

Holistic Approach to Measure Innovation Performance for Hotel Industry –A Short Review

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Abstract

The significant contribution to a firm's long-term success, innovation has burst as one of the most important determinant of organizational performance. Mainly due to the globalization of markets and the extreme and rapid growth of technology has put tremendous pressure on companies to look for new and alternative ways to compete and survive in the current scenario. Numerous academic researches declare that success rate of service innovations is low and there are only few possible explanations for this assertion. In this current study, the innovation literature will be reviewed followed by the different approaches to measure innovation performance. In this study, we attempt to emphasis on importance of further researches in order to effectively measure innovation in hotel industry.

Keywords: Innovation; hotel industry; innovation performance

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1.0 INTRODUCTION

In today's dynamic and innovative business environment, firms are needed to enhance innovation as an essential source of sustainable competitive advantage (Tidd and Bessant, 2011). Moreover, globalization of markets and faster growth of technology puts pressure on companies to look for new ways to compete and survive (White, 2007). Therefore, there is a need of innovative solution according to the emerging novel demand of organizations in order to survive in the highly complex and competitive business operation. The important role of innovation for the success of firms' business has resulted in the emergence of an extensive research on this subject. However, in most of the past studies on the issue of innovation, the focus was on innovation in manufacturing firms (Yam *et al.*, 2010; Lau *et al.*, 2010) and lesser attention has been paid to service firms.

2.0 INNOVATION

Innovation is an extremely broader concept with variety of definitions. The ambiguity of the concept of innovation makes it difficult to be agreed based on a single definition. Depending on the perspectives, from how innovation is viewed, its definition also varies. The first attention on the importance of innovation in economic development was made by Joseph Schumpeter (1934), who defined innovation as "the introduction of new goods, new methods of production, opening of new markets, conquest of new sources of supply and carrying out new organization of any industry." Nejad (1997) defined innovation

as "introduction of something new, as a new idea or a new method." The definition of innovation by Khalil (2000) also confirms the above definition. He stated that innovation is "the creation of product/ service or process that is new to an organization."

Rogers (1998) defined innovation as "new or significantly improved products/services/processes that can create added value." The different nature of service from manufacturing products, has led to the fact that service innovation has been viewed differently from product innovation in the literature. According to Johne and Storey (1998) the process of new service development (NSD) is inherently different from new product development (NPD). One specific feature of the service is the close interaction between the service suppliers and customers. Therefore, service firms should note that they have to develop not only the appropriate services, but also the good relations with the customers. This interaction makes the process of service innovation more complex than the innovation of tangible products.

3.0 INNOVATION CAPABILITY

One of the critical factors for success and survival of the firms is their ability to innovate (Ibrahim *et al.*, 2009). Innovation by itself is not sufficient and does not guarantee the success of the business. Firms need to have some capabilities to innovate continuously in order to achieve a sustainable competitive advantage (Zheng, 2009). According to Balan and Lindsay (2010), innovation capabilities describe the attributes that each

firm should possess in order to support innovation whereas according to White and Bruton (2007) stated, these attributes should possess some skills in which the firm is superior to its competitors, such as technical or market capabilities.

Because of the complex nature of innovation, there are a variety of dimensions that describes innovation capabilities such as resources, assets and abilities (Sen and Egelhoff, 2000). Lall (1992) defined innovation capability as "the skills and knowledge that firms need to have in order to effectively acquire improved technologies and also to create new ones." Lawson and Samson (2001) gave similar definition to innovation capability and described innovation capability as "the ability to continuously transform knowledge and ideas into various new products, services and processes for the firms and their stakeholders benefit."

Sok and O'Casey (2011) viewed capabilities as one of the most important source of success in firms and defined innovation capability as "bundles of interrelated routines and processes firms have to be in place to perform innovation related activities such as new product development, improvement, etc." Innovation capability has been viewed to be crucial in order to achieve innovation performance. The speed of development of new products, variety of products and number of new products being introduced are associated with the investment on resources and capabilities that drive innovation performance.

Organizations that continuously invest in different aspects of innovation have a higher threshold of achieving sustainable innovation capability as the engine of their performance (Lawson and Samson, 2001). Imitation of capabilities is very difficult for competitors when comparing to copy other resources due to the complexity of them (Hogan *et al.*, 2011). Thus, firms with innovation capability can achieve a sustainable competitive advantage when compared to others. Therefore, understanding the component that build up innovation capabilities can lead to the conceptual improvement of firms in their ability to innovate and to compete and survive (Balan and Lindsay, 2010).

■4.0 INNOVATION PERFORMANCE

Innovation performance is an essential key for organizations that try to make innovation as an integral part of their organizational structure. It is not enough to put in place an innovation manager position in organizational structure or to define it in their mission and vision or to have innovation strategy, but the important factor is to deliver innovation performance effectively (Laursen and Foss, 2003). Traditional performance measurements are most frequently based on financial data like revenue or profit related measures, such as return on sale, sales volume, sales per employee, price variances, productivity and profit per unit of production (Ghalayini and Noble 1996; Montoya-Weiss and Calantone 1994). Performance indicators discussed in the literature is largely measured by the firms' financial outcomes but the success of an innovation is seldom defined by a sole factor rather than by a number of aspects. Storey and Easingwood (1998) argued that not only a single factor measures the success of an innovation but rather involves a number of aspects. Nevertheless, several aspects of the innovation such as increased customer loyalty are neglected by using only financial factors (Storey and Easingwood, 1999). Measurements that rely only on financial data are being replaced nowadays by more integrated system which combines both financial and non-financial factors (Bergin-Seers and Jago, 2007).

There are non-direct benefits from innovation besides traditional financial benefits has been found in research such as, enhanced customer loyalty, improved image and the ability to attract new customers (Storey and Easingwood, 1999; Ottenbacher and Gnoth, 2005). A study on new service and product development has shown that success in one particular dimension of performance does not necessarily mean success on other dimensions (de Brentani, 1991).

It is necessary to identify what represents success from service firms' view in defining factors that affect the success in innovation (Storey and Easingwood, 1998). Although managers consider customer satisfaction, customer acceptance and the degree of competitive advantage to be helpful in measuring the performance, but these measurements are rarely applied (Griffin and Page, 2003).

A few studies explored the innovation capability construct or the relationship between specific dimensions of innovation and performance. (Tseng *et al.*, 2008; Balan and Lindsay, 2010; Ottenbacher, 2007; Camisón and Monfort-Mir, 2012). However, the evaluation of impact on the innovation capability of performance is exhaustive (Hjalager, 2008).

Numerous academic researchers declare that success rate of service innovations is low in comparison with manufacturing innovations (Oke, 2004), and it is suggested that the rate is even lower in the hospitality sector (Kotler *et al.*, 2009). A possible explanation could be, the greater number of researchers who measure service innovativeness by financial measures (Ghalayini & Noble, 1996; Montoya-Weiss and Calantone, 1994), but the performance within the hotel industry cannot be measured by a single factor (Storey and Easingwood, 1999).

Hospitality sector develops innovation for both financial and non financial performance objectives; unlike service innovations, which often develop innovation for financial reasons. (Ottenbacher and Gnoth, 2005; Griffin and Page, 1993; Storey and Easingwood, 1998). There are non-direct benefits from innovation besides traditional financial benefits that has found in research such as, enhanced customer loyalty, improved image and the ability to attract new customers (Storey and Easingwood, 1998; Ottenbacher and Gnoth, 2005).

Another possible explanation of the higher rate of failure with hospitality innovation might be due to limited knowledge about achieving success. As a result, hotel managers develop a personal favorite idea mostly relied on their inner sense, speculation and limited experience without conducting market research about innovation success. However, hospitality firms have to innovate, despite the limited knowledge of innovation success and high risk of failure (Ottenbacher, 2007). Zheng (2009) stated innovation by itself is not sufficient and does not guarantee the success of business unless managers know what skills and capabilities are needed for innovation.

■5.0 CONCLUSION

Most of the previous studies on the subject of innovation capability attempted to draw out the variety of dimensions of innovation capability from the literature (Hogan *et al.*, 2011; Ibrahim *et al.*, 2009; Lawson and Samson, 2001; Wang and Ahmed, 2004; Balan and Lindsay, 2010). A few studies explored the innovation capability construct or the relationship between specific dimensions of innovation and performance and none of them investigates the relationships between innovation capability and innovation performance by measures, which fits into hotel industry. (Tseng *et al.*, 2008; Balan and Lindsay, 2010; Ottenbacher, 2007; Camisón and Monfort-Mir, 2012).

There exists a gap in the literature on the measurement of innovation capability in service firms (Adams *et al.*, 2006). So far, research on service innovation has largely focused on definition and concept of service innovation (Oke, 2007; Hipp and Grupp, 2005) or comparing service innovation to product innovation and finding the similarities or differences between these two types of innovation (Zhang, 2011; Ettlé and Rosenthal, 2011). Thus, empirical studies attempting to explore the innovation capability in service firms are missing out from the literature. Particularly, research on innovation in the hotel sector is very limited and rarely found in the literature (Balan and Lindsay, 2010).

Previous studies have only found evidence that firm innovation truly affects firm performance. However, performance and innovativeness are not defined by a single factor. No research answered the question of whether hotel industry needs different innovation management approaches based on their objective for each innovation project (Ottenbacher, 2007). The need to investigate about which dimension of innovation capability and performance are related together and which dimension of innovation capability maximizes firm performance cannot be neglected.

Giving a number of useful insights and contributions to measure innovativeness in tourism, this study provides three potentially fruitful lanes for future research, in particular.

First: to devise a new construct to measure innovativeness, particularly in hotel industry.

Second: to develop organizational innovativeness construct for hotel industry.

Third: to investigate which dimension of innovation capability and performance are related together and which dimension of innovation capability maximizes firm performance of particular innovation projects in hotel industry.

It is hoped that the study provides valuable orientation for future studies and other researchers to have an in depth look considering these above mentioned facts and findings.

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