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### Value Creation of Customer-focused Service Innovation in international tourist hotel industry

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**Abstract:** The tourism industry has spearheaded Taiwan's economic development in the 21st century. International tourist hotels, which provide accommodations, food and beverages, leisure, shopping, social events, and performances, have gained greater importance. Past studies on service innovation, however, mainly focused on government policy and applications in the service industry, and rarely the tourism industry. Furthermore, most studies on international tourist hotels focus on service satisfaction, customer loyalty, and business model and performance, rarely going into service innovation. This study aims to examine service innovation of international tourist hotels based on the perspective of customer value.

We adopted a single-industry case-oriented qualitative approach, and analyzed the contents and developments of service innovation through 4,192 service innovation events from 66 international tourist hotels in Taiwan. This study made five findings: 1. Functional value and relationship value account for a high percentage, while hedonic value and contextual value account for a low percentage; 2. Hedonic value shows an upward trend; 3. Contextual value shows a downward trend; 4. Cross-Strait and international exchanges are significantly growing in relationship value; 5. Comprehensive integrated services are significantly growing in functional value.

**Keywords:** International Tourist Hotel, Service Innovation, Customer Value

#### 1. INTRODUCTION

According to projections of the World Travel and Tourism Council (WTTC), growth of the global tourism industry in the next decade is as follows: travel expenditure will grow from US\$4.21 trillion to US\$8.61 trillion, contribution of the tourism industry to GDP will increase from 3.6% to 3.8%, and employment population in the tourism industry will increase from 198 million to 250 million. This shows that the tourism industry will play an important role in future global economic development (Plan for the Doubling of Tourist Arrivals, 2005). Good service quality has been viewed as the key to a successful business in a severely competitive environment. Reichheld & Sasser (1990) argued that customer defection has a greater impact on company profits than scale, market shares, and unit cost. Providing good service quality and

retaining customers by building a good reputation is the key to hotels strengthening their competitiveness (Knutson, 1988). Hence, tourist hotels must think about how to offer customer-centered innovative services and adopt the strategy of differentiation to enhance their competitiveness. Past studies on service innovation were mainly from the perspective of government policy (Gallouj, 2002) or improving service processes and quality, expanding the scope of services, and alternative service models (Coombs & Miles, 2000; Maghussan, 2003; Bryson & Monnoyer, 2004), but rarely from the perspective of customer value. Therefore, this study examines 4,192 service innovation events of 66 international tourist hotels in Taiwan, and further analyzes how international tourist hotels in Taiwan utilize service innovation and customer values to enhance their competitiveness, as well as the contents of service innovation for the consideration of workers in the industry.

## **2. LITERATURE REVIEW**

### **2.1. Service Innovation**

According to Tether (2003), the theoretical foundation and development of service innovation can be divided into: 1. Innovation driven by suppliers: Views service innovation as the outcome of adopting new technologies, which are mainly provided by suppliers; 2. Innovation in supply and demand: Innovation in the service industry is different from innovation in the manufacturing industry in that services do not take on any physical form, and requires interaction with consumers; 3. Innovation in strategic positioning: Views competition and innovation as a process, and the innovation behavior of companies is related to their position in competition in their industry, which also determines the strategic positioning of companies with respect to innovation. Hauknes (1998) proposed that service innovation includes product innovation, process innovation, organization innovation, structure innovation, and marketing innovation. According to the Community Innovation Survey (CIS), innovation in the service industry can be divided into product innovation, process innovation, market innovation, organization innovation, and customization innovation. Other scholars defined service innovation as not being new to the world, but new to enterprises, customers, or other partners (Gustafsson and Johnson, 2003). Therefore, this study considers services offered for the first time by an international tourist hotel as service innovation.

### **2.2. Customer Value**

Gale (1994) pointed out that severe competition created by globalization has caused customer demand to continuously increase, and more and more corporations are strengthening their competitive advantage and core values through operations that raise customer satisfaction. Zeithaml (1988) believes that value results from the difference in effects, quality or interests, and cost when customers purchase a product or use a service. Eighmey (1997) believes that customer value includes marketing perception, entertainment value, information value, easy to use, credibility, and interaction. Court (1999) also proposed three types of customer value, including functional value, emotional value, and relationship value, in which relationship value refers to the relationship between the buyer and seller, a concept similar to social value. Kotler (1997) & Wodruff (1997) & Khalifa (2004) indicated that customer value has been the main source of competitive advantages and key to long-term success in all marketing theories in recent years, showing that customer value has become a focal point of modern marketing. Based on the above mentioned studies, this study proposes a framework composed of four customer values, namely “functional value”, “hedonic value”, “relationship value”, and “contextual value”.

### 3. RESEARCH METHODOLOGY

#### 3.1. Framework

The present study conducts exploratory research, using internal and external data of the subjects, environment evaluation, and innovation events during different stages to explore the service innovation of international tourist hotels. This study divides customer values into “functional value”, “hedonic value”, “relationship value”, and “contextual value” based on the literature review for analysis. According to the White Paper on Tourism issued by the Tourism Bureau, 2000 was the “year of tourism planning” and proposed short-, mid- and long-term implementation plans for developing Taiwan into an “island of tourism”. Therefore, this study divides the data collected into three stages of innovation in international tourist hotels: 1. Budding stage (2000-2003); 2. Technological growth stage (2004-2006); and 3. Extension stage (2007 until now) (see Table 1). The number of service innovation events shows an upward trend according to the table.

**Table 1**  
**Stages of Service Innovation Development in International Tourist Hotels**

<i>Stage of innovation development</i>	<i>Time period</i>	<i>Number of service innovation events</i>	<i>Percentage</i>
Budding stage	2000 – 2003	1157	27.61%
Technological growth stage	2004 – 2006	1272	30.36%
Extension stage	2007 until now	1763	42.03%
Total		4192	100%

#### 3.2. Case Selection

The cases selected by this study are the 66 international tourist hotels (e.g. Miramar Garden Hotel, Sheraton Grand Hotel, etc.) announced by the Tourism Bureau for the following reasons: (1) Hotels are important places for tourists to rest and the tourism industry is one of the six emerging industries; (2) Considering the unique attributes of tourist hotels, this study selects international tourist hotels as cases; (3) Scale of operations is the standard for selecting cases, and a total of 4,191 events were collected.

#### 3.3. Data Collection

This study found that there is not any agency or organization that comprehensively collect and organize service innovation data of international tourist hotels, besides information on the hotels’ official website, periodicals or news reports. Hence, this study constructs a database of service innovation events in international tourist hotels. A total of 4,372 service innovation events of the 66 international tourist hotels were collected from the Tourism Bureau’s website, the hotels’ official websites, and electronic databases. There were 181 repeat events, and a total of 4,192 service innovation events were obtained. When creating the case database, this study follows the three principles of data collection for case studies proposed by Yin (1994). With regard to “using multiple sources of data”, this study collects data from three areas: the first is secondary data, including the cases’ official website, newspapers and magazines, periodicals, and monographs; the second is open data of the competent authority of tourism (website of the Tourism Bureau); the third is “Knowledge Management Winner” database, which integrates data of China Times Inc. (China Times, Commercial Times, and China Times Express), covering local news around Taiwan.

### **3.4. Data Analysis**

This study follows the four analysis models of Yin (1994): pattern-matching, explanation-building, time-series analysis, and program logic models. Model (1) pattern-matching compares two or more patterns, including an empirically based pattern and a pattern predicted by theory or hypothesis. This study adopts four customer values for validation and matches their patterns. Model (2) explanation-building analyzes cases of the tourism industry by building an explanation. This study lists data of cases in detail for analysis. Model (3) time-series analysis is the analysis of corresponding relations between a series of events of cases to time. Model (4) program logic models involve a cross analysis of pattern-matching with time-series analysis. This study cross analyzes the four customer values with regional attributes of the hotels according to the three stages of the tourism industry, so as to understand the development of service innovation in the cases.

## **4. RESULTS**

### **4.1. Analysis of the Four Customer Values**

This study carried out content analysis on service innovation events and summarized four main values: 1. Functional value (the main purpose customers go to hotels, including eat, drink, sleep, and rest) includes a. Food culture (marketing events featuring cuisine), b. Life education (promotions that serve educational purposes), c. Comprehensive integrated services (provided along with visits to other locations or theme parks); 2. Relationship value (social gatherings are the main purpose, including fashion, trends, and economic activities) includes a. Popularity (creating market opportunities through hot topics), b. Current trends (providing hotel services along with current events and policies), c. Spokesperson (marketing event by a virtual or real celebrity), d. Celebrations (well-known events or celebrations), e. Domestic industry exchanges (achieving win-win through cross-industry alliances), f. International exchanges (meetings, presentations or business recruitments, and award ceremonies); 3. Hedonic value (events that aim to please customers) includes a. Fashion (product launches of brands), b. Leisure aesthetics (events designed to feature leisure), c. Music and performing arts (events for the purpose of appreciating performances), d. Cultural experience (mainly art and cultural exhibitions); 4. Contextual value (events combining hotel meals and performance appreciation) includes a. Audiovisual feast (e.g. charity luncheon), b. Environment creation (e.g. Spring Banquet, press conference, wedding banquet, etc.). The abovementioned categories are coded in Table 2.

### **4.2. Distribution of Service Innovation Events of International Tourist Hotels**

The total of 4,192 service innovation events were broken down by the four customer values and their subcategories into the table below (see Table 2), which shows that functional value and relationship value have an extremely high percentage, while hedonic value and contextual value have a low percentage.

### **4.3. Analysis of Service Innovation Development**

In the three development stages of international tourist hotels (see Table 3), relationship value shows an upward trend, especially in the subcategory of Cross-Strait and International Exchanges. This also shows that Taiwan's international tourist hotels serve as an important venue for interactions between international

personages. Therefore, Taiwan's industry, government and academia cannot overlook the importance of customer values and concrete methods.

## 5. CONCLUSION

This study analyzes service innovation events of 66 international tourist hotels, and found that “customer value” can be divided into 4 categories based on the contents of innovation, in which functional value is further divided into food culture, life education, and comprehensive integrated services; relationship value is divided into popularity, current trends, spokesperson, celebrations, domestic industry exchanges, and cross-Strait and international exchanges; hedonic value is divided into fashion, leisure aesthetics, music and performing arts, and cultural experience; contextual value is divided into audiovisual feast and environment creation. The highest percentage of service innovation events were related to functional value and relationship value, while hedonic value and contextual value have a low percentage. Hence, future efforts can be directed in these two areas. With regard to hedonic value, future market opportunities can be expected as it meets the trend of cultural creativity. Hence, the government and industry should direct more attention to this value to create greater market opportunities for international tourist hotels. As for contextual value, it is harder to make any breakthroughs in environment creation and audiovisual feast as the appearance and interior decorations of international tourist hotels are already set in place, but events of hedonic value and relationship value can be combined to incorporate elements of cultural creativity, and it will still create an innovative and creative atmosphere, which industry and government should jointly work towards. Efforts in functional value and relationship value should be directed to further improving quality, e.g. hardware for digitalizing services or increasing the efficiency and thoughtfulness of service personnel, as they will help international tourist hotels gain a better brand image and performance.

**Table 2**  
**Distribution of Service Innovation Events of International Tourist Hotels**

<i>Innovation category</i>	<i>Number of events</i>	<i>Percentage</i>	<i>Innovation subcategory</i>	<i>Number of events</i>	<i>Percentage</i>
A Functional Value	1,831	43.6	a Food culture	1,076	25.6
			b Life education	99	2.3
			c Comprehensive integrated services	656	15.7
B Relationship Value	1,899	45.3	a Popularity	154	3.6
			b Current trends	195	4.6
			c Spokesperson	62	1.4
			d Celebration	457	10.9
			e Domestic industry exchange	704	16.9
			f Cross-Strait and international exchanges	327	8.1
C Hedonic Value	342	8.1	a Fashion trends	68	1.6
			b Leisure aesthetics	110	2.6
			c Music and performing arts	69	1.6
			d Cultural experience	95	2.3
D Contextual Value	120	2.8	a Audiovisual feast	43	1.0
			b Environment creation	77	1.8
合計	4192			4192	

**Table 3**  
**Development Stages of International Tourist Hotels**

Innovation category	Innovation subcategory		Three development stages			Total
			2000 – 2003 <i>Budding stage</i>	2004 – 2006 <i>Technological growth stage</i>	2007 until <i>now Extension stage</i>	
Functional Value	Aa Food culture	Number of events	326	327	423	1,076
		% of the stage	28.2%	25.7%	23.9%	25.6%
	Ab Life education	Number of events	20	41	38	99
		% of the stage	1.7%	3.2%	2.1%	2.3%
	Ac Comprehensive integrated services	Number of events	102	162	392	656
		% of the stage	8.8%	12.7%	22.3%	15.7%
Relationship Value	Ba Popularity	Number of events	36	46	72	154
		% of the stage	14.6%	18.9%	19.1%	3.6%
	Bb Current trends	Number of events	70	41	84	195
		% of the stage	28.3%	16.8%	22.3%	4.6%
	Bc Spokesperson	Number of events	12	17	33	62
		% of the stage	4.9%	7.0%	8.8%	1.4%
	Bd Celebration	Number of events	129	140	188	457
		% of the stage	52.2%	57.4%	49.9%	10.9%
	Be Domestic industry exchanges	Number of events	231	248	225	704
		% of the stage	20.0%	19.5%	12.9%	16.7%
	Bf Cross-Strait and international exchanges	Number of events	82	99	146	327
		% of the stage	7.1%	7.8%	8.3%	7.9%
Hedonic Value	Ca Fashion trends	Number of events	18	21	29	68
		% of the stage	1.6%	1.7%	1.6%	1.6%
	Cb Leisure aesthetics	Number of events	30	36	44	110
		% of the stage	2.6%	2.8%	2.5%	2.6%
	Cc Music and performing arts	Number of events	15	24	30	69
		% of the stage	1.3%	1.9%	1.7%	1.6%
	Cd Cultural experience	Number of events	35	30	30	95
		% of the stage	3.0%	2.4%	1.7%	2.3%
Contextual Value	Da Audiovisual feast	Number of events	17	20	6	43
		% of the stage	1.5%	1.6%	0.3%	1.0%
	Db Environment creation	Number of events	34	20	23	77
		% of the stage	2.9%	1.6%	1.3%	1.8%
	Total	Number of events	1,157	1,272	1,763	4,192
		% of the stage	100.0%	100.0%	100.0%	100.0%

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