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## How to Create Viable New Ideas in the Hospitality Industry Satyavathi

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### INTRODUCTION

Based on responses from 184 German hotel owners, we know there are nine factors that contribute to the adoption of new service models. Human resource management, staff training, empowerment, and dedication to the service were determined to be far more essential than the kind of innovation used by the hotel. Making sure the invention fits the intended market is crucial, but other aspects, like good PR and marketing, don't appear to help ideas succeed. Having cutting-edge technology was not a priority while coming up with new services for these hotels, but providing a concrete product was.

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As a result of the industry's volatility, hotels of all sizes and types are always on the lookout for methods to boost their quality and reputation, decrease their operating expenses, and increase their revenue and profit margins. Competition from other hotels, advances in technology, and changing consumer preferences all contribute to and can precipitate such difficulties. The capacity to innovate, in the form of creating and introducing new, effective hospitality services, is one means by which quality and reputation may be enhanced. Similar to the manufacturing sector, the service sector relies heavily on the introduction of innovative new goods to maintain and expand its market share.<sup>1</sup> Because of this, successful hotel chains and individual hotels alike see innovation development as a key business strategy. We publish the results of a poll that asked hotel managers about the most important considerations they have to make while creating innovative guest services. Our discussion of these crucial variables provides hotel managers in Germany with a chance to compare their own opinions and experiences with those of their peers and to get insight into potential prospects. The capacity to innovate, in the form of creating and introducing new, effective hospitality services, is one means by which quality and reputation may be enhanced. Similar to the manufacturing sector, the service sector relies heavily on the introduction of innovative new goods to maintain and expand its market share.<sup>1</sup> Because of this, successful hotel chains and individual hotels alike see innovation development as a key business strategy. We publish the results of a poll that asked hotel managers about the most important considerations they have to make while creating innovative guest services. Our discussion of these important variables, drawn from a representative sample of German hotels, provides a chance for managers to compare their own perspectives and experiences and get insight into potential growth areas. Despite the critical relevance of innovation and service development, there seems to be a lack of information on how to succeed in this area.<sup>2</sup> Because there have been no large-scale or extensive research on the success and failure of new hospitality services, there is a lack of information, insights, and debate on how to establish new services in this sector. Therefore, managers often depend on intuition, conjecture, and their own limited experience when it comes to identifying the factors that contribute to successful innovation. Unfortunately, new service launches continue to have a high failure rate. There is no reason to suppose that the hotel business is an exception to the general rule that 4 out of 10 new services fail. Most new developments in the hospitality sector are non-tangible concepts. Therefore, it is challenging to track and assess their efficiency (how often they are carried out) and efficacy (how much they contribute to customer happiness and earnings). We think there has to be more research on the elements that influence innovation performance in the industry. In this article, we provide a literature review that defines innovation and the characteristics that contribute to its success, so as to provide a foundation for the administration of innovation. To introduce a discussion of the contribution of what are, in essence, design and delivery parts of innovation, we provide a regression analysis with "overall success" as the independent variable. We selected numerous measures as dependent variables since success may be gauged in a variety of ways (e.g., market share, customer happiness, financial performance). This way, we've covered the gamut of practical metrics, allowing managers to keep thinking strategically about their own situations while keeping in mind what their peers see as the most important variables.

What Is an Innovation?

Schumpeter was one of the first to develop a theory of innovation.<sup>4</sup> He defines innovations as "new ways of doing things, or [as] better, unique combinations of the factors of production" and identifies them as the core of an entrepreneur's work.<sup>5</sup> According to Drucker, innovations should be viewed and implemented as an opportunity

that results in the creation of a new or different product or service.<sup>6</sup> Furthermore, an innovation can be an idea, practice, process, or product that transforms a new problem-solving idea into an application and is perceived as new by an individual.<sup>7</sup> Following suggestions by Burgelman and Maidique, "Innovations are the outcome of the innovation process, which can be defined as the combined activities leading to new, marketable products and services, or new production and delivery systems."<sup>8</sup>

New hospitality service developments range from true innovations, which are totally new-to-the-world services with an entirely new market, to fairly minor modifications of existing services. A minor modification might be a simple adaptation of an existing hospitality service (e.g., swipe cards instead of keys), or it may be an attempt to offer some added value through additional new facilities (e.g., serviced apartments). In operations without set managerial processes, it is possible that such changes and additions are not monitored or not promoted sufficiently, thus leading to failure.

#### Previous Research on New Service Success

We found little published research on innovation in services. The *Cornell Quarterly* has shown some leadership and discussed, for example, case studies in regard to the innovation process of hospitality organizations and some 115 functional "best practices" that would count as innovations if hospitality firms were to adopt them. Enz and Siguaw's study showed that innovations were significantly affected by outstanding individuals, whom they called "best practice champions."<sup>9</sup> Such personnel were shown to have leadership qualities and problem-solving skills, as well as supporting and leading the project. Rather than focus only on the development process or ask, "What are best practices?" we ask, "What are the practices and influences that determine the success of new service projects? When analyzing the development of new service projects, we learn that success or failure is not the result of managing one or two activities well. Instead, it is the result of a more comprehensive approach in which one manages a large number of aspects competently and in a balanced manner."<sup>10</sup> The critical dimensions that influence innovation performance have been separated into the following four clusters of concerns: (1) a service- or product-related cluster, (2) a market-related cluster, (3) a process-related cluster, and (4) an organizational-related cluster of items.<sup>11</sup>

In essence, the success of a new service is founded on the proficiency that managers demonstrate in orchestrating a market-oriented development process and deciding what resources the new service will require. The financial success of the firm is built on the attractiveness of the target market and the firm's ability to launch innovative services that are responding to that market's demands. Previously, product advantage has been identified as the number one success factor in product development.<sup>12</sup> In services, however, while the core service that is offered is important, it is not considered to be the key success factor. Instead, the success of new services seems to hinge on the perception that the interaction with the customer is shaped and managed with empathy and effectiveness.<sup>13</sup> Those traits need to be accompanied by expertise and enthusiasm. Indeed, interviews with hospitality managers indicate that the most critical aspect of new service development (NSD) in the hospitality sector is employees.<sup>14</sup> Hotels in a given class typically have the same kinds of tangible facilities (e.g., bars, restaurants, gyms, in-suite bathrooms) that differ only in class, style, and design, depending on category and age. A refurbishment is easily achieved if that is the only way to innovation success. What cannot easily be purchased, however, is staff members who are cooperating harmoniously and who consistently and effectively express the hospitality firm's philosophy and brand. The generation of a distinctive service proposition requires individualized investments of time and effort that, once successful beyond basic or functional aspects of service delivery, create the personality of a hospitality organization. This means that when assessing the performance of new services, it is essential to include criteria covering those aspects of employee management that accompany the process of the introduction, such as the extent of training and whether good supervision has been given. The relevance of employees in NSD efforts has been alluded to in previous NSD studies, but not to the extent appropriate for a personalized service offering such as hospitality. In summary, given the many dimensions considered to be relevant, the question driving our research is, which particular attributes pertaining to the service (product), its process, the market, and the organization combine to determine the success of the service innovation?

#### Measuring Hospitality Innovation Success

The evaluation of new services and products is most frequently based on financial measures of performance, for example, revenue- or profit-related measures, such as sales volume or market share.<sup>15</sup> Research has found other indirect benefits from innovation, such as improved image, enhanced customer loyalty, and the ability to attract new customers.<sup>16</sup> Exploratory interviews with hotel managers show that financial measures (e.g., profit

and total sales) are used as the primary evaluation of new services, but customer satisfaction is also an important measure of success in the hospitality industry.<sup>17</sup> The interviews further reveal that hospitality firms evaluate and define success through qualitative measures such as employee feedback because of employees' importance in the performance of the new service project. Success is thus understood and measured across a number of dimensions and attributes ranging from financial aspects, such as profitability and sales, to less direct benefits such as improved image and customer loyalty. As we describe next, our study measured success along twelve dimensions, including financial, customer-satisfaction, and employee-benefit aspects.

### The German Accommodation Sector

Germany was selected as the country of study in part because it is the world's third most powerful economy, after the United States and Japan,<sup>18</sup> and because its service-innovation stance has been little studied. Furthermore, Germany has 220,000 hospitality enterprises, representing a broad spectrum of hospitality firms, with a total workforce of 1.1 million.<sup>19</sup> Germany's visitor-accommodation capacity has been growing steadily since the fall of the Berlin Wall. On the other hand, after 1991, Germany's hotels experienced a steady decline in occupancy. These rates were already low by international standards. This trend was reversed in 1998, when occupancy rates, although still low, rose to a relatively high level (35.8 percent were achieved in the former Federal Republic of Germany and 32.2 percent in what used to be the GDR).<sup>20</sup> This pattern of increasing occupancy continued until 2001, when the accommodation sector achieved some 326.6 million bed-nights and a volume of some US\$18 billion turnover, an improvement of 9 percent on the year before.<sup>21</sup> However, due to the economic decline as well as a reduction of inland tourism in the wake of the 2001 terror attack in New York, during the first eight months of 2002, occupancy rates all over Germany declined by 3.8 percent.<sup>22</sup> A further reason for the decline is said to have been caused by the price increases following the introduction of the euro. The accommodation sector in general increased its prices by 3.3 percent over the same period. For the future, analysts comment that this sector will not be able to recover quickly.<sup>23</sup> In 2003, industry reports revealed that, for the first time in the post-World War II period, Germany's hotel industry experienced a reduction in employment and a further reduction in occupancy rates (-4.6 percent) and turnover (-2.3 percent, to US\$17.4 billion).<sup>24</sup> Thus, this study was conducted in the face of an overcapacity of beds and declining markets prior to SARS and before the Iraq war in 2003. Yet even before these events, the situation described here had put particular pressure on the industry, and innovative service development was regarded as a major strategy out of a sluggish if not declining market. The results presented here need to be seen from this background.

### Method

Our literature review revealed a wide variety of measures of success and of factors determining the success of (service) innovations. de Brentani's four clusters of product-, market-, process-, and organization-related variables provided a basis for the interviews that probed respondents' perceptions of what constitute success factors in NSD and a yardstick for evaluating their relative importance and depth.<sup>25</sup> Our interviews produced further items deemed relevant for innovation success,<sup>26</sup> which were included in the questionnaire (still organized according to de Brentani's categories).<sup>27</sup> Altogether, the questionnaire comprised 105 measures for determining the success of service innovations.

The selection of hotels operating in Germany was made with the help of the *2000 Hotel Guide* from the German Hotel and Restaurant Association. The criterion for inclusion in the study was that the organization had developed at least one new hospitality service over the past three years. Similar to other studies, we contacted hotel managers by telephone to identify potential projects for study and to identify the person best able to respond to the questions.<sup>28</sup> We attempted to randomly contact 10 percent of the population but ended up contacting some 13 percent because we found insufficient interest or too many without any innovations to report. In the end, we sent questionnaires to 480 hotels of 737 that were eligible and indicated interest in participating. Therefore, 65 percent of those contacted reported that they had introduced an innovation over the past three years and were interested in participating.

Our research is thus based on a random sample targeting those operations and managers with practice and experience in introducing innovative services. We made follow-up calls to gauge reasons for non-response, but it turned out that managers were either not interested anymore or they could not supply as much detail as we requested. In other words, some managers had introduced innovations but had no measures in place to monitor their success or were not confident enough to

answer the questions.

The questionnaires sought information on the following issues: (1) the factors influencing success, (2) the performance of new innovations, and (3) background information on the respondents and hospitality organizations. The dependent variable consists of twelve success factors (see List of Dependent Variables in the accompanying sidebar). Since these items cover a range of domains (including financial success, customer satisfaction, and employee satisfaction), all indicative of innovation success, we summed them to form one overall dependent variable used in the regression analysis. The advantage of this process is that through summation, we reduce the statistical error attached to individual items as well as reduce the variety of foci of how the respondents measured success. The dependent variable thus measures innovation success as a whole rather than any distinct aspect of it. The survey used 5-point Likert-type scales measuring levels of agreement with given statements. In total, 184 completed questionnaires were received representing a response rate of 38.3 percent.

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