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# Towards a model of dynamic capabilities in innovation-based competitive strategy: Insights from project-oriented service firms

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### Abstract

With the growing significance of services in most developed economies, there is an increased interest in the role of service innovation in service firm competitive strategy. Despite growing literature on service innovation, it remains fragmented reflecting the need for a model that captures key antecedents driving the service innovation-based competitive advantage process. Building on extant literature and using thirteen in-depth interviews with CEOs of project-oriented service firms, this paper presents a model of innovation-based competitive advantage. The emergent model suggests that entrepreneurial service firms pursuing innovation carefully select and use dynamic capabilities that enable them to achieve greater innovation and sustained competitive advantage. Our findings indicate that firms purposefully use *create, extend and modify*

advantage. Our findings indicate that firms purposefully use *create*, *extend* and *modify* processes to build and nurture key dynamic capabilities. The paper presents a set of theoretical propositions to guide future research. Implications for theory and practice are discussed. Finally, directions for future research are outlined.

## Highlights

• Insights from project-oriented firms uncover the role of dynamic capabilities in innovation and competitive strategy. • Using a knowledge-based approach, the paper identifies four key dynamic learning capabilities that service firms rely on. • Project-oriented service firms *create*, *extend* and *modify* routines to systematically build and nurture dynamic capabilities. • The dynamic capabilities that provide firms with competitive advantage are built and nurtured by service entrepreneurship. • A parsimonious model of service innovation-based competitive strategy comprising nine testable propositions is presented.



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## Keywords

Dynamic capabilities; Service innovation; Competitive strategy; Project-oriented service firms; Service entrepreneurship

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