

## The effect of service innovation, corporate image, human capital strategy and customer loyalty on performance: Evidence from rice industry

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### ABSTRACT

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The current study purpose is to investigate the effect of service innovation, corporate image, and human capital strategy and customer loyalty on performance for small and micro community enterprise of rice products in central northeast Thailand. For this objective, researchers applied the quantitative research approach and used the cross sectional research design. To obtain data, the researchers distributed questionnaires directly and online to respondents which were small and micro community enterprise of rice products in central northeast Thailand for 1 month from the beginning of September and obtained valid answers totaling 320 responses, which then we chose to be the sample in this study. The Structural Equation Modeling (SEM) results show that corporate image had a positive and significant relationship with the human capital strategy. In the same vein, the customer loyalty had also a positive and significant relationship with the human capital strategy. Further findings show that service innovation had also a positive and significant relationship with the human capital strategy. Moreover, service innovation, corporate image, customer loyalty had also a positive and significant relationship with the business performance. On the other hand, human capital strategy had also a positive and significant relationship with the business performance. Based on these findings, the current study could provide researchers and policy makers to know about the importance of all predictors to increase their business performance.

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### 1. Introduction

In the current environment, services as well as innovations services remain viewed as one of the most important economic development factors and growth engines (Morrar, 2014). Economies which were once classified like industrialized nations, dominated with the manufacturing industry, are now modernizing and depending more heavily on services (Khan, 2013). As a result, Services increasingly dominate developed economies (Wang et al., 2015), accounting for up to 70% of GDP in OECD nations that are continuing to expand (Gallouj & Windrum, 2009). Service innovation is widely recognized as a source of economic growth and stability (Gallouj & Windrum, 2009), but it has positive influences on the entire economy (Awais Ahmad Tipu, 2011). Any company Agarwal, Erramilli, and Dev (2003) and country's existence and development is dependent on innovation. It is widely acknowledged as a key strategic engine of economic development and performance, as well as a source of long-term competitive advantage and even survivability (Durst, Mention, & Poutanen, 2015; Hong, Cheong, & Rizal, 2016; Merrilees, Miller, & Yakimova, 2017). In comparison to product innovation, there is a shortage of empirical studies on service innovation thus its anticipated effects on performance, and several scholars have found various gaps in this area. Any business projects a public image in the society, which is critical from a strategic perspective. However, there is currently no study available that examines how a business's corporate image (CI) influences its growth. This is well known, industrial businesses compete inside this home market as well as frequently utilize an export strategy to compete and place its products in global markets. As mentioned in the study of Parris, Bouchet, Peachey, and Arnold (2016), the CI remains a state of mind in which stakeholders may get on with the firm. This is the mental image which the many stakeholders have

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in association towards their observation on the business. It's always developing. Schuckert, Kim, Paek, and Lee (2018) stated that a positive image can increase a company's sales, attract investors as well as employees, and reduce the negative impact of competitors, allowing businesses to gain higher profit levels. The image that stakeholders have about the businesses affects their readiness to provide support or not. Such as, when consumers have a negative perception about the company and its products, they may eventually quit buying the company's products, resulting in lower sales and earnings. As a result, every business's stakeholder groups are likely to get a distinct view of the company, as each is focused on the different aspects of its processes.

The nature of today's insurance companies necessitates the implementation of appropriate strategies and processes for customer orientation, as well as attracting and retaining consumers. Because these businesses rely on their consumers for existence, so as long as they can keep their current customers more successful they are in the long run. The major goal of customer retention is to ensure that their needs are addressed on a consistent basis through providing superior value (Sundbo & Toivonen, 2011). In the marketing sector outstanding changes continuously happening therefore traditional marketing approaches are no longer sufficient. Electronic communication, particularly social media, is altering the landscape of trade as well as the ways in which distribution networks and customers communicate (Koch, Rapp, & Kröger, 2013). In the competitive market, firms are trying to find new ways to communicate with their consumers, and employing social media tools can have a significant influence on business performance (BP) through CL and value creation by contact with them (Trainor, 2012). Moreover, the previous studies had a major focus on the developed economies but had a little attention on the developing economies like small and micro community enterprises of rice products in central northeast Thailand. As the small and micro community enterprise of rice products in the central northeast of Thailand played an important role in the social and economic development. Therefore, the current study objective is to investigate the effect of service innovation, corporate image, and human capital strategy and customer loyalty on performance for small and micro community enterprise of rice products in central northeast Thailand.

The study was divided into five sections, introduction, literature review, research methodology, data analysis, and conclusion and discussion.

## **2. Literature Review**

In this section, the researcher had explained the literature review both on the theoretical and empirical perspective.

### *2.1 Business performance*

The primary determinant of BP is the making and delivery of value towards internal as well as external consumers, both of whom have a beneficial effect on businesses (Antony & Bhattacharyya, 2010). It is critical to a hotel's success (Li & Singal, 2019; Sheel & Nath, 2019). Scholars have varying perspectives on BP, which could be quantified in two major ways: such as financial as well as non-financial measures. Martínez-Martínez, Cegarra-Navarro, Garcia-Perez, and Wensley (2019), for example, used profit and sales growth rates, asset profitability rates, and productivity to determine business performance. Additionally, BP is measured by comparing net income and sales growth over the last three years to competitors (Fernandes Sampaio, Hernández-Mogollón, & Rodrigues, 2019). The hotel industry's performance is compared to that of competitors through the examination of return on investment, return on assets, revenue growth, as well as profit growth.

### *2.2 Service innovation*

The survival and performance of service providers is dependent on the capacity for innovation (Agarwal et al., 2003). Businesses can innovate by developing products and/or services that set them apart from their competitors in order to provide added value to their customers (Clarke, Murphy, & Adler, 2016). Despite growing interest in the value creation potential of service innovation and the proliferation of definitions, no consensus on the process of service innovation has emerged. Service innovation has evolved as a result of the requirement for a service-centric approach to value creation. According to O'Cass and Ngo (2011), service innovation can take two forms: interactive or supportive. The term "interactive service innovation" refers to the direct value creation experienced by customers (front end), or as Salunke, Weerawardena, and McColl-Kennedy (2019) define it, the "service consumption interface" (frontstage). It is defined as the degree to which a business modifies its service offerings (i.e., novel, improved offerings), service delivery methods (i.e., novel or superior service delivery methods), and customization-related modifications in order to meet the unique needs of individual customers (Salunke, Weerawardena, & McColl-Kennedy, 2013). Whereas supportive service innovation refers to an organization's decision to alter its methods of service production, procurement, and delivery. According to Salunke et al. (2019), the interface for service provision (backstage) typically facilitates the former.

### *2.3 Corporate image*

According to the scholarly study, company reputation or image, customer satisfaction, and BP are all extremely important (Bekkers & Homburg, 2005). The image of a business is a broad characteristic that reflects the degree to which a business is

perceived as good or bad (Roberts & Dowling, 2002). More precisely, corporate image refers to the public's perceptions of a particular company (Johnson & Zinkhan, 2015). The image or reputation of a business is critical because it demonstrates how it compares to its competitors when stakeholder perceptions of the firm's disposition to behave in a particular way are considered (O'Dwyer & Gilmore, 2019). Corporate image can impact a company's ability to increase prices by customers as well as can make barriers to mobility inside a business (Peloza, 2006).

#### *2.4 Customer loyalty*

Customer loyalty (CL) is regarded as an important intangible asset by various businesses (Jiang & Zhang, 2016). Various scholars have come up with different ways to conceptualize CL (Ali, Zhou, Hussain, Nair, & Ragavan, 2016). Because the goals of market researchers are not always clear, various definitions of customer loyalty have been adapted to fit their various research projects and contexts. Casidy and Wymer (2016), for example, defined CL as one's feelings of devoted attachment to the loyalty object, as opposed to repeated commercial transactions. Thakur (2019) defined attitudinal loyalty as a customer's intention to repurchase from a particular provider inside the marketplace. Oliver describes CL as "a deeply held commitment to consistently repurchase or patronize a preferred product/service in the future, resulting in repetitive same-brand or same brand-set purchases, despite situational influences and marketing efforts that could result in switching behavior" (p.34). Various marketing scholars also approved Oliver's definition of customer loyalty, according to a review of the literature (Abu-Alhaija, Yusof, Haslinda, & Jaharuddin, 2018).

#### *2.5 Corporate Image and Business Performance, Human capital strategy*

The company's overall image continues to be defined as an impression stored in customers' minds of feelings, ideas, attitudes, and experiences with the organisation that influences how people remember and reconstruct their image. (Reguera-Alvarado & Bravo, 2017). Nguyen and Leblanc (2001) define corporate image as "something associated with a firm's physical attributes and behaviour, such as its name, architecture, products and services, and the quality impression communicated by consumers who have used the firm's products and services" (Reguera-Alvarado & Bravo, 2017). This is consistent with Andreassen and Lindestad's (1998) brand image assessment. Thus, the company's image can be thought of as a subset of the brand image, with the brand name referring to the organisation as a whole rather than to specific products or services.

**H<sub>1</sub>:** *Corporate image has a significant relationship with the business performance.*

**H<sub>2</sub>:** *Corporate image has a significant relationship with the human capital strategy.*

#### *2.6 Customer loyalty and business performance, Human capital strategy*

According to researchers, CL is a mixture of the customers' attitudes as well as behavior. They are all components of a customer's attitude: their willingness to pay a premium price, their intent to repurchase products and services from similar organization, their willingness to recommend the firm to others, and their loyalty to the company by refusing to switch to a competitor (Akbar & Parvez, 2009; Aydin & Özer, 2005). (Cronin Jr & Taylor, 1992; Rahim, Ignatius, & Adeoti, 2012). This is because a corporation exists in essence to serve shareholders. Creative methods: These various new processes may impact your decisions. Customer loyalty, on the other hand, denotes the likelihood of future product purchases as well as recommendations to others and brand loyalty, and it indicates that customers may use the brand for a long time (J. Lee, Lee, & Feick, 2001). A company's products or services are critical in determining their customers' loyalty. The CL is the attitude customers have towards a business, as well as their intentions to purchase its products and services. They are also likely to advise others to use the company's products and services.

**H<sub>3</sub>:** *Customer loyalty has a significant relationship with the business performance.*

**H<sub>4</sub>:** *Customer loyalty has a significant relationship with the human capital strategy.*

#### *2.7 Service innovation and Business performance, Human capital strategy*

The resource-based view found the association between firm performance and its resources and abilities (Grawe, Chen, & Daugherty, 2009). Service innovation necessitates the introduction of paradoxical capabilities, such as the ability to maintain a traditional product identity whereas developing an innovative combined solutions identity (Kohtamäki, Rabetino, & Einola, 2018). Specifically, these contradictory capabilities imply that the relationship among servitization and BP is not well defined at the moment. Visnjic, Wiengarten, and Neely (2016) examine the effects of combinatory variables on the complex association between BP and service innovation. They propose that profit margins be increased by joint service business models by product innovation procedures. Servitization broadens product selection by coupling products with a variety of service bundles, thereby increasing differentiation (Bustinza, Gomes, Vendrell-Herrero, & Baines, 2019). Consequently, the following hypothesis is made: H: Service innovation is positively correlated with performance.

Brand value, employee skills and knowledge, and mission statements and annual reports frequently address all three aspects of the brand (Greer, Lusch, & Hitt, 2017). Competitive advantage is derived from one's knowledge and mental abilities, as opposed to one's physical assets (Hsu, 2008; Prajogo & Oke, 2016). The importance of human capital as a strategic resource was described by Hitt, Bierman, Shimizu, and Kochhar (2001) and (Samagaio & Rodrigues, 2016). Human capital is simply known as human knowledge, skill, and ability (Kianto, Sáenz, & Aramburu, 2017). Firms that rely on strategic human capital, such as those in the auditing industry, face a challenge, as knowledge is owned by the individual, not the firm (Widener, 2004). The relationship between education and economic growth, productivity growth, and income growth is well established empirically. Not only education, but also training has an effect on a firm's performance. The more advanced one's education and technical training, the greater the demand for technical and organizational innovation. Human capital will have an explicit and implicit effect on high firm performance through innovation and technology relocation. Indeed, educated and trained employees have a competitive advantage when it comes to embracing and implementing new technology because they can make constructive suggestions to the organization's production. Such human capital acts as a catalyst for production in response to novel strategies and organizational knowledge.

**H<sub>5</sub>:** *Service innovation has a significant relationship with business performance.*

**H<sub>6</sub>:** *Service innovation has a significant relationship with human capital strategy.*

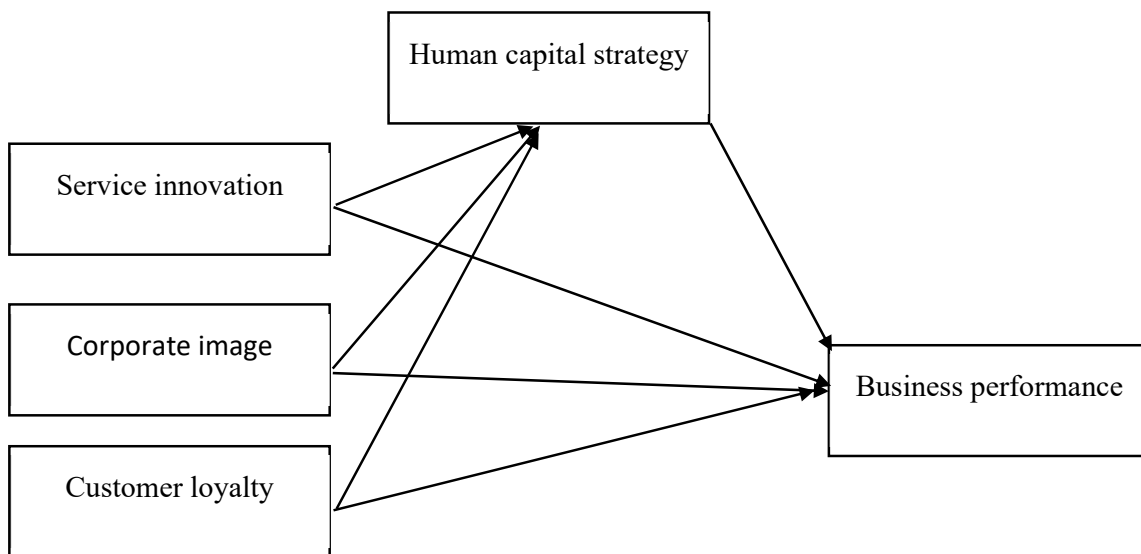
*2.8 Human Capital Strategy and business performance*

Human capital theory's central concept is that each employee possesses unique knowledge and technology that contributes to the BP (C. Lee, Hallak, & Sardeshmukh, 2016). Human capital is derived from all members of an organization's educational attainment, experience, and work practices; the quality of human capital has an effect on the BP (Unger, Rauch, Frese, & Rosenbusch, 2011). While numerous researches have been conducted on the association among human capital as well as business success influences, an association among human capital as well as corporate performance in the hospitality industry continues to be worth exploring and testing (Kim, Kim, Park, Lee, & Jee, 2012; Unger et al., 2011). Furthermore, a number of studies have established numerous and contradictory associations among human capital and BP. Unger et al. (2011) used post hoc investigation to examine human capital as well as entrepreneurial success; they discovered that human capital is a moderating factor in entrepreneurial success; it is dynamic by the procedure of learning and transformation, thereby enhancing both human capital and enterprise performance. Additionally, Hsiao, Lee, and Chen (2016) discovered that human capital has an effect on restaurant performance.

**H<sub>7</sub>:** *There is a significant relationship between the human capital strategy and business performance.*

**3. Research Framework**

The current study purpose is to investigate the effect of service innovation, corporate image, and human capital strategy and customer loyalty on performance for small and micro community enterprise of rice products in central northeast Thailand. For this objective, the following research framework had been formulated.



**Fig. 1.** Research Framework

## 4. Research Methodology

The current study purpose is to investigate the effect of service innovation, corporate image, and human capital strategy and customer loyalty on performance for small and micro community enterprise of rice products in central northeast Thailand. For this objective, researchers had applied the quantitative research approach and used the cross sectional research design. To obtain data, we distributed questionnaires directly and online to respondents which were small and micro community enterprise of rice products in central northeast Thailand for 1 month from the beginning of September and obtained valid answers totaling 320 responses, which then we chose to be the sample in this study. Sample data collected comes from various provinces in Thailand. Respondents answered a series of questions from the questionnaire that had been distributed and we divided the questions into 3 parts. The first part consisted of 10 questions that contained demographic profiles (respondent data, roles, background, and expectations for the government). The second part, consisting of 168 questions to determine their attitude towards service innovation, corporate image, human capital theory, customer loyalty and business performance. Each of the questions was measured on a five point Likert Scale that ranged from 1 to 5 strongly disagree to strongly agree. All of the questions were coded into the excel sheet.

### 4.1 Data Analysis

The data was analyzed in two steps, descriptive that was done by using a SPSS and inferential that was done by using AMOS.

### 4.2 Descriptive Statistics

Descriptive analysis was carried out in the SPSS. Table 1 presents the descriptive analysis of each variable. The results of the analysis show the respondents' perception about the variables. The analysis was carried out on the means score of all the items. The mean score for all of the variables ranged 3.74 to 4.29. The mean scores for the above variables are highly moderated which shows that respondents are highly involved in the independent and dependent variables activities. In addition, the standard deviation (S.D) of all of the variables are ranged from 0.69 to 0.86. The mean score and S.D of all the variables are depicted in the following Table 1.

**Table 1**  
Statistical test of empirical variables (n=320)

Variable	Range	Min	Max	$\bar{x}$	SD.	Variance	Sk	Ku
Service Innovation								
SER1	3.33	1.67	5.00	4.22	0.74	0.54	-0.95	0.58
SER2	3.50	1.50	5.00	4.22	0.72	0.51	-0.99	1.15
SER3	3.50	1.50	5.00	4.21	0.74	0.55	-1.00	0.79
Corporate Image								
COR1	3.00	2.00	5.00	4.17	0.74	0.55	0.33	-0.48
COR2	3.00	2.00	5.00	4.15	0.75	0.59	-0.35	-0.52
COR3	3.00	2.00	5.00	3.74	0.74	0.55	-0.04	-0.64
Human Capital Strategy								
HUM1	3.00	2.00	5.00	4.19	0.82	0.65	-0.82	0.05
HUM2	3.50	2.00	5.00	4.23	0.69	0.63	-0.73	0.15
HUM3	3.00	2.00	5.00	4.17	0.76	0.57	-0.85	0.37
Customer Loyalty								
CUS1	3.00	2.00	5.00	3.99	0.79	0.65	-0.68	-0.07
CUS2	3.50	1.25	5.00	4.15	0.75	0.63	-0.71	0.11
CUS3	3.00	2.00	5.00	4.14	0.79	0.62	-0.72	-0.09
Performance								
PER1	3.00	1.50	5.00	4.17	0.78	0.62	-0.85	0.32
PER2	3.50	2.00	5.00	4.22	0.75	0.61	-1.00	0.48
PER3	3.00	2.00	5.00	4.29	0.86	0.73	-0.63	-0.33

### 4.3 Inferential Statistics

The inferential analysis of the study had been tested by using a Structural Equation Modeling (SEM). There are various other studies which have also used the SEM for their analysis (Ahmad et al., 2019). The two models were run for conducting an inferential analysis, measurement model and structural model.

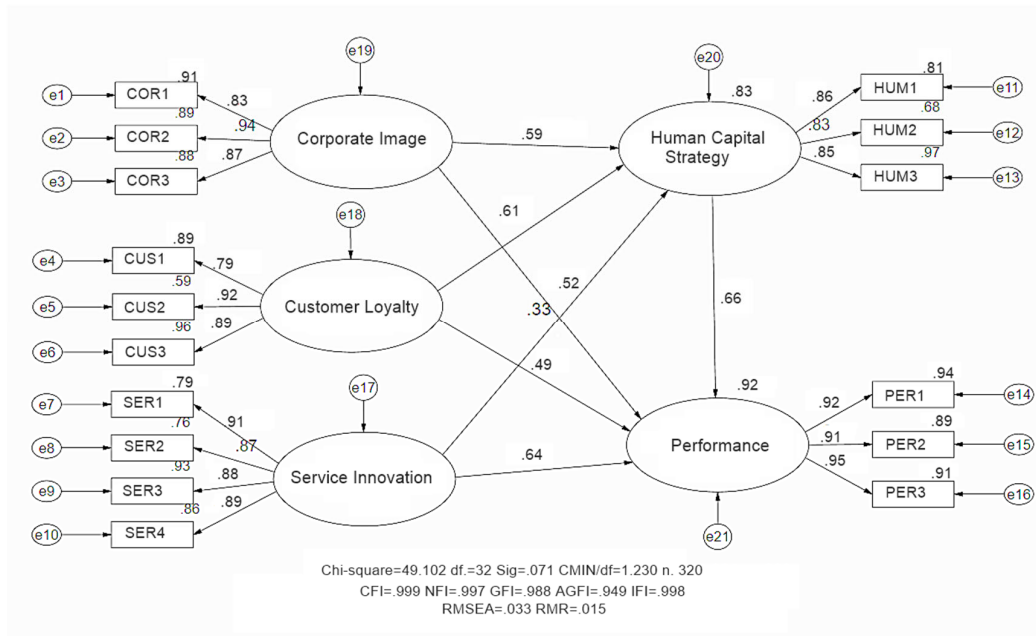
### 4.4 Reliability and Validity of Model

The reliability and validity could be assessed through the factor loadings, Cronbach Alpha, composite reliability (CR), and average variance extracted (AVE). The factor loadings that values should be greater be 0.5, average variance extracted (AVE) that value should be greater than 0.5, Cronbach alpha that value should be greater than 0.7 and composite reliability that value should be greater than 0.7. These values are recommended by various researchers in the previous studies (Hair, Ringle, &

Sarstedt, 2012; Hair Jr, Hult, Ringle, & Sarstedt, 2016). The Table 1 predicted values had shown that all of the values fulfilling the criteria of recommended values.

**Table 2**  
Factor Loadings. (n = 320)

Variable	$\lambda$	SE.	t-value	R <sup>2</sup>	AVE	CR.
Service Innovation					0.864	0.925
SER1 (Parameter constants)	0.88	-	-	0.92		
SER2	0.87	0.039	18.476**	0.59		
SER3	0.97	0.031	29.133**	0.97		
SER4	0.91	0.022	24.123**	0.88		
Corporate Image					0.734	0.897
COR1	0.77	-	-	0.88		
COR2 (Parameter constants)	0.83	0.084	13.634**	0.87		
COR3	0.98	0.079	11.742**	0.89		
Human Capital Strategy					0.922	0.880
HUM1 (Parameter constants)	0.89	-	-	0.92		
HUM2	0.85	0.031	22.118**	0.88		
HuM3	0.98	0.021	24.211**	0.95		
Customer Loyalty					0.931	0.927
CUS1 (Parameter constants)	0.82	-	-	0.91		
CUS2	0.79	0.022	26.595**	0.83		
CUS3	0.99	0.023	21.783**	0.61		
Performance					0.933	0.949
PER1 (Parameter constants)	0.91	-	-	0.94		
PER2	0.98	0.019	23.673**	0.93		
PER3	0.96	0.022	18.644**	0.91		



**Fig. 2.** Conceptual Framework

**4.5 Hypothesis Testing**

The Structural Equation Modeling (SEM) results had shown that corporate image had a positive and significant relationship with the human capital strategy. In the same vein, the customer loyalty had also a positive and significant relationship with the humane capital strategy. Further findings had shown that service innovation had also a positive and significant relationship with the human capital strategy. Moreover, service innovation, corporate image, customer loyalty had also a positive and significant relationship with the business performance. On the other hand, human capital strategy had also a positive and significant relationship with the business performance. These findings have shown that all of the predicted hypotheses are supported. Therefore, this study contribution is considered to be important and could help the policy makers and owners. All of the hypothesis results are predicted in the following Table 3 below.

**Table 3**  
Results of hypotheses testing

Variable		$\beta$	SE.	t-value	Sig.	R <sup>2</sup>
Human Capital Strategy	← Corporate Image	0.59	0.08	8.011	0.000**	0.83
Human Capital Strategy	← Customer Loyalty	0.61	0.08	5.477	0.000**	0.83
Human Capital Strategy	← Service Innovation	0.52	0.07	5.272	0.000**	0.83
Performance	← Corporate Image	0.33	0.21	3.434	0.009*	0.92
Performance	← Customer Loyalty	0.49	0.08	2.781	0.025*	0.92
Performance	← Service Innovation	0.64	0.24	2.222	0.016*	0.92
Performance	← Human Capital Strategy	0.66	0.10	3.814	0.000**	0.92

## 5. Discussion and Conclusion

The study was conducted to assess the influence of the service innovation, corporate image, human capital strategy and customer loyalty on the performance. Accordingly, the study has considered the small and micro community enterprises located in northeast Thailand. The study has hypothesized that the corporate image is related to the human capital strategy. In this regard the data was collected and statistical results were applied on data. The results of the study revealed that an organization having a good corporate image tends to have better human capital strategy. It affirms that the organizations must address and put sufficient efforts into their corporate image to have a better human capital strategy. Additionally, the study has also hypothesized that customer loyalty has a positive relationship with the human capital strategy. The regression test was applied to examine the relationship between the customer loyalty and human capital strategy. The results of the study revealed a positive relationship between customer loyalty and human capital strategy. As per the findings of the study the loyal customer base of an organization results in the human capital strategy of that organization. Finally, the study also tested the relationship between the service innovation and human capital strategy. The results of the study revealed that the organizations focusing on the service innovation become more inclined towards the hiring and retention of the humans that are creative and can work accordingly for the best of that organization.

On the other hand, the study has hypothesized the positive relationship between the corporate image and performance. Accordingly, the study results revealed that corporate image of the organizations tend to have positive change in the performance. It affirms that the organizations having a positive image will have a huge customer base which tends to increase over the period of time. Consequently, higher profits resulting in an increase of performance. In line with this, the present study has also hypothesized a relationship between the customer loyalty and performance of an organization. In this regard it is worthy to mention that when a customer buys from an organization again and again it shows his/her loyalty with that organization. Consequently, the organizations having a huge and loyal customer base tends to have an increased profits and performance. It should be kept in mind that customer loyalty is the customer behavior that represents his/her intentions to rebuy the products from a particular organization based on the better experience with that organization (Feick, Lee, & Lee, 2001). The present study findings also supported the notion that the loyal customer base of an organization results in increased performance of the organizations. As per findings it can be stated that the performance tends to increase due to the customer loyalty. Finally, the study also attempted to predict the performance through the service innovation. The study attempted to examine whether the innovative services provided by the organizations may result in the performance of the organizations. The results of the study revealed that the service innovation of the organizations tend to result in their higher performance. The results of the study revealed that the service innovation offered by the organizations tend to result in higher performance of the organizations. When the organizations bring the innovation in their service delivery they tend to result in higher performance since it is attracted by the customers and they tend to buy from that particular organization.

Finally, the study also attempted to examine the influence of human capital strategy on the performance. For instance, if an organization has a good human capital strategy then it will have better performance as compared to other organizations with the weak human capital strategy. The results of the study put forward that human capital strategy will result in higher organizational performance. Additionally, the study has also established that the human capital strategy is a reason due to which the performance tends to increase.

Conclusively, the results of the study reveal that the organizations are needed to emphasize on their corporate image, having a loyal customer base and innovate their services. As per the results of the study by doing so the organizations will be able to have better human capital strategy for their enriched performance. The organizations are also needed to enhance their corporate image by providing the better services and products to the customers so these small setups may emerge as growing in the mainstream organizational line.

## 6. Future Directions and Limitations

Overall the study has accomplished the objectives and answered the research questions. However, there are some limitations that may be addressed and can serve as a future area of research. For instance, the study did not consider the role of the external environment as a moderator while studying the performance and human capital strategy of organizations. Additionally, the sample size of the future studies should be increased in order to have better results. Future research studies should consider the role of the government policies as a moderator to have better understanding.

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