Developing Innovations: What Factors Impact the Performance of Chain Affiliated versus Independent Hotels

ABSTRACT

The failure rate of new service projects is high, because the knowledge about how innovations should be developed is limited. In the last decade, several studies have investigated the success factors associated with service innovations (e.g. Atuahene-Gima, 1996; de Brentani, 2001; Storey and Easingwood, 1998). However, no research in new service development (NSD) has addressed the question of whether chain affiliated and independently operated service firms have different approaches for developing successful innovations. The majority of past new service development (NSD) success studies have concentrated on the financial service sector, which is generally represented by large corporate organizations. The findings of this study indicate that the factors which impact on the performance of NSD depend on the organizational relationship of hotels – chain affiliation or independent operation. The study’s results suggest that market attractiveness, process management, market responsiveness and empowerment predict NSD success within chain affiliated hotels. While empowerment and market attractiveness are also related to NSD success in independent hotels, this is also linked to effective marketing communication, employee commitment, behaviour based evaluation, training of employees and marketing synergy.
INTRODUCTION

Every two years the Marketing Science Institute updates research priorities for marketing, which leading academics and managers see as important for improving business practice through academic research. The latest top tier priority topics consist of five issues, and one of them relates to innovation activities for new services and products (Marketing Science Institute, 2004). The top priorities were selected because of the importance and relevance of a topic, as well as their researchability and potential to have an impact in the field (Marketing Science Institute, 2004).

In the turbulent hospitality industry, chains and independent enterprises alike are continuously forced to look for ways of improving quality and reputation, cutting costs, and increasing sales and profits. Adding to these challenges, and often precipitating them, is fierce competition among local and international hospitality organizations, technological innovations and changes in customer needs. One way for hospitality organisations to achieve their objectives is through innovation, i.e. the ability to develop and launch new and successful service offers. New service products represent an important resource for survival and growth (de Brentani and Cooper, 1992), hence innovations has become a strategic weapon for both successful chains and independent hospitality enterprises alike.

Despite the crucial importance of being innovative and developing new services, the knowledge about how to achieve success is limited (Johne and Storey, 1998). As a result, managers often rely on gut-feeling, speculation, and their own limited experience about the keys to innovation success. Alas, the failure rate for new services remains high. On average, four out of ten new services fail in the market
place (Griffin, 1997). Thus, our understanding of the factors that impact innovation performance has to increase if service firms are to significantly improve their success rate.

It is rather surprising that although innovation in services is an important aspect of hospitality management, intuitively and theoretically, the authors found little published research. For example, Jones (1996) discussed case studies in regard to the innovation process of hospitality organizations. Enz and Siguaw’s (2003) study showed that innovations were significantly affected by outstanding hospitality individuals, also called ‘best practice champions’. Such personnel were shown to have leadership qualities in general, problem-solving skills as well as supporting and leading the project.

In the hospitality sector, there has been substantial growth and transformation. In the last two decades, it seems that new hospitality chain operations have mastered the challenging market conditions (Kotler et al., 2002). New chain affiliated hospitality operations have flourished all around the world and continue to build on their position as market leaders in the hospitality sector. What factors influence the innovation success of corporate hospitality organisations? Is it their financial strength, their powerful and sophisticated marketing systems or do they have a more structured approach to innovation? Compared to chain operations, independent hospitality firms are smaller, often have a less hierarchical system, resulting in a less structured approach to innovation. This, however, means that independent firms can be more adaptable to changing conditions, giving them the flexibility to respond more quickly to customer needs and problems (Rueckert et al, 1985). In general, independent
hotels are smaller, family owned operations, while chain hotels are larger organizations. Storey (1994) suggests that there are several key differences between small and large firms. For example, smaller firms are likely to face greater uncertainty in terms of the market but will have more internal consistency in their actions and motivations. On the other hand, in larger companies the emphasis on control is vital. Storey (1994) further argues that small and large firms have different approaches to innovation activities. Although small operations make very low investments in research, they are more likely to serve niche markets and are better placed to respond to changing customer needs than the large corporate hospitality firms. The purpose of this article is, therefore, to report on a survey of hotel managers’ perceptions of what factors contribute to the success of innovations in corporate versus independent hotels.

**What is an innovation?**

Schumpeter (1947) was one of the first to develop a theory about innovation. 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 (McGuire, 1996, p.2). According to Drucker (1985), innovation should be viewed and implemented as an opportunity, which results in the creation of a new, or a change to a different product or service. An innovation can be an idea, practice, process or product perceived as new by an individual (Rogers, 1983) and that transforms a new problem-solving idea into an application (Kanter, 1983). Following suggestions by Burgelman and Maidique (1996, P.2) “innovations are the outcome of the innovation process, which can be defined as the combined activities leading to new, marketable products and services and/or new production and delivery systems”.
New hospitality service developments range from true innovations, which are totally new-to-the-world services with an entirely new market, through to fairly minor modifications of existing services.

**DEVELOPMENT OF SUCCESSFUL INNOVATIONS**

When analyzing the development of new service projects in the financial service sector, we learn that success or failure is not the result of managing one or two activities very well. Instead, it is the result of a more comprehensive approach. Success is more likely to be achieved if one manages a large number of aspects competently, and in a balanced manner (Johne and Storey, 1998). The critical dimensions that influence service innovation performance have been separated into four clusters of concerns: (1) service or product related, (2) market-related, (3) process-related, and (4) organizational-related clusters of items (de Brentani, 2001).

In relation to product-related determinants the relative advantage of a product or service has been recognized as important source of success in new product and service development literatures (Cooper *et al.*, 1994; Cooper and Kleinschmidt, 1987). In addition to product features, tangible quality (de Brentani, 1991), functional quality (Storey and Easigwood, 1998) and, to a lesser extent, innovative technology (Cooper *et al.*, 1994), have also been found to improve the performance of service innovations.

In relation to the market determinants of service innovation success, market synergy (Cooper and de Brentani, 1991) and market attractiveness (de Brentani and Ragot, 1996) are particularly important influences. In terms of process-related determinants, the implementation of a proficient and market-oriented new product development
process including pre-launch activities (Atuahene-Gima, 1996), employee involvement in the process (de Brentani, 1991), launch preparation (Cooper and de Brentani, 1991), supporting the new project with excellent communication (Edgett, 1994) and effective process management during the process (de Brentani and Ragot, 1996) have been shown to be important. Finally, organizational-related determinants include synergies between the new service and the marketing, managerial and financial resources (de Brentani, 1991). The reputation of service firms has also been linked to NSD success (Storey and Easingwood, 1998).

Interviews with hospitality managers indicate that the most critical aspect of innovation in the hospitality sector are their employees (Ottenbacher and Shaw, 2002). Hotels often have the same ‘hardware’ so that employees are the ultimate moderator for differentiating services. This means that when assessing the performance of new services, it is essential to include criteria covering employee management. The relevance of employees in service innovation efforts has been alluded to in previous studies (de Brentani, 1991, Storey and Easingwood, 1998), but not with the intensity they deserve for a highly personalized service offering as hospitality. Korczynski (2002) argues that service management should leave behind the old production line approach and concentrate on the modern application of systematic human resource management. Such a modern application involves careful selection of employees, employee training, empowerment, low formalization, behavior-based evaluation and a strategic approach to human resource management.

The evaluation of new services and products is most frequently based on financial measures of performance (Montoya-Weiss and Calantone, 1994). Nevertheless, using
only financial measures is too limited, because it neglects several aspects of benefit to the company. The findings of success studies in innovation have shown that success on one specific dimension of performance does not necessarily mean success on the other performance dimension (de Brentani, 1991). This study, therefore, measures NSD performance along 12 dimensions: total sales, market share, profitability, improved loyalty, improved image, enhanced profitability and sales of other hotel services, opened up new markets, attracted new customers, cost efficiencies, customer satisfaction, positive employee feedback and competencies of employees.

RESEARCH METHODOLOGY

The objective of this research was to compare chain and independent innovations in order to discover what factors impact performance for each type of project. The study used the methodology developed by Cooper (1994) and validated by several innovation researchers doing similar studies (de Brentani, 1991; Storey and Easigwood, 1998), which compares large numbers of actual innovation projects so that the factors which appear to be linked to performance can be identified. The data collection involved a mail survey of the hotel sector in Germany. A list of hotels operating in Germany was traced through the “Hotel Guide” from the German Hotel and Restaurant Association and the appropriateness of the questionnaire was confirmed through the evaluation of academics knowledgeable about innovation and pretests with hospitality managers in Germany.

Like other success studies in service innovation (Cooper et al., 1994; de Brentani, 1991), hotels were contacted by telephone to identify potential projects for study and the person best able to respond to the questions. The criterion for inclusion in the
study was that the organization had developed new hospitality services over the past three years. Although the research method relies on the knowledge and memory of single respondents, because the projects were relatively recent (last 3 years) and because the managers had been carefully selected (only those with and intimate knowledge of and involvement in the projects), on average, the results should be valid.

The questionnaires that were sent out to hospitality managers in Germany sought information on the following issues: a) the factors influencing success, b) the performance of new innovations and c) background information on the respondents and their hospitality organizations (including whether they are part of a hotel chain or an independent operation). 480 questionnaires were sent out to hospitality managers in Germany. In total, completed questionnaires were received for 180 new hospitality services. This represents a response rate of 37.5%, where 73 were part of a hotel chain and 107 were independent hotels.

Exploratory factor analysis (principal component) was used to simplify the complex sets of data and define the underlying structure. The factor analysis produced 23 dimensions with Cronbach alphas ranging from .59 to .88. The projects were then grouped according to their hotel affiliation – chain or independent. Consequently, two subsamples comprising 73 chain and 107 independent innovation projects were identified. The principal aim of the study was to examine the linkages between success. Regression analysis is very useful for making predictions of likely values of the dependent variable and to test whether a specific variable (or set of variables) is important in predicting a dependent variable (Hair et al., 1998). In this study two
separate regression analyses were used (chain and independent projects), to investigate the linkages between the success factors and the hotel affiliation. The two stepwise multiple regression analyses were conducted with the success factors as the independent variable and a summed performance dimension as the dependent variable. This dependent variable consisted of twelve success factors. These items were the result of the literature review into performance measures as well as preliminary interviews for the present study. Since these items cover a range of domains (including, financial success, customer satisfaction, employee satisfaction), all indicative of innovation success, they have been summed 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 reducing the variety of foci of how success is measured amongst the sample of managers. The dependent variable thus, measures innovation success per se rather than any distinct aspect of it. The survey used five-point, Likert-type scales measuring levels of agreement with given statements.

**FINDINGS**

The results of our study reveal that innovation success for chain hospitality services depends on four key factors, while innovation success for independent hospitality services relates to seven key factors. Table 1 shows the results of the two regression analyses that identified the 11 factors, two of them overlapping, which we discuss in the following paragraphs.
Table 1: Results of Regression Analyses (Standardized Regression coefficients)

<table>
<thead>
<tr>
<th>Factors of NSD</th>
<th>Chain Hotels</th>
<th>Independent Hotels</th>
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<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>p-value</td>
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<tr>
<td><strong>SERVICE PRODUCT</strong></td>
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<tr>
<td>Tangible quality</td>
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<td>Service advantage</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Consistency service delivery</td>
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<td>-</td>
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<tr>
<td>Innovative technology</td>
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<td>-</td>
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<tr>
<td><strong>MARKET</strong></td>
<td></td>
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<tr>
<td>Market responsiveness</td>
<td>.24</td>
<td>.013</td>
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<tr>
<td>Market attractiveness</td>
<td>.41</td>
<td>.000</td>
</tr>
<tr>
<td>Price competition</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Competitive offerings</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>PROCESS</strong></td>
<td></td>
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<tr>
<td>Effective marketing communication</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Raise awareness</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Employee involvement in process</td>
<td>-</td>
<td>-</td>
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<tr>
<td>NSD pre-launch activities</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Employee commitment</td>
<td>-</td>
<td>-</td>
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<tr>
<td>NSD process management</td>
<td>.28</td>
<td>.004</td>
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<tr>
<td><strong>ORGANIZATIONAL</strong></td>
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<td>SHRM</td>
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<tr>
<td>Behavior based evaluation</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Training of employees</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Empowerment</td>
<td>.21</td>
<td>.026</td>
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<tr>
<td>Management synergy</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Reputation</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Selective staffing</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Formalization</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Marketing synergy</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sample Size</td>
<td>73</td>
<td></td>
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<tr>
<td>No. of factors in equation</td>
<td>4/23</td>
<td>7/23</td>
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<tr>
<td>F-value (equation)</td>
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<td></td>
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<tr>
<td>Adjusted R²</td>
<td>.38</td>
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All results significant at the 5 percent level (0.05 significance)

**Chain affiliated hotel innovation success**

There are four factors that influence the performance of chain affiliated hospitality innovations: *Market attractiveness, NSD process management, market responsiveness* and *empowerment*.

**Market attractiveness**: Managers perceive that both the potential and the attractiveness of the target market are crucial parameters for innovation success. The
potential relates to both the current and the future size of the market. The current market needs to be large enough to promise a worthwhile return. Yet, this is not the only criterion, as the potential in the future needs to be carefully assessed as well. As hospitality firms often have to make significant financial investments, only those innovations which release an almost immediate ROI as well as promising a long-term volume potential for the new service project, are perceived as successful by managers of chain hotels. This suggests that successful chain hospitality organizations only target innovations that will have a large potential, possibly to satisfy the financial requirements set by head office.

**NSD process management:** The results further suggest that successful chain hospitality innovation projects implement a formal and well-planned development process. Successful innovations have significantly higher levels of employee training and employee involvement in the launch activities. Furthermore, successful hospitality chain innovations test their project before they launch it on the marketplace. In addition, successful projects are guided by a clear and well communicated innovation strategy and vision and supported by effective internal marketing to employees which causes higher levels of employee commitment and motivation.

**Market responsiveness:** Market responsiveness relates to the fit between the new service and the demands of the market. The measurement scale underlying this factor suggests that successful hospitality chain innovations have a higher level of market responsiveness. Such innovations are based on active market research and respond to actual as well as anticipated customer demand. This highlights that successful
innovations require close customer contact, detailed consumer research and comprehensive understanding to distinguish between what might be a fad, fashion, or indeed, a trend. Effective customer responsiveness thus relies on the ability to comprehend the market, and on competently trained and flexible staff to respond to its challenges. The ability to respond thus underpins market selection.

**Empowerment:** Empowerment refers to the process by which managers give employees the autonomy to exercise control over job-related situations and decisions. Successful new chain hotel services occur at establishments where managers are more likely to allow employees to use their discretion and own judgment in solving problems. Management is more likely to transfer responsibilities, provide opportunities for personal initiatives and to demonstrate trust in their employees. Empowerment of employees in the service industry is not only sensible but almost unavoidable. Employees need flexibility to adapt their behaviors to the demands of each service encounter, thereby meeting customer needs more effectively (Hartline et al., 2000). Bowen and Lawler (1992) suggest that empowerment is recommended when service delivery involves managing a relationship as opposed to simply performing a transaction. Reasons for establishing a relationship with customers are to increase loyalty and obtain ideas about improving the service delivery system, or to gain new ideas for new services (Chebat and Kollias, 2000).

**Independent hotel innovation success**

Beside the two overlapping factors of *market attractiveness* and *empowerment*, five further aspects are key success factors for independent hotel innovations: *Training of*
employees, behavior based evaluation, effective marketing communication, marketing synergy and employee commitment.

**Training of employees:** The first key factor for independent hospitality innovation includes planned programs to improve the performance of individuals and/or groups of employees. This in turn, implies changes in employees’ knowledge, skills, attitudes and/or social behavior (Cascio, 1989). Training of employees is critical in order to enhance front-line expertise (de Brentani and Cooper, 1992), as well as crucial in the launch preparation stage of the innovation process (Edgett, 1994).

**Behaviour-based evaluation:** Successful new independent hospitality projects evaluate front-line employee performance in relation to employees providing courteous service, having the ability to resolve customer complaints and problems, meeting customer needs and being committed to the operation and to the customers. In other words, management evaluates staff’s friendliness and commitment rather than specific work-related outcomes (e.g. quota) (Hartline *et al*., 2000), as customers would do (Parasuraman *et al*., 1991). Furthermore, behavior-based evaluation encourages employee performance that is consistent with customer expectation of service quality and is particularly suited to employees with customer contact (Chebat and Kollias, 2000).

**Effective marketing:** Effective marketing communication comprises effective and well targeted advertising/promotion campaigns, informing journalists, guides and magazines about the new service and achieving a distinct position with the new service. This means that the marketing aspects of the launch were better targeted - at
the right customer. Better communication should result in more effective advertising and promotion than competitors, create a brand image and be consistent with the marketing strategy. It is not sufficient simply to create an innovation and announce it exists because even the best products and services ‘don’t sell themselves’.

**Marketing synergy:** A further key aspect for successful new independent hospitality services points to the fit between the innovation, the marketing mix, and the capabilities of the firm. A successful innovation fits into both the existing skills as well as the product and service mix offered by the hotel. In other words, it is appropriately priced, advertised and delivered. Managers perceive the gestalt of the service in its totality rather than merely by concentrating on perfecting the technical aspects of the service. Although there can be no doubt about the need for perfection, synergy refers to the fit, position and level of harmony in the product portfolio.

**Employee commitment:** While training and empowerment are important aspects of successful innovations, managers expressly distinguish between these facilitating parameters and the desired outcomes in staff’s attitudes, particularly during the launch. Managers should not only effectively train their employees involved in the service, but employees also need to understand and support the service so that they are fully committed to it. Internal marketing is critical at this stage because it supports the motivation and commitment of employees towards the project. Personal engagement and ‘taking ownership’ are pre-requisites for bringing new services to success. They help overcome initial difficulties and prevent staff from blaming others for failure, as any innovation requires a change from routine.
CONCLUSIONS AND LIMITATIONS

This research focused on identifying the characteristics that determine the success of chain affiliated versus independent hospitality innovations. In regard to the chain affiliated innovation, market attractiveness, market responsiveness, process management and empowerment are related to success and failure. On the other hand, the results further show that in addition to market attractiveness and empowerment, effective marketing communication, employee commitment, behavior based evaluation and marketing synergy are also critical for independent hospitality innovation success.

Overall, the findings indicate that of the four key groups of determinants of new service performance, market, process and organizational dimensions are particularly critical. Of the service product dimension, no factor significantly impacts hospitality innovation success. This non-significance does not mean that the service product related aspects are not important for hospitality innovations but, for example, the consistency of service delivery might be a basic requirement of any hospitality service and therefore expected under all circumstances.

Looking at the success factors found in previous service innovation studies, several have been confirmed, which are: market attractiveness, market responsiveness, effective marketing communication, employee commitment and marketing synergy. On the other hand, in the hotel sector several success factors have not been confirmed, such as service advantage and pre-launch activities. The high degree of intangibility of many hospitality services means that its attributes can be easily copied, and therefore, any service advantage that is derived from them is short lived and difficult
to sustain. The limited impact of pre-launch activities could be explained that most hotel innovations are improvements of existing services and involve smaller financial budgets compared to the financial innovations. Therefore, market studies and a competitive analysis are less critical and a less formal process saves valuable time and resources.

However, the main focus of the study was to investigate whether chain affiliated and independently operated hospitality firms should have different strategic approaches for developing successful innovations. The results show that although chain and independent innovations have some common success characteristics, with two factors overlapping; hotel chains and independent hotels should have different strategies if they would like to achieve success with their innovation projects. Chain innovation relates to only four, while independent hotel innovation success is linked to seven key factors. This might be explained that hotel chains are more experienced and more professionally in developing innovations, so only a few factors are critical. On the other hand, independent hotel success might be related to more factors because of their need for flexibility and their focus on niche markets.

Further interesting insight of hospitality innovation success can be gained by focusing on the actual differences of independent and chain projects and speculation why they exist. The survey results indicated that chains have a more structured approach towards innovation activities. This could be linked to the fact that new services are likely to be launched across the chain and therefore formal planning and evaluation is needed for each project. Chains might also have the necessary knowledge and resources to do market research so that their innovations are responsive to market
needs and demands. On the other hand, independent operations might not see the necessity to invest in market research to know how to respond to changes in the market or focus on satisfying unmet customer needs. They might believe that their contact with current customers offers them sufficient insight into future hospitality customer needs. This approach might provide some interesting insights but potentially does not provide adequate information, especially about current non-customers spending their money at competitors.

Independent hospitality innovations success is strongly related to effective marketing communication. Independent hotels have to work harder to inform their potential customers about their innovations. They often don’t have the infrastructure of a marketing and public relation department and don’t budget at all or only small amounts for a marketing campaign. Although the best innovations don’t sell themselves, hospitality firms often do not adequately resource and have effective marketing communication plans when launching new projects. However, successful independent hospitality innovations need the support of effective marketing communication in order to be a success.

Training of employees is also more critical for independent innovations success. Chain hotels have in general more professional training structures and also invest more money in training. It seems chain hotels have realized that employee training is important when developing innovations in order to enhance front-line expertise. Enz and Siguaw (2000) argue that employee training has become an increasingly critical aspect in the hotel sector, in order to increase service quality, reduce labor costs and increase productivity. Thus, independent innovations need the support of effective
training programs. Small, independent hotels may also have stronger employee loyalty by giving employees the feeling that they are part of the larger family which is why we may see employee commitment during the development process and training being more critical and important.

In addition, hospitality services have often high levels of intangibility and production and consumption is simultaneously. Therefore, hospitality services depend heavily on skills and experiences of employees that deliver them. If the innovation project lacks marketing synergy, then these delivery skills and resources are less likely to be adequate, resulting in lower service quality and dissatisfied customers (Cooper and de Brentani, 1991). Every hotel has an image that communicates expectations but also reflects the confidence of customers to try an innovation. It seems that chain hotels communicate a clearer and more positive image about their expertise, probably due to an emphasis on brand strategies. Therefore, marketing synergy is an essential of any branding strategy. This means that especially independent hospitality innovations should develop innovations that fit their expertise and portfolio, while creating a specific image for their operation.

Notwithstanding the results of this study, there are a number of possible limitations. The study has been conducted in a national context (Germany). The study included only the view from managers about how they experienced the performance of hospitality innovations. It did not consider staff or customers. It would be of interest to assess whether the results are applicable to other countries and to take a staff or customer perspective.
In summary, these results have important impact for managers who are involved in innovation activities, but also contribute academically, because it provides conceptual and empirically based new knowledge about likely success factors that are linked to NSD projects. So does the fact that chain operations have had especially strong growth and success in the hospitality industry relate to superior innovation activities? Or is it simply the case that chains have more money and more formal structures? This study suggests that besides the corporate growth in the hospitality sector, there are also several independent hotels that have been very successful with their innovation activities. Therefore, innovation success in the hospitality industry is not only a matter of money and structure. Empowerment and market attractiveness are basic success requirements for any hotel innovation. However, the secret of hospitality innovation is that chain affiliated and independently operated hospitality firms should have different priorities when developing innovations. Hospitality firms should vary the emphasis between the market, process and organizational factors in order to develop successful corporate or independent hospitality innovation.
References


