs of different markets and availability of resources for a certain product or service. The purpose of the model is to analyze how and where the firm's limited resources should be used in the most cost-efficient and productive way.

After Wernerfelt's earlier studies in RBV, the concept of dynamic resource management has been extended. For example, Teece et al (1997) have criticized RBV that it does not fully explain how and why certain firms can create and maintain competitive advantage in rapidly changing environment. In order to understand this phenomenon, Teece et al (1997) have introduced a concept called *dynamic capabilities*, which means a firm's ability to achieve new forms of competitive advantage by emphasizing two key aspects, dynamics and capabilities. The term *dynamic* means the organization's "capacity to renew competences so as to achieve and congruence with the changing business environment; certain innovative responses are required when time-to-market and timing are critical, the rate of technological change is rapid, and the nature of future competition and markets difficult to determine". The term *capabilities* "emphasizes the key role of strategic management in appropriately

adapting, integrating, and reconfiguring internal and external organizational skills, intellectual dialogue, resources, and functional competences to match the requirements of a changing environment.”

Dynamic capabilities are managerial and organizational routines for reconfiguring and developing existing competencies in a firm. According to Eisenhardt & Martin (2000), these routines can 1) integrate existing resources and competencies together without or with minimal investments in new resources, 2) reconfigure existing resources with the help of knowledge sharing, organizational learning and co-operation with the customers and other stakeholders and 3) gain and release external resources dependent on the current capacity and requirements. From the service business point of view, the second organizational routine is the most important. In knowledge-intensive businesses, it is especially important to share tacit knowledge from the employees to the others (Eisenhardt & Martin, 2000). However, as tacit knowledge is mostly acquired through experience, this type of knowledge is very complex and the codification level – documentation and amount of written information – of the knowledge is low. Transferring non-codified knowledge is very difficult, but it is found that enabling efficient two-way communication and building strong inter-unit relationship between transferring parties – in other words, make them to work closely together – makes transferring process more efficient (Hansen, 1999).

In the concept of dynamic capabilities, it is also important to notice, that a firm is not only following the requirements from the surrounding environment and reconfiguring its resources accordingly. The choices in competence development influence also to the firm’s future position and repertoire of competences (Teece et al, 1997). Therefore, at the moment of starting to reconfigure its competence portfolio, the firm should always analyze what kind of influence this reconfiguration will have to its resource position and strategy in the future. Dynamic capabilities do not mean changing and reconfiguring resources in ad-hoc basis, where a firm tries to run after all possible opportunities without analyzing influences to other activities of the firm (Winter, 2003). This kind of behavior is often called “firefighting”, and it only generates negative influence to other activities in a firm and increasing uncertainty in the organization and its members.

Absorptive Capacity (APAC) extends both the theory of RBV and the concept of dynamic capabilities explaining the knowledge transfer and learning in organizations. Cohen and Levinthal (1990) offer one of the first and the most cited definition of ACAP as “an ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends”. This ability is argued to be critical to a firm’s innovation capabilities. The concept of ACAP focuses on development and transfer of tacit knowledge. ACAP can exist in the forms of general knowledge, problem solving ability and learning capability. The intense of the effort in building ACAP is critical in each of these forms (Cohen & Levinthal, 1990).

Zahra and George (2002) have further on re-conceptualized ACAP by separating it to four elements: acquisition, assimilation, transformation and exploitation of information. Potential ACAP (PACAP) includes a firm’s capability for acquisition and assimilation – finding and understanding – of external knowledge. Realized ACAP (RACAP) is a firm’s capability for transformation and exploitation of external knowledge. Through these phases a firm can develop a capability for flexible strategy, innovativeness and high performance, resulting finally competitive advantage (Zahra and George, 2002). ACAP is very relevant concept for

resource management in the service business as its focus is in management of tacit knowledge.

Creativity and Innovation

Creativity and innovativeness have been linked to entrepreneurial activity since the early days of entrepreneurial research (Mueller and Thomas, 2000). Already Schumpeter (1934) argued that creativity and innovations are important factors when carrying out new combinations in the form of new products or new processes. Innovations are closely linked to entrepreneurial opportunities. Austrian economics approach considers innovations as a result of market dynamics and availability of price information and price changes. Further on, created innovations are the main source of entrepreneurial opportunities (Buenstorf, 2007). New innovations are considered to be the primary motive to start own business (Mueller and Thomas, 2000) and also the main source of competitive advantage (Companys and McMullen, 2006).

Creativity, on the other hand, is closely linked to entrepreneurial alertness and considered as one of the main personal characteristics of an entrepreneur (Ardichvili et al. 2003, Baron 2006, Buenstorf 2007). Creativity exists often together with optimism, which creates room for thinking where all the problems can be solved and there is always a better way available for implementing anything. Creativity is also considered as an important characteristic in the service business. Dahlgaard-Park and Daahlgard (2010) say that one of the most important tasks for the future leaders in the service business is to integrate creativity and learning to innovation processes, and to motivate and manage organization's knowledge, learning and creativity. Creativity can be seen as the foundation for building a learning organization and the primary driver behind all improvements and innovation. Learning also helps to increase the capacity of a person's creativity.

Intersections between the Service Business and SE

The previous analysis of the service business and strategic entrepreneurship shows clear connections between these two concepts. Services are always intangible at some level, which sets specific skill and competence requirements for a person who is planning, selling or delivering the service to the customer. Firstly, an employee must have an ability to listen and understand the customer's business process and the needs. Secondly, an employee must create a service concept which fulfills the customer's needs but does not include too much variability. Existing environment needs to be taken into account when creating or configuring a service offer. Thirdly, an employee must convince the customer to buy a service concept what they cannot see or feel due to intangible nature of deliverable, and fourthly, the service must be delivered to the customer in successfully and with high quality, so that the customer feels to get high value for the money.

The skills described above are specific for the service business and they are different from the manufacturing or product business. These kinds of skills require creativity and innovativeness, which are core characteristics in an entrepreneurial mindset and also in the concept of SE. These kinds of skills are also a good example of tacit knowledge, which is a dominant phenomenon in entrepreneurial organization (Hitt et al 2001, Ireland et al, 2003).

Good managerial skills are considered to be crucial for developing, transferring and sustaining tacit knowledge in a dynamic organization (Cruz-Ros 2009, Eisenhardt & Martin (2000). Human resources with tacit knowledge are difficult to replace and therefore employees need to be treated as individuals, taking account each person's individual needs in working conditions and other motivational factors (Othman 1999, Cruz-Ros 2009). In service organizations the recruitment process differs from the manufacturing organizations. A strong emphasis is put on the candidate's tacit knowledge like professional background, referee statements, experience and personal characteristics instead of the job skills, which are dominant in the manufacturing business and easy to learn by education (Othman, 1999). In the concept of SE, entrepreneurial leadership includes requirements and characteristics for leading and motivating persons in individual organization with tacit knowledge Ireland et al, 2003).

Tacit knowledge, which is characteristic to service organizations, can create more efficiently and faster a unique resource position which is difficult to copy (Barney 1991, Hitt et al. 2001). Building a unique resource position is the main target of RBV and also a central focus of strategic resource management in the concept of SE. Inside the concept of SE and as an extension to RBV, dynamic capabilities and absorptive capabilities define the process of adapting and transferring tacit knowledge in the organization, which is essential for a firm to maintain its unique resource position and competitive advantage in the service business. Fast and flexible knowledge transfer process is especially important for an entrepreneurial firm, which is continuously looking for new opportunities and wants to exploit these opportunities with a minimal restriction from the human resources. Exploitation of new opportunities needs to be based on strategic resource development process and not ad-hoc decisions (Winter, 2003).

Figure 3 represents the intersections between the characteristics of the service business and SE and introduces a model for strategic human resource management for entrepreneurial service firms. Characteristics of services require and create tacit knowledge from the employees of organization. These skills are very similar to entrepreneurial mindset and require creativity and innovativeness and can be therefore linked to these domains in the concept of SE. These skills can be sustained and developed by managerial skills of the firm leader. Managerial skills influence to the employees through activities in the domains of entrepreneurial leadership, entrepreneurial culture and strategic resource management.

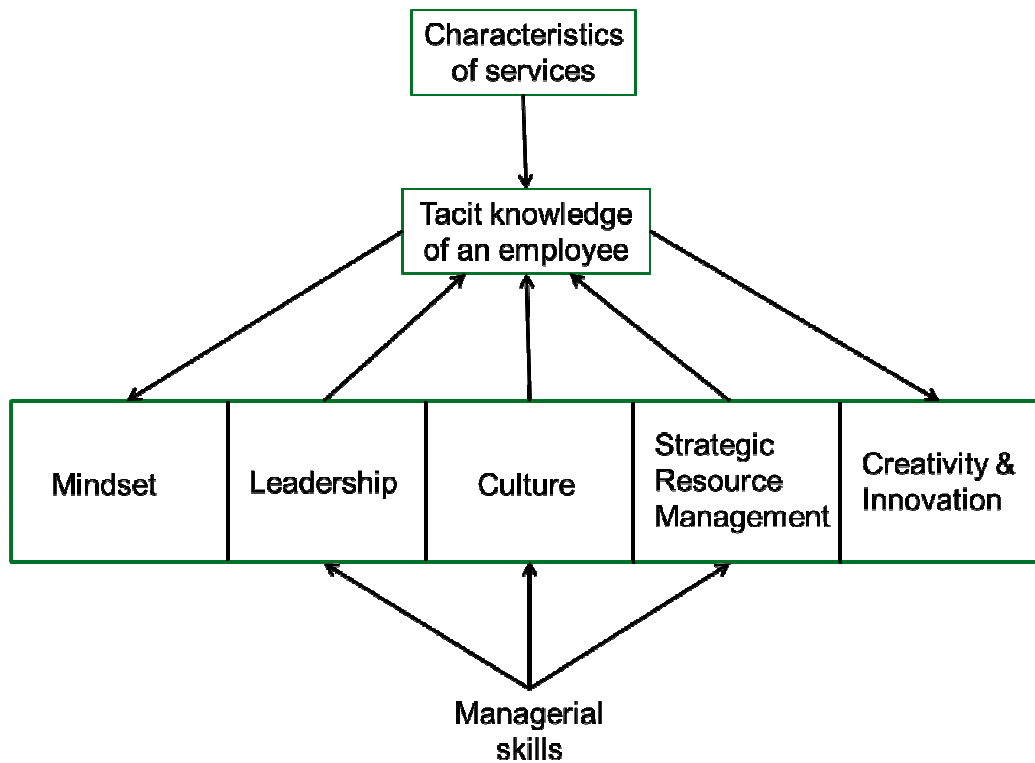


Figure 3. Intersections between the characteristics of services and SE – a conceptual model for strategic resource management in service organizations.

Discussion

The most important findings in this paper are connections between the service business and the concept of SE. Specific domains of SE are linked either to employee's skills and competences in the service business, or managerial skills in a service organization. The results of these findings are formulated as a conceptual model for strategic resource management in service organizations. However, in future research, empirical evidence is required for testing the viability of the concept.

References

- Ardichvili, A., Cardozo, R. and Sourav, R. (2003) "A theory of entrepreneurial opportunity identification and development." *Journal of Business Venturing* 18: 105–123
- Barney, J. (1991) "Firm resources and sustained competitive advantage." *Journal of Management*, (1991), 17(1) pp. 99-120.
- Baron, R. A. (2006). "Opportunity Recognition as Pattern Recognition: How Entrepreneurs "Connect the Dots" to Identify New Business Opportunities." *Academy of Management Perspective*. February 2006, Vol 20, Issue 1. p. 104-119.
- Buenstorf, G. (2007) "Creation and Pursuit of Entrepreneurial Opportunities: An Evolutionary Economics Perspective." *Small Business Economics* 28:323–337
- Chase, R.B. (1978) "Where does the customer fit in a service operation?" *Harvard Business Review*, (1978), Vol 56 No 6 November-December pp. 147-142.
- Cohen, W.M. and Levinthal, D.A., (1990) "Absorptive Capacity: A New Perspective on Learning and Innovation" *Administrative Science Quarterly*, 35 (1990) pp. 128-152
- Companys, Y.E., and McMullen, J.S. (2007) "Strategic Entrepreneurs at Work: The Nature, Discovery, and Exploitation of Entrepreneurial Opportunities." *Small Business Economics* 28:301–322.
- Cruz-Ros, Sonia. (2009) "Multi-item models for evaluating managerial and organizational resources in service firms." *Service Business*, (2009) 3:229–257
- Dahlgaard-Park, S.M., Daahlgard, J.J (2010) "*Organizational Learnability and Innovability A System for Assessing, Diagnosing and Improving Innovations.*" *International Journal of Quality and Service Sciences* Vol. 2 No. 2, 2010 pp. 153-174
- Eisenhardt, K.M. and Martin, J.A. (2000) "Dynamic Capabilities: What Are They?" *Strategic Management Journal* (2000), 21: 1105–1121
- Foss, J.N., Klein, P.G., Yasemin Y.K. and Mahoney J.T. (2008) "Entrepreneurship, Subjectivism and the Resource-Based View: Toward a New Synthesis." *Strategic Entrepreneurship Journal* (2008) 2: 73–94
- Hansen, M. (1999) "The Search-Transfer Problem: the Role of Weak Ties in Sharing Knowledge Across Organization Sub-Units." *Administrative Science Quarterly* (March) 44: 82–111.
- Hitt, M.A., Bierman, L., Katsuhiko, S., and Rahul, K. (2001) "Direct and Moderating Effects on Strategy and Performance in Professional Service Firms: A Resource-Based Perspective." *Academy of Management Journal* (2001) Vol 44, No 1 pp. 13-28.
- Hyötyläinen, Mika. (2010) "Towards Service Factory – Managing the Complexity of ICT Services." *Helsinki School of Economics*, A-369/2010. *Doctoral Dissertation*.

- Ireland, D., Hitt, M., Sirmon, D. (2003). "A Model of Strategic Entrepreneurship: The Construct and its Dimensions". *Journal of Management* 2003: 29 pp. 963-989.
- Kannan, P.K., Proenca, Joao, F. (2010) "Design of service systems under variability: research issues." *Information Systems and E-Business Management* (2010) 8:1-11
- Katzan, H. (2008). "Foundations Of Service Science Concepts And Facilities." *Journal of Service Science*, 3rd Quarter 2008, Vol 1/1, pp. 1-22.
- Kraus, S. and Kauranen, I. (2009). Conceptualizing a Configuration Approach Based Model of Strategic Entrepreneurship. *International Journal of Strategic Management*. 9(1) pp. 1-20.
- Kuratko, D. and Audretsch, D. (2009). Strategic Entrepreneurship: Exploring Different Perspectives of an Emerging Concept. *Entrepreneurship Theory and Practice*, 1/2009 pp. 1-17.
- Lee, Sang M., Ribeiro, Domingo., Olson, David L., Roig, Salvador. (2006) "The importance of the activities of service business in the economy: Welcome to the Service Business." *Service Business* (2007) 1:1-5
- McGrath, R. M. (1999). Falling forward: "Real options reasoning and entrepreneurial failure." *Academy of Management Review*, 24: 13-30.
- Mueller, S.L., and Thomas, A.S., (2000) "Culture and Entrepreneurial Potential: A Nine Country Study of Locus of Control and Innovativeness." *Journal of Business Venturing* 16, pp. 51-75.
- Newbert, S.L (2007). "Empirical Research on the Resource-Based View of the Firm: An Assessment and Suggestions for Future Research." *Strategic Management Journal* (2007), 28: 121-146
- Ostrom, A., Bitner, M., Brown, S., Burkhard, K., Goul, M., Smith-Daniels, V., Demirkan, H., Rabinovich, E. (2010) "Moving Forward and Making a Difference: Research Priorities for the Science of Service." *Journal of Service Research* 2010, 13, pp. 4-36.
- Penttinen, E. (2007) "Transition from Products to Services within the Manufacturing Business". *Helsinki School of Economics, A-314/2007. Doctoral Dissertation*.
- Otham, R. (1999) "Human Resource Management Practice of Service Organizations: Evidence from Selected Malaysian Firms." *Journal of Asia-Pacific Business*, (1999) 2: 3, pp. 65-80
- Schindehutte, M. and Morris, M. (2009) "Advancing Strategic Entrepreneurship Research: The Role of Complexity Science in Shifting the Paradigm". *Entrepreneurship Theory and Practice*, 1/2009 p. 241-276.
- Shumpeter, J.A. "The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and Business Cycle" (1934) *Cambridge, Mass: Harvard University Press* pp. 65 -94.

Teece D.J, Pisano G. and Shuen A. (1997) "Dynamic capabilities and strategic management." *Strategic Management Journal* 18(7): 509–533.

Wernerfelt, B. (1984) "A resource-based view of the firm." *Strategic Management Journal*, (1984), 5(2), 171-180.

Winter, S.G. (2003) "Understanding Dynamic Capabilities." *Strategic Management Journal*, (2003) 24: 991–995

VTT (2009). *Scientific Activities in Service Science and Business 2009*, VTT Technical Research Centre of Finland, Edita Prima Oy, Espoo, 2009

Zahra, S.A. and George, G. (2002) "Absorbptive Capacity: A Review, Reconceptualization and Extension." *Academy of Management Review* (2002) Vol. 17. No. 2, 185-203.