

## **Assessing The Importance of Entrepreneurial Orientation on Innovation in Service Sector**

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**Abstract:** *The success of service sectors will only be achieved if they succeed in winning the hearts of their customers. The service provider must be able to create an added value to remain competitive. Therefore, innovation is vital in the service sector. This study suggested that entrepreneurial orientation as a strategy for competitive advantage. It was developed to adapt rapid changes in the current global environment in order for the business to survive. Entrepreneurial orientation by its dimensions: innovativeness, proactiveness and risk taking have a strong influence in the creation of innovation. Entrepreneurial activity will boost to the innovative behavior. Therefore, this study attempt to explore the extent to which the role of entrepreneurial orientation to improve innovation in the service sector.*

**Keywords :** *Entrepreneurial Orientation, Innovation, Service Sector*

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### **I. INTRODUCTION**

Nowadays, service sector has become a massive industry that grows rapidly as a driving force and key sector in the modern and global economy. This industry is a provider of service needed by public such as hospital, hotel, banking, insurance, consulting, transportation and etc. (Kraus, 2013; Ripolles Meliá et al., 2010; Dionisia Elche Hortelano & Gongález-Moreno, 2007). The increasingly volatile business environment with globalization has led to intense business competition. Customer satisfaction is a priority in the service sector. Consequently, they have to compete by implementing innovation to satisfy the needs of customers (Komaladewi et al., 2012). In other words, innovation capability of organization is a key determinant of performance and success in the service sector (Omerzel, 2016; Rattanawong & Suwanno, 2014). Thereby, excellent service to the customer can be created when organization makes an effort to develop innovation to achieve competitive advantage. Even though organization may find hardship in predicting the actions of competitors in an unstable environment, it has been proven that organization is able to respond to environmental change by adopting entrepreneurial characteristics as their strategy (Covin & Slevin, 1991). To anticipate the turbulence environment, organization needs to adopt entrepreneurial orientation, that is attitude and behavior tendencies to engage in entrepreneurial characteristic such as innovativeness, proactiveness and risk taking in order to identify opportunities as a strategy to boost innovative behavior (Kraus, 2013). Entrepreneurial behavior directs to the creation of innovation. Therefore, innovation in service sector is strongly influenced by entrepreneurial orientation. As stated by Avlonitis and Salavou (2007), innovation is inherent in the area of entrepreneurship. Morris et al. (2008) also affirmed that entrepreneurship related to innovation or creating new combinations of resources, opportunities, risk taking, profit-making and value creation. Based on the recent empirical studies by some researchers such as Kraus (2013), Nasution et al. (2011), Wang and Juan (2015), Omerzel (2016), Rattanawong and Suwanno (2014), Monteagudo and Martínez (2015), entrepreneurial orientation has a significantly relationship with innovation in the service sector. The dimensions or characteristics of entrepreneurial orientation influence the ability to create an innovation.

Although entrepreneurial orientation has been proven as an important factor in innovation, studies' addressing this issue has not been extensively investigated. There was a paucity of study related to the entrepreneurial orientation and innovation in service sector (Tajeddini, 2010). Therefore, this study attempts to explore how entrepreneurial orientation through its characteristics can influence innovation in service sector.

### **II. LITERATURE REVIEW**

#### **2.1. Entrepreneurial Orientation (EO)**

Entrepreneurship and entrepreneurial orientation are two aspects that are hard to be separated. Entrepreneurship is a process to exploit existing opportunities that require entrepreneurial characteristics (Nasution et al., 2011). Attitudes and behaviors associated with EO are crucial in entrepreneurship (Wales et al., 2011). The concept of entrepreneurial orientation emphasizes on entrepreneurial activity (Lumpkin & Dess, 2001).

Therefore, entrepreneurial orientation is behavior tendencies to take part in entrepreneurial characteristic such as innovativeness, proactiveness and risk taking in identifying opportunities (Miller 1983; Covin&Slevin, 1991). EO is an important process in the organization as it helps the organization to grow and increase performance (Khalili et al., 2013). As asserted by Miller (1983), environment hostility is strongly associated with entrepreneurial effort because only with the entrepreneurial element can organization overcome the adverse forces in such environment effectively. Wales et al. (2011) claimed that the manner that EO manifested in the organization can affect the ability of EO to drive organization outcomes. Jambulingam et al. (2005) pointed that EO is intangible resources that are very difficult to imitate and become an important asset to the performance of the organization. As mentioned earlier, EO has several characteristics that are proven to be a potent strategy in anticipating unstable environment. Every dimension of entrepreneurial orientation has a different effect on innovation. Therefore, determining the dimension of entrepreneurial orientation is very essential. Monsen and Boss (2009) stated that it is related to the dimensions of strategic entrepreneurship. Some researchers have several different views on the characteristics of EO. As pointed by Wang and Juan (2015) and Sundbo (2007), there is uncertainty as to which specific activities of the EO are related to innovations that affect consumer rate responses.

Almost all researcher approved the importance of risk taking and proactiveness in entrepreneurial characteristics. However, the researchers also have a separate concept. Omerzel (2016) claimed that not only risk taking and proactivity can be adopted as a dimension of EO, but also need to involve aggressive competition, autonomy and customer orientation. Meanwhile, Nasution et al., (2011) suggested that dimensions of EO are risk taking, proactiveness and autonomy. Jambulingam et al. (2005) claimed that there are six dimensions of EO namely innovativeness, proactiveness, autonomy, competitive aggressiveness, risk taking and motivation. Generally, researchers recommended that EO is characterized of innovativeness, proactiveness and risk taking. Researchers who support these three characters are (e.g. Miller, 1983; Meynhard&Diefenbach, 2012; Rattanawong&Suwanno, 2014; Kraus, 2013; Monsen& Boss, 2009; Entebang et al, 2010; Wakkee et al., 2010; Urban & Streak, 2013). This study follows the definition of EO as characterized of innovativeness, that is the willingness to support the creation of new services (Meynhard&Diefenbach, 2012; Lumpkin & Dess, 2001), proactiveness, that is to seek new opportunities in response to market challenges and for introducing new services (Nasution et al., 2011), and risk taking, that is a willingness or courage to take risks to develop and implement new ideas in service delivery (Jambulingam et al., 2005).

## **2.2. Innovation In Service Sector**

Service innovation refers to a new service or service solution as a result of several activities to attract attention and satisfy the needs of customers (Den Hertog et al., 2010; Oke, 2007). Service involves the relationships between service providers and customers. The service sector is highly heterogeneous with a wide range of innovations. Therefore, organization has to be aware of the elements that contribute to the successful delivery of such services (Dionisia Elche Hortelano&Gongález-Moreno, 2007; Posselt&Förstl, 2011). Various ideas need to be developed to anticipate such a tight competition. Organizations must continue to make new innovations (Komaladewi et al., 2012). Innovation in service sector will help organization to improve performance (Damanpour et al. (2009).

Noteworthy, innovation in service sector is more to incremental compared to radical. Innovation in service is a combination of changes and improvements that influence the overall service system (Dionisia Elche Hortelano & Gongález-Moreno, 2007). The pattern of innovation in services is quite widespread according to innovative behavior (Dionisia Elche Hortelano & Gongález-Moreno, 2007). When the relationship between service provider and customers is more close, the more opportunities can be used to increase value to the customers. The stronger the organization encourages managers and employees to initiate activities that are useful in adding new value, the better the organization will deliver its best service to the customer (Nasution et al., 2011). Organizations that emphasize strongly on innovation will more easily dominate the market. Innovation helps develop resources and change processes and structures easily and quickly in accommodating market needs. In addition, innovation is also able to integrate new routines and processes so that organizations are better prepared to build a more solid competitive advantage (RipollesMeliá et al., 2010).

Today, numerous innovation studies in the service sector have attracted the attention of researchers (i.e. Posselt&Förstl, 2011; Matthews et al., 2009; Den Hertog et al., 2010; Berry et al., 2006; Hua & Ruoyu, 2007; Hipp&Grupp, 2005; Kuusisto&Riepula, 2009; Durst et al., 2015; Karniouchina et al., 2006; Drejer, 2004). Specifically, some empirical studies have revealed the available evidence of the effect of service innovation. Work by Cheng and Krumwiede (2012) revealed that the positive association between customer orientation and incremental service innovation improve new service innovation. This study involved 500 Taiwan's top service firms. Also, Oke (2007) examined the different types of innovation in The UK service sector. The results found that radical and incremental related to innovation performance. Specifically, radical innovation related to innovation management practices. Melton and Hartline (2010) investigated the relationship between customer

and frontline employee role on new service development. This study asserted that customer involvement and participation of frontline employee positively influence an innovation performance and project efficiency. This main finding included data in the 160 service sector organizations in the United States. Work by Chen et al. (2016) examined the relationship of service innovation and new product performance through the impact of market-linking capabilities and market turbulence in the 170 service-based firm in China. The finding showed that service innovation has a significant effect on the new product performance. Service innovation improves new product performance through a moderating role of market linking capabilities and market turbulence.

From the above discussion based on empirical studies, we can conclude that service innovation plays an important role in the service sector. It will likely affect the performance of the organization.

### **2.3 Entrepreneurial Orientation and Innovation in Service Sector**

Entrepreneurial orientation is an important factor in creating and encouraging innovation in service (Rattanawong & Suwanno, 2014). Entrepreneurial spirit will have a significant impact on a number of service innovations (Jambulingam et al. (2005). Entrepreneurial characteristics influence innovation capability of organizational. By implementing entrepreneurial characteristics, organization will become more innovative. Therefore, organizations should introduce more of these behaviors to members of the organization. By way of greater innovation, organization can enhance competitive advantage (Rattanawong & Suwanno, 2014). The organization's EO profile provides an explanation of how they adapt to the existence of a flux based on the environment that is always known by globalization. Therefore, the aspect of entrepreneurship and innovation is the concern of the organization (Avlonitis & Salavou, 2007). Hence, entrepreneurial orientation can be useful to the organization when members of the organization are willing to engage in entrepreneurial characteristics that support organization to introduce innovation (Nasution et al., 2011).

There was a lack of study that examined the role of entrepreneurial orientation on innovation in the service sector. However, several studies that have been conducted by some researchers revealed that entrepreneurial orientation has a significant effect on innovation. The finding showed that when entrepreneurial orientation was examined as an independent variable on innovation, entrepreneurial orientation becomes a crucial factor in creating innovation in service sector. Recent study by Omerzel (2016) found that all the dimensions of entrepreneurial orientation i.e. risk taking, proactiveness, competitive aggressiveness, autonomy, and customer orientation have a positive relationship on service innovation. Similarly, Kraus (2013) also found the significant positive relationship in the association between entrepreneurial orientation on innovation. The study emphasized that innovative behavior as the most crucial sub dimension in entrepreneurial orientation. Work by Rattanawong and Suwanno (2014) also found an evidence that entrepreneurial orientation is considered as a factor that leads to the improvement of service organization. Study by Nasution et al. (2011) revealed that dimensions of entrepreneurial orientation consist of risk taking, proactiveness and autonomy are the most significant driver of innovation. Several statements and evidence from empirical studies by some researchers showed that entrepreneurial orientation plays an important role in innovation in the service sector through its entrepreneurial characteristics. The dimensions possessed by EO are able to encourage members of the organization to be a formidable individual in anticipating an unstable business environment through active participation in innovation creation to achieve competitive advantage.

### **III. CONCLUSION AND IMPLICATIONS**

This study offers the concept of entrepreneurial orientation as a strategy in anticipating the tight competition in service sector. In this study, the authors found that entrepreneurial orientation through its characteristics i.e. innovativeness, proactiveness and risk taking are an important element to generate innovation through an innovative behavior in gaining a competitive advantage. The study also found that researchers have proven that entrepreneurial orientation as an independent variable is an important element that positively affects innovation in service sector. The authors propose entrepreneurial orientation and its characteristics as a force that has a capacity to play its role as moderator in the relationship between independent variables and innovation in service sector for future study.

This study contributes to the literature in entrepreneurial orientation and its impact on innovation in service sector. Furthermore, this study provides a new view to practitioners in understanding the importance of entrepreneurial orientation and its characteristics as a strategy in the service sector to anticipate the increasingly fierce competition in today's turbulence business environment. This study suggests to practitioners that characteristics of entrepreneurial orientation (innovativeness, proactiveness and risk taking) are crucial to note because it will determine the success of innovation.

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