

# Hospitality innovation strategies: An analysis of success factors and challenges

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## ABSTRACT

Innovation in hospitality has attracted considerable interest, partly because its processes and activities are so diverse, and partly because its impact on performance is still a puzzle. This study proposes a comprehensive theoretical model that reviews combinations of technological and non-technological innovation and the interrelation between different innovation strategies that contribute to generating competitive advantages. Using data from 2010 and 2012 CIS, it empirically examines different innovation strategies, analyzes their role in organizational performance, and thoroughly researches sectoral variation in innovation strategies between hospitality and other service subsectors. Comparative analysis suggests that hospitality is the least innovative service activity. The findings also show that in hotels sales turnover is positively related only to complex innovation strategies that emphasize both technological and non-technological innovation. The study concludes that the level of innovation varies from sector to sector and that innovation strategies can have different effects on performance depending on the sector.

## 1. Introduction

Hotels are among the most competitive businesses in the world. Yet, as the specialized literature shows, productivity in the hotel industry is significantly lower than in all other sectors of the economy. One reason that may account for this discrepancy is that the hospitality industry is less likely to innovate than other service activities. This calls into question the role of traditional innovation practices in hospitality and reveals the importance of creating new strategic paradigms. The implementation of innovative practices has attracted considerable research efforts in the recent service and hospitality literature (Gomezelj, 2016; Martin-Rios & Pasamar, 2018; Suoto, 2015; Tajeddini, Altinay, & Ratten, 2017). Yet, the literature in the hospitality field has barely paid attention to the development of more or less complex innovation strategies—the combination of technology-driven and non-technological forms of innovation (Karlsson & Tavassoli, 2016; Tavassoli & Karlsson, 2016) and, consequently, to the influence of innovation strategy on firm performance (for an interesting exception, see Nicolau & Santa-Maria, 2013). Accordingly, more research is needed to analyze innovation strategies and the relationship between different strategies and organizational effectiveness in order to help hospitality companies build innovation capacity and enhance competitiveness and growth opportunities.

An innovation strategy is a requirement for succeeding in today's competitive environment. One important driver of this trend is the need for different forms of innovation to stay competitive and profitable, which could lead hospitality firms to search for and implement a variety of innovative solutions. An innovation strategy ensures that firms remain proactive, which may positively affect organizational competitiveness (Hjalager, 2010; Lin, 2013). Among the various types of innovation, previous research has identified the significant impact that less traditional forms of innovation have on service firm performance (Sandvik, Duhan, & Sandvik, 2014). By their very innovative nature, service firms, and expectedly hospitality firms, are inclined to broaden the scope of innovation and depart from the narrower technology-driven innovation dominant in manufacturing to also include non-technological forms of innovation (Carlborg, Kindström & Kowalkowski, 2014; Černe, Kaše, & Škerlavaj, 2016). Service firms draw here on the refined categorization of non-technological innovation as one that helps renewal within their core business model and internal processes. Non-technological innovation can include novel approaches to commercialize firm assets (Gambardella & McGahan, 2010; Martin-Rios & Parga-Dans, 2016a), new managerial, structural or technical practices (Birkinshaw, Hamel, & Mol, 2008), and the adoption of new ways of organizing work processes, establishing alternative ways of managing employees (Tracey & Way, 2011), and fostering

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internal and external relationships (Armbruster, Bikfalvi, Kinkel, & Lay, 2008; Martin-Rios, 2014).

Hospitality firms and the broader service sector share certain features that influence their innovation strategy. But, as Castellacci's (2008) taxonomy shows, there are also big differences across the distinct service sectors. Given the vast diversity of firms in the service industry, different service companies innovate in different ways depending on, among a myriad of other factors, their subsector. As part of one of those sectors, the hotel industry implements innovation strategies that expectedly share similarities and differences with those of other service activities. An examination of the innovation strategies in each service activity contributes to identify sectoral distributions of the locus of strategic decision-making, variation in the propensity to innovate, and the strengths and weaknesses of different innovation paths. Building on Castellacci's sectoral taxonomy, this study reports aggregated data from two waves of the European Community Innovation Survey (CIS), 2010 and 2012, to assess variation in innovation strategies and activities and their impact on organizational performance. By means of multiple linear regression models, this paper explores the effect of a range of innovative activities across 90,896 European service firms, of them some 3.1% (2816 firms) in hospitality in 2010 and 2012. The harmonized survey questionnaire has been used extensively in service innovation (e.g. Hidalgo & D'Alvano, 2014) and hospitality innovation (e.g. Hertog, Gallouj, & Segers, 2011).

The study presents an integrated conceptual framework that captures the complexity of the reality analyzing all service activities independently and contrasting them with hospitality. In doing so, the paper contributes to the developing literature on strategic innovation in hospitality. We believe that in this way this study makes a valuable contribution to the understanding of the complexity of the innovation path of hotel firms and their performance. As a second contribution, the study offers novel insights into the distinctive types of innovation configurations across all service activities and suggests lessons that can be learned from best practices.

## 2. Literature review

The study's conceptual model addresses innovation strategies and activities in shaping performance of firms in the multi-sectoral service industry, with particular focus on hospitality (see Fig. 1). This model proposes that different strategies and forms of innovation have different impacts on firms' financial performance, defined as the market sales of goods and services. However, as the next section shows, a lack of research in this area means that there are doubts regarding the benefits of each innovation initiative for hospitality firms.

### 2.1. Innovation strategy and categories of innovation

Firms have a wide range of preferences when it comes to choosing their innovation strategy. Since the majority of firms have limited resources and innovation capabilities, they face several innovation choices, which are included in Schumpeter's four types of innovation (process, product, marketing, and organizational) plus various combinations of these four types. The latest edition of the OECD Oslo Manual (Mortensen & Bloch, 2005, p. 46) defines innovation as “the implementation of new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.” The common service innovation categorization distinguishes between these four types of innovation (Gomezelj, 2016; Hjalager, 2010; Khan & Khan, 2009; Nieves & Segarra-Ciprés, 2015).

Product/service innovation refers to the development and introduction of a new service. Service innovation in hotels and the service sector at large employs new knowledge and technologies, or new combinations of existing knowledge and technologies. These innovations are expected to provide service firms with a competitive advantage via the technological novelty of the service (Evangelista & Vezzani, 2010). Typically, the impact of service innovation is similar to the impact of goods innovation (Gunday, Ulusoy, Kilic, & Alpan, 2011). Both of them aim at decreasing costs, creating new activities and opening new pathways to markets (Lehtinen & Järvinen, 2015). Research in hotels shows that the introduction of new services can vary in degrees of complexity but, for the most part, entails the adoption or use of innovations generated externally (Scaglione, Schegg, & Murphy, 2009).

Process innovation includes the application of a new or significantly improved service delivery method. It aims to either decrease the unit costs of delivery or to increase the quality of the service (Mortensen & Bloch, 2005). Process innovations are introduced to attain specific goals, for example to better define and improve repeated activities associated with the delivery of a particular service (Tether, 2005). In contrast to the introduction of new services, which are considered to have a clear positive financial return, Fagerberg, Mowery, and Nelson (2004) suggest that the effect of process innovation on performance is ambiguous. Often, hotel companies develop their own process innovations, which require that both service innovations and organizational innovations to be taken into account (Hertog et al., 2011; Nieves, Quintana, & Osorio, 2014; Orfila-Sintes & Mattsson, 2009).

Organizational innovation is conceptualized as the implementation of a new organizational method in the firm's business practices, workplace organization or external relations” that intends to improve the effectiveness or performance of the adopting firm (Mortensen & Bloch, 2005, p. 51). It is the less discrete, more intangible and organization-specific part of service innovations (Armbruster et al., 2008; Birkinshaw

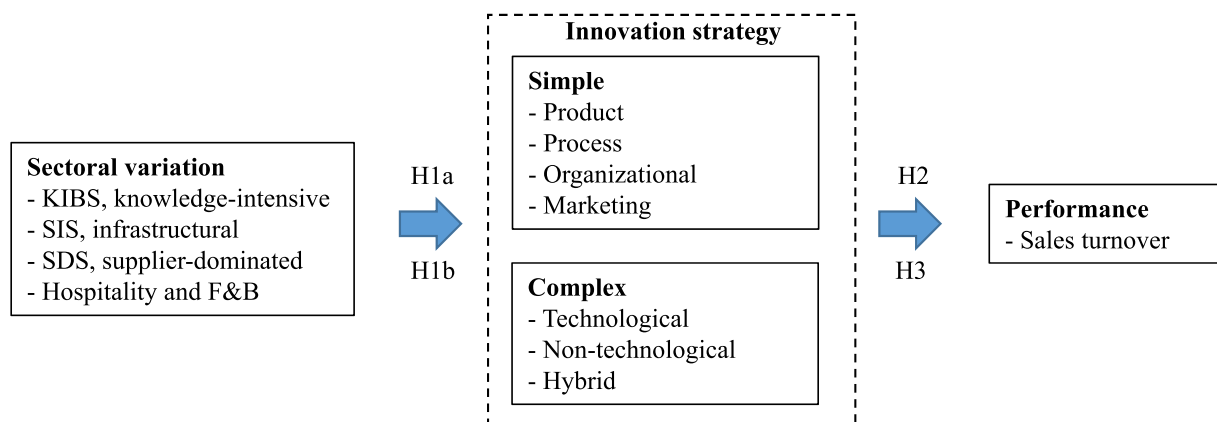


Fig. 1. Theoretical model and hypotheses.

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