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The Influence of Service Innovations On Profit Growth: A Case of Motor Vehicle Retailers

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Abstract

Organisations implement innovation strategies to remain competitive and achieve improved business performance. Previous studies have focused more on product and technology innovations. The purpose of this article is to determine the influence of service innovations on the financial performance of organisations – specifically profit growth – using the theory of competitive advantage. A quantitative research method was employed to achieve the research objective, with linear regression analysis used to analyse the primary data. Cronbach values were calculated to determine the reliability and validity of the research instrument used to collect the primary data. The findings of the research on which this article is based, confirm the existence of a positive relationship between service innovation practices and profit growth. Recommendations are made to key stakeholders in the motor vehicle industry and future research directions are outlined.

Keywords: Business Performance; Profit Growth; Quantitative Research; Regression; Service.

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1 Introduction

In economies that are based on service and innovation, leading organisations, innovation consultants and academic researchers are shifting from product- to service-centricity (Dotzel, Shankar & Berry, 2013; Thakur & Kulkarni, 2017). Thankur and Kulkarni (2017) allude to the fact that, for organisations to remain competitive in today's market, they need to continually innovate their services and service delivery processes. In addition, organisations can achieve and maintain competitive advantage through resources and capabilities that differ from those of their competitors, in that they are valuable and difficult to imitate by competing organisations (Bellini, Dell'Era, Frattini & Verganti, 2016; Hsu & Ziedonic, 2013). The achievement of competitive advantage depends, however, on the organisation's innovative capabilities and resources (Yanadori & Cui, 2013). The best strategy to differentiate an organisation's offering from that of its competitors (Martin, Gustafsson & Choi 2016), appears to be the capability to create distinctive service delivery. Developing and implementing innovative strategies is believed to assist in improving the business performance of organisations, by increasing market share and providing them with competitive advantage (Gunday, Ulusoy, Kilic & Alpkan, 2011; Prajogo, 2016).

According to Fraser, Tseng and Hvolby (2013), the motor vehicle industry not only involves the manufacturing of cars and car parts, but includes marketing, selling and after-sale services, all

of which are carried out by motor vehicle retailers (MVRs), which have an equally huge impact on the economy. According to Statistics South Africa, the total local vehicle sales in South Africa averaged 39 807 between 1994 and 2017 (Statistics South Africa [Stats SA], 2017), with the majority of those sales facilitated by MVRs (also known as dealerships). In September 2018, motor vehicle sales improved by 3.8 per cent, recording 80 428 unit sales, compared to 77 497 in September 2017 (National Association of Automobile Manufacturers of South Africa [Naamsa], 2018). The highest motor vehicle industry sales were dealership sales (79.3%); followed by vehicle sales derived from the vehicle rental industry (13.3%); government (4.2%); and sales from industry corporate fleets (3.2%) (Naamsa, 2018). Regardless of the high sales of vehicles in South Africa in 2018, at dealership level, these organisations are facing an unstable economy that requires a flexible approach in order to remain competitive and, to achieve this, innovative strategies are needed. What is not known in the motor industry, are which service innovation practices or activities are being implemented in a retail context, specifically by MVRs, and the influence these activities have on business performance, in this case, on profit growth.

2 Theoretical background and literature review

This section reviews the definition of key concepts, to make the research study more understandable. Previous studies in this field will be used to illustrate the gap which this research aims to fill.

2.1 Defining service innovation

Definition of service innovation concept is important to make this paper understandable. To derive an applicable definition, the authors in this paper relied on perspectives from other authors in the field of innovation and service innovation. Durst, Mention and Poutanen (2015) have argued that "service innovation" is an ambiguous term in the literature, indicating that the concept is misunderstood and its influence on business performance. Kindström, Kowalkowski and Sandberg (2013) as cited by Makgopa (2021, p. 46), alluded that organisations which aim to manage the complexities related to service innovation, and benefit from it, should reconfigure the components associated with service delivery. According to Makgopa (2021, p. 46) service innovation should be perceived as multi-dimensional concept, considering all aspects such as service innovation design and implementation. However, Brown and Osborne (2013, p. 188) define 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. Following the view by Makgopa (2021, p. 46) service innovation could be defined as follows: generation of a new idea and the implementation of intentional incremental innovations that are new to the market, which include addition of new processes, new products or services on the existing services and new procedures designed to benefit customers, the organisation and other stakeholders.

2.2 Benefits of service innovation

Makgopa (2021, p. 46) alluded that service innovation has become important in organisations and released a need to create innovative service activities and the implementation of the market concept in their business activities. Similarly, Chen, Wang, Huang and Shen (2015) alluded that service innovation is a critical factor for organisations seeking to maintain and sustain their competitive advantage in a context in that as organisations have increasingly become service-oriented. According to Zhang, Zhao, Voss and Zhu (2016), the service sector is viewed as important to global economic activity and considered to be a primary source of value creation which is

derived from innovation and which in turn increases business performance. In addition, Zhang et al. (2016) alluded that service innovation requires that customers, employees and suppliers to work together in developing service innovations that will satisfy customers' needs and offer solutions to these customers. The preceding views imply that service innovation should aim to offer new, effective solutions to customers' needs and improve organisations business performance. Hence, this paper aimed to determine the perceptions of employees on the influence of service innovations on business performance, specifically, profit growth.

2.3 Business performance

Shin, Sung, Choi and Kim (2015) explain that while there are numerous approaches to measuring organisational business performance, they have identified two main classifications, namely financial and non-financial business performance measures. Sethibe and Steyn (2016, p. 2) 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 return on investment (ROI) or stock market measures. Alternatively, they could use non-financial measures such as customer satisfaction and retention, market share, competitiveness, reputation, branding and quality (Sethibe & Steyn, 2016, p. 2). Despite the limitations of financial business performance measures, profit growth remains one of the main measures of business performance (Sethibe & Steyn, 2016, p. 3). In this paper, profit growth is used to measure employees' perceptions of the influence service innovations have on financial business performance.

2.4 Competitive theory

According to Porter (1985 p. 32), competitive theory assumes that "the more complex and dynamic the economic environment of the country is, the more likely it is for some organisations to fail if they cannot create a robust competitive edge". The business environment of the 21st century is characterised as highly competitive and dynamic, requiring organisations to become more dynamic and aggressive in identifying and adopting innovation strategies to gain competitive advantage (Chen et al., 2015). Existing studies report that organisations can realise a competitive advantage by having unique resources and capabilities that are both valuable and inimitable by other organisations (Bellini et al., 2016; Yanadori & Cui, 2013). For example, competition between organisations in the motor vehicle industry has led to an increase in new brands and services being introduced to South Africa. Schilke (2014, p. 180) supports the theory of competitive advantage, acknowledging an interdependence between organisations and the business environment: organisations thus need to have adaptive capabilities to generate competitive advantage in the markets and cease opportunities. Therefore, managers of MVRs need to have innovative capabilities that can be used in generating creative solutions, promoting flexibility, examining internal processes, analysing the business environment and improving service, to achieve competitive advantage.

2.5 Previous studies on service innovation

Previous studies explored the relationship between innovation and business performance (Al-Ansari, Pervan & Xu, 2013; Bigliardi, 2013; Cheng, Yang & Sheu, 2014; Mafini, 2015; Prajogo, 2016; Yen, 2013). Some of these studies, however, revealed mixed or contrasting results, to indicate that research and development (R&D) investments, linked to innovation, do not influence production-oriented innovative performance (De Carvalho et al., 2016; Hervas-Oliver, Sempere-Ripoll & Boronat-Moll, 2014). According to Al-Ansari et al. (2013, p. 166), business performance determines how well an organisation manages its internal resources and adapts to its external

environment. In this context, business performance (gain profit, brand image, sales growth and competitive advantage) refers to the performance that results from organisations' ability to create new businesses, within their existing services, or to renew existing businesses that have reached a stagnation point.

The aforementioned study, by Al-Ansari et al. (2013), explored the innovative characteristics of organisations and the link between innovations and business performance, and uncovered that managers have different perceptions of innovative characteristics, and that innovation has a moderate impact on business performance. Pantano and Viassone (2014), who investigated technology-based innovations in a retail setting and how these link to internal characteristics of organisations, found that the limited diffusion of new technologies applied to points of sale, but that retailers showed an interest in adopting technology-based innovations. The Pantano and Viassone (2014) study further reported that the adoption of innovation in a retail setting is encouraged by organisational innovativeness (ability to innovate, which links to the capacity to adopt an innovation before one's competitors do), human capital (employees and managers, in terms of openness to novelty, willingness to be the first adopters in a specific domain, and the propensity to engage new ideas for improving organisational processes), progresses in technology, organisational characteristics (financial resources, organisational size and age) and market orientation (market intelligence, customer orientation and inter-functional coordination). Sundbo, Sundo and Henten (2015), who examined the factors affecting the innovativeness of service encounters, either as drivers or barriers in organisations, found that service innovation requires mutual empathy (between employees and customers): employees can serve as drivers of innovations, if they invest time on planning and implementation of innovations. Ferreira et al. (2015) investigated the determinants of innovation management and the implications thereof for business performance and, subsequently, identified innovation capabilities (e.g., technologies, networks, learning, processes, strategy and culture) as key determinants of innovation. They notably reported conflicting results regarding the relationship between these determinants and business performance in different sectors (Ferreira et al., 2015).

Kindström et al. (2013) explored how product-centric organisations can focus on service innovation by adding services to their portfolios and found that a major challenge associated with the shift - from product-centeredness to a product and service orientation - that is required in the management of the essential dynamic capabilities of sensing, seizing and reconfiguring to bring about service innovation. They also identified the key micro-foundations, which form the basis of a successful realignment of an organisation's dynamic capabilities, so as to achieve a better fit with service innovation activities (Kindström et al., 2013). Witell, Snyder, Gustafsson, Fombelle and Kristensson (2017) explored the service logic model and found that, under such constraints, a formalised new service development process could be counter-productive and a bricolage perspective might be better to explain service innovation in resource-constrained environments. In addition, their study proposes that four critical bricolage capabilities (addressing resource scarcity actively; making do with what is available; improvising when recombining resources and networking with external partners) influence service innovation outcomes (Witell et al., 2017). Khan and Naeem (2018) examined the relationships among quality practices, service innovation and organisational performance. They divided quality practices into soft and hard, initially studying the impact of the former on the latter, before proceeding to investigate the impact which each of these quality practices has on service innovation and organisational performance. Thereafter, they tested the mediating effect of quality practices on service innovation and organisational performance. The results of the study, by Khan and Naeem (2018), showed that quality practices improve service innovation and organisational performance, while service innovation positively impacts on

organisational performance.

Mennens, Van Gils, Odekerken-Schröder and Letterie (2018) identify different factors that enable organisations to attain a competitive advantage, based on service innovation and improved business performance. For them, absorptive capacity and employee collaboration in an organisation were deemed critical factors in both service innovation and organisational growth (Mennenss et al., 2018). Their findings confirmed that employee collaboration has positive effects on an organisation's potential absorptive capacity, reinforcing its realised absorptive capacity. Bustinza et al. (2017) empirically explored whether external collaborative service development and provision, and industrial R&D intensity, help to unpack the complex relations between product–service innovation (servitisation) and performance. Their study confirms that organisations in R&D-intensive industries are more likely to benefit from implementing service provisions than organisations in other sectors, because of unique industry dynamics and reduced customer uncertainty (Bustinza et al. 2017). When considering the extant studies reviewed here, it is evident that, in a retail context, service innovation is not yet as fully researched as product innovation is, specifically in developing countries such as South Africa. Service innovation research is new, however, despite its newness, research on this field is relatively imperative and has already given rise to several "surveys" - a sign of maturity. Some of these surveys are devoted to innovation in services, in general, and some are more specifically devoted to one sector or aspect of innovation (see Djellal & Gallouj, 2018).

Other innovation studies focused on the drivers of innovation in organisations rather than the impact it on business performance such as research and development (R&D) (see Li, Gagliardi & Ian Miles, 2019). Previous studies on innovation in the service sector are visible, for example, innovation studies in hospitals, public services, tourism and in logistics services. The focus is thus on innovation, rather than retail, in the service sector. This study aims to contribute to the literature on the topic, by determining the influence the service innovation of service organisations have on profit growth, particularly among retailers of motor vehicles.

3 Purpose of the research

The research objective of the study on which this article is based, is to determine the influence that service innovations have on profit growth of motor vehicle retailers.The hypothesis put forward here, is stated as follows: *Service innovations have a significant positive influence on the profit growth of MVRs.*

4 Contributions of the study

This study adds to the contributions made towards literature on innovation by providing data from a developing economy and determining whether the results of previous studies are relevant in the South African economy. This study has several implications. First, it provides interpretations of the results that MVRs have different viewpoints on innovation and shows that innovations, specifically, service innovations have statistically significant influence on financial business performance in the context of MVRs in the developing economy of South Africa. Secondly, the results provide evidence that justifies the need to invest in service innovations, as it presents opportunity to improve business performance. Lastly, this article adds insights to the existing literature on an under-researched topic, by investigating the influence of service innovation activities or practices on business performance and providing directions for future research on the topic.

5 Research methodology

The next subsections present the explanation of the research methodology adopted in this paper.

5.1 Research design and data collection method

To achieve the stated purpose of this study, the quantitative research method was adopted. Data collection was conducted during the period 1 June 2018 to 30 November 2018, in Gauteng, South Africa. Gauteng was selected on the basis of the number of inhabitants of the province, which is considered to be the country's economic hub. Gauteng was chosen as 24 per cent of the population of almost 55 million live here and it is estimated that the province accounts for 35 per cent of the country's gross domestic product (GDP) and 40 per cent of employment (Department of Trade and Industry, 2018).

5.2 Target population

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

5.3 Sampling technique

Non-probability purposive sampling was used, which means the probability of selecting a single individual is unknown and the researcher selects respondents based on his/her judgement (Malhotra, 2010, p. 102). Here, managers and employees, who were readily available at the various MVRs, were selected, each with an equal opportunity of being included in the study, considering their involvement in planning and implementing the service innovations of MVRs.

5.4 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, who were targeted from MVRs, for the quantitative phase. A large sample is required for a quantitative study (Cooper & Schindler, 2011) and to ensure equal representation from among the total targeted sample size of 300, a maximum of five respondents was drawn from each MVR, depending on the organisation's size (in terms of employees involved in the implementation of innovation activities). Further, in establishing an appropriate sample size, an analysis was undertaken of the sample sizes used by previous researchers, in similar studies, including Medina and Rufı´n (2009) (sample size: 244); Al-Ansari (2013) (sample size: 200), Bligliardi (2013) (sample size: 98), Cheng et al. (2014) (sample size: 121), Prajogo (2016) (sample size: 228), and Agostini, Nosella and Filippini (2017) (sample size: 150). Considering the sample sizes used in the aforementioned studies, a sample of 300 respondents was deemed sufficient for analysing data to generate reliable findings. In the end, 268 respondents participated in this research.

5.5 Measurement scales used on the questionnaire

The researcher needed to compile a scale which measured employees' perceptions of the influence that service innovation has on profit growth. The self-administered structured questionnaire included items that had been adapted from previously tested measuring instruments, for example, innovation activities 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 Likert scale (where 5 = strongly agree and 1 = strongly disagree). The self-administered questionnaires were completed in 15–20 minutes or less. No incentives were given to respondents who participated in the study.

5.6 Data analysis

To analyse the primary data, the statistical software package SPSS Version 25 was used, as follows: 1) the means of differences between the service innovation, business performance were calculated and analysed; 2) standard deviations were calculated for individual items on the questionnaire; 3) correlation analysis was used to determine the influence of service innovations of MVRs and profit growth; 4) exploratory factor analysis (EFA) was used to determine the validity of statements used to determine the influence, which the service innovations of MVRs had on business performance (profit growth), to further explain the significance of the independent and dependent variables) Cronbach's alpha values were calculated for each construct and applied to determine the reliability of the questionnaire as a measurement instrument. This allowed the researcher to decide on whether to reject or accept hypothesis tested, based on the results.

6 Analysis of results

The first subsection addresses the validity and reliability of the data collection instrument and the adequacy of the sample for linear regression test.

6.1 Validity and reliability

To assess the validity of the measuring scales, an EFA was performed on all the items in the measuring instrument. Principal component analysis (PCA) and varimax raw were specified as the extraction and rotation methods. The explained percentage variance and factor loadings ($>$0.4) were considered when assessing the validity of the measuring instrument. The factorability of the data was assessed, using two statistical diagnosis measures, namely the Kaiser-Meyer-Olkin (KMO) measure of sample adequacy and Bartlett's test of sphericity. According to Tabachnick and Fidell (2013), the minimum value of the KMO should be 0.6 for a good factor analysis. Bartlett's test of sphericity should be significant (p-value $<$0.05). Following Kaiser's criterion, only factors with an Eigenvalue of 1 and above are retained in the solution, following extraction (Kaiser, 1970). Table 1 presents the results of the KMO measure of sample adequacy and Bartlett's test of sphericity.

Table 1. KMO and Bartlett's test

Kaiser-Meyer-Olkin measure of sampling adequacy	.0672
Bartlett's test of sphericity Approx. Chi-square	2144.180
df	253

Thirty-nine factors, related to service innovation and business performance (profit growth), were factor analysed using PCA with varimax rotation. The KMO measure of sampling adequacy was 0.672, and Bartlett's test of sphericity was significant ($\chi 2$ (253)=2144.180, p=$<$0.001). The internal consistency reliability of the measurement scales measuring service innovation and business performance (profit growth) was determined by calculating the Cronbach's alpha values. As Malhotra (2010) notes, a Cronbach's alpha of 0.6 or higher indicates that the measurement scale is reliable. Table 2 presents the Cronbach's alpha values for variables measured in determining the reliability of the measurement scales.

Table 2 indicates that the face or content validity of the measurement scales was assessed

Table 2. Internal consistency reliability of measurement scales

Measurement variable	Number of items	Cronbach's alpha value
Service innovation	3	0.664
Profit growth	4	0.803

Table 3. ANOVA (service innovations and profit growth)

Model	Sum of squares	Df	Mean Square	F	Sig.
1 Regression	1.710	1	1.710	9.197	.000[b]
Residual	49.464	266	.186		
Total	51.174	267			

a. Dependent variable: Profit_Growth

b. Predictors: (Constant), Service_Innovations

using systematic evaluation, to ensure that the measurement scales measure what they should – in this instance, service innovation (0.664) and business performance (profit growth (0.803)). The measurement scales were further adapted from existing scales, used in studies where the convergent discriminant and validity of the scales had been assessed and confirmed.

6.2 The influence of service innovation on profit growth

Table 3 presents the ANOVA tests regarding the influence of service innovation on profit growth.

ANOVA is used to examine and determine the variance in the dependent variable and to establish how much of the variance is accounted for by the independent variables (Tabachnick & Fidell 2014). Table 3 indicates that the regression reached statistical significance, since the p-value (sig)=0.003 is below the 0.05 significance level, which suggests a linear regression between the dependent and independent variables. The model concludes that the independent variable explains 3.3 per cent of the variance in the dependent variable. According to Tabachnick and Fidell (2014), and Pallant (2013), it is very important to check outliers in the data after producing a model. 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, in detail, the previously unexplained variation in the dependent variables. The analysis of residuals further detects any underlying assumptions of regression that might have been violated and estimates the accuracy of models. Tabachnick and Fidell (2014) state that the maximum Cook's value should not be greater than 1, as there would be potential problems. Mahalanobis D^2 was calculated, using linear regression methods in IBM SPSS version 25, followed by the computation of the Chi-square value. Given that six variables were used (6-1), 5 represents 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 D^2 value of 16.81 and above is a multivariate outlier and should be removed.

Table 4 depicts a Cook's value of 0.024<1 and a Mahalanobis value of 8.887<16.81, which suggests that no major problems were detected; therefore, the model is valid. There was a positive correlation between the service innovation and financial business performance (profit growth) (when linear regression was conducted separately on profit growth) (β=0.186 for profit growth, but all significant p-value=0.000<0.005). Based on the results of the linear correlation tests, the hypothesis is accepted that service innovation has a positive influence on profit growth.

Table 4. Residuals statistics (profit growth)

	Minimum	Maximum	Mean	Std. deviation	N
Predicted value	4.2782	4.6284	4.5168	.08004	268
Std. predicted value	-2.981	1.394	.000	1.000	268
Standard error of predicted value	.028	.083	.036	.008	268
Adjusted predicted value	4.2793	4.6382	4.5167	.08014	268
Residual	-.98831	.65177	.00000	.43042	268
Std. residual	-2.292	1.511	.000	.998	268
Stud. residual	-2.297	1.527	.000	1.002	268
Deleted residual	-.99248	.66530	.00006	.43357	268
Stud. deleted residual	-2.315	1.531	.000	1.003	268
Mahal. distance	.127	8.887	.996	.967	268
Cook's distance	.000	.024	.004	.004	268
Centred leverage value	.000	.033	.004	.004	268

Dependent variable: Profit_Growth

7 Conclusion and discussions

Innovation has a significant positive link with business performance of organisations (Alafeef, 2015; Al-Ansari et al., 2013; Mafini, 2015; Madrid-Guijarro, Garcia-Perez-de Lema & Van Auken, 2013). These results imply that innovation enables organisations to achieve improved business performance. The previous studies have focused more on product and technology innovations in manufacturing organisations; hence, this paper adds to existing academic literature by focusing on service innovations and determining its impact on the business performance of retail organisations – specifically profit growth – using the theory of competitive advantage. The results of this study affirm the argument by Alafeef (2015) that organisations tend to use innovation to enhance business performance and market share. In addition, the results of this paper are in line with those reported by Mafini (2015), who found a significant positive relationship between innovations and business performance. Al-Ansari et al. (2013) also reported a significant positive link between innovation and business performance.

8 Managerial implications

Managers of MVRs should encourage and motivate internal employees of service innovations to be creative and participate in the implementation of service innovations to improve profit growth. Enough resources such as financial budget should be allocated to support brainstorming sessions aimed at generating new service innovation that could improve organisations' profit growth. In addition, MVR managers in service organisations should continue to monitor the international environment, to identify any new service innovation ideas that are being introduced and to assess its potential to improve profit growth. Lastly, managers need to instil innovative behaviour among internal employees and lead by example, allowing these employees to take part in the innovation

process and offer training that stimulates innovative character that has potential to improve profit growth.

9 Limitations

Based on the review of the available secondary data and studies, it became clear that few research studies have been conducted in the South African MVR industry regarding the implementation of service innovations and the influence on profit growth, which meant that the researcher had to rely mainly on previous studies conducted in other industries, sectors and other parts of the world during the literature review. Due to limited budget constraints, this study focused on a sample representing the three major cities of South Africa. However, with a larger budget at hand, the researcher would have been able to conduct the research on a larger scale in other cities and provinces. This implies increasing the sample size, to include other cities and increasing the representation of MVRs to South Africa as a whole, and, perhaps, uncovering more subtle differences between MVRs.

10 Future research directions

This study determined the influence of service innovation practices on profit growth in the case of MVRs in Gauteng, South Africa. Future research can be carried out in other industries and provinces, and different parts of the world, using larger samples to enable a quantification of and comparison between the results. Future studies may 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 and other countries that exhibit similar characteristics as that of the South African economy. Finally, future studies might focus on using non-financial performance measures to determine the impact of service innovations.

Remark:

This article is part of the PhD thesis entitled "The influence of service innovation practices on business performance".

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CRediT Statement: Supervision, Investigation and Writing Review