



Becoming an ambidextrous hotel: The role of customer orientation



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ABSTRACT

Because competitive pressure in the hotel industry continues to increase, hotels have to develop service innovation (i.e., exploration) and service improvement (i.e., exploitation) capacities to become ambidextrous for continually creating customer value. In this study, a theory of the effect of customer orientation on service innovation and service improvement, which facilitates service quality and results in better market performance, was developed and investigated. By analyzing the data provided by senior executives and department managers from 126 hotels in Taiwan, both service innovation and service improvement were revealed to partially mediate the relationship between customer orientation and market performance. The results imply that customer orientation affects the market performance of a hotel through the development of service capabilities, and that customer orientation can transform a hotel into an ambidextrous hotel by concurrently developing service innovation and service improvement capacities.

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1. Introduction

As hotels face greater competitive pressure from globalization and customization, they need to meet customer demand for unique and memorable experiences (Chathoth et al., 2013; Gilmore and Pine, 2002), and provide quality service to customers effectively (Wang et al., 2012) to survive in the industry. In response to inquiries regarding customer service, ambidextrous hotels can create new services and improve the quality of current services simultaneously.

New service development (exploration) and existing service improvement (exploitation) (Martínez-Ros and Orfila-Sintes, 2009; Orfila-Sintes et al., 2005) are at the opposite ends of the service innovation spectrum. The capability of new service development is called “service innovation,” which defined as the capability to apply useful knowledge derived from multiple resources to create new services (Yang et al., 2009). The capability to improve existing services by applying planning methods is called “service improvement” (Boer et al., 2000; Ettlíe, 1983; Peccei and Rosenthal, 1997). In addition, the capability to provide customers with new services is considered to be “exploration.” The capability to conduct continual service quality improvements is termed “exploitation.” In this study, exploration and exploitation were conceptualized into service innovation and service improvement, respectively, which

are terms more closely related to the hotel context that is explored in this study. Both of these capabilities help hotels become both proactive and reactive toward external industry environment trends and changes regarding customer needs.

Most current studies on exploration and exploitation focus on technology and product contexts (e.g., Yalcinkaya et al., 2007), whereas sufficient discussions on the contexts of customer interaction and service delivery have not been conducted (Lisboa et al., 2011; Vorhies et al., 2011). In the hotel industry, customer requirements for continue improving service quality, service production and consumption occur simultaneously, and customer needs are diverse and heterogeneous (Orfila-Sintes et al., 2005). These service characteristics have led to the development of new services and to the improvement of existing services, both of which are crucial for hotel operations (Chang et al., 2011; Orfila-Sintes et al., 2005).

However, research exploring the effect of service innovation and service improvement capacities on market performance has been scant (Ottenbacher, 2005), although numerous researchers have emphasized the great benefits of these capacities in promoting market performance (Shaw et al., 2011; Zhou et al., 2009). Market performance is defined as the degree to which hotels satisfy and retain customers by offering quality products and services compared with those of direct competitors (Moorman and Rust, 1999; Zhou et al., 2009). Therefore, the first purpose of this study was to examine the contributions of service innovation and improvement capacities to market performance in the hotel industry.

The development of new services and the improvement of existing services were typically considered trade-offs (Berthon et al., 1999; Olsen and Sallis, 2006) and difficult to achieve

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simultaneously because the development of service innovation and improvement capabilities require distinct perspectives, decision-making methods, and operating processes and resources (Auh and Menguc, 2005; Cegarra-Navarro et al., 2013; Denicolai et al., 2010; Olsen and Sallis, 2006). However, Gibson and Birkinshaw (2004) argued that a firm with ambidextrous attributes can perform contradictorily organizational activities simultaneously. For example, ambidextrous hospitality firms can integrate various resources to develop new services for adapting to environmental changes and concurrently establish regulations and management activities to improve service quality systematically (Chang et al., 2011; Gibson and Birkinshaw, 2004). To gain this competitive advantage, hotels have to conceive of a method for balancing two contradictory service capabilities. However, a comprehensive understanding of how a hotel can become an ambidextrous organization is lacking. Therefore, the second purpose of this study was to investigate which strategy orientation hotels should emphasize to promote the development of two contradictory service capabilities to become ambidextrous service firms.

Customer orientation is perhaps the main factor that impels hotels to become ambidextrous firms. Customer orientation enhances a hotel's understanding of customers, and helps it design new or improved service solutions to meet customer needs (Grissmann et al., 2013; Sin et al., 2005); thus, customer orientation enhances managerial and financial performance (Sin et al., 2005; Tajeddini, 2010; Tajeddini and Trueman, 2012). Based on the aforementioned reasons, service capability was assumed to be a plausible mediating mechanism. Therefore, to reduce the risk of new service development (Grissmann et al., 2013) and develop ideas for improving existing services (Lages and Piercy, 2012), hospitality firms need to understand customer needs; consequently, hotels can balance the capabilities of service creation and improvement for satisfying customer needs. However, few studies have examined the mediating mechanism through which customer orientation affects market performance (e.g., Tajeddini, 2010, 2011; Zhou et al., 2009). Therefore, the third purpose of this study was to determine how customer orientation helps hotels create customer value through service capabilities and eventually achieve superior market performance.

In summary, the manner in which customer orientation strategy can help hotels balance contradictory capabilities, service innovation and service improvement, and eventually become an ambidextrous hotel with a competitive advantage, was investigated. This research also elucidates the links between customer orientation and market performance by emphasizing the mediating role of service innovation and improvement capacities.

2. Theoretical background and hypotheses

2.1. Service innovation and service improvement

Parasuraman et al. (1985) defined service quality as the degree and direction of discrepancies between customer perceptions and expectations. They suggested that customers evaluate overall service quality using five dimensions: tangibles, reliability, responsiveness, assurance, and empathy. For the hotel industry, customers evaluate the furnishings, supplies, and service encounters during their lodging experience. If the perceptions exceed the expectations, customers believe that the hotel provides quality service. Therefore, to ensure that superior service quality is delivered, hotels should strive to enhance their service capabilities to meet target and potential customer needs, and constantly provide greater value for customers (Narver and Slater, 1990; Zhou et al., 2009).

According to the capability-based perspective, Hogan et al. (2011) suggested that a service firm's source of competitive

advantage lies in the capability of the firm to deploy resources effectively. Service capability is defined as the ability to deploy resources to provide high-quality service that satisfies and retains customers. This capability can be used as an interior mechanism for compromising skills and knowledge. By using this mechanism, the resources of a service firm can be deployed for satisfying or creating market needs (Hogan et al., 2011; Lisboa et al., 2011).

Service innovation and service improvement are the two major types of service innovation capacities for meeting customer needs and retaining customers (Chang et al., 2011; Martínez-Ros and Orfila-Sintes, 2009). Service innovation involves the use of new ideas, processes, methods, and technologies. By providing new services and identifying new methods to create enhanced value, service innovation can meet future customer needs (Chang et al., 2011; Olsen and Sallis, 2006) and enable revisit customers enjoy distinct service experience. For example, in Taiwan, numerous hotels provide customers with plastic sensor bracelets equipped with radio frequency identification (RFID) functions when they check into the hotel. Customers are able to freely conduct various activities throughout the hotel by using the RFID bracelet, including dining, the selection of package tours, and consumption activities. Furthermore, customer consumption data recorded using the RFID bracelets allow hotels to provide more varied experiential services for customers in the future.

Service improvement, which involves the planning and systematic application of methods and tools for improving service quality, emphasizes the need to refine and identify the potentials of existing service processes and systems (Ettlie, 1983; Peccei and Rosenthal, 1997). To provide customers with consistent and superior service quality, hotels that emphasize the improvement of service quality use various tools to monitor customer feedback regarding service quality and satisfaction. By using customer information, hotels analyze the drawbacks of existing services and search for opportunities to further improve and adjust these services (Ro and Wong, 2012). By restructuring or adjusting the existing service systems and redistributing the resources within the hotel, managers can improve service procedures and service quality (Cheng et al., 2012). For example, the managers at the Sheraton Grande Taipei Hotel discovered that the ratio of room guests asking for replenished bottled water in the previous month was high. After conducting an analysis, the managers believed that this phenomenon was caused by a deficiency in the amount of bottled water originally supplied to the guests. The hotel ultimately decided to increase the amount of bottled water supplied to each room to reduce the workload of service employees who must supply additional bottled water and facilitate the efficient use of human resources. By adjusting the allocation of hotel resources to satisfy customer needs, hotels can improve customers' subjective evaluations of their service quality.

Radical and incremental innovation results from the application of these capabilities by hotels. The application of the service innovation capability leads to radical innovation; by contrast, the application of the service improvement capability leads to incremental innovation. The focus of service innovation is on future customer demand or potential market demand; thus, novel and spin-off knowledge is pursued (Olsen and Sallis, 2006). The development of new services can offer unique consumption experiences and outstanding core values and benefits to customers (Berry et al., 2006; Paswan et al., 2009; Shaw et al., 2011). These core values and benefits include impressive life experiences (Gilmore and Pine, 2002), indoor recreational facilities and relaxation activities, and a convenient, private business center. The development of core values allows a hotel to differentiate itself from competitors and improve the service quality and reputation of the hotel (Ottenbacher and Gnoth, 2005; Grissmann et al., 2013; Tajeddini and Trueman, 2012). By contrast, service improvements focus on the use of existing knowledge to add or adjust the characteristics

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