



# Business model innovation and business concept innovation as the context of incremental innovation and radical innovation



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## HIGHLIGHTS

- Business model innovation modifies the context of internal innovation.
- Business concept innovation modifies the logic and patterns of internal innovation.
- Innovation strategy, business concept, and business model are interrelated.
- Business concept innovation is a central pillar in business model innovation.
- Successful innovation is not only about technological and scientific progress.

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## ABSTRACT

Innovation is a means for obtaining competitive advantages in the tourism and hospitality sectors. However, the innovations, knowledge, and technologies acquired may be easily accessible for competitors. This study, which is based on interviews with 115 senior managers, seeks to show how tourism and hotel firms innovate, and how the achievement of successful innovations is possible. A model for business innovation is proposed, which takes full advantage of internal and external sources of innovation for the generation of sustainable competitive advantages. The findings show the effects of business model innovation and business concept innovation. The adoption of new models and concepts that support innovation are shown to be important. Specifically, the keys to successful incremental and radical innovations lie in adopting a new contextual and conceptual framework through which innovations can occur and customer needs can be met, thereby giving rise to new competitive advantages.

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## 1. Introduction

An analysis of innovation in service firms is interesting, due to the importance of innovation in these firms and the weight of the service sector in the economy (Miles, 2005). It is also very clear that innovation is particularly important in tourism (Aldebert, Dang, & Longhi, 2011; Hjalager, 2010; Martínez-Ros & Orfila-Sintes, 2009; Novelli, Schmitz, & Spencer, 2006; Stamboulis & Skayannis, 2003; Sundbo, Orfila-Sintes, & Sørensen, 2007; Williams & Shaw, 2011). Tourism and manufacturing firms do not innovate in the same manner, nor do all firms in the services sector (Martínez-Ros & Orfila-Sintes, 2009; Sundbo et al., 2007), although all services have common innovation aspects. This study focuses on the tourism sector, particularly on the hotel industry.

Tourism firms and the broader service sector share certain features that influence innovation. The hotel industry is part of, and has similarities with, the tourism sector, as well as with other service-sector firms.

Innovation is a requirement for operating in today's competitive tourism environment (Novelli et al., 2006), even to the point that firm competitiveness within the tourism sector and the hotel industry depends on innovation achievement (Orfila-Sintes & Mattsson, 2009; Sundbo et al., 2007). Therefore, innovation is a relevant subject in tourism research, mainly due to its positive impact on economic performance, although the consolidation of innovation phenomenon in tourism requires further theoretical and empirical studies (Hjalager, 2010).

A critical innovation factor is knowledge (Hjalager, 2010), both scientific and technological knowledge and sector-specific knowledge. Non-technological knowledge and non-technological innovations are crucial for the competitiveness of tourism firms. It means that it is possible to distinguish between different kinds of

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innovations – technological and non-technological – which is important because innovations based on external knowledge readily accessed by competitors might be quickly and easily imitated. In tourism and hospitality, technological innovations are commonly the result of external technology, external technological knowledge and scientific knowledge available for any firm in the industry, but as [Chapman, Soosay, and Kandampully \(2002\)](#) note, the same occurs in other industries where the technology developers are external to the industry, because they sell new technologies to everyone.

Technological innovation in tourism and the hotel industries is mainly supplier-dominated ([Evangelista & Savona, 2003](#); [Pavitt, 1984](#)). This probably is the most evident and clear innovation type, as well as the most studied in the manufacturing sector. However, internal innovations in tourism and hotel industries are mainly non-technological; thus here is a great challenge for researchers in tourism and hotel innovation, as well as in the service sector. It also provides great opportunities for advancing the field of innovation. Non-technological innovations, such as in business models and business concepts, are a way to demonstrate innovation's potential for service firms. It should be noted that manufacturing firms are not restricted only to technological innovations, so the study of business model and business concept innovation in the service industry can have applications for manufacturing firms as well.

The aim of this study is to show the influence of business model innovation and business concept innovation on successful incremental and radical innovations. In other words, to assess whether firm innovation – distinguishing between degrees of novelty – depends on new business models or new business concepts. Thus, the existing business model in the firm, or the business concept established, may preclude certain innovations, or in contrast, it may represent an important protection against imitation. Therefore, this study examines whether internal innovation options are limited, and consequently, the application and exploitation of internal knowledge and external knowledge.

At the same time, this provides a framework for understanding how non-technological developer firms innovate. Most of the innovation capacity of these firms is not focused on the generation of technological knowledge and scientific knowledge, nor does it depend exclusively on companies developing innovations outside this sector. This study presents empirical evidence on innovation in hotel firms, analyzing the relationship between business concept innovation and business model innovation, and the relation of both of these innovation types to incremental and radical innovations obtained by hotel firms.

## 2. Background and hypotheses

### 2.1. Innovation in hotel firms

The literature about innovation in the service sector is still very limited ([Adegoke, 2007](#); [Ettlie & Rosenthal, 2011](#); [Flikkema, Jansen, & Van Der Sluis, 2007](#)), and it is even more limited, both theoretically and empirically, for the tourism industry. The number of theoretical studies on innovation in the tourism industry is astonishingly low ([Williams & Shaw, 2011](#)). Thus, it is not surprising that there are relatively few studies on innovation in the hotel industry, and that statistical analyses of this phenomenon are even rarer. This situation is a consequence on one hand of conceptual problems related to the characteristics of service, tourism and hotel firms, and on the other hand, to the lack of available data.

The characteristic features of services are clearly present in hotel and tourism firms, influencing how innovation manifests itself in these companies ([Orfila-Sintes, Crespi-Cladera, & Martínez-Ros,](#)

[2005](#); [Orfila-Sintes & Mattsson, 2009](#)). This implies that each of the hotel and tourism industry characteristics are taken into account in innovation activities, such as close interaction with clients, coterminality, high content of information in services, and the importance of the human factor ([Orfila-Sintes et al., 2005](#)).

Hotel firms, as service companies active in the area of tourism, have specific features with respect to innovation. The configuration of hotel service characteristics are: (1) production and consumption happen at the same time (consumer and producer have to be in the same physical place); (2) intangible and tangible elements (a room is tangible but the right to sleep for a night in a quiet, clean, comfortable, etc. room is intangible); (3) transport and storage are not possible (a room is only available in one location for a specific period of time), which increase the difficulties of managing intangible aspects, because tangible and intangible elements are inevitably interrelated and linked; and (4) variability (it cannot be exactly repeated, because circumstances, conditions, configurations or assigned resources are not completely the same). In addition, another relevant, differentiating characteristic of tourism firms is that the competition is not only between firms in one geographic destination, but also between firms in different destinations.

Given these characteristics, the innovation process requires focusing on the close relationship with customers and the level of employee commitment. A service innovation needs the participation of prospective clients and staff cooperation ([Orfila-Sintes & Mattsson, 2009](#)).

Intangible and tangible service elements are interrelated in the hotel industry. This means that the intangible characteristics of service – as a night sleeping in a nice, quiet, clean and comfortable place – depend in part on how the hotel and its rooms are – physical and tangible characteristics of a service provided. In turn, these service characteristics are dependent on tangible and intangible aspects integrated or not integrated into the service provided, such as how employees treat guests, and the hotel's operating systems.

Furthermore, hotel firms are not technology-based or science-based firms ([Hertog, Gallouj, & Segers, 2011](#); [Nieves, Quintana, & Osorio, 2014](#); [Orfila-Sintes & Mattsson, 2009](#)). The technological innovation pattern of hotels is suppliers-dominated ([Castellacci, 2008](#); [Evangelista, 2000](#); [Evangelista & Savona, 2003](#); [Orfila-Sintes et al., 2005](#); [Pavitt, 1984](#)). Consequently, many innovations – resulting from technological knowledge and scientific knowledge – are embodied in machinery, equipment, hardware and software acquired by hotels, or deployed by external companies for hotel firms. However, in addition to innovation in the hotel industry that entails the adoption or use of innovations generated externally ([Castellacci, 2008](#); [Lim, 2009](#); [Scaglione, Schegg, & Murphy, 2009](#)), hotel companies develop their own innovations, which requires that both technological innovations and non-technological innovations be taken into account ([Hertog et al., 2011](#); [Nieves et al., 2014](#); [Orfila-Sintes & Mattsson, 2009](#)). Accordingly, the Oslo Manual ([OECD & EUROSTAT, 2005](#)) stresses that technological innovations do not reflect a large portion of the innovations generated in the services sector.

In addition, innovation does not end with the development of new knowledge, but with the application of new knowledge with the aim of meeting customers' needs. This, in relation to the prevailing technological innovation pattern, paints a more complex picture of innovation in hotels than mere technology push. In fact, tourism and hotel firms do not innovate mainly due to the development of new scientific knowledge ([Sundbo, 1997](#)) or new technologies ([Nieves et al., 2014](#); [Orfila-Sintes & Mattsson, 2009](#)), though some technologies are internally developed by hotels ([Orfila-Sintes & Mattsson, 2009](#)), but from the confluence of three aspects. The first is the absorption and assimilation of external technological and scientific knowledge, and new technologies. The

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