

## EVALUATING SUCCESSFUL STRATEGIES IN CREATION OF INNOVATIVE SERVICES IN HOSPITALITY

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### **Abstract**

**Purpose** – The purpose of this paper is to examine manager attitudes about innovative processes in Croatian hospitality and to compare the research results with previous research. Customers in hospitality – guests, have low levels of brand loyalty, they are always looking for the best value, and service innovations can make benefits for hospitality firms.

**Methodology** – The objective of this research was to discover what factors impact the performance of innovation processes. The study took place in Croatian regions Istria and Kvarner which represent a benchmark of Croatian tourism. A survey was performed to examine manager attitudes of hotel innovation, and it used a five-point Likert-type scale measuring levels of agreement with the given statements.

**Findings** – The research results reveal that new service development success for innovative new services depends on four key factors (Service product, Market, Process and Organizational), which are the focus of this research. The study results are limited with regard to generalizability since the study was conducted only in four and five-star hotels in the regions Istria and Kvarner resulting in a small sample size and a weak statistical analysis.

**Contribution** – Managers involved in processes of new service development are tied to the key success features and innovative or new service development (NSD) increases the likelihood of success. The findings present the foundation for future scientific research. The analysis provided guidance for organizational leaders in designing the process to address critical paths or control points to increase the likelihood of successful implementation.

**Keywords:** innovation, new services, success, hospitality, statistical analysis, Croatia

### **INTRODUCTION**

Service innovation is an essential process for attaining competitive advantage for every firm that provides services, such as hospitality firms. Hospitality is very different from other industries, and innovations included in hospitality are specific. There are few examples where the implementation of service innovation benefits hospitality firms. From a customer's perspective, according to Victorino et al. (2005, 556) the hospitality market is inundated by many similar, often easily substitutable offerings, which causes differentiation problems for hospitality firms on the market.

In the hospitality industry there is a constant need to understand and satisfy the guest's needs, preferences, quality and technological interfaces, and in the end managers must understand and be willing to make proactive changes. Today, travelers are not really brand loyal, and they are looking for best "value-for-money" an offer, which poses a

challenge for hotel managers and marketers: how to keep their guests by innovating hospitality services. The biggest success is when managers understand guest preferences, and implement such innovations and services which, in the end, add the greatest value to the hospitality firms, as well as guest satisfaction.

This paper adds to the current understanding of service innovation in hospitality by utilizing the four elements of innovation processes in hospitality firms such as product, market, process and organization. Recognizing the true economic meaning and importance of service innovations, and lack of research in this specific field, this article targets the impact of success in the development of new hospitality services.

The hospitality industry was selected as the sample for this study to present its complexity in the creation of a successful tourism product, especially since Croatia is a growing destination and the tourist regions of Istria and Kvarner are benchmarks of Croatian tourism. This paper aimed to show the approach of benchmark hotels and provide guidance for organizational leaders in designing the process of service innovations in the future.

This paper consists of five main parts. First, the introduction; second, the theoretical background which is related to innovativeness, new service development and innovation process and innovations in hospitality firms; third, the research methodology, fourth, research results, and fifth, the conclusion.

## **1. THEORETICAL BACKGROUND**

Innovations of services are a central component of the strategy in successful firms, especially in the hospitality industry, and there is recent research that confirms its meaning and importance for every organization or firm. Innovations can manifest themselves as changes in the competences of a company and in the end they present the key to success, along with service and product development, which should identify and understand the value-creational processes (Gustafsson, Kristensson and Witell, 2012, 313).

### **1.1. Innovativeness**

Innovations can be understood as the outcome of a professionally-managed organizational development process in which R&D and entrepreneurship are often combined with quality, effective leadership, sound employee management and critical market considerations (Ottenbacher and Harrington, 2010, 3). Innovations should be considered a management process and not just a functional activity, which in the end defines innovation as the intentional introduction and application within a role, group or organization of ideas, processes, products or procedures, new to the relevant unit of adoption, designed to significantly benefit the individual, the group, organization or wider society (West and Farr, 1990, 4).

Service innovations, for instance, are the intentional introduction of ideas, procedures, or products related to services designed to significantly benefit the individual, the group, organization, or region; considering the distinguished characteristics of services and consumer satisfaction (Khan and Khan 2009, 511).

Schumpeter (1934, 152) was one of the first to develop a theory about innovations, i.e. “new ways of doing things, or [as] better, unique combinations of the factors of production”, which proves that innovation is not an invention of our time.

Today’s service organizations, according to Ottenbacher and Harrington (2010, 3), are challenged by globalization, fierce competition, new technologies and changing consumer demands. These trends force service firms to constantly adapt to these turbulent environmental factors and thus place innovation at the core of their competitive strategy (Fitzsimmons and Fitzsimmons 2001, 69).

According to Hertog et al. (2010, 490) service innovations are ubiquitous and their role in creating economic growth and wellbeing is increasingly acknowledged, which is mirrored in the extensive literature on service management, service marketing and service innovation, as well as by the rise of the service-dominant logic perspective.

Hospitality industry does not have a reputation of greater innovation, nor its culture of learning organization. Moreover, since hospitality industry requires equipment, construction solutions and an overall system of departments, it is very complex and there is a high rate of failure. As stated by Ottenbacher and Harrington (2010, 4) many service organizations face a high failure rate of almost 50 percent, and in comparison, the failure rate for tangible goods is between 25 to 45 percent. The high rate of innovation failure results not only in wasted time, money, and human resources, but also in poor public image and poor employee morale.

## **1.2. New service development and innovation process**

Technological improvement, throughout the 20th century, and also at the very beginning of the 21st century, according to Ivanovic, Perman and Grlj (2015, 323) has brought a revolution on many fields: from communication and computer science, all the way up to business monitoring and better organization. All that results in new service development projects which range from a totally new or discontinuous innovation to a service involving a minor adaptation or improvement of an incremental nature (Griffin, 1997, 453).

Ottenbacher and Harrington (2010, 5) stated that service innovation can be any of the following:

1. *New-to-the-world services*. New services that are seen to be quite new in the eyes of customers because they are the first of their kind, creating entirely new markets.
2. *New service lines*. Services that are not new to the marketplace but are new to the firm.
3. *Additions to an existing service line*. New services that supplement a company’s established service line and are not significantly new to the service producer, but may be new to the customers in the existing market segment.

4. *Improvements and revisions to an existing service.* New services that provide improved performance or greater perceived value and so replace existing services.
5. *Repositioning.* Existing services that are targeted to new markets or market segments or a new use of a new competitive set.
6. *Cost reductions.* New services that provide similar performance at lower cost of supply.

Services represent a huge range of industries, but as mentioned above, hospitality has a specific nature since it consists of a wide range of activities, it is labor intensive, and it mostly depends on interactions between guests and hosts – hospitality staff.

Hertog (2000, 495) stated that services innovation can be considered within four dimensions of novelty:

1. *Service concept* – a service new to its particular market;
2. *Client interface* – changes in which clients are involved in service design, production and consumption;
3. *Service delivery system* – changing the ways in which service workers perform while delivering service;
4. *Technology* – used in process and delivery innovation.

When looking at computer terminology, according to Muller (2010, 9), hardware is very often identified as technology, but technology starts with the software – the system which is inevitable and without which hardware cannot work.

Table 1: **The nature of technology**

Technologies	
Hardware	Software
Devices	Systems
Equipment	Organization
Tools	Techniques

Source: Christopher Muller, (2010) "Hospitality technology: a review and reflection", Worldwide Hospitality and Tourism Themes, Vol. 2 No. 1, pp. 10.

According to Ivanovic, Perman and Grlj (2015, 323), what can be seen as hardware in the hospitality industry are devices and equipment which an organization or company has at its disposal, and the application of which ensures the business efficiency through savings, and ultimately workforce with overall business standardization.

The software in this case certainly refers to the intangible element of the organization of work, working environment, and precisely that hardware is controlled by the software, a human, one which devices will never be able to completely replace.

Hospitality is specific since apart from the style of service, quality and price, broad variation in labor is indicative of the degree of innovation and the use of technology. Technological innovations provide a foundation for both major strategic options for competitiveness – cost leadership and differentiation (Rodgers 2008, 20).

### 1.3. Innovations in hospitality firms

Hospitality industry is characterized as an industry with easily substitutable service offerings, mostly because hotels are usually very difficult to differentiate. Also, since customers have a low level of brand loyalty and are always looking for best value-for-money, hotels and hospitality firms have to offer innovations that could satisfy guest preferences and needs, as well as in the meantime create cost effective service innovation which can benefit the firm.

Creating innovative products and services that can attain a competitive advantage and exceptional profits for the organization are nowadays indispensable for every hospitality firm. New service development (NSD), which is very innovative, takes more time to develop and it demands more resources, while incremental NSD has lower costs and has the possibility to be launched faster on the market. Both types of NSD projects are important for organizations; however each dimension requires a significantly different innovation approach.

The success of incremental new business services relies on: the ability to leverage the organization's competencies and reputation, installing a formal NSD process (particularly) at the front-end and during the design stages, as well as avoiding that the project is associated with high costs and unnecessary complexity (Ottenbacher and Harrington 2010, 6). Same authors state that for highly innovative new business services, an entrepreneurial, creative corporate culture and management style, as well as good market potential were key factors for a successful outcome.

Figure 1: Elements of innovation process



Source: Authors

Given the valuable illustration of a market benefiting from the introduction of service innovations, the present study will use the hotel industry as the subject of research into the success factors of NSD.

Although there are some papers that examine new service innovations or innovations in services, only few authors focus on hospitality industry, so new service development (NSD) remains undeveloped area.

De Brentani (2001, 176) found that there are product-related factors, market-related factors, company-related factors and NSD process factors that influence on service performances. Authors' results and implications of study are clear: depending on the degree of innovativeness, managers need to adjust their focus and their approach for developing successful new service product, and NSD is essential for long-term performance of most service and hospitality firms, since it is important that managers understand key factors for achieving success. Similar, but not same research was also done for this paper.

Innovative services in hospitality with technological improvements and customization features, according to Victorino et.al. (2005, 568), have stronger impact on hotel choices between business and leisure travelers. Understanding what service innovations may have the greatest impact on potential guests' choices, according to authors, may explain influence of enhancements of service development and design on hospitality service. After creation and adaptation of NSD, managers can evaluate the relative values of new services, their performance and acceptance with customers.

Ottenbacher, Gnoth and Jones (2006, 357) published paper about importance of employee management in the development of successful new services, since hospitality presents high-contact service, and employees are core of tourism and hospitality industry products and services.

Syson and Perks (2004, 264) had perspective on NSD in a network perspective, where they stated that interaction as a central component of many service offerings is the key element and vital process of NSD. In service-dominated economy, customers increasingly see little difference between the services on offer, and it can be understood that firm's ability to creatively combine activities and resources to provide unique and differentiated services is an attractive route to successful NSD.

Customers today expect firms to delight them with creativity, so customer-focus firms should be amenable to new and better ways of doing things for the benefit of their customers (Kandampully 2002, 25). Technology, knowledge and networks are unique and key factors that can fuel innovations in service organizations, such are hospitality firms.

New service development (NSD) was researched also by Alam (2006, 242) where author measured validation for new service strategy through new-to-the-market service, new-to-the-firm service, new delivery process, service modifications, service line extensions and service repositioning, where authors' findings are low cost and less risky options of developing moderately innovative services is the most popular strategic choice for common service industry, thus developing a moderately innovative service seems to be a better choice for financial service firms. Highly innovative services are also important because they provide substantial competitive advantage and are more likely to succeed in the market place.

Johne and Storey (1998, 217) in their paper define ways of measuring the results of NSD through financial measures, competitiveness measures and quality measures, and measures of the process of NSD are criterion cost, effectiveness and speed. Authors also stated that in service markets, conventional new service developers have been shown to rely heavily on copying the lead of innovator companies. That practice is dangerous because blindly follow the lead of innovator companies can, therefore, encourage followers to allocate resources for NSD inappropriately.

## **2. RESEARCH METHODOLOGY**

The purpose of this study is to examine manager attitudes about innovative processes in Croatian hospitality and to compare the research results with previous research by Ottenbacher and Harrington (2010), but also to find out other authors' perspective on this specific topic.

The objective of the study was: (a) to present the relevant information necessary to understand the current situation in the area of innovation and technology in the hospitality services; (b) to investigate the relative importance of the dimensions related to the innovation processes and hospitality services, and (c) to contribute to the existing literature.

The empirical study aimed to collect primary data. The questionnaire is based on Ottenbacher and Harrington (2010, 13) and contains 4 constructs, 23 dimensions and 85 variables. A survey was performed to examine manager attitudes of hotel innovations. A five-point Likert-type scale was used to measure the levels of agreement with the given statements. The questionnaire was prepared in English and translated into Croatian. An online survey was conducted using Google Forms and was distributed by a web link sent by e-mail.

The sample size included four and five star hotels in the Istria and Kvarner region which represent a benchmark of Croatian tourism. The data were collected during a 2-month period in 2015. In total, 82 out of 102 hotel managers are included in this study. Descriptive statistical analysis was used to describe the respondents' profile and to evaluate their attitudes about innovative processes in hospitality.

## **3. RESEARCH RESULTS**

A descriptive statistical analysis was performed on the respondents' demographic profile. The results are shown in Table 2.

Table 2: The demographic profile of the respondents

Items	Percentage	Items	Percentage
<b>Gender</b>		<b>Age</b>	
Male	76.8	20-24	2.4
Female	23.2	25-29	25.6
<b>Level of education</b>		30-39	32.9
		40-49	29.3
		50-59	7.3
		60 and more	2.4
Academic degree	67.1	<b>Function in organization</b>	
High school	14.6	Employee	8.5
Vocational school	13.4	Head of section	15.9
Postgraduate degree	4.9	Department manager	46.3
<b>Level of income</b>		Director/General manager	24.4
3.000,00 – 4.999,00 HRK	4.9	Other	4.9
5.000,00 – 6.999,00 HRK	24.7		
7.000,00 – 9.900,00 HRK	40.7		
More than 10.000,00 HRK	29.6		

Source: Authors

The demographic profile analysis of the respondents shows that male respondents (77 percent) outnumbered female respondents (23 percent). According to the age distribution, about 26 percent of the respondents were between 25 and 29 years old, 33 percent between 30 and 39 percent, and 29 percent between 40 and 49 years old. It can be noted that 88 percent of the respondents are between 25 and 49 years old, and only 10 percent of the respondents are older than 50 years.

The academic degree is the highest education qualification for 57 percent of the respondents, while a high school and vocational school degree obtained almost the equal percentage. Only 5 percent of the respondents had postgraduate degree.

According to their function within the organization, 46 percent of the respondents were department managers, 24 percent directors/general managers, 16 percent were heads of section, 9 percent employees and 5 percent other. In total, 41 percent of the respondents had an income level of 7.000,00 to 9.900,00 HRK, 30 percent more than 10.000,00 HRK, and 30 percent 3.000,00 to 6.999,00 HRK.

In order to evaluate the respondents' attitudes about the innovative processes in hospitality, a questionnaire with 4 constructs and 23 dimensions was designed. Table 3 shows the descriptive statistical analysis according to constructs and dimensions.



Table 3: Descriptive statistical analysis according to constructs and dimensions

<b>Construct/Dimension</b>	<b>Mean</b>	<b>Standard Deviation</b>
<b><i>Product-related dimensions</i></b>	<b>4.22</b>	-
Innovative technology	3.97	0.647
Service advantage	4.26	0.587
Consistency of service delivery	4.36	0.435
Tangible quality	4.27	0.624
<b><i>Market-related dimensions</i></b>	<b>4.15</b>	-
Market attractiveness	3.92	0.532
Price competition	4.38	0.494
Comparative offerings	4.11	0.609
Market responsiveness	4.19	0.428
<b><i>Process-related dimensions</i></b>	<b>4.04</b>	-
Employee commitment	4.12	0.663
Raising awareness	4.18	0.569
Effective marketing communication	4.05	0.561
NSD process management	3.94	0.831
Employee involvement in process	3.89	0.889
NDS pre-launch activities	4.05	0.690
<b><i>Organization-related dimensions</i></b>	<b>4.17</b>	-
Management synergy	4.13	0.619
Behavior-based evaluation	4.36	0.519
Training of employees	3.96	0.807
Empowerment	4.08	0.593
Strategic HRM orientation	4.09	0.716
Reputation	4.57	0.400
Selective staffing	4.24	0.631
Marketing synergy	4.26	0.600
Formalization	3.80	0.824
<b><i>Overall MEAN (23 dimensions)</i></b>	<b>4.14</b>	-

Source: Authors

According to the results of the descriptive analysis, the overall mean score was 4.14 indicating a high agreement with the given statements.

First of all, it can be noted that all four constructs achieved a high mean score (above 4.17). The construct “product-related dimension” achieved the highest 4.22 mean score of all four constructs and includes four dimensions: innovative technology, service advantage, consistency of service delivery and tangible quality. Innovation technology was the lowest rated dimension in this section (3.97). The results suggest that products, or services, are very important in the hospitality industry, although they are intangible, but they involve many factors.

“Market-related dimension” was the third highest rated construct with a mean score of 4.15 and included four dimensions as well: market attractiveness (3.92), price competition (4.38), comparative offerings (4.11), and market responsiveness (4.19). The results have shown that the respondents’ firms consider those dimensions in their business.

The construct “process-related dimensions” was the lowest rated construct with a mean score of 4.04. The construct summarizes the following six dimensions: employee commitment (4.12), raising awareness (4.18), effective marketing communication (4.05), NSD process management (3.94), employee involvement in process (3.89) and NDS pre-launch activities (4.05).

The second highest rated construct is “organization-related dimensions” (4.17). The dimension behavior-based evaluation attained the highest level of agreement (4.36), followed by reputation (4.57), behavior-based evaluation (4.36), marketing synergy (4.26), selective staffing (4.24), management synergy (4.13), strategic HRM orientation (4.09), Empowerment (4.08), training of employees (3.96) and formalization (3.80).

The main focus of the Ottenbacher and Harrington (2007, 9) study was to investigate the influence of success factors on innovation performance and examine whether innovative and incremental NSD projects should assume different strategic approaches in order to develop successful innovations.

The overall findings of Ottenbacher and Harrington (2007,9) indicated that new service performance, the market and organizational dimensions are particularly critical. With regard to innovative new hotel services, market responsiveness, market attractiveness, and strategic human resources management were shown to be related to success and failure.

In addition to market attractiveness and strategic human resource management, incremental NSD success was driven by additional factors of empowerment, training of employees, behavior-based evaluation, and marketing synergy.

In terms of the service production dimension, two factors significantly impact only incremental innovation success (service advantage and tangible quality). Only one factor of the process dimension (pre-launch activities) was significantly related to innovative, but none were significantly related to incremental NSD performance.

Results compared to De Brentani (2001, 176) found that product-related factors, market-related factors, company-related factors and NSD process factors influence on service performances with a good and excellent internal consistence what indicates our reliability.

Ottenbacher, Gnoth and Jones (2006, 354-356) discussed the results of their research and emphasized following: a) market attractiveness is the best discriminating factor; b) market responsiveness has an impact on new service success; c) SHRM indicates the most important discriminator between successful and less successful projects; d) empowerment is an important factor distinguishing successful new hotel service

developments from less successful ones; e) training of employees presents a high priority to enhance front-line service expertise, as previous NSD studies supported; f) of the process-related dimensions, only employee commitment had a high standardized discriminant function coefficient, and g) marketing synergy is one of the four organization-related factors that discriminate, which consists with previous NSD studies. According to the above mentioned findings, this study results confirmed the relative importance of the dimensions related to the innovation processes and hospitality services.

#### **4. CONCLUSION**

Managers involved in processes of new service development are tied to the key success features and innovative or new service development (NSD) increases the likelihood of success.

Hospitality firms interested in service innovations should first consider the elements of the product, the market, the process and organization, and based on their identified needs, strategies and resources they should develop new services or innovate existing services that can cause a positive performance for the firm.

Latest technological improvements have brought a revolution in many fields, all the way up to business monitoring and better organization, which results in new service development projects ranging from a totally new service or improving an existing hospitality firms' service. Service innovations are therefore ubiquitous and their role is to create economic growth for hospitality firms.

Hospitality industry does not have a reputation of greater innovation, or its culture of learning organization, so there is a high rate of failure. Hospitality industry is characterized as an industry with easily substitutable service offerings, especially because hospitality services are difficult to differentiate, and with customers' low level of brand loyalty, and due to their constant search for best value-for-money, creating innovative products and services that can attain a competitive advantage and profits are the goal for every hospitality firm today.

Differences in success factors between innovative and new services have not been clearly articulated to date, but it has been confirmed that innovativeness is linked to levels of risk, ambiguity, necessary resources and complexity and that firms should have different priorities and approaches when developing new services.

The analysis provided guidance for organizational leaders in designing the process to address critical paths or control points to increase the likelihood of successful implementation.

The limitations consider the sample size and nature, as well as the structure of variables included in the study. A set of variables and dimensions included in the study covered a variety of aspects. The study is based on a previously tested methodology which crates space for improvement.

The study results are limited with regard to generalizability since the study was conducted only in four and five-star hotels in the regions Istria and Kvarner resulting in a small sample size and a weak statistical analysis.

Nevertheless, these limitations do not diminish the validity and the relevance of the reported findings. They serve as a foundation for future research in this area.

Future research will focus on management attitudes, while the questionnaire will be extended with new dimensions and variables. The main goal of the research will focus on guests' and tourists' perceptions on innovation processes in the hospitality industry. Following research could include an analysis of particular departments in hospitality firms and include a comparison with other regions of Republic of Croatia, hotels, restaurants, and benchmarks.

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