

TOWARDS A CONCEPTUAL MODEL OF MEASURING THE INFLUENCE OF SERVICE INNOVATION ON BUSINESS PERFORMANCE¹

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ABSTRACT

The purpose of this paper is to develop a conceptual model that can be utilised to measure the influence of service innovation on business performance. The complexity adaptive theory is adopted as an overarching theoretical lens in this paper. A literature review of previous studies on the influence of service innovation on business performance for the period 2010 to 2023 was conducted to achieve the research objective of this paper. This paper argues that the impact of environmental factors in the relationship between service innovation and business performance should not be neglected. Future research directions are provided in this paper.

KEYWORDS: business performance, services, service innovation, service organisation, innovation management

1. INTRODUCTION

According to Cadwallader, Jarvis, Bitner and Ostrom (2010), the concept of service innovation remains loosely defined which triggers a need to explore and reconceptualise it. This view is supported by Toivonen and Tuominen (2009) who point out that it is problematic to define “service innovation”, since there is no common understanding and meaning of the concept. Toivonen and Tuominen (2009) added that the service innovation definition includes an introduction of a new service which can imply invention; and contrasting views persist concerning how innovation should be defined and evaluated. This paper aims to explore various definitions to deal with the vagueness of the concept and further develop a conceptual model that can be tested to determine the influence of service innovation on business performance.

The next section will examine divergent perspectives of service innovation and identify unique and shared characteristics in definitions of service innovation.

2. THEORETICAL BACKGROUND

This section commences by reviewing literature on service definition, service innovation definition, evolution of service innovation and types of innovation to make the current study understandable and meaningful.

¹ This paper is based on the dissertation: Makgopa. S. S. (2020) The influence of service innovation practices on business performance. (Doctoral dissertation, University of Pretoria).

2.1 Perspectives of the concept “service”

The concept “service” needs to be briefly revisited before the concept “service innovation” can be defined. Existing literature uses the difference between services and goods as a basis to define the service through service attributes (Zeithaml, Parasuraman & Berry, 1985; Ding & Keh, 2017). According to Ding and Keh (2017), services marketing literature traditionally characterised intangibility as the most critical distinguishing attribute between services and goods, but in practice service production and consumption often involve intangible and tangible elements. Practical examples of intangible attributes of service include service responsiveness and reliability; while tangible service attributes include the service scope, décor and furnishings. Since the focus of this study is on the service innovation practices of service organisations offering tangible and intangible services, a practical approach is followed which involves tangible and intangible attributes of service such as vehicle sales, maintenance services and spare part sales offered by such organisations (retailers). Service organisations represent car manufacturers at the point of sale and act as a means of continuous contact between motor vehicle manufacturers and their customers who have purchased and taken delivery of their vehicles (Fraser, Watanabe & Hvolby, 2013).

Karpen, Bove, Lukas and Zyphur (2015, p. 90) state that S-D logic provides a service-based view as the main reason for exchange made possible primarily by resources, such as employees knowledge and capabilities, and are realised through value co-creation processes. Market participants combine resources interdependently while determining the value of the related experiences at personal level in terms of personal advancement. For instance, customers interact with service organisations that provide services such as transportation, social status and emotional and sensory experiences. During any interaction with an organisation’s available resources such as employees, websites, and products or services, customers, as network participants, co-create their own experiences by incorporating and potentially turning resources into valuable results. An organisation’s role is to facilitate and enhance customers’ experiences, ultimately benefitting the organisation in a form of knowledge and financial revenues, for example. Therefore, resources and the capabilities of employees are generated in organisational practices and support the reciprocal value creation through mutual service-driving resource deployments. Lusch and Vargo (2014) pointed out that S-D logic presents the main theoretical breakthrough by stressing that the division of goods or services is counter-productive, but with S-D logic, the main change is that service is totally supplier-centric and has now turned into a stakeholder-centric concept that views goods as packaged services.

2.2 Defining service innovation

Durst, Mention and Poutanen (2015) 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. Durst et al. (2015) uncovered that less than 13 research papers conducted in the period 2009 to 2014 focused on service innovation with fragmented definitions of the concept. “Service innovation” is a broad concept that encompasses a considerable number of distinct dimensions.

According to Kindström, Kowalkowski and Sandberg (2013), organisations that aim to manage the complexities associated with service innovation and take complete advantage of the service innovation benefits must attend to the wide range of components related to service delivery. This implies that service innovation is perceived as a multi-dimensional, taking service innovation design and implementation into account. Brown and Osbourne (2013) defined service 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”; Fernandes, Ferreira and Raposo (2013) defined service innovation as the mechanism by which organisations design and launch new products or services, processes and systems necessary to meeting changes both in market. Kuo, Kuo and Ho (2014) defined service innovation as “a new way of business thinking to reform relatively conservative and inflexible operational procedures and processes, which can transform organisations to better meet the needs of their markets”.

When the above definitions of service innovation are taken into consideration, it implies that innovations that are only new to the organisation and not to the market (customers) should not be considered as innovations. However, it should not be ignored that the benefits of innovations for developing organisations are measured in economic value; although this has changed in recent definitions. Lusch and Nambisan (2015) pointed out that some researchers consider service innovation as an outcome or change instead of defining the value from a customer perspective. For the purpose of this study, service innovation will be defined as follows: 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.

2.3 The complexity adaptive theory

According to Levin (1999), the key fundamental inferences arising from the theory of complexity is that order naturally occurs in systems, no matter how simple, complex, non-linear or chaotic the system is. This theory involves choosing the area(s) of competition; setting strategic performance aspirations; or setting the strategic stance in the market, for example; competition strategy being the first mover and fast follower. The new management logic also requires internal processes that facilitate all kinds of emergent processes as self-generated sources of dissipative energy such as improvisation, product or service champions and emergent strategies. In addition, the new management logic requires openness to bottom-up processes and acceptance of effective equational outcomes. In this paper it is argued that managers' perceptions of the implementation of service innovation practices or activities of service organisations can be explored by also taking the business environmental factors that influence the relationship between service innovation practices and business performance into account. This paper supports the theory of complexity by arguing that the complex and dynamic nature of the business environment presents opportunities and threats. However, service organisations are required to evaluate environmental effects differently to make effective sense of the information provided by environment. The argument in this paper is that some environmental factors, such as environmental dynamism and environmental competitiveness, can promote the development and implementation of service innovation activities, while some of these environmental factors may obstruct the effective implementation of service innovation activities and the benefits of service innovation.

3. RESEARCH METHODOLOGY

The principles of systematic review suggested by Jesson, Matheson and Lacey (2011) include mapping the field through a scoping review; a comprehensive search; quality assessment; extraction of data; synthesis and writing-up. In this paper, the researcher started by developing a research plan with a research purpose, research questions, relevant keywords; and developing inclusion and exclusion criteria. The purpose of the paper was to review literature to determine key variables for developing a conceptual model that can be used to determine the influence of service innovation on business performance and the influence of environmental factors between the preceding variables. Articles were selected if their abstracts contained the keyword "service innovation"; "business performance", "environmental competitiveness" and "environmental dynamism" Inclusion and exclusion criteria were outlined: articles published in the period 2010 to 31 May 2023, peer-reviewed academic articles published in English and available on the google scholar. The search was undertaken from 5 October to 31 May 2023, and the review of articles was conducted by reading and identifying variables investigated and summarising the main results. The researcher first read through the abstracts to verify if the pre-defined criteria had been adhered to. Following this procedure, articles were selected and the researcher categorised the results of the studies according to themes which assisted the researcher in developing the definition of service innovation and measures of service innovation where the literature indicates limited knowledge.

3.1 Measuring the influence of service innovation on business performance

Innovation in organisations is viewed to be key ingredient in organisational competitiveness and survival. Sethibe and Steyn (2017) argued that to achieve successful innovation, innovation performance should be measured accurately. Shin, Sung, Choi and Kim (2015) share the same view. They all emphasise that there are several methods for measuring organisational performance and classify these methods into two main categories, namely financial and non-financial performance measurement. Sethibe and Steyn (2017) argue that to measure the financial aspects of organisational performance, researchers could use either accounting-based measures such as profit growth or maximisation, sales growth, return on assets (ROA), return on sales (ROS), return on equity (ROE) and/or ROI; or stock market measures, profit growth or maximisation, growth and non-financial measures include customer satisfaction and retention, market share, competitiveness, reputation, branding and quality. Despite the limitations of financial business performance measures, profit growth or maximisation remains one of the key measures of business performance (Sethibe & Steyn, 2017). Some researchers (e.g. Grisseemann, Plank & Brunner-Sperdin, 2013; Chen et al., 2017) emphasise that innovation brings service innovation within organisations, which leads to improved business performance. In this paper financial and non-financial performance are explored as measures which can be used to determine the influence of service innovation on business performance.

The next sub-sections provide a discussion on previous literature about the relationship between variables that are used to develop hypotheses that can be tested to measure the influence of service innovation on the business performance of organisations, particularly service organisations.

3.2 Service innovation and business performance

In this paper three constructs are identified that can be used to measure business performance, namely financial performance (profit growth/maximisation), organisational competitiveness, and organisational reputation. A brief discussion will be provided on the influence of innovation practices on the constructs leading to the development of hypotheses to be tested in the current study.

3.3 Innovation and financial performance

The relationship between the constructs “service innovation” and “financial performance” (profit growth) is presented in table 1 and subsequently discussed.

Table 1. The relationship between the constructs service innovation and financial performance

Proposed relationship	Authors
Service innovation H1 Financial performance (profit growth)	Al-Ansari et al., 2013, p.166 Dekoulou & Trivellas, 2017 Bigliardi, 2013 Likar et al., 2014

Al-Ansari et al. (2013) conceptualised business performances as the measures that determine how well an organisation manages its internal resources and adapts its external business environment into financial performance which can take the form of increased sales, profit, stock market shares, return on equity and non-financial performance measures such as reputation, competitiveness, branding and quality. The financial measures refer to objective measures such as profit growth, the average sales revenue and market share. Previous studies confirmed the positive influence of innovation on the financial performance of organisations (Bigliardi, 2013; Al-Ansari et al., 2013; Dekoulou & Trivellas, 2017; Makgopa, 2020). Dekoulou and Trivellas (2017) revealed that innovation has a direct influence on customer value; which, in turn, has a positive impact on financial performance. However, Likar et al. (2014) uncovered that the effect of innovation on business performance varied among organisations due to the different positions of organisations in the market. Hristov and Reynolds (2015) revealed that retailers use financial measures such as sales and time-related market share, profit margins and a number of product ranges to measure innovation performances. In another study, Muhamad et al. (2023) argued that innovative work behaviour and organisational commitment contribute towards successful business performance such as increased sales, profits, satisfaction, market share, high productivity, employee loyalty, and low employee turnover. With the mixed findings in the preceding studies taken into account and different authors’ perspective on the impact of innovation in organisations, the question was asked: Does service innovation practices or activities have the same or different influence on financial performance of service organisations? Based on this question, the hypothesis depicted in figure 1 was tested in this study:

H1: Service innovation practices have a significant positive influence on financial performance (profit growth) of service organisations.

3.4 Innovation and organisational competitiveness

The proposed relationship between the constructs “service innovation” and “financial performance” is presented in table 3 and subsequently discussed.

Table 2. The relationship between service innovation and organisational competitiveness

Proposed relationship	Authors
Service innovation H2 Organisational competitiveness	Ferreira, Fernandes & Ratten, 2017 Prajogo, 2016 Bellini et al., 2016

Innovation is accepted as a critical source of competitive advantage; and retail organisations are looking for innovations that can increase their competitiveness (Bellini et al., 2016). Ferreira, Fernandes and Ratten (2017) confirmed that innovation has a positive impact on an organisation's competitiveness; and they further uncovered that the entrepreneur profile proves to be critical to the growth of an organisation, since it triggers entrepreneurial activities and innovativeness. In another study, Prajogo (2016), who affirmed the positive influence of innovation on business performance (competitiveness), also argued that a strategic fit between organisational strategy and the business environment in which the organisation operates is necessary to realise this relationship. Farida and Setiawan (2022) examined and discovered the existence of the positive impact of innovative business strategies on the competitive advantages in small and medium enterprises (SMEs). Considering the findings of the mentioned studies, the question was asked: Does service innovation have a positive influence on the business performance (competitiveness) of service organisations? Based on this question, the hypothesis depicted in Figure 1 was tested in this study:

H2: Service innovation practices have a significant positive impact on the business performance (organisational competitiveness) of service organisations.

3.5 Innovation and organisational reputation

The relationship between the constructs "service innovation" and "organisational reputation" is presented in table 3 and subsequently discussed.

Table 3. Relationship between the constructs service innovation and organisational reputation

Proposed relationship	Authors
Service innovation H3 Organisational reputation	Ferreira et al., 2017 Dekoulou & Trivellas, 2017 Sethibe & Steyn, 2016 Prajogo, 2016 Bigliardi, 2013

Innovation is considered to be the key driver of business performance in terms of profit maximisation, organisational reputation image and the competitive advantage of the organisation on the basis of delivering customer value, providing customer satisfaction and customer loyalty (Ferreira et al., 2017; Dekoulou & Trivellas, 2017; Sethibe & Steyn, 2016; Prajogo, 2016; Bigliardi, 2013). Tehseen and Sajilan (2016, p.32) alluded to organisational reputation, which is an asset in today's highly competitive retail business which needs to be nurtured and maintained over time to achieve competitive advantage in the market. Hristov and Reynolds (2015) uncovered that retailers use non-financial measures such as customer insight, brand track and store image to measure innovation performances. Sethibe and Steyn (2017, p. 4) affirmed that an increase in market share, reputation image, branding, customer satisfaction and increased productivity are the most popular non-financial-based measures of organisational performance. With the findings of the preceding studies and the impact of innovation on the reputation of organisations taken into account, the question that was asked is: How does service innovation have the positive or contrasting impact on the reputation of service organisations? Based on the above question, the following hypothesis was developed and tested in the current study:

H3: Service innovation practices has a positive influence on service organisations' organisational reputation.

3.6 Moderating role of business environmental factors

In the current study, two environmental constructs are used to determine their moderating role in the relationship between service innovation practices and the business performance of service organisations. Therefore, the next subsection presents a discussion derived from previous literature on the moderating role of these constructs leading to the development of two hypotheses tested in the current study.

3.7 Moderating role of environmental dynamism and environmental competitiveness

The proposed moderating role of environmental dynamism and environmental competitiveness in the relationship between the constructs "service innovation" and "organisational performance" is presented in table 4 and subsequently discussed.

Table 4. The moderating role of environmental factors (environmental dynamism and environmental competitiveness)

Proposed relationship	Authors
Service innovation H4 Environmental competitiveness organisational performance	Prajogo, 2016, p.242. Omri, 2015, p.200.
Service innovation H5 Environmental dynamism organisational performance	Perez-Luño, Gopalakrishnan & Cabrera, 2014, p.500.

Prajogo (2016) revealed that managers should seek to maintain a match between the innovation strategies of organisations and the conditions of their environment, such as environmental dynamism and environmental competitiveness, since these factors in the external environment can moderate the relationship between the innovation strategies and performance of organisations. Omri (2015, p. 200) pointed out that organisational performance does not only depend on innovation strategy, but also on environmental conditions, such as environmental dynamism and environmental competitiveness. Environmental dynamism involves the level of volatility or instability and uncertainty due to continuous changes in a business environment in which the organisation operates and environmental competitiveness refers to the intensity of competition in the business environment in which the organisation operates which is characterised by price wars, tight profit margins and tight cash flows brought by strong competitors (Prajogo, 2016, p. 242). Omri (2015, p. 201) revealed that environmental dynamism has a negative interacting effect on innovation output and organisational business performance.

In another study, Perez-Luño, Gopalakrishnan and Cabrera (2014) postulated that the environmental dynamism and competitive business environments push organisations to initiate innovations in their main businesses; and this environmental dynamism has been proven to have a more significant influence on innovation, considering that quick change and uncertainty require rapid organisational response and adaptation which can be addressed by innovation. With the findings of the preceding studies on the impact of environmental factors in the relationship between innovation activities (product and process innovation) on the business performance in organisations taken into account, the following question was asked: Do business environmental factors (environmental dynamism and environmental competitiveness) influence the relationship between service innovation practices and business performance of service organisations? Based on the above question, the following hypotheses were developed and tested in the current study:

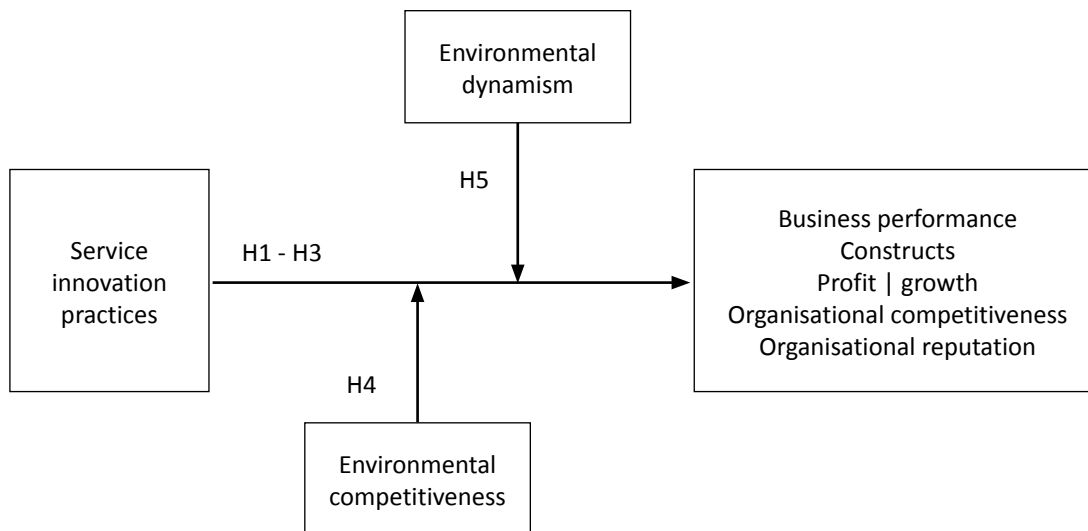
H4: Environmental competitiveness moderates the relationship between service innovation practices and business performance such that the higher the environmental competitiveness the weaker the relationship between service innovation practices and business performance of service organisations.

H5: Environmental dynamism moderates the relationship between service innovation practices and business performance such that the higher the environmental dynamism the stronger the relationship between service innovation and business performance of service organisations.

The next section provides a literature theoretical model derived from the literature.

3.8 Literature conceptual model development

Figure 1 on the next page illustrates the literature conceptual model in that it shows all the variables used for hypotheses development. There are six research variables, namely, service innovation (practices), business performance (profit growth, competitiveness, and organisational reputation) and environmental factors (environmental competitiveness and environmental dynamism) which can be used in hypotheses testing to address the research question: to determine the influence of service innovation practices on business performance (profit growth, organisational competitiveness, and organisational reputation) of service organisations. Therefore, service innovation practices are considered to be a predictor variable and business performance (financial performance, organisational competitiveness, and organisational reputation) are dependent variables to address second research objective, namely, to examine the role of environmental dynamism and environmental competitiveness as factors that affect service innovation practices in delivering business performance of service organisations. Thus, environmental competitiveness and environmental dynamism can be used as mediating or moderating variables.

Figure 1. Variables and constructs

4. DISCUSSIONS AND CONCLUSIONS

As discussed in the preceding section, previous studies argued that organisations that consider the adoption and implementation of service innovation, which is highly valued by customers, tend to have high organisation competitiveness, organisational reputation and maximise profitability (Dekoulou & Trivellas 2017; Al-Ansari et al., 2013; Bigliardi, 2013). Dekoulou and Trivellas (2017) uncovered that innovation has a direct influence on customer value; and, therefore, has a positive influence on financial performance. However, Likar et al. (2014) uncovered that the effect of innovation on business performance can differ among organisations due to the different positions of organisations in the market. This paper argues that by increase innovative activities service organisations can improve service innovation that brings more value for customers, achieving higher business performance (financial and non-financial business performance). In addition, this paper argues that the influence of service innovation on business performance tend to be moderated by environmental dynamism and environmental competitiveness. Prajogo (2016) revealed that managers should strive to maintain a match between the innovation strategies of organisations and the conditions of their environment, such as environmental dynamism and environmental competitiveness, since these factors in the external environment can moderate the relationship between the innovation strategies of organisations and their performance. In another previous study, P´erez-Lu˜no et al. (2014) postulated that the environmental dynamism and competitive business environments push organisations to initiate innovations in their main businesses, and environmental dynamism has been proven to have a more significant influence on innovation.

5. MANAGERIAL IMPLICATIONS

This paper on service innovation contributes to understanding what a service innovation is. Secondly, it assists managers of service organisations in measuring the influence of service innovation on business performance, emphasising the importance of the moderating role of the environmental factors of the mentioned variables, particularly environmental dynamism and environmental competitiveness. Sharing a general view of service innovation in this paper contributes to theory building on the concept and research to use service innovation in a practical way without ignoring the environmental factors in which service organisations operate.

6. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The current paper has certain limitations. Like other literature reviews in marketing and service management, the study included papers published in academic journals and excluded books and conference papers that could have been relevant. In addition, the study only included research on innovation, service innovation, business performance, environmental competitiveness and environmental dynamism, using our selected search terms in the title, abstract, or keywords. In

particular, this limitation could affect the sample of articles used to arrive at the conclusion of this paper. The literature on innovation might use other related terms, particularly on environmental factors, such studies as environmental instability and market competitiveness, are not included; the paper instead focused solely on articles that define the concept of service innovation. As a result, many articles that do not explicitly define service innovation are not included. In order to advance understanding of service innovation, further research should address these identified shortcomings.

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PREMA KONCEPTUALNOM MODELU MJERENJA UTJECAJA INOVACIJE USLUGA NA POSLOVNI UČINAK²

SAŽETAK

Svrha ovog rada je razviti konceptualni model kojeg je moguće koristiti za mjerenje utjecaja inovacije usluga na poslovni učinak. Teorija adaptivne složenosti usvojena je kao sveobuhvatni teorijski fokus u ovom radu. Kako bi se postigao cilj istraživanja u radu, proveden je pregled literature prethodnih studija o utjecaju inovacije usluga na uspješnost poslovanja za razdoblje od 2010. do 2023. godine. U ovom se radu tvrdi da se ne smije zanemariti utjecaj okolišnih čimbenika na odnos između inovacije usluga i poslovne uspješnosti. U radu su prikazani budući smjerovi istraživanja.

KLJUČNE RIJEČI: poslovni učinak, usluge, inovacija usluga, organizacija usluga, menadžment inovacija

² Ovaj rad proizašao je iz doktorske disertacije: Makgopa. S. S. (2020) The influence of service innovation practices on business performance. (Doctoral dissertation, University of Pretoria).