

ABSTRACT

Innovations play a critical role in gaining sustainable competitive advantages since most service industries operate in the midst of intense market competition, and are dedicated to delighting customers with creativity and innovation. Creating organisational innovations requires different dynamic innovation capabilities. The PdH model presents six dynamic service innovation capabilities (DSIC) which are essential for firms to outperform competitors. Thus, companies need to develop organizational knowledge to produce dynamic competitive advantages through the development of DSIC to support innovation, in addition to acquiring an assortment of resources and capabilities.

Thus, the main purpose of this study is to examine the impact of knowledge capabilities, namely; knowledge management capabilities (KMC) and knowledge absorption capabilities (KAC) on DSIC to develop service innovations (SI). Accordingly, three objectives were developed. The first is to identify the impact of KMC on DSIC. The second is to assess the indirect effect of KAC on the relationship between KMC and DSIC. The third is to examine the impact of DSIC on SIs in six Sri Lankan service dominant sector organizations.

After conducting a rigorous review on KMC, KAC, DSIC, and SIs, five hypotheses were advanced to explore the relationships between these variables. Following the positivist research paradigm, a survey was conducted among 160 service organizations disproportionately representing certain identified Sri Lankan service sectors; insurance/banking/other financial services, health care, entertainment/hotels, telecommunication, professional services and IT/ICT. Data were analysed using the SmartPLS software version 3.0 under the structural equation modeling analysis technique. The results of data analysis revealed that; there was a significant positive impact from KMC on DSIC, while KMC also significantly and positively impacted KAC, while KAC significantly and positively impacted DSIC. Most importantly, KAC mediated the relationship between KMC and DSIC. Furthermore, it was found that DSIC has a significant impact on SIs.

The results of this study contributed to the empirical and theoretical literature on DSIC by identifying organisational knowledge as a significant antecedent of DSIC. The findings also suggested that managers/policy makers focus on internal knowledge processes to absorb external knowledge to support DSIC.

Addressing the prevailing limitations of the present study, future research directions such as applying organisational knowledge as an antecedent of DSIC in other service industries as well as in other DSIC which were not addressed in the present study using different research choices, are suggested. Finally, the present study explained the importance of developing organisational knowledge-based capabilities to enhance organisational innovativeness to develop the service innovation dimensions required for service dominant firms to outperform their competitors under prevailing, intensely competitive market conditions.