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CLASSIFICATION IN A SERVICE INDUSTRY BASED ON ENTREPRENEURIAL ORIENTATION

Ahmed Salem Hassan Alfaifi, Ali Saeed A Alqahtani, Ismail Jubran Hussain Nammazi , Yasser Abdullah Algarni, Sultan Musaad Obaidan Alharbi, Ahmed Abdullah Hassan Alqarni, Ali Saleh Hassan Alghamdi, Ahmad Noman Alsaleh, Faisal Khalid Naji Alshammari, Alanazi Sulaiman Qaem, Ibrahim Suliman Alaboudi, Ahmed Abdullah Kaabi, Abdulelah Neda Alshammari, Abdullatif Mohammed Alessa, Abdulelah Nuhayter Alshammari, Abdulrahman Abdullah Ali Alassaf, Muneerah Suliman Aldoukhi, Bander Abdullah Alotaibi, Lamia Abdullah Almahaiza

Abstract:

Research on service classification has thus far mostly adopted a macro perspective, utilizing factors like client interaction or labor intensity to create service typologies or taxonomies. These classification schemes tend to approach a whole industry, like airlines, as a single homogenous entity, even if they are useful in understanding crucial management concerns and positioning strategies between service industries. Nonetheless, businesses within the same sector frequently employ intangible assets, including entrepreneurial orientation programs, to outbid one another. According to the resource-advantage theory, companies can achieve superior performance by developing long-term strategies and a sustainable competitive advantage through the use of intangible resources. In order to categorize organizations within the retailing business, we created organization clusters based on entrepreneurial orientation as intangible resources. We investigated whether the entrepreneurial inclinations of the resulting groups within the pharmacy industry were associated with their perceptions of the environment, organizational characteristics, and performance outcomes using data from the retail pharmacy sector. One of the study's contributions is the operationalization of the concept of entrepreneurial orientation.

Key Words: Classification Scheme, Taxonomy, Entrepreneurial Orientation, Intangible Resources.

Introduction :

Management; Huete and Roth 1988; Customer contact; degree of labor intensity; delivery channels; nature of service products; and Kellogg and Nie (1995) are some examples of dimensions that have been used in service classification research, which has typically taken a macro view. These typologies, which are frequently used in textbooks on service management,

typically categorize services based on one or more features (see Fitzsimmons and Fitzsimmons 2001). For instance, the postal service is categorized as low contact and health care as high contact using the customer interaction dimension. Lovelock (1983) uses a number of two-by-two matrices to categorize services, which makes it easier to comprehend how each class's characteristics impact operations and marketing. Despite frequently lacking empirical support, the majority of these classification schemes have been adopted based only on their intuitive appeal (Cook, Goh, and Chung 1999). Cook et al. (1999) offered a succinct overview of the literature on service categorization and an integrated schematic representation that encompasses a number of significant aspects of the schemes used in the fields of operations and marketing. A noteworthy early classification scheme is that of Silvestro, Fitzgerald, Johnston, and Voss (1992), which was created or tested empirically. The six classification parameters they used to create their service taxonomy were labor intensity, length of customer interaction time, degree of customization, amount of employee discretion, value added, and product/process emphasis. They also used the volume of daily service activity as their basis. A company would be categorized as a professional service, service shop, or mass service based on its daily service activity and rating on the six parameters.

According to Cook et al. (1999, p. 328), these programs are meant to assist managers in "assessing the demands placed on the service system in terms of its operating requirements." The While classification schemes can be useful in understanding important management concerns and positioning strategies for various service industries or organizational classes, they sometimes lump together a whole industry, like the airline industry, under one category. Although helpful, these classifications do not account for the variations within an industry. Verma and Young (2000) share our opinions, arguing that these classification schemes overlook the distinctions that exist within a given category of service enterprises, including professional service, service factory, and service store.
Following the advice of operations management researchers (see, for example, Chase 1996; Swamidass 1991; Flynn, Sakakibara, Schroeder, Bates, and Flynn 1990; Boyer, Bozarth, and McDermott 2000), Verma and Boyer (2000) carried out an empirical analysis of the management issues managers in four distinct service types faced using Schmenner's (1986) service process matrix. Verma, Thomson, and Louviere (1999) offered a method for configuring service operations by fusing managerial operating choices with market-based goals.

They did this by using data from the pizza sector. Verma and Young (2000) created a taxonomy specifically for low touch services, one kind of service. But among them were two distinct service sectors- fast food establishments and car repair shops - in their investigation to create a shared taxonomy for both sectors. Based on the respective weights assigned to what they referred to as the operational, market, and financial objectives, they identified five clusters. A typology for competitive positioning in relation to strategic operations focus and "de-coupling" activity was introduced by Metters and Vargas (2000). They illustrated the ideal types in their typology with one industry, the retail bank lending sector. Menor, Roth, and Mason

(2002) have created a taxonomy of strategic service groups in the retail banking sector. In light of this, our research is concentrated on the retail pharmacy sector.

business. In order to discover retail pharmacy clusters based on the entrepreneurial attitude as intangible resources they employ in their strategies, we studied the retail pharmacy sector. This study's specific goals were to: 1) create a taxonomy of service providers based on the entrepreneurial orientation (intangible resources) that retail pharmacies use; and 2) describe the organizational, performance, and environmental characteristics of the retail pharmacy clusters that the taxonomy helped to identify.

Context of the Research and Background

All pharmacies would be classified as service stores if we were to apply previous classification schemes, such Chase's (1978). Nonetheless, retail pharmacies are categorized in popular literature according to the kind of goods they sell and the quantity of locations they have. For instance, "small chain" pharmacies have four to ten locations under a chain, while "independent pharmacies" have fewer than four locations. "Large chains" are defined as having more than ten locations. "Food and drug combos" refer to supermarkets like Kroger and Pathmark that also have a pharmacy on site. Retailers like Kmart that also have pharmacies are known as "mass merchandisers." These pharmacies compete by offering varying services by combining various resource combinations.

The claim that different kinds of pharmacies (independents, mass merchandise, food and medicine chains) adopt different competing priorities—service level, information, and speed—is supported by the findings of a consumer study (Consumer Reports 1999). Their evaluations showed that, in comparison to the majority of large chain pharmacies, food & drug shops, and mass merchandisers, independent pharmacies generally offer a higher quality of service (pharmacists polite, friendly, and approachable) and at a faster pace (without delays). Yet, a major chain with 1,200 locations across the country, Medicine Shoppe, was discovered to be just as good a service provider, and nearly met the independents' service speed requirements. As a result, variations may be found both inside and between subgroups within an industry (for example, independents versus mass merchandisers). This suggests that a more efficient method of categorizing service providers is required.

Retail pharmacies clearly employ a range of long-term tactics (i.e., intangible resources) in order to maintain their competitiveness over the long run. Certain pharmacies provide services by combining intangible resources to strengthen their position in the market. Our proposed system for classifying such an industry is based on combinations of intangible resources, as opposed to a standard scheme.

A THEORITICAL DEFINITION

This study's theoretical foundation is the resource-advantage (RA) theory. According to recent research (see Priem and Butler 2001), the resource advantage argument put forth by Hunt and Morgan (1995, 1996) is thought to be more reliable than the resource-based view of the company (Barney 1991). Researchers studying service strategies (see to Menor, Roth, and Mason 2002; Roth and Jackson 1995) are only now starting to conduct empirical research on the resource-based paradigm. Developed from the resource-based view perspective, the resource-advantage theory postulates that a competitive advantage in resources—defined as "tangible or intangible entities available to firms that enable them to produce efficiency and/or effective market offerings that have value to some market segments" (Hunt and Morgan, 1996)—is the cause of competitive advantage in performance. Thus, competition is the continuous struggle between businesses for a comparative advantage in resources that will result in competitive advantages in the marketplace and, consequently, better performance.

The entrepreneurial potential of organizations is acknowledged as an organizational resource by RA theory. Given that maintaining a competitive edge is difficult unless it is founded on Retail pharmacies must have a strategic, long-term focus on the creation and delivery of new and innovative services in order to remain competitive over the long term. This is because they have resources that are precious, uncommon, imperfectly imitable, and difficult to substitute (Barney 1991). In other words, they create intangible assets, like an entrepreneurial orientation plan.

An organization's ability to successfully develop and execute services in line with its long-term objectives frequently depends on how entrepreneurially oriented it is. Resources within an organization can be material, including buildings, machinery, merchandise, and human capital. Intangible resources can also be produced, including routines, expertise, intelligence, and the organization's reputation. The performance of an organization can be greatly impacted by intangible resources because of their complexity, which makes them frequently hard to replicate. The processes, procedures, and decision-making activities that result in the creation and provision of novel and inventive services that can set a company apart from competitors in its industry are referred to as entrepreneurial orientation (Lumpkin and Dess 1996). The ability and willingness of a company to: 1) innovate (innovativeness); 2) act pro-actively in response to changes; 3) promote employee autonomy; 4) react aggressively to rival maneuvers; 5) take risks (risk taking); and 6) inspire employees to work hard and overcome obstacles are all aspects of entrepreneurial orientation. In a market, different firms may have varying amounts of these intangible resources.

APOTHESES

According to Lumpkin and Dess (1996), an organization is considered innovative if it has a propensity to experiment, embrace novelty, participate in new ideas, and creative processes that could lead to the development of new services. It illustrates a crucial aspect of how businesses handle emerging possibilities. According to Venkatraman (1989), a company's proactiveness is

defined as its ability to anticipate and respond to future needs. The degree to which each individual in an organization is free to propose an idea or a vision and see it through to completion is known as autonomy. For instance, having a champion in place can help in the creation of new services. According to Lumpkin and Dess (1996), competitive aggressiveness is the inclination of an organization to aggressively and directly challenge its rivals in order to gain entry into the market or strengthen its position. Competitive aggressiveness, as opposed to proactiveness, encapsulates a firm's reactive inclinations.

Risk taking describes a company's tendency to take on hazardous undertakings and is a reflection of managers' desire for audacious actions to meet organizational goals (Gasse 1982). The reasoning is that an organization's motivation to create and implement new ideas to provide the service will be influenced by its willingness to take risks. The ability of an organization to improve the morale and attitude of its workers toward their task is known as motivation. Employee motivation to achieve high levels of job performance will be influenced by positive attitudes toward and moral convictions about hard labor. Pharmacy industry taxonomy has historically been based on firm size and product/service mix. One criterion for classifying businesses in the industry, for instance, is the quantity of retail locations with pharmacy departments (e.g. independent vs. small chain vs. large chain). Comparably, the product/service mix is a widely used criterion in this market, along with several others (mass merchandisers versus food shops versus pharmacies). However, these conventional methods might not sufficiently differentiate between businesses within an industry. For

For instance, there are significant similarities between the product and service offerings of mass merchandiser Wal-Mart and chain pharmacy Walgreens. We think that a taxonomy that takes into account intangible assets, such inventiveness and risk-taking, will allow for a more accurate classification of businesses within a sector. This leads us to our initial two conjectures. H1: An industry's organizations can be categorized according to their propensity for and aptitude at being creative, proactive, independent, aggressive, competitive, risk-taking, and inspiring. H2: A typical taxonomy based on size and product/service mix has nothing to do with a taxonomy of service providers based on an organization's willingness and capacity to be innovative, proactive, autonomous, competitive aggressive, risk-taking, and motivating.

The creation and provision of novel and inventive services would rely on a company's capacity to leverage environmental data to improve the outcome of strategic choices (like introducing new services). Two categories of factors—organizational and environmental—have been linked to this propensity in the literature (Lumpkin and Dess 1996; Covin and Slevin 1991). Since environmental influences are outside of a company, they are usually viewed as dimensions defining impersonal attributes that managers must deal with (Doucette, Schommer, and Wiederholt 1993). Environmental stability (sometimes called dynamism), munificence, and competitive intensity are three environmental variables that have been linked to the entrepreneurial traits mentioned above (Covin and Slevin 1991; Miller 1983; Lumpkin and Dess

1996, 2001). Studies in the operations literature have employed comparable environmental elements (cf., Ward, Duray, Leong, and Sum 1995).

High prediction of future market influences is reflected in environmental stability (Miller and Friesen 1978; Achrol and Stern 1988; Duncan 1972). In a dynamic or less stable environment, for instance, a pharmacy can find it challenging to forecast the moves of rivals, the impact of managed care on the demand for its services, or customer preferences. Businesses have demonstrated a tendency to use the aforementioned entrepreneurial traits as a tactic in response to less stable situations (Covin and Slevin 1991; Khandwalla 1987). The reasoning behind this is because in order to successfully compete, businesses must introduce new products and services when their rivals alter their product offerings quickly or if customer needs change. If a company has more intangible resources, including risk-taking, inventiveness, and proactiveness, it probably can adapt to less stable situations well. A pharmacy that possesses these qualities in plenty, for instance, will be aware of changes occurring in its surroundings and will strive to provide services that will give it a competitive edge.

The degree to which an environment can sustain expansion over time is referred to as munificence (Dess and Beard 1984; Starbucks 1976; Pfeffer and Salancik 1978). A company can function in a benevolent environment if it can recognize sufficient chances for expansion. The claim made here is that a business can develop spare resources in a benevolent environment (Cyert and March 1963). Uncommitted resources that are available for usage at will are known as slack resources. They give organizational innovation the tools it needs to stay competitive over the long term (Bourgeois 1981; Chakravarthy 1982). Similarly, a generous environment could lead to the development of spare resources in a pharmacy. The company's income might then be used to enhance staff proficiency in creating new services or offering superior customer care. In addition, funds can be allocated to support market-testing trials of innovative services.

The degree of competition between businesses in a market is referred to as the competitive intensity of a firm's environment (Covin and Slevin 1989). Intense competition is likely to be perceived as such by pharmacies that are more aggressive, proactive, creative, and competitive—and vice versa. In light of this belief, a company creates novel products and services, so as to establish a benefit over competitors (Miller and Friesen 1982). Using this reasoning, we postulate the relationship shown below:

Organizational characteristics may also have an impact on a company's capacity to create and leverage intangible assets like creativity, initiative, and risk-taking. The three organizational characteristics that are of significance are flexibility, organicity, and ambiguity tolerance. According to Lumpkin and Dess (1996), an organization is considered organic if it uses informal control and collaboration to manage its workforce. Given their ability to pursue and create new

product offers, organic enterprises are likely to be inventive. Similarly, because organic structures tend to avoid centralized decision-making, they will encourage employee autonomy.

According to Lumpkin and Dess (1996), adaptability is the readiness to change when the business environment does. Businesses with a propensity for taking risks, being competitively aggressive, and being proactive are thought to be more adaptive. Being competitively aggressive and proactive means knowing the firm's environment and knowing how to respond to it. Adaptability will be aided by these intangible resources. In a similar vein, taking certain risks is a necessary component of being open to changing with the times.
The skill and desire to deal with an unclear situation is known as tolerance for ambiguity (Lumpkin and Dess 1996). Compared to companies that favor the status quo, those that aim to develop new services (such as innovativeness) are more likely to encounter and be willing to tackle an ambiguous scenario. In a similar vein, companies that take risks are probably equipped to deal with uncertainty. This reasoning leads us to our following theory:
By concentrating on a single industry, the retail pharmacy sector, we were able to move the service classification research from a macro level to a micro level. Therefore, as has frequently been done in the service literature, the proposed taxonomy shows how intangible resources could be utilized to classify businesses within an industry rather than designating an entire industry as one kind. It is recommended that managers and scholars apply this kind of taxonomy to other sectors of the economy.

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