

## The process of a successful leisure firm's growth

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**Abstract.** We provided a framework for exploring the process of a leisure firm's growth: a two-step process that includes "competence identification" and "competence description," where the former involves reducing the gap between management's perceptions and customer expectations and the latter involves applying a mechanism to reduce the gap between the top management team and employees.

**Keywords:** growth, competence leveraging, casual ambiguity, service, leisure

### 1. Introduction

The leisure industry is a segment of the economy covering products and services related to entertainment, recreation, and tourism. As an increasing number of such service firms become successful, academicians and practitioners alike are becoming more interested in knowing how these service firms grow. In the present study, the context we assume is one in which a successful service firm tried to exploit its full value potential in a new market. Based on current theory as well as qualitative data from a case of the Taiwanese service firm "HOLIDAY" (disguised name), we investigated casual ambiguity affecting the diversified growth of a leisure firm. This is one of the main purposes of this study. Subsequently, this already-successful firm seems to need to overcome casual ambiguity during the process of growth that may not be obvious and simple which may not be as simple as what we intuitively believe they are. Determining the strategies that this firm it can use to overcome casual ambiguity for future growth is crucial. This study investigated the mechanisms through which service firms may identify and lessen.

### 2. Literature review

Reed and DeFillippi (1990) suggest that tacitness, complexity, and specificity in a firm's skills and resources can generate causal ambiguity. Barney (1986) proposed that causal ambiguity exists when the link between the resources controlled by a firm and its sustained competitive advantage is not fully understood or is understood only very imperfectly. The term "causal ambiguity" in its traditional usage refers to any knowledge-based impediment to imitation (Saloner, Shepard and Polodny, 2001). However, Ryall (2009) defined it as "the state in which managers do not know how their actions map to consequences." Lippman and Rumelt (1982) asserted that "basic ambiguity concerning the nature of the causal connections between actions and results" can incur persistent performance heterogeneity because "the factors responsible for performance differentials resist precise identification."

Service firms tend to have difficulty finding ways to identify and standardize their competence because of their often unique character (intangibility, inseparability, heterogeneity). Service firms need to consider many more factors than manufacturing firms. That is, a successful service firm might not fully realize what are in fact the key driving factors of success that constitute its competence, an idea known as causal

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ambiguity (Barney, 1986). Service firms themselves may misidentify their competences due to casual ambiguity, which in turn could lead to failure if the firms try to leverage competence. Figure 1 illustrates how a service firm manage casual ambiguity during the process of growth.

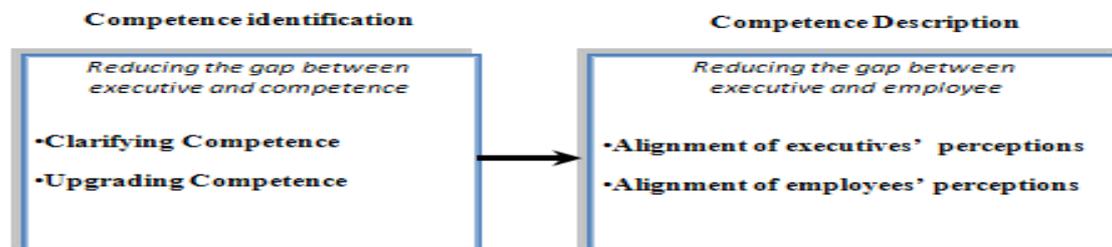


Fig 1. Research framework

Competence identification involves reducing the gap between management’s perceptions and customer expectations. It should involve two steps: competence clarifying and competence upgrading. In fact, the negative outcome of leveraging a mistaken competence to expand into a new market provides a chance for HOLIDAY to define and clarify the boundaries and attributes of its true competence in a competitive market. Nevertheless, information on market and product opportunities provided by customers can also help service firms decide whether to add a new product to their portfolio. It is important to correctly identify one’s competence with customer expectation when casual ambiguity exists. As Parasuraman, Zeithaml, and Berry (1985) proposed in their conceptual model of service quality, “the gap between consumer expectations and management perceptions of those expectations will have an impact on the consumer’s evaluation of service quality.” In other words, discrepancies between managerial perceptions and consumer expectations may exist. The complementary skills or competence needed for new clarified competence. New clarified competence should provide a chance for a diversified firm to evaluate the need for competence renewal and upgrading as well as acquire complementary competence.

After identifying one’s core competence, the next stage is to deliver it to the whole organization. This stage is needed, because the firm that leveraging mistaken competence should tell employees the reason why they failed and the right way and competence how they should follow and develop in the future. At this stage, HOLIDAY attempted to reduce the gap between managers and employees. Then internal marketing can be used to promote the core competence, including all related services, products, and/or product lines, to its employees (Gronroos, 1984). HOLIDAY did this to align its managers’ perceptions with its employees’ perceptions.

### 3. Methods

#### 3.1. Case study

According to Yin (1994), a case study is used to observe a phenomenon in reality. Yin (1994) suggested that the essence of a case study, the central tendency among all types of cases study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what results. In addition, a case study aims to probe research issues, examine theories, and expand or modify the theories. In other words, a case study comprises all aspects of the scientific method, from design and data collection to data analysis and interpretation (Yin, 1994). The evidence from multiple case studies is often considered more compelling, making the overall study more robust (Eisenhardt, 1989). However, Yin (1994) suggested that unusual, rare, or revelatory cases, by definition, are few in number, and a rare phenomenon

may be represented by only a single case. In addition, Dyer and Wikins (1991) indicated that the rigorous study of a single case can guide researchers to see new theoretical insights and question old ones.

Therefore, we comprehensively assessed one seemingly rare case study to investigate in depth the effects of leveraging a mistaken competence. This study aims to challenge the common belief that a successful service firm that leverages its own successful competence for related diversification will always succeed.

### **3.2. Case selection**

We chose the service firm HOLIDAY as our single case study for two reasons. First, the company has performed well in the leisure industry in Taiwan and has even created a new trend. Second, within nine years of its establishment (until 2010), some of its stores were closed while others continue to be successful. It is interesting to explore why HOLIDAY can continuously enter new markets such as those that center on the Hokka lifestyle, weddings (Mon Coeur), body care and cleansing products (Sweet-Grass Shed), and nature lodge (Adagio) while it faces problems with its initial diversification.

### **3.3. Data collection and analysis**

Data were collected primarily by interview and observation with the management team of HOLIDAY. Since interviews result in qualitative data based on respondents' experiences, knowledge, and/or subjective views (Wimmer & Dominick, 1997), interviews were conducted with representatives of various departments in order to cross-check the reliability of the data. We interviewed the chief executive office (CEO) five times to collect data related to the core competence of HOLIDAY and strategic aspects of the organization. We also interviewed the top management team, including the chief brand officer (CBO), chief artist officer (CAO), and chief operating officer (COO), to obtain more complete information in terms of insights into the organization's diversification strategies. In addition, managers of different departments were interviewed. In total, 20 interviews were conducted with 12 individuals. Moreover, secondary data, including information on the firm and the industry in general, were acquired from secondary sources such as the Internet, databases, statistics publications, trade journals, corporate annual reports, commercial data services, and articles from newspapers in Taiwan.

Data were analyzed through several steps. First, all data collected were added to a central database, which was used to write a case study of HOLIDAY comprising a detailed narrative in chronological order. Second, the data were categorized into several themes, which were organized into a sequence of events over time. Third, a triangulation method that included various data sources, theories, methods, and data collection was also used to cross-check and to explain the collected data. This was done to create a "chain of evidence" (Yin 1994) for HOLIDAY's diversification, that is, to establish an event list that can provide insights into what led to what and when (Miles & Huberman, 1994). Probing the same phenomenon from multiple angles makes research results more robust.

## **4. Case Findings**

### **4.1. Key events of HOLIDAY's diversification**

HOLIDAY was established in 2001 in the remote mountains of Shinshou Township in Taichung County, Taiwan, far away from the city life.

### **4.2. Clarifying competence**

Although the outcome was negative, this action of leveraging competence in a new industry provided a chance for HOLIDAY to define and clarify the boundaries and attributes of its competence in a competitive market (Liu & Liu, 2011). After failing in leveraging food service competence into Chinjin and Tainan science park, HOLIDAY gradually realized its true competence. As Chief Executive Officer said,

*"... Ultimately, we thought that it would be good to manage HOLIDAY in a leisure environment. We had confidence to operate a business in the mountains instead of in the city. It's not our strength to operate a new business in the city. In the city, the core competence of running a restaurant was to focus on efficiency, keeping the costs down, and taste. Especially when we faced the difficulties in pricing competition, efficiency and cost were very important. But we had never allocated our resources to this part."*

### **4.3. Upgrading competence**

During this process, the most critical challenge facing senior managers is focused on whether to learn from this failed experience when the new competence is clarified. HOLIDAY learned to select the location based on their new clarified competence. As Chief Executive Officer said,

*“HOLIDAY started to consider five elements we must have to sustain their business. First, it is very important to acquire the lands legally. Second, the environment must be beautiful and comfortable. Third, trees are key components of HOLIDAY. Fourth, it must not be located far from main routes. Finally, all of the business of HOLIDAY must be managed and operated by the management team.”*

### **4.4. Alignment of managers' perception**

Many researchers have suggested that, as an organization becomes larger and more complex, middle managers can offer benefits in both the development and implementation of strategy (Floyd & Wooldridge, 2000). It is important to align the perceptions of all managers after having failed experience of Chingjin and Tainan Science Park. A negative outcome will stimulate more controversies within an organization than a positive outcome will, making future leveraging process even more of a challenge. By aligning managers' perceptions, HOLIDAY can overcome future resistance to change, and can motivate and inter-functionally coordinate and integrate operations in future diversification. In brief, regardless if a firm's prior failure is an unlucky coincidence or the result of a purposeful search, corporate leaders or senior managers need to align their own perception of existing competence shaped by their mental models.

### **4.5. Alignment of employees' perceptions**

In order to avoid the employees' misunderstanding about competence, HOLIDAY begins to describe their competence using a top-to-bottom process, creating a brand manual that relays stories, vision, and disciplines to their employees. It includes the brand's story, logo, vision, and characteristics, as well as information about its customer base, among other facts. HOLIDAY wants their employees to have this information. They have a different brand manual for each business. Take HOLIDAY's brand manual as an example. Its brand story is about the process of starting an enterprise. Its purple logo is described as two girls welcoming their friends to experience happiness; the color represents romance and happiness. Logos can be seen on product packages, name cards, signboards, and so on. Their vision is the idea that they are happy and they want you to be happy too. The brand is characterized by happiness, romance, simplicity, and a natural state. Its customers are woman aged 19 to 39 who pursue their dreams. Finally, the brand is committed to herbal specialties, moved services, a sense of beauty, and pleasant activities. As manager of human resource department said,

*“HOLIDAY's competence is described in the brand manual to align employees' perceptions”*

## **5. Discussion and Conclusion**

When an already-successful firm attempts to expand, it seems easier for it to leverage competences than to build new ones. Many manufacturing firms grow fast by leveraging competencies. However, considering the different characteristics of services, service firms are vulnerable to leveraging a mistaken competence. Therefore, there is a strong need to rigorously examine the process by which service firms leverage competence. In sum, our study shows that leveraging existing competence is not easy for diversified service firm. A service firm may misidentify their competences due to casual ambiguity, which in turn lead to failure if this firm tries to leverage a mistaken competence. Based on our case findings, contextualized competence is what gives HOLIDAY a sustained competitive advantage after learning from failure experience.

Based on our case study results, we suggest that service firms can identify and describe competences based on the consequences of previous decisions to acquire more information and realize the strengths and weaknesses of the organization. A service firm can reduce investment risk and pursue further growth by exploiting the two-step model presented herein to reduce the prior effects of leveraging a mistaken competence. The first stage is competence identification. The findings at HOLIDAY indicate that a negative outcome with mistaken competence leveraging seems to provide a chance for a diversified firm to evaluate the need for competence renewal and the acquisition of complementary competence as well as the chance to identify and describe its competence. Competence renewal is the process of intensifying current competences

in response to customers' need change. Zollo and Winter (2002) investigated the mechanisms through which organizations develop dynamic capabilities and addressed the role of experience accumulation, knowledge articulation, and knowledge codification processes in the evolution of dynamic routines. As both the CEO and CMO of HOLIDAY said, they accumulated experience of investing in Chingjin and Tainan Science Park. HOLIDAY learned to select the suitable location based on their new clarified competence. Building new complementary skills helped HOLIDAY expand its competence and provided it with new market opportunities. Moreover, the firm should not pay too much attention to initial mistakes when implementing a new project (Quinn, 1978). Furthermore, managers should encourage the "trial-and-error" learning method.

The second stage is competence description, which concerns the internal interactions of a service firm. It is the responsibility of the corporate leader and senior managers to recognize and identify the organization's core competence and develop a strategy around it but translate it to the whole organization. If a service firm's middle managers and employees do not know their firm's competence, clear market communication and trustworthy interactions with customers are impossible. Based on the case of HOLIDAY, managers should align their perceptions first and then describe the firm's contextual competence in a manual given to their employees. It is a top-down approach to managing contextualized competence.

After competence identification and description, HOLIDAY further leverages its contextualized competence in the process of growth, such as its application of its concept to the wedding market (Mon Coeur), body care and cleansing products (Sweet-Grass Shed), and nature lodge (Adagio).

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