

**ROLE OF INNOVATION IN CREATING CUSTOMER
VALUE IN HOTEL ESTABLISHMENTS:
A STUDY ON MANAGERS**

**KONAKLAMA İŞLETMELERİNDE MÜŞTERİ
DEĞERİNİN OLUŞUMUNDA YENİLİĞİN ROLÜ:
YÖNETİCİLER ÜZERİNE BİR ARAŞTIRMA**

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ABSTRACT

The purpose of the study is to examine the role of innovation in services, processes and managerial practices on customer value creation in hospitality establishments. Recent studies in the literature suggest that the innovation is one of the most important factors that affect customer value. However, there has been relatively little substantive research focusing on these issues. The research framework developed in this study was tested by 199 managers of hotel establishments in Turkey. In this respect, as a result of statistical analysis applied to the data obtained from managers in hotel establishments; it's accepted that a significant relationships were found between the variables. Accordingly, innovations on services and processes affect customer value positively.

ÖZET

Çalışmanın amacı, konaklama işletmelerinde hizmetlere, süreçlere ve yönetsel uygulamalara ilişkin yeniliklerin müşteri değeri oluşumundaki rolünü incelemektir. Literatürdeki son çalışmalarda, yeniliğin müşteri değerini etkileyen unsurlardan birisi olduğu ileri sürülmektedir. Bununla beraber, müşteri değeri ve yenilik arasındaki ilişkiye odaklanan az sayıda çalışma bulunmaktadır. Araştırma, Türkiye'de konaklama işletmelerinde çalışmakta olan 199 yöneticiye uygulanmıştır. Bu doğrultuda, konaklama işletmelerindeki yöneticilerden elde edilen verilere uygulanan istatistiksel analizler sonucunda; değişkenler arasında anlamlı ilişkilerin bulunduğu kabul edilmiştir. Buna göre, hizmetlere ve süreçlere ilişkin yenilikler müşteri değerini olumlu olarak etkilemektedir.

Customer value, Process Innovation, Service Innovation, Managerial Innovation, Hospitality Establishments
Müşteri değeri, Süreç Yeniliği, Hizmet Yeniliği, Yönetsel Yenilik, Konaklama İşletmeleri

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1. INTRODUCTION

Although the rapid developments in every field raises the living standards of societies over time, they also made the customers, who are forced to choose among different services and product alternatives, the focal point in organizational activities. Today, the establishments of a long-term marketing relationship with the customers, which are becoming increasingly sophisticated and have preferences, because of their experiences, become more difficult for organizations day by day. In particular, if hospitality establishments are regarded as organizations, which offer various services in various styles and standards, in a highly competitive environment and in different destinations; it can be said that establishing a customer loyalty is not so easy. At this point, in recent years researchers emphasize the concept of "value", which represents the difference between "benefits" and "cost of benefit" provided to the customer, other than the service quality which is associated with "what is presented" and "how it is presented" to customers. Accordingly, the customer perceives the value of services rendered, just as he/she perceived the quality of service offered by the business. The "customer value" created as a result of this perception, should be considered as the fundamental basis of a long-term sustainable marketing relationship. Creating a customer value; in other words, offering more value to the customer, compared to rival companies, is related to the organizational capabilities. Many elements, affecting formation of customer's perception, are observed, when the characteristics of services and service processes offered in hospitality business. The value presented to the customer; is formed when the customer compares the benefits and costs of services offered with the benefits and costs offered by competitors. Consequently, achieving competitive advantage by offering value to the customer requires being different and superior in many elements such as services, service processes, systems, quality, price, etc. than competitors. Ensuring this depends on bringing innovations in services, service processes and managerial processes and the continuation of those innovations. In this study, the relationship between customer value and innovation will be discussed, which is increasingly gaining importance in hospitality business.

2. THE THEORETICAL FRAMEWORK AND RESEARCH HYPOTHESES

2.1. Customer Value

Customer value has become a managerial tool, with the understanding of the importance of providing customers a value, in the development of the service processes (Olaru et al, 2008: 555). The customer value has been described as the main instrument of competitive strategies and the heart of management approaches by the researchers (Fortuin and Omta, 2007: 395; Brennan and Henneberg, 2008: 561). In addition to this, the customer value is closely related to marketing approach and customer-oriented nature of an organization (Brennan and Henneberg, 2008: 561).

Creation of the value and its presentation to customer lies at the center of the organization's marketing activities. Customer value is a strategic weapon in attracting and retaining customers and has become one of the most significant factors in the success of both manufacturing businesses and service providers (Mathuramaytha and Ussahawanitchakit, 2008; 128). Although there is no agreement in definition of the "value" concept and its underlying dimensional meanings in the literature yet; as a term it's mostly used in "*customer value*", "*perceived value*" or simply "*value*" forms (Howden and Pressey, 2008: 790).

Understanding what customers value can be quite complex and involve many facets (Flint et al., 2005: 116). According to Grönroos (2000: 140), the starting point for understanding value is the observation that "value is perceived by customers in their internal processes and in interactions with suppliers or service providers when consuming or making use of services, goods, information, personal contacts, recovery and other elements of ongoing relationships". Kotler (Kotler, 2000: 34) defines *customer value*; as *the difference between the sum of the expectations of customers regarding the product or service, and the total costs that they should bear in order to use that product or service*. The customer value is the difference between the total benefit obtained from the product or service and the total cost incurred to obtain that product or service (Aktepe et al, 2009: 38) In other words, the customer value is based on the customer's assessment on benefits and costs perceived by the customer (Mathuramaytha and Ussahawanitchakit, 2008: 128). Customer value is related to the outcome of the evaluation performed by customer on the product, benefit of the service and its cost. In essence, *the customer value; emerges when customers perceive that the total benefit of that product or service is greater than the total cost incurred for that product or service* (Nasution and Mavondo, 2008a:479; Nasution and Mavondo, 2008b:205).

Support on customer value among academics and practitioners, has been possible with the understanding that customer value-based pricing is the key to a sustainable profitability. Customer value-based pricing; includes understanding the sources of value for customers; designing products, services, and solutions that meet customers' needs; and setting prices as a function of value (Hinterhuber, 2008: 41). In many studies, it's accepted that the formation of customer value is a result of comparison, between customer-perceived quality and perceived price (Desarbo et al., 2001: 846). Accordingly, the belief that the customer has an economic benefit, which is a result of his assessment on quality and price, lies at the basis of the decision on selection for the product or service (Ho and Ko, 2008: 429-430). However, defining the formation of customer value as a quality function would be insufficient. Because the benefits perceived by the customer; include a combination of features, services, provided technical support, skills and experience on related product or service (Saeed et al., 2005: 227; Nasution and Mavondo, 2008b: 205). For example, a customer who considers buying an LCD television, can not decide between X and Y brands, which he thought they are equivalent in terms of quality and price, at first. This uncertainty case, can be ended if the customer learns that brand Y has an

extensive service network than the brand X, and has a total of 7-year of warranty. Naturally customer tends to brand Y, among equivalent products in terms of quality and price, since he/she believes it offers more value than the other brand.

The findings of the empirical study conducted by Chang and Hsiao (2008: 523-524), has showed that the values perceived by customers in accommodation establishments, were affected positively with the fair delivery of services and improvements in services; however, it's also showed that they were affected negatively by the risk perception. Again, an empirical study conducted by Chang (2008: 80-81), suggests that the dimensions of perceived service quality by customers (tangible features, reliability, responsiveness, assurance, empathy) in accommodation establishments, affect customers' value perceptions. Empirical studies in the literature supports that the customer value is a function of perceived quality and perceived price. However, it's accepted that the perception of quality has a positive effect on customer value in general; in addition to this, the price perception has a negative impact on customer's perception on the value (Desarbo et al., 2001: 846).

2.2. Relationship Between Innovation And Customer Value

In the present day knowledge-based economy, *the innovation* is defined as a key for the creation of value in products or services. (Hsu and Fang, 2009: 667). There are different approaches on the types and extent of innovation in the literature. It's observed in the current studies that discussions are continued on issues such as, the meaning of innovation, number of types of innovation; whether the present implementations are "innovation?", "imitation?" or "benchmarking?". Here, without discussing the conceptual and dimensional issues, it's aimed to state meaning and scope of the innovation concept, regarding the hospitality management and customer value. Innovation implies that an organization should be open to new ideas, new products, new processes and new services (Henri, 2006: 532; Mohamed et al., 2009: 41). Innovation is created by successful implementation of creative ideas in organizations. The importance of performing innovations in product or services, for long-term success of organizations, has been accepted in the literature studies. (Alegre and Chiva, 2008: 315). Innovation represents the changes which creates value in by organizational outputs.

The aim of turning the new ideas into products and services, which create value, lies at the core of innovation (Toraman et al, 2009: 94). The innovation in services industry is the result of the energy spent by the enterprise on thinking like the customer, and hence the innovation efforts will result in the formation of a customer value (Kandampully, 2002: 24). *Innovation* is defined as *production of new ideas to create a sustainable customer value, and adoption of these ideas in new products, new processes and managerial procedures, by Nasution and Mavondo (2008a:484)*. Orfila-Sintes and Mattsson (2009:382-383) emphasized that the innovation may be related to all actors and processes in regard to preparing the service for presentation and its presentation, in accommodation establishments; and

divided the innovation in four types, as managerial innovation, innovation in external communication, innovation in services' scope and innovation in back-office. In this study, three innovation dimensions, which their suitability is accepted in literature (Nasution and Mavondo, 2008a:484), will be presented, which we think that they are more appropriate for the characteristics of accommodation establishments: *Innovation in services, innovation in processes, and managerial innovation.*

Hjalager (2010:2) describes the *innovation in services* as; the initiative, application or destination which is directly observable and acceptable by the customer. Innovation in services includes innovations regarding the tourist product offered to customers in accommodation establishments. In practice, there are hundreds of types of service innovations. These can be related to many service types such as food and beverages, free offerings included in the price, animation, recreation and health activities, etc. The innovations performed in tangible entities presented to customers in places such as rooms, restaurants and public places are also among the innovations in services. However, there are macro-level widespread innovations seen throughout the sector. For example; the widely-available "half board" form of accommodation offered in Turkish hospitality establishments in the 1990's, is replaced by the "all inclusive" system in 2000's mostly. Again in recent years, SPA and alternative health services stand out, which are becoming widespread even in resort (beach) hotels, within the scope of sustainable tourism approaches. *Process innovations* refers to the innovations made in processes regarding preparation and presentation of the service to customers. These processes are important in terms of presenting services in accurate and high quality manner. Innovation to be performed in service processes can provide an important contribution to "the way the service is presented by employees", which is called "the functional quality of service". *Managerial innovations* can include establishment of systems that will make the communication and support between business units and employees more effective, and renewal of business procedures and techniques. Innovations in human resources management which have importance to ensure the adequacy and motivation of the workforce, in hospitality establishments, can also be included in managerial innovations.

Hospitality businesses offer consumers a wide range of services, in recent years. In our view, many of these initiatives cover efforts which can be considered within an innovation framework. Because of the intense competition; improvements on quality of service can be observed in almost all service sector companies; which can be indications of radical changes in service rendering ways, levels and philosophy of accommodation establishments. It is observed that hospitality companies continuously perform innovations, in order to be different from competitors, or at least to catch them up. It can be stated that the hospitality establishments are ahead of other service business, within the framework of presenting value to their customers, because of the reasons such as the features of the tourist products, elastic nature of tourism demand, and also because of the increasing

challenge in satisfying customers, due to the experiences they have had encountered. In addition to this, customers may have different demands and expectations, depending on various factors. Customers compare the alternative establishments, which can offer the tourist product they have demanded within the same destinations, in the light of previous experiences, current expectations, features of the services provided, and the costs incurred. In this evaluation process, the customer will consider the features of the services presented in establishments, the way of service rendering and of course the costs incurred; and eventually will prefer the establishment which he/she he believes that is offering the most value. However, the underlying features or reasons of the customer's perception on the offered value, in other words, which of the feature or the benefit of the presented service forms a value to customer can change one person to another. For example, a family comparing vacation village alternatives having all-inclusive accommodation in the Antalya region; can perceive the business-A, having 7 different restaurants featuring rich international cuisine, as a value presented to them, within the current costs; however a family of three children, can perceive the business-B, having a water and amusement park, as presenting a value to them, within the framework of current costs. In short, it's important to know "what are the innovations which will provide a value", for hospitality establishments. It's necessary for managers to analyze customer needs and expectations better, and to know details of the relationship between innovation and customer value, in hospitality establishments.

Nasution and Mavondo (2008a: 484) suggest that innovative practices are fundamental ability for creating services which offer superior value to the customer. Their study's findings (2008a:493) revealed that customer value associated with innovative products and innovative processes. In addition to this, there is lack of empirical research explains that the relationship between innovation and customer value in hospitality establishments. In this respect, in Turkish hotel establishments the following hypotheses were developed, in order to examine the relationship between customer value and innovation:

H1: There is a significant relationship between innovation in services and the customer value.

H2: There is a significant relationship between innovation in processes and the customer value.

H3: There is a significant relationship between managerial innovation and the customer value.

3. RESEARCH

3.1. Objectives, Method and Scope

The aim of the study can be summarized as to explain the relationship between innovations in services, process, administration and the customer value, in hotel establishments. Survey technique was used to collect data. The research results are limited to the area of application of the

questionnaire, which is generated via a literature review, to the managers of hotel establishments in Istanbul, Çanakkale and Antalya, because of the costs and opportunities.

3.2. Sampling

The sample used for the study consists approximately 250 administrative staff, who served in various positions in 29 hospitality establishments operating in Istanbul, Canakkale and Antalya, which are determined via convenient sampling method. The 199 questionnaires returned from hotels and accepted as valid, and included in the evaluation scope.

3.3. Measuring Instrument

Measures used in the questionnaire are adapted from questionnaires used in the studies from literature. The variables used in the customer value measure; are taken from Yang and Peterson's (2004) study and Nasution and Mavondo's (2008a) study. And the variables in the innovation measure are again taken from Nasution and Mavondo's (2008a) study. For answers to the statements of survey, a Likert-type metric, that is, expressions with five intervals has been used. Anchored such; "*1- strongly disagree, 2- disagree, 3- undecided, 4- agree, 5-strongly agree*". There are also 5 demographic questions in the questionnaire. As a result of the conducted pilot study, it's observed that the items in the factor analysis, where (n=30) was applied, displayed a proper distribution, in accordance with the theoretical characteristics.

3.4. Statistical Methods

The data obtained from the study, were evaluated by help of SPSS for Windows 11.5 program. After the confirmatory Factor Analysis performed in order to test the validity of measures, the internal consistency coefficients (Cronbach's Alpha) were calculated separately for each measure. The correlation analysis method was used to determine the presence of interdependency among variables and to test the research hypotheses; and for the explanation of relationships between variables, which are determined by means of correlation analysis, the multi-dimensional regression analysis was utilized.

4. RESEARCH FINDINGS

4.1. Demographical Findings

73% of managers, which participated in the research, are male, and 27% are female. Approximately 40% of managers are under age of thirty. 32% of the remaining managers are between the ages of 30 and 40; and 28% them are in the group of 41 years and older. 19% of managers have education of a high school; 21% have an associate degree; 47% are in graduate level; and 12% have a master's level education. 43% of the managers stated that their field of education is related to "tourism".

4.2. Factor and Reliability Analysis

In the study, before performing the relationship analysis between dimensions, the structural validity and reliability levels of measures were tested. First, data of the variables related to customer value were put into factor analysis and the varimax rotation was obtained. In the principal component analysis, the Kaiser-Meyer-Olkin test result (KMO value, 0.772) and the result of Barlett test (912.085; $p < 0.01$) were significant. As a result of the varimax rotation of the data related to customer value variables, removing the items with factor loadings under 0.50 from the analysis, three factor solutions has been obtained. Emerged factors, explain 69.416% of the total variance. The findings on the resultant factors, factor loadings, explained variances, and internal consistency coefficients calculated for each factor (measure) are summarized in Table 1. In accordance with the theory, it's observed that the items are grouped under three factors; where, the first factor is "monetary value"; the second factor is "prestige" and the third factor is named "quality". Internal consistency coefficients of factors are 0.82, 0.83 and 0.60, respectively. It can be stated that the resultant factors (measures) measure a single feature, which is in accordance with the theory, and they have an acceptable reliability levels, suitable for social science discipline.

Table 1: Rotated Factor Loadings with Calculated Customer Value Measures

Factor 1: Monetary value (explained variance = 29.376% ; Cronbach's Alpha = 0.82)	
1. The services worth the money paid by customers largely	0.873
2. The prices are more reasonable than competing hotels	0.765
3. The services are priced more honestly than competing	0.691
4. Presenting more free-catering than other hotels	0.668
Factor 2: Prestige (explained variance = 22.180% ; Cronbach's Alpha = 0.83)	
5. Smoothness in the use of the booking system	0.876
6. Accommodating in our hotel is a symbol of prestige	0.777
7. Rendering appropriate services in accordance with social status of customers	0.650
Factor 3: Quality (explained variance= 17.859%; Cronbach's Alpha= 0.60)	
8. Being qualified as one of the highest quality hotels in the region	0.787
9. Satisfied customers because of their stay in our hotel	0.701
10. Treatment of our staff to customer very respectfully	0.698

Extraction method: Principal component analysis – Rotation method: Varimax rotation

After applying factor analysis to the data of innovation variables, for the principal component analysis, the result of the Kaiser-Meyer-Olkin test (KMO value, 0.712) and the Barlett test result (726.901; $p < 0.01$) were found significant. Three factors solution has been achieved as a result of varimax rotated factor analysis. Resultant factors, explain 63.791% of the total variance. The findings on the resultant factors, factor loadings, explained variances, and internal consistency coefficients calculated for each factor are summarized in Table 2. In conformity with the theory, it's observed that the items are grouped under three factors; where, the first factor is "innovation in services"; the second factor is "innovation in processes" and the third factor is

called as "managerial innovation". Internal consistency coefficients of factors are 0.77, 0.83 and 0.73, respectively. It can be inferred that the resultant factors (measures) measure a single feature, which is in accordance with the theory, and they have an acceptable reliability levels, suitable for social science discipline.

Table 2: Rotated Factor Loadings with Calculated Innovation Measures

Factor 1: Innovation in services (explained variance = 23.931% ; Cronbach's Alpha= 0.77)	
1. Our hotel introduced changes performed in the classic services presented in the sector to customers	0.801
2. Our hotel constantly explores new methods of service delivery	0.797
3. New services developed by our hotel, has led to certain changes in the sector	0.663
4. Our hotel offer more innovative services to customers, compared to competitors	0.656
5. Our hotel introduced many services, which could be considered new, to customer	0.653
Factor 2: Innovation in processes (explained variance = 21.922% ; Cronbach's Alpha = 0.82)	
6. Our business practices are continuously optimized for better service delivery	0.886
7. Management invests to improve our service delivery systems	0.871
8. Our staff is continuously trained with new technological possibilities	0.750
Factor 3: Managerial innovation (explained variance=17.938% ; Cronbach's Alpha= 0.73)	
9. Our hotel investigates new methods to improve our management system	0.848
10. The hotel management strengthens and encourages staff to take more initiatives	0.776
11. Our hotel invest to renew its managerial procedures and techniques	0.761

Extraction method: Principal component analysis – Rotation method: Varimax rotation

4.3. Findings on the Research Hypotheses

The findings obtained as a result of the correlation analysis performed on testing the existence of relationships denoted in the research hypothesis, and the findings obtained as a result of regression analysis performed for explanation of relationships between the dimensions are summarized in Table 3.

Table 3: The Summary Table for the Correlation and Regression Analysis for Customer Value

	Mean	r	β
1. Innovation in services	3.43	0.492**	0.457**
2. Innovation in processes	3.75	0.269**	0.170**
3. Managerial innovations	4.12	0.039	-0.040
R ²			0.269
Adjusted R ²			0.258
F			23,906**

** p<0,01

In correlation analysis findings, a positively significant relationship ($r=0.492$, $p<0.01$) is observed between the innovation in services dimension

and the customer value. There is a positive relationship between innovation in services and the customer value. Accordingly, the H1 hypothesis is accepted. According to another finding; there is a positively significant relationship ($r=269$, $p<0.01$) between the innovation in services dimension and the customer value. There is a positive relationship between innovation in processes and the customer value. H2 hypothesis of the study is also accepted.

As can be seen in Table 3, there is no statistical relationship between managerial innovation and customer value. Therefore, hypothesis H3 is rejected. According to the R square determination coefficient value, given in Table 3; 27% of variance in customer value is explained by "innovation in services" and "innovation in processes" dimensions. The regression model, explaining the impact of two innovation dimensions on customer value, is valid (with $F=23.906$; $p<0.01$ significance). The positive beta values show that the increase in independent variables leads to an increase in customer value, or a decrease in independent variables results in a decrease in customer value. Accordingly; it can be said that innovations in services and innovations in processes affect the customer value positively. According to beta values; the customer value is affected mostly from innovation in services.

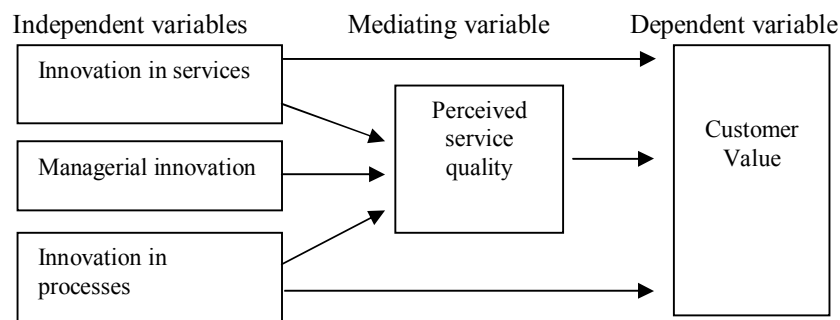
5. RESULT AND SUGGESTIONS

The study sought to address the relationship between innovations in services, process, managerial, practices and customer value in hospitality establishments. Two of the three research hypotheses were accepted in scope of this research, which performed to provide a modest contribution to the efforts to explain factors affecting the formation of customer value in hospitality establishments. We aimed to shed light on the role of innovation, from managers' perspectives, in formation of customer value in hospitality establishments, with this study, which is based on a comprehensive literature review and industry experience we have. In this regard, attitudes on services in the establishments, processes and administrative issues, and the attitudes related to value perception presented to customers, of management staff were measured. It's observed in the findings obtained from the analysis performed, that the service innovations and process innovations affect the customer value in a positive manner. However, no relationship was found between managerial innovation and customer value. In this respect, the innovations performed in regard to services and processes seem to have a positive effect on the formation of the customer value.

Service and process innovation contains elements that can be perceived directly by customers. These elements, such as service quality can be evaluated clearly by customers. The customer becomes a part of the service process in hospitality establishments; and constantly observes the details related to preparation and presentation of the service, most of the time. Customers, who are evaluating the services and service processes excellently,

also perceive the innovations in services and processes directly. And managerial innovations can not be perceived directly by customers. Because the managerial innovations cover innovations related to administrative activities on mainly internal customers, namely the employees. We think that the managerial innovations may have an indirect but important role in formation customer value, through the "quality of service". At this point; we recommend the research model in Figure 1, for future studies:

Figure 1: Proposed Research Model for the Hotel Establishments



The propositions, Manage mental is developed in accordance with the assumed relations in the research model for future research, are as follows:

Proposal 1: Innovation in services affects the customer value

Proposal 2: Innovation in processes affects the customer value

Proposal 3: Innovation in services affects the perceived service quality

Proposal 4: Innovation in processes affects the perceived service quality

Proposal 5: Managerial innovation affects the perceived service quality

Proposal 6: Perceived service quality affects the customer value

It's suggested that an investigation of the relationship between innovation and the customer value in hospitality establishments, together with the intermediate variable on perceived quality of service has importance. It can be stated that the new studies to be conducted on this subject will offer new insights to researchers.

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