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# The value of cultivating norms for market orientation in professional service firms

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## Abstract

*Purpose:* This paper centers on the value of cultivating norms for market orientation (MO) in professional service firms (PSFs). Based on social capital theory, three variables for norm-based behavioral activities of MO were suggested, i.e., leadership support (LS), relationship learning in teams (RLT), and collective engagement (CE). Moreover, three variables were suggested as performance outcomes of norm-based behavioral activities of MO, i.e., employee commitment (EC), service quality provision (SQP), and two dimensions of a firm's innovative capability (exploratory [EXPLOR] and exploitative innovation [EXPLOIT]).

*Methodology/Approach:* Using a survey, a conceptual model was developed and empirically tested. All participants were employed in consultancy firms representing the population of PSFs.

*Findings:* The findings reveal that RLT, LS, and employee CE are particularly suitable in forming norm-based behavioral activities of MO for PSFs. Moreover, the findings reveal that the two dimensions of a firm's innovative capability (EXPLOR and EXPLOIT) provide strong performance outcomes for norm-based behavioral activities of MO. Moreover, the results also reveal that norm-based behavioral activities of MO for PSFs influenced both EC and SQP.

*Originality/Value of paper:* Using social capital theory, the study contributes to identifying both forming variables and performance outcomes centered on norm-based behavioral activities of MO for PSFs.

*Paper type:* Research paper

*Keywords:* Norms, Market orientation, Collective engagement, Relationship learning, Innovative capability.

## Introduction

Firms such as Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers represent professional service firms (PSFs), which offer so-called professional services to their customers both nationally and globally. Liedtka et al. (1997) state that a PSF is “a pure form of knowledge-based business” (p. 47). The aim of a PSF is to design and deliver (intangible) knowledge-intensive customized services (Heirati et al., 2016). Madhavaram and Hunt (2017) characterize PSFs as firms offering services that (i) are highly tailored for one specific customer, (ii) involve many creative options, (iii) address numerous individualized customer requirements, and (iv) are produced in highly context-specific environments.

Bello et al. (2016) state that “professional services have become one of the faster growing sectors of the world economy” (p. 413). Because of this, PSFs operate in an environment where the competition among PSFs is significantly more intense and the rate of change is faster than previously (Heirati et al., 2016). Consequently, for PSFs to survive and to be successful in a market characterized by increased competition, it becomes essential for PSFs to continuously focus on how to “maintain or strengthen their competitiveness” (Heirati et al., 2016) and safeguard their abilities to compete.

Liedtka et al. (1997) noted that to be a successful PSF, “the magic is ... in what they *are* and what they *stand* for” (p. 57). This statement encourages PSFs to look internally or “behind the scenes” to identify these two fundamental aspects, i.e., (i) what the firms actually are and (ii) what they really stand for. These two aspects are deeply rooted in the invisible primary and core values of any PSF. Moreover, these core values become highly visible in firm norms and their related behavior. According to Feldman (1984), “norms ... have a powerful ... influence ... on group members’ behavior” (p. 47). Consequently, norms play a key role in PSFs because the behavioral activities of PSF members are embedded in norms. Norms and behavioral activities of group members are closely associated; therefore, their (near) relationship can be called norm-based behavioral activities of PSFs.

Considering that the core of PSF business models is about “providing business services based on professional knowledge” (Zaefarian et al., 2013, p. 260), it is essential for PSFs to focus on norm-based behavioral activities regarding flow of information in PSFs to be able to both “respond to customers’ needs quickly and at the same time combine multiple insights [e.g., from members of PSF] to generate new ideas” (Merlo et al., 2006, p. 1215). This paper centers on norm-based behavioral activities regarding the flow of information in PSFs. Norm-based behavioral activities of the flow of information are related to the level of market orientation (MO).

MO has been suggested as key to a firm’s success (Jogaratham, 2017). Moreover, previous research has suggested that for firms, MO is a desirable and critical type of norm related to information and flow of information (e.g., to respond to customers’ needs, to be innovative, and to have a competitive advantage). For example, Slater and Narver (1995) see MO as a factor that “provides a strong norm for learning” (p. 63).

Therefore, our study objective is to answer two research questions regarding norm-based behavioral activities of MO in PSFs. First, what factors can form norm-based behavioral activities of MO in PSFs? Second, what are the potential performance outcomes of norm-based behavioral activities of MO in PSFs?

Although, there has been much research on MO in general, most previous research involved manufacturing firms instead of PSFs. Based on a review considering characteristics and challenges faced by PSFs, Sweeney et al. (2011) state that “there is a need for PSFs to increase

their market orientation” (p. 293). To our knowledge, no previous research has examined norm-based behavioral activities of MO in PSFs explicitly. Moreover, no previous research has examined potential factors related to forming norm-based behavioral activities in PSFs from a MO perspective. In addition, no previous research appears to have examined different levels of performance outcomes of norm-based behavioral activities of MO in PSFs. Consequently, this paper makes several contributions to the service research literature in general, including practical managerial implications regarding the value of *why* and *how* one cultivates norm-based behavioral activities of MO in PSFs.

The remainder of the paper is organized as follows. First, the conceptual model for this study is explained briefly. A literature review then elaborates the different constructs and linkages in the conceptual model. Next, the methodology and findings from the empirical study are presented. The article concludes with a discussion and suggestions for future research.

### Conceptual model

Figure 1 illustrates the conceptual model of the study. As seen at the very bottom of Figure 1, there is a linkage chain between three elements: (i) *forming*, (ii) *norming*, and (iii) *performing*. Each of these three elements represents different variables connected in a specific cause-and-effect manner, illustrated by directional arrows. This paper is focused on norming, as shown in the middle of Figure 1. Norming is represented by the MO variable.

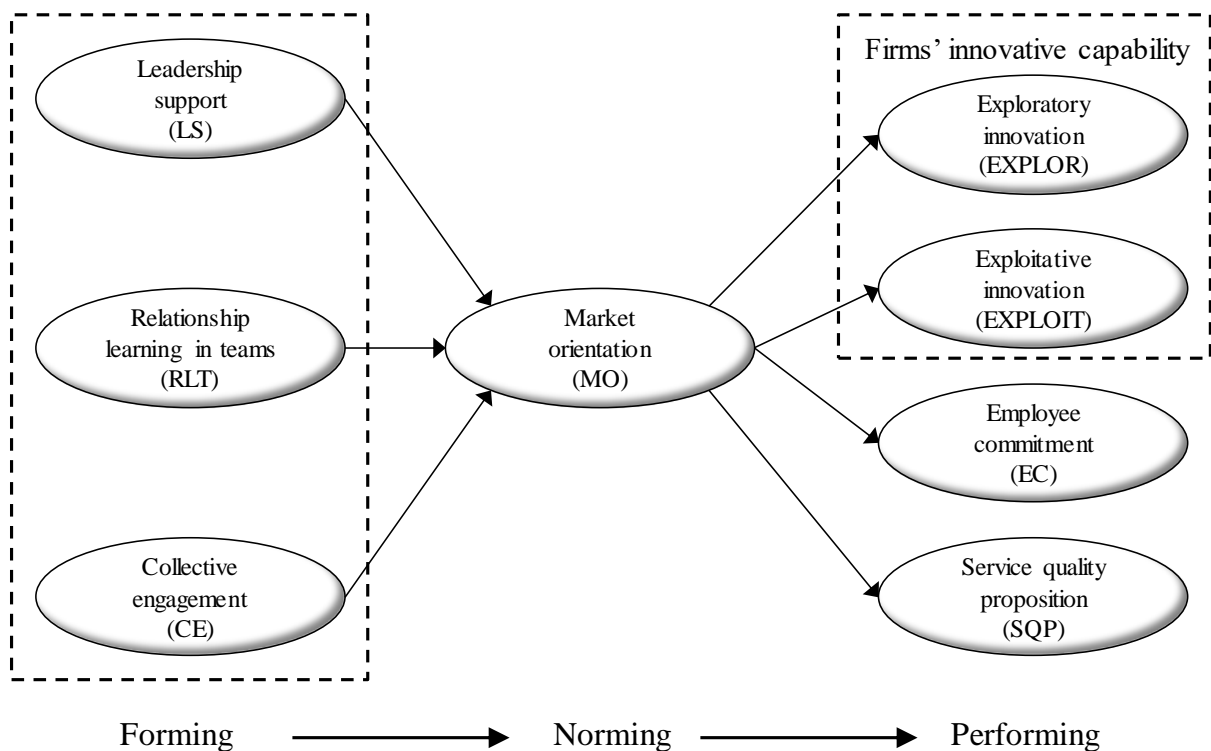


Figure 1: Conceptual Model

Norms are caused by something or by someone as time passes, which is illustrated in Figure 1 by the element labeled *forming*. In Figure 1, this element consists of three variables representing different levels, specifically: (i) collective engagement (CE; climate level), (ii) relationship learning in teams (RLT; team level), and (iii) leadership support (LS; leadership level). The dotted line framing the three forming variables signal that this study limits its focus to (only) three forming variables. The last element in Figure 1, labeled *performing*, represents the performance outcomes of norm-based behavioral activities of MO in PSFs. The performing

factors comprise four performance outcome variables representing three distinctive levels, i.e., (i) service quality provision (SQP; customer level), (ii) employee commitment (EC; employee level), and (iii) exploratory and exploitative innovation (EXPLOR and EXPLOIT) representing performance outcomes related to firms' innovative capability (FIC; firm level).

In the following, the content and linkages among the different variables represented by the three elements in Figure 1 (forming, norming, and performing) are discussed in more detail.

## Literature review

### *Norming—PSF MO*

This study combines two cultural components, i.e., norms and behaviors, and labels these as norm-based behavioral activities of MO in PSFs. MO reflects the expectations of three norm-based behavioral activities in PSFs, i.e., (i) intelligence generation, (ii) intelligence dissemination, and (iii) responsiveness. There are four arguments for studying MO as a norm-based behavioral activities component rooted in the cultural perspective of studying MO. First, Homburg and Pflesser (2000) state that the “culture perspective is related to more fundamental characteristics of the organization” (p. 449). Second, as already indicated in the Introduction, we argue that norms (as part of an organizational culture) are very closely associated with behavioral activities of employees in an organization. This reasoning is supported by Narver and Slater (1990), who state that “the ... culture ... creates the necessary behaviors” (p. 2). Third, when comparing different layers of cultural components, the components related to norms and behaviors are considered much more visible and observable than, e.g., the value component of culture (Hogan & Coote, 2013). Fourth, previous studies indicate that different components of culture are interrelated. Homburg and Pflesser (2000) state that norms have high “relevance for actual behavioral” (p. 450) components. Consequently, behavioral activities are norms based. By identifying actual behavioral activities, one simultaneously identifies the norms that reflect these behavioral activities.

### *Forming a PSFs' MO*

Figure 1 suggests that three potential variables determine the level of norm-based behavioral activities of MO. All forming variables in this study are anchored within the framework of social capital theory, which is discussed in the literature exploring resources associated with group membership (Bourdieu, 1983). Social capital theory emphasizes relationships, networks, and flow of information (Nahapiet & Ghoshal, 1998) among members of a group. Considering the core product in PSF, social capital is highly relevant when studying norm-based behavioral activities of MO in PSF. In support of this finding, Villena et al. (2011) describe social capital as “a valuable asset” (p. 562). Previous research has revealed that social capital is able to be a positive facilitator within firms' internal functioning. Ellinger et al. (2012) suggest social capital as being “instrumental in shaping the relationships that make organizations work effectively” (p. 2). Following this, it is assumed that each of the three suggested forming variables in Figure 1 can be considered as firm *resources* or *assets* that PSFs can potentially capitalize on when forming norm-based behavioral activities of MO. It is important to note that the three types of resources or assets are all embedded internally; therefore, our focus is limited to studying social capital from an internal perspective. We anchor the three forming variables (to norms) within the resource-based view and signal their potential to contribute to competitive advantage. Following Wernerfelt (1984), each of the three forming variables is a resource or asset considered as *valuable*, *inimitable*, and *nonsubstitutable* contributions and able to positively facilitate norm-based behavioral activities of MO in PSFs.

### *Hypothesized model*

*Leadership support.* According to Merlo et al. (2006), LS “emphasizes the importance of the location of an actor’s contacts in a social structure of interactions” (p. 1215). It is well documented that leadership is important for determining and molding work environments. For example, Marsick (2009) states that “leadership ... influences the climate for learning” (p. 273). Moreover, Yukl (2002) states that “leadership focuses on behaviors used to influence followers” (p. 7). Considering their power of influence through their formal role, leaders clearly can act as significant norm-setters who are able to set and form the behavioral norms of their organization’s employees. Considering the dimensions of the MO construct, which embraces (i) intelligence generation, (ii) intelligence dissemination, and (iii) responsiveness, there must implicitly be an information-sharing flow among organization members. Therefore, we consequently assume that LS can positively form norm-based behavioral activities of MO:

**Hypothesis 1:** *The higher the degree of leadership support, the higher the degree of norm-based behavioral activities of market orientation.*

*Relationship learning in teams.* RLT reflects the relational dimension of social capital. According to Hartmann and Herb (2015), relational dimensions “capture the social quality of relationships” (p. 156). Moreover, the quality of relationships is developed through a history of interactions (Nahpiet & Ghoshal, 1998). Although it may be interesting to include several potential relationship aspects (e.g., trust, friendship, communication) in this study, we limit our focus to PSF members’ perception of quality learning in teams. RLT refers to knowledge-based service teams consisting of people employed in the same professional firm, but working in different departments with different knowledge and experience (Slåtten et al., 2017). Because of the variety of knowledge and experience among team members, PSF teams can be called interdisciplinary. Thus, it is necessary to include and/or combine input from several team members because of this interdisciplinarity. Consequently, in this process there is a need for team members to learn *from* and *with* each other to find solutions for their clients or customers. Therefore, RLT is a joint activity in which team members share information that is jointly interpreted and integrated into their shared team-specific memory. Nevertheless, it is reasonable to assume that relationship learning in groups or teams able to influence and form norm-based behavioral activities of MO for the total organization is similar to how several small gears mesh into a larger gear. Subsequently, there will be a spillover effect stemming from RLT that spreads to the rest of the organization concerning its information-sharing behavioral activities of MO. Therefore, there should be a connection between RLT to expectations of norm-based behavioral activities of MO in an entire PSF organization. Thus, RLT is assumed to be able to positively form norm-based behavioral activities of MO in PSFs:

**Hypothesis 2:** *The higher the degree of relationship learning in teams, the higher the degree of norm-based behavioral activities of market orientation.*

*Collective engagement.* CE represents the cognitive dimension of social capital, which comprises, according to Madhavaram and Hunt (2017), “resources that provide shared representation, interpretation, and system of meaning among parties” (p. 40). Merlo et al. (2006) suggested that this dimension is “embodied in shared codes” (p. 1215). Following the content of the cognitive dimension of social capital, the concept of CE in this study is viewed as an organizational resource that refers to how firm employees (collectively) are psychologically present when performing their work in the organization. CE is considered as a climate-related construct manifested in how psychologically present “we” generally are as organizational members, regarding (i) concern about each other’s needs and challenges, (ii) expression of cohesiveness, and (iii) the sensitivity of completeness in one’s commonality among

organizational members (Slåtten & Lien, 2016). CE is considered in terms of employees' engagement and involvement in PSF working life in general. This study also examines employees' potential to influence their working life in practical terms and to be embedded in all aspects that are normally embraced by a firm's environment, including such factors as organizational processes, practices, and behaviors (Schneider, 1990). In previous research, employee engagement has been emphasized as a critical resource for business success (c.f. Albdour & Altarawneh, 2014; Yalabik et al., 2015), particularly in service firms where (frontline) employees are a key factor in the customers' experience outcomes (c.f. Slåtten & Mehmetoglu, 2011). Employees are of critical importance for the "service product" in PSFs. Therefore, CE has the potential to be a positive facilitator and contribute to shaping norm-based behavioral activities of MO in PSFs. Thus, it is reasonable to assume that CE can positively form norm-based behavioral activities of MO in PSFs:

**Hypothesis 3:** *The higher the degree of collective engagement, the higher the degree of norm-based behavioral activities of market orientation.*

*PSFs' norms for MO and performance outcomes*

Figure 1 suggests four performance outcomes based on PSFs' norm-based behavioral activities of MO. Each of these performance outcomes represents three distinct levels.

*Firms' innovative capability.* Innovation is widely recognized as a key factor for firms' economic growth and competitive advantage. Lin (2013) describes service innovation as a "new emerging research field" (p. 1599). Service innovation in knowledge-based firms, e.g., PSFs, does not refer to physical or tangible performance outcomes but refers instead to intangible service "products" manifested in new and novel ideas as (knowledge-based) solutions to problems. To explicitly show how "good" the PSFs are in "producing" new and novel (knowledge-based) ideas, the term "FIC" is used, which captures a firm's overall "ability to continuously transform knowledge and ideas into new products ... for the benefit of the firm" (Lawson & Samson, 2001, p. 384). FIC represents performance outcome variables at the firm level. FIC consists of two dimensions, (i) EXPLOR and (ii) EXPLOIT, which refer to service innovations in two separate and distinct market domains. EXPLOR is about service innovation that has the potential to be a door-opener and attract new clients or customers; therefore, this creates totally new markets for the firm. EXPLOIT is about service innovation for customers or clients in an existing market in which a firm operates.

An innovation must have one or more sources that cause or trigger the innovation. This study suggests that norm-based behavioral activities of MO are one such source of innovation. It is assumed that norm-based behavioral activities of MO are positively related to performance outcomes of firms' innovative capabilities, manifested in the two dimensions of service innovations: (i) EXPLOR and (ii) EXPLOIT:

**Hypothesis 4:** *The higher norm-based behavioral activities of market orientation, the higher the degree of exploratory innovation.*

**Hypothesis 5:** *The higher norm-based behavioral activities of market orientation, the higher the degree of exploitative innovation.*

*Employee commitment.* EC is a highly relevant and important concept to study when focusing on PSFs because there is seemingly a possibility of "competition among several agents" regarding EC. Yalabik et al. (2015) emphasize this point because of PSF employees' cross-boundary position. Based on PSF employees' working positions within their firm, Yalabik et

al. (2015) state that it “creates the opportunity for employees to be committed not only to their employing organization but also to other parties with whom they interact, such as their team, their client and their profession” (p. 1602). EC is limited to an employee’s organizational commitment. Therefore, this construct represents performance outcome variables at an employee level. Thus, it is reasonable to assume that norm-based behavioral activities of MO in PSFs are positively related to performance outcomes manifested in EC:

**Hypothesis 6:** *The higher the norm-based behavioral activities of market orientation, the higher the degree of employee commitment.*

*Service quality provision.* SQP in PSFs means that it is essential to deliver good service quality “products.” Service quality refers to the “design and delivery of knowledge-intensive solutions” (Yalabik et al., 2015, p. 1603) to the firm’s customers. In this study, the term “SQP” embraces this critical aspect and constitutes a performance outcome variable at the customer level. It is reasonable to assume that norm-based behavioral activities of PSFs are positively related to performance outcomes manifested in employees’ perception of SQP:

**Hypothesis 7:** *The higher the norm-based behavioral activities of market orientation, the higher the degree of service quality provisions.*

## **Methodology**

### *Sample*

In selecting an appropriate sample, four steps were taken. First, the work of Liedtka et al. (1997) was used as a guide in identifying potential PSFs. Moreover, based on several telephone calls, PSFs relevant to the aim of this study were identified and asked to participate in the study. Some employees from these PSFs were also asked to contribute by providing feedback and “pretesting” the questionnaire to ensure that the final questionnaire was of the best possible quality.

### *Questionnaire and data collection*

This study used a structured questionnaire. Most of the questions were inspired by and adopted from literature relevant to the aim of this study. An extensive pretesting of the questionnaire was undertaken including by experts from academia and industry. Answers to the test questionnaire were not used for any subsequent analysis. Information about confidentiality and anonymity was given to all subjects. QuestBack was used to collect data. RLT items were inspired by Selnes and Sallis (2003). LS items were based on studies by Fang et al. (2011) and Liu (2012), but were adjusted for this study. Items related to expectations of norm-based behavioral activities of MO, EC, and CE in PSFs were inspired by Kohli, Jaworski, and Kumar (1993), but adjusted to capture how each of these constructs was defined in this study. Items used to capture the two FIC dimensions, i.e., (i) EXPLOR and (ii) EXPLOIT, were based on the work of Jansen et al. (2009), but adapted for this study. Items used to capture the SQP in PSFs were motivated by Menon et al. (1999), but modified and adjusted for this study. All measures were recorded on a Likert scale from (7) strongly agree to (1) strongly disagree. Table 1 shows the items included in the final questionnaire.

## **Findings**

### *Sample characteristics and descriptive statistics*

In total, 210 usable responses (of 661 distributed) were received, representing a response rate of 31.8%. Approximately 70% of respondents were men. This reflects that consultancies are



male dominated. On average, the respondents had been working for the present firm for about six years. The sample consisted of 95% full-time employees. The average age of respondents was 37 years.

To analyze the data, partial least-squares path modeling (PLS-PM) was implemented in two steps using the package “plspm” in R (for details on PLS-PM, see Hair et al. (2014)). In the first step, we assessed the reliability and validity of the unobserved measurement model. In step two, we assessed the structural model as outlined in Figure 1. The measurement model, which contained only reflective unobserved variables, was assessed by looking at convergent validity (the size of the individual items’ loadings, average variance extracted (AVE), and composite reliabilities) and discriminant validity.

*Measurement model*

As Table 1 reveals, most of the loadings were above 0.7 (except four that were above 0.64), as suggested as a “rule of thumb” by Hair et al. (2014). The AVE values exceeded the recommended level of 0.5, and the composite reliability values (i.e., the Dillon–Goldstein rho values) were above the suggested “rule of thumb” of 0.7. These results indicate convergent validity. The examination of cross-loadings clearly indicated discriminant validity (the numbers are not reported here).

Table 1: Results of the measurement model

Construct Indicator	Loadings	Dillon–Goldstein’s rho	AVE
Leadership support (LS)		0.899	0.747
<ul style="list-style-type: none"> <li>• Managers regard cooperation with other departments as an opportunity to learn.</li> </ul>	0.850		
<ul style="list-style-type: none"> <li>• Managers underscore the importance of learning through cooperation with other departments in the firm.</li> </ul>	0.893		
<ul style="list-style-type: none"> <li>• The management has committed a great deal of resources to facilitating learning across departments.</li> </ul>	0.848		
Relationship learning in teams (RLT)		0.929	0.622
<ul style="list-style-type: none"> <li>• Departments represented in the team exchange information related to successful and unsuccessful experiences with products/services.</li> </ul>	0.829		
<ul style="list-style-type: none"> <li>• Departments represented in the team exchange information related to changes in end-user needs, preferences, and behavior.</li> </ul>	0.843		
<ul style="list-style-type: none"> <li>• Departments represented in the team exchange information as soon as possible if any unexpected problems occur.</li> </ul>	0.798		
<ul style="list-style-type: none"> <li>• Departments represented in the team frequently evaluate and, if required, adjust routines in order–delivery processes.</li> </ul>	0.848		
<ul style="list-style-type: none"> <li>• Departments represented in the team frequently adjust their common understanding of end-user needs, preferences, and behavior.</li> </ul>	0.849		
<ul style="list-style-type: none"> <li>• The team atmosphere stimulates discussion, which encompasses a variety of opinions and thoughts.</li> </ul>	0.748		
<ul style="list-style-type: none"> <li>• We have a great deal of face-to-face communication in our team.</li> </ul>	0.720		

<ul style="list-style-type: none"> <li>In our team, we frequently evaluate and, if required, update information that is stored in our electronic databases.</li> </ul>	0.652		
Collective engagement (CE)		0.954	0.912
<ul style="list-style-type: none"> <li>A team spirit pervades all ranks in this department.</li> </ul>	0.962		
<ul style="list-style-type: none"> <li>We feel that “we” in common are complete.</li> </ul>	0.949		
Market orientation (MO)		0.874	0.498
<ul style="list-style-type: none"> <li>In our firm, we meet with customers at least annually to find out what products or services there may be a need for in the future.</li> </ul>	0.652		
<ul style="list-style-type: none"> <li>In our firm, we undertake in-house market research.</li> </ul>	0.638		
<ul style="list-style-type: none"> <li>In our firm, we periodically review the likely effect of changes in our business environment (e.g., regulation) on customers.</li> </ul>	0.720		
<ul style="list-style-type: none"> <li>In our firm, some of the informal “hall talks” concern our competitors.</li> </ul>	0.783		
<ul style="list-style-type: none"> <li>When something important happens to a major customer, the whole firm knows about it within a short period.</li> </ul>	0.665		
<ul style="list-style-type: none"> <li>In our firm, several departments get together periodically to plan responses to changes taking place in our business environment.</li> </ul>	0.807		
<ul style="list-style-type: none"> <li>Our firm acts immediately if we find out that customers are unhappy with the quality of our services.</li> </ul>	0.654		
Firms’ innovative capability (FIC)			
<ul style="list-style-type: none"> <li>Exploratory innovation (EXPLOR)</li> </ul>		0.891	0.731
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>Our organization accepts demands that go beyond existing products and services.</li> </ul> </li> </ul>	0.832		
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>We invent new products and services.</li> </ul> </li> </ul>	0.890		
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>We regularly search for and approach new clients in new markets.</li> </ul> </li> </ul>	0.842		
<ul style="list-style-type: none"> <li>Exploitative innovation (EXPLOIT)</li> </ul>		0.933	0.874
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>We frequently refine the provision of existing products and services.</li> </ul> </li> </ul>	0.940		
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>Our organization expands services for existing clients.</li> </ul> </li> </ul>	0.930		
Employee commitment (EC)		0.890	0.728
<ul style="list-style-type: none"> <li>I feel that my future is intimately linked to this organization/department.</li> </ul>	0.819		
<ul style="list-style-type: none"> <li>In general, I am proud to work for this organization/department.</li> </ul>	0.925		
<ul style="list-style-type: none"> <li>I often go above and beyond what is expected of me to ensure the well-being of this organization/department.</li> </ul>	0.812		
Service quality provision (SQP)		0.817	0.691
<ul style="list-style-type: none"> <li>The chosen strategy was different from the strategy developed in the past.</li> </ul>	0.824		
<ul style="list-style-type: none"> <li>The chosen strategy was innovative.</li> </ul>	0.839		

### *Structural model*

Figure 2 shows the results from the structural model tests of the different hypotheses.

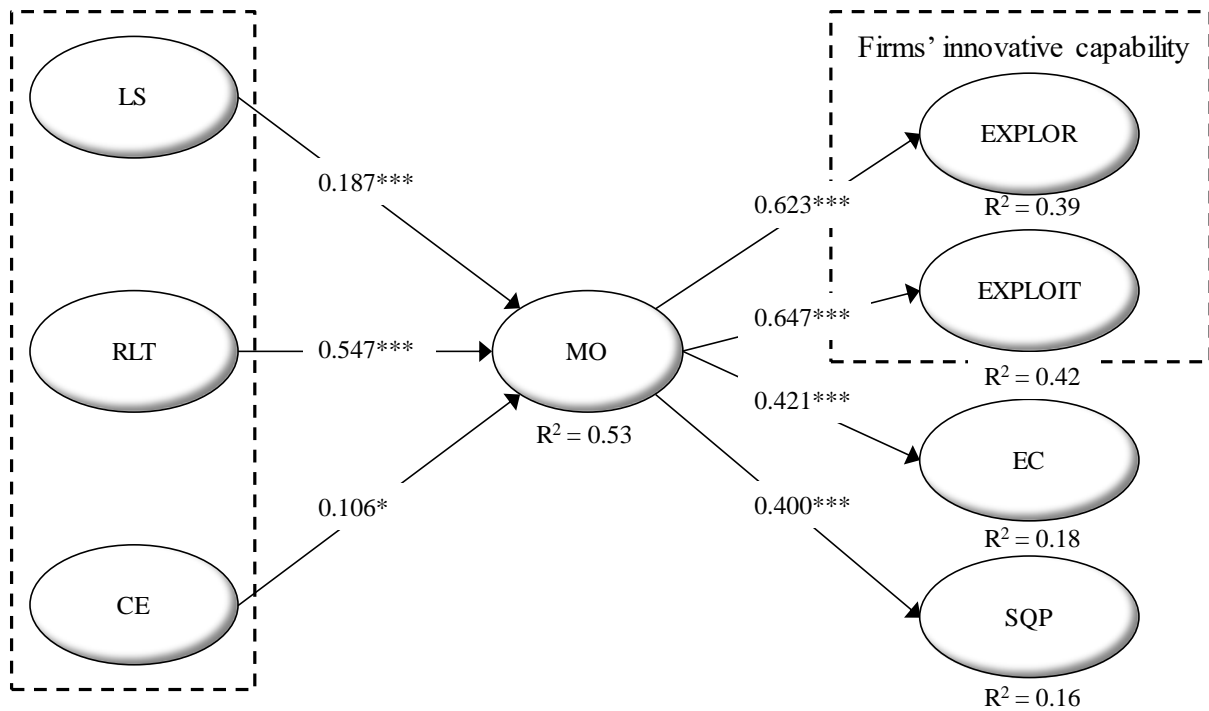


Figure 2: Results of the Structural Model

Standardized coefficients with standard error in parenthesis. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$ .  $R^2$  is amount of explained variance of endogenous latent variables. CE = collective engagement, RLT = relationship learning in teams, LS = leadership support, MO = market orientation, EXPLOIR = exploratory innovation, EXPLOIT = exploitative innovation, EC = employee commitment, and SQP = service quality provision.

The results found support for all seven hypotheses. Of the three forming variables, we observe that RLT had the strongest effect on the norming variable MO (MO), with a standardized  $\beta$ -coefficient at 0.55, while LS had the second strongest effect, and CE the weakest effect on MO. The three forming variables explain 53% of the variance in the norming variable MO.

The performance effect of MO was strongest on the FIC, with a  $\beta$ -coefficient at 0.65 on EXPLOIT and a  $\beta$ -coefficient at 0.62 on EXPLOIR. However, the effect of MO on EC ( $\beta = 0.42$ ) and on SQP ( $\beta = 0.40$ ) were also strong. The variance explained for each of these performing variables was also satisfactory.

## Discussion: implications for management

In this study, MO reflects expectations regarding three norm-based behavioral activities of PSFs, i.e., (i) intelligence generation, (ii) intelligence dissemination, and (iii) responsiveness. The empirical study reveals that all suggested forming variables, reflecting three different dimensions within social capital theory, could form expectations regarding norm-based behavioral activities of MO in PSFs. The findings pinpoint the relational dimension of social capital as an essential and key factor to form norm-based behavioral activities of MO in PSFs. The strength of the linkage between RLT and norm-based behavioral activities of MO highlights the truth of Liedtka et al.'s (1997) statement, “nowhere is the potential strategic value of learning more evident than in professional services” (p. 48). Specifically, it shows that PSFs can capitalize on learning at the micro level (see RLT) to have an overall effect at the macro organizational level (see norm-based behavioral activities of MO in PSFs). A strong implication is the significance for managers to continuously facilitate and ensure that their PSF team members have the best possible foundation for learning *from* and *with* each other in their

respective teams. Undoubtedly, RLT is an (internal) “instrument,” i.e., a resource or asset for managers to exploit because it makes PSFs work effectively regarding their MO.

Not surprisingly, the variable LS, which reflects the structural dimension of social capital, was found to positively form norm-based behavioral activities of MO in PSFs. Leaders have a substantial and (most often) a central “location in social structure” (Merlo et al., 2006, p. 1215) regarding organization members. As Yukl (2002) simply states: “leadership ... influences followers” (p. 7). In this study, the supportive aspects of leadership were a point of focus in terms of organizational members’ perceptions of a leader’s involvement in activities that facilitate cooperation and knowledge-related activities across PSFs. The findings show that LS can boost the formation of norm-based behavioral activities of MO in PSFs. Thus, leaders should be aware that through their LS practices and activities, they act as significant norm setters for organizational members in how the organization can or should become “intelligent” (referring to the dimensions embraced by the MO construct). Based on this observation, a practical managerial implication is to continuously orchestrate LS in such a way that it is perceived by the organization’s members as something positive or “good” and something constructive and productive that contributes to strengthening communication, dialogue, and the sharing of information. Thus, it increases the “intelligence” of the PSF. Similar to RLT, LS has the potential to be a resource that managers can positively exploit or capitalize on because of its ability to form norm-based behavioral activities of MO in PSFs.

In this study, CE represents the cognitive dimension of social capital. It is suggested as a resource or assets that can be capitalized on to form norm-based behavioral activities of MO in PSFs. Employee engagement according to Lockwood (2007) is “a critical driver of business success in today’s competitive marketplace” (p. 7). However, most previous research on employee engagement has been undertaken at the individual level, but neglected the organizational level (Barrick et al., 2015). In contrast, this study takes a collective organizational perspective in studying employee engagement and defines it as a climate-related construct manifested in how psychologically present “we” are as organizational members of PSFs (e.g., concerning other needs and challenges). The findings reveal that employees’ CE contributes to form norm-based behavioral activities of MO in PSFs. To our knowledge, this is the first study to examine this relationship. The findings support recent research that highlight employee engagement as a critical resource for business success (c.f. Albdour & Altarawneh, 2014; Yalabik et al., 2015). Undoubtedly, a strong practical implication for PSF managers is that they should continuously “work to nurture, maintain and grow the engagement” (Robinson et al., 2004, p. 9) among their organization’s members.

The concept of FIC in this study consisted of two dimensions: (i) EXPLOR and (ii) EXPLOIT. Both types of innovations gave strong performance outcomes of norm-based behavioral activities of MO. This is a very interesting finding when one considers that the two types of innovation are related to separate and distinct market domains. As mentioned above, EXPLOR is about service innovation having the potential to attract new clients or customers and thus is directed toward new market domains and segments for the firm. In contrast, EXPLOIT is about service innovation directed toward existing customers or clients in existing market domains and segments. On the one hand, the two dimensions of FIC may appear to be conflicting and even unmanageable, like “riding two horses” when combining innovation directed toward both existing markets and new markets simultaneously. On the other hand, the two types of innovation can be complementary. For example, PSFs can choose EXPLOR as a strategy for “escaping the tyranny of served markets” (Hamel & Prahalad, 1991). Consequently, they have the potential to open up new market spaces for PSFs; thus, they are seen to be “driving markets” (Jaworski et al., 2001) through the firm’s new focus. Simultaneously, they have the potential to

change (at least some of) the rules of the game among a PSF's competitors. Moreover, EXPLOIT can be considered as an opportunity to be "market driven" (Jaworski et al., 2001) by responding to customers' emergent and expressed needs and "perceptions and behaviors within a given market structure" (Jaworski et al., 2001, p. 47). It is reasonable to assume that there must be a balance between the two types of innovation. Managers should consider the associated uncertainty, risks, and other pros and cons with each of the two types of service innovation. However, according to Merlo et al. (2006), "creative ideas provide the seed for all innovation" (p. 1214). Considering the key value of innovation for firms' economic growth and competitive advantage, a strong implication for PSF managers to focus on is to maintain and preferably increase their MO because it will successfully have a significant impact on (the two dimensions of) FIC.

According to Chang et al. (2014), MO has a focus on "meeting customers' needs." The aspect of meeting customer needs is captured in the concept of SQP, which specifically refers to strategic options proposed by clients or customers of PSFs. The findings show that SQP is a performance outcome of norm-based behavioral activities of MO. In this study, SQP is seen from the employee perspective where there is a psychological closeness (Chung & Schneider, 2002) concerning "employees' perception of quality and customers' perception of experienced service quality" (Slåtten et al., 2011, p. 208). Although it is the employees' subjective view of service quality, it functions as a proxy for customers' perceived quality and satisfaction. Consequently, it is important for managers to continuously cultivating a norm for MO in PSFs.

This study also found that EC is a performance outcome of norm-based behavioral activities of MO, which is an important finding because commitment is closely related to employees' turnover and decision-making processes. EC reflects the critical issue of how to retain service employees (especially those who are talented). This is an important question for PSFs, because for employees with cross-boundary working conditions, it means that there is a probability that they will become more committed over time to firms (e.g., organizations, clients) other than their employing organization. In research on commitment in PSFs, Yalabik et al. (2015) recently stated, "very few evaluate the drivers of commitment foci in PSFs" (p. 1603). Although there are some exceptions concerning drivers of commitment in PSFs (c.f. Slåtten & Lien, 2016; Yalabik et al., 2015), this is the first study to our knowledge to examine the specific linkage between norm-based behavioral activities of MO and EC using PSFs as the empirical setting.

## **Conclusions**

This study makes two key contributions to the service literature. First, using different dimensions from social capital theory (Nahapiet & Ghoshal, 1998) as a theoretical framework, three internal forming variables, resources, or assets were identified where PSFs can capitalize on to form norm-based behavioral activities of MO. Second, the study examined three distinct variables reflecting different levels of performance outcomes linked to norm-based behavioral activities of MO in PSFs.

Moreover, this study also makes a unique contribution and provides key insights showing that positive norm-based behavioral activities of MO can (positively) "drive" EC in PSFs. PSF managers need to be aware of when they can create positive norm-based behavioral activities of MO because it creates decisions among their employees to remain with the organizations, i.e., not because they *have to* but because they *want to*. Positive norm-based behavioral activities of MO in PSFs can create an emotional attachment among employees in PSFs.

Although this study has focused on limited variables representing the *forming* and *performing* elements of norm-based behavioral activities of MO, this limitation offers opportunities for future research.

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