

Determinants of Innovative Performance in the Service Industry: A Review

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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v8-i6/4229>

DOI:10.6007/IJARBSS/v8-i6/4229

Published Date: 29 June 2018

Abstract

The rising demand on quality product and services has contributed to more business opportunities and intense competition. Firms are trying all out to be innovative in their performance to stay competitive and ultimately for the economic growth of their business. Conventional unchanging style of business model is seen to be abolished gradually especially in the dynamic industries that require fast-changing business model to suit the demand of the market. People are not only looking at the output as products or services, but the innovativeness in presenting the outcome of the process. A number of previous literature and empirical studies have revealed the importance of innovative performance in the manufacturing industries but less attention has been given to the service sector that is increasingly important as demand arises. Therefore, it is essential to understand the factors that contribute to innovative performance for the firms to formulate appropriate strategies to develop their business model. In this review, we look into the determinants of innovative performance in the service industry namely intellectual capital, market orientation and organizational capabilities.

Keywords: Innovative Performance, Intellectual Capital, Market Orientation, Organizational Capabilities, Service Industry.

Introduction

Due to the rising demand on quality of products and services as well as the extent of globalization that contributes to the boundaryless commerce, more business opportunities are being captured in various industries causing intense competitions to exist. Businesses are continuously striving for more creative and innovative strategies to stay competitive and ultimately achieve the goal of economic growth. Therefore, innovation which is categorized into many forms can be seen as a critical element in enhancing organizational performance specifically in this knowledge-driven economy. The trend is in line with the idea of Koh (2005), explaining that innovation is fundamental to competitiveness and growth in the

contemporary economy. The advantages of having innovative performance can be witnessed in different levels. Innovation can produce as new products, processes or services, which may aid the firm's cost saving strategy, new market penetration and new product development from a company perspective. In view of the globalization level, innovative companies position themselves better in terms of competencies, relatedness and knowledge acquisition, which in turn may bring benefits to the company as well as the broader economy as a whole. Many studies have been focusing on innovative performance in the manufacturing industry in the past (Manuel, Manuel and Angeles, 2013), less attention has been given to the service industry. In today's competitive environment, service sector has grown swiftly and the quality of service is becoming increasingly important in fulfilling customer expectations. Distinctive service quality can be advantageous to the firms and gain them competitive advantage (Helene, Nathalie and Helene, 2012) to outperform their competitors. This was also mentioned in the research by Chen, Lin and Chen (2015) and Wong (2013) stating that firms get benefits for being innovative in providing quality service. A few examples in the service sector have proven that innovative performance is critical for the success of a business model. For instant, the rising of private car hire services using e-hailing such as Uber and Grab, incorporating the use of technology to bring new experience and convenience to the customers. These service providers have entered into a large number of countries and getting excellent response from the users for its convenience, friendly-user application, efficient and superb service quality. In addition, the passengers are able to track the drivers' position and route and share the information with their family members and friends during the ride. This objective of this paper is to introduce factors that contribute towards innovative performance for the firms to formulate appropriate strategies to develop their business model. In the following sections of this review, we will discuss about the definition of innovative performance, the determinants of innovative performance, theoretical framework development and its implications.

Innovative Performance

In order to sustain a business model in the long run, firms in service line or the manufacturing sector are trying to improve their capabilities by formulating a more appealing strategy that can lead to innovative performance of the business entity. Innovative performance can act as a catalyst increasing financial strength of a firm and allows firm to stay competitive and survive through the increasingly demanding market. Generally, organizational performance can be measured in terms of efficiency and effectiveness of the business. As usual, efficiency can be seen from the economic gain of the firms in Return on Investment (ROI) and its profitability. Whereas, effectiveness is particularly measured by sales figures, market share and customer value. Innovative performance is able to capture the effectiveness of the innovation strategies and efforts. Helene, Nathalie and Helene (2012) described innovative performance as the outcomes of an organization in terms of the extent to which inventions are being introduced into the existing market emphasizing on both the introduction of new product and services and technological aspects of the innovation. The researchers also mentioned that innovative performance can be considered as a facilitating role between overall performance and organizational processes. It was found that a positive relationship exists between the two. According to Hanifi and Atila (2016), innovative performance has become indispensable for firms to maintain highly competitive, gain competitive advantage, and attain sustainable achievement. The role of company's innovative performance has become the key component in the success of most firms especially in the service sector.

Determinants of Innovative Performance**Intellectual Capital**

Few researchers had identified that the human capital in the firms contribute toward organizational performance however knowledge, skills and capabilities accumulated from the human capital can be integrated with knowledge from the externalities in achieving companies' innovative performance. Han and Li (2015) did argue that even though academic research carried out on intellectual capital and its effect does exist, it is still unable to explain on the failure of some firms in demonstrating satisfying innovative business performance even with the sophisticated-designed organizational processes, experienced human capital and integrated information systems, close connection with customers and suppliers. Intellectual capital which is perceived as intangible asset to a company can be a strategic source of special knowledge stock formed in the operating systems with valuable, rare, inimitable and non-substitutable (VRIN) specialities. It assists in growing and gaining sustainable performance for a firm. The researchers had also justified that intellectual capital can actually influence innovative performance positively. Hence, it is imperative for firms to build a strong and capable intellectual capital that can contribute to the success of the business innovatively. Lutfihak, Cagri, Gurhan and Gunduz (2010) defined that intellectual capital is the total of individual skills, knowledge and abilities of the company's human resource in forming an essential knowledge foundation base for the quality of the individual innovative efforts. It is justifiable that higher intellectual capital contributes significantly to higher innovative performance. According to Anker (2006), higher level educated employees are considered as the main contributors to the business performance as they are in a superior position to generate intellectual capital that can be of added advantage to the business innovative performance. Therefore, intellectual capital is seen to be critical to a company as it has a positive influence towards innovative performance. Therefore, it is proposed that:

Proposition 1: Intellectual capital has a positive relationship with innovative performance in the service industry.

Market Orientation

Other than resources owned by the firm as the factor contributing to business innovation, organizational culture plays an important role in establishing the norm in the organization to be market oriented and view every opportunity arises equally. The most influential component to business is market opportunity that opens the door of the firm to gain new business in the future. Firm will look into the possibility to innovate when it views it as a significant business opportunity. Market-oriented companies will direct the way the business is operated towards the demand of the market. In this case, innovative performance can be created to fulfil market demand and to attract potential customers while retaining the existing one. In the service industry, the target market can be very specific hence it will need to excel in the industry so that customers can notice the service providers and stay loyal to them. The market orientation can impose beneficial effects on innovative performance of the firms and this has been consistent with a number of previous researches like Hanifi and Atila (2016), Hult et al. (2004), Akman & Yilmaz (2008), Dibrell et al. (2011) and Merrilees, Rundle-Thiele and Lye (2011). In the light of these developments on market orientation towards innovative performance, management team needs to determine the customer needs and expectations accurately. Liu (2013) in a study stated that market orientation has become the central focus of marketing research in recent and been defined as the organizational culture that brings in

the necessary behaviours to the company for the creation of value-added output for customers and, in turn, lead to continuous innovative business performance. Market orientation can be divided into three behavioural elements namely competitor orientation, customer orientation and inter-functional coordination that aid in the formulation of innovative business plan to match the market demand. Therefore, it is proposed that:

Proposition 2: Market orientation has a positive relationship with innovative performance in the service industry.

Organizational Capabilities

Capabilities of a firm do have high impact on its business performance. Regardless of the quality and quantity of resources the firms possessed, firms need to acquire certain capabilities in order to create new values to the product or services with the capital owned. Absorptive capacity has been regarded as the contributor to business excellence and innovative performance whereby internal capability is viewed as complementary with the external collaboration to achieve the expectation. Ari (2005) emphasized that the utilization of external gained knowledge requires organizational capabilities to localize and internalize it, follows by the implementation of new insights and information with the present knowledge base. If a firm is to take advantage of the knowledge possessed, it has to be able to process and embody the information into the processes and outputs. The organizational capability is also known as absorptive capacity that acquires information and knowledge from the externalities and integrate with the existing knowledge to generate new ideas in the business for better performance. According to Anker (2006), other than formalized knowledge learnt, tacit knowledge or firm-specific knowledge is also an important component of innovation from the perspective of absorptive capacity being developed via accumulation of expertise, experience and learning by doing process. Ron and Anne (2007) justified that firms with higher absorptive capacity are expected to perform better since they are well-connected within the knowledge network for the creation and innovation to take place. The capacity of absorption depends on the existing knowledge base and organizational capabilities to digest the knowledge and utilize it internally for the future implementation (Manuel, Manuel and Angeles, 2013). The lacking or inadequacy of organizational capabilities of a firm will obstruct the ability to identify potential ideas from interaction with external knowledge generators. Therefore, it is proposed that:

Proposition 3: Organizational capabilities have a positive relationship with innovative performance in the service industry.

Theoretical Framework

In this review, the proposed determinants of innovative performance in the service industry consist of intellectual capital, market orientation and organizational capabilities. The main element in the intellectual capital relates to human resource management in getting appropriate workforce to contribute towards innovative business performance for company growth. Apart from resources owned, organizational market orientation has to be in line with the objective of the business to achieve innovative performance and allows firm to be more responsive towards market demand. In addition, organizational capabilities are vital for the success of innovative business in playing the role to absorb external knowledge effectively

and forming innovation plan with the integration of internal and external knowledge. Figure 1 shows the proposed theoretical framework in this review.

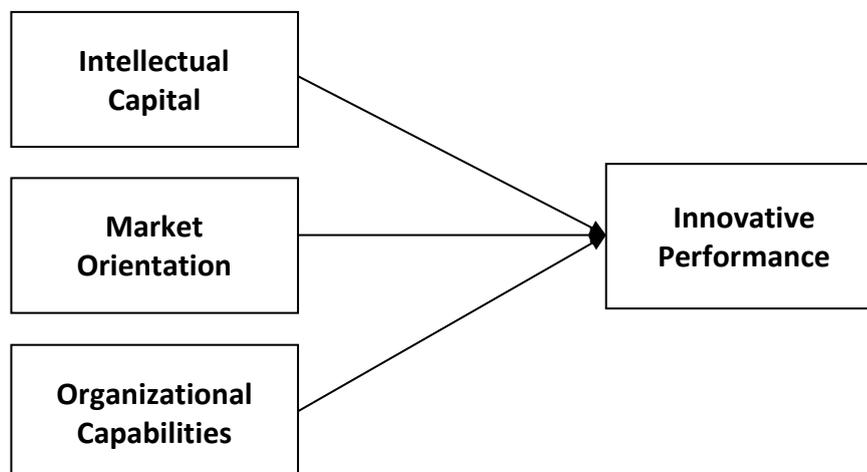


Figure 1: Proposed Theoretical Framework

Research Implications

The service industry is experiencing increasing level of competition and this may impact the business performance of the firms. This review provides a better understanding on the role of innovative performance and what to be done on the determinants in improving innovative performance. In line with the findings of Han and Li (2015), it was revealed that professional intellectual capital is needed for innovative performance. This can be done by conducting staff training and enriching work experience through proper human capital development plan. In addition, market orientation can aid the firms in screening market demand and focus on the needs and expectations of the customers to perform innovatively. Last but not least, organizational capabilities are able to integrate internal capabilities and external knowledge gained to produce successful innovations that position the firms strategically in the market.

Conclusion

It is concluded that this paper has discovered essential factors that are able to predict innovative performance for firms in the service industry. Undoubtedly, service businesses are growing at a rapid rate and contributing to the national economy of those developed and developing countries. In order to make sure that sustainability and survival of the service industry business persist, firms can be innovative in many ways that beneficial to the business. Emphasis should be given to the determinants of innovative business performance such as intellectual capital, market orientation and organizational capabilities. It is recommended that firms should pay attention on the determinants in this paper and implement it within the service industry context. In return, firms will obtain the benefits in terms of possessing the ability to innovate, enhance competitiveness and become the driving force for economic growth in the highly turbulent business environment.

Acknowledgements

The authors would like to thank the Malaysian Ministry of Higher Education and Universiti Teknologi Malaysia (Vot: 14J81) for providing financial support to publish this paper.

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