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Brand Equity and Service Innovation in Mexican Small Firms

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Abstract

Brand equity and service innovation are two marketing activities that have a vested interest for researchers, scholars and professionals not only because they should be part of the business strategies of any company but also because both constructs produce more and better competitive advantages especially in small service enterprises. Nonetheless, there are relatively few published investigations in the current marketing literature that have analyzed these constructs together. There are even fewer empirical papers focused on small service organizations even when this type of companies are the most common in developing countries as well as those with emerging economies, as it is the case of Mexico. Thus, the main objective of this empirical research is the analysis and discussion of the effects of service innovation in the brand equity of small firms by using a sample of 300 small enterprises and by implementing a model of structural equations that allows a deeper understanding of the current relation between service innovation and brand equity. The results obtained show that service innovation has a positive and significant effect in the level of brand equity of small firms.

Keywords: Brand, Brand Equity, Innovation, Service Innovation, Small Firms

1. Introduction

Brand management has become one of the most important areas of marketing activities of enterprises in the second decade of this century and mostly when organizations try to transmit messages of intangible services (Seyedjavadin *et al.*, 2010), about innovation services (Atashfaraz & Sadr, 2016). Consequently, one of the most important concepts of marketing activities that has been analyzed and discussed by several researchers, scholars and professionals in the field of marketing is brand equity. This is not only because of the strategic role that the decision making of purchases or the purchase intention of consumers has but also because of the creation of competitive advantages.

Similarly, Aaker (1996) considered that brand equity can also increase significantly the value of the organization through loyalty and a higher level of perception of the quality of products or services created by enterprises which,

considering the importance that brand equity has nowadays for small enterprises, the development of empirical investigations about this concept have a paramount relevance in the current marketing literature (Johnston & Jones, 2004), especially when everything is related to service innovation (Atashfaraz & Sadr, 2016). As a result, brand equity allows organizations not only to keep their participation in the market but also to increase the preference of purchase intentions of the brand of their services (Lee *et al.*, 2009).

Likewise, brand equity is usually regarded in the literature as a group of characteristics that are developed constantly in the mind of clients and consumers in order to set apart the services of an enterprise from their main competitors (Yoo & Donthu, 2004). Thus, the current relation between the brand and innovation activities is one of the main topics in the field of marketing because even when it is a relatively new topic it has a great potential further investigations (Dorian-Laurentiu, 2015). Moreover, different papers published about branding have shown an essential progress about the importance of brand equity in both decision making of enterprise managers (especially in small ones) and the dissemination of innovation activities (Peres *et al.*, 2010).

In this regard, the link between brand and innovation has been analyzed and discussed by several researchers, scholars and professionals of marketing from different perspectives. One of them, and perhaps one of the most important ones, is link between brand equity and service innovation (Dorian-Laurentiu, 2015) since service innovation needs a brand that provides distribution in the market and the brand requires the promotion of its new services. Therefore, the development of a strong brand can be the difference between attaining better results in the long term and the rejection of new services (Aaker, 2009) because if consumers perceive a high value of the brand equity the extension of the brand of new services will have different advantages in terms of quality and brand image and avoid the problems of acceptance (Keller & Lehmann, 2006).

In this set of ideas, it is possible to establish that service innovation has a strong influence in the brand (Dorian-Laurentiu, 2015), especially in the brand equity of new services (Atashfaraz & Sadr, 2016). As a consequence, considering the scarce empirical investigations that are published in the current marketing literature that have analyzed the link between service innovation and brand equity, the main contribution of this empirical research is the analysis and discussion of the effects of service innovation on brand equity of small firms in a country with an emerging economy, as it is the case of Mexico, just as it is recommended by Liao and Cheng (2014), Dorian-Laurentiu (2015) as well as Atashfaraz and Sadr (2016).

2. Method

The innovation activities and brand equity are the two most important dimensions in business strategies implemented nowadays in firms, especially the innovation of products or services and brand equity but more specifically the innovation since it is a key factor of brand equity (Staake *et al.*, 2009). Similarly, innovation activities do not always have the expected results as some of them produce negative results in the organizations (Guo, 2002; Matear *et al.*, 2002; Rizova, 2006) because when the innovations implemented by companies fail, consumers normally have a bad experience and this also creates annoyance and frustration when getting such services Smith & Bolton, 2002; McColl-Kennedy & Sparks, 2003).

Furthermore, Roehm and Brady (2007) concluded that the frustration of consumers is mostly caused by the high expectations that they have about a specific brand of products or services. That is why the frustration and annoyance produced by a deficient service innovation has a strong influence in the purchase intention and the evaluation of innovations of small firms (Dube & Maute, 1996) as well as in the level of satisfaction of clients and consumers (Andreassen, 2000). Therefore, this type of practices can create as a result the loss of clients because the lack of service innovation could have a negative impact in brand equity, not only in those services but also in the very image and brand of the company (Sparks & McColl-Kennedy, 2001).

However, the negative impacts coming from shortfalls of service innovation can be diminished significantly if enterprises have a strong brand equity (Dorian-Laurentiu, 2015) because the expectations of consumers can be achieved in terms of the functions and the return given to the organization (Liao & Cheng, 2014) as well as in other alternatives for users and dealers (Marwa & Zairi, 2008). Moreover, there is evidence in the literature that

other investigations have shown a minor negative impact of the shortcomings of innovations in the evaluation of consumers when firms, especially small ones, have a high perception of the level of brand equity (Choi & Matilla, 2008).

Similarly, the brands of service innovation that have a low level of brand equity, including new brands of service innovation, have more probabilities of having negative effects from the shortfalls of service innovations (Dorian-Laurentiu, 2015). As a consequence, a positive perception of the interaction of brand value with consumer can cause that such consumers do not evaluate negatively the shortcomings of the innovation activities (Munteanu, 2011). Moreover, considering that most releases of new services are pre-launched in the market (Bayus *et al.*, 2001), it is important to consider that the information offered to consumers must be precise, especially when there is a high level of perception of brand equity of the innovations of small firms (Dorian-Laurentiu, 2015).

Thus, the brand equity of services from small firms plays an essential role in service innovation (Atashfaraz & Sadr, 2016) since it practically refers to the value that the nave provides to a product or service (Ailawadi *et al.*, 2003). Therefore brand equity often reflects a positive attitude with consumers and it is closely related to the brand of products or services (Ailawadi *et al.*, 2003; Keller, 2003). That is why brands have a high level of perception of brand equity; they do not just tend to have a significant increase in their market participation and achieve competitive prices of their services like the ones of the main brands (Batra & Homer, 2004) but they also have more loyalty from their consumers in the purchase intention of the services (Atashfaraz & Sadr, 2016).

In this regard, Chandon *et al.* (2000) concluded that enterprises, especially small firms, can have a high or low level of brand equity but managers will have to develop a high level of brand equity of their products or services as it provides organizations higher benefits such as the perception of a higher level of service quality, lower costs of communication of the brand and a better evaluation of the brand from consumers (Liao & Cheng, 2014). Consequently, the increase in the evaluation of brand equity in the minds of clients and consumers can be a learning experience about the brand of the firms (Bridges *et al.*, 2000) as well as a fundamental element to achieve a higher level of satisfaction from consumers (Oliver & DeSarbo, 1988).

In this trend of ideas, Aaker (1996) defined brand equity as a set of elements that are closely linked with the name or logo of a company, which increase the value of goods or services provided to clients and consumers. On the other hand, Simon and Sullivan (1993) defined brand equity as the current differences in the consumer's choice between a specific brand of products or services and those from an unknown brand with the same level of quality. Moreover, Farquhar (1989) had already suggested a more simple definition of brand equity introducing and value addition that can create more benefits for enterprises. To sum up, brand equity can be defined as the value addition for enterprises, businesses or consumers that provide some products or services (Buil *et al.*, 2013).

In this context, consumers will determine in a high percentage the brand equity of the innovation of services provided by companies (Atashfaraz & Sadr, 2016). However, if small firms achieve a high brand equity, it is possible that consumers are willing to give a higher level of evaluation of brand equity in comparison to those enterprises that have a low brand equity even when they have a bad experience with service innovation (Wood & Moreau, 2006). For that reason, it is possible to find evidence in some published investigation in the marketing literature that the innovation of services, even when there are shortcomings, it is a lot easier to attain a higher level of evaluation of brand equity when there is a strong positioning of the brand (Brady *et al.*, 2008).

However, Choi and Mattila (2008) discussed that even when enterprises have a strong brand, the evaluation of brand equity from consumers can affect the brand of products or services if they are not perceived with good quality. Thus, consumers normally use their expectations as reference point to evaluate the brand equity of products or services (Oliver, 1997) and they tend to provide a higher level of evaluation of brand quality and value when they have a positive impression of the organization's image and when they have enough information about the innovation of the product or service (Bolton, 1998; Tax *et al.*, 1998).

Additionally, when small firms have a high level of reputation, consumers generally tend to be less strict in the evaluation of brand equity of the innovation of products or services which lessens the negative impacts in the

perception and image of the organization (Liao & Cheng, 2014) because the effects in the possible shortfalls that the innovation of a specific service may have they can be considered by consumers as insignificant by the perception of quality and reputation obtained by enterprises (Weiner, 2000). Consequently, Hess (2008) considered that brand equity can act as an essential element to create in consumers the perception of a strong brand as well as promote the innovation of products or services.

Thus, the development of a high level of brand equity from small firms will help to diminish significantly the negative aspects that could appear in the innovation of services (Sloot *et al.*, 2005) and when there is a flaw in the service provision the evaluation of brand equity from clients and consumers can remain relatively intact (Liao & Cheng, 2014). Furthermore, considering the previous arguments, it is possible to establish that the positive evaluation made by consumers about brand equity could produce the implementation of small changes in the delivery of the new service as well as a higher level of service innovation. Therefore, considering the information mentioned earlier, it is possible to establish the following research hypothesis.

H1: The higher level of brand equity, higher level of service innovation

2.1 Sampling Procedures

An empirical research of small enterprises in Aguascalientes (Mexico) was considered relevant in order to answer the hypothesis established in previous paragraphs by using the business directory of the Sistema de Información Empresarial Mexicano (System of Mexican Business Information, or SIEM) for Aguascalientes State in 2017 which had 1,427 registered enterprises, each one containing from five to 250 workers at the end of January. Moreover, an instrument of data collection was designed to be answered by managers and/or owners of 300 small service firms, which were selected through a random sampling with a maximum error of ± 5% and a level of reliability of 95%, which represents slightly over 21% of all the small service firms registered. Such interviews took place between February and April 2017.

2.2 Measures and Covariates

Accordingly, a scale proposed by Berthon *et al.* (2008) was taken from the scale developed by Keller (2008) who considered that brand equity can be measured through a scale of five items. Moreover, the scale developed by the Oslo Manual (OECD, 2005) was used to measure service innovation in small firms, which establishes that service innovation can be measured through a scale of 4 items. All the items considered of the scales of brand equity and service innovation were measured through a Likert-type scale of five positions from "1 = completely disagree" to "5 = completely agree" as limits.

Similarly, a Confirmatory Factorial Analysis (CFA) was carried out to evaluate the reliability and validity of the scales of brand equity and service innovation by using the method of maximum likelihood with the software EQS 6.2 (Bentler, 2005; Brown, 2006; Byrne, 2006). Furthermore, the reliability was evaluated with Cronbach's alpha as well as the Composite Reliability Index (CRI) (Bagozzi & Yi, 1988). The results obtained from the CFA are shown in Table 1, and show that the theoretical model analyzed has a good adjustment of data ($S\text{-}BX^2$ =321.537; df = 26; p = 0.000; NFI = 0.889; $NNFI$ = 0.857; CFI = 0.897; $RMSEA$ = 0.079). Likewise, the values of Cronbach's alpha and the CRI are higher than 0.7, which indicates the presence or reliability in the scales of brand equity and service innovation (Nunally & Bernstein, 1994; Hair *et al.*, 1995).

Furthermore, the results obtained from the CFA indicate that all the items of the factors related are significant (p < 0.01). The value of all the standardized factorial loads is higher than 0.6 (Bagozzi & Yi, 1988) and the Extracted Variance Index (EVI) of each pair of constructs of the theoretical model of brand equity and service innovation has a value over 0.5 (Fornell & Larcker, 1981). These values indicate that the theoretical model has an excellent adjustment of data and provide evidence of the presence of convergent validity.

Table 1. Internal consistency and convergent validity of the theoretical model

Variable	Indicator	Factorial Loading	Robust t-Value	Cronbach's Alpha	CRI	EVI
Brand Equity	BEQ1	0.838***	1.000[a]			
	BEQ2	0.860***	22.089			
	BEQ3	0.838***	18.397	0.896	0.897	0.638
	BEQ4	0.746***	16.071			
	BEQ5	0.699***	15.818			
Service Innovation	SIN1	0.964***	1.000[a]			
	SIN2	0.978***	41.861	0.981	0.982	0.923
	SIN3	0.962***	38.335			
	SIN4	0.960***	39.671			

$S\text{-}BX^2$ (df = 26) = 321.537; p < 0.000; NFI = 0.889; NNFI = 0.857; CFI = 0.897; RMSEA = 0.079

[a] = Constrained parameters to such value in the identification process

*** = p < 0.01

Similarly, the discriminant validity of the theoretical model of brand equity and service innovation was measured through two tests, which are shown in Table 2. Firstly, *the reliability interval test* (Anderson and Gerbing, 1988) which establishes that with an interval of 95% of reliability none of the individual elements of the latent factors of the matrix of correlation must have a value of 1.0. Secondly, the test of extracted variance which establishes that the extracted variance of each pair of constructs is lower than their corresponding EVI. Therefore, based on the results obtained from the tests applied, it can be concluded that there is enough evidence of the presence of discriminant validity.

Table 2. Discriminant validity of the theoretical model

Variables	Brand Equity	Service Innovation
Brand Equity	**0.638**	0.240
Service Innovation	0.350 – 0.630	**0.923**

The diagonal represents the Extracted Variance Index (EVI), whereas above the diagonal the variance is presented (squared correlation). Below diagonal, the estimated correlation of factors is presented with 95% confidence interval.

3. Results

In order to answer the research hypothesis established in this empirical research, a model of structural equations was applied with software EQS 6.2 (Bentler, 2005; Byrne, 2006; Brown, 2006). Furthermore, the nomological validity of the theoretical model of brand equity and service innovation was examined through the square Chi test which compared the results obtained between the theoretical model and the measurement model. Such results indicate that the differences between both models are not significant which can offer an explanation of the relationships observed among the latent constructs (Anderson & Gerbing, 1988; Hatcher, 1994). Table 3 shows the results in a more detailed way regarding the implementation of the model of structural equations.

Table 3. Results of the structural equation model of Family SMEs

Hypothesis	Structural Relationship	Standardized Coefficient	Robust t-Value
H1: The higher level of brand equity, higher level of service innovation.	Brand Equity → Service I.	0.668***	12.908

$S\text{-}BX^2$ (df = 26) = 322.459; p < 0.000; NFI = 0.889; NNFI = 0.857; CFI = 0.897; RMSEA = 0.079

*** = P < 0.01

Table 3 shows the results obtained from the implementation of the structural equations model and it can be observed that the results of the research hypothesis **H₁** the results obtained ($\beta = 0.668$, $p < 0.01$) indicate that brand equity has significant, positive effects in service innovation. Therefore, it is possible to establish that the evaluation and perception of brand equity made by consumers affect in a positive way the innovation of services of small firms.

4. Discussion

The results obtained in this empirical research allow us to conclude in two main aspects. Firstly, brand equity is becoming increasingly in a priority not only among small service firms but also for small manufacturing enterprises. As long as consumers give more value to the brand of the services offered in the market, their purchase intentions will be higher. Therefore, it is possible to conclude that if managers and/or owners of small service firms consider the brand equity activities as part of their daily actions then the results obtained could be the same in the purchasing preference of the services they offer in the market.

Secondly, the innovation in small service firms have to be considered as an essential activity since innovation allows small service enterprises to implement changes or improvements in the current services of the organization as well as to improve significantly the brand equity of both the brand and the services offered. Consequently, it is possible to conclude that the adoption and implementation of different activities that imply service innovation from small service firms will allow them not only to continue in the market where they participate but also to make their services stand out from those offered by their main competitors and produce with this a higher value of brand equity of their services and the company as a whole.

In this regard, it is possible to conclude in general terms that the value given to the brand of services of small firms by clients and consumers will have positive and significant effects in the innovation activities of the services they produce which will allow small service enterprises not only to improve significantly their market position but also to obtain more and better competitive advantages in comparison to their main competitors. Therefore, if small service firms can improve the perception of a higher brand equity of their services from their clients and consumers in a high percentage, then the probabilities of getting the necessary economic resources for the development of service innovation activities will increase a lot.

Likewise, these results also have some implications that are equally important to establish. The first one is that usually most small service firms, just like small manufacturing enterprises, do not have a registration of the trademark of their services. That is why it is important that, before thinking about improving the perception of the brand equity of their services, managers implement activities regarding the registration of the intellectual trademark of their services. This will avoid the replication or copy of the innovation of their services from their main competitors and it will also increase the possibility to produce a higher commercial exploitation of the service innovation.

A second implication obtained from these results is that usually most small service firms from developing countries and with an emerging economy, as it is the case of Mexico, service innovation activities are practically focused on the implementation of modifications or improvements to the current services (incremental innovation) in the company. Nonetheless, these changes or enhancements are accepted positively by a segment of clients and consumers not only because they suit to their needs but also because there is normally a customization of services which creates both a higher perception of brand equity of such services and the production of a higher level of purchase intention in comparison to the ones offered by their main competitors.

A third implication of these results is that managers and/or owners of small service firms have to encourage working together including all the staff of the organization as this will make that activities related to brand equity and service innovation can take place accordingly and have the expected results. Moreover, managers and/or owners of small service firms will have to involve all the departments or functional areas of the organization to adopt and implement brand equity and service innovation activities in a way that the information about the

preferences and needs of clients and customers as well as the perception of brand equity can be shared among the different departments so they have the possibility to come up with improvement actions.

Finally, a fourth implication of the results obtained is that managers and/or owners of small service firms will have to adopt and implement the necessary training programs for employees and workers in the activities related to brand equity and innovation in order to facilitate the development of these activities. This will determine in a high percentage that service innovation can fit the needs of consumers as well as a higher level of perception of brand equity of the services and the organization as a whole. Otherwise, it could jeopardize not only the implementation of two important activities but also the very survival of enterprises.

Additionally, this empirical research has some limitations that are necessary to mention. The first one is about the sample used as only small service firms that had between five and 250 workers were considered. That is why future investigations could consider in the sample small service firms with less than five workers in order to confirm the results obtained. The second limitation is that the questionnaire applied to collect the data only considered small service firms in the state of Aguascalientes (Mexico) even when small enterprises have similar characteristics in all the country. Future researches will need to apply the same questionnaire in other states of the country in order to verify the results obtained.

A third limitation is that only qualitative variables were considered to measure brand equity and service innovation so in future investigations it would be relevant to use quantitative variables or hard data to prove the results obtained. A fourth and final limitation is that the instrument applied to collect data only considered managers and/or owners of small service firms. This created the assumption in the research paper that they have a deep understanding about brand equity and service innovation of their enterprises. Future research papers could consider to apply the same questionnaire to employees and workers of the firm as well as their main consumers in order to confirm or deny the results obtained.

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