The Influence of Service Innovation Practices on Organisational Reputation

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Abstract:

Organisational image and reputation, as non-financial performance measures, are critical for organisations' business growth. Organisations operating in a dynamic and highly competitive market create and implement innovation strategies to achieve sustainable competitive advantage and business growth. The purpose of this paper was to determine the influence of service innovation practices on organisational reputation. A quantitative research method was followed to achieve the research objective of this paper; and descriptive and regression analysis methods were employed to analyse the collected quantitative data. The results of this paper uncovered that there is a positive relationship between service innovation practices and organisational reputation. Recommendations are provided to key stakeholders in motor vehicle retailing as well as future research directions.

Introduction

The service innovation concept is essentially a business philosophy that describes new developments in service involved in delivering core products and services, using technological options as a enabling factor to improve the services (Kumar *et al.,* 2024). Internet technology support can facilitate the information exchanges among organisations for several tasks like finding new customer needs, market trends, competitive moves or service development (Chuang, Lind & Chang, 2016). Most recently, organisations in the manufacturing and retail industry have developed and implemented new service innovation initiatives and are using technology as support to initiate and carry out business activities to remain competitive.

According to Fraser *et al*. (2013), the motor vehicle industry does not only involve manufacturing cars and car parts, but also includes marketing, selling and after-sale services offered by motor vehicle retailers (MVRs) which also have a huge impact on the economy. According to Statistics South Africa, the total local vehicle sales in South Africa averaged 41 632 between 1994 and 2018 (Statistics South Africa, 2019); and most sales were facilitated by MVRs, usually known as dealerships. In September 2019, the motor vehicle sales increased by 3.9%- and 91 580-unit sales were recorded, compared to the 87 325 of September 2018 (National Association of Automobile Manufacturers of South Africa, 2019). The highest motor vehicle industry sales were those of dealerships at 79.3%, followed by the 13.3% vehicle sales derived from the vehicle rental industry, the 4.2% derived from the government and the 3.2% from the corporate fleets industry (National Association of Automobile Manufacturers of South Africa, 2020). Despite the high vehicle sales in South Africa in 2020 at dealership level, these organisations are facing unstable economic circumstances that require a flexible approach, like creating innovative strategies to remain competitive. There is however no information on the service innovation practices or activities being implemented by the motor industry in a retail context, specifically by MVRs and the influence of such activities on business performance, like profit maximisation, return-on investment and organisational reputation.

Theoretical Background and Literature Review

This section reviews definitions of key concepts to make this research understandable, and previous studies to illustrate the gap to be filled by this research.

Defining Service Innovation

Service innovation is viewed as the main contributor in organisations for achieving a competitive advantage (Kumar *et al.,* 2024). Durst, Mention and Poutanen (2014) demonstrated that "service innovation" is an ambiguous term in literature and that there is a fragmented understanding of the

concept and its impact on business performance. According to Kindström, Kowalkowski and Sandberg (2013:1064), organisations that aim to manage the complexities associated with service innovation and take complete advantage of the service innovation benefits must deal with the wide range of components related to service delivery. This implies that service innovation is perceived as multi-dimensional, taking service innovation design and implementation into account. Brown and Osbourn (2013) defined innovation as: "The intentional introduction and application within a role, group or organisation of ideas, processes, products or procedures, new to the relevant unit of adoption, designed to meaningfully benefit the individual, the group organisation or wider society." When these definitions are taken into consideration, service innovation will be defined as follows in this study: "Service innovation refers to new idea generation and implementation of intentional incremental innovations that are new to the market which include new processes, new products or service on the existing services, new procedures, designed to benefit the customers, the organisation, and other stakeholders."

Benefits of Service Innovation

Chen, Wang, Huang and Shen (2015) point out that service innovation is a critical factor for organisations in maintaining and sustaining a competitive advantage in a context that is increasingly becoming service organisation oriented. The service sector is viewed as an important part of the global economic activity and considered as a primary source of value creation (Zhang et al., 2016), which is derived from innovation and increases organisational business performance. According to Zhang et al. (2016), service innovation requires that customers, employees and suppliers be integrated in developing service innovation that will meet customers' needs and serve as a solution. This implies that service innovation should aim to offer new solutions to meet customers' needs.

Business Performance

According to Feng, Ma and Jiang (2020), business performance is a wide category that reflects the extent to which the organisations achieve market operations, growth and financial objectives during a certain period of time. Shin, Sung, Choi and Kim (2015) explain that there are numerous approaches for measuring organisational business performance and classifying these approaches into financial and non-financial business performance measures. Sethibe and Steyn (2017) point out that to measure the financial aspects of organisational business performance, researchers could use accounting-based measures such as profitability growth, sales growth, return on assets (ROA), return on sales (ROS), return on equity (ROE) and/or ROI, or stock market measures; and non-financial measures such as customer satisfaction and retention, market share, competitiveness, reputation, image, branding and quality. Feng *et al*. (2020) added that non-financial performance is a general statement that covers a wider range than financial performance. This mainly includes customer satisfaction, employee satisfaction, organisational operation efficiency, organisational growth, organisational reputation and

internal process improvement. Sethibe and Steyn (2017) argue that non-financial business performance measures, such as organisational reputation, is one of the measures of business performance. Nowadays, there is consensus on the benefits of having a strong reputation which allows an organisation to attract competent staff of high quality and employee's retention, to provide service of high quality and, consequently, to increase the profits (Keshta *et al.,* 2020). In this paper, non-financial business performance measures (organisational reputation) are used to measure employees' perceptions of the influence of service innovation practices or activities on business performance.

According to Porter (1985), theory assumes that "the more complex and dynamic the economic environment of the country is, the more like is for some organisations to fail if they cannot create a robust competitive edge". The business environment in the 21st century, is characterised as highly competitive and dynamic and requires organisations to be more dynamic and aggressive when identifying and adopting innovation strategies to have a competitive advantage (Chen, Wang, Huang & Shen, 2015). Previous studies demonstrated that organisations could realise a competitive advantage by having unique resources and capabilities that are valuable and cannot be copied by other organisations (Bellini, Dell' Era, Frattini & Verganti, 2016; Yanadori & Cui, 2013). For example, competition between organisations in the motor vehicle industry leads to an increase in the introduction of new brands and services in South Africa. Schilke (2014) supports the theory of competitive advantage and acknowledges the interdependence between organisations in the business environment; and postulates that organisations need to have adaptive capabilities to generate competitive advantage in the markets and cease opportunities. In line with this study, managers of MVRs require innovative capabilities that can be utilised to generate creative solutions; promote flexibility; examine internal processes; analyse the business environment and improve service to achieve competitive advantage.

Previous Studies on Service Innovation

Previous studies on service innovations confirmed the positive relationship between innovation and business performance, specifically financial business performances (Yen, 2013; Al-Ansari, 2013; Bigliardi, 2013; Cheng, Yang & Sheu, 2014; Mafini 2015; Prajogo, 2016, Makgopa & Antonites, 2021); while other studies revealed mixed or contrasting results that research and development (R&D) investments linked to innovation do not influence production-oriented innovative performance (Hervas-Oliver, Sempere-Ripoll & Boronat-Moll 2014; de Carvalho *et al.* 2016). Some previous studies, such as Al-Ansari *et al*. (2013:166), explored how business performance determines effective ways in which an organisation manages its internal resources and adapts to its external environments. In this context, business performances (gain profit, brand image, growth and competitive advantage) refer to the performances that result from the ability of organisations to create new businesses in existing service, or the renewal of existing business that have reached stagnation point. Al-Ansari *et al*. (2013) explored

the innovative characteristics of organisations and the link between innovations and business performance. The results of the preceding study uncovered that managers have different perceptions of innovative characteristics; and innovation has a moderate impact on business performance. Pantano and Viassone (2014) investigated technology-based innovations in a retail setting and how they are linked to the internal characteristics of organisations; and the results of the study confirmed the limited diffusion of new technologies applied to points of sales; however, retailers have shown interest in adopting technology-based innovations. The study further uncovered that the adoption of innovation in a retail setting is solicitated by organisational innovativeness (the ability to innovate, linked to the capacity to adopt an innovation before the competitors); human capital (employees and managers in terms of openness to novelty, willingness to be the first adopters in a specific domain and propensity to engage new ideas for improving organisational processes); progresses in technology and organisational characteristics (financial resources, organisational size and age) and market orientation (market intelligence, customer orientation and inter-functional coordination). Khan and Naeem (2018) examined the relationships among quality practices, service innovation and organisational performance. Quality practices were divided into soft and hard quality practices. Initially, the impact of soft quality practices on hard quality practices was studied and the impact of each of these quality practices on service innovation and organisational performance was then examined. The study tested whether hard quality practices mediate the effect of soft quality practices on service innovation and organisational performance. The mediating impact of service innovation on quality practices and organisational performance relationship was also tested. The results of the study uncovered that quality practices improve service innovation and organisational performance, while service innovation positively impacts on organisational performance.

In another study, Mennenss, Van Gils and Letterie (2018) identified various factors that help organisations to attain competitive advantage, based on service innovation, and improve business performance. Mennenss *et al*. (2018) identified absorptive capacity and employee collaboration in an organisation as critical factors towards service innovation and the organisation's search breadth. The findings of this study confirmed that employee collaboration and search breadth have positive effects on an organisation's potential absorptive capacity, whereas employee collaboration reinforces its realised absorptive capacity. In another study, Bustinza *et al*. (2017) empirically explored whether external collaborative service development and provision and industrial R&D intensity help to unpack the complex relation between product–service innovation (servitisation) and performance. The study confirmed that organisations in R&D-intensive industries are more likely to benefit from implementing service provision than organisations in other sectors because of industry dynamics and reduced customer uncertainty. Other previous studies have indicated that there is a negative relationship between service innovation and organisational performance. These previous studies argue that service

innovation comes with additional operating costs to organisation and impact negatively the short-term performance. For instance, in the study by Visnjic, Wiengarten and Neely (2016) it was revealed that service innovation can bring long-term benefits to organisations, but at the expense of short-term operating costs which result in a decrease of short-term market performance.

By taking the preceding studies reviewed in this paper into account, it is evident that service innovation is not fully researched when compared to product innovations, specifically in developing countries, such as South Africa, in a retailing. This study contributes to literature on the topic with the aim to determine the influence of the service innovation activities of service organisations such as motor vehicle retailers on organisational reputation.

Purpose of the Research

The research objective of this paper was to determine the influence of the service innovation activities of service organisations on organisational reputation in the instance of motor vehicle retailers. The hypothesis for this study was stated as follows: *H1-Service innovation practices have a significant positive influence on organisational reputation of MVRs.*

This study benefits service organisations by expounding the main reasons for considering and suggesting careful utilisation of resources in planning and creating a new service innovation activity that can contribute to improved business performance. This research work can assist marketers and managers in making better decisions on planning and executing service innovation activities that could be to the benefit of customers and the organisation. Lastly, this paper adds insight to literature on an under-researched topic by investigating the influence of service innovation activities or practices on business performance and provides directions for future research on the topic.

Methods and Data

This section outlines the research methodology that was used to achieve the research purpose of this study, including the research design and data collection method, the target population, the sampling technique and the data analysis method.

Research Design and Data Collection Method

A quantitative research approach was used to gather primary data. This study was conducted in the period 1 June to 30 November 2019 in Gauteng, South Africa. Gauteng was selected, considering the number of citizens residing in the province. Gauteng was selected as a target region due to the following facts: 24.0% of the 54, 96 million of the South African population reside in this province; and it is estimated that the province accounts for 35% percent of the country's gross domestic product (GDP) and 40% of employment (Department of Trade and Industry, 2019).

Target Population

The target population in this study comprised managers and employees of MVRs involved in implementing service innovation activities. The survey was conducted in Gauteng, South Africa. To ensure that appropriate respondents who fit the selection criteria participate in the current study, the researcher had to first screen the respondents to determine who qualified for participation in the study before providing them with self-administered questionnaires.

Sample Technique

Non-probability purposive sampling was used for this study. Non-probability sampling means that the probability of selecting a single individual is unknown and the researcher selects participants based on his/her judgement (Malhotra, 2010). In this study, readily available managers and employees at various MVRs were selected with an equal opportunity to be included in the study, considering their involvement in the planning and actual implementation of service innovation practices or activities of MVRs.

Sample Size

Sample size refers to a subset of elements from a large group of the population (Leedy & Ormrod, 2014). The study aimed to use a large sample size of 300 respondents from MVRs during the quantitative phase. A large sample is required for a quantitative study (Cooper & Schindler, 2011). To establish an appropriate sample size, an analysis was undertaken of sample sizes used by previous researchers in similar studies such as Medina and Rufı´n (2009) –sample size of 244; Al-Ansari (2013) –sample size of 200, Bligliardi (2013) –sample size of 98; Cheng *et al*. (2014) –sample size 121; Prajogo (2016) –sample size of 228 Agostini and Filippini (2017) – sample size 150. Considering the sample sizes used in preceding studies, a sample of 300 respondents was considered as sufficient for the data analysis to generate reliable findings – 268 respondents participated in this study. In this research, 264 respondents participated, and the response rate was 88%.

Measurement Scales Used on the Questionnaire

This research aimed to capture employees' perceptions on the influence of service innovation on organisational reputation. The self-administered structured questionnaire included some adapted items from previously tested measuring instruments, for example, innovation activities/practices and business performance instruments from Prajogo (2016:246), Al-Ansari et al. (2013:170), Bigliardi (2013:249) and Al-Ansari (2014:350). The respondents indicated the extent to which they agreed with the statements on a five-point scale, where 5 means strongly agree and 1 means strongly disagree. The respondents were also requested to provide demographic data on their age, gender and race. The draft questionnaire

was pretested, using 10 respondents and they could complete the self-administered questionnaires in 15-20 minutes or less. No incentives were given to the respondents for participation in this study.

Data Analysis

The following analyses were carried out: (1.) Means of differences between the service innovation practices and business performance were calculated and analysed;(2.) Standard deviations for individual items on the questionnaire were calculated. (3.) Exploratory factor analysis (EFA) was used to determine the validity of statements used to determine the influences of service innovation practices of MVRs on business performance (organisational reputation). (4.) Cronbach's Alpha values were applied to determine the reliability of the questionnaire as a measurement instrument. The calculation of Cronbach's Alpha values was done for each construct. This analysis procedure enabled the researcher to reject or accept hypotheses based on the results.

Results

This section presents the results derived from quantitative inquiry, starting with the evaluation of validity and reliability of the data collection instrument used and ending with the results on the influence of independent variable on a dependent variable in this study.

Validity and Reliability

To assess the validity of the measuring scales, an exploratory factor analysis (EFA) was performed on all the items of the measuring instrument. Principal component analysis (PCA) and varimax raw were specified as the extraction and rotation methods. Explained percentage variance and factor loadings greater than 0.4 were considered when the validity of the measuring instrument was assessed. Factorability of the data was assessed, using two statistical diagnosis measures: the Kaiser-Meyer-Olkin (KMO) measure of sample adequacy and Barlett's test of Sphericity. According to Tabachnick and Fidell (2013), the minimum value of KMO should be 0.6 for a good factor analysis. Barlett's test of Sphericity should be significant (i.e $p\text{-value}<0.05$). Following Kaiser's criterion factors with Eigenvalues of 1 are retained from extraction. Kaiser's criterion states that only factors with an Eigenvalue value of 1 and above are retained in the solution (Kaiser, 1970). Table 1 presents the results of the KMO measure of sample adequacy and Barlett's test of sphericity.

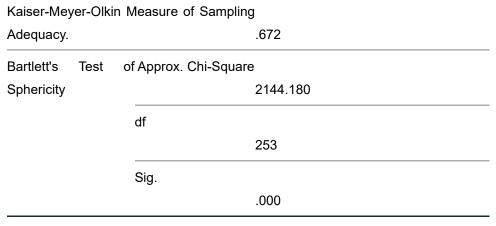| Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.672
Bartlett's Test of Sphericity	Approx. Chi-Square	2144.180
	df	253
	Sig.	.000

Table 1: KMO and Bartlett's Test

Thirty-nine factors relating to service innovation practices and business performance (organisational reputation) were analysed, using PCA with varimax rotation. The KMO measure of sampling adequacy was 0.672, and Bartlett's test of sphericity was significant ($\chi2$ (253)=2144.180, *p*=<0.001). The internal consistency reliability of the measurement scales measuring service innovation practices, business performance (organisational reputation) and the influence of environmental dynamism and environmental competitiveness were assessed by calculating Cronbach's alpha values. A Cronbach alpha value of 0.6 or higher indicates that the measurement scale is reliable (Malhotra, 2015:285). Table 2 below briefly presents the Cronbach alpha values for variables measured to determine the reliability of the measurement scales.

Measurement variable	Number of items	Cronbach's alpha value
Service innovation practices	3	0.664
Organisational reputation	3	0.712

Table 2: Internal consistency reliability of measurement scales

Table 2 indicates that the face or content validity of the measurement scales was assessed by a systematic evaluation to ensure that the measurement scales measure what they are supposed to measure in the current study: service innovation practices, business performance (organisational reputation) and external environmental factors (environmental competitiveness and environmental dynamism). The measurement scales were furthermore adapted from existing measurement scales from studies where the convergent, discriminant and validity of the measurement scales were assessed and confirmed. Cronbach's alpha value for service innovation practices was 0.664, as indicated in table 2. In addition, Cronbach's alpha value for business performance for organisational reputation was 0.712.

Table 3 depicts the linear correlation results of service innovation practices and business performance (organisational reputation) which deals with the research objective that was aimed at determining the employees' perceptions of the influence of service innovation practices on organisational reputation.

Pearson Correlation	Organisational reputation	1. 000	.127**a**	**T-statistics**
	Service innovation	.127**a**	1. 000	
Sig. (1-tailed)	Organisational reputation		.019	
	Service innovations	.019		16.321
N	Organisational reputation	268	268	
	Service innovations	268	268	

Table 3: Correlations (service innovation and organisational reputation)

Table 3 depicts the correlation results related to the influence of service innovation practices on organisational reputation dealing with the research objective of this study. The value of the t-statistic indicates whether or not the relationship is significant. A significant relationship is expected to have a t-statistic above 2 (Pallant, 2013). As shown in the correction table 3, there is a statistically significant (t-statistics=16.321>2) relationship between variables (*p*-value=0.001<0.05), positive correlation (β=0.127) and between service innovation practices and organisational reputation. The model produced R squared (0.019) that measures the variance of proportion in the dependent variable that was explained by the independent variable in this study (service innovation practices and organisational reputation). Table 4 presents the ANOVA tests used to meet the research objective.

Model	Sum of squares	df	Mean Square	F	Sig.
1 Regression	.545	1	.545	4.378	. 037[b]
Residual	33.088	266	.124		
Total	33.633	267			

Table 4: ANOVA (Service innovations and organisational reputation)

a. Dependent Variable: Organisational _Reputation
b. Predictors: (Constant), Service_Innovation

ANOVA is used to examine and determine the variance in the dependent variable and to establish how much variance is accounted for by the independent variables (Tabachnick & Fidell, 2014). Table 4 indicates that the regression reached a statistical significance, since the p-value (sig)=0.003 is less than the 0.05 significance level, which suggests that there is a linear regression between the dependent

variable and the independent variable. The model produced R squared (0.037) that measures the variance of proportion in the dependent variable that was explained by independent variable in this study (service innovation practices and organisational reputation). This model concludes that the independent variable explains 5.2% of the variance in the dependent variable.

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	4.5432	4.7408	4.6779	.04516	268
Std. Predicted Value	-2.981	1.394	.000	1.000	268
Standard Error of Predicted Value	.023	.068	.030	.007	268
Adjusted Predicted Value	4.5385	4.7491	4.6779	.04517	268
Residual	-1.03464	.41726	.00000	.35203	268
Std. Residual	-2.934	1.183	.000	.998	268
Stud. Residual	-2.941	1.195	.000	1.002	268
Deleted Residual	-1.03957	.42592	-.00002	.35473	268
Stud. Deleted Residual	-2.984	1.196	-.002	1.006	268
Mahal. Distance	.127	8.887	.996	.967	268
Cook's Distance	.000	.072	.004	.007	268
Centered Leverage Value	.000	.033	.004	.004	268

Table 5: Residual Statistics - Organisational reputation

Dependent variable: Organisational_Reputation

Table 5 indicates that the Cook's value is (0.072<1) and the Mahalanobis value (8.887<16.81), which suggests that no major problems were detected; therefore, the model is valid. Table 5 depicts that Cook's value is (0.024<1) and Mahalanobis value (8.887<16.81), which suggests that no major problems were detected; therefore, the model is valid. According to Tabachnick and Fidell (2014) and Pallant (2013), after producing a model it is very important to check outliers in the data. Table 3 presents residual values to detect outliers, which were overlooked by inspecting Mahalanobis and Cook's distances. The results are another way of determining whether the regression achieved its goal to explain the previously unexplained variation of the dependent variables in detail. The analysis of residuals further detects any underlying assumptions of regression that might have been violated and to estimate the accuracy of the models. Tabachnick and Fidell (2014) state that the maximum Cook's value should not be greater than

1, as their potential problems. Mahalanobis D2 were calculated, using linear regression methods in IBM SPSS version 25, followed by the computation of the Chi-square value. Given that 6 variables were used, (6-1) 5 represent the degree of freedom in the Chi-square table with $p < 0.001$; so, the criterion is 16.81 (Tabachnick & Fidell, 2013). This means that any case with a Mahalanobis D2 value of 16.81 and above 2 and the model is accepted.

Table 6 presents the standardised regression weights, also called beta weights, indicating which variables included in the path model contribute to the prediction of the dependent variable; therefore, comparing the contribution of each independent variable (Pallant, 2013).

Paths	Standardised Coefficients Beta(β)	p-value
Service innovation Organisational Reputation (OR)	0.127 **a**	0.000

Table 6: Standardised regression weights of path model

Table 6 depicts linear regressions executed on the constructs ($\beta=0.127$) for organisational reputation, but all significant *p*-value=0.000<0.005). Based on the results from linear correlation tests conducted in this study, hypothesis (H1) is accepted that service innovation practices have a positive influence on organisational reputation.

Discussions

Alafeef (2015) argued that organisations tend to use innovation with the aim to enhance business performance and market share. Mafini (2015) examined the relationship between business performance and innovation; and the findings of this study revealed that there is a significant positive relationship between innovation and business performance (organisational reputation). Al-Ansari et al. (2013) uncovered that that there is a significant positive link between innovation and business performance. Shin, Sung, Choi and Kim (2015) shared the same sentiment by pointing out that there are several methods for measuring organisational performance and classifying these methods into two main categories: financial and non-financial performance measurement. Sethibe and Steyn (2017:2) suggested that researchers can use either accounting-based measures such as profitability, sales growth, return on assets (ROA), return on sales (ROS), return on equity (ROE) and/or ROI, or stock market measures, profit growth; or non-financial measures such as customer satisfaction and organisational reputation and image to measure business performance.

Conclusion

The results of this paper confirmed that service innovation practices have a positive influence on the non-financial business performance (organisational reputation) of MVRs. Based on these results, it is recommended that the managers of motor vehicle retails should encourage and motivate internal employees to be creative and come up with service innovation ideas. Sufficient resources should be allocated to support brainstorming sessions to stimulate new service innovation ideas that could contribute towards innovation. In addition, the managers of motor vehicle retails aim to create a conducive working environment that allows employees to feel free to bring new service innovation ideas that can improve the business performance of organisations. Lastly, managers of service organisations should continue to monitor the international environment to identify any new service innovation ideas that are being introduced by international service organisations to assess if these ideas can be adopted and implemented in various contexts.

This study determined the influence of service innovation practices on the organisational reputation of motor vehicle retailers in one province of South Africa; therefore, future research can be carried out in other industries, other provinces and other parts of the world, using a larger sample to quantify and compare the results. The generalisability of the findings of the study is also limited, given the nature of the sample used in this study; and it remains for future studies to determine whether these results will hold for a larger cross-section of organisations; and a similar research approach can be followed in other sectors of the economy. Finally, a future study can focus on using other non-financial performance measures to determine the impact of service innovations.

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