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# Enhancing business performance of hotels: The role of innovation and customer orientation

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### ABSTRACT

Innovation management and customer orientation have been widely recognized as key factors in enhancing the business performance of hotels. Our research investigates the interplay between customer orientation, innovation, and business performance in the Alpine hospitality industry. The study contributes to current innovation research by jointly investigating hotel innovativeness and innovation behavior as two distinct dimensions of the innovation concept. Analyzing data from 203 hotel managers, this study shows that the effect of hotels' customer orientation exceeds the effects of innovativeness and innovation behavior on financial and non financial business performance. Mediation analysis shows that innovation behavior partially mediates the effect of customer orientation on business performance. The results of the study provide hotel management with relevant insights into the customer orientation innovation performance chain.

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### 1. Introduction

In an era of globalization, technological evolution and stagnating tourism demand, competition in the hotel industry has become fierce (Tseng et al., 2008). Hotels that track and respond to customers' needs and preferences perform at higher levels while achieving sustained success and maintaining a strong competitive position (Sin et al., 2005; Zhou et al., 2007).

Innovation in this context allows hotel managers to introduce new services that improve quality, thereby both meeting the changing requirements of potential customers and increasing their market share, sales and profits (Chen et al., 2009). This is particularly important for the Alpine hospitality industry, which consists predominantly of small- and medium size hotels that are unable to obtain a low-cost advantage (Smeral, 1996). Alpine hotels therefore maintain their competitive position by focusing on differentiation strategies (Pikkemaat and Peters, 2005; Pikkemaat, 2008), offering new services, and providing quality standards that meet the expectations of their customers (Weiermair and Fuchs, 1999).

Although marketing research investigates the relationship between customer orientation and business performance in various small, medium, and large companies (Narver and Slater, 1990; Jaworski and Kolhi, 1993), to date there has been scant research that has addressed the influence of customer orientation on hotel performance (Wang et al., 2012; Sin et al., 2005; Zhou et al., 2007)

and found a positive relationship between them. In addition to customer orientation, innovation also significantly influences a hotel's business outcome in terms of enhanced competitiveness and substantial improvements in performance (Orfila-Sintes and Mattsson, 2009).

The existing literature suggests that customer orientation is an important driver of innovation. A customer-oriented company is more likely to adopt services and products that meet customers' needs and wants (e.g., Campbell and Cooper, 1999; Jaworski and Kolhi, 1993; Deshpandé et al., 1993; Atuahene-Gima, 1996; Kuusisto and Riepula, 2008).

Several scholars have investigated how customer orientation and innovation together influence business performance (e.g., Narver and Slater, 1990; Deshpandé et al., 1993; Jaworski and Kolhi, 1993; Slater and Narver, 1994). In the hotel context, the scant body of research that has examined the customer orientation–innovation–performance chain so far (Agarwal et al., 2003; Sandvik and Sandvik, 2003) has argued that the relationship between customer orientation and performance is not direct but mediated through innovation.

In order to understand how customer orientation influences the competitive parameters of a company, it is essential to investigate innovation as a mediator. However, current studies in the hospitality sector measure innovation by focusing either on the behavioral dimension of innovation, referring to the number of innovations implemented (e.g., Orfila-Sintes et al., 2005; Agarwal et al., 2003) or on its innovativeness, referring to management's openness to new ideas. They thus describe a more attitudinal dimension of innovation (e.g., Hurley and Hult, 1998; Tajeddini, 2010). This

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research contrasts with that of Sandvik and Sandvik (2003) and Agarwal et al. (2003), who focused on innovation behavior as a mediating variable, and it adds to the literature by considering innovativeness as an additional mediating variable in the customer orientation–innovation–performance chain. Our study is the first to jointly investigate the attitudinal and behavioral dimensions of innovation as mediating variables. By measuring both a hotel's innovation behavior and its innovativeness, we gain deeper insights into the relationships between innovation and the business performance of hotels.

The purpose of this study, therefore, is to investigate the interplay between innovation, customer orientation, and business performance indicators in Alpine hotels. We take into account the inter-sectoral heterogeneity of tourism services by focusing on companies belonging to a single industry (Han et al., 1998; Orfila-Sintes and Mattsson, 2009). Because the tourism industry encompasses a wide range of activities in a variety of sectors such as restaurants, transportation, accommodation, and entertainment, there are also differences in customer orientation and innovation management. The hotel industry, however, is characterized as a homogenous industry that provides a substantial part of the tourism product (Borooah, 1999).

Our study is important for the Alpine hospitality industry for several reasons. First, over the past half century, tourism has become an increasingly significant economic factor in the Alps (Weiermair et al., 2007). The numbers speak for themselves: some 4.5 million tourist beds (about 1.2 million of them in hotels) and more than 300 million annual bed nights indicate the hospitality industry's importance to the economy of the Alpine region (Bartaletti, 2011). Second, the accommodation sector is a fundamental part of the Alpine tourist experience since lodging is usually the first service that guests encounter when they arrive at a destination (Orfila-Sintes et al., 2005). Third, in terms of arrivals, the Alpine region ranks second only to the Mediterranean coast as the world's top tourist destination (Bartaletti, 2011). And finally, although some innovation research has studied Mediterranean destinations (Orfila-Sintes et al., 2005; Sundbo et al., 2007; Martinez-Ros and Orfila-Sintes, 2009; Orfila-Sintes and Mattsson, 2009), it has largely ignored the Alpine hospitality industry. Taking the Swiss hospitality industry as an example for Alpine hotels, Tajeddini (2010, 2011) and Tajeddini and Trueman (2012) take an in-depth look into the interplay of innovation, customer orientation, and performance. Our study, which elaborates on their findings, is set in a broader context of Alpine hotels. Taking all these reasons into account, this study chooses the Alpine hotel industry as a suitable focus for research on customer orientation, service innovation, and hotel performance.

The remainder of the paper is structured as follows: a literature review discusses the influence of customer orientation on innovation behavior, innovativeness and business performance and then establishes the study hypotheses. We develop two alternative conceptual models and test them with data obtained from 203 hotel managers from five Alpine countries: Austria, Germany, Italy, Liechtenstein, and Switzerland. Subsequent sections then describe the methodology, the data analysis, and the results. The study concludes by providing implications for research and management, discussing limitations, and making recommendations.

## 2. Research framework and hypotheses

### 2.1. Innovativeness and innovation behavior

Innovativeness and innovation behavior have gained immense interest in management research. Innovativeness refers to the notion of openness towards new ideas as an aspect of a firm's

values and beliefs towards innovation (Hurley and Hult, 1998; Hult et al., 2004; Tajeddini, 2010). The term innovativeness generally refers to a company's orientation towards innovation as the force that drives its strategy, learning, and functional interaction (Siguaw et al., 2006). In the present study, innovativeness refers to the kind of organizational culture that encourages the introduction of new services, products, or ideas (Tajeddini et al., 2006; Hurley and Hult, 1998). Like Matsuo (2006), we regard innovativeness as an "attitudinal dimension" of innovation.

Innovation behavior is understood as the extent to which innovations are actually implemented within various areas of a company (Orfila-Sintes et al., 2005; Pikkemaat and Peters, 2005). This definition draws on prior research that measured, for instance, role innovation, which indicates how many changes an individual has implemented in his or her job (West, 1987). Innovation behavior also tracks whether an individual adopts innovations before others (Rogers, 1995). Kleysen and Street (2001, p. 285) defined innovation behavior as "...all individual actions directed at the generation, introduction, and/or application of beneficial novelty at any organizational level." Thus, following the example of Orfila-Sintes et al. (2005), our study regards innovation behavior as a "behavioral" dimension of innovation because it refers to the number of innovations that a hotel implements.

To distinguish "attitude" from "behavior," we use the definitions of Ajzen and Fishbein (1977, p. 889): attitude refers to "an individual's evaluation of an entity in question," while behavior refers to "observable actions performed by the individual and recorded some way by the investigator." Innovativeness can therefore be distinguished from innovation behavior (Matsuo, 2006) because innovativeness is an organization's orientation towards innovation (Hurley and Hult, 1998, p. 44), whereas innovation behavior is the quantity of new products and services the company actually introduces. The question of whether attitude guides behavior has been gaining interest in social psychology and marketing research for decades, and the answer is that attitude does not always affect behavior (e.g., Snyder and Kendzierski, 1982). Consequently, the question that arises is whether management's attitude towards innovation actually influences management's innovation behavior.

In general, it is vital for a company to utilize its human capital by encouraging new ideas, sharing knowledge, rewarding creative employees, and employing managers who are open minded and welcome new ideas that will lead to the creation of new products and services (Hurley and Hult, 1998; Hult et al., 2004). Hurley et al. (2005) suggested that innovativeness is the social capital a company uses to facilitate innovation behavior. Scott and Bruce (1994) emphasized that the psychological climate for innovation facilitates innovation behavior. Amabile (1996) pointed out that an encouraging work environment strongly enforces creativity processes in an organization.

In a hotel context, innovativeness can take various forms, such as developing appropriate strategies, encouraging employees to come up with creative ideas, or simply being open to change (Tajeddini, 2010). Investigating how innovations can be fostered through human resource management practices in hospitality firms, Chang et al. (2011) found that extensive training of customer-contact staff is of particular importance in encouraging innovation since they are the people who often generate the ideas for innovations. Additionally, customer-contact employees are often responsible for testing new products and services. Mumford (2000) further argued that innovations often stem from the ability of customer-contact employees to solve problems creatively. Chen (2011) analyzed the effects of service innovation culture and charged behavior on a hotel's innovation behavior, concluding that innovation behavior increases when employees are rewarded for new ideas and encouraged to take risks. Martinez-Ros and Orfila-Sintes (2009) also stressed that hotels'

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