

## Service Innovation and Firm Performance of SMEs auto service: the mediating role of Pricing Capability

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### ABSTRACT

The purpose of this paper is to examine service innovation, pricing capability and firm performance of SMEs auto services, with service innovation (Independent Variables), pricing capability (mediating variable) and firm performance (Dependent Variable). Quantitative research principles were adopted where each of the path between the three variables were measured with co-efficient value ( $\beta$ ) after controlling firm age, firm size and firm form. A total number of 200 service operators participated using convenience sampling technique. The results showed that firm performance is influenced by both service innovation and pricing capability and that pricing capability mediates the relationship. The authors highlight the convenience nature of gathering data and the fact that the study was conducted in in a single city. This study contributes to the existing and growing literature on pricing capability and how it can moderate the relationship between service innovation and firm performance. The study opens up a research in an interesting area of the SMEs auto services industry in the context of a developing country.

**Keywords:** service innovation, pricing capability, firm performance, SMEs

### INTRODUCTION

Previous studies on firm performance have identified different predictors within the framework of internal capabilities of the firm. Laursen and Salter (2006); Craig and Dibrell, (2006); Artz *et al.* (2010); Li and Atuahene-Gima (2011) have all studied innovation and firm performance in different dimensions. In most of such studies, innovation capabilities have been found to strongly predict the outcome of firm performance. Existing literature on firm performance indicators has been the ultimate outcome variable of what many researchers in management is concerned with (Erhardt *et al.*, 2003). Competitive markets for customers, capital and input make firm performance significant to the long term success and survival of contemporary business operations (Hitt *et al.*, 1998). As a result, firm performance has assumed a central focus as the ultimate goal of contemporary industrial operations (Aulakh *et al.*, 2000). Business operations, marketing and strategies are all ultimately recognized for their contribution to performance of firms (Srivastava *et al.*, 1999). Measuring and estimating firm performance is significant in allowing management professionals and researchers to analyse the particular actions of organizations (Allen and Helms, 2002). Management researchers Elbashir *et al.* (2008) have found that such measurement ensures where organizations stand in relation to their rivals and how organizations develop and perform in the future. Its

significance as the core outcome criterion is exhibited in its continuing use as the dependent variable in management research (Terziovski, 2010; Donkor *et al.*, 2018).

An analysis of the operationalization of the performance of firms demonstrates the lack of effectiveness of widely accepted practices for measuring the multidimensionality concept of firm performance (Hansen and Wernerfelt, 1989; Hult *et al.*, 2008).

Providing solutions to these findings according to Dalton *et al.* (2003), demand management researchers to (1) possess a strongly theoretical rationale on the operationalization of firm performance. It means a theoretical proposition establishing specific measures appropriate in the context of the research (2) depend on the strongly theories as to the characteristic nature of the measurement. This means a theory indicating the type of measures should be linked and the approaches for doing so. The question therefore is what evidence is that even with a limited domain, business performance is not a theoretical construct that can be considered one-dimensional nor is it possibly to be characterized with a single operationalized measure. Callen (1991) explain that although the multidimensionality of the performance of firms is well noted in accounting and finance (Henri, 2004) and has been described in management literature (Venkatraman and Ramanujam, 1986), empirically, the inconsistency in measuring performance of firms in management has resulted in surprising multi-dimensional variables as measuring tools. Issues of organizational capability have been mentioned regarding the ability of the firm to reach its highest performance levels. The value generated by the organization through innovation and organizational capability in pricing have also been found in literature (Knight and Cavusgil, 2004).

Few studies have been conducted to measure service innovation and firm performance and pricing capability and firm performance. Still searching for appropriate internal capabilities predictors for firm performance, this paper uses service innovation as a predictor variable and pricing capability as a mediating variable to determine the performance of SMEs auto service providers.

### **SERVICE INNOVATION AND FIRM PERFORMANCE**

The issues regarding innovations have long been considered a multidimensional variable which measures the transformation cause by the innovativeness in the organization, in the market and knowledge base and the entire business environment. Creation of value systems and in the industry concern (Avlonitis *et al.*, 2001; Danneels & Kleinschmidt, 2001; Garcia & Calantone, 2002; Salomo *et al.*, 2007; Schultz *et al.*, 2007). Changes that are significant in the industry dimensions relate to areas including generating new consumer benefit, changes in how services are handled (Schultz, 2009) and attending to new consumer groups; the advancement and knowledge dimensions, in contrast measured to the applications of new technology and competences.

Service innovation can gather strategic, process of structural changes in the organization which put together in the organizational dimensions (Armbruster *et al.*, 2008). The aggregation of new value additions and the establishment of additional external procedures are also significant in such a context (Stern, 2000)

Establishing new technologies and changing regulatory restrictions according to Stern, (2000) are within the environment dimensions. Schmickl and Kieser (2008) explain that the larger the transformations are for the organization in each framework, larger the innovations within the continuum from incremental innovation to radical based innovations. The difference between

incremental innovations and radical based innovation is complemented by descriptions of architectural and modular innovations (Laursen and Salter, 2006). While modular innovation consists of changing personal service or product elements, architectural based innovation considers on transformation in how elements are put together (Henderson & Clark, 1990; Gatignon *et al.*, 2002). Innovation frameworks demonstrate particular characteristics of innovations in services and explained by different dimensions; (a) the type of procedures which is describe by research and development, adhoc, and practical driven (b) innovativeness, which demonstrate the extent of transformations in the innovation creates externally and internally (Oke, 2007). Based on innovativeness framework and the services sector, (Drejer, 2004) explain that innovations in service signify distinct and personal features, which help to realize contextual constraints.

A number of studies on innovation and performance have indicated financial and non-financial performance as significant dependents of innovation (Otero-Neira *et al.*, 2009; Grawe *et al.*, 2009). Thus, this study focused on non-financial and financial performance indicators as core outcome variables. Measurements of non-financial and financial performance are gathered from scales used in previous studies (e.g Akimova, 2000; Mahmoud, Kastner and Yeboah, 2010). The financial performance employed into the service firms providers estimation of their organization's earnings, sales volume, market share, ROI and cash flow in relation to the competitors (Chen, Cheng and Hwang, 2005). The non-financial performance employed into employee satisfaction, service quality and customer satisfaction relative to their competitors (Prieto and Revilla, 2006).

Mone, McKinley, Barker (1998) found that innovation capabilities are the most significant determinant of business performance, a result corroborated by many empirical findings (see, Cooper, 2000; Cooper and Kleinschmidt, 2007). Literature on diffusion of innovation also validates this view (Rogers, 1995) and suggests that businesses must implement innovations to achieve a competitive advantage for survival (Li and Calantone, 2002). Nevertheless, the relationship between business innovativeness and performance has been a continuous subject for management research (Hughes and Morgan, 2007). It can be hypothesized;

### **PRICING CAPABILITIES AND FIRM PERFORMANCE**

Available study on the concept of pricing capability is very limited, not only in terms of the number of published academic papers but also in terms of the research methods used to explore the concept. Dutta *et al.* (2003) explained the significance of pricing capability in the context of organizational capabilities, described it as a set of complex frameworks, systems, skills, coordinated mechanisms, complementary resources and know-how, in improving performance of companies. Pricing capability has been referred to on one side, the pricing formation capability within an organization (Stuart, 2000) which includes monitoring competitors pricing, determining pricing strategy, transferring from pricing strategy to price and on the other hand, to the pricing formation capabilities vis-à-vis consumers, thus convincing customers on pricing-change logic, negotiating pricing changes with major consumers. In this and future research frameworks, pricing capability were considered to be significantly related to performance of companies (Dutta *et al.*, 2002; Dutta, 2003; Berggren and Eek, 2007)

The marketing capabilities literature, by contrast, includes price as one of the market-related dimension used to determine and quantify marketing capabilities (Hallberg, 2008). In this instance, scholars use surveys based quantitative principles to document a significant link between pricing capability which is a subset of marketing capability and performance of firms (Vorhies and Morgan, 2005; Morgan *et al.*, 2009). Kemper *et al.* (2011) applied the following

measuring instrument and scale to define pricing capability: (1) applying systems and skills on pricing to respond rapidly to changes in the market place; (2) studying competitors' tactics on pricing; (3) pricing services effectively and monitoring competitors pricing and price changes. Further research (Zou Fang and Zhao, 2003) on performance indicators of Chinese exporters used similar scales which confirmed that there is relationship between pricing capability and performance of firms. All these empirical findings explored and measured pricing capability a bigger subset of marketing capability instruments such as market communication, selling, channel management, market information management, product development, marketing implementation and marketing planning (Vorhies and Morgan, 2005) and also other capabilities. It is therefore not surprising that the construct "pricing capabilities" in this stream of research has limited number of items for measurements. In other words, the use of three or four item scale of pricing capability may risk underestimating the complex nature of pricing capability in organizations (Liozu, and Hinterhuber, 2014). Hallberg (2008) explored the concepts of pricing capability by researching their strategic dimension in companies. Hallberg (2008) continued the suggestions by Dutta *et al.* (2003) by claiming that some economic outcomes are connected to some components of an organization's pricing capability. The conclusion was that an organization's pricing capability influence its value appropriations through three economic principles; price discrimination, price elasticity and operating leverage. Still in search of the concepts and the dimensionality of pricing capability, Murray *et al.* (2011) uncover critical frameworks of pricing capability and frame a dimension for estimating and improving the pricing capability of firms. The growth of distinctive strategic price capabilities and the implementation of strategic resource to improve the capability can result in better decisions in pricing, larger capital for the organization and greater advantage of competition in the business environment (Dutta *et al.*, 2002). Organization well establish pricing orientations applying advanced methods in pricing have a bigger capacity to formulate and implement standard pricing programmes and frame pricing approaches to help in the processes towards decision making (Liozu and Hinterhuber, 2013). The existence and implementation of these capabilities in pricing, whether informal or formal (Dutta *et al.*, 2003), brings greater confidence in organizational pricing operations, rationality in decision making and firm performance when linked with other marketing capability (Vorhies and Morgan, 2005). While pricing literature has demonstrated a particular association between capabilities in pricing and performance of firms, we conjecture this relationship is strong and positive in the SMEs auto service industry.

## HYPOTHESIS

Previous studies suggest that SMEs that innovate and effectively demonstrate pricing capabilities are able to achieve higher levels of performance. Based on the review and discussion of extant literature, the study hypothesis that:

**H1:** Firm performance will significantly be influenced by the service innovation

**H2:** Service innovation significantly influences the level of pricing capability.

**H3:** There is a positive relationship between the firm performance and pricing capability

**H4:** Pricing capability mediates the relationship between the service innovation and firm performance

## METHODOLOGY

### Study Population and sampling

The population for this study comprised of all SMEs auto service providers in Ghana including auto mechanics and auto electricians who provide a wide range of vehicle services to their clients. In selecting a sample, two main techniques have been recommended in literature including probability sampling methods and non-probability sampling methods. In the

probability sampling method, all the members within the population have an equal chance of being selected through the use of a sampling frame. In this work, a non-probability sampling method was used due to the difficulty of obtaining an official list of SMEs auto services providers both in a single point location and cluster location. In particular, convenience sampling approach was used to select 200 hundred SMEs auto service providers to participate in the study. A convenience sampling approach allows the researcher to select members who were willing to participate in the study.

### **Questionnaire and scale development**

The study employed questionnaires as the main instrument to gather the relevant data from the SMEs auto services providers. The questionnaires were designed and employed with regards to measures adopted by authors in measuring similar construct in their studies, and also structured to reflect significant direct of the study. The questionnaire was measured scales for all the variables; independent variable (service innovation), mediating variable (pricing capability), dependent variable (firm performance) and control variables (firm size, firm age, firm form). Verbal consents were sought from respondents before questionnaires were administered.

**Service innovation.** Items scale on service innovation constructs found in existing literature (Roger *et al.*, 2002; Bettencourt, 2010) was used as a measuring instrument. Suggestion by previous studies were all considered in arriving at the items for measuring service innovation. Technical innovations involve the transformation of knowledge and skills in the auto services. Operational innovations involve the ability of the firm to improve in their relationship with customers and the appreciation of customer orientation principles. The items were scaled from "1" less improved to "7" very much improved. In all the study used eight (8) items to represent service innovation with a Cronbach's alpha 0.894.

**Pricing capabilities.** A multi-item scale was developed by the researcher based on the operational definitions as recommended by Kerlinger and Lee (2000) and also by depending on available literature (Dutta, 2003; Hellberg, 2008). The items used in the study ranges from much worse than competitors '1' to much better than competitors '7' to define the scale. The scale provided high reliability ( $\alpha = .0801$ ) for the 8 items used for measuring pricing capability.

**Firm performance.** Based on previous studies subjective assessment of the company performances were used (Simsek, 2007; Ingenbleek, 2007; Morgan *et al.*, 2009) following the widely adopted means of asking service providers to describe their firms' performance to that of competitors based on 8-items for a specific period. Firm performance construct was therefore measured on items such as return on sales (ROS) growth in sales (GIS), return on investment (ROI). The scale ranged from much worse '1' to much better 7 than competing firms. Internal consistency test was conducted to screen the items for measuring firm performance. A Cronbah's Alpha value  $\alpha = 0.798$  was recorded for measuring firm performance.

**Control variables.** For the purposes of effectively measuring the performance of SMEs auto services industry the study identified organizational based factors that have the capacity to influence the outcome of performance indicators. The study therefore controlled for firm characteristics such as size of firms which was measured as the total number of employees (Amburgey and Rao, 1996). The period of years participants have been operating their business (firm age) and the nature of ownership of the respondents business (firm form) was also added as control variables in the study model.

## RESULTS

The results show that most of the respondents were sole proprietors representing 53.7% of the active participants. This is followed by family business operators 42%. Reports show that the respondents express a high performance indicators (mean = 5.791, SD = 0.7931); however, with the standard deviation of 0.7934 demonstrate a variation in the views concerning the firm performance. Focusing on service innovation, again, results show that there is high variation in service providers' views concerning acquiring new customers, providing customer satisfaction, growth in total revenues, increased profitability and improve time it takes to serve customers. The standard deviation for service innovation (SD = 0.939) confirm the variation in service innovation in terms of these issues. Table 4.1 also gives a report that the level of pricing capability among the sample auto service provider quite high (mean = 5.258, SD = 0.0354). Interestingly the standard deviation of 0.0354 shows little variation among service providers concerning perception about pricing capability. Given this report, it will be very instructive to find out the relationships between firm performance, pricing capability and service innovation.

### Regression Analysis and Hypothesis Testing

The second part of the analysis focuses on examining the relationship between willingness to pay, perceived risk and customer characteristics whiles testing the study hypotheses. However, before such regression analyses are conducted it is important to find out first, if there is any correlation between the variables. Table I reports the results of the correlation statistics. It is showed that there is positive correlation between firm performance and service innovation ( $r = 0.294$ ,  $p < 1\%$ ). According to the correlation results, firm age has a positive correlation with firm performance ( $r = 0.546$ ;  $p < 1\%$ ). Similarly, a positive correlation was identified between firm size and firm performance ( $r = 0.612$ ;  $p < 1\%$ ). However, firm form was negatively related to firm performance ( $r = -.102$ ;  $p < 1\%$ ).

Furthermore, the correlation outcome indicates that there is positive relationship between firm performance and pricing capability ( $r = 0.369$ ;  $p < 1\%$ ). This suggests that when the level of pricing capability increases the performance firms. This also implies that when service develops capability in their pricing; they are likely to benefit from improved performance of their business operations.

**Table I: Correlational analysis**

	1	2	3	4	5	6	7
1 Firm age	1.00						
3 Firm size	.368**	.325**	1.00				
4 Firm form	.126	-.301**	-.554**	1.00			
5 Service Innovation	.258*	.015	.256*	-.222*	1.00		
6 Pricing capability	.136	.451**	.201*	-.562**	.236**	1.00	
7 Firm performance	.546**	.612**	-.102	.188	.294*	.369**	1.00

Note: \* $p < .05$  (2-tailed test); \*\* $p < .01$  (2-tailed test)

In what follows, the study attempts to estimate the path relationships and provide answers to the key questions of the research work. This is done through the use of multiple linear regression analysis. The results of this multiple regression analysis are presented on Table II whereas the proceeding discussions of results are conducted in accordance to the research objectives for simplicity and easy understanding.

**Table II: Multiple Regression Results**

	Variable	Coefficient ( $\beta$ )	Standard Error	t-Value
<b>Model 1</b> <b>Pricing capability</b> (R-sq. = 0.153)	Firm age	.023	.014	1.643
	Firm size	.066	.044	1.500
	Firm form	-.426	.236	-1.805
	Service innovation	.512	.145	3.531
	Constant	1.325	.654	2.026
<b>Model 2</b> <b>Firm Performance</b> (R-sq. = 0.097)	Firm age	.109	.112	0.973
	Firm size	-.031	.025	-1.240
	Firm Form	-.365	.225	-1.622
	Service Innovation	.423	.206	2.053
	Constant	1.745	.312	5.593
<b>Model 3</b> <b>Firm Performance</b> (R-sq. = 0.108)	Firm age	.099	.068	1.456
	Firm size	-.016	.256	-0.063
	Firm Form	-.215	.325	-0.662
	Pricing Capability	.698	.126	5.540
	Constant	2.365	.965	2.451
<b>Model 4</b> <b>Firm Performance</b> (R-sq. = 0.157)	Firm age	.029	.027	1.074
	Firm size	-.111	.105	-1.057
	Firm form	-.716	.556	-1.288
	Service Innovation	.388	.108	3.130
	Pricing Capability	.333	.126	2.180
	Constant	2.365	.965	2.451

This investigation into *service innovation and pricing capability* was performed with the estimation of model 1 which also controls for operational attributes of the service providers including the firm size, firm age and firm form. The results as shown on Table II above show that service innovation has a strong positive effect on pricing capability ( $\beta = .512$ ; T-ratio = 3.531;  $p < 1\%$ ). Meanwhile, the results show that firm form has a strong negative effect on pricing capability ( $\beta = -.426$ ; T-ratio = -1.805;  $p < 10\%$ ). Based on these results **hypothesis 2** which states that service innovation significantly influence the level of pricing capability is supported. The R-squared which represents the percentage of variations in pricing capability explained also demonstrates that 15.3% of the difference in pricing capability is explained by the independent variables.

Furthermore, the study attempted to find out the *relationship between service innovation and firm performance*. This investigation was performed with the estimation of model 2 whilst controlling for firm size, firm age, and firm form. The results as shown on Table 4.3 above show that service innovation has a strong positive effect on firm performance ( $\beta = .423$ ; T-ratio = 2.053;  $p < 5\%$ ). The result of the study did not find any strong relationship between firm age ( $\beta = .109$ ; T-ratio = 0.973;  $p > 10\%$ ), firm form ( $\beta = -.365$ ; T-ratio = -1.622;  $p > 10\%$ ), and firm size ( $\beta = -.031$ ; T-ratio = -1.240;  $p > 10\%$ ) on firm performance. The report is however, adequate to warrant the acceptance of **hypothesis 1** which indicates that firm performance will significantly be influenced by the service innovation. The R-squared which represents the percentage of variations in pricing capability explained also demonstrates that 9.7% of the difference in pricing capability is explained by the independent variables.

Following the report of the previous analysis, it was found prudent to find out *the relationship between pricing capability and firm performance*. This investigation was performed with the estimation of model 3. The results as shown on Table II above show that there is a strong positive relationship between pricing capability and firm performance ( $\beta = .698$ ; T-ratio = -

5.540;  $p < 1\%$ ). This confirms the general notion that when pricing capability is high, firm are to improve their performance. **Hypothesis 4** which suggests that there is a positive relationship between the firm performance and pricing capability consequently supported by the findings of this study. Meanwhile, the results did not reveal any strong influence of firm age of service providers ( $\beta = .099$ ; T-ratio = 1.456;  $p > 10\%$ ), firm form ( $\beta = -.215$ ; T-ratio = -0.662;  $p > 10\%$ ), and firm size ( $\beta = -.016$ ; T-ratio = -0.063;  $p > 10\%$ ) firm performance. The R-squared obtained for model 3 shows that 10.8% of the differences in pricing capability is explained by the independent variables.

The final line of analysis focused on *the mediating role of pricing capability in the relationship between service innovation and firm performance*. This inquiry is pursued with model 4 which explores the effect of service innovation on firm performance controlling for the mediating variable pricing capability. The report show that pricing capability still has a strong positive relationship with firm performance ( $\beta = .333$ ; T-ratio = 2.180;  $p < 5\%$ ); further supporting **hypothesis 3**. In terms of the effect of service innovation, it is revealed service innovation has a positive influence on firm performance ( $\beta = .388$ ; T-ratio = 3.130;  $p < 5\%$ ); also, confirming hypothesis 1. Meanwhile, according to Baron and Kenny (1986) to confirm mediation, three principles must be met. First, the independent variable (service innovation) must have a significant relationship with the mediator variable (pricing capability). Secondly, the mediator variable (pricing capability) should be related to the dependent variable (firm performance) and thirdly the inclusion of mediator variable should cause a significant change in the effect of the independent variable (service innovation) on the dependent variable (firm performance) such that the effect of service innovation on firm performance will be insignificant; for full mediation or alternatively the inclusion of the mediator variable should cause a slight but insignificant change in the effect of the service innovation on firm performance; for partial mediation.

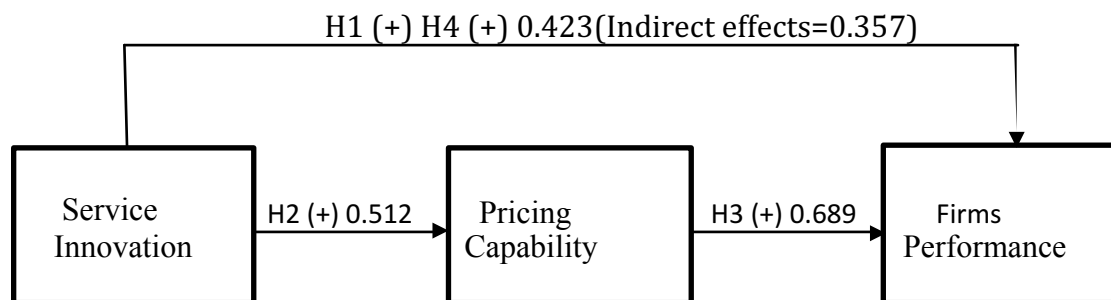
Based on these criteria, it is concluded that pricing capability partially mediates the relationship between the service innovation and firm performance. This is because service innovation was revealed to have a positive and significant relationship with pricing capability as revealed by the results of model 1 ( $\beta = .512$ ; T-ratio = 3.531;  $p < 1\%$ ). Thus, the first criterion is met. Secondly, there is adequate evidence to suggest that pricing capability has a significant positive effect on firm performance ( $\beta = .698$ ; T-ratio = 5.540;  $p < 1\%$ ). This also gives indication that the second criterion has been met. Meanwhile, service innovation have a significant relationship with firm performance ( $\beta = .423$ ; T-ratio = 2.053;  $p < 5\%$ ); however, controlling for the effect of the mediator variable, pricing capability, as shown by model 4; the positive effect of service innovation on firm performance is slightly reduced ( $\beta = .388$ ; T-ratio = 3.130;  $p < 5\%$ ). The implication is that the inclusion of the pricing capability has caused a change in the effect of service innovation; although insignificant. Hence pricing capability partially mediated the relationship between service innovations and firm performance. The indirect effect of service innovations through pricing capability can be calculated as 0.357 ( $0.512 \times 0.698$ ). Given this, hypothesis 4 is also supported.

Table III tabulates the results of the hypothesis tests. It is revealed that all the four study hypotheses were supported.



**Table III: Summary of Hypotheses Test Results**

Code	Statement	Result	Remarks
H1	Service innovation → Firm performance	( $\beta = .423$ ; $p < 5\%$ );	Accept
H2	Service innovation → Pricing capability	( $\beta = .512$ ; $p < 1\%$ )	Accept
H3	Pricing capability → Firm performance	( $\beta = .698$ ; $p < 1\%$ ).	Accept
H4	Service innovation → Pricing capability → firm performance	( $\beta = .357$ ; $p < 5\%$ )	Accept

**Figure 1: Plot of Mediation Results**

### DISCUSSION OF RESULTS AND IMPLICATION

This research was motivated by the fact that firm performance in the SMEs service sector has been a widely-misunderstood concept in academia given the difficulty practitioners and academicians face in explaining how performance is measured among service practitioners. Again, there is a general lack of understanding of SMEs auto services performance indicators and how service innovation and pricing capability influence such performance indicators in the literature. Although there have been a number of researchers who have attempted to present empirical evidence to broaden understanding; such a survey has been restricted to only regulated markets where there are standards and regulatory mechanisms to determine innovation drivers, pricing capability dimensions and firm performance. The research on unregulated markets is relatively limited and even more in dearth is research on the SMEs auto service industry. The current study therefore focused on SMEs auto services industry in Ghana in order to contribute to the growing understanding on service innovation, pricing capabilities and firm performance in unregulated markets. The multiple linear regression technique was used to analyse the data and hypothesis tested. The results of the study have confirmed that innovations (Otero-Neira *et al.*, 2009; Grawe *et al.*, 2009), pricing capability (Liozu and Hinterhuber, 2013) and performance indicators are important in the service industry and must be thoroughly investigated and understood; if service practitioners intend to be successful in the industry. The findings of the study have also confirmed results by Dutta *et al.* (2003) that pricing capability is also critical to understanding the performance indicators of service providers even in the SMEs auto services industry. Practitioners have therefore focus on these issues in order to determine performance in the industry. The results of this study have shown that firm performance is really dependent on drivers of service innovations and pricing capability dimensions of the SMEs auto service providers. This is interesting given the fact that most researchers, Laursen and Salter (2006); Craig and Dibrell, (2006); Artz *et al.* (2010); Li and Atuahene-Gima (2011) and practitioners have found and use a wide range of predictors to define firm performance.

The implication of this result is very vital for SMEs auto service delivery; as it suggests that the need for improved innovations in service delivery and pricing capability for purposes of

increasing performance indicators and reduced uncertainties in the industry. This is important as the evidence shows that service innovation and pricing capability have a positive influence on firm performance. There is also theoretical implication as grounds have been set for continuous development of research interest in the field of SMEs auto services.

### **SUGGESTION FOR FUTURE STUDIES**

In order to demonstrate the significance contribution of service innovation, pricing capabilities to performance of SMEs auto service sector, the current study provides some interesting findings as discussed in previous sections. Further studies are still required to address limitations and areas of importance this study could not investigate. This will further the understanding of service innovations and pricing capabilities in the context of the SMEs service sector.

First, it is suggested that future research investigates the balances required and the value likely to realize from a detail and thorough study of each of the variables. This means that a detail study can be conducted into the various service innovation components (technical service innovation and operational service innovation) and firm performance. Also because much has not been found in the SMEs auto service sector, a future research should focus on a comprehensive appraisal of pricing capabilities and firm performance.

Second, while the current study focus on service innovations and pricing capability to determine firm performance, future studies should concentrate on the service innovations and other forms of capabilities such as managerial capability and strategic planning with the SMEs auto service industry. Since services are unique in terms of its characteristics (intangibility, perishability, inseparability, lack of ownership), studies on other forms of internal capabilities can generate a more rigorous means of appreciating the performance level of the industry. Studies on the characteristics of SMEs auto services and firm performance can also add to the search for firm specific factors that define internal capabilities and firm performance.

Another area of great concern in the service innovation literature is how it complements the effort of service quality and servicescape in defining internal capabilities. It is important to note that service innovations is still fairly broad concept and cover different dimensions and occupy different areas of involvement. This may include moderating other concepts such as service quality and servicescape in determining the direction of firm performance of the SMEs service sector.

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