

**New service development strategy and process:
Considering concepts from the financial sector in an
analysis of the hospitality sector in Kenya**

by

Fredrick Nyongesa Oduori



Dissertation presented for the degree of
Doctor of Philosophy in Business Management and Administration
at Stellenbosch University

**Promoters: Prof Frikkie J. Herbst
Prof Marlize Terblanche-Smit**

March 2017

Declaration

By submitting this dissertation, I, Fredrick Nyongesa Oduori, declare that the entirety of the work contained herein is my own, original work, that I am the owner of the copyright thereof (unless to the extent explicitly otherwise stated), and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

Fredrick N. Oduori

March 2017

Dedication

I dedicate this work to him – my dad! For leaving a powerful imprint on me. He understood the value of investing in education and developing human capital. He sat me down as a teen and explained to me “how the world works” and inspired me to understand that the value of an education is not really a secret. He taught me to prayerfully uphold hard work and godliness in life; my mom whose love for education inspired me; and my lovely wife, Ann, for making it easy. My mom taught me to sacrifice for what is really important. She sacrificed so much for an investment in my education and subsidized our family with her presence, prudence and motherly love. They made me learn that knowledge is real wealth that is rightly portable, and the only instrument of production that is not subject to diminishing returns.

Thank you.

Acknowledgements

Many individuals have had a positive influence on my personal and professional development, my life and my work and have in their own way contributed to the writing of this manuscript. To each of them, I would like to say, "Thank you!" A few specific people who deserve special thanks are Melanie Gleeson, Jackie Baker, Robyn Bint and Margaret Carter from Compassion Australia for their benevolence. Brenda Etukey and Alex Rutto for their assistance in data capturing and in statistical analysis respectively and especially Prof. Frikkie J. Herbst who patiently and professionally walked me through the corridors of academic exploration. He was always there with his quick wit and timely feedback or a kind word of encouragement. His review provides much of the framework on which this thesis is built. Not to mention the invaluable suggestions and criticisms of Prof. Marlize Terblanche-Smit to improve the treatment and presentation of the thesis. To Ann, my dear wife, I am deeply in her debt! But for any shortcomings or mistakes, I have only myself to thank, as I seek God passionately in this marvellous, messy world of redeemed and related realities that lie in front of our noses.

Abstract

The purpose of the study was to build rather than test the underlying theory of new service development (NSD). The literature study was expanded by an empirical research on NSD strategy and process in the hospitality sector in Kenya. In particular, the research was to establish the extent to which findings and concepts of NSD generated primarily in the financial sector can be extended to the hospitality sector.

This exploratory study used case study strategy from eight hotels and a cross-sectional survey-based methodology from 35 hotels. A three-stage sampling procedure was used in the quantitative part of the study. Judgement sampling, stratified random sampling, and quota sampling methods respectively were used in the first phase of the study. Judgement sampling was used to identify the respondents for eight in-depth interviews conducted to proportionately cover each hotel star category in Nairobi and Mombasa. The researcher administered the questionnaire and the interviews personally.

From the findings, the hospitality sector develops moderately innovative products that provide improved performance or greater perceived value for their customers and there is a difference in the implementation of the NSD strategy between chain and independent hotels. Also, the customer involvement in the NSD process was found to be relatively high, but the service encounter is dominated more by standardised rather than customised services.

The major findings of this study must be interpreted with caution due to limitations in the research focus, method and data analysis and cannot be generalised beyond the circumstances and conditions in which they occurred. Future studies should use a longitudinal study methodology exploring service innovation strategy and process over real time to resolve for the retrospective nature of the data collection process. Research is needed for further comparative studies of NSD in other countries and between service sectors since the diversity and complexity of the delivery process is well known.

Table of contents

| | |
|--|------------|
| Declaration | ii |
| Dedication | iii |
| Acknowledgements | iv |
| Abstract | v |
| List of tables | xv |
| List of figures | xix |
| List of acronyms and abbreviations | xx |
| CHAPTER 1 ORIENTATION | 1 |
| 1.1 INTRODUCTION | 1 |
| 1.2 THE PROBLEM STATEMENT | 2 |
| 1.3 PURPOSE OF THE STUDY | 5 |
| 1.4 RESEARCH OBJECTIVES | 5 |
| 1.4.1 Primary objective | 5 |
| 1.4.2 Secondary objectives | 5 |
| 1.4.3 Research propositions | 6 |
| 1.5 THE DEMARCATION AND SCOPE OF THE STUDY | 7 |
| 1.6 LITERATURE REVIEW | 8 |
| 1.6.1 Service in the hospitality industry | 9 |
| 1.6.2 New service development versus new product development | 9 |
| 1.6.3 Types of new service developments | 11 |
| 1.6.4 New service development strategy | 12 |
| 1.6.5 New service development process | 13 |
| 1.6.6 Service innovation and competitiveness | 16 |
| 1.6.7 Service classification | 17 |
| 1.6.7.1 Hospitality services | 18 |
| 1.6.7.2 Product-services continuum | 20 |

| | | |
|---------|--|-----------|
| 1.6.7.3 | Criticisms of new service development | 21 |
| 1.6.7.4 | Identified problems with new service development | 22 |
| 1.6.7.5 | Conceptual Research Framework | 24 |
| 1.7 | RESEARCH DESIGN | 24 |
| 1.7.1 | Exploratory, descriptive, and/or causal research design | 25 |
| 1.7.2 | Definition of the information needed | 25 |
| 1.7.3 | Measurement and scaling procedures | 25 |
| 1.7.4 | Methods of collecting quantitative data | 26 |
| 1.7.4.1 | The interview procedure | 26 |
| 1.7.4.2 | Questionnaire design | 27 |
| 1.7.5 | Sampling process and sample size | 28 |
| 1.7.6 | Plan of data analysis | 29 |
| 1.8 | THE IMPORTANCE AND VALUE OF THE STUDY | 29 |
| 1.8.1 | Importance of this study | 29 |
| 1.8.2 | Value of this study to service companies | 29 |
| 1.9 | CLARIFICATION OF KEY CONCEPTS | 30 |
| 1.10 | CHAPTER OUTLINE | 33 |
| 1.11 | CONCLUSION | 34 |
| | CHAPTER 2 THE CONCEPT OF STRATEGY AND STRATEGIC MARKETING | 36 |
| 2.1 | INTRODUCTION | 36 |
| 2.2 | THE CONCEPT OF STRATEGY | 36 |
| 2.2.1 | Strategy | 36 |
| 2.2.2 | Competitive advantage | 37 |
| 2.2.3 | Global competitive advantage | 39 |
| 2.2.4 | Competitive intensity | 40 |
| 2.2.5 | Environmental turbulence | 42 |
| 2.2.6 | Adaptive management in turbulent environments | 45 |
| 2.2.7 | Strategic posture management | 47 |

| | | |
|---------|---|-----------|
| 2.3 | HIERARCHICAL LEVELS OF STRATEGY | 48 |
| 2.3.1 | Corporate strategy | 50 |
| 2.3.2 | Business strategy | 51 |
| 2.3.3 | Functional strategy | 52 |
| 2.4 | APPROACHES TO STRATEGIC MANAGEMENT | 53 |
| 2.4.1 | The Porter's five forces approach (PFA) | 53 |
| 2.4.2 | The resource based approach (RBA) | 56 |
| 2.4.3 | The relational approach (RA) | 57 |
| 2.5 | STRATEGY FORMULATION AND DEVELOPMENT | 61 |
| 2.5.1 | Strategy drivers | 61 |
| 2.5.2 | Industry development | 62 |
| 2.5.3 | Paths of industry development | 65 |
| 2.5.4 | The New 7-Ss | 67 |
| 2.5.5 | Strategic thinking | 67 |
| 2.6 | STRATEGY IN THE HOSPITALITY SECTOR | 70 |
| 2.7 | STRATEGIC MARKETING AND NEW SERVICE DEVELOPMENT | 73 |
| 2.8 | CONCLUSION | 75 |
| | CHAPTER 3 SERVICES MARKETING AND NEW SERVICE DEVELOPMENT | 76 |
| 3.1 | INTRODUCTION | 76 |
| 3.2 | SERVICE MARKETING | 77 |
| 3.2.1 | Characteristics of services | 77 |
| 3.2.1.1 | Intangibility | 78 |
| 3.2.1.2 | Heterogeneity | 79 |
| 3.2.1.3 | Inseparability | 80 |
| 3.2.1.4 | Perishability | 82 |
| 3.2.2 | Categories of services | 84 |
| 3.2.3 | Services marketing mix | 85 |
| 3.3 | NEW SERVICE DEVELOPMENT | 88 |

| | | |
|--|--|------------|
| 3.3.1 | Rationale for NSD | 89 |
| 3.3.2 | New service strategy | 90 |
| 3.3.3 | The service marketing triangle | 94 |
| 3.3.4 | Novelty type and technical/marketing activities | 97 |
| 3.3.5 | NSD and the customer | 98 |
| 3.3.6 | NSD and the corporation | 100 |
| 3.3.7 | NSD and the competition | 102 |
| 3.4 | NSD PROCESS | 104 |
| 3.4.1 | NSD: using a holistic approach | 104 |
| 3.4.1.1 | Service concept development | 105 |
| 3.4.1.2 | Service system development | 108 |
| 3.4.1.3 | Service process development | 110 |
| 3.4.1.4 | Service design process | 111 |
| 3.4.2 | Antecedents of the NSD process | 112 |
| 3.4.2.1 | Knowledge management in NSD | 113 |
| 3.4.2.2 | Life cycle flexibility | 116 |
| 3.4.3 | Role of people in NSD | 119 |
| 3.4.4 | Formalisation of NSD | 120 |
| 3.4.5 | NPD process types | 123 |
| 3.5 | TYPOLGY OF INNOVATIONS | 125 |
| 3.6 | CONCLUSION | 127 |
| CHAPTER 4 THE HOSPITALITY ENVIRONMENT | | 128 |
| 4.1 | INTRODUCTION | 128 |
| 4.2 | HOSPITALITY: DEFINITIONAL AND THEORETICAL ISSUES | 128 |
| 4.2.1 | Hospitality service characteristics | 132 |
| 4.2.1.1 | Intangibility | 133 |
| 4.2.1.2 | People as part of the product | 134 |
| 4.2.1.3 | Demand patterns | 135 |

| | | |
|---|--|------------|
| 4.2.1.4 | Perishability | 136 |
| 4.2.1.5 | Channels of distribution | 136 |
| 4.2.1.6 | Interdependence | 137 |
| 4.3 | CHARACTERISTICS OF HOSPITALITY FIRMS | 137 |
| 4.3.1 | Ownership and size | 138 |
| 4.3.2 | Hospitality ownership and affiliation | 140 |
| 4.3.3 | Hotel classification schemes | 142 |
| 4.4 | HOTEL SERVICE OFFERING | 142 |
| 4.4.1 | The hospitality product | 144 |
| 4.4.2 | Types of establishments | 148 |
| 4.4.3 | Hospitality brands and branding | 152 |
| 4.4.4. | The hospitality marketing mix | 153 |
| 4.5 | THE KENYAN ECONOMY | 156 |
| 4.6 | GROWTH AND DEVELOPMENT OF TOURISM IN KENYA | 159 |
| 4.7 | INNOVATION AND TECHNOLOGY IN HOSPITALITY COMPANIES | 161 |
| 4.7.1 | Competitive innovations in hotels | 164 |
| 4.8 | NSD IN THE HOSPITALITY SECTOR | 166 |
| 4.9 | CUSTOMER INVOLVEMENT IN NSD | 169 |
| 4.10 | THE HOTEL SECTOR IN KENYA | 170 |
| 4.11 | SCOPE OF THE STUDY | 172 |
| 4.12 | HOTEL CLASSIFICATION | 173 |
| 4.12.1 | Grading and classification | 174 |
| 4.12.2 | Approaches of rating accommodation | 174 |
| 4.13 | CONCLUSION | 177 |
| CHAPTER 5 NEW SERVICE DEVELOPMENT IN THE FINANCIAL SERVICES SECTOR | | 179 |
| 5.1 | INTRODUCTION | 179 |
| 5.2 | FINANCIAL SERVICES INDUSTRY | 179 |

| | | |
|---------------------------------------|--------------------------------------|------------|
| 5.2.1 | NSD in the financial services sector | 180 |
| 5.3 | TECHNOLOGY AND INNOVATION | 189 |
| 5.4 | KENYA'S DEVELOPMENT PLAN | 191 |
| 5.5 | CROSS-SECTORAL COMPARISON | 193 |
| 5.6 | CONCLUSION | 195 |
| CHAPTER 6 RESEARCH METHODOLOGY | | 196 |
| 6.1 | INTRODUCTION | 196 |
| 6.2 | RESEARCH PROPOSITIONS | 196 |
| 6.2.1 | Propositions 1 and 2 | 197 |
| 6.2.2 | Propositions 3 and 4 | 198 |
| 6.2.3 | Proposition 5 | 199 |
| 6.2.4 | Proposition 6 | 199 |
| 6.3 | RESEARCH DESIGN | 200 |
| 6.4 | CLASSIFICATION OF RESEARCH DESIGNS | 201 |
| 6.4.1 | Potential sources of error | 204 |
| 6.4.2 | Dealing with non-responses | 204 |
| 6.5 | DEFINITION OF THE INFORMATION NEEDED | 206 |
| 6.5.1 | Levels of information | 206 |
| 6.5.2 | Data collection methods | 207 |
| 6.5.3 | Data collection instrument | 207 |
| 6.5.4 | Research strategy | 210 |
| 6.6 | MEASUREMENT AND SCALING PROCEDURES | 211 |
| 6.6.1 | Primary scales of measurement | 212 |
| 6.6.2 | Comparison of scaling techniques | 213 |
| 6.6.3 | Characteristics of good measurement | 214 |
| 6.7 | QUESTIONNAIRE DESIGN AND TESTING | 216 |
| 6.7.1 | Preliminary considerations | 217 |
| 6.7.2 | Asking questions | 217 |

| | | |
|---|---|------------|
| 6.7.3 | Types of questions and data | 218 |
| 6.7.4 | Constructing the questionnaire | 219 |
| 6.7.5 | Pretesting of the questionnaire | 220 |
| 6.7.6 | Questions in the final questionnaire | 221 |
| 6.8 | THE INTERVIEW PROCEDURE | 223 |
| 6.9 | POPULATION AND SAMPLING | 224 |
| 6.9.1 | Defining the target population | 225 |
| 6.9.2 | Choosing the sampling frame | 226 |
| 6.9.3 | Selecting the sampling method | 228 |
| 6.9.3.1 | Probability sampling | 229 |
| 6.9.3.2 | Non-probability sampling | 229 |
| 6.9.4 | Determine the sample size | 230 |
| 6.9.5 | Implement sampling plan | 231 |
| 6.10 | PLAN OF DATA ANALYSIS | 231 |
| 6.11 | CONCLUSION | 232 |
| CHAPTER 7 DATA ANALYSIS AND INTERPRETATION | | 233 |
| 7.1 | INTRODUCTION | 233 |
| 7.2 | QUALITATIVE DATA | 233 |
| 7.2.1 | Results of the interviews | 234 |
| 7.3 | QUANTITATIVE DATA | 243 |
| 7.4 | THE REPRESENTATIVENESS, RELIABILIBLITY AND VALIDITY OF THE RESULTS | 244 |
| 7.4.1 | Representativeness of the results | 244 |
| 7.4.2 | Reliability and validity | 245 |
| 7.5 | RESULTS OF THE QUANTITATIVE DATA | 246 |
| 7.5.1 | Section A: Demographic profile and business characteristics of hotels | 246 |
| 7.5.1.1 | Location and classification of establishment | 246 |
| 7.5.1.2 | Type of establishment | 247 |

| | | |
|----------|--|-----|
| 7.5.1.3 | Number of rooms and beds | 247 |
| 7.5.1.4 | Number of employees | 247 |
| 7.5.1.5 | Type of management | 248 |
| 7.5.1.6 | Length of operation | 249 |
| 7.5.1.7 | Customers' origin | 250 |
| 7.5.2 | Section B: Innovation strategy | 251 |
| 7.5.2.1 | Number of service innovations | 251 |
| 7.5.2.2 | Type of service offered | 253 |
| 7.5.2.3 | Growth objective of establishments | 253 |
| 7.5.2.4 | Primary business challenges | 255 |
| 7.5.2.5 | Commitment to innovation | 257 |
| 7.5.2.6 | Extent of engagement in the NSD strategies | 258 |
| 7.5.2.7 | Decision making on innovation | 260 |
| 7.5.2.8 | Benefits of developing new services | 261 |
| 7.5.2.9 | Establishment's competitive position | 266 |
| 7.5.2.10 | Contribution to success | 267 |
| 7.5.3 | Section C: The NSD process | 271 |
| 7.5.3.1 | Extent of change in the organisation | 271 |
| 7.5.3.2 | Establishments' approach to innovation | 273 |
| 7.5.3.3 | Types of new services developed | 275 |
| 7.5.3.4 | Execution of the NSD strategy | 277 |
| 7.5.3.5 | Innovation and competitiveness | 279 |
| 7.5.3.6 | Influence of functional responsibility on innovation | 280 |
| 7.5.3.7 | Importance of the NSD stages | 283 |
| 7.5.3.8 | Investment on innovation | 289 |
| 7.5.3.9 | Effect of innovation-related decisions | 289 |
| 7.5.3.10 | Value proposition for innovation | 291 |
| 7.6 | RESEARCH PROPOSITIONS | 294 |
| 7.6.1 | Proposition 1 | 294 |
| 7.6.2 | Proposition 2 | 295 |
| 7.6.3 | Proposition 3 | 296 |

| | | |
|---|---|------------|
| 7.6.4 | Proposition 4 | 297 |
| 7.6.5 | Proposition 5 | 298 |
| 7.6.6 | Proposition 6 | 299 |
| 7.7 | CONCLUSION | 300 |
| CHAPTER 8 CONCLUSIONS AND RECOMMENDATIONS | | 301 |
| 8.1 | INTRODUCTION | 301 |
| 8.2 | SUMMARY OF THE MAIN CONCLUSIONS AND IMPLICATIONS | 301 |
| 8.3 | LINKING THE QUESTIONS AND RESEARCH RESULTS/MAJOR FINDINGS TO THE RESEARCH OBJECTIVES | 307 |
| 8.4 | CONTRIBUTION OF THE STUDY | 309 |
| 8.5 | LIMITATIONS OF THE STUDY | 311 |
| 8.6 | RECOMMENDATIONS | 312 |
| 8.6.1 | Recommendations for future research | 312 |
| 8.6.2 | Recommendations based on the literature review | 313 |
| 8.6.3 | Recommendations to hotel owners and managers | 313 |
| REFERENCES | | 315 |
| APPENDIX A: INTERVIEW GUIDE | | 339 |
| APPENDIX B: PRE-TESTING QUESTIONNAIRE | | 342 |
| APPENDIX C: KEY INFORMANT INTERVIEW GUIDE | | 347 |
| APPENDIX D: SUMMARY OF INTERVIEW NOTES | | 353 |
| APPENDIX E: COVER LETTER TO THE RESPONDENTS | | 358 |
| APPENDIX F: QUESTIONNAIRE USED IN THE SURVEY | | 359 |

List of tables

| | |
|---|-----|
| Table 1.1: New Product categories | 11 |
| Table 1.2: Models of NSD | 15 |
| Table 2.1: Red ocean versus blue ocean strategy | 38 |
| Table 2.2: Turbulence scale | 43 |
| Table 2.3: Comparison of three approaches to Strategic Management | 59 |
| Table 2.4: Ten schools of strategic thought | 70 |
| Table 3.1: Unique service features, resulting marketing problems and marketing strategies | 83 |
| Table 3.2: Four categories of services | 86 |
| Table 3.3: New service strategy mix | 92 |
| Table 3.4: Service design process | 111 |
| Table 4.1: The three dimensions of hotel product/service | 143 |
| Table 4.2: Types of accommodation establishments | 148 |
| Table 4.3: Marketing before, during and after the encounter | 155 |
| Table 4.4: Contribution of tourism to national economy in 2014 | 161 |
| Table 4.5: Research works on product innovation in the hospitality sector | 167 |
| Table 4.6: Hotel classification criteria | 175 |
| Table 5.1: Research works on product innovation in the financial sector | 181 |
| Table 6.1: A comparison of basic research designs | 203 |
| Table 6.2: Comparison of communication approaches | 209 |
| Table 6.3: Research strategies versus relevant situations | 211 |
| Table 6.4: Primary measurement scales | 212 |
| Table 6.5: Basic non-comparative scales | 213 |
| Table 6.6: Questions, research objectives and propositions | 221 |
| Table 6.7: The linkage between different sections, questions, question formats and different scales | 222 |

| | |
|---|-----|
| Table 6.8: Classified hotels and lodges in Kenya | 226 |
| Table 6.9: Classified hotels and lodges in Kenya | 228 |
| Table 7.1: Description of sample frame | 243 |
| Table 7.2: The survey response | 243 |
| Table 7.3: Location and star classification | 246 |
| Table 7.4: Number of rooms and beds | 247 |
| Table 7.5: Number of rooms and beds | 247 |
| Table 7.6: Number of employees | 248 |
| Table 7.7: Types of management | 248 |
| Table 7.8: Length of operation | 249 |
| Table 7.9: Description of customer origin | 250 |
| Table 7.10: Number of service innovations | 252 |
| Table 7.4: Correlation between services developed and star classification | 252 |
| Table 7.5: Types of services | 253 |
| Table 7.6: Growth objectives of the establishments | 254 |
| Table 7.7: Preference of growth strategy | 254 |
| Table 7.8: Primary business challenges | 255 |
| Table 7.9: Test statistics on business challenges | 256 |
| Table 7.10: Establishments' commitment to innovation | 257 |
| Table 7.11: Engagement in the NSD activities | 258 |
| Table 7.12: Test statistics for engagement in the NSD activities | 259 |
| Table 7.13: Decision making and innovation | 260 |
| Table 7.14: Benefits of developing new products/services | 262 |
| Table 7.15: Friedman's test on benefits of NSD | 263 |
| Table 7.17: Mann-Whitney U and Wilcoxon W test statistics | 264 |
| Table 7.18: Tests of Within-Subject Effects | 265 |
| Table 7.19: Boniferroni post hoc test statistics | 265 |

| | |
|---|-----|
| Table 7.20: Competitive position of establishments based on star ranking | 266 |
| Table 7.21: Correlation of competitive position and number of new services | 267 |
| Table 7.22: Contribution to NSD success | 269 |
| Table 7.23: Mean differences of the NSD success factors | 270 |
| Table 7.24: Extent of change of organisational activities | 272 |
| Table 7.25: Test statistics of organisational activities | 273 |
| Table 7.26: Establishments approach to innovation | 274 |
| Table 7.27: Relationship between innovation approach and type of management | 275 |
| Table 7.28: Types of new services developed | 276 |
| Table 7.29: NSD and hotel classification | 277 |
| Table 7.30: Execution of the NSD strategy | 278 |
| Table 7.31: The NSD strategy execution test statistics | 279 |
| Table 7.32: NSD and competitiveness | 280 |
| Table 7.33: Influence of functional responsibility on innovation | 281 |
| Table 7.34: Total Variance Explained | 281 |
| Table 7.35: Rotated Component Matrix | 282 |
| Table 7.36: Importance of the NSD stages | 283 |
| Table 7.37: KMO and Bartlett's test on the NSD stages | 284 |
| Table 7.38: Test of communalities on the NSD stages | 284 |
| Table 7.39: Total variance explained for the NSD stages | 285 |
| Table 7.40: Extraction and rotation of squared loadings | 285 |
| Table 7.41: Component matrix for the NSD stages | 287 |
| Table 7.42: Component transformation for the NSD stages | 287 |
| Table 7.43: The NSD stages rotated component matrix | 288 |
| Table 7.44: Innovation expenditure | 289 |
| Table 7.45: Effect of innovation-related decisions | 290 |
| Table 7.46: Development of the NSD strategy | 291 |

Table 8.1: The linkage between the secondary objectives, questions in the questionnaire and the major findings

308

List of figures

| | |
|--|-----|
| Figure 1.1: NSD process cycle | 14 |
| Figure 1.2: The Strategy-Process Framework for NSD | 24 |
| Figure 2.1: The Delta Model | 46 |
| Figure 2.2: Strategic Management structures | 49 |
| Figure 2.3: Intensive growth strategies | 52 |
| Figure 2.4: Methodology to develop relational capabilities in hotels | 58 |
| Figure 2.5: Integrated framework of three approaches | 60 |
| Figure 2.6: Elements of strategic thinking | 68 |
| Figure 2.7: The marketing strategy triangle | 74 |
| Figure 3.1: Outline of Chapter 3 | 76 |
| Figure 3.2: Service marketing triangle | 95 |
| Figure 3.3: The model of the service development process and the prerequisites for the service | 105 |
| Figure 3.4: Structure of the service concept | 107 |
| Figure 3.5: Service design planning model | 108 |
| Figure 3.6: The systemic learning model for NSD | 114 |
| Figure 3.7: Normative model of NSD process | 124 |
| Figure 4.1: Hospitality model | 130 |
| Figure 4.2: Three elements of the basic service offering in a hotel | 146 |
| Figure 5.1: Thematic overview of Kenya Vision 2030 | 192 |
| Figure 6.1: Classification of marketing research designs | 201 |
| Figure 6.2: Potential sources of error in research design | 205 |
| Figure 7.1: Conceptual interpretation of major findings | 235 |
| Figure 7.2: Scree plot for the NSD stages | 286 |
| Figure 8.1: NSD strategy and process conceptual framework | 309 |

List of acronyms and abbreviations

| | |
|---------|---|
| 7Ps | product, price, promotion, place, people, physical evidence and process |
| BTPs | breakthrough products |
| CA | competitive advantage |
| EAC | East African Community |
| EDI | electronic data interchange |
| ERS | Economic Recovery Strategy |
| ERS-WEC | Economic Recovery Strategy for Wealth and Employment Creation |
| FDI | foreign direct investment |
| GDP | gross domestic product |
| GDS | global distribution systems |
| GoK | Government of Kenya |
| ICT | information and communication technology |
| IT | information technology |
| JICA | Japanese International Development Agency |
| KIBS | knowledge-intensive business services |
| KIPPRA | Kenya Institute of Public Policy Research and Analysis |
| KM | Knowledge management |
| KShs | Kenya Shillings |
| LCF | life-cycle flexibility |
| NPD | new product development |
| NSD | new service development |
| PFA | Porter's five-forces approach |
| Q | question |
| R&D | Research and Development |
| RA | relational approach |
| RBA | resource-based approach |
| RBV | the resource-based view |
| SBU | strategic business units |
| SCA | sustainable competitive advantage |

| | |
|------|--|
| SSA | sub-Saharan Africa |
| SWOT | strengths, weaknesses, opportunities and threats |
| TFP | total factor productivity |
| TQM | Total Quality Management |
| TTCI | Travel and Tourism Competitive Index |
| UK | United Kingdom |
| US | United States |
| US\$ | United States dollar |
| WEC | Wealth and Employment Creation |
| WEF | World Economic Forum |
| WTO | World Tourism Organisation |

CHAPTER 1

ORIENTATION

1.1 INTRODUCTION

Despite the fact that a large share of innovative effort in business is related to the development of new services (De Jong & Vermeulen, 2003: 844) many service firms still struggle with their innovative efforts. The struggle may be related to the acknowledgement that the way in which innovation is measured may not be as appropriate to the heterogeneous group of sectors referred to as service industries as it is to manufacturing (Kleinknecht, 2000: 169-186). Cooper and Edgett (1996: 26-37) argue that NSD is risky because the new service failure rate is almost 50 per cent.

More efficient and effective service development is imperative because the services sector is the major foreign exchange earner in Kenya and represents around 54 per cent (Government of Kenya, 2007: 25-26) of the gross domestic product (GDP). According to the Kenya government's statistics in the 2007 Economic Survey (Government of Kenya, 2007), real GDP expanded by 6.1 per cent in 2006 compared to a revised growth of 5.7 per cent in 2005 and the key sectors which contributed to the growth were hotels and restaurants (14.9 per cent), wholesale and retail trade (10.9 per cent) and transport and communication (10.8 per cent). Thus hospitality sector remains indispensable for the development of the remaining services required of a tourist destination like Kenya.

While the marketplace for services is dominated by rapid changes in customer needs and by fierce competition, globalisation and technical innovations, companies face an unstable and often turbulent business environment (Ottenbacher, Gnoth & Jones, 2006: 344). These trends place service innovation at the heart of the company's competitiveness, as constant adaptation in a turbulent environment requires a continuous flow of new offers.

Services represent a major part of many economies around the world (Bitner, Ostrom & Morgan, 2008) and go to the heart of value creation within the economy (Palmer, 2001: 2). Obviously, this economic change is creating a need for a more thorough understanding of NSD. Much leading practice remains hidden from a general view for reasons of confidentiality. NSD remains an underdeveloped area

lacking in empirical research (Smith & Fischbacher, 2005: 1025). Only through skilled academic research, which is later published, can the NSD practice be revealed to a wider audience.

Previous studies of NSD in the hospitality sector (Ottenbacher, Shaw & Lockwood, 2005: 113-128; Victorino, Verma, Plaschka & Dev, 2005: 555-575; Jones, 1996: 86-96) have not addressed the question of whether hotel service firms in developing countries have different approaches to NSD strategy and process. It is likely that NSD process and strategy in the hospitality service sector may differ significantly between various countries and separate service sectors.

The empirical part of this study was executed among hospitality firms in Kenya. The study identified and compared NSD strategies and processes among hotels in a developing country; identified the NSD process itself and the way the decisions are taken in hotels; compared the content and characteristics of the new services offered, which distinguish the hospitality sector from other service sectors; identified the NSD strategies of hotels in order to understand the differences and significance of the NSD stages; and tested to which extent each company's external environment could impact on the NSD.

1.2 THE PROBLEM STATEMENT

According to Malhotra (2007: 35), defining the problem is the most important step, because only when a problem has been clearly and accurately identified can a research project be conducted properly. The nature of the research problem influences the choice of the research method (Zikmund, 2003: 54). Identifying the marketing research problem sets the course of the entire project.

In the first place, many hotels still struggle with their innovative efforts and little is known about how hotels develop NSD strategies despite the fact that a large share of innovative efforts in business is related to the development of new services. Although financial services feature very prominently in empirical studies, given the more product-like features of financial services (Dolfsma, 2004: 325), these findings might not be representative for a broader range of services across a heterogeneous range to include hotels.

Secondly, our knowledge of the nature of NSD stages in hospitality firms and how they are emphasised is limited. Menor, Takikonda and Sampson (2002: 135-157) underline that understanding the process by which new services are designed and launched may lead to improving the efficiency of the

development process. Such results could contribute to reduced development times and increased chances of success.

Finally, little effort has been made to propose the NSD model for the hospitality sector in the extant literature. Furthermore, the number of stages in every NSD process model varies with each author. Although several models of the NSD process indicate that the NSD process passes through various stages and occurs at many different levels and most models provide for inclusion of the firm's strategy in the process, there is no single model applicable to all service sectors. Services are heterogeneous across countries, time, companies, and people, hence ensuring consistent NSD process and strategy is challenging.

Evidence from the extant literature indicates that most empirical studies into NSD have concentrated on the financial services sector, but no published research on the NSD process and strategy in the hospitality sector was found. The field of hospitality remains theoretically devoid as a subject area with much of the research in hospitality tending to be descriptive and lacking in contributions to the development of knowledge and using established methodologies.

There are a number of problems about the NSD process and strategy in the hospitality sector as follows:

- NSD remains underdeveloped and lacking in empirical generality;
- NSD process is insufficiently uniform to provide a basis for decision making;
- research on how new services are developed in the hospitality sector remains fragmented and less developed than for financial services sector;
- several studies have noted that NSD tends for many firms to be a haphazard process; and
- the failure rate of new service projects is high.

This literature gap provokes the need for an exploratory study on the NSD strategy and process in the hospitality services sector. This thesis therefore serves a seminal first step in creating a framework for NSD strategy and process in the hospitality sector.

For many companies, NSD tends to be a haphazard process (Kelly & Storey, 2000: 49-59) characterised by inefficient development processes and high failure rate. Previous empirical studies have not reached consensus on a well-formalised development process; in fact, they have often led to contradictory results (Menor *et al.*, 2002: 135-157). The authors emphasise that significant effort is required to clarify the existing works, which are scarce and scattered. In line with the reorientation and consequent re-evaluation of established services, characteristics and categories, Lovelock and Gummesson (2004: 20-41) suggest abandoning services as a general category altogether and focusing research on service subfields.

NSD remains an underdeveloped area (Martin & Horne, 1995: 40-56) lacking in empirical research (Alam & Perry, 2002: 515 and Smith & Fischbacher, 2005: 1025) despite its strategic significance (Storey & Easingwood, 1999: 193-203). Most empirical studies into NSD have concentrated on the financial services sector (Syson & Perks, 2004: 255-260; Blazevic & Lievens, 2004: 379-391; Roberts & Amit, 2003: 107-122; Kelly & Storey, 2000: 104-121; Oldenboom & Abratt, 2000: 233-245) and have depicted a progression of planning, analysis, execution and feedback activities (Alam & Perry, 2002: 515-534). A number of studies have noted, however, that companies in practice often employ highly iterative, non-linear and informal processes in NSD efforts (Menor *et al.*, 2002: 135-157).

According to the World Economic Forum (WEF) Travel and Tourism Competitive Index, Kenya was ranked 8th regionally in Sub-Saharan Africa and 96th overall out of 140 tourism destinations (World Economic Forum, 2013). Kenya's competitive ranking is lower compared to most African destinations such as Seychelles (38), Mauritius (58), South Africa (64), Cape Verde (87), Morocco (71), Egypt (85), Botswana (94), Namibia (91) and Gambia (92). Kenya faces various challenges in realising its full potential.

While it is recognised that there are significant differences in the development of services, we now need to discover to what extent findings in the financial services sector are applicable to other service sectors. The detailed literature review revealed a lack of empirical research on whether NSD strategy and process is significantly different for hospitality services as opposed to financial services. This theory provoked the need for an exploratory study on the NSD strategy and process in the hospitality services sector.

1.3 PURPOSE OF THE STUDY

The purpose of the study was to build rather than test the underlying theory of NSD. The literature study was expanded by an empirical research on NSD strategy and process in the hospitality sector in Kenya. The study established the extent to whether literature on findings and concepts of NSD generated primarily in the financial sector could be considered and extended to the hospitality sector. More specifically, the study pursued the following three research questions:

- (i) how do classified hotels develop their NSD strategies;
- (ii) do chain and independent hotels emphasise different stages of the NSD process; and
- (iii) what is the significant difference between the theoretical framework of NSD and industry application?

1.4 RESEARCH OBJECTIVES

1.4.1 Primary objective

The primary objective of this study was to identify and compare the different approaches to NSD strategy and process for hotels in Kenya and to formulate a new service development conceptual framework for the hospitality industry.

1.4.2 Secondary objectives

The secondary objectives of this study were as follow:

- (a) to establish the types of new services developed and offered by the hospitality sector;
- (b) to identify NSD strategies used by the hospitality sector;
- (c) to determine the greatest benefits of NSD to the hospitality sector;
- (d) to identify the significance of the stages of the new service development process by the hospitality sector;
- (e) to determine the relationship between the hotel's competitive position and types of new services;
- (f) to find out the differences in the NSD approaches of the chain and independent hotels;
- (g) to establish the extent of customer involvement in NSD by hotels;
- (h) to determine functional responsibility for the NSD in the hospitality sector; and
- (i) to determine how much hotels spend on NSD related activities relative to sales
- (j) to establish the extent to which findings and concepts of NSD generated primarily in the financial sector could be considered and extended to the hospitality sector.

1.4.3 Research propositions

The next section will provide a description of the various research propositions linked to the primary and secondary objectives of the study. Since the study considered literature on findings and concepts of NSD generated primarily in the financial sector and how this could be extended to the hospitality sector, the former was not formulated as a specific research proposition.

Research propositions were formulated that may allow limited statistical analysis and were judged according to the definition of Cooper and Schindler (2008: 64), which states that a proposition is a statement about concepts that may be judged true or false if it refers to observable phenomena. The propositions have been accepted if they were judged as true or rejected if they could be judged as false.

After each proposition the relevant statements that relate to the components in each step were indicated. The following propositions were formulated and will be comprehensively motivated in the next section:

Proposition 1:

There is a significant difference in the number of new services developed and offered by the hotels in various star categories in Kenya.

Proposition 2:

There is a significant difference between hotel categories when factoring innovation considerations into decision making in Kenya.

Proposition 3:

Hotel managers in Kenya use the NSD strategy to plan and manage their products and services.

Proposition 4:

Hotel managers in Kenya apply and use the NSD concept for marketing and strategy decision making purposes.

Proposition 5:

Hotels that substantially outperform their industry peers develop more types of services.

Proposition 6:

The NSD approaches of chain hotels and independent hotels are different.

1.5 THE DEMARCATION AND SCOPE OF THE STUDY

The study made use of an exploratory research design aimed at identifying the sequence of events during innovation processes. The exploratory research helped to discover ideas and insights (Churchill & Brown, 2006: 79). Therefore, it became possible to compare what people assert during different stages of a specific decision.

The investigations consisted of a single industry – hospitality services – to control potential contextual influences sometimes associated with an inter-industry sample. The following aspects should be noted:

- the study covered the theory on the NSD as revealed in the literature review;
- the empirical part of this study focused on chain and independent hotels' comparison of new service development;
- the investigation focused on the types of NSD derived from the literature, namely product development, service concept development, system development, process development, product augmentation and market development;
- selected hotels were used to determine the way new services are developed in the service sector;
and
- the study was limited to hotels as a key sector of the hospitality sector.

The study furthermore focused on the development of standardised offers, having noted that the development process for non-standardised offers might be impossible to compare (Lovelock & Wirtz, 2004: 13-16) hence the focus on classified hotels. Findings of the study were used to compare with the financial services sector in order to provide opportunities to establish inter-industry patterns in the development process and strategy.

The reason the hospitality sector was chosen is threefold: it represents a high relative weight in the totality of tourist expenditure, it is indispensable for the development of the remaining services required of a tourist destination and lastly, it includes a set of firms that is homogenous in production and in competitive setting. Kenya was selected for the empirical study because it provides a good example of a developing country that has embraced tourism as a tool for socio-economic development (Akama & Kieti, 2007: 735). More detail will be discussed and defended in the research design and procedure in Chapter 7.

1.6 LITERATURE REVIEW

With the emergence of heightened competition, increased heterogeneity of customer demands, and shortened product life cycles service firms across many industries are increasingly faced with the challenge of determining how best to manage their development of new service offerings (Menor & Roth, 2008: 267). There is greater need for effective NSD because the service segment produces the highest growth in the gross domestic product of most industrialised countries (Froehle, Roth, Chase & Voss, 2000: 3-17 and Bitner, Ostrom & Morgan, 2008: 66).

NSD encompasses the development of tangible and intangible elements of a service, not previously offered by the supplier, including “offer development”, that is the development of “processes by which the product (or service) is evaluated, purchased and consumed” (John & Storey, 1998: 185). A wide range of organisational features may be involved (Edvardsson & Olsson, 1996: 140-64) including systems, staff, the physical environment, and organisation structure and control. Consequently the potential for NSD projects to differ in nature and scope is substantial and empirical studies focus increasingly on the wider organisational context of the process (John & Harbone, 2003: 22-39).

The importance of NSD to firm-level and national success is increasingly recognised: technological advances, the increasing rate of obsolescence of services and increasing sophistication in customer requirements augmented for new services (Fitzsimmons & Fitzsimmons, 2000: 53). It has further been posited that the development of new services is critical for competitive advantage and business survival for businesses, particularly those operating in turbulent environments (Kelly & Storey, 2000: 45; Alam, 2003: 973-974), winning new business and extending operations to new markets.

The services sector has been a major player in the growth of the Kenyan economy contributing approximately 53 percent of the nation's real gross domestic product (GDP) in 2013. The general growth in the Kenyan economy and steady increase in tourism earnings (US\$855 million in 2007 to US\$2.5 billion in 2014) have led to the growth and expansion of new investments in hotels in Kenya. New competitors are becoming more numerous, formidable and global. Hence, hospitality firms in Kenya increasingly face intense pressure to grow, innovate and become more productive in order to seize opportunities and survive.

1.6.1 Service in the hospitality industry

Hospitality guests rent goods and buy services that are provided by staff specialising in people comfort and who stage experiences for a variety of guest types and expectations. In people-focused services, there are a variety of consumption motives and an even larger number of ways that such motives might be satisfied; all of these parameters provide potential starting points from which NSD may be conceptualised and organised.

Although the need to standardise high contact services is continuously resulting in new ways of reducing contact (through automation, electronic booking systems, etc.), the high contact in most hospitality services comes about because the customer visits the service producer. Hotel services in particular not only require the presence of the customer but also envelope him or her completely and for what can be considered a long period of time.

The hotel market is faced with fierce competition, commoditisation of products, price cutting, declining revenues, and declining profitability (Morritt, 2006: 192). Survival chances and profitability have come to depend increasingly on the capability to innovate fast and successfully (Lehmann, 1997: 87-118). Morritt (2006: 192) argues that the key to smaller hotels competing successfully in this market is related to market segmentation, strategic alliances, and automation. Most NSD projects turn out less than successful (John & Storey, 1998: 185) and fail to meet expectations with respect to financial performance or creation of customer value (Cooper & Edgett, 1996: 26-37).

1.6.2 New service development versus new product development

The first research in the field of NSD was based on the well-documented new product development (NPD) frameworks and findings (Booz, Allen & Hamilton, 1982; Cooper & Kleinschmidt, 1991: 137-

147; Baker & Hart, 1999). A review of the literature shows that many similarities between NPD and NSD exist (Hughes & Wood, 2000: 105-124). In general successful NSD and NPD firms share a strong commitment to innovation, have well-structured innovation efforts and allocate substantial resources to their innovation efforts (Tidd & Bodley, 2002: 127-138).

Successful NSD companies display high top management involvement (Nijssen, Hillebrand, Vermeulen & Kemp, 2006: 242). As a result their strategic objectives focus beyond short-term success and its employees clearly understand the types of new products and services the firm is aiming for. Secondly, they tend to carefully align their cultures and systems to their innovation processes so as to lend maximum support to the innovation efforts. Thirdly, their NPD and NSD programs tend to be more formalised, better structured and proactive compared to those of their less successful counterparts. Fourthly, high quality development staff and other resources complement these successful innovators' new product and service firms.

Services are different (Lovelock & Wirtz, 2004: 9-13) and the validity of NPD models for services remains to be demonstrated. Literature shows there are differences between innovation processes of new products and new service firms (Menor *et al.*, 2002: 144-145). These differences pertain mainly to the specific characteristics of services that affect the development process of services and make them to a certain degree unique. In the first place, in service innovation "it is not the service itself that is produced but the pre-requisites for the service" (Edvardsson & Olsson, 1996: 147). Due to services' real-time production new services go hand in hand with modifications of service delivery process and changes in frontline employees' skills. The interaction between NSD and service delivery is therefore high and stronger than the relationship between NPD/Research and Development (R&D) and production in a product-manufacturing context.

In the second place, because NSD requires integrating the needs of new service operations and processes with those of existing business activities (Johns & Storey, 1998: 207) the fit between the new service and existing systems is also more important than in a product-manufacturing context. The front- and back-office functions must operate in an integrated way trying to overcome differences in objectives and time horizon between them (Nijssen *et al.*, 2006: 242). Contrary to manufacturing businesses, most service companies are not characterised by major R&D departments. Service innovation involves the development of new procedures and concepts rather than new core technology.

Stevens and Dimitriadis (2005: 176) recognise three fundamental differences that might invalidate the NPD models applied to services. Firstly, due to inseparability, there is simultaneous innovation in the product and in the procedure. Secondly, there is no separation between product innovation and organisational innovation. Thirdly, there is no distinction between the creation of the offer and the activity of production and/or commercialisation. These differences have led to the NSD process being considered as different from the NPD process (Menor *et al.*, 2002: 135-157). While NSD has to follow the same generic process as NPD, the relative importance of each stage and how each stage is carried out is affected by the unique characteristics of services.

1.6.3 Types of new service developments

According to Lovelock and Wirtz (2004: 116-117), the word “new” is one of the most overused in the marketers’ lexicon. Zeithaml, Bitner and Gremler (2006: 256) posit different categories of service development, ranging from style changes right through to major innovations. These categories overlap, in part, with the wider-ranging product development categories advocated by Lovelock and Wirtz (2004: 116-117). The two categorisations are shown in Table 1.1.

Table 1.1: New Product categories

| Zeithaml <i>et al.</i> (2006: 256) | Lovelock and Wirtz (2004: 116-117) |
|---|---|
| <p>Major or radical innovations. New services for markets as yet undefined.</p> <p>Start-up businesses. New services for a market that is already served by existing products that meet the same generic needs.</p> <p>New services for the currently served market. New services that attempt to offer existing customers of the organisation a service not previously available from the company.</p> <p>Service line extensions. Represent augmentation of the existing service line.</p> <p>Service improvements. Changes in certain features of existing services currently on offer to the currently served market.</p> <p>Style changes. Highly visible changes on service appearance.</p> | <p>Major service innovations. New core products for markets that have not been previously defined.</p> <p>Major process innovations. Using new processes to deliver existing core products in new ways with additional benefits.</p> <p>Product-line extensions. Additions by existing firms to their current product lines.</p> <p>Process line extensions. Distinctive new ways of delivering existing products so as to either offer more convenience and a different experience for existing customers or to attract new customers who find the traditional approach unappealing.</p> <p>Supplementary service innovations. Adding new facilitating or enhancing service elements to an existing core service or of significantly improving an existing supplementary service.</p> <p>Service improvements. Involve modest changes in performance of current products.</p> <p>Style changes. Highly visible changes on service appearance that create excitement and may motivate employees.</p> |

As indicated in Table 1.1, the preceding typologies suggest that service innovation can occur at many different levels although not every type of innovation has an impact on the characteristics of the service product or is experienced by the customer. It can be argued from Table 1.1 that although there are a variety of different ‘new’ services considered some are more new than others. The first three levels provide the greatest management challenges.

While Cravens and Piercy (2006: 222) classify new goods and services, introductions are classified according to newness to the market and the extent of customer value created. The authors argue that new-product initiatives may include one or more of the following three categories:

- **Transformational innovation** - products that are radically new and the value added is substantial.
- **Substantial innovation** - products that are significantly new and create important value for customers.
- **Incremental innovation** - new products that provide improved performance or greater perceived value (or lower cost).

Kasper, Van Helsdingen and Gabbott (2006: 348) further propose that service innovations are either new to the world, new to the market or new to the company and each requires a different set of skills and market entry strategy. A new category, on its own, is a service breakthrough – services that are so new, so different from existing services that they have caused a revolution (or discontinuity) in the particular industry. It can be argued that the amount of variation in the levels of ‘newness’ creates difficulties in allocating service innovations to the various classes.

1.6.4 New service development strategy

NSD can be focused on the company’s core service, added value services or brand new offers (Young, 2005: 244). According to Kotler and Armstrong (2006: 274), a business can obtain new products using two new product development strategies or ways: (a) through **acquisition** – by buying a whole company, a patent, or a license to produce someone else’s product, or (b) through **new product development** in the company’s own Research and Development department. Although for many companies the idea of a proactive new product strategy has a certain appeal, the reality is that proactive strategies are typically associated with a significant degree of risk and a need for heavy and sustained investment in money, skill and time (Wilson & Gilligan, 2005: 514-515). If a business cannot meet the

criteria for proactive strategies, it may opt for reactive strategies. This typically translates into one of four postures: rapidly responsive, second but better, imitative (me-too) and defensive.

Theory has advanced to the degree showing that services have marketing and development needs which extend beyond those of tangible products. In particular, the intangibility and experiential dimensions of services suggest a need for a specific research focus for NSD (Edgett, 1994: 40-49 and Storey & Easingwood, 1999: 193-203). Approaches to NSD are less well understood. But, in view of the shift in economic activity away from manufacturing towards services, it is increasingly important to understand the NSD process.

1.6.5 New service development process

There are three main activities in the NSD process: service concept development; service system development; and service process development (Lovelock, Van der Merwe & Lewis, 1999: 408-410). Service concept development includes objectives and strategy, idea generation and screening, concept development and testing (Scheuing & Johnson, 1989a: 17-21). Service concept development relates to ideas about how to meet customer needs, and it should start from a thorough description of customer requirements and how NSD can meet those requirements to the customer's satisfaction.

Service system development is about the infrastructure needed to deliver the service, and static resources required to set up such systems if they do not exist or only partially exist. These resources consist of the service company's staff, physical/technical environment, administrative support system and customers themselves (Johne & Storey, 1998: 184-251). Service process development builds a sequence of activities that must take place for the service to function or be effectively delivered.

Johnson *et al.* (2000: 17-18) suggested a model describing the NSD sequence which identifies four broad stages and 13 tasks that must be produced to launch a new service, as well as the components of the business which are involved in the process (Figure 1.1). The NSD process cycle represents a progression of planning, analysis and execution activities. Johnson *et al.* (2000: 18) integrate many of these facilitating conditions, activities and outcomes in their NSD process cycle. Additionally, the NSD process cycle recognises that the fundamental NSD stages revolve around the design and configuration elements and that the resources such as development teams and tools play an enabling function in the development process (Menor *et al.*, 2002: 140). According to Johnson *et al.* (2000: 2-3), articulating

the interaction among the three strategic components (service design, service development and service innovation) is important because it influences the configuration of the product and processes employed in developing new services.

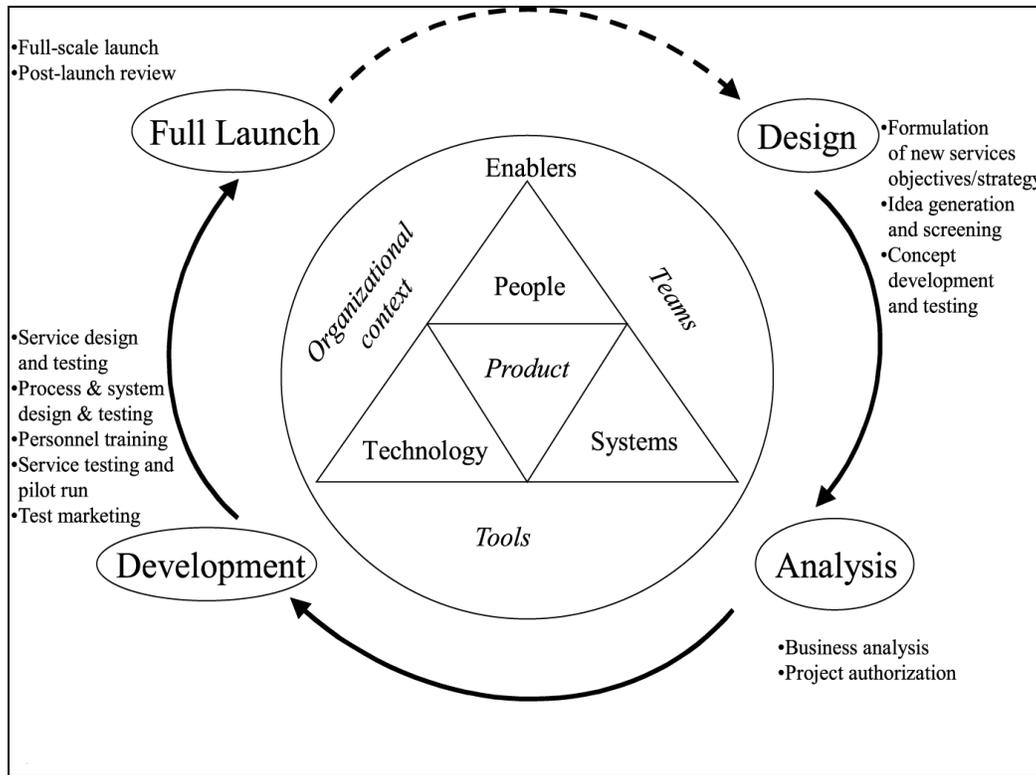


Figure 1.1: NSD process cycle

Source: Adapted from Johnson *et al.*, 2000: 18.

The NSD process cycle, as depicted in Figure 1.1, provides a descriptive view of ongoing processes. The adoption of a whole range of procedures to facilitate cross functional teamwork is critical. It seems that new services are the output of a co-operation rather than the result of a “champion” talent, either individual or department. The processes are sometimes characterised by informal steps.

Scheuing and Johnson (1989b: 25-34) make the important distinction between the design of the service and the design of the delivery process (see Table 1.2). Because services are, by their nature processes, delivery systems assume a high importance in the development of successful new services (Langeard & Eiglier, 1983: 68-72). The model shows the involvement of customer-contact staff and customers in the

process. More recently, Zeithaml *et al.* (2006: 258) suggested a model (Table 1.2) describing the NSD sequence which identifies nine tasks that must be produced to launch a new service.

Table 1.2: Models of NSD

| Scheuing and Johnson (1989b: 25-34) | Zeithaml <i>et al.</i> (2006: 258) |
|---|--|
| 1. Formulation of new service objectives and strategy | 1. Business strategy development or review |
| 2. Idea generation | 2. New service strategy development |
| 3. Idea screening | 3. Idea generation - screen ideas against new service strategy |
| 4. Concept development | 4. Concept development and evaluation – test concept with customers and employees. |
| 5. Concept testing | 5. Business analysis – test for profitability and feasibility. |
| 6. Business analysis | 6. Service development and testing – conduct service prototype test. |
| 7. Project authorisation | 7. Market testing – test service and other marketing mix elements. |
| 8. Service design and testing | 8. Commercialisation |
| 9. Process and systems design and testing | 9. Post introduction evaluation. |
| 10. Marketing and program design and testing | |
| 11. Personnel training | |
| 12. Service testing & pilot run | |
| 13. Test marketing | |
| 14. Full-scale launch | |
| 15. Post-launch | |

Both models of the NSD process depicted in Table 1.2 indicate that service innovation process passes through various stages and occurs at many different levels; each model provides for inclusion of the company's strategy in the process. The realisation that customers may be attracted by more than core performance attributes has important practical implications for service providers. Operationally, it requires a wider set of variables to be brought into play for service development than has traditionally been the case. For example, in many hospitality services markets it has been found beneficial to “augment” core service product attributes with appropriate support in order to achieve differentiation from competitors' offerings (Storey & Easingwood, 1994: 193-203). As a result, some innovative hospitality service providers now routinely speak of developing new ‘offers’, rather than merely new products (Johne, 1994: 41-46). As will be discussed in detail later, offer development is a more all-embracing, and potentially far more powerful, competitive activity than concentrating solely on the development of core performance attributes.

Every product goes through a life cycle - it is born, goes through several phases, and eventually dies as newer products come along that better serve consumer needs (Kotler & Armstrong, 2006: 274). Firstly,

the authors posit that all products eventually decline, and companies must be good at developing new products to replace aging ones. Secondly, changing consumer tastes, technologies and increasing competitive markets have augmented the rate of obsolescence of services and hence businesses must be good at adapting its marketing strategies. In all, to create successful new products, a business must understand its consumers, markets, and competitors and develop products that deliver superior value to customers (Kotler & Armstrong, 2006: 276). Businesses must carry out strong new product planning and set up a systemic NPD process for finding and growing new products.

1.6.6 Service innovation and competitiveness

Innovation plays an important and dual role, as both a major source of uncertainty and change in the environment, and a major competitive resource within the business (Tidd, Bessant & Pavitt, 2000: 57). Although developing new services has always been a critical activity for achieving success, it can be challenged by environmental turbulence. Service businesses are confronted with rapid technological developments, fast changes in customer requirements, and hyper competition, leading to exceedingly short product life cycles (Bogner & Barr, 2000: 212-216). Time compression and the intensification of global competition are now “facts” of business life.

The deregulation and globalisation of markets and the internationalisation of service companies over the last two decades have made competition among service companies extremely harsh. These trends place service innovation at the heart of the company’s competitiveness, as constant adaptation in a turbulent environment requires a continuous flow of new offers. According to Poolton and Ismail (2000: 795), the search for new methods and techniques to improve business processes has subsequently grown, both internally and externally. Consequently, much research has concluded that NSD is a major competitive factor for the service industry (Johnson *et al.*, 2000: 1).

Two dramatic developments in the business environment have changed the competitive landscape for most companies during the past several decades (Johnson, Menor, Chase & Roth: 2000: 1). Firstly, major world economies have shifted from product-driven markets to information-based, service-driven markets. Secondly, the ongoing development of new products and services is critical for competitive survival. Drummond, Ensor and Ashford (2004: 213) concur that product development is a strategic necessity. Therefore NSD represents a critical resource for competitive survival and growth in the service industry.

The benefits of service innovation are apparent. What is not as clear is how managers should decide on which innovations to implement. In some cases innovative service offerings are necessary just to maintain a company's current market share. In others, innovations may enhance service differentiation and induce financial gains. Therefore it is important for managers to implement innovations which are not only desired by customers but also are economically beneficial to the company (Reid & Sandler, 1992: 68-73). In some cases innovative service offerings are necessary just to maintain a company's current market share; some innovations may merely raise the cost of doing business without a significant economic benefit other than to preserve current business and without providing a competitive advantage. As underlined by Buganza and Verganti (2006: 393-395), developing new products in a turbulent environment may be challenging because the market or technology may shift rapidly and unpredictably during the development time window, demanding continuous and expensive project adaptation.

Developing a steady stream of successful new products is probably the single most important issue facing managers today (Poolton & Ismail, 2000: 795). Past research and anecdotal evidence suggest that service innovation, in general, has a positive impact on customers' choice and can result in increased revenues for a company (Victorino, Verma, Plaschka & Dev, 2005: 571). As customers have become more discerning, and speed-to-market continues to play a crucial role in a wide variety of markets, developing new products is becoming more important and more difficult (Poolton & Ismail, 2000: 798). Despite the risks associated with innovation, it provides: new products, the potential to create new jobs and new ways of doing business.

1.6.7 Service classification

Johns (1999: 958-973) uses seven parameters (ranging from visibility of output to service environment), in order to differentiate between services. These categories can be used to contrast the emotional experiences of hospitality services with physical and electronic transactions such as banking services. The main difference between financial and hospitality service is the interpersonal attention paid to the customer.

While bank services involve low interpersonal attention, in the majority of hospitality services (and in hotel services in particular) a high level of contact occurs between delivery staff and customers. For example, Lovelock and Wirtz's (2007: 34) four-way classification (people-processing, possession-

processing, information-processing and mental-stimulus-processing) places hospitality and financial services in different quadrants, indicating that they have different service characteristics. According to Lovelock and Wirtz (2004: 14), each category involves fundamentally different processes, with vital implications for marketing, operations, and human resource managers. Similarly, the four-quadrant service process matrix proposed by Roger Schmenner classifies services across two dimensions (degree of interaction and customisation, and degree of labour intensity) that significantly affect the character of the service delivery process, places hotels and retail aspects of commercial banking in different quadrants (Fitzsimmons & Fitzsimmons, 2011: 25) suggesting that they have different service characteristics. Lodging, restaurants and bars are in the same quadrants, demonstrating that this service sectors have the same characteristics.

A major point of difference between product development and service development is the involvement of customers in services (Alam & Perry, 2002: 515). While Lovelock and Wirtz (2004: 16) assert that personal contact is quite unnecessary in such industries as banking or insurance, Ottenbacher *et al.* (2006: 348) argue that a direct or continuous involvement with the customer may not be necessary once the request for service has been initiated. Companies need to understand the nature of the processes to which their customers may be exposed because customers are often involved in service production (Lovelock & Wirtz, 2004: 13-14).

Although each of these classification systems outline key elements that differentiate a variety of service sectors, they do little to express the unique requirements of operations in the hospitality sector compared with other service sectors. When looking at NSD in service companies, sectoral differences will be evident. This is because sectors differ greatly in their underlying technologies, available human resources, amount of competition, and bargaining power of clients. For instance, designing and introducing a new service in a hotel (such as eco-friendly rooms) is not the same as designing and introducing a new financial service (e.g. banking via Internet or mobile phone). Strategies and processes will, therefore, be crafted differently depending on what type of service is being discussed.

1.6.7.1 Hospitality services

Hospitality enterprises provide people-processing services, because they involve tangible actions to people's bodies. Furthermore, the implication is that customers need to be physically present

throughout the core service delivery in order to receive the desired benefits of such services (Ottenbacher *et al.*, 2006: 348). Since customers are an integral part of the process, they must be prepared to spend time interacting and actively cooperating with the service provider. This is time-consuming, costly, and contains the risk of contributing to competitor intelligence (Deszca, Munro & Noori, 1999: 618).

Hospitality services share more of their primary functions directly with the customer, influencing his or her physical well-being. In particular, high contact services transform the customer as a person, by providing what are often complex experiences. In these cases, the successful service is provided by highly skilled personnel, and both functional and aesthetic facilities serve to satisfy diverse consumption motives, rather than being merely emblematic for otherwise intangible product attributes.

If customer voices are to be used to improve breakthrough products (BTPs) and reduce development time, customers must be exposed to the product (and related information) while the product attributes are still being identified and experimented with. However, by giving customers the criteria (i.e. features and situation), researchers risk the possibility of bias. In addition, there are a number of tangible as well as intangible services that surround the provision of hospitality services, adding to the complexity of the service experiences (e.g. facilitating hotel booking over the internet).

Hotels are an ideal example of a market which could benefit from the implementation of service innovation (Victorino *et al.*, 2005: 556). Firstly, from a customer's perspective, the hospitality market is perpetually overwhelmed by many comparable, often easily substitutable service offerings. This can cause difficulties for hotel managers as they attempt to differentiate an individual hotel from its competitors (Reid & Sandler, 1992: 68-73). One solution to this challenge may be to offer new and innovative features to customers. Secondly, the hospitality industry is rapidly changing due to accelerations in information technology (Olsen & Connolly, 2000: 30-40). Recent technological innovations that were found to be beneficial for hotels included: a wake up system, electronic door locks, in-room pay-per-view, video cassette players, multiple phone lines, video library, personal computers, voice mail, computer modem connections, video check out, electronic in-room safes, and a software library (Reid & Sandler, 1992: 68-73).

1.6.7.2 *Product-services continuum*

A service supplier can use the goods and services continuum (Palmer, 2001: 21) also referred to as the tangibility spectrum (Zeithaml *et al.*, 2006: 6) or the Shostack continuum (Young, 2005: 240) to develop new services and manage its offer. This tool acknowledges that there are very few ‘pure services’ or ‘pure goods’. Some services are adjuncts to product and are therefore intimately tied to the value, development and pricing of that product, yet other services are unique propositions in their own right, which will stand alone in the marketplace (Young, 2005: 239-240).

According to Kotler (2004: 428-429), the service component can be a minor or a major part of the total offering. Five categories can be distinguished:

- **Pure tangible goods** – the offering consists primarily of a tangible product and no services accompany the product.
- **Tangible goods with accompanying services** – the offering consists of a tangible good accompanied by one or more services.
- **Hybrid** – the offerings consists of equal parts of goods and services. For instance, people patronise hotels for food, beverages and services.
- **Major service with accompanying minor goods and services** – the offering consists of a major service along with additional services or supporting goods. Banking services would fit in this category.
- **Pure service** – the offering consists primarily of a service.

In practice, it can be very difficult to distinguish services from goods, for when a good is purchased, there is usually an element of service included. Similarly, a service is frequently augmented by a tangible product attached to the service (Palmer, 2001: 21). In between is a wide range of products which are a combination of tangible goods and intangible service. The broad definition of services implies that intangibility is a key determinant of whether an offering is a service, and that very few products are purely intangible or totally tangible (Zeithaml *et al.*, 2006: 6).

Technological capabilities, combined with increasing knowledge and sophistication of service customers compel the service practitioner to think differently about service product creation and marketing. In fact, real time service products might even change the very nature of what is considered a

service, and at least from the customer's perspective convert many physical products into service products (Fitzsimmons & Fitzsimmons, 2000: 53). Many service products, conversely will take on the characteristics of hard products. In addition to blurring the line between the products and services themselves, real time functionality also blurs the line between what traditionally was a product company or a service company (Fitzsimmons & Fitzsimmons, 2000: 53-54).

The hospitality sector offers products which comprise both tangible and intangible elements that combine into a unique combination of production and service. While the provision of rooms is a pure service activity, food and beverage provision is a hybrid involving processing and retailing processes. This may mean that the actual development and delivery of new hospitality services may differ widely depending on the specific hotel product. Despite the indefinable nature of the hotel product new service development can represent an important source of competitive advantage because it enables the businesses to deliver goods and services that sustainably satisfy the needs of the customer.

This brief review of service classification suggests that it is useful for researchers to classify services and that hospitality services appear more dependent on the customer's presence than financial services. Given the exemplary differences between these large and influential services industries (financial versus hospitality sectors), and to follow up on John and Storey's (1998: 219) challenge to test whether there are significant differences in NSD between separate services, the present study will use the hospitality sector as the subject for research into NSD strategy and process.

1.6.7.3 Criticisms of new service development

Some criticisms have been aimed at the NSD process and strategy. Olsen and Sallis (2006: 466-467) contend that the highly active role of the customer in the service development process has implications for innovation. Listening too closely to customers limits strategic options for new services to those envisaged by customers, since customers have difficulty articulating their latent needs, emerging opportunities that provide solutions to unexpressed needs, may not be discovered or recognised (Atuahene-Gima, 2003).

Several studies have noted that companies, in practice, often employ highly iterative, non-linear and informal processes in NSD efforts (Menor *et al.*, 2002: 135-157). John and Storey (1998: 201) argue

that “while NSD has to follow the same generic process of NPD, the relative importance of each stage and how each stage is carried out is affected by the unique characteristics of services”.

The characteristics of services – intangibility, simultaneity, heterogeneity, and perishability – are now relativised (Ottenbacher *et al.*, 2006: 346) despite the fact that they have assumed a level of paradigmatic doctrine for many service marketers and researchers. It is argued that there is no conceptual difference between a product and a service and that both may actually be characterised by the established services characteristics. More recently some scholars have argued that it is unhelpful to differentiate between NSD and NPD (Menor & Roth, 2008: 280) and that future research should focus on ‘new product/service development’.

1.6.7.4 Identified problems with new service development

Many gaps have been identified in marketing literature that is linked very closely to the criticisms. The following **gaps** were identified and will be motivated in Chapter 3:

- NSD remains an underdeveloped area (Martin & Horne, 1995: 40-56) lacking in empirical research (Alam & Perry, 2002: 515; Smith & Fischbacher, 2005: 1025).
- Research on how new services are developed remains fragmented and less developed than that of products (Menor *et al.*, 2002: 135-157).
- The potential for NSD projects to differ in nature and scope is substantial and empirical studies increasingly focus on the wider organisational context of the process (John & Harbone, 2003: 22-39).
- It is well understood that NSD, for many companies, tends to be a haphazard process (Kelly & Storey, 2000: 49-59). Few companies use, let alone develop, methods to elicit ideas for new services and develop and subsequently select among them. Additional NSD understanding and theory that advances managerial insights and practices is required given the prevailing anecdotal evidence suggesting that service innovation efforts are typically carried out non-systematically (Menor & Roth, 2007: 826).
- According to Dolfmsma (2004: 325), financial services feature very prominently in empirical studies, and given the more product-like features of financial services, these findings might not be representative for a broader range of services across a heterogeneous range.

- Some studies have noted that companies, in practice, often employ highly iterative, non-linear and informal processes in NSD efforts (Menor *et al.*, 2002: 135-157).
- Service companies represent an increasingly important business sector, yet the new product development literature is inclined toward production companies (Gray & Hooley, 2002: 980-988). Research into the NSD process is relatively neglected (Kelly & Storey, 2000: 45).
- Previous empirical studies have not reached a consensus on a well formalised development process – in fact, they have often led to contradictory results. Menor *et al.* (2002: 135-157) underline that significant effort is required to clarify the existing works, which are scarce and scattered.
- Service innovation research is lacking in comparison to product innovation (Victorino, Verma, Plaschka & Dev, 2005: 560).
- The failure rate of new service projects is high because knowledge on innovation development is limited (Ottenbacher, Shaw & Lockwood, 2005: 113).
- The development of new services has remained among the least understood topics in the service management and innovations literature (Drejer, 2004: 551-562).
- The main reason for the difficulty in identifying general principles for managing operations and marketing practices across different service types is the poor knowledge about the diversity of service offerings (Chase & Apte, 2007: 375-386).
- The requirements of service development differ according to various context factors (Storey & Hull, 2010: 141-156).

Most empirical studies into NSD strategy and process have concentrated on the financial services sector (Syson & Perks, 2004: 255-260; Athanassopoulou, 2006: 87-116 & Alam, 2007: 43-55 and Froehle & Roth, 2007: 169-188) and no published evidence could be found where this has been evaluated for hospitality services sector in a developing country.

The NSD strategy and process framework form the basis of this research. The research determined how strategy impacts process for new service development. Thus the framework is postulated as the model that will lead to successful service development in the hospitality sector. The concept is illustrated in Figure 1.1.

1.6.7.5 Conceptual Research Framework

Figure 1.2 depicts the proposed Strategy-Process Framework (SPF). The SPF is a conceptual representation of key strategy and process practices that the extant literature and practitioners indicate are supportive to the development of effective NSD strategy and process.

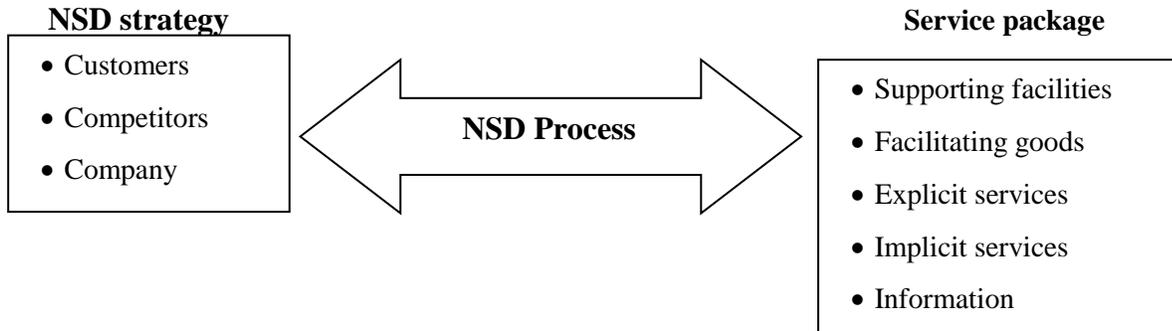


Figure 1.2: The Strategy-Process Framework for NSD

An extensive use of secondary data informed the development of the conceptual framework which will be used for the empirical study.

The research design will be discussed in the next part of this chapter.

1.7 RESEARCH DESIGN

A research design is a framework or blueprint for conducting the marketing research project (Cooper & Schindler, 2008: 89; Malhotra, 2007: 78). Research design details the procedure necessary for obtaining the information needed to structure and/or solve marketing research problems and lays the foundation for conducting the project. The purpose of research design is to design a study that will test the hypotheses of interest, determine possible answers to the research questions and provide the information needed for decision making (Malhotra, 2007: 78). Formulating a research design involves a number of steps which are briefly discussed in the next section. A detailed description of each step will be done in Chapter 6.

1.7.1 Exploratory, descriptive, and/or causal research design

Research designs may be broadly classified as exploratory or conclusive. Exploratory research is used to provide insights into, and an understanding of the problem confronting the researcher (Malhotra, 2007: 79). Conclusive research is designed to assist the decision maker in determining, evaluating, and selecting the best course of action to take in a given situation and may be either descriptive or causal (Malhotra, 2007: 79-80). Exploratory research is a useful preliminary step that helps ensure that a more rigorous, more conclusive future study will not begin with an inadequate understanding of the nature of the management problem (Zikmund, 2003: 110-111).

The researcher used an exploratory research design for the study. Both quantitative and qualitative data were gathered. Mixed methods research forces the methods to share the same research questions, to collect complementary data, and to conduct counterpart data analysis (Yin, 2009: 63) and to offset the weaknesses of either approach alone. A descriptive research design was used to look for distinguishing characteristics, elemental properties and empirical boundaries of NSD; then a case study research approach was used as part of a larger multi-method study (Yin, 2009: 62-63) to clarify the exact nature of an NSD strategy and process in hotels. The case study research was used to explain the underlying process of NSD while a survey was used to define the prevalence of NSD practice among hotels.

1.7.2 Definition of the information needed

Views on NSD were derived from an extensive literature research. The literature included information on strategy, and empirical results conducted on NSD, challenges, problems and criticisms associated with NSD.

1.7.3 Measurement and scaling procedures

- **Reliability, validity, sensitivity and generalisability**

Reliability is a necessary but sufficient condition for validity (Dillon *et al.*, 1993: 294) although a reliable instrument may not be valid (Zikmund, 2003: 301). Reliability refers to the degree to which measures are free from error and therefore yield consistent results if repeated measurements are made on the characteristic (Zikmund, 2003: 300 & Malhotra, 2007: 284). A reliability coefficient can be determined where the sum of item variances will be compared to the variance of the sum scale. This coefficient can vary from 0 to 1 and a value of 0.6 (60 per cent) or less indicates unsatisfactory internal consistency reliability (Malhotra, 2007: 285).

Validity, according to Malhotra (2007: 286), is the extent to which differences in observed scale scores reflect true differences among objects on the characteristic being measured, rather systematic or random errors. A researcher can utilise various types of validity to prove whether he or she has measured the truth. The researcher will assess content validity, criterion validity, and construct validity to measure research results.

Sensitivity refers to an instrument's ability to accurately measure variability in stimuli or responses (Zikmund, 2003: 304). The sensitivity of a scale is an important measurement concept, particularly when changes in attitudes or other hypothetical constructs are under investigation.

Generalisability refers to the degree to which one can generalise from observations at hand to a universe of generalisations (Malhotra, 2007: 287-288). The set of all conditions of measurement over which the investigator wishes to generalise is the universe of generalisation. These conditions may include items, interviewers, and situations of observation. A researcher may wish to generalise a scale developed for use in personal interviews to other modes of data collection. Likewise, the researcher may generalise from a sample of items to the universe of items, from a sample of items of measurement to the universe of items of measurement, or from a sample of observers to a universe of observers. The measuring instruments were evaluated in terms of reliability, validity, sensitivity and generalisability. These will be discussed in Chapter 7 after the questionnaire has been developed.

1.7.4 Methods of collecting quantitative data

The type of interviewing procedure and questionnaire design are discussed below.

1.7.4.1 The interview procedure

In-depth interviews for the case studies were conducted by eight hotel managers from differently sized and rated properties to ensure proportionate representation, and to allow respondents to express their viewpoints for the qualitative phase of the research. A set of interview topics guided the interviews, with a list of probing questions to draw out respondent opinions.

1.7.4.2 *Questionnaire design*

The questionnaire represents one part of the survey process. There are different ways in which to collect data. They can, however, be divided into two categories: interviewer administered and self-completion (Brace, 2004: 23). It is not unusual, though, for interviewer administered interviews to contain self-completion sections, as well as a third category, that of interviewer supervised self-completion. A combination of interviewer administered and self-completion data collection methods was used in the study. Each of the two types of data collection media provides its own opportunities in terms of questionnaire construction and administration, as indicated in section 7.4.3.

The researcher used a face-to-face or personal interviewing method for selected top managers in the hospitality sector and industry experts, and the investigation of secondary data to analyse and evaluate the environmental context of the problem, as discussed in Chapters 3 and 4. The eight interviews were used to orient the questions used in the survey. A self-administered questionnaire was used in the quantitative survey. The role of the questionnaire was to elicit the required information in the most accurate way possible to enable the researcher to fulfil the objectives of the survey (Brace, 2005: 7).

The questionnaires were developed from the literature derived from Chapters 1 to 5 and the in-depth interviews. The questions asked were a function of the research objectives and of the survey design used in the study. The research propositions derived from the conceptual analysis and insights from the interviews also guided the questionnaires.

Research propositions are advanced aiming for the encouragement of empirical enquiry on these underdeveloped areas. Principles associated with questionnaire design were applied (Zikmund, 2003: 330-362; Brace, 2005: 113-140; Malhotra, 2007: 300-322). Complementary questions to be addressed by both the case study and survey methods were used (Yin, 2009: 174).

The appropriateness of the questionnaires was confirmed through evaluation by academics knowledgeable about NSD, and through a pre-test with marketing decision makers in the hospitality sector. The comments and answers given in the pre-test were used to refine the questionnaire before it was used in its final form. A comprehensive discussion on questionnaire design, data collection methods and the reason(s) for the selection of the pick and drop method will be done in Chapter 6.

1.7.5 Sampling process and sample size

The process of sampling involves any procedure using a small number of items or parts of the whole population to make conclusions regarding the whole population (Zikmund, 2003: 369). Sampling cuts costs, reduces labour requirements, and gathers vital information quickly. It is often referred to as being more of an art than a science. Sampling decisions are often complex and there is no single “right” way to make them. Two major alternative sampling plans are available according to Zikmund (2003: 379-380):

- (a) Probability samples where each element in the sample frame has a known and equal chance to be selected (Zikmund, 2003: 379).
- (b) Non-probability samples where the researcher is not able to determine the chance of a single element from the sample frame of being selected (Zikmund, 2003: 380).

The researcher used both probability and nonprobability sampling methods in the study. The qualitative part of the study used a nonprobability sampling method. The quota sampling method was used to ensure the representativeness of the sample between the two gateway cities, and then judgement sampling was used to identify the respondents for the in-depth interviews. Judgement sampling was deemed appropriate because the respondents are hard to find as they are from populations that cannot be identified by screening the general population. A total of eight interviews were conducted to proportionately cover each hotel star category and the two gateway cities. A three-stage sampling procedure was used in the quantitative part of the study. Judgement sampling, stratified random sampling, and quota sampling method respectively were used in the first phase of the study.

Sample size

The determination of the appropriate sample size is a crucial aspect of business research. The proper sample size can formally be identified using statistical theory (Zikmund, 2003: 401) or alternative “ad hoc” methods for pragmatic reasons, such as budget and time constraints (Hair *et al.*, 2007: 183; Herbst, 2001: 144). A representative sample obtained from a selected database of classified hotels in Kenya was drawn and each individual company was selected according to predetermined criteria.

A sample size of 70 was determined using an *ad hoc* method by the researcher in this study based on a sample proportion for an ending population of 84 for the three-to-five star classified hotels and lodges

in Kenya. Preliminary criteria for inclusion in the sample varied in terms of star classification, years of operation, number of staff, type of establishment, and location of the establishment. The most stringent criteria were used. The considerations for determining the sample size will be discussed in section 6.8.4.

1.7.6 Plan of data analysis

Secondary data analysis is the preliminary review of data collected for another purpose to clarify issues in the early stages of a research effort (Zikmund, 2003: 115). According to Zikmund (2003: 115), reviewing and building on the work already compiled by others is economical and a quick starting point for most research as secondary sources often prove to be of great value in exploratory research. Secondary data can almost be gathered faster and more inexpensively than primary data.

An extensive literature search on NSD process and strategy will be conducted by consulting a wide range of scientific journals, books and research publications. Literature on strategy, innovation management, hospitality, and NSD will be discussed in Chapters 2 to 4. The plan of data analysis will be provided after the questionnaire has been developed and all aspects associated with data analysis will be discussed in Chapter 6.

1.8 THE IMPORTANCE AND VALUE OF THE STUDY

1.8.1 Importance of this study

In view of the shift in economic activity away from manufacturing towards services, it is becoming increasingly important to understand the NSD process and strategy. While significant differences in the development of services as opposed to goods are recognised, no empirical research has been undertaken to establish the extent to which findings and concepts of NSD generated primarily in the financial sector can be extended to the hospitality sector.

1.8.2 Value of this study to service companies

Services are distinctive by their intangibility (as discussed in section 1.6.7.3), perishability, heterogeneity and simultaneity (Dolfsma, 2004: 321). Hence the extent to which the strategies of different types of services are influenced by each of these characteristics is thought to vary widely. Although financial services feature very prominently in empirical studies (Dolfsma, 2004: 325) such studies average the results across industries and make conclusions that may not be true for any single

industry (Alam, 2003: 974), hence, these findings might not be representative for a broader range of services across a heterogeneous range. Some studies show that a more formalised NSD will increase the chances of success for companies involved (De Brentani, 2001: 169-187). The findings should be of value to managers faced with tasks of selecting and managing service innovation in hospitality businesses.

Recognising the need for managing hospitality innovation and the lack of research in this field, the motivation of the present research is threefold. Firstly, few studies of the entire NSD process in the hospitality sector have been made in the past. The absence of empirical data inhibits our understanding of what the main stages of the development may be. Secondly, there have been no attempts to consider different NSD processes, even though the diversity and complexity of the delivery process is well known. Thirdly, among the empirical research describing NSD processes and strategies, very few attempts have been made to assess the extent to which findings in one service sector are applicable to other categories of service.

No published research could be found that specifically focused on NSD strategies and processes in hotels in developing countries in general and in Kenya in particular. Given this context, providing empirical evidence should make a contribution of knowledge with respect to marketing theory as well as advance our understanding of the NSD process and strategy. The researcher intended to investigate key issues of new service strategy and the NSD stages in the hospitality service sector.

1.9 CLARIFICATION OF KEY CONCEPTS

Before the outline of the different chapters can be discussed, it is necessary to clarify the following key concepts that will be used as an integral part of the literature and empirical parts of the study:

Hospitality industry

The hospitality industry is made up of those businesses that offer one or more of the following: provide accommodation, prepare food and beverage service, and/or provide entertainment for the traveller (Kotler, Bowen & Markens, 2006: 30).

Industry

It is a group of companies that produce and offer a product or class of products that are close substitutes for each other (Keegan & Green, 2005: 503). Industries are classified according to number of sellers, degree of product differentiation, presence or absence of entry, mobility, and exit barriers, cost structure, degree of vertical integration; and degree of globalisation (Kotler, 2003: 245).

Innovation

Innovation can be viewed as both the process of creating something new and also as the actual product or outcome (Fitzsimmons & Fitzsimmons, 2011: 69). It can also be viewed as either a project or a program.

Sector

It is a part or a branch of a particular area of activity, especially of a country's economy, e.g. the financial sector and the hospitality sector.

Product

A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, companies, and ideas (Kotler, Bowen & Makens, 2006: 31).

Service

A service is an act or performance offered by one party to another. It is an economic activity that creates value and provides benefits for customers at specific times and places by bringing about a desired change in, or on behalf of, the recipient of the service. Although the process may be tied to a physical product, the performance is transitory, often intangible in nature, and does not normally result in ownership of any of the factors of production (Lovelock & Wirtz, 2004: 9).

New service

A new service refers to a new offering not previously available to customers of the business that results from either an addition to the current mix of services or from changes made to the service delivery process (Menor & Roth, 2007: 826). This definition reflects both the service concept and service delivery system innovations.

New service strategy

This refers to the types of new services developed by a business that characterises the innovativeness of the business (Alam, 2005: 237).

New service development project

A project is a one-time, multi-task job with a definite starting point, definite ending point, a clearly defined scope of work, a budget, and usually a temporary team (Lewis, 2001: 5-6). Much of the new service development work done in businesses can be thought of as projects.

New product development

It is the development of original products, product improvements, product modifications, new brands through the company's own research and development (Kotler & Armstrong, 2006: 274). New product development can be organised using two approaches:

- a) **sequential product development** – a new product development approach in which one company department works to complete its stage of the process before passing the new product along to the next department and stage (Kotler & Armstrong, 2006: 288); and
- b) **simultaneous (or team based) product development** – an approach to developing new products in which various company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness (Kotler & Armstrong, 2006: 288).

New service development process

NSD process can be defined as the set of stages and activities, actions or tasks that moves a development project from the idea stage to deployment and disposal stage (Perks & Rihela, 2004: 39).

Strategy

Strategy is concerned with making major decisions affecting the long term direction of the business (Drummond *et al.*, 2004: 4). It concerns decisions deliberately taken to establish what offering (goods or services) the business is to offer to what customers in the future and against what competition, so as to meet its financial objectives. According to Drummond *et al.* (2008: 4-5), major business decisions are by nature strategic and tend to focus on:

- (a) **Business definition** - defining the scope (or range) of the activities of the business and determining the markets in which the organisation will complete.
- (b) **Core competencies** - the skills and resources needed in order to prosper within the defined markets which can be used to optimum advantage. It is essential that this is considered over the long term and aims to match organisational capability with desired goals and external environment.
- (c) **An integrative approach** - coordinating the different functions and/ or activities within the company in order to achieve common goals. The managers should be able to target resources, eliminate waste and create synergy.
- (d) **Consistency of approach** - strategy should provide a consistency of approach, and offer focus to the company. Tactical activities may change and be adopted readily in response to market conditions but strategic direction should remain constant.

1.10 CHAPTER OUTLINE

Chapter 1: Orientation

The current chapter describes the problem statement, objectives, propositions and literature linked to the investigation of the new service development strategy and process. The conceptual framework was discussed. The rest of the thesis will be divided into the following chapters:

Chapter 2: Theoretical foundation: The concept of strategy and strategic marketing

This chapter will provide a theoretical discussion on strategy and strategy development in service industries. The role of strategic marketing in services marketing will be highlighted with reference to the hospitality sector.

Chapter 3: Literature survey: Services marketing and new service development

This chapter will explain the characteristics of services, processes of service and market development with an emphasis on the new service development process and its strategic significance through the various stages of new service development. The chapter will include literature on the challenges of new service development strategy, key activities, knowledge gaps, and analysis of opportunities.

Chapter 4: The hospitality environment

This chapter will be devoted to the hospitality service sector environment in which the empirical research will be conducted. It will include a universal perspective on the service management of the hospitality sector. The chapter will conclude with a theoretical discussion of new service development in the hospitality sector.

Chapter 5: NSD in the financial services sector

This chapter will holistically review the literature and critically examine NSD in the financial services sector. The chapter will conclude with a description of the financial sector and a comparison with the hospitality sector to be used in the empirical part of this study.

Chapter 6: Research methodology

This chapter will provide the various research propositions linked to the primary and secondary objectives of the study. The research methodology will be discussed with special reference to the research sample, the measuring instrument, qualification of the variables and the proposed statistical analysis.

Chapter 7: Results and interpretation

This chapter will present the findings from the empirical research ranging from general research findings to more specific results. The results will be reported on a question by question format for the total sample and will then be broken down into results per hotel category - independent hotels and chain hotels.

Chapter 8: Conclusions, implications and recommendations for future research

This chapter will present all the major findings. The chapter will be concluded by a discussion on the limitations of the study and will be enhanced by recommendations for future research.

1.11 CONCLUSION

This chapter describes the problem statement, objectives, propositions and literature linked to the investigation of the new service development strategy and process. Although developing new services is a complex task and differs from physical products, there are recognised and well developed

processes and techniques by which companies can create effective new services. This study will investigate new service development processes and strategies.

The next chapter will provide a theoretical discussion on strategy and development in the hospitality sector. The role of strategic marketing in services marketing will be highlighted with reference to the hospitality sector.

CHAPTER 2

THE CONCEPT OF STRATEGY AND STRATEGIC MARKETING

2.1 INTRODUCTION

This chapter provides a theoretical discussion on strategy and strategy development in service companies. The role of strategic marketing in services marketing is highlighted with reference to the hospitality sector. The chapter concludes with a discussion on strategy and the linkage between new service development and strategy formulation.

2.2 THE CONCEPT OF STRATEGY

Strategy denotes planning and mental modelling activities in a company with a purpose of charting a successful course of action over an extended period of time. The concept of strategy views competencies as comprised of the company's activities which are aligned to form processes. Choosing high performance strategies in a competitive environment of constant change requires vision, sound strategic logic and commitment (Cravens & Piercy, 2013: 12).

Different levels of strategy exist in large companies, namely corporate strategy, business and functional strategy. According to Du Plessis, Jooste and Strydom (2001: 4), corporate level strategy crystallises into strategies at lower organisational levels. In small companies, corporate strategy and business unit strategy are essentially the same (Hartline & Ferrell, 2014: 30). According to Deszca, Munro and Noori (1999: 613), competitive pressures and market forces are augmenting the importance of product innovation as a source of competitive advantage. The authors posit that key drivers underpinning market success have the capacity to develop the 'right' products for the 'right' customers, using the 'right' channels, with a shorter development cycle than competitors.

2.2.1 Strategy

Strategy is a plan, ploy, pattern, position and perspective (Mintzberg, Lampel, Quinn & Ghoshal, 2003: 3). It is the fundamental pattern of present and planned objective resource developments and interactions of a business with markets, competitors and other environment factors (Walker, Boyd & Larréché, 1999: 8). Cravens and Piercy (2006: 22) indicate that an effective strategy should display the following characteristics:

- unique competitive position for the company;
- activities tailored to strategy;
- clear trade-offs and choices vis-à-vis competitors;
- competitive advantage arising from fit across activities;
- sustainability coming from the activity system, not parts; and
- operational effectiveness as a given.

The above mentioned characteristics will be included in the discussion of strategy and strategy development in the next section.

2.2.2 Competitive advantage

In the strategy literature, there exists a rich body of knowledge on the nature and causes of competitive advantage (Powell, 2001: 875-888), ranging from the industry positioning approach (Porter, 1985: 1), the commitment explanation (Caves & Ghemawat, 1992: 1-12), to the resource based view (Harrison & Enz, 2005: 7-9) and the dynamic capability approach (Teece, Pisano & Shuen, 1997: 509-533). Service and service delivery can be, and increasingly are, a competitive weapon (Johnston & Clark, 2001: 346).

According to Ma (2004: 911), there are three generic types of competitive advantage: ownership-based, access-based and proficiency-based competitive advantage. Thus, a company can achieve competitive advantage through ownership or possession of certain valuable assets, factors or attributes, unique resource endowment or reputation. It could also achieve competitive advantage in the form of superior access to factor market and product market. Moreover, a company could enjoy competitive advantage through its own superior knowledge, competence or capabilities in conducting and managing its business processes (Teece *et al.*, 1997: 509-533) – producing quality products at lower costs and delivering the right products and/or service to its customers in the right place at the right price and right time through the right channels.

The three types of generic competitive advantages are not only important for a company's superior performance in general, but are also important for its success in global competition in particular (Ma, 2004: 911). Consequently, a company has to look deeply and systematically into what it has, what it knows and does, and what it can get. Winning in global competition, more than ever, requires a company to establish a defensible position and sustain its ownership-based competitive advantage, to

create and improve access to foreign suppliers and distribution channels as well as access to the state-of-the-art of the best of technologies (Ma, 2004: 911). It also requires companies to excel in the learning race (Hamel, Doz & Prahalad, 1989: 133-139) and nurture core competence and skills that can be leveraged in the global market place (Prahalad & Lieberthal, 2003: 109-117).

It is a marketing truism that all opportunities are not necessarily competitive advantages (Shoemaker, Lewis & Yesawich, 2007: 261). A company can also gain advantage by innovation in market positioning. It is not merely innovation in the technical arena but innovation in a strategic sense. Instead of playing catch-up and following the leader's rules, a company could change the rules of the game and/or change the game itself (Hamel & Prahalad, 1989: 63-76). Hence, a company should engage in creative development of new resources, capabilities, products and markets that allow it to be fundamentally different from yet superior to rivals instead of fighting an uphill battle. Such creation and innovation aim at avoiding confrontation with strong competitors.

Kim and Mauborgne (2005: 13-22) challenged conventional strategic thinking by proposing the blue ocean strategy, which focuses on making the competition irrelevant by value innovation – creating a leap in value for buyers and the company, thereby opening up new and uncontested market space instead of focusing on beating the competition. Value innovation, which is the cornerstone of the blue ocean strategy, is created in the region where a company's actions favourably affect both its cost structure and its value proposition to buyers. It occurs only when companies align innovation with utility, price and cost positions. It is a reconstructionist approach to strategy (Kim & Mauborgne, 2005: 10). Table 2.1 outlines the key defining features of the red and blue ocean strategies.

Table 2.1: Red ocean versus blue ocean strategy

| Red ocean strategy | Blue ocean strategy |
|---|---|
| Compete in the existing market space | Create uncontested market space |
| Beat the competition | Make the competition irrelevant |
| Exploit existing demand | Create and capture new demand |
| Make the value-cost trade off | Break the value-cost trade-off |
| Align the whole system of a company's activities with its strategic choice of differentiation or low cost | Align the whole system of a company's activities in pursuit of differentiation and low cost |

Source: Kim and Mauborgne, 2005: 18.

As indicated in Table 2.1, Kim and Mauborgne (2005: 4) divide the market universe into two categories: red oceans and blue oceans. The red oceans represent all the industries in existence today while blue oceans denote all industries not in existence today. In red oceans, industry boundaries are defined and accepted, the competitive rules of the game are known and companies outperform their rivals to grab a greater share of the existing demand. Products become commodities and cutthroat competition turns the red ocean bloody. In contrast, blue oceans are defined by untapped market space, demand creation and the opportunity for growth. In blue oceans competition is irrelevant because the rules of the game are waiting to be set.

2.2.3 Global competitive advantage

As the world economic system increasingly globalises and the free market gains wide popularity in emerging and transitional economies (Tan, 2001: 359-376), innovation in creating new products or markets and new organisational practices become more and more important for companies in global competition. Companies will find it increasingly difficult to survive just on their past successes because of escalating globalisation (Ohmae, 2001: 194) and increased competition (Kelly & Storey, 2000: 45).

Consequently, companies will need to be continually innovative and to strive for the creation of new ideas and new products. They will have to reassess their competitive strategy and consciously create, renew, and hopefully sustain their competitive advantages in the global market place (Powell, 2001: 875-888). New product development (NPD) will remain a critical part of many multinational enterprises' strategic management plan (Rugman & Collinson, 2006: 331). Companies driven by an increasing sense of urgency and a perceived need for the 'quick fix', often jump right into idea generation activities, without first determining the innovation strategy of the company (Kelly & Storey, 2000: 45). Companies can gain competitive advantage through the following ways:

- managerial actions and decisions involved in making a major market-creating business offering (Kim & Mauborgne, 2005: 10 and Hamel & Prahalad, 1989: 63-76);
- efficiency (Williamson, 1991: 75-94) and learning;
- initiatives that bring out the best in people to perform in winning oriented culture (Ma, 2004: 912);
- initiatives that generate a host of multipurpose knowledge and competence that are not dependent on any narrowly defined product or business (Hamel & Prahalad, 1989: 63-76);

- dynamic capabilities that help the company creatively apply this knowledge and competence to specific market opportunities (Teece *et al.*, 1997: 509-533); and
- initiatives that creatively align a firm's organisational structure and system to its global strategy.

Innovation lies in the heart of both strategy and entrepreneurship, two fields concerned with how competitive advantage arises out of entrepreneurial creation and innovation (Hitt, Ireland, Camp & Sexton, 2001: 479-491). While continuous innovation lies at the heart of sustained competitive advantage and managing it effectively has a strong international business component (Rugman & Collinson, 2006: 282) competitive advantage will increase the likelihood of successful innovation (De Brentani, 2001: 169-187).

The success of innovatory companies is likely to be built on a willingness to challenge the status quo in an industry or market and an awareness of how the company's resources and competences can be 'stretched' to create new opportunities (Johnson & Scholes, 2004: 28; Kim & Mauborgne, 2005: 4-5). As clearly summarised by Schumpeter (1950: 82-83), the fundamental impulse that sets and keeps the capitalist engine in motion, comes from the new consumers' goods, the new methods of production or transportation, the new markets and the new forms of industrial organisation that capitalist enterprise creates.

2.2.4 Competitive intensity

Competitive intensity in a marketplace is the fierceness with which companies do battle with each other (Shoemaker, Lewis & Yesawich, 2007: 260). It is an important measurement in competitive analysis because the level of intensity will often dictate the way a company does business. The extended rivalry that results from all five forces – industry rivals, customers, suppliers, potential entrants and substitute products – defines the structure of an industry and shapes the nature of competitive interaction (Porter, 2008: 79).

The degree of competition in a marketplace depends upon the moves and countermoves of the various companies active in the market (Jain, 1997: 76-77). It usually starts with one business trying to achieve a favourable position by pursuing appropriate strategies (or tactics). However, rival companies respond with counter strategies (or tactics) to protect their own interests, because what is good for one company

may be harmful to rival companies. According to Jain (1997: 77-78), some factors contributing to competitive intensity in the hospitality industry include:

- **Opportunity potential:** a promising market increases the number of companies interested in sharing the pie, thus increasing the rivalry. Slow industry growth precipitates fights for market share, while growth does tend to mute rivalry because an expanding pie offers opportunities for all competitors.
- **Ease of entry:** when entry into an industry is relatively easy, the existing companies try to discourage potential entrants by adopting strategies that increase competition. Fast growth can put suppliers in a powerful position, and high growth with low entry barriers will draw in entrants. Even without new entrants, a high growth rate will not guarantee profitability if customers are powerful or substitutes are attractive.
- **Nature of the product:** when the products offered are perceived by the market as more or less similar, properties are forced into price and service competition, which can be quite severe in some locations.
- **Exit barriers:** high investments in assets for which there may not be a readily alternative use and the emotional attachment of top management force companies into competitive methods in order to improve or even survive.
- **Homogeneity of the market:** when segments of the market are more or less homogeneous, the competitive intensity is increased to gain market share. Similarly, when the needs of the market are homogenous, the intensity of competition is much greater as many entries in the market are competing for the same customer (Shoemaker *et al.*, 2007: 262).
- **Industry structure:** when the number of companies active in the market is large, one or more may aggressively seek an advantageous position, leading to intense competitive activity as other companies retaliate. Shifts in structure may emanate from outside an industry or from within. They can boost the industry's profit potential or reduce it. They may be caused by changes in technology, changes in customer needs or other events. The five competitive forces provide a framework for identifying the most important industry developments and for anticipating their impact on industry attractiveness.
- **Commitment to the industry:** when a company has committed itself, it will do almost anything to hang on without worrying about the impact on either the industry or its own resources.

- **Technological innovations:** in industries where these are frequent, each company tries to cash in on the latest technology by quickly copying what other businesses do, creating competitive activity. Advanced technology or innovations are not by themselves enough to make an industry structurally attractive (or unattractive).
- **Scale economies:** attempts to gain scale economies may lead a company to aggressively compete for market share, escalating pressure on other companies or when fixed costs are high, tries to spread them over larger volume.
- **Economic climate:** when the country is down and growth is slow, competition is much more volatile as each company tries to make the best of a bad situation.
- **Diversity of companies:** new entries into an industry do not necessarily play by the rules of a kind of industry standard of behaviour. Instead, they may have different strategic perspectives and be willing to go to any lengths to achieve their goals.

Small competitive advantages can become large ones. Conversely, it may be mandatory for one company to copy another that is aggressively seeking an advantageous position, if it can do so, in order to eliminate the advantage. If the competitive intensity is very high, such as is the case in hospitality sector, almost no company earns attractive returns on investment. This can lead to less-than-wise decisions to gain competitive advantage.

2.2.5 Environmental turbulence

Although industries often are typified by their instability, all industries at some point experience turbulent environments of varying degrees (Calantone, Garcia & Dröge, 2003: 91). Turbulent environments have been described as business environments having high levels of inter-period change that create uncertainty and unpredictability (Bourgeois & Eisenhardt, 1988: 816-830); dynamic and volatile conditions with sharp discontinuities in the demand and growth rates (Glazer & Weiss, 1993: 509-512); temporary competitive advantages that continually are created or eroded; and low barriers to entry or exit that continuously change the competitive structure of the industry. Ansoff and McDonnell (1990: 31) describe environmental turbulence by two categories:

Changeability:

- (i) *Complexity* of the company's environment.
- (ii) Relative *novelty* of the successive challenges which the company encounters in the environment.

Predictability:

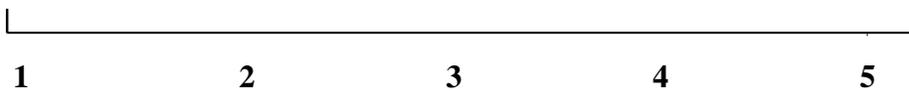
- (iii) *Rapidity of change*. This is the ratio of the speed with which challenges evolve in the environment to the speed of the company's response.
- (iv) *Visibility of the future* which assesses the adequacy and the timeliness of the information about the future.

Many characteristics have been used to describe these types of environments: unfamiliar, hostile, heterogeneous, uncertain, complex, dynamic and volatile (Calantone, Garcia & Dröge, 2003: 91). These phrases, taken together, constitute rather thorough measures of a turbulent environment, but each alone does not. Thus a hostile environment can be defined as one in which frequent and unpredictable market and/or technological changes within an industry accentuate risk and uncertainty in the NSD strategic planning process. It is important to illustrate the turbulence scale (Table 2.2) to clarify the levels of turbulence in a company's environment.

Table 2.2: Turbulence scale

| Environmental turbulence | Repetitive Repetitive | Expanding Slow Incremental | Changing Fast Incremental | Discontinuous Discontinuous | Surprising Predictable | Unpredictable |
|---------------------------------|---------------------------------|--------------------------------------|-------------------------------------|---------------------------------------|----------------------------------|-------------------------|
| Complexity | National Economic | + | Regional Technological | + | Global Socio-political | |
| Familiarity of events | Familiar | | Extrapolable | | Discontinuous Familiar | Discontinuous Novel |
| Rapidity of change | Slower than response | | | Comparable to response | | |
| Visibility of future | Recurring | Forecastable | Predictable | Partially predictable | | Unpredictable surprises |

Turbulence Level



Source: Adapted from Ansoff and McDonnell, 1990: 31.

It is evident from Table 2.2, at level 1 strategic aggressiveness is rarely observed in the business environment while at level 2 on which the environment changes slowly and incrementally, a business succeeds if it changes its products only in response to competitors' moves. Companies that progressively improve their historical products/services in anticipation of the evolving needs of the customers are the 'heroes' at level 3 while successful companies on level 4 continuously scan their

environment in order to identify future economic, competitive, technological, social, and political discontinuities. At level 4 and above, where environmental turbulence is discontinuous or surprising, active concern with strategic management becomes vital to a hospitality company's success and continued survival. The success formula on level 5 is to remain a leader in developing products/services incorporating the cutting edge innovation and technology (Ansoff & McDonnell, 1990: 31). Some of the variables creating uncertainty in the hospitality sector include the degree of volatility in prices charged by suppliers, cost of capital and financing opportunities, pricing and degree of activity created by competitors, supply of labour, and influence of new technology (Awang, Ishak, Radzi & Taha, 2008: 64). The variables that can create complexity are the level geographic concentration and dispersion of suppliers, customers, competitors; the level of product/service differentiation and the level of socio-cultural diversity.

Hotel room supply is relatively fixed and cannot be easily altered to accommodate the changing demand trends caused by higher environmental unpredictability rates. Hence, the appropriate alignment between the hospitality organization's processes, systems and strategies and external environmental variables (or turbulence levels) determines its performance. Although the environmental contingencies view stresses that a company must fit strategy to the environment by structuring the company to be less centralised and more organic when in highly dynamic and uncertain conditions, the business can also influence the environment. Innovation represents the most effective means to deal with turbulence in external environment (Calantone, Garcia & Dröge, 2003: 90-91). Technological innovations may cause environmental turbulence by accelerating the rate of change in scientific communities and in the marketplace. This may also cause competitors to frequently enter and exit the market as they gain and lose profitable competitive advantage.

Monitoring and reacting to technological turbulence have been cited as major factors in configuring the NSD process (Calantone *et al.*, 2003: 92). Market and technological turbulence is changing the pace and approach that companies use in their NPD efforts (Akgün & Lynn, 2002: 117). Rapidly changing customer preferences, exponential technological developments and readily available information from markets and technologies are forcing companies to develop new products, services and technologies faster. Speed-to-market is cited as being vital in today's competitive, uncertain and turbulent environments (Cooper & Kleinschmidt, 1994: 381-392).

Market turbulence is characterised by continuous changes in customers' preferences or demands, in price/cost structures, and in composition of competitors. In turbulent environments, new product managers must cope with uncertainty regarding their customers' needs, uncertainty as to which are the best long-term technology and market paths to follow, and uncertainty as to levels of resources to commit to various endeavours (Mullins & Sutherland, 1998: 224-228). Marketplace disruptions can be based on real product innovation or just on expectations.

D'Aveni (1994: 217-218) argues that hyper competition is an environment characterised by intense and rapid competitive moves in which competitors must move quickly to build advantages before their rivals. This speeds up the dynamic strategic interactions among competitors. The author further posits that while there are some industries that are less aggressive, it has become increasingly difficult to find industries that are not in hyper competition (D'Aveni, 1994: 218). Thus market leaders must face and cope with turbulence by evolving strategy, sharing the responsibility for strategy more broadly within the company, and focusing on organisational capabilities as the real source of competitive advantage (Charkravarthy, 1997: 69).

2.2.6 Adaptive management in turbulent environments

Although the relative volatility of the hospitality in Kenya is stable, the rate of growth, degree of uncertainty and degree of complexity vary periodically. Strategy must adapt continuously and implementation must respond to market changes and to greater understanding of the market that becomes apparent only during implementation. A firm's actions must be aligned with its strategic position and the results must give feedback for adapting the strategy. The delta model as indicated in Figure 2.1 encompasses a set of frameworks and methodologies for articulation and implementation of effective corporate and business strategies (Hax & Wilde, 2001: 379-380) for adaptive management. The model links strategy with execution by selecting a distinctive strategic position and then integrating it with a company's collective processes.

Hax and Wilde (2001: 379-391) identified the three fundamental processes that are always present and are the repository of the key strategic tasks: operational effectiveness, customer targeting and innovation. Hax and Wilde argued that a firm's actions must be aligned with its strategic position and the results must give feedback for adapting the strategy. They point out that first reflection to take place in the process of defining the strategy of the company is to decide on the relevant strategic positioning

since this captures the essence of how the company chooses to compete in its relevant market place, or how the firm decides to attract, to satisfy, and to retain the customer. The triangle shows three distinct strategic options: the best product, customer solutions and the system lock-in strategic option.

The best product positioning as shown in Figure 2.1 builds upon the classical form of competition. The customer is attracted by the inherent characteristics of the product itself: either through low cost, which provides a price advantage that can be partly passed on to the customer or through differentiation, which introduce unique features that the customer values and for which they are willing to pay a premium. But with this strategy, the product tends to be standardised and massive, the customer is generic, faceless and the central focus of attention is the main competition. The best product strategic option has as a primary objective: the development of a lean internal infrastructure and supply chain that gives the low cost support so essential for this positioning.

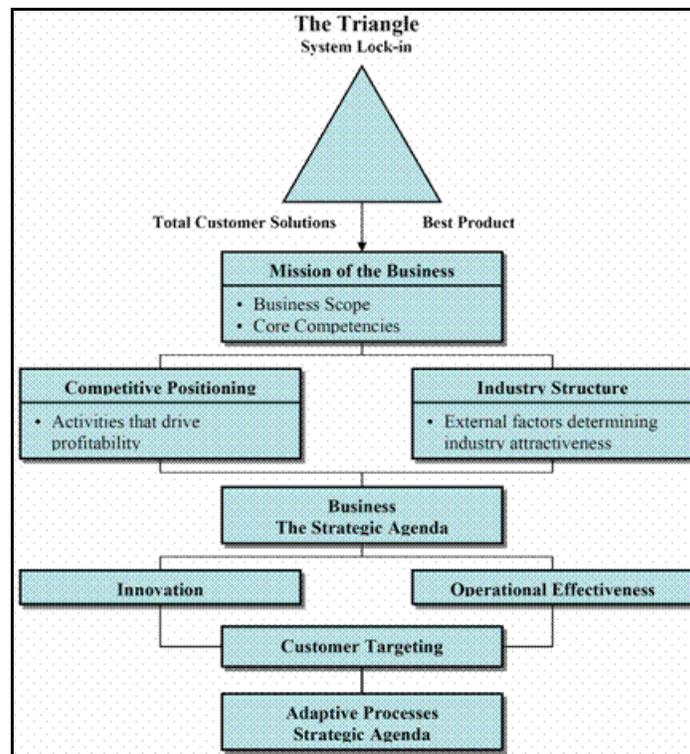


Figure 2.1: The Delta Model

Source: Hax and Wilde, 2001.

Delta model makes four contributions to strategic management (Hax & Wilde, 2001: 379-391). Firstly, the model defines strategic positions that reflect fundamentally new sources of profitability. Secondly,

it aligns these strategic options with a company's activities and thus provides congruency between strategic direction and execution. Thirdly, it introduces adaptive processes with the capability to continually respond to an uncertain environment. Fourthly, it shows that granular metrics are the drivers of performance in complex industries.

The ability to change continuously is a critical factor in the success of firms as advantages last only until competitors have duplicated or outmanoeuvred them. Ultimately the innovator will only be able to exploit its advantage for a limited period of time before its competitors launch a retaliation (D'Aveni, 1994: 7). Thereafter, the original advantages begin to erode and a new initiative is needed. Continuous change is often played out through product innovations as firms change and ultimately even transform through continuously altering their products.

2.2.7 Strategic posture management

Strategic posture management concerns itself simultaneously with both the strategy and the capability needs of the firm (Ansoff & McDonell, 1990: 255). Forecasts are made not only of future threats and opportunities, but also of the kind of capabilities which will be essential for success in the future environment. The capability-based theory of competitive advantage suggests that a firm can achieve sustainable competitive advantage (SCA) through distinctive capabilities by the firm (Prahalad & Hamel, 1990: 79-91) and that the firm must constantly re-invest to maintain and expand existing capabilities in order to inhibit imitability (Mahoney, 1995: 363-380).

The resource based theory argues that competitive advantages lie in firm-specific resources possessed by the firm (Montgomery & Wernerfelt, 1988: 623-32). Resources include "all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve efficiency and effectiveness" (Barney, 1991: 101). Accordingly, organisational capabilities are viewed as a resource; however a growing number of researchers argue that this conceptualisation of resources restricts the identification of factors, which play a key role in the value creation and service delivery process.

Resource-based view attributes priority to the content aspect of strategy, and leaves the managerial aspect that underlies the creation and management of resource-based strategies (Mahoney, 1995: 363-380). Although capabilities are resource dependent, resources do not exclusively determine what the

firm can do and how well it can do it. A key ingredient in this relationship is the entrepreneurial key decision maker of the firm. The capability-based theory recognises the crucial role played by the entrepreneurial key decision makers of the company building and sustaining a competitive advantage (Weerawardena, 2003: 409). Whilst the relationship between innovation and competition has been well documented, researchers have argued that a company's capability to learn from market changes is both a source of innovation and competitive advantage (Weerawardena, 2003: 407).

2.3 HIERARCHICAL LEVELS OF STRATEGY

The decision-making hierarchy of a company typically contains three levels (Pearce & Robinson, 2000: 5). At the top of the hierarchy is the corporate level, composed of board of directors and the chief executive and administrative officers. They are responsible for the company's financial performance and for the achievement of non-financial goals, such as enhancing the company's image and fulfilling its social responsibilities. To a large extent, attitudes at the corporate level reflect the concerns of stockholders and society at large.

In the middle of the decision-making hierarchy is the business level, composed mainly of business and corporate managers. These managers must translate the statements of direction and intent generated at corporate level into concrete objectives and strategies for individual business decisions or strategic business units (SBUs). In essence, business level strategic managers determine how the firm will compete in the selected product-market arena (Pearce & Robinson, 2000: 5). They strive to identify and secure the most promising market segment within the arena. This segment is the piece of the total market that the company can claim and defend because of its competitive advantage.

At the bottom of the decision-making hierarchy is the functional level, composed principally of managers of product, geographic and functional areas. They develop annual objectives and short term strategies in areas such as production, operations, research and development, finance and accounting, marketing and human relations (Pearce & Robinson, 2000: 6). However, their principal responsibility is to implement the company's strategic plans. They address such issues as efficiency and effectiveness of production and marketing systems, quality of customer service, and the success of particular products and services in increasing the firm's market shares. Figure 2.2 depicts the three levels of strategic management.

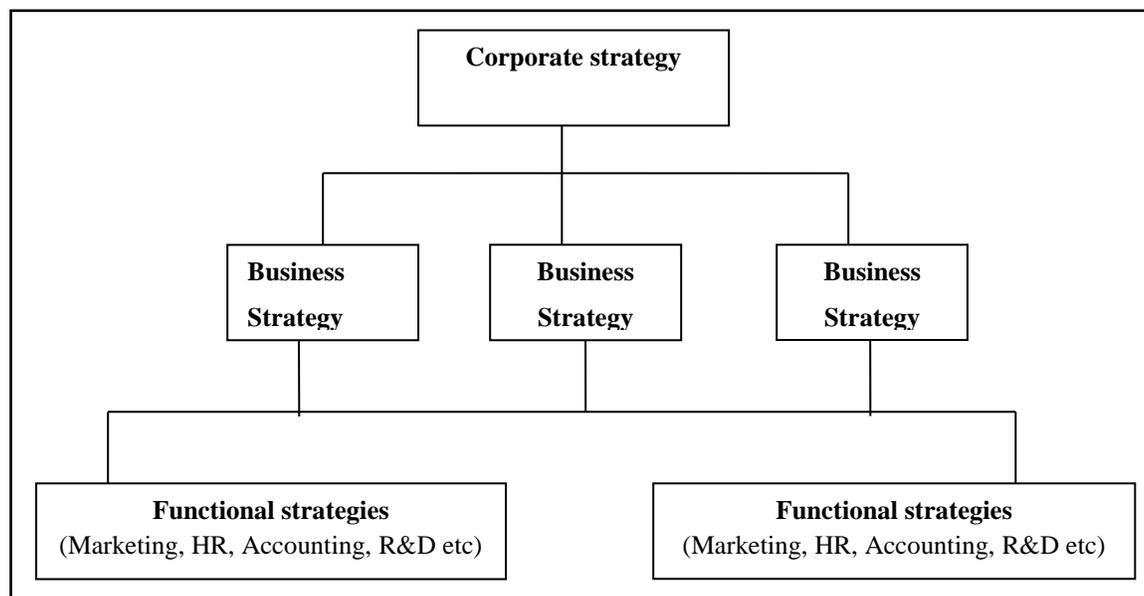


Figure 2.2: Strategic Management structures

Adapted: Pearce and Robinson, 2000: 6.

As indicated in Figure 2.2, this is the organisational format of most large firms. The corporate strategies are formulated at the highest level of the firm, followed by the business strategies and then the functional strategies. According to Hofer and Schendel (1978: 27), strategy can be formulated on three different levels:

- **Corporate strategy** – deals with the strategic perspective (range, scope, diversity) of the firm and with allocation of resources among various businesses.
- **Business strategy** – deals with the search for a distinctive competitive advantage for each business, product and/or service. It exists at the level of the individual business or division, dealing primarily with the question of competitive position.
- **Functional strategies** – the source of competitive advantage in the activities and functions carried by the business. It is limited to the actions of specific functions within specific businesses.

While strategy may be about competing and surviving as a firm, one can argue that products, not corporations, compete and products or services are developed by business units. The role of the corporation then is to manage its business units and products so that each contributes to corporate goals. While the firm must manage its portfolio of business to grow and survive, the success of a diversified firm depends upon its ability to manage each of its product lines.

2.3.1 Corporate strategy

Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses. More specifically, there are six major components, rather a set of issues within a well-developed corporate strategy (Cravens & Piercy, 2013: 12-14): corporate vision, objectives, resources, strategic business units, structure, systems and processes and corporate competitive advantage.

In the strategic planning process, issues such as competition, differentiation, diversification, coordination of business units and environmental issues all tend to merge as corporate strategy concerns. In small businesses, corporate strategy and business unit strategy is essentially the same (Hartline & Ferrell, 2005: 29-30). Corporate level strategy is concerned with:

- **reach** – defining the issues that are corporate responsibilities; these might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.
- **competitive contact** – defining where in the corporation competition is to be localised.
- **managing activities and business interrelationships** – corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units and using business units to complement other corporate business activities
- **management practices** – corporations decide how business units are to be governed: through direct corporate intervention (centralisation) or through more or less autonomous government (decentralisation) that relies on persuasion and rewards.

Firms are responsible for creating value through their businesses. They do so by managing their business portfolios, ensuring that the businesses are successful in the long term, developing business units and sometimes ensuring that each business is compatible with others in the portfolio.

A well-conceived and carefully implemented NSD process begins with a precise formulation of the objectives and strategy governing the effort (Scheuing & Johnson, 1989b: 28). It is the outgrowth of the company's marketing objectives which in turn are derived from the corporate objectives and the basic

mission of the business. As a result, a well-designed new service strategy drives and directs the entire service innovation process and imbues it with effectiveness and efficiency.

Top management must be committed to innovation, both in terms of the resources made available for development and with practical help for NSD to flourish (Johne & Storey, 1998: 199). Clear goals must be set for the NSD programme since innovation enables firms to improve the quality of their outputs, revitalise mature businesses, enter new markets and react to competitive encroachment. Firms could also leverage investment in technologies that are so expensive that no single product can recoup them as well as try out new technologies. For companies which must adapt to changing competition, markets and technologies, new service development is not a fad. It is a necessity.

2.3.2 Business strategy

Business unit strategy determines the nature and future direction of each business unit, including its competitive advantages, allocation of its resources and coordination of the functional business areas (Hartline & Ferrell, 2005: 29). A strategic business unit may be a division, product line or other profit centre that can be planned independently from other business units of the company. At the business level, the strategy formulation phase deals with:

- positioning the business against rivals;
- anticipating changes in demand and technologies and adjusting the strategy to accommodate them;
and
- influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

The development of growth strategy is essential for the firm not to stagnate, but to grow, to develop and maintain a sustainable competitive advantage. Ansoff (1957: 114) provides four growth strategies as indicated in Figure 2.3. The growth strategy discussion can either be at the corporate level or the SBU level depending on the size and structure of the firm.

| | Present products | New products |
|-----------------------|-------------------------|---------------------|
| Present market | Market penetration | Product development |
| New markets | Market development | Diversification |

Figure 2.3: Intensive growth strategies

Source: Ansoff, 1957: 114.

- **Market development** – the company seeks increased sales by taking its current products into new markets. This strategy leads to growth in market share.
- **Product development** – the company seeks increased sales by developing new products for its present markets.
- **Diversification** - the company seeks to grow by serving new customers through the delivery of new products. In relation to Figure 2.3, diversification can be regarded as a growth strategy on corporate level based on research and development decisions, the various risks and uncertainties related to production, finance, personnel and whether to stay local and/or to go global (Herbst, 2001: 38).

2.3.3 Functional strategy

The strategic issues at the functional level are related to business processes and the value chain. The functional level of the firm is the level of the operating divisions and departments. Firms design functional strategies to provide a total integration of efforts that focus on achieving the area's stated objectives. In marketing strategy, the process focuses on selecting one or more target markets and developing a marketing mix that satisfies the needs and wants of the members of that target market (Hartline & Ferrell, 2005: 30-31). The authors argue that functional strategy decisions do not develop in a vacuum. The strategy must fulfil the following:

- fit the needs and purposes of the functional area with respect to meeting its goals and objectives;
- be realistic given the firm's available resources and environment; and
- be consistent with the firm's mission, goals and objectives.

The functional units of a company are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on resources and capabilities on which the higher level strategies can be passed (Hartline & Ferrell, 2005: 31). Once the higher level strategy is developed, the functional units translate it into discrete action plans that each department must accomplish for the strategy to succeed. Within the context of the overall strategic planning process, each functional strategy must be evaluated to determine its effect on the firm's sales, costs, image and profitability.

2.4 APPROACHES TO STRATEGIC MANAGEMENT

Adding value for customers, employees and owners has become a central theme in strategic management for hospitality firms. As discussed in section 2.2.2, to create value for these stakeholders, a firm should achieve a competitive advantage (CA) over its competitors by adapting itself to the uncertain industry environment, understanding the changing needs of the customers, and responding to new market entries (Kim & Oh, 2004: 65). One reality is that service competitors are not always easily defined and identified.

Consequently, hospitality managers may face increasing challenges in developing new resources, implementing effective and efficient strategies, and attaining high market performance. Three different approaches helpful in addressing these issues include the following:

- Porter's five-forces approach (PFA);
- the resource-based approach (RBA); and
- the relational approach (RA).

Managers typically seek the sources of CA across industries (as reflected in the PFA), within firms (RBA), and between companies (as reflected in the RA), yet each approach on its own is unlikely to offer comprehensive understanding of the related issues.

2.4.1 The Porter's five forces approach (PFA)

The first step in any type of industry analysis is to determine the boundaries of the industries to be analysed. According to Porter (1985: 1), competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. Not all industries offer equal opportunities for sustained profitability and the inherent profitability of an industry is one

essential ingredient in determining the profitability of a firm. Porter (1985: 5) provides a framework that models an industry as being influenced by five industry (or market) forces:

- threat of new market entrants;
- threat of substitute products or services;
- bargaining power of buyers;
- bargaining power of suppliers; and
- rivalry among existing firms.

The collective strength of these five competitive forces varies from industry to industry, and can change as an industry evolves. An analysis of the five forces is useful from several perspectives. First, by understanding how the five forces influence competition and profitability in an industry, a firm can better understand how to position itself relative to the forces, determine any sources of competitive advantage now and in the future, and estimate the profits that can be expected. For small and start-up companies, a five forces analysis can reveal opportunities for market entry that will not attract the attention of the larger competitors. A firm can also conduct a five forces analysis of an industry prior to entry to determine the sector's attractiveness. If the firm is already involved in the industry, a five forces analysis can serve as a basis for deciding to leave it. Finally, firm managers may decide to alter the five forces through specific actions.

The strength of each of the five competitive forces is a function of industry structure, or the underlying economic and technical characteristics of an industry (Porter, 1985: 5). Industry structure is relatively stable but can change over time as an industry evolves. Structural change shifts the overall and relative strength of the competitive forces, and can thus positively or negatively influence industry profitability. According to Kim and Oh (2004: 66), the PFA adopts an outside-in approach (that is the industry forces to company performance) in understanding CA in that it views CA as stemming from these five industry forces. This approach is based on an assumption that firms within an industry possess identical or similar resources (homogenous). As a result, a company's success depends greatly on how to react to market signals and how to accurately predict the evolution of the industry structure.

The intensity of the five forces varies in the lodging industry. Although the lodging industry has high entry barriers such as a huge amount of investment required constructing a building and a need for a

national service network (Kim & Oh, 2004: 66), there still exists a threat to investing in hotels by companies or people with no experience in this industry. The threat of substitutes seems to be high (Kim & Oh, 2004: 66). Examples of substitutes such as travellers staying with friends or relatives or in recreational vehicles are important competitors for lodging firms. Teleconferencing, using video equipment or telephone, can also affect lodging operators by reducing opportunities of business travellers' room nights. This threat of substitutes is one of the major factors that intensify competition in the lodging industry.

Rivalry is the competitive battle which takes place between pairs of firms. Managers in the international hotel industry have had problems identifying primary competitors (Lewis, 1996: 21-23). In the hospitality industry, most rivals are determined according to similarity of price, segment and proximity. However, using price and segment to identify rivals can be problematic, and the way to use proximity to identify rivals is unclear. According to Mathews (2000: 115), one dimension of key relevance in the international hotel industry is location. This is because location is the only attribute of the lodging 'product' that is completely fixed; and location is the most important variable in determining the feasibility of a new hotel.

The bargaining power of both buyers (individuals and/or organisational customers of hotel firms) and suppliers (firms that supply input materials to help hotel firms produce end-products or services) appears to be low because of the large number of buyers and suppliers. No single buyer or supplier dominates the lodging market (Olsen & Roper, 1998: 111-124). The bargaining power of buyers, however, is increasing because of the new technologies that enable travellers to reserve hotels from anywhere in the world. Suppliers can exert their bargaining power over hotel firms by threatening to raise prices, limit availability of resources or reduce the quality of resources (Kim & Oh, 2004: 66). Finally, competitive intensity has increased because of an increased number of operating units, new product introductions and market entries of non-traditional products such as corporate housing.

Although the PFA approach identifies the nature of the competitive threats and opportunities that emerge from advances in technology and stresses the importance of developing and protecting firm-specific technology in order to enable firms to position themselves against the competition, it has a few observable shortcomings. Firstly, it underestimates the power of technology to change the rules of the competitive game by modifying industry boundaries, developing new products and shifting barriers to

entry as discussed in section 2.2.2. It also overestimates the capacity of senior management to identify and predict the important changes outside the firm, and to implement radical changes in competencies and organisational practices within the firm.

2.4.2 The resource based approach (RBA)

According to the RBA, because resources reside within a company, an advantageous competitive position is built on value creating resources that are critical inputs into the production and distribution of its products and services. The basic assumption of the RBA is that the qualities and quantities of resources are unequally dispersed among competitors (Barney, 1991: 99-112). The heterogeneity of the resource bases of different firms suggests that companies are presented with different opportunities for sharing and adapting their portfolios of assets. The RBA holds that CA stems from internally developed resources (competencies, assets, capabilities, resources, information and knowledge) with characteristics of value, rareness, inimitability and non-substitutability (Kim & Oh, 2004: 66-67). Therefore RBA adopts an internal perspective (internal company resources to performance) in understanding CA in that it views CA as emanating from resources unique to a company.

An increased interest has been shown to what resources can generate CA and high profitability. Both scholars and managers have focused on the role of five functional resources such as physical, human, technological, financial, and organisational resources (Kim & Oh, 2004: 67). Hotel firms have expanded their businesses internationally to obtain a location advantage (physical resource). This trend has required new leadership with good international experiences (human resources) and new leadership has been brought to international hotel chains like Choice Hotels International, Carlson Companies, Inc., Hyatt Corporation and Hilton Hotels Corporation (Olsen & Roper, 1998: 111-124).

Hotels also use technological resources to effectively manage their customers, expedite the check-in and check-out process, and assist in other operating services such as online reservations and voice mail. Human resources management practices are recognised as imitable resources that create CA. As an example of organisational resources, Marriott culture is characterised by doing whatever it takes to provide their associates with the utmost opportunities and their customers with superior services (Kim & Oh, 2004: 67). This culture has enabled the company to outperform its competitors and achieve CA.

2.4.3 The relational approach (RA)

Relational capabilities can be defined as superior skills to manage resources shared between companies. From the process perspective they can also be defined as superior skills to manage the resources that play a part in a single process shared between companies (Rodriguez-Diaz & Espino-Rodriguez, 2006: 26). Relational capabilities are steadily created as a result of a lasting relationship, between two or more companies (hotel-hotel, hotel-supplier, hotel-hotel-supplier or supplier-supplier).

While acknowledging the importance of internal resources, the RA emphasises that interfirm linkages (such as strategic alliances, joint ventures and trust based relationships) enable firms to improve their competitive position. CA can be obtained either through an exchange relationship that cannot be generated by a firm in isolation or through the joint contributions of the specific partners (Dyer & Singh, 1998: 660-679) because firms exist as parts of a larger network of relationships with buyers, suppliers and competitors.

Cooperation between firms in the lodging industry has become valuable as the service economy grows and competition increases. Hotel firms such as Marriott International and Hilton Hotels Corporation have formed alliances with Pizza Hut to improve their efficiency in operations as well as marketing by strengthening each partner's brand (Kim & Oh, 2004: 67). From the RA perspective, the competitiveness of a determined firm is based on a joint action in a set of aspects within the internal and external environments, with the feature that it is the appropriate combination of both spheres to generate competitive advantage through the creation of value to customers.

Significant changes are currently taking place in tourism, with a notable increase in competition between hotel firms and especially between emerging and consolidated tourist destinations (Rodriguez-Diaz & Espino-Rodriguez, 2006: 25). The first consequence of this competitive environment is the need for hotels to rethink their competitive strategy. The relational view introduces a new perspective when analysing the sector's problems, a perspective characterised by a holistic conception of hotel companies interacting among themselves, and of the different factors comprising the destination. Dyer and Singh (1998: 660-679) consider that the sources of relational rents depend on specific assets in the relationship, shared knowledge and routines, complementary resources and capabilities and efficient

governance of the relationship. However, for those relational rents to materialise into something practical and tangible, it is necessary to follow a process comprising several stages (Figure 2.4).

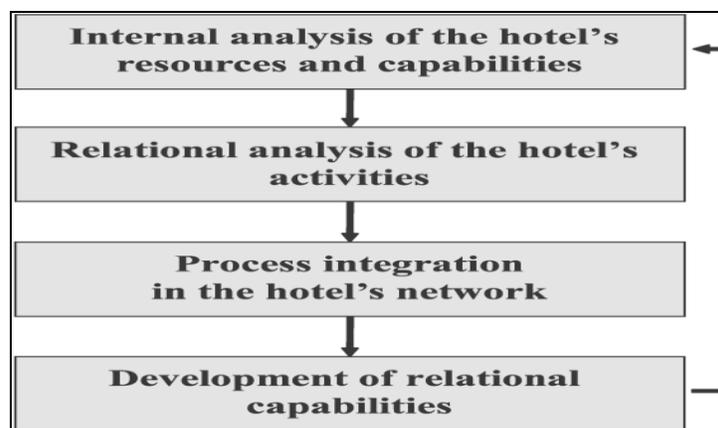


Figure 2.4: Methodology to develop relational capabilities in hotels

Source: Adapted from Rodriguez-Diaz and Espino-Rodriguez, 2006: 27.

In Figure 2.4, the first stage of analysis is the internal evaluation to determine the core competence of hotel companies. It is a view based on the resource and capability theory and establishes which activities are the most important to the competitiveness of companies by generating greater value to customers. The second stage suggests that a firm's critical resources can be expanded or constructed beyond the confines of the firm and be integrated in inter-business routines and processes by being jointly directed at greater creation of value to the customer. In this context, process integration takes on great importance because it is applied internally and also exploits the potential of the integration of processes among companies belonging to the same network (Rodriguez-Diaz & Espino-Rodriguez, 2006: 29). The fourth stage is the development of relational capabilities. The three approaches to strategic management (PFA, RBA and RA) are summarised in Table 2.3. A comparison of the three approaches is based on the sources of competitive advantage, assumptions, firm goals and units of analysis.

Table 2.3 shows that PFA and RBA share a common process for the implementation of strategies. The RBA and RA have been developed based on similar assumptions, unit of analysis and goals. It is evident that one approach is not completely different from others. While each approach can help

managers understand how CA could be achieved in different ways, these approaches have overlooked the fact that:

- firm resources are unique among firms within an industry and such unique resources can determine CA (PFA overlooked);
- market-based resources are a critical source of CA (RBA overlooked); and
- company strategies should be aligned to firm resources (RA overlooked).

Table 2.3: Comparison of three approaches to Strategic Management

| Category | Porter's five forces approach | Resource-based approach | Relational approach |
|---------------------------|--|---|--|
| Sources of CA | Five industry forces (threat of new entry, bargaining power of buyers etc.) | Internally-developed resources (financial, human etc.) | Inter-firm relationships (strategic alliances, joint ventures etc.) |
| Assumptions | <ul style="list-style-type: none"> • Firms within an industry are identical (i.e. homogeneous) • Firm resources are identical • Firm resources are short-lived and highly mobile because of their homogeneity | <ul style="list-style-type: none"> • Firms within an industry are different (i.e. heterogeneous) • Firm resources are heterogeneous • Firm resources are neither easily acquired nor traded in the marketplace across firms because of their heterogeneity | <ul style="list-style-type: none"> • Firms within an industry are heterogeneous • Firm resources are neither easily acquired nor traded in the marketplace across firms because of their heterogeneity |
| Firm goal | <ul style="list-style-type: none"> • Achievement of CA • Creation of customer and firm value | | |
| Unit of analysis | Industry (sometimes individual firms) | Individual firms | Individual firms |
| Focus of analysis | <ul style="list-style-type: none"> • Industry forces-strategy-performance relationship • Focused on positioning a firm in an industry | <ul style="list-style-type: none"> • Internal resources-strategy-performance • Focused on developing unique firm resources | <ul style="list-style-type: none"> • Inter-firm relationships-performance • Internal resources-inter-firm resources-performance • Focused on building and maintaining partnerships |
| Strategies suggested | Differentiation and low cost | Differentiation and low cost | Not suggested |
| Representative references | Porter (1980) | Barney (1991); Wernerfelt (1984) | Dyer and Singh (1998) |

Source: Adapted from Kim and Oh, 2004: 68.

The sources of relational capabilities are activated by means of two operational aspects with a marked idiosyncratic character. The degree of cooperation and the process integration achieved. Figure 2.5 shows the three approaches integrated for a comprehensive framework of strategic management.

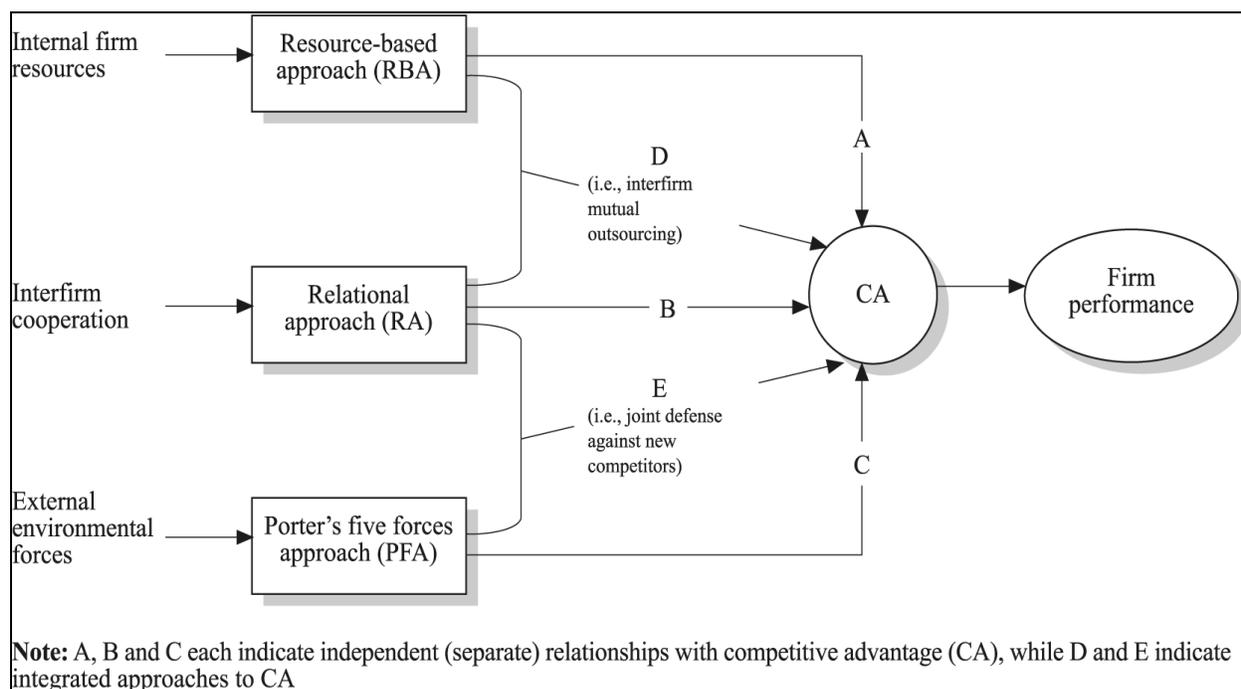


Figure 2.5: Integrated framework of three approaches

Source: Adapted from Kim and Oh, 2004: 69.

A firm's overall competitive position results from its internal and inter-firm resources, both of which are greatly influenced by the firm's external environment (for example five industry forces). An integrated approach is necessary to obtain and sustain CA because sources of CA tend to be interrelated to one another.

Today, the hospitality sector has become more complex and sophisticated with a movement away from the 'mine host' and cost control framework of the past to a more strategic view of the business, in both the investment and operations domain (Harrison & Enz, 2005: 23). Various sources of competitive advantage make it hard for the competitors to imitate the sources of competitive advantage. An integrated approach helps companies establish solid footholds for achieving long-term growth and profitability.

Firms should adapt themselves to the rapidly changing industry environment (PFA), continually develop new resources such as market-based resources (RBA), and build strong relationships with their customers as well as suppliers (RA) in order to achieve long term growth and profitability (Kim & Oh, 2004: 70). An integrated approach would be beneficial to firms in developing an effective strategic plan.

2.5 STRATEGY FORMULATION AND DEVELOPMENT

Two theoretical views on the nature of the formation of strategy exist: the rational design approaches and the emergent approaches (Harrington, Lemak, Reed & Kendall, 2004: 15-38). They are also referred to as the 'strategic choice' and the 'ecological' perspectives by Stacey (1995: 477). The rational approach is based on the view that firms adjust to changes in their environment by making rational decisions and choices; the environment is relatively predictable or the firm is well insulated from the effects of change. It further assumes that a firm is tightly coupled, so that all decisions made at the top can be implemented throughout the firm (Chaffee, 1985: 90).

The emergent approach is based on an ecological paradigm in which firms continually respond to changes by adapting in much the same way as living organisms respond to their environments (Chaffee, 1985: 91). The continual process of adjustment occurs within the firm (either reactive or proactive) aimed at the co-alignment of the firm with its environment. The emergent approach includes an interpretive strategic model, which is based on a view of a firm as a collection of social agreements entered into by individuals of free will (Chaffee, 1985: 93). Whether a strategy is planned or emergent, it is usually driven by some force which may be external or internal.

2.5.1 Strategy drivers

Strategy drivers might be existing operational capabilities, or new skills or technologies that have become available or been developed, for example the changing needs of stakeholders, political masters, management or employees for an increased share value, change in direction, reduced costs or improved services (Johnston & Clark, 2001: 354-355). External forces or strategy drivers might include the activities of competitors or changing needs of customer. The strategy drivers are discussed in detail in the next section.

Operations-led strategy

Opportunities for change may arise from new developments from within the firm such as new services, skills, technologies or processes. The availability of e-commerce technology provides for new delivery channels for many firms requiring a rethinking of strategy, including how to manage market and finance such developments (Johnston & Clark, 2001: 354).

Externally-driven strategy

Modifications to strategy may be driven by changes in the firm's external environment, either actual or anticipated. Such changes might include new competitors entering the marketplace or the strategic developments of competitors through different positioning or service developments, or the changing needs of customers who require a different service concept which may be the result of activities of the competition, or the loss of customers because their needs are not being met (Johnston & Clark, 2001: 355).

Corporate-led strategy

The impetus for change may come from the firm's executive, driven by a desire or need by its stakeholders for a greater return on assets, expansion, retrenchment and diversification. A well conceived and carefully implemented new service development process begins with a precise formulation of the objectives and strategy governing the effort (Scheuing & Johnson, 1989b: 28).

Visionary leadership

This is usually provided by an individual, usually at corporate level. Visionary leaders understand the current firm and its service, its processes, people and culture and are able to create attractive vision for the future. They are also able to communicate the vision and enthuse others, and thus galvanise the whole firm to bring about the realisation of the vision (Johnston & Clark, 2001: 355).

2.5.2 Industry development

Industries are classified according to number of sellers, degree of product differentiation, presence or absence of entry, mobility, and exit barriers, cost structure; degree of vertical integration and degree of globalisation (Kotler, 2003: 245). When strategists look at an industry, they are interested in understanding 'the rules of the game' (Meyer & De Wit, 2005: 422). The industry rules are the

demands dictated to the firm by the industry context, which limit the scope of potential strategic behaviours.

Meyer and De Wit (2005: 422) stipulate what must be done in order to survive and thrive in the chosen line of business. As industries develop the rules of competition change – vertical integration becomes necessary, certain competencies become vital, or having a global presence becomes a basic requirement. To be able to play the competitive game well, strategising managers need to identify which characteristics in the industry structure and which aspects of competitive interaction are changing. A process of slow and moderate industry change will demand a different strategic reaction than a process of sudden and dramatic disruption of the industry rules. Industry development means that the structure of the industry changes.

As the PFA model indicates (section 2.4.1), five important groups of industry actors were identified (competitors, buyers, suppliers, new entrants and rivals or substitutes) and the underlying factors determining their behaviour reviewed. Industry development is the result of a change in one or more of these underlying factors. As Porter (1985: 4-8) indicates, the industry structure can be decomposed into dozens of elements, each of which can change, causing a shift in industry rules (Meyer & De Wit, 2005: 423). A few important structural characteristics, that represent a dimension along which significant industry developments can take place, are discussed in the next section.

Convergence-divergence

Where the business models that firms employ increasingly start to resemble each other, the industry is said to be moving towards convergence (for example insurance and airline industries). In contrast, where many firms introduce new business models, the industry is said to be developing towards more diversity (for example car retailing and restaurant industries). Higher diversity can be due to the ‘mutation’ of existing firms, as they strive to compete on different basis, or the result of new entrants with their own distinct business model. Convergence is the adaptation by less successful firms to a ‘dominant design’ in the industry and the selecting out of unfit firms incapable of adequate and timely adaptation (Meyer & De Wit, 2005: 423).

Concentration-fragmentation

Where an increasing share of the market is in the hands of only a few companies, the industry is said to be developing towards a more concentrated structure (for example aircraft and food retailing industries). Conversely, where the average market share of the largest companies starts to decrease, the industry is said to be moving towards a more fragmented structure (for example airline and telecom services industries). Concentration can be due to mergers and acquisitions, or the result of companies exiting the business. Fragmentation can happen when new companies are formed and grab a part of the market, or through the entry of existing companies into the industry. In a concentrated industry it is much more likely that only one or two firms will be dominant than in a fragmented industry, but it is also possible that the industry structure is more balanced (Meyer & De Wit, 2005: 423).

Vertical integration-fragmentation

According to Meyer and De Wit (2005: 423), where firms in the industry are becoming involved in more value-adding activities in the industry column, the industry is said to be developing towards a more vertically integrated structure (for example media and IT service providers). Conversely, where firms in the industry are withdrawing from various value-adding activities and 'going back to the core', the industry is said to be moving towards a more, disintegrated, layered or vertically fragmented structure (for example telecom and automotive industries). It is even possible that the entire vertical structure changes if a new business model has major consequences upstream and/or downstream.

Horizontal integration-fragmentation

Where the boundaries between different businesses in an industry become increasingly fuzzy, the industry is said to be developing towards a more horizontally integrated structure (for example: consumer electronics and defence industries). Conversely, where firms become more strictly confined to their own business, the industry is said to be moving towards a more segmented or horizontally fragmented structure (for example: construction and airline industries). Links between businesses can intensify or wane, depending on the mobility barriers and potential cross-business synergies (Meyer & De Wit, 2005: 424).

International integration-fragmentation

Meyer and De Wit (2005: 423) posit that where the international boundaries separating various geographic segments of an industry become increasingly less important, the industry is said to be

developing towards a more internationally integrated structure (food retailing and business education industries). Conversely, where the competitive interactions in an industry are increasingly confined to a region (for example Africa) or country, the industry is said to be moving towards a more internationally fragmented structure (for example satellite television and internet retailing).

Expansion-contraction

Industries can also differ with regard to the structural nature of the demand for their products and/or services. Where an industry is experiencing an ongoing increase demand, the industry is said to be in expansion, and decline or contraction if there is ongoing decrease in demand. If periods of expansion are followed by periods of contraction, and vice versa, the industry is said to be cyclical (Meyer & De Wit, 2005: 424). A prolonged period of expansion is usually linked to the growth phase of the industry life cycle, while contraction is linked to the decline phase, but often it is rather difficult to apply the 'life cycle' concept to an entire industry (as opposed to a product or technology). As industry growth (expansion) can easily follow a period of industry decline (contraction), the life cycle model has little descriptive value. The most popular is to track the pattern of expansion and contraction, to gain some indication of the life cycle phase in which the industry might have arrived (Meyer & De Wit, 2005: 424).

2.5.3 Paths of industry development

The development of an industry can be mapped along any one of the dimensions discussed in section 2.4.2. As discussed, in the development of an industry a particular business model can become the dominant design around which the rest of the industry converges. The four patterns of dominant business model development are reviewed in the next section.

Gradual development

In an industry where one business model is dominant for a long period of time and is slowly replaced by an alternative that is a slight improvement, the development process is gradual. The firms adhering to the dominant design will generally have little trouble to the new rules of the game, leading to a situation of relative reliability. Competition can be weak or fierce, depending on the circumstances, but will take place on the basis of the shared rules of the game. In this type of environment, companies with an established position have a strong advantage (Meyer & De Wit, 2005: 426). The hospitality sector seems to exhibit this pattern.

Continuous development

In an industry where changes to the dominant business model are more frequent, but still relatively modest size, the development process is continuous. While firms need not to have difficulties adjusting to each individual change the rules of the game, they can fall behind if they do not keep up with the pace of improvement (Meyer & De Wit, 2005: 426). In this type of environment, rapid adaptation to developments will strengthen the competitive position of firms (for example banks in the financial sector) vis-à-vis slow movers.

Discontinuous development

In an industry where one business model is dominant for a long period of time and is then suddenly displaced by a radically better one, the development process is discontinuous. The firms riding the wave of the new business model will generally have a large advantage over companies that need to adjust to an entirely different set of industry rules. Where industry incumbents are themselves 'rule breakers', they can strongly improve their position vis-à-vis the 'rule takers' in the industry. However, the business model innovator can also be an industry outsider, who gains entrance by avoiding competition with established players on their terms (Meyer & De Wit, 2005: 426).

Hypercompetitive development

All advantages erode (D'Aveni, 1994: 233), yet the pursuit of a sustainable advantage has long been the focus of strategy. Once an advantage is copied or overcome, it is no longer an advantage but a cost of doing business (D'Aveni, 1994: 7). In an industry where business models are frequently pushed aside by radically better ones, the development process is hypercompetitive. The rules of the game are constantly changing, making it impossible for firms to build up a sustainably dominant position. The only defence in this type of environment is offence – being able to outrun existing competitors, being innovative first and being able to outperform new rule breakers at their own game (Meyer & De Wit, 2005: 426). Firms make progress in hypercompetition by the unreasonable approach of actively disrupting advantages of others to adapt the world to themselves (D'Aveni, 1994: 235).

In hypercompetitive environments in which change is increasingly important, the New 7-Ss are concerned with destroying the status quo, disrupting what has been done in the past and creating a new and different future (D'Aveni, 1994: 233). According to Deszca, Munro and Noori (1999: 618), firms in highly competitive industries face pressure to shorten new product development cycle times in order

to surpass competitors, reap speedier returns on investments, and reduce the risks associated with passage of time. This tends to push development initiatives and market assessment in the direction of incremental change. Further, it may produce myopia and under investment in strategically appropriate BTPs even if they have made it through the opportunity identification phase (Figure 2.4).

2.5.4 The New 7-Ss

The New 7-S framework is based on a strategy of finding and building temporary advantages through market disruption rather than sustaining advantage and perpetuating equilibrium. It is designed to sustain the momentum through a series of initiatives rather than structure the firm to achieve internal fit or fit with today's external environment, as if today's external conditions will persist for a long period of time (D'Aveni, 1994: 243). According to D'Aveni (1994: 243-244), the New 7-Ss are:

- superior stakeholder satisfaction;
- strategic soothsaying;
- positioning for speed;
- positioning for surprise;
- shifting the rules of the game;
- signalling strategic intent; and
- simultaneous and sequential strategic thrusts.

2.5.5 Strategic thinking

Strategic thinking is a way of solving strategic problems that combines a rational and convergent approach with creative and divergent thought processes (Bonn, 2005: 337). According to Harrison and Enz (2005: 20), strategic thinking is intent focused, opportunistic, long-term oriented, built on the past and the present and hypothesis driven. Mintzberg *et al.* (2005: 126-128) argued that "there are times when thought should precede action, and guide it...Other times, however especially during or immediately after major unexpected shifts in the environment, thought must be so bound up with action that 'learning' becomes a better notion than 'designing' for what has happen. And then perhaps most common are a whole range of possibilities in between, where thought and action respond to each other". The literature suggests a number of key elements (Figure 2.6) that have relevance for strategic thinking:

- systems thinking;
- creativity; and

- vision.

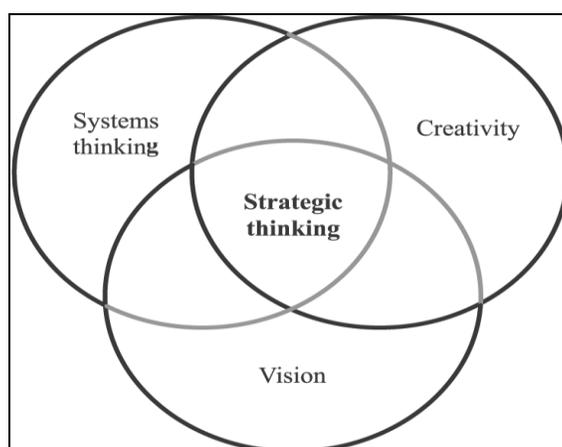


Figure 2.6: Elements of strategic thinking

Source: Adapted from Bonn, 2005: 340.

Figure 2.6 shows the elements of strategic thinking graphically. These elements are discussed in the following sections.

Systems thinking

Kaufman (1991: 69) characterised strategic thinking as a switch from seeing the firm as a splintered conglomerate of disassociated parts (and employees) competing for resources to seeing and dealing with the corporation as a holistic system that integrates each part in relationship to the whole. Senge (1990: 43) argued that we must look beyond into the underlying structures which shape individual actions and create the conditions where types of events become likely. Such integrated perspective of the firm requires a thorough understanding of the internal and external dynamics of organisational life, in particular of how firms and managerial actions change over time and of the feedback processes that lead to such changes (Bonn, 2005: 338). This includes an understanding of how firms are embedded within large complex systems such as markets, industries and nations and how they are influenced by the dynamics, interconnection and interdependency of these systems.

Creativity

According to Woodman, Sawyer and Griffin (1993: 293), creativity is the creation of valuable, useful new product, service, idea, procedure, or process by individuals working together in a complex social

system. Strategy is about ideas and the development of novel solutions to create competitive advantage. Strategic thinkers must search for new approaches and envision better ways of doing things. Creativity involves recombining or making connections between things that may seem unconnected (Robinson & Stern, 1997: 14). The ability to use creativity for imagining multiple alternatives and for exploring whether there might be alternative ways of doing things is critical for the development of unique strategies and action programs.

Vision

A vision that is shared throughout the company fosters commitment rather than compliance and creates a sense of commonality that permeates the whole firm (Collins & Porras, 2002: 238). It inspires people's imagination and provides a focus that allows individuals to contribute in ways that make the most of their expertise and talents. We live in a fast-paced world. To keep up, firms should encourage strategic thinking. Firms can encourage strategic thinking in a number of ways (Harrison & Enz, 2005: 23). Managers and employees can receive training that describes strategic thinking and how to do it; firms can encourage and reward employees that generate new ideas (hypotheses).

Table 2.4 summarises the ten schools of strategic thought. According to Mintzberg *et al.* (2005: 5), the ten schools of strategic thought fall into three categories. The first three schools (design, planning and positioning schools) are prescriptive in nature – more concerned with how strategies should be formulated than with how they necessarily form. The six schools that follow (entrepreneurial, cognitive, learning, power, cultural, environmental and configuration schools) are descriptive schools, concerned with describing how strategies do, in fact, get made (Mintzberg *et al.*, 2005: 6). The final group contains one school, although it can be argued that this school really combines the others. The configuration school in seeking to be integrative cluster the various elements of the strategy-making process.

As indicated in Table 2.4, many approaches to strategy formulation exist, yet there's no single 'right' method. These schools have appeared at different stages in the development of strategic management. A few have already peaked and declined, others are now developing, and some remain as thin but nonetheless significant trickles of publication and practice (Mintzberg *et al.*, 2005: 7). What works for one firm at a distinct point in time may not work for another firm at a different juncture.

Table 2.4: Ten schools of strategic thought

Design School: proposes a model of strategy making that seeks to attain a fit between internal capabilities and external possibilities. Probably the most influential school of thought and home of the SWOT (strengths, weaknesses, opportunities and threats) technique.

Planning School: Formal procedure, formal training, formal analysis and lots of numbers are the hallmark of this approach. The simple informal steps of the design school become elaborate sequence of steps. Produce each component part as specified, assemble them according to the blueprint and strategy will result.

Positioning School: Suggests that only a few key strategies (positions in the economic marketplace) are desirable. Much of Michael Porter's work can be mapped to this school.

Entrepreneurial School: Strategy formation results from insights of a single leader, and stresses intuition, judgment, wisdom, experience and insight. The 'vision' of the leader supplies the guiding principles of the strategy.

Cognitive School: Strategy formation is a cognitive process that takes place in the mind of the strategist. Strategies emerge as the strategist filters the maps, concepts and schemas shaping his or her thinking.

Learning School: Strategies emerge as people (acting individually or collectively) come to learn about a situation as well their firm's capability of dealing with it.

Power School: This school stresses strategy formation as an overt process of influence, emphasising the use of power and politics to negotiate strategies favourable to particular interests.

Cultural School: Social interaction based on the beliefs and understandings shared by the members of a firm leads to the development of strategy.

Environmental School: Presenting itself to the organisation as a set of general forces, the environment is the central actor in the strategy-making process. The firm must respond to the factors or be "selected out".

Configuration School: Strategies arise from periods when an organisation adopts a structure to match to a particular context, which gives rise to certain behaviours.

Source: Adapted from Mintzberg, Ahlstrand and Lampel, 2005: 5.

2.6 STRATEGY IN THE HOSPITALITY SECTOR

The general strategic management process does not require substantial modification to be applicable to hospitality firms. An analysis of the hotel industry indicates that it is becoming more international in

nature: a process started in the late 1940s by American groups such as Hilton and InterContinental (Knowles, 1996: 98). Hotels, like any other business consume inputs and through its processes produce a variety of products and services (Phillips, 1999: 359).

Adapting to the new rules of the global market place, hotel operators are developing new strategies for success. According to Knowles (1996: 104), some of these strategies include the following:

- new service development;
- the diversification of products offered through multi-tier marketing;
- conversion of older-service hotels into economy properties;
- embracing the product substitute;
- entry into related markets;
- creative marketing programs to trigger latent hotel demand; and
- the penetration of international travel and tourism markets that show potential for hotel growth.

The firm's ability to develop new products successfully will hinge on many internal and external factors (Ferrell & Hartline, 2005: 167). However, despite any favourable or unfavourable conditions, the key to new product success is to create a differential advantage for the new product. With the location-specific nature of the hotel industry, growth translates into greater market coverage, increased visibility, and greater opportunities for cross-destination marketing, in addition to the benefits of economies of scale and scope (Knowles, 1996: 95). The large number of competitors, difficulty in establishing differentiation, cost of putting up new buildings, renovation of physical structure, plus high fixed costs, will continue to intensify competition within the industry (Knowles, 1996: 104).

Market orientated hoteliers have now realised the importance of producing a variety of innovative products/services for all their targeted market segments. Many hospitality firms make their operations more complex in the attempt to try to please as many customers as possible, but often their quality standards may suffer as a result (Ingram, 1999: 140-142). The most common operational characteristics of hospitality include the following:

- service – inter-personal, immediate and major satisfier or dissatisfier;
- processes – planned and controlled by management, implemented by employees, sometimes erratically;

- information about customers, competitors and trends is very important, but many hospitality firms have not worked out effective ways of information storage, retrieval and manipulation;
- work – long operational hours involve shifts and variable trade patterns can cause periodic pressures; and
- functional – tasks are predominantly organised into departments, which typically conflict with each other.

Effective hospitality operations must incorporate planning with technology and people management. There is need to reconcile the tension between management's need to control activities and yet permit employees to participate and to be empowered. According to Ingram (1999: 143), the hospitality industry is said to possibly be:

- important but insufficiently researched;
- fragmented but increasingly dominated by large players;
- operationally-centred but needing a more strategic focus;
- unable to accurately define its product offering;
- traditionally managed by managers with specific competence;
- known for low productivity but needing higher performance;
- generally unwilling to train staff; and
- unable to use the talents of its employees fully.

Adding values for customers, employees and owners has become a central theme in strategic management for hospitality companies. To create values for these stakeholders, a firm should achieve a competitive advantage over its competitors by adapting itself to uncertain industry environment, understanding the changing needs of customers, and responding to new market entries (Kim & Oh, 2004: 65). Although identification of the sources of competitive advantage has become an increasingly important priority in the fields of strategic management and marketing, managers in the hospitality industry have made little effort to comprehend how competitive advantage can be achieved. They have seldom attempted to develop the systematic approaches that may help them understand the sources of competitive advantage.

One of the most important strategic issues facing the hospitality industry is the ability to leverage human capital (Harrison & Enz, 2005: 26). Without question, the managerial challenges lie ahead. It is hard to predict with precision the kind of business environment the next generation of managers will face; however, judging from the recent past, it will probably be associated with increasing global complexity and interconnectedness (Harrison & Enz, 2005: 327). Globalisation and technological innovation are likely to be the key factors in the future of hospitality. Large hotel companies will continue to extend their reach and free markets will enable more capital to move across countries and into developing nations.

Selecting the right strategy to grow a hospitality business is often based on the management team's ability to address and execute that strategy as well as the financial capability of the firm (Nykiel, 2005: 57). Evidence shows that principles of environmental scanning have not been widely adopted and that hospitality business executives are in fact increasingly concerned about sources of uncertainty and ways of assessing possible impacts more accurately in future. This suggests that more collaborative research is needed in these areas with the objective of enabling hospitality firms to systemise their planning effort and release more time for creative thinking and innovation. The hotel services will be discussed in detail as part of the hospitality sector in Kenya in Chapter 4.

2.7 STRATEGIC MARKETING AND NEW SERVICE DEVELOPMENT

Strategic marketing takes an overall view: allocating resources and setting objectives after defining the market; marketing management develops the product or service; prices it; tells the customer about it; and gets it to the customer (Shoemaker, Lewis & Yesawich, 2007: 124). It is a market-driven process of strategy development, taking into account a constantly changing business environment and the need to deliver superior customer value (Cravens & Piercy, 2013: 15). Thus, strategy must precede management. A hotel's restaurant, for example, cannot be appropriately designed without first correctly designating the market it is to serve.

Within a given environment, marketing strategies deal essentially with the interplay of three forces, known as the strategic three Cs: the customer, the competition, and the corporation (Ohmae, 1982: 92). Most recently, Hsu and Powers (2002: 125) proposed the marketing strategy triangle (as shown in Figure 2.7) comprising the service strategy, systems and people.

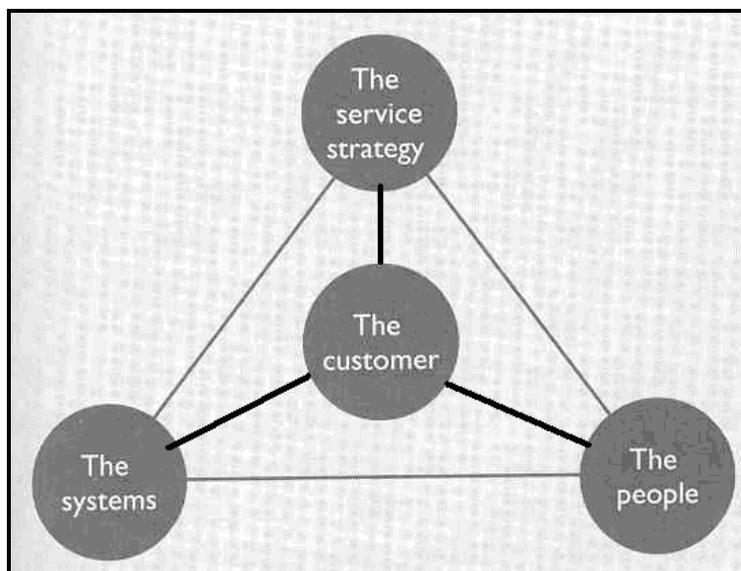


Figure 2.7: The marketing strategy triangle

Source: Adapted from Hsu and Powers, 2002: 125.

The focus of strategic marketing is on organisational performance rather than about increasing sales (Cravens & Piercy, 2013: 15). Marketing strategy seeks to deliver superior customer value by combining the customer-influencing strategies of the business into a coordinated set of market-driven actions. Strategic marketing addresses the long-term view of the market and the business to be in (Shoemaker, Lewis & Yesawich, 2007: 124) and links the firm with the environment and views marketing as a responsibility of the entire business rather than a specialised function (Cravens & Piercy, 2013: 15).

The management of NSD has become an imperative competitive factor in many service industries in times of fierce competition, shortening development cycles of new technologies, and more demanding customer expectations. Although the impact of a firm's strategic measures on its ability to generate new services is not well understood (Froehle *et al.*, 2000: 3-17) firms continue to be in constant need of new approaches to service design and delivery. Additional utilization and refinement of NSD process models are useful areas for NSD research exploitation (Menor *et al.*, 2002: 136) since previous studies have mentioned a bias of NSD literature towards the financial services sector.

2.8 CONCLUSION

Competition is not limited to the immediate service industry and effectively dealing with each type of competitor evokes a different mix of challenges. A company must do a thorough analysis of a new product idea to determine if it is compatible with the company's goals, if the company has the necessary resources and if the environment is favourable. Given complexity, continuous change and consequent uncertainty, the incremental approach to innovation strategy that stresses continuous adjustment in the light of new knowledge and learning, is likely to be more effective.

The chapter concludes with the marketing planning process from the hospitality sector's perspective, as the empirical part of this study will be executed among hotel firms in Kenya. The next chapter will explain the characteristics of services, processes of service and market development with an emphasis on the new service development process and its strategic significance through the various stages of new service development. The chapter will include literature on the challenges of NSD, key activities, knowledge gaps and analysis of opportunities.

CHAPTER 3

SERVICES MARKETING AND NEW SERVICE DEVELOPMENT

3.1 INTRODUCTION

This chapter will explain service marketing, NSD strategy and the NSD process. The characteristics of services, unique service features, resulting marketing problems and marketing strategies and its implication on the NSD process and its strategic significance through the various stages of NSD will be discussed. The chapter will include literature on the NSD process, antecedents, role of people, knowledge, and analysis of opportunities. Various perspectives and frameworks will be used to describe the NSD strategy and process. Figure 3.1 illustrates the structure of the chapter.

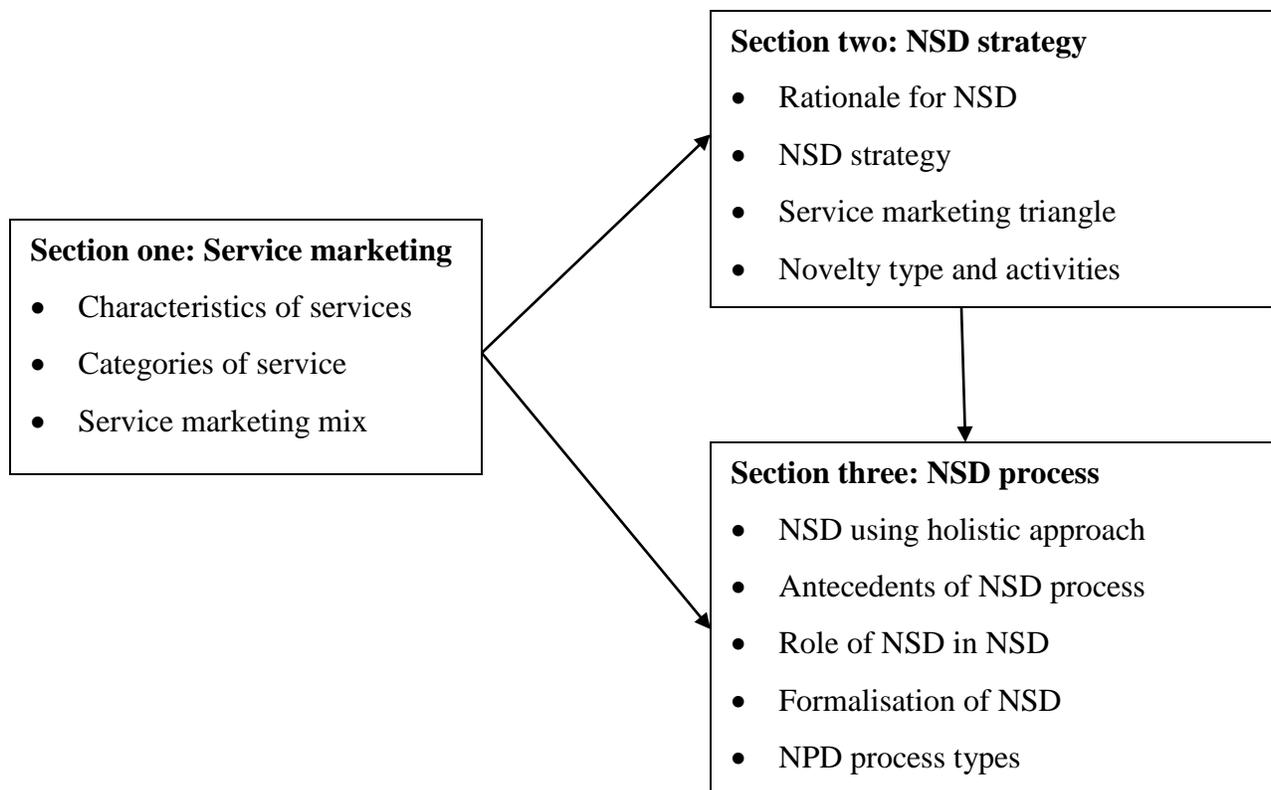


Figure 3.1: Outline of Chapter 3

3.2 SERVICE MARKETING

Many forces have led to the growth of services marketing, and many industries, firms and individuals have defined the scope of the concepts, frameworks and strategies that define the field (Hoffman & Bateson, 2001: 14). More specifically, the demand for services marketing knowledge has been driven by the following:

- the fact that services dominate the modern economies of the world;
- the focus on service as a competitive business imperative;
- specific needs of the deregulated and professional service industries;
- the role of new service concepts growing from technological advances; and
- the realisation that the characteristics of services result in unique challenges and opportunities.

Service marketing is much broader than the activities and output of traditional marketing. It requires close cooperation between marketers and those managers responsible for operations and human resources. The next section examines characteristics of services and highlights fundamental marketing implications.

3.2.1 Characteristics of services

There is general agreement that differences between goods and services exist and that the distinctive characteristics result in challenges and opportunities for managers of services. The characteristics of services help us to understand how they are different from products and what that might entail for the process of innovation (Dolfsma, 2004: 320). It can be argued that the organisation of the innovation process for services follows from the characteristics of services.

A service product typically consists of a core product bundled with a variety of supplementary service elements (Lovelock & Wirtz, 2004: 95) and is often referred to as the augmented product. The core elements respond to the customers' need for a basic benefit while supplementary services facilitate and enhance the use of the core service. The innovation and management literature indicates that the development of a service product is different from the development of a tangible product (Kelly & Storey, 2000: 45).

Services are frequently described by characteristics such as intangibility, heterogeneity, inseparability of consumption from production and the impossibility to keep services in stock. The first two characteristics, however, are not specific for services while the last two follow from the most important characteristics of services that is the process nature of services (Grönroos, 1998: 322). According to Kelly and Storey (2000: 45), the characteristic of a service would indicate that the strategies pursued by a service company would differ somewhat from those adopted by tangible product developers. The next section discusses the main characteristics of services.

3.2.1.1 Intangibility

The most basic distinguishing characteristic of services is intangibility (Zeithaml *et al.*, 2006: 22-23). It is a distinguishing characteristic of services that makes them unable to be touched or sensed in the same way as physical goods. Although services often include important tangible elements, such as hotel beds, restaurant meals and frequent guest cards, intangible elements, including the labour and expertise of service personnel, dominate the creation of value in service performance (Lovelock & Wirtz, 2004: 10).

The essence of a service transaction is that both tangible goods and intangible services are included in the purchase. In addition to the tangible food and beverages, foodservice and lodging operations also provide an intangible service, convenience, hospitality, social contact, atmosphere, relaxation and, possibly entertainment (Hsu & Powers, 2002: 19). Zeithaml *et al.* (2006: 22-23), argue that intangibility presents several marketing challenges because of these reasons:

- services cannot be inventoried, and therefore fluctuations in demand are often difficult to manage;
- services cannot be easily patented, and new service concepts can therefore easily be copied by competitors;
- services cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess;
- decisions about what to include in advertising and other promotional materials are challenging, as is pricing; and
- the actual costs of a “unit of service” are hard to determine, and the price-quality relationship is complex.

In the absence of significant tangible elements, marketers may find it useful to employ physical images and metaphors to demonstrate the competencies of the service firm and to illustrate the benefits resulting from service delivery (Lovelock & Wirtz, 2004: 11). The fact that services are intangible makes it even more imperative for NSD system to have four basic characteristics (Zeithaml *et al.*, 2006: 255). It must be objective, not subjective; it must be precise, not vague; it must be fact-driven, not opinion-driven; and it must be methodological, not philosophical.

The greater the intangible component of a product or service, the more difficult it is to understand what the customers want, why they want it, and how to deliver it (Bitran & Pedrosa, 1998: 170). The evaluation criteria of intangible elements are in general subjective, multi-dimensional (e.g. pleasure, courtesy, convenience, hope) and not always clearly defined. High intangibility is therefore at the root of most difficulties in dealing with innovation. It makes the precise definition of a concept and its subsequent design difficult at best.

3.2.1.2 *Heterogeneity*

Because services are performances, no two services will be precisely alike. It is a distinct characteristic of services that reflects the variation in consistency from one service transaction to the next (Hoffman & Bateson, 2001: 39). The employees delivering the service frequently are the service in the eyes of the customer, and people may differ in their performance from day to day or even hour to hour. Heterogeneity also results because no two customers are precisely alike; each customer will have unique demands or experience the service in a unique way (Zeithaml *et al.*, 2006: 23). Because services are heterogeneous across time, companies and people, it is challenging to ensure consistent service quality.

Quality actually depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the ability and willingness of personnel to satisfy those needs, the presence (or absence) of other customers, and the level of demand for the service. Hoffman and Bateson (2001: 39-40) suggest two solutions to heterogeneity problems, namely customisation and standardisation. One possible solution to the problem created by heterogeneity is to take advantage of the variation inherent in each service encounter and customise the service. The downside of providing customised services is threefold:

- customers may not be willing to pay the higher prices associated with customised services
- the speed of service delivery may be an issue; and
- customised services take extra time to provide and deliver, and the customer may not have the luxury of waiting for the final product.

Standardising the service is a second possible solution to the problems created by heterogeneity. Service companies can attempt to standardise their service through intensive training of their service. Training certainly helps reduce extreme variations in performance (Hoffman & Bateson, 2001: 40). Although standardisation leads to lower consumer prices, consistency of performance and faster service delivery, some consumer groups believe that standardisation sends the message that the firm does not really care about individual consumer needs and is attempting to distance itself from the customer.

3.2.1.3 *Inseparability*

Inseparability reflects the interconnection among the service provider, the customer involved in receiving the service, and other customers sharing the service experience (Hoffman & Bateson, 2001: 31). Inseparability refers to the following:

- the service provider's physical connection to the service being provided;
- the customer's involvement in the service production process; and
- the involvement of other customers in the service production process.

Restaurant services cannot be provided until they have been sold, and the dining experience is essentially produced and consumed at the same time. Frequently this situation means that the customer is present while the service is being produced and thus views and may even take part in the production process (Zeithaml *et al.*, 2006: 23). Unlike the goods manufacturer, who may seldom see an actual customer while producing the good in a secluded factory, service providers are often in contact with their customers and must construct their service operations with the customer's physical presence in mind. When a service is provided in a hospitality operation, guests tend to be there in person (Hsu & Powers, 2002: 19).

Therefore, a service usually involves people on both sides of the transaction. In a hotel, the front office staff and the guest interact. With automation, some personal service is replaced by equipment, such as

in-room checkout via television. The quality of service and customer satisfaction will be highly dependent on what happens in ‘real time’, including actions of employees and the interactions between employees and customers. Because services are produced and consumed simultaneously and often involve interaction between employees and customers, it is also critical that the NSD process involve both employees and customers (Zeithaml *et al.*, 2006: 255). Beyond just providing input on their own needs, customers can help design the service concept and the delivery process, particularly in situations in which the customer personally carries out part of the service process.

Because of this inseparability of the service process and the consumption of a service, the process can be characterised as an open process. Hence, regardless of how the customer perceives the outcome of a service process, service consumption is basically process consumption. A fundamental tension exists in NSD. Due to the direct interaction between the service provider and the client, services are often highly customised and mass production is difficult. At the same time, information about newly developed services and about the customer’s preferences tends not to be widely and systematically shared (Nambisan, 2001: 78). On the other hand, providing services in general, and providing new services in particular, is acutely about organisational aspects of the firm. Therefore, for NSD, process and product innovations cannot easily be distinguished from each other (Dolfsma, 2004: 324).

In fast changing technology markets, the success of a new product often depends on anticipating future requirements that customers are currently unable to articulate as well as the translation of these needs into new product ideas (Deszca, Munro & Noori, 1999: 618). There is the question of which customers to talk to. Managerial assumptions may be misguided concerning where the most profitable markets will lie and the needs of lead user or early adopters may differ substantially from those who will make up the bulk of the market. For products that offer completely new benefits and uses, customer input is limited by familiarity with existing products and needs (Deszca *et al.*, 1999: 619). Consequently, they may be unable to conceive the needs the breakthrough products will fulfil – a phenomena exacerbated by the fact that product designers also may lack this awareness.

One of the distinctive characteristics of many services is the way in which the customer is involved in their creation and delivery (Lovelock & Wirtz, 2004: 231). But all too often, service design and operational execution seem to ignore the customer perspective, with each step in the process being handled as a discrete event rather than being integrated into a seamless process. According to Johne

and Storey (1998: 200), there are four essential characteristics of an effective development process for new service products: objectivity, precision, fact-driven and methodologically based.

3.2.1.4 Perishability

Perishability refers to the fact that services cannot be saved, stored, resold, and returned (Lovelock & Wirtz, 2004: 24). Their unused capacity cannot be reserved and they cannot be inventoried (Hoffman & Bateson, 2001: 41). Therefore, an intangible service has to deal with the issue of perishability. The inability to store excess production in inventory makes capacity utilisation critical to the management and marketing services (Hsu & Powers, 2002: 21). Hoffman and Bateson (2001: 41) postulate that when dealing with tangible goods, the ability to create an inventory means that production and consumption of the goods can be separated in time and space. In contrast, most services are consumed at the point of production. Because services are produced and consumed at the same time, they are highly perishable and there is no way to build an inventory.

Without the benefit of carrying an inventory, matching demand and supply within most services companies is a major challenge (Hoffman & Bateson, 2001: 42). A key task for service marketers, therefore, is to find ways of smoothing demand levels to match capacity through price incentives, promotions or other means. Marketers should be looking for opportunities to shrink a company's productive capacity in the form of employees, physical space and equipment to match predicted fluctuations in demand (Lovelock & Wirtz, 2004: 10). If profit maximisation is an important goal, the marketers should target the right segments at the right times, focusing on selling during peak periods to those segments that are willing to pay premium prices.

The existence of inventory greatly facilitates quality control in goods-producing firms (Hoffman & Bateson, 2001: 41). In contrast, when a customer purchases a room at a hotel, he is likely to experience a wide range of factors that influence his good night's sleep. Issues such as air conditioning, plumbing, and noisy neighbours factor into the hotel guest's experience. Finally, in goods-producing businesses, inventory performs the function of separating the marketing and the production departments. In service firms, however, marketing and operations constantly interact with each other because of the inability to inventory the product.

The extant literature suggests that each unique characteristic of services leads to specific problems for service marketers and necessitates special strategies for dealing with them (Zeithaml, Parasuraman & Berry, 1985: 35). When consuming services customers perceive the process of producing the service to a larger or smaller degree, but always to a critical extent, moreover taking part in the process. The consumption process leads to an outcome for the customer, which is the result of the service process. Thus, the consumption of the service process is a critical part of the service experience. In order to create good perceived quality of a service, the firm must manage the service process as well as resources needed in that process (Grönroos, 1998: 330).

Table 3.1 summarises the problems which frequently stem from each of the four service characteristics and the marketing strategies suggested in the literature to overcome these problems.

Table 3.1: Unique service features, resulting marketing problems and marketing strategies

| Unique service features | Resulting marketing problems | Marketing strategies to solve problems |
|--------------------------------|--|---|
| Intangibility | <ul style="list-style-type: none"> • Services cannot be stored • Services cannot be protected through patents • Services cannot be readily displayed or communicated • Prices are difficult to set | <ul style="list-style-type: none"> • Stress tangible cues • Use personal sources more than non-personal sources • Simulate or stimulate word of mouth communications • Create strong organisational image • Use cost accounting to help set prices • Engage in post-purchase communications |
| Inseparability | <ul style="list-style-type: none"> • Consumer involved in production • Other consumers involved in production • Centralised mass production of services difficult | <ul style="list-style-type: none"> • Emphasise selection and training of public contact staff • Manage consumers • Use multisite locations |
| Heterogeneity | <ul style="list-style-type: none"> • Standardisation and quality control difficult to achieve | <ul style="list-style-type: none"> • Industrialise service • Customise service |
| Perishability | <ul style="list-style-type: none"> • Services cannot be inventoried | <ul style="list-style-type: none"> • Use strategies to cope with fluctuating demand • Make simultaneous adjustments in demand and capacity to achieve a closer match between the two. |

Source: Adapted from Zeithaml *et al.*, 1985: 35.

As indicated in Table 3.1 the characteristics of services are related with each other (Dolfsma, 2004: 322). The implications of the characteristics of services for the innovation partly overlap with the implications for management of service firms in general. Co-production of services between firm and customer in combination with intangibility means that (perceived) quality of a service, especially when it is new, may differ substantially across customers. The characteristics that one person seeks in a new service may be very different from those sought in it by another customer, even if it is provided by the same firm or employee of the firm, and even when it seems for most purposes to be the same product. The nature of services is such that it is difficult to define moments that offer a 'natural' occasion for review.

Given the characteristics of services discussed in the previous section a process of NSD that is most of the time ad hoc is not surprising. Prototyping, for instance, is "not possible". Even when NSD is more formalised, the final stage of testing a new service is often done by simply bringing it to the market. New services are, however, developed relatively easily and cheaply, leading to a proliferation of variants (Johne & Storey, 1998: 185). Since testing a new service is relatively inexpensive, there is a tendency for new services being developed to be incremental improvements on services that are already available (Johne & Storey, 1998: 208) rather than radical innovations.

3.2.2 Categories of services

Important marketing relevant differences exist among services (Lovelock & Wirtz, 2007: 33). These differences include whether service is targeted at customers in person or at their possessions, whether service actions and output are tangible or intangible in nature, whether customers need to be involved in service production; and how much contact (if any) do they need with service facilities, employees, and other customers. Services can be categorised into four broad groups based on tangible actions to either people's bodies or to their physical possessions, and intangible actions to either people's minds or to their intangible assets as indicated in Table 3.2.

There four categories of services, namely people processing, possession processing, mental stimulus and information processing (Lovelock & Wirtz, 2007: 34). People processing services require customers to physically enter the service system and cooperate actively with the service operation in order to receive the services. Reflecting on the service process helps to identify not only what benefits are being created at each point but also the nonfinancial costs incurred by the customer in terms of

time, mental and physical effort and even fear and pain (Lovelock & Wirtz, 2007: 35). Hospitality services fall within this category.

According to Lovelock and Wirtz (2007: 35-36) possession processing service provides tangible treatment for some physical possession for instance repair and maintenance to a house, dirty linen or a sick pet while mental stimulus processing services are directed at people's minds and have the power to shape attitudes and influence behaviour. The level of customer involvement with the service varies between the service categories.

The information processing services provide information as the main service output although it may be transformed into tangible forms like letters, books or disks (Lovelock & Wirtz, 2007: 36). The extent of customer involvement in both information and mental stimulus processing services is often determined more by tradition and personal desire to meet the supplier face-to-face than by the needs of the operational process. The operational processes that underlie the creation and delivery of any service have a major impact on marketing and human resource strategies.

Since each of the four types of processes often has distinctive implications for marketing, operations and human resource strategies it can be speculated that the NSD strategy and process for each category may be significantly different. Although various service industries share some important process-related characteristics, there are certainly inherent distinctions between categories of services based on the characteristics of services as well as the nature of customer involvement in service production which apparently varies widely and changes rapidly.

3.2.3 Services marketing mix

The marketing mix is "a set of marketing tools that a firm uses to pursue its marketing objectives" (Lamb, Hair, McDaniel, Boshoff & Terblanche, 2004: 13; Kotler & Keller, 2006: 19). These authors illustrate that product is the customer's solution, price being the customer cost, place being the convenience needed in obtaining the product and promotion entails the communication required to popularise the products. These are also referred to as 4Cs (Kotler & Keller, 2006: 20). The term marketing mix is used to describe the elements a firm controls that can be used to satisfy or communicate with customers (Zeithaml *et al.*, 2006: 25).

Table 3.2: Four categories of services

| What is the nature of the service act? | Who or what is the direct recipient of the service? | |
|--|--|---|
| | People | Possessions |
| Tangible Actions | <i>People processing</i> (service directed at people's bodies) | <i>Possession processing</i> (services directed at physical possessions) |
| | Passenger transportation Health care Lodging Beauty salons Physical therapy Fitness centres Restaurant/barbers Barbers Funeral services | Freight transportation Repair and maintenance Warehousing/storage Office cleaning services Retail distribution Laundry and dry-cleaning Refuelling Landscaping and gardening Disposal/recycling |
| Intangible Actions | <i>Mental stimulus processing</i> (services directed at people's minds) | <i>Information processing</i> (services directed at intangible assets) |
| | Advertising/Public Relations Arts and entertainment Broadcasting/cable Management consulting Education Information services Music concerts Psychotherapy Religion Voice telephone | Accounting Banking Data processing Data transmission Insurance Legal services Programming Research Securities investment Software consulting |

Source: Lovelock and Wirtz, 2007: 34.

Ferrell and Hartline (2005: 8) concur with this understanding of the marketing concept and reaffirm that the first P for product represents something that may be acquired via exchange to satisfy a need or a want. These include ideas, goods, services, information, places, people, experiences and events that may be of interest to those who need those (Ferrell & Hartline, 2005: 8). The next P stands for price, signifying the monetary value at which the product is to be exchanged, while the third P is for place and stands for the distribution mechanism of the product so that it is within customers' reach. The last P represents promotion and is used as a tool for popularising the product in the eyes and perception of the customers.

More recent studies have redefined the marketing mix theory to address service concepts. According to Mudie and Pirrie (2006: 5-6), the renewed concept of 7Ps of the marketing mix is more inclusive than the traditional 4Ps. The authors list the 7Ps as *product, price, promotion, place, people, physical evidence* and *process* and posit that the distinct characteristics of services require the addition of three more Ps – people, physical evidence and process. Consequently, they claim that each of the three extra Ps is of central importance in services as each represents cues that customers rely on in judging quality and overall image. Middleton (2002: 94) agrees with this viewpoint and observes that the last three Ps are partly *product* and partly *communication mix* in nature. However, he adds that these additional 3Ps are fundamental in the marketing of tourism and hospitality since the sector is typically a high contact service (the people component), an extended and complex service (the process component) and service that may only be evaluated by the consumer as they experience the delivery. This study shall not contest either of the concepts but shall consider both approaches as acceptable.

The traditional marketing mix is composed of the four Ps: product, price, place (distribution) and promotion. These four basic strategic elements appear as core decision variables in any marketing text or marketing plan. The notion of a mix implies that all the variables are interrelated and interdependent. Further, the marketing mix philosophy implies an optimal mix of the marketing mix elements for a given market segment at a given point in time. But to capture the distinctive nature of service performances (as discussed in section 3.2.1) some scholars (Lovelock & Wirtz, 2007: 22) have more recently modified and extended the marketing mix by adding four elements associated with service delivery: *physical environment, process, people* and *productivity and quality*.

According to the 4P model, there has to be a pre-produced product that can be priced, communicated about and distributed to the consumers. However, when there is no such product, services marketing becomes different because of the absence of the object of marketing and consumption. There is only a process that cannot begin until the consumer or user enters the process. A central part of service marketing is based on the fact that the consumption of a service is a process consumption rather than an outcome consumption, where the consumer or user perceives to a critical extent the production process as part of service consumption, not just the outcome of that process as in traditional marketing of physical goods (Grönroos, 1998: 322).

The consumption process leads to an outcome for the customer, which is the result of the service process and a critical part of the service experience. The customer takes part in the production process and sometimes more or less actively interacts with the employees, physical resources and production system of the service firm. The extent of customer involvement in both information-processing and mental stimulus processing (section 3.2.2) is often determined more by tradition and a personal desire to meet the supplier face to face than by the needs of the operational process. The notion of a pre-produced product with features that customers are looking for is too limited to be useful in a service context.

3.3 NEW SERVICE DEVELOPMENT

Service firms need to continually innovate, to strive for the creation of new ideas and new products. With increasing competition brought about by deregulation, greater customer sophistication and the emergence of true globalisation, firms cannot hope to survive on their past successes alone. Consequently, firms are beginning to take the development of new services much more seriously as evidenced by the growing body of knowledge on NSD activities of service firms. NSD has emerged as an important research topic in service operations management (Menor *et al.*, 2002: 135).

While the development of new services has long been considered by scholars and managers as an important competitive necessity in many service industries (Menor & Roth, 2007: 825; Zeithaml *et al.*, 2006: 8-9), it has remained among the least understood topics in the service management and innovations literature (Drejer, 2004: 551-552). Additionally, NSD is risky because the new service failure rate is almost 50 per cent (Alam, 2006: 234). To address this challenge of high failure rate, a significant number of studies have focused on the factors that affect the performance of new services. Some of such key factors include new service strategy, ascertaining the significance of NSD stages (Kelly & Storey, 2000: 45-48).

As a result, current theory and understanding of the strategies and tactics for developing new services is inadequate, especially given the conventional wisdom that service innovations are among the critical drivers of competitiveness for most service firms (Berry, Shankar, Parish, Cadwallader & Dotzel, 2006: 56-63). According to Alam (2006: 237), new service strategy and the process used to develop new services are typically under a manager's control and are therefore the key issues in NSD, which are the focus of this study. The next section discusses new service strategy and NSD process.

3.3.1 Rationale for NSD

Service innovation is crucial for success. Few firms can survive and sustain long-term growth with only one or two products or services, because of high risk associated with the lack of diversification. All service firms face choices about the types of products to offer and the operational procedures to use in creating them (Lovelock & Wirtz, 2004: 95). Every company needs to innovate in order to stay ahead of the competition. Increasing customer expectations, competition and speed of technological development means that service firms must constantly look for new approaches to service design and delivery.

New methods and technologies offer opportunities for developing new and/or improved services. NSD is seen as essential for enhancing profitability (or viability) of existing services through cost reduction and increased sales, attracting new customers/consumers and creating loyalty among existing ones (Smith, Fischbacher & Wilson, 2007: 370). Improvements in organisational image, staff morale and overall organisational health are also driven by innovation. Additionally, experience of NSD builds key capabilities for further development providing a platform for future new products and services and opening opportunities for repositioning and overall strategic development such as diversification, new market entry among others.

According to Young (2005: 231-232), the reasons for the development of new services include: obsolescence of old services, revenue creation, commoditisation of services, seasonal effects and utilisation of company resources among others. Reid and Bojanic (2006: 251) observe that as more products are developed or as a company develops additional brands, it can make better use of corporate resources. Operating multiple brands allows hospitality firms to make better use of corporate resources by segmenting the market and tailoring offerings to the various segments using separate marketing programs.

In a customer focused firm, these choices are often driven by market factors, with firms seeking to respond to the expressed needs of specific market segments and to differentiate the characteristics of their offerings against those of the competitors. A service product typically consists of a core product bundled with a variety of supplementary service elements. There is need to define the core service

attributes and thereafter to define the service delivery system (bringing together people, processes and facilities).

3.3.2 New service strategy

Research indicates that for successful innovation to occur, a pre-requisite is the presence of a development strategy. It has been found that service firms successful at developing new services over time; tend to have a clear strategy for their new services. This strategy should be formalised and aim beyond short-term financial objectives (Storey & Kelly, 2001: 75). NSD can be focused on the firm's core service, added value services or brand new offers (Young, 2005: 244). New service strategies can be developed based on the type of ownership of the product by the firm, response to the market forces, levels of complexity and divergence in its service operations, extent of process formalisation, identification of growth opportunities, etc.

According to Kotler and Armstrong (2006: 274), a company can obtain new products using two new product development strategies or ways: through acquisition - by buying a whole firm, a patent, or a license to produce someone else's product; the other is through new product development in the company's own R&D department. As with strategies for existing products, Reid and Bojanic (2006: 252-256) argue that strategies for new products can either be reactive strategies or proactive strategies.

Reactive strategies are developed as a response to a competitor's action, while proactive strategy is one that is initiated as a pre-emptive effort to gain a competitive advantage. Although for many firms the idea of a proactive new product strategy has a certain appeal, the reality is that proactive strategies are typically associated with a significant degree of risk and a need for heavy and sustained investment in money, skill and time (Wilson & Gilligan, 2005: 514-515). If a firm cannot meet the criteria for proactive strategies, it may opt for reactive strategies. This typically translates into one of four postures namely: rapidly responsive, second but better, imitative (me-too) and defensive.

According to Bowie and Buttle (2004: 254-255), there are four alternative strategies. The authors note that a firm can establish the levels of complexity and divergence in its service operations by mapping the service process using blueprinting. The level of service complexity refers to the steps and sequences that need to be carried out to perform the service. The fewer the steps, the lower the service complexity. The level of diversity refers to the degree of tolerance allowed in delivering the service

process. Some services are highly standardised and consequently have a very low degree of diversity because it is a relatively standardised process.

Every service process can be analysed on both its level of complexity and its level of divergence (Bowie & Buttle, 2004: 254-255). The level of divergence and complexity should be based on the target customers. Some services are highly standardised and consequently have a very low degree of diversity because they are relatively standardised processes. The service process can be changed either to increase or decrease the levels of complexity and divergence. New services can also be developed along similar perspectives.

Complexity reduction strategy. To reduce the complexity of a service process, the number of steps and sequences used to produce the service are reduced. This might mean specialising in specific customer segments and narrowing the marketing offer. The reduction in complexity should improve consistency and cost control. However, such a strategy risks alienating customers who enjoyed the service standards of a more complex operation, and they might transfer their loyalty and patronage to a competitive establishment.

Increased complexity strategy. Increasing the complexity of the service process means adding more activities to the existing service and providing customers with an enhanced marketing offer. By providing customers with additional services, the firm should be able to generate additional revenue and/or enhance customer satisfaction. However, increased complexity might create service quality problems and increase costs, and some customers may not be interested in paying more for the new offer.

Divergence reduction strategy. Reducing the level of divergence in the service process implies a greater standardisation of services. With a higher level of standardisation, there should be increased productivity and cost reductions through economies of scale. This type of service process strategy is linked to a volume orientation and mass-marketing approach. From a customer perspective, the advantages include greater consistency and reliability in the service quality. However, some customers may resent the changes and react negatively to the standardised offer.

Increased divergence strategy. Increasing divergence allows for greater customisation in the service offer. This is a niche positioning strategy, which in hospitality could be linked to a human resources empowerment strategy where employees are encouraged to respond to customers' individual needs and wants. However, increasing divergence can mean less control and could be linked to greater fluctuations in service quality. A customisation strategy implies higher prices to cover the additional costs of an increased divergence strategy.

Research suggests that without a clear new product or service strategy, a well-planned portfolio of new products and services, and an organisational structure that facilitates product development via ongoing communications and cross-functional sharing of responsibilities, front-end decisions become ineffective (Zeithaml *et al.*, 2006: 260). Thus a product portfolio strategy and a defined organisational structure for a new product or service development are critical – and are the foundations – for success. By defining a new service strategy, the firm will be in a better position to begin generating specific ideas.

Zeithaml *et al.* (2006: 260-262) proposed a framework for identifying growth opportunities, shown in Table 3.3 as one way to begin formulating a new service strategy. The framework which is analogous with Ansoff's growth matrix (Figure 2.2) discussed in section 2.3.2, allows a firm to identify possible directions for growth and can be a helpful catalyst for creative ideas. The framework may also serve as an initial idea screen, if the firm chooses to focus its efforts on one or two of the four cells in the matrix. It is possible for a firm to pursue growth in all the four areas of the matrix.

Table 3.3: New service strategy mix

| Offerings | Markets | |
|-------------------|---------------------|--------------------|
| | Current customers | New customers |
| Existing services | Share building | Market development |
| New services | Service development | Diversification |

Source: Adapted from Zeithaml *et al.*, 2006: 260.

As indicated in Table 3.3, a firm can develop a growth strategy around current customers or for new customers, and can focus on current offerings or new offerings. Four major new service strategy options exist in the framework. The share building strategy aims to sell more existing services to

current buyers. It is often implemented in the form of a newly found aggressiveness in style such as discount pricing, which results, for instance, in “accounting wars”.

Market development (or market extension) offers existing services to market segments not previously served by a service firm; another form of market development in hospitality sector is expansion into international markets, taking existing services to other countries. Under service development (or line extension strategy), a service firm attempts to market new services to existing buyers. This approach is common in mature service industries and involves leveraging a valuable asset, namely the current customer base (Scheuing & Johnson, 1989b: 31). The final option, a new business strategy (diversification), is by far the riskiest alternative and the most challenging because it involves entering uncharted territory where the firm cannot capitalise on any existing strength. It takes the firm into unfamiliar territories on both the product and market dimensions.

Perhaps the most consistently held prescription for development success is that the firm’s new product or new service strategy must be related to the overall business strategy (Menor & Roth, 2007: 828). NSD strategy aligns the overall business strategy with new services or products and service design or delivery decisions. As such, an NSD strategy enables management to plan for and make available the appropriate resources for specific NSD efforts. An NSD strategy also contributes to distinguishing a service company’s ‘strategic vision’ – an understanding of what the firm and its offerings should be. An effective NSD strategy reflects a firm’s NSD competence because it ensures that the appropriate resources and practices necessary to develop services are in keeping with the overall business strategy, and because it ensures that the new service offering’s characteristics, and its delivery, match customer expectations and demands.

In order to gain an understanding of the company’s overall approach to NSD, the research study will categorise respondents according to the Miles and Snow (2003) approaches to innovation. Miles and Snow (2003) typology has previously been used successfully in product innovation research (Kelly & Storey, 2000: 45-62; Storey & Kelly, 2001: 71-90; Griffin & Page, 1996: 478-496; Cooper, 1984: 5-18) and is often regarded as a more comprehensive and prudent typology for understanding organisational strategy. Firms can be one of four types: prospector, analyser, defender or reactor. The prospector places value on ‘first’ with new products, markets and technologies, while the analyser is rarely first to market, yet frequently a fast follower with a more cost-efficient or innovative product. The defender

locates and maintains a secure niche by protecting their position in a relatively stable product or service area. Firms that respond to product and market changes, only when forced by environmental pressures, are referred to as defenders.

New service strategy has been operationalised in this study as the types of new services developed by a firm that denotes the innovativeness of the services, because different categories of innovation are potentially linked to the levels of new product or service development risks, it seems important that managers adjust their approach depending on the strategy they have adopted.

3.3.3 The service marketing triangle

A service in the traditional sense, is the result of how various resources, such as personnel, customers' time, raw materials, knowledge and information have been managed in a service factory so that a number of features that customers in a target market are looking for are incorporated into it (Grönroos, 1997: 415). Its production process can be characterised as an open process, where the customer takes a direct part. This marketing situation is illustrated in the service marketing triangle in Figure 3.2.

The services marketing triangle visually reinforces the importance of people in the ability of companies to keep their promises and succeed in building customer relationships. Between these three points (the company: personnel, technology, knowledge; customer's time, and customers) three types of marketing must be successfully carried out for a service to succeed; external marketing, interactive marketing and internal marketing. All three sides of the triangle are essential to complete the whole, and the sides of the triangle should be aligned. What is promised through external marketing should be the same as what is delivered; and the enabling activities inside the firm should be aligned with what is expected of service providers. It seems that new services are the output of an interaction process between the firm, customers, personnel, technology, knowledge and customers time.

Grönroos (1997: 415) postulates that services marketing is about promises – promises made and promises kept to customers. The services triangle as indicated in Figure 3.2 shows the three interlinked groups work together to develop, promote and deliver services. These key players are labelled on the points of the triangle: the company (or strategic business units or department or 'management'); the customers; as well as personnel, technology, knowledge and customers' time. This framework takes into account the significance of and the link between relationship marketing orientation and business

performance in the service process, while emphasising the role of internal marketing in service development.

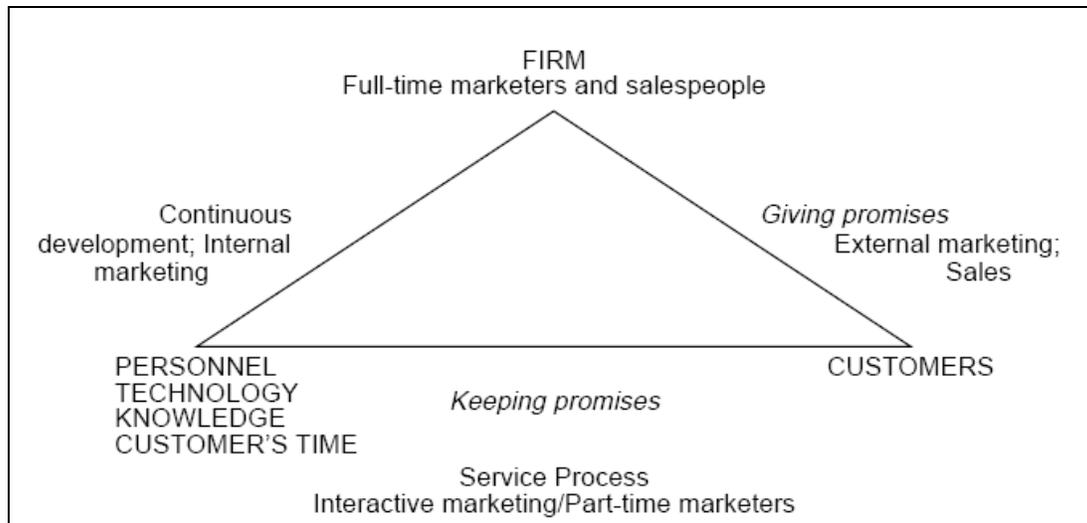


Figure 3.2: Service marketing triangle

Source: Grönroos, 1997: 415.

Many services require customers to participate in creating the service product. Customer involvement can take the form of self-service or co-operation with service personnel. Although physical product elements with specific features are present as integral parts of the service process, in many service contexts it is not known at the beginning of the service process what the customer wants and expects in detail, and consequently what resources should be used. These product elements are sometimes pre-produced, sometimes partly pre-produced or partly made to order. However, physical products have no meaning as such unless they fit the service process.

A bundle of different types of resources creates value for the customers when these resources are used in their presence and interaction with them. Even if service firms try to create products out of the resources available, they do not come up with more than a more or less standardised plan that guides the ways of using existing resources in the simultaneous service production and service consumption processes. Service firms only have a set of resources and in the best case scenario, a well-planned way of using these resources as soon as the customer enters the arena (Grönroos, 1996: 10). Customer-perceived value follows from a successful and customer-oriented management of resources relative to customer sacrifice, not from a pre-produced bundle of features.

Hoffman and Bateson (2001: 20-21) propose a modified framework that depicts relationships among the systems, the service strategy, and the people, with the customer in the centre of the triangle interacting with each group, similar to the marketing strategy triangle (Hsu & Powers, 2002: 125) discussed in section 2.7. The framework referred to as the service triangle (Hoffman & Bateson, 2001: 20-21), depicts six key relationships as follows:

- the service strategy must be communicated to its customers (external marketing);
- the service strategy also needs to be communicated to the firm's employees (internal marketing);
- the consistency of the service strategy and the systems that are developed to run the day-to-day operations (interactive marketing);
- the impact of organisational systems on customers;
- the importance of organisational systems and employee efforts; and
- the customer-service provider interaction.

These interactions (internal marketing, external marketing and interactive marketing) represent critical incidents or 'moments of truth' and are also reflected in the services marketing triangle (Grönroos, 1997: 415). The quality of this interaction is often the driving force in customer satisfaction evaluations. The additional three key relationships in the service triangle underscore the role of the customers and customer-employee interaction in the service delivery process and could result in employees treating customers better.

A major point of difference between product development and service development is the involvement of customers in the service as discussed in section 3.2.2. Services tend to involve customers in their delivery, and the purchase of services tends to involve a longer commitment and therefore a more intimate relationships with customers (Alam & Perry, 2002: 515). Customers and the service firm interact before, during and after the service production and delivery process. The interaction provides a platform for both customers, firm and employees to develop expectations about the desired or appropriate behaviour and service performance. The truism of new service development efforts is that to be successful a product must satisfy customers' needs. Hence, customer needs can be better identified by including employees in the NSD process. Similarly, process efficiency and likelihood to successful implementation can also be enhanced.

Although both frameworks capture an underlying emphasis on the value of relationship marketing, the services marketing triangle assumes greater importance over the service triangle due to its recognition that customers may be involved in the production process. The simultaneous service consumption and production have interfaces that are always critical to the customers' perception of the service and consequently to their long-term purchasing behaviour as well as the service development process. The marketing effect of the simultaneity of the processes, which are interactive marketing, should be positive if the service company wants to keep customers. Hence, for the long-term success of a service firm the continuous enhancement of the key relationships depicted in the services marketing triangle is crucial.

3.3.4 Novelty type and technical/marketing activities

The formal development of new products integrates a set of activities which, depending on the author considered, range from three to fifteen. However, the differences are only numerical or of a nomenclature nature, since the tasks constituting the process scarcely varies from one author to another. The importance of the development activities carried out will be conditioned by the type of process introduced and by the novelty type of the specific product to be developed (Varela & Benito, 2005: 398).

NSD is perceived as a high-risk activity due to the high cost and inherent technical and commercial risk (Tidd & Bodley, 2002: 127-138). Different authors suggest that NPD is a process oriented towards reducing uncertainty and that activities carried out will be determined by the degree of risk perceived by management (Varela & Benito, 2005: 398). Since it is possible to expect that uncertainty differs according to the degree of product novelty, it can be concluded that the importance given to the activities which make up the process will vary according to the novelty type of the product to be developed. Hence, NSD should be in the hands of a working team functioning as an independent group that takes initiatives and risks.

Prior research has suggested that more innovative products require more resources and a different development approach to be successful (Veryzer, 1998: 304-321). The evaluation of products situated in familiar environments, targeted at a familiar market or using familiar technology, benefit from clearer signals regarding potential success. Projects in new areas present greater uncertainties and, as a consequence, imply higher risk to the developing firm. Choffray and Lillien (1984: 82-94) point out

that extremely novel products must have a more complete development process and greater attention has to be paid to marketing and pre-development activities than those that are not so. Rochford and Rudelius (1997: 67-84) also associated the degree of novelty of new products with development process activities. Their work defends that the need to carry out certain activities will be less relevant for a product that is being modified than for a completely new product.

Although there is no question that all innovations are the same (Varela & Benito, 2005: 399), Danneels and Kleinschmidt (2001: 357-373) recognise that a much better understanding is needed of exactly what product innovativeness means and, referring to what scholars and practitioners have used, they mention different new product classifications on the basis of their relative newness:

- innovative vs non-innovative;
- discontinuous vs continuous;
- evolutionary vs revolutionary;
- incremental vs radical;
- major vs minor; and
- really new and breakthrough.

Bearing in mind the difficulties found in the new products classification, Garcia and Calantone (2002: 111) pointed out that inconsistency in labelling innovations has significantly contributed to a lack of academic advancements regarding NPD process of different types of innovations.

3.3.5 NSD and the customer

According to Matthing, Sandén and Edvardsson (2004: 487), customer involvement in service innovation is defined as those processes, deeds and interactions where a service provider collaborates with current (or potential) customers at the programme and/or project level of service development, to anticipate customers' latent needs and develop new services accordingly. Customers participate in new product and service development in different ways. An axiom of NSD is that, in order to be successful, a product must satisfy the customers' needs. Also, the customer-producer interaction during the service development process may be related to the broader concept of customer orientation.

Researchers have shown that the corporate customer's role is more important and extensive than in retail markets, mainly because services offered to organisations are characterised by high customisation

to customer needs. Athanassopoulou and John (2004: 101) argue that in financial services, and especially in banking, the corporate sector is considered to be considerably more complex, especially in terms of frequency and value of transactions than the more frequently examined retail banking market. The authors further emphasise that in the corporate market the complexity of demands is commonly greater than in personal market and there are more non-standard or custom-built elements in the product and services mix as one progresses away from retail banking applications through to corporates of different size.

Although extant literature states a number of strongly allied concepts of customer involvement, such as user involvement (Alam, 2002: 251-253), customer interaction (Gruner & Homburg, 2000: 1-4), co-opting customer competence (Prahalad & Ramaswamy, 2000: 79-87), co-development (Neale & Corkindale, 1998: 418-425) and consumer involvement (Pitta & Franzak, 1996: 66-81), precise definitions of these concepts are often lacking.

Customer involvement in the NSD process has been shown to improve the effectiveness of the product concept in the rational plan stream and is suggested to result in important benefits such as reduced cycle times, superior services, and user education (Alam, 2002: 254). However, it is less known how companies achieve these benefits. Also, it is not clear exactly what role customers play and how and when customers are appropriately involved in the development process.

Service developers must focus on both the company and customer issues, because services and particularly financial services are provided and consumed simultaneously. Input regarding customer needs is therefore critical at each stage of the new product process, e.g. in the idea generation phase where complaints or needs about the service process often represent a rich blend of potential new concepts (Papastathopoulou, Gounaris & Avlonitis, 2006: 59). For a new service to be successful, it first should be able to meet customer's values and needs. Arguably, there is a strong market orientation among key attributes of winning new services.

Larger companies have specific needs and can require complex products that are tailored in order to solve the client's banking problem. The complexity of products generally has implications on the level and frequency of contact between the client and the account manager, particularly as to the number of accounts a corporate account manager can handle. As a result, corporate financial services usually require closer and more frequent contact than retail financial services do. Due to the special need for

extensive contact with customers, as well as the level of customisation necessary in services, especially business-to-business financial services, the corporate customer's role has become increasingly important.

3.3.6 NSD and the corporation

Companies conducting business in the global environment are faced with significant competition and the search for a competitive advantage has led to the recognition of innovation as a vital ingredient for survival and profitability in the 'Information Age'. Hence, companies being most successful in providing new services prevent their innovation process from being ad hoc (De Brentani, 2001: 168-187).

A company can attain competitive advantage over its competitors through innovation. As discussed in section 2.2.2, Kim and Mauborgne (2005: 22) argue that it is time to move away from the red waters of saturated markets in order to 'create uncontested market space' in the blue oceans of innovation since only innovation can actually 'make the competition irrelevant'. Innovations drive competitive advantage and therefore organisational success (Bean & Radford, 2002: 80-90). It is now widely argued that an organisation's competitive advantage therefore almost solely depends on its ability to innovate (Bean & Radford, 2002: 83-85).

In current business environments the ability of a company to innovate is perceived to be an essential core competency (Butlin & Carnegie, 2001: 107-110; Lin, 2001: 1-16). A core competency can be defined as a skill that enables a company directly to achieve competitive advantage and does well or better than the competitors. Afuah (2003) posits that the more a competency contributes to competitive advantage and the more difficult the core competency is for competitors to innovate, the more the competency will contribute to organisational profits. Therefore, the ability of a company to innovate has a critical impact on a company's returns and success. The ability of a company to innovate is considered to be a core competency today, more so than in the past, because of the nature of the current business environment.

The value of innovation within companies can be understood in the context of how innovation drives organisational success. Porter (1991: 96) defines organisational success as attaining a competitive position or series of competitive positions that lead to superior and sustainable financial performance.

Innovation matters to business because it drives financial performance by attaining and maintaining “competitive positions”, known as the company’s competitive advantage (Douglas, 2001: 60-86). Bean and Radford (2002: 83) articulate that the objective of commercial innovation is to create or extend competitive advantage.

Current business environments are experiencing rapid and radical change (Bennet & Bennet, 2000: 12-14) and are distinguished from previous business environments by a number of factors. The pace of change is itself one of the most noted differences between past and current environments (Shapiro, 2002). Bennet and Bennet (2000: 12) compare the magnitude of the shift into this new world as a shift from horse transportation to space travel. With this change, the number of failed businesses is increasing. Mackenzie (2001: 18) notes in the 1980’s the average life span of a company was 20 years, 10 years later in the 1990’s the average life span was only 12-13 years.

Throughout earth’s history there have been numerous mass extinctions in the living world due to sudden, enormous changes in the physical environment. Consequently, only those species which can adapt quick enough will survive. Similarly, only those corporations than can innovate and adapt their strategies to the current business environment will survive. As discussed in section 2.2.5, companies must face and cope with environmental turbulence by evolving strategy, sharing the responsibility for strategy more broadly within the company, and focusing on organisational capabilities as the real source of competitive advantage. Hamel (2002) describes the change we are experiencing in today’s business environments as radical, all-encompassing and is in discontinuous leaps and bounds – a constant revolution.

The innovation process is a continuous activity instead of a sequence of stand-alone projects, and companies must manage the process by adopting it. Companies must be able to improve the product or service during the life cycle rather than substitute it with a new one. Companies cannot simply manage innovation through developing new products; they should manage the whole product or service life-cycle innovation by adapting and redesigning a product or service according to contextual changes and opportunities after it has been released to the market and at low cost and in the shortest time possible. As a result, Buganza and Verganti (2006: 394) argue that companies must be able to turn the development process flexibility into life-cycle flexibility (LCF).

Prior to considering how the degree of innovativeness may influence the involvement of the various functions during the development process of new services in a company, one has to consider what functions, in general, are involved during the NSD process and what is their role (Papastathopoulou, Gounaris & Avlonitis, 2006: 54). These authors in their study of retail financial services identify the key functions regarding NSD as follows: marketing, sales, information technology/systems and operations. Existing evidence suggests that new product success is more likely when a company employs function-specific and stage-specific patterns of cross-functional integration than it is when the company attempts to integrate all functions during all NPD stages.

Since financial services are mostly intangible, new service ideas remain highly conceptual throughout the new-product development process, which means that uncertainty about the exact nature of the service and, therefore, its risk of failure remain high (De Brentani, 2001: 168-187). To surmount this dilemma, the operations function ought to get involved in detailed service blueprinting, or service mapping, during the design stage as a way of identifying and quantifying all component parts, distinguishing features, processes, and possible fail points (Shostack, 1984: 133-139). One can expect that this is more important for the success of not-so-innovative services, since differentiation from competition is harder to accomplish, given the continuous nature of such offerings.

As services – and particularly financial services – are provided and consumed simultaneously, developers must focus on the company and customer interface dynamics. Input regarding customer needs is therefore critical at each stage of the new product process, for instance, the idea generation phase where complaints or needs about the service process often represent a rich blend of potential new service concepts. Again, one can reasonably expect that the role of the marketing and sales functions will be that of the customers' spokesperson during the stage of idea generation. This would be particularly true for new-to-the-market services since neither the company as a whole has a clear understanding of the customers' needs, nor the customers have the ability to clearly articulate how their needs fit in with the company's offering.

3.3.7 NSD and the competition

The pace of industry change in financial services markets is remarkable in many countries. Frequently reported trends are: blurring of industry boundaries, deregulation, and globalisation, pressures from new and existing competitors, rapidly advancing information technology and increased customer

sophistication. Financial service industries worldwide are becoming increasingly interrelated. With the emergence of heightened competition, increased heterogeneity of customer demands, and shortened product life cycles, service companies across many industries are increasingly faced with the challenge of determining how best to manage the development of new service offerings (Menor & Roth, 2006: 267).

New types of corporate and business strategies are being explored: industry consolidation, better market segmentation, expanded product offerings and changed delivery channels. Joint ventures and strategic alliances between banks and insurance companies have proliferated. Information technology (IT) has been recognised as a key enabler of change (Drew, 1995: 4). IT is also becoming a driver of change with new products such as electronic data interchange (EDI), debit cards and smart cards. Turbulent industry conditions are accompanied by many attempts at radical organisational change from the hiring to product innovation. Many efforts are strategic in character and driven from the top of the company. As discussed in section 2.2.2, service and service delivery can be and increasingly are a competitive weapon. Increasing competition, declining sales and more service-aware customers are putting pressure on service companies to rethink and improve the levels of service that they offer.

In the strategy literature, there exists a rich body of knowledge on the nature and causes of competitive advantage (Powell, 2001: 875-888), ranging from the industry positioning approach (Porter, 1985: 1), the commitment explanation (Caves & Ghemawat, 1992: 1-12), to the resource based view (Harrison & Enz, 2005: 7-9) and the dynamic capability approach (Teece, Pisano & Shuen, 1997: 509-533). Various forces and factors – environmental, organisational or personal -could potentially determine the competitive advantages of a business firm.

For instance, according to the resource-based view (RBV) of the company, the company consists of a bundle of resources, competencies and capabilities that form the basis to achieve competitive advantage (Barney & Arian, 2001: 124-130). Barney (2001: 41-56) explains that resources include all tangible and intangible assets including organisational and operational processes, information and knowledge, which enable the company to formulate and implement strategies to improve its efficiency and effectiveness. Resources are the basis of the operating strategy, which build core competencies. These competencies, in turn form the basis of competitive advantage.

Bose and Oh (2004: 347) posit that the knowledge economy has presented two distinct characteristics, namely globalisation, which has greatly expanded the boundaries of the competitive arena, as well as the need by companies to view intellectual capital as a key organisational asset. With the rapid growth of the global knowledge economy, intellectual capital of a firm has emerged as a valuable source of competitive advantage and become a critical driver of profitability and long term value creation. Additionally, the ability of companies to eliminate some financial services, is constrained by the existence of legislative (for example Financial Services Act), contractual (terms and conditions for the functioning of a product) and customer oriented factors (e.g. damaging a long-term customer purchasing relationship). The barriers to elimination provide additional reasons why NSD strategies will be different between the hospitality and financial service sectors.

3.4 NSD PROCESS

Prior research suggests that NPD processes in dynamic markets are disorderly, disjointed and fraught with politics (Atuahene-Gima & Li, 2000: 452). According to Bitran and Pedrosa (1998: 171), the development of a new product or service generally starts with a coarse, information-poor format (e.g. an idea) and gradually evolves to a detailed, information-rich format (e.g. charts, blueprints). The authors posit that at each stage of the process, knowledge is added to the design with the help of tools, methods, models, and architectural knowledge. Starting from the identification of a need or opportunity, designers seek to understand desirable attributes of the prospective product and generate an initial concept. The following section highlights the rationale of NSD, antecedents, approaches and role of people in the NSD process.

3.4.1 NSD: using a holistic approach

The main task and end result of service development is to create the right generic prerequisites for the service. According to Lovelock, Van der Merwe and Lewis (1999: 408-410), there are three main activities in the NSD process, namely service concept development, service system development and service process development. The model of the service development process and service prerequisites (Figure 3.3) presents an overview of the development process and its results that is, the prerequisites for the service. The framework allows service developers to adopt a holistic approach to NSD that addresses the service concept, service process and the service system as discussed in the next section.

3.4.1.1 Service concept development

The service concept refers to the prototype for the service (the utility and benefits provided for the customer). It specifies primary and secondary customer needs and both the core and supporting services that will fulfil those needs (Smith, Fischbacher & Wilson, 2007: 372). Service concept development includes objectives and strategy, idea generation and screening, concept development and testing (Scheuing & Johnson, 1989a: 17-21). The service concept allows for consideration of any performance measures that are relevant to either customers or the service firm, and models or frameworks that integrate performance measures for service delivery systems require flexibility in addressing feedback element of service design planning.

Service concept development relates to ideas about how to meet customer needs and it should start from a thorough description of customer requirements and how NSD can meet those requirements to the customer's satisfaction. One feature common to most of the research on NSD, service design and service innovation is the service concept (Goldstein, Johnston & Rao, 2002: 122). Indeed, one of the most recent models outlining the NSD process cycle (Figure 1.1) puts concept development and testing at the heart of service design. Service concept development is a highly creative process. According to Bitran and Pedrosa (1998: 173), concept development starts with the identification of customer requirements (what the customers need and expect to find in the product), then is combined with other requirements identified in the strategic assessment stage (e.g. safety regulation) and is translated into attributes for the new product or service.

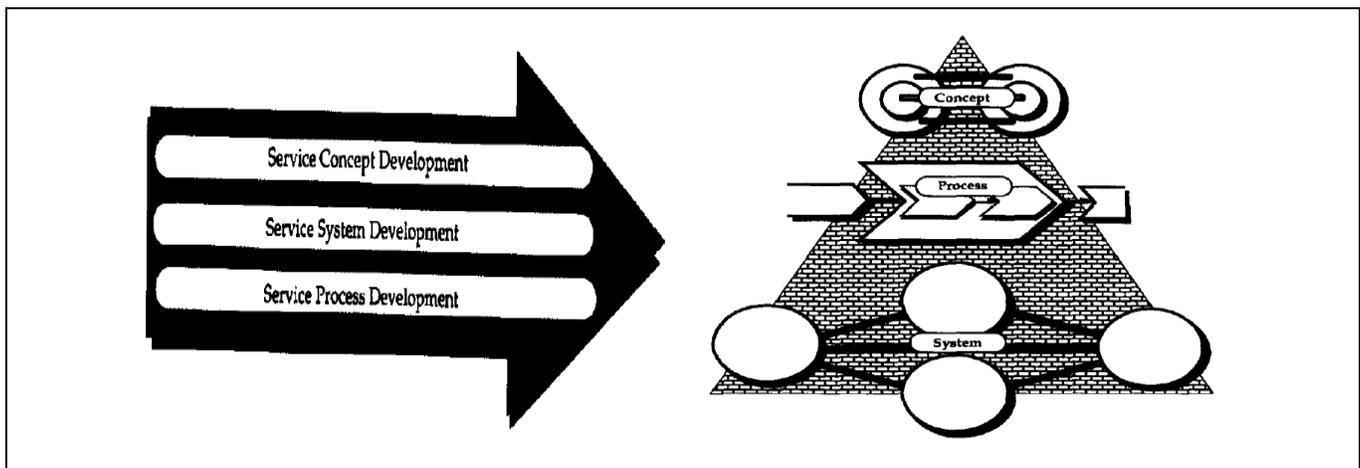


Figure 3.3: The model of the service development process and the prerequisites for the service

Source: Edvardsson and Olsson, 1996: 162.

The service concept is at the inseparable crossroad of service marketing and service operations that exists for most service firms (Goldstein *et al.*, 2002: 123). Clark, Johnston and Shulver (2000: 71-72) define the service concept as follows:

- **service operation:** the way in which the service is delivered;
- **service experience:** the customer's direct experience of the service;
- **service outcome:** the benefits and results of the service for the customer; and
- **value of the service:** the benefits the customer perceives as inherent in the services weighed against the cost of service.

The four dimensions defined above encompass the domain of the service concept definition that will be adopted throughout this study. The service concept clearly has a key role to play in service design and development, not only as a core element of the design process but as a means of “concretising” the nature of the service (Goldstein *et al.*, 2002: 124). The concept not only defines the *how* and the *what* of service design, but also ensures integration between the how and the what. Furthermore, the service concept can also help mediate between customer needs and the firm's strategic intent. Figure 3.4 indicates a model of the basic structure of the service concept.

As indicated in Figure 3.4, one reason for poorly perceived service is the mismatch between what the firm intends to provide (its strategic intent) and what its customers may require or expect (customer needs). While this gap may be the result of inappropriate marketing, or poorly specified or delivered service, it can be avoided at the design stage by ensuring that the design intent is focused on satisfying targeted customer needs.

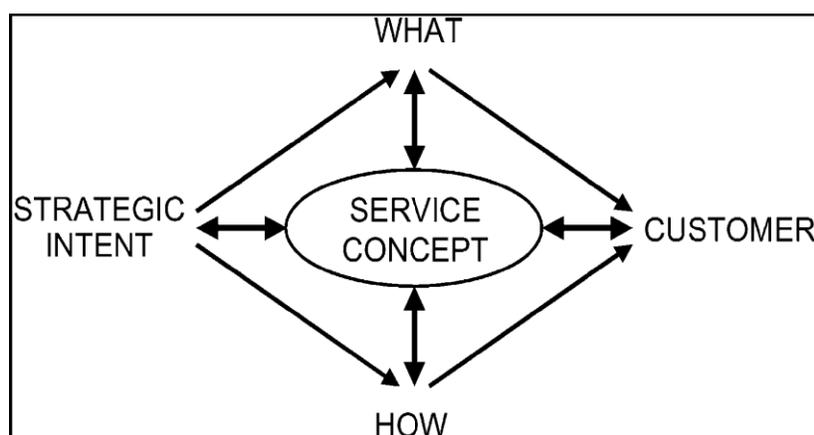


Figure 3.4: Structure of the service concept

Source: Goldstein *et al.*, 2002: 124.

A service firm can only deliver a service after integrating (or outsourcing) investments in numerous assets, processes, people and materials. It is critical to define the service concept before and during the design and development of services. The service concept then serves as a driver of the many decisions made during the design of service delivery systems and service encounters (Goldstein *et al.*, 2002: 121-123). The large number and wide variety of decisions required to design and deliver a service are made at several levels in the firm (as discussed in section 2.3) from the strategic level to the operational level and service encounter levels. A major challenge for service firms is ensuring that decisions at each of these levels are made consistently, focused on delivering the correct service to targeted customers.

NSD is rarely a linear activity - with the outcome logically following intention at the start (Maylor, 2005: 78). Particularly in the early stages of the work, there will be an increase in the number of possibilities available, as new ideas emerge. This is highly desirable provided that the scope of the NSD project is maintained. At some point however, the ideas will have to be narrowed down, as they are unlikely to all be feasible. This is done by screening – where the ideas are gradually filtered by marketing assessment of the ideas, financial and strategic appraisal among others. The inherent characteristics of services, particularly intangibility and inseparability, place complex demands on this phase of the process (Zeithaml *et al.*, 2006: 261). Concept development requires special attention to intangibles such as ambience or social needs that may be part of the service concept and therefore essential to shape the service experience (Bitran & Pedrosa, 1998: 173).

A hurdle in developing new services and in improving existing services is the difficulty of describing and depicting the service at the concept development, service development and market test stages. One of the keys to matching service specifications to customer expectations is the ability to describe critical service process characteristics objectively and to depict them so that employees, customers and managers alike know what the service is, can see their role in its delivery and understand all the steps and flows involved in the service process.

3.4.1.2 Service system development

When designing an innovative new service, particular implications for staff, customers and the physical environment may arise. The service system incorporates the resources available to the process for realising the service concept. According to Edvardsson and Olsson (1996: 150), such resources include the following:

- human resources - skills and knowledge, staff needs and views on new services;
- customers - understanding their wishes and expectations, identifying appropriate levels of customer knowledge, effectively designing customer interfaces (be it by telephone, automated or face to face); and
- physical and technical - buildings, technology, location and communications systems and
- organisation and control - structures and hierarchies supply chain processes, customer relationship management.

Service system development is about the infrastructure needed to deliver the service, and static resources required to set up such systems if they do not exist or only partially exist. Many dimensions of service design are driven by the service concept. While management skills can improve service systems, it is crucial to have a clear understanding of the operating characteristics that set one service system apart from one another. Figure 3.5 indicates the service design planning model. According to the model, service strategy precedes service delivery system inputs. Business strategy accounts for not only mission and long-term objectives, but also relative position in comparison to other firms in the marketplace.

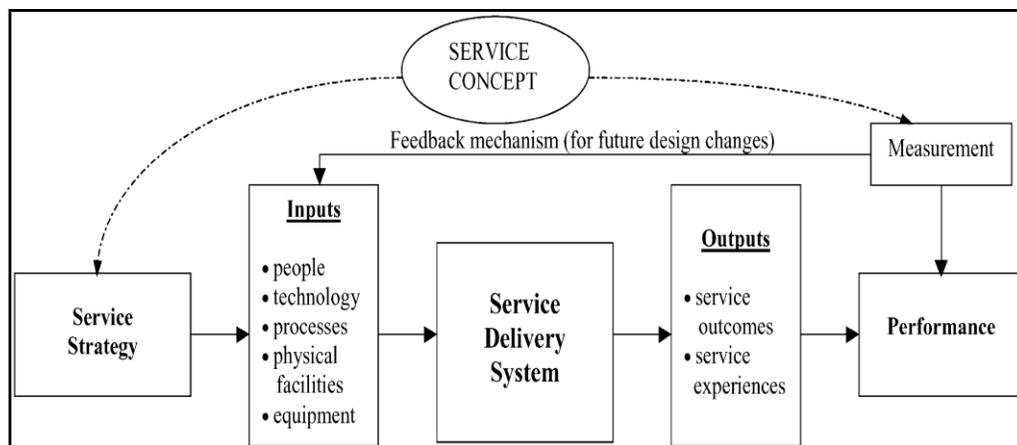


Figure 3.5: Service design planning model

Source: Goldstein, Johnston and Rao, 2002: 126.

As shown in Figure 3.5, the service concept provides the basis for service design planning by incorporating the necessary elements presented in previous models while acting as the integrative element between a firm's business strategy and delivery of its service products. The design of the service delivery system includes the role of people, technology, physical facilities, equipment and processes by which the service is created and delivered. Since service production and service consumption often occur simultaneously as discussed in section 3.2.1.3, the performance of service delivery is influenced by various factors, such as the attitude of frontline employees, the capacity of the service system and the behaviour of the customer concerned as well as other customers. Because of the many uncontrollable factors in a service encounter, service output (the differential gap between service outcomes and service experiences) may vary significantly within as well between service encounters.

Most services' operational systems are organised based on two stages. The first stage is labelled the 'front-stage', while the second is labelled the 'backstage' (Yasin & Yavas, 2001: 33-43). The front-stage includes all operational tasks and activities which the customer directly interacts with. An example of such tasks and activities is the process of checking-in a guest in a hotel. The backstage, on the other hand, includes all operational tasks and activities, which take place without direct interaction with the customers, for instance, room cleaning service in the hotel.

Service blueprinting constitutes a major effort and is a particularly useful tool in the NSD process. It is a depiction that accurately portrays the service system so that the different people involved in providing it can understand and deal with it objectively regardless of their roles or their individual points of view. According to Zeithaml *et al.* (2006: 267), the key components of service blueprints are customer action, 'onstage' contact employee actions, and 'backstage' contact employee actions and support processes. Although short term in focus, service blueprinting can be optimised in terms of value the customer receives, the service mix from the customer's viewpoint and consistent signals to the company.

The overall performance of the service system is considerably influenced by the performance of both front stage and backstage services. Hence, any efforts to improve the overall performance of the service system must systematically incorporate and integrate the service performance aspects related to service efficiency, quality and availability of the two service stages.

3.4.1.3 *Service process development*

The service process refers to the chain or chains of parallel and sequential activities which must function if the service is to be produced (Edvardsson & Olsson, 1996: 155). This includes interfaces between departments, customers and suppliers and requires detailed consideration of processes and activities contributing to the service. In complex services where there are a number of contributing departments, it is particularly important to work through potential failure points and delays or negative externalities.

Customer input in the service delivery process and customisation of hospitality products requires more divergence (section 3.3.1). Yet customer co-production, if properly managed, can reduce the divergence because customer interface with employees is reduced. For instance, at a self check-in kiosk the customer can check the types of rooms that are available and upgrade possibilities. They have full information and will not need to ask questions if they know how to operate the system. However, if they do not know how to operate the system, they will make mistakes and ask questions, causing higher divergence. In hospitality firms where there is high divergence, management can use international marketing, customer relationship management and service culture to create a service delivery system that can handle divergence.

Although superior process development and operational capabilities can reduce operational costs (certainly one important dimension of competition), the real power of these capabilities often lies in how they help firms achieve faster time to the market, smoother production ramp-up, enhanced customer acceptance of new products and/or a stronger proprietary position (Hayes, Pisano, Upton & Wheelwright, 2005: 199). The critical challenge of process development is to develop and transfer to operations, in a timely and efficient manner, a process that not only can produce the desired service but also achieves desired performance (in terms of costs, quality, flexibility, reliability, responsiveness among others) when utilised under 'real' operating conditions.

The service prerequisites model enables an analysis of the impact of NSD decisions on various elements of the overall service by identifying key areas of structure and process and the interrelationships between all aspects of a new service. As with other models the key focus is the consumer and an identification of consumer needs is the main driver. However, the model does not indicate detailed interrelationships, trade-offs and is therefore not prescriptive of specific actions and

decisions since these will relate to the individual context and situation. Considerably, it provides a broad framework for analysis within which other approaches can be utilised.

3.4.1.4 *Service design process*

Processes are the architecture of services, describing the method and sequence in which service operating systems work and how they link together to create the service experiences and outcomes that the customers value (Lovelock & Wirtz, 2004: 231) as illustrated in Figure 3.2. In high contact services, the customers themselves become an integral part of the operation. Badly designed processes often result in slow, frustrating and poor quality service and are likely to annoy customers. Similarly, poor processes make it difficult for frontline staff to do their jobs well, resulting in low productivity and increase the risk of service failures. Services that are high volume, low margin and easily reproducible can more easily be developed using a rigorous development plan than those that are highly customised like high end professional services (Young, 2005: 248). Young (2005: 249) suggests the service design process (Table 3.4) which contains the tasks necessary to develop services.

As indicated in Table 3.4, the process starts with the creation of ideas. Once a list of potential ideas has been created, they are prioritised. The process then moves to the design of the detailed components of the new service and the translation of those into a value proposition. Finally, each aspect of the service is summarised into a business plan which will test the viability of the service through financial rigour and research.

Table 3.4: Service design process

| |
|---|
| Step 1: Analysis: business backdrop and buyer analysis |
| Step 2: Idea generation |
| Step 3: Prioritisation against firm's criteria |
| Step 4: Detailed component design |
| Step 5: Creation of the value proposition |
| Quality check: are the unique considerations of services thought through? |
| Step 6: Creation of the concept representation |
| Step 7: Research: focus groups with clients to test the concept |
| Step 8: Writing the business plan |
| Step 9: Trials |

Source: Young, 2005: 249.

Processes can be classified in a number of ways that help understand their importance from a customer perspective: vertical and horizontal in relation to departments; front-office and back-office, primary and secondary. It is important to identify the important processes from a customer perspective and develop services that contribute to customer satisfaction and customer retention. It is not just front office processes that have an impact on customer experience; the same is true of back office processes. The existence of a new service design process is a good indicator of a firm's proficiency in service design and marketing, and ultimately of its competitive success. Research indicates that by using a rational design process, it is possible to create new service based propositions proactively. Although the NPD process is applicable to service design, in many cases certain elements are added or heavily modified.

3.4.2 Antecedents of the NSD process

According to Varela and Benito (2005: 397), the development process is conditioned, among others, by generic aspects such as strategy followed by the firm, aspects related to management and organisation structure. Dwyer and Mellor (1991: 39-48) offered empirical evidence on the relationship between the organisational features of companies and the new product success or failure, this relationship being moderated by the development process followed. The study revealed the existence of an association between the adequate carrying out of process activities and organisational features. The latter were analysed in the 7s framework of McKinsey, whereas the product development process was broken down into 13 activities proposed by Cooper and Kleinschmidt (1986: 71-85).

Using the study carried out by McKee (1992: 232-245) on the factors of organisational learning related to the degree of effectiveness of innovation projects as a reference, the following were proposed as antecedents for NPD processes adopted:

- management emphasis in innovation
- decision-making centralisation and
- experience in new product development.

Varela and Benito (2005: 398) speculate that the interest and support that top management shows towards new product development, its involvement in this task and its conviction that the firm must adapt to market needs, will facilitate the consolidation of NPD with high market orientation (second

and third generation). March-Chorda, Gunasekaran and Iloria-Aramburo (2002: 301-312) documented that top management initiative and support is a key aspect in order to achieve new product success.

According to Varela and Benito (2005: 398), shared management facilitates collaboration, allows information and effort distribution and favours the acceptance of new ideas. As a matter of fact Balbontin, Yazdani, Cooper and Souder (2000: 257-274) found that firms show a clear preference for participative leadership and team work when focusing NPD. Management must support the project, but it should not take an active part in its decisions (Varela & Benito, 2005: 398). Moreover, the experience the firm has in NPD will make it possible to increase or introduce more advanced development schemes to achieve success.

It seems that new services are the output of cooperation rather than the result of a champion talent, even if a champion formally drives the process. Knowledge management, communication between members of the team, commitment of the top management, cross-functional team and the interaction process are the antecedents of the speed and effectiveness of the NSD.

3.4.2.1 Knowledge management in NSD

Knowledge management (KM) is the systematic and active management of individuals' and groups' knowledge, experiences and learning, which have an important role in NSD. KM encompasses three main activities: knowledge creation, knowledge transfer and knowledge storage. A firm's NSD ability depends on its knowledge in a specific area that is a set of differentiated skills, complementary assets and routines of NSD. Conceptually, the knowledge required is closely related to the know-what, know-how, know-why and care-why (Storey & Kelly, 2002: 59). KM is widely theorised to be integral to innovation management (Storey & Kelly, 2002: 59-65; Forcadell & Guadamillas, 2002: 162-171; Bennet & Bennet, 2000: 8-42). Flexible, cross-functional teams create better processes, better service products and are successful in service development activities because of the new combination of knowledge and competencies.

The process of knowledge creation requires that organisational members acknowledge the existence of useful data and information and then transform it, through some form of process, into insights that can be applied in the future to add value to the firm. The firm provides infrastructural support that facilitates the actions of creative individuals or provides the context for such individuals to create

knowledge. New knowledge is created through a continuous dialogue between tacit and explicit knowledge.

Lynn (1998: 74-92) finds that learning is critical to new product success and identifies three different forms of team learning: within-team learning (for example the exchange of knowledge amongst team members), cross-team learning (for example the transfer of knowledge gained by one team to another team) and market-learning (for example the knowledge gained from competitors, suppliers and customers). It was found that market learning is especially critical when developing new products for new markets. Discontinuous innovation on the other hand, needs within-team learning but they should restrict cross-team communication as they need to shed some of the organisational baggage that the firm has previously acquired.

As indicated by the systemic learning model for NSD (Figure 3.6), the dynamics of NSD and organisational learning are made up of interactions. Stevens and Dimitriadis (2005: 191) introduced the concept of ‘interactors’ to refer to actors who create knowledge by constant interaction with each other. The authors argue that the number and functions of ‘interactors’ and the way they interact will determine the final fit between the new service and the customer’s expectations.

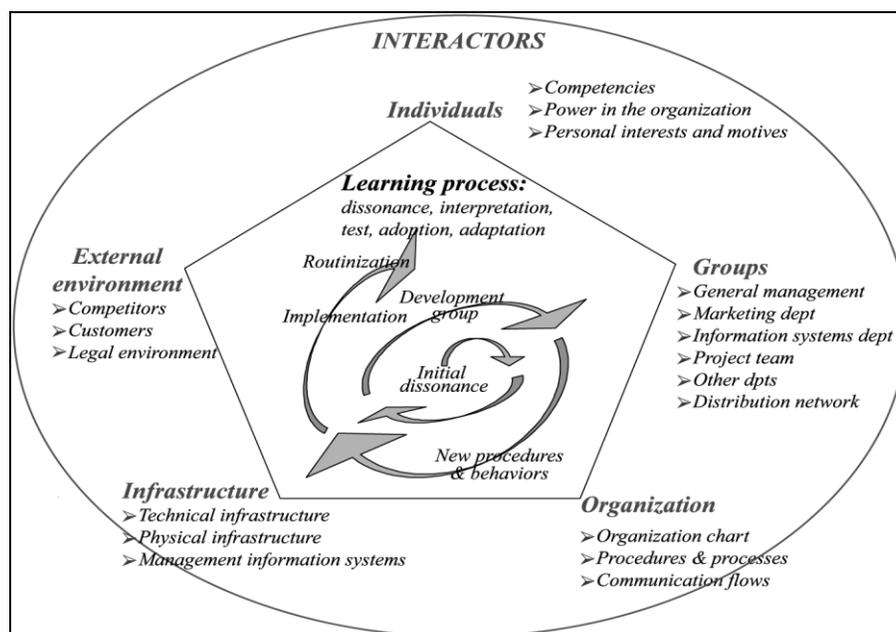


Figure 3.6: The systemic learning model for NSD

Source: Stevens and Dimitriadis, 2005: 191.

As indicated in Figure 3.6, the concept of ‘interactors’ is applied to both individuals and groups. In the sense of learning, the group is used each time an individual adopts an interpretation commonly shared by other individuals. It may be the opinion of members of a department or less formal groups from different parts of the firm who perceive data in a similar way due to their common concern and experience. The model also includes the technical devices that also passively contribute to the interaction process beside the ‘human interactors’. The infrastructure when it contributes to displaying the offers is considered an ‘interactor’. Finally, the external context is considered in the model. Each contributor should learn both from clients’ expectations and from organisational interactions as well as find interest in the NSD process.

The systematic learning model for NSD is not normative. It reveals the systematic nature of the NSD process. It provides an in-depth representation of the nature of NSD process, of the main tasks that will be executed its course, of the main contributors to the process and of the way each individual, group and technical device contributes to the process. Compared to the sequential development models, the suggested model presents many advantages. Firstly, it explains why the huge efforts that have been devoted to explore and understand the role and importance of R&D in innovation processes may be unlikely to produce results in the service sector. Secondly, by putting focus on creation, transfer and storage of knowledge between an individual and groups in the firm as one condition for success, the model indicates that both formal and informal approaches to NSD may lead to success as far as organisational learning is achieved. Thirdly, the learning perspective provides an integrative framework for the existing research on NSD.

The non-sequential approach to NSD offers less development time and greater flexibility hence making the process easier. The benefits derived from the management of human resources are as follows:

- it favours co-operation shared responsibility;
- it encourages compromise;
- it incentivises a predisposition towards problem solving and toward initiatives; and
- it develops various abilities and highlights sensitivity towards market conditions.

Johnson *et al.* (2000: 18) suggested another development model describing the NSD sequence which identifies four broad stages and thirteen tasks, as discussed in section 1.6.4.

Sequential development models (Scheuing & Johnson, 1989b: 30) ignore many organisational aspects that play a vital role from the earliest to the last stage of NSD in service firms. Organisational factors should be included in the idea generation stage as potential inputs or initiators. For instance, while routines, procedures and rules in a firm exist to prevent divergent interpretations they may actually prevent innovative behaviour. The main problem of non-sequential processes is associated with their management complexity: communication among team members, relationships with supply firms, previous planning of possible eventualities, among others. This approach also creates greater group tension and conflict since it demands a great effort from all the members present throughout the whole process (Varela & Benito, 2005: 397).

Knowledge storage is the embodiment of tacit knowledge into processes, practices, materials and culture, usually for subsequent use by people in different parts of the firm. It is more than simply codifying knowledge and storing it in databases, documents etc. The process of storing knowledge for subsequent use may be likened to a type of 'organisational memory'. Four categories of a firm's memory base have been identified: brain ware (knowledge in people's minds), hardware (for example prototypes, production processes, and R&D equipment), groupware (knowledge shared by people, for instance rules of thumb, procedures) and document ware (paper-based or IT based information systems). Once information has been codified and transposed from individual brains into documents or physical objects, it can be diffused quite rapidly. However, in reducing complexity, some of the original value of the idea may be lost. According to Storey and Kelly (2002: 61), a lack of expertise in the skills and processes required to undertake NSD restricts a firm's ability to exploit the opportunities open to them.

3.4.2.2 Life cycle flexibility

Developing new products and services has always been a critical activity for achieving success, and this activity can be seriously challenged by environmental turbulence (section 2.2.5). Managing innovation in rapidly moving environments is a major challenge within the consolidated theories on product and service development. The innovation management literature identifies flexibility as the right way for coping with these challenges (Buganza & Verganti, 2006: 393). Many studies have targeted the turbulence issue trying to build up models for managing it during the development process. The main two answers proposed have been as following:

- (a) to reduce the development time – that is, to reduce the probability of major output re-designs; or
- (b) to increase the ability of reacting to unexpected changes – that is, to increase the flexibility of the process to reduce the impact of the output re-design when it is needed.

Both of these approaches focus only on the development phase without considering what may happen to the product once it has been released (Buganza & Verganti, 2006: 393-394). Environmental turbulence impacts the released product, making it obsolete soon thereafter and thus causing a need for new product development (Buganza & Verganti, 2006: 394). As a result of this dynamic in highly turbulent industries, the development process is continuous and it is hard to identify whether a new output is an incremental innovation or a whole new product. The innovation process turns out to be a continuous activity instead of a sequence of stand-alone projects, and companies must manage this process by adapting themselves.

Companies cannot simply manage the innovation through developing new products; they are also asked to manage the whole product or service life cycle innovation (Buganza & Verganti, 2006: 394). Thus, they must be able to turn the development process flexibility into life-cycle flexibility (Verganti & Buganza, 2005: 223-224). The life cycle flexibility is the ability to introduce innovations during the life cycle. Therefore, to adapt and to redesign a product or service according to contextual changes and opportunities after it has been first released to the market and at low cost and in the shortest time possible (Buganza & Verganti, 2006: 394).

Many studies in the innovation management field have pointed out the alternation of fluid and static phases in which innovative effort shifts from the product to the process causing market concentration (Abernathy & Utterback, 1978: 40-47; Tushman & Anderson, 1990: 604-633). Other contributions have defined innovation categories such as disruptive, architectural, competence destroying, and radical (Abernathy & Clark, 1993: 102-122; Christensen & Rosenbloom, 1995: 233-257; Clark, 1985: 235-251; Henderson & Clark, 1990: 9-30; Tushman & Anderson, 1986: 439-465), underlying how, in spite of being a major source of competitive advantage, innovation can represent a big risk for the incumbent firms. Many of these studies have tried to explain why existing incumbents lose their dominant position in the market when a great technological breakthrough takes place.

According to Buganza and Verganti (2006: 394), a possible answer to the innovation issue has been borrowed from the industrial operations field: flexibility. Focusing specifically on the product innovation management literature, the importance of flexibility has been faced from two different perspectives: product flexibility and development process flexibility. The former is concerned with designing flexible products, thus increasing the possibility of introducing several innovations over the product life cycle. Sanderson and Uzumeri (1995: 761-782) show that a platform strategy based on a few generational projects and many derivative ones can increase the rate of innovation within an entire product family. On the contrary, Meyer (1997: 17-28) argues that a platform can become a source of rigidity in itself and therefore must be periodically redesigned to make the platform-based development strategy sustainable.

When a firm develops products in an industry where technology and market needs shift very rapidly, these shifts may have a major impact during the development phases (Buganza & Verganti, 2006: 395). Thus, not only the final product but also the development process must be able to react to innovations. Several studies have demonstrated that in uncertain and dynamic environments, successful firms tend to use a more iterative process which emphasises learning and adaptation rather than planning and execution (Iansiti & MacCormack, 1997: 108-117; Krishnan, Eppinger & Whitney, 1997: 437-451; MacCormack, 2001: 75-84). MacCormack, Verganti and Iansiti (2001: 134) call this a flexible process where flexibility refers to the ability to generate and respond to new information for a longer portion of a product development process.

According to Sanchez (1995: 124-126), strategic flexibility depends jointly on the inherent flexibility of the resources available and on the firms' flexibilities in applying those resources to different alternatives. As a result the challenges that strategic managers in dynamic markets face are as follows: identifying and acquiring flexible resources that can give future strategic options to the firm, and developing flexibility in coordinating the use of resources to maximise the flexibilities inherent in the resources. A company looking for static efficiency is likely to turn its core capabilities into core rigidities, whereas competitors that improve the flexibility of their resources are likely to achieve a long-term competitive advantage (Buganza & Verganti, 2006: 395). Some processes – such as strategic decision making, alliancing and product development – may become a company's weapon to reorganise and to react to external stimuli. These processes therefore allow a firm to achieve flexibility.

3.4.3 Role of people in NSD

Johne and Storey (1998: 203) stressed that people involvement is crucial in NSD, and proposed three groups of individuals that must be managed in an effective development project: the development staff, the customer-contact staff and the customers. The degree to which a service company can manage the human needs of the parties will strongly influence the satisfaction of each. Service encounters can be specifically engineered in such a way as to enhance the customer's experience during the process and his or her recollection of the process after it is completed (Cook, Bowen, Chase, Dasu, Stewart & Tansik, 2002: 159-160). The service encounter may be viewed as a triad, with the customer and the contact personnel both exercising control over the service process in an environment that is defined by the service firm.

It is mutually beneficial for the three parties to work together to create a positive service encounter (Cook *et al.*, 2002: 160). The customer, by working with the customer contact personnel within the framework imposed by the service firm, expects to obtain service satisfaction. The contact personnel by serving the customer in the way specified by the service firm, expects to obtain job satisfaction and the customer satisfaction. Johne and Storey (1998: 204) identified four benefits of encouraging employee involvement in NSD:

- it helps identify customer requirements
- involvement increases the likelihood of positive implementation
- it helps stop process efficiency considerations overwhelming the needs of customers;
- it can lead to employees treating customers better.

Customers are important in the NSD process. It is important to involve customers in the development process and help them articulate their needs (Johne & Storey, 1998: 204). In general, the more involvement by customers, the better. On the whole, customer involvement in service product development has been found to be relatively low. In the service encounter triad, the encounter dominated by the customer is controlled by the extremes of standardised or customised service (Cook *et al.*, 2002: 165). The authors argue that customers interact with services according to some pre-existing paradigm (referred to as scripts) of how the service ought to act. Scripts are important because the amount of similarity between the scripts used by different customers can indicate where standardisation is value added, and where customisation of the service would be more appropriate.

Moreover, conflict between the service system design and the customer's chosen script is a major source of service failure (Stewart & Chase, 1999: 240-241).

The service firm must satisfy the contact personnel and the customer in a manner that is economically viable from an operations perspective (Cook *et al.*, 2002: 160). According to Johnne and Storey (1998: 204), employees are often reluctant to get involved in development activities as new products may increase their workload. Consequently, there is need to sell the idea to the internal customer, as they will be affected by new service introduction.

Service design can be approached with the same depth and rigor found in goods production. The importance of the contact personnel in successful firms cannot be underestimated. Ultimately, employees define the firm. Organisational change cannot take place without employees changing. The success of any market focused company also depends on the employees' acceptance of quality climate and culture. The service firm can use mystery shopping to evaluate and assess the service encounter between the customer and the contact personnel.

3.4.4 Formalisation of NSD

Successful firms in new product commercialisation have a formal development process that is maintained for a long period of time (Varela & Benito, 2005: 396). Research in NPD has shown that a number of factors are important to the successful creation of successful new products (Peterson, Handfield & Ragatz, 2005: 371). Firstly, there is a good deal of evidence to support the view that new products success is related to the formalisation of new products processes (Poolton & Ismail, 2000: 798) although success rates vary.

Reidenbach and Moak (1986: 187-194) in their study of American financial companies highlighted that companies using more formal procedures succeed more frequently, even if the duration of the development process is longer. It is recognised, however, that paying attention to detail can increase the odds by as much as 30 per cent. Achieving a high success rate is suggested to be dependent on not only the number of activities that comprise the firms' new product processes, but also how well the activities are carried out. The most important contributions formal NPD processes are suggested to yield, include improved success rates, higher customer satisfaction, and meeting time, quality and cost objectives (Cooper, 1993: 256).

Secondly, there is the issue of providing the right environment for innovation. Central to the debate is whether the capacity to innovate is predominantly a personal attribute, or whether it is an emergent property of companies amenable to systematic management (Leavy, 1997: 38-40). Taking the view that innovation is endemic within individuals, managers are immediately faced with the dilemma regarding recruitment and channelling talent in a way that is consistent with the firm's goals. Truly creative individuals are not always easy to manage (Poolton & Ismail, 2000: 798). Alternatively, there are those that are sceptical that a distinct entrepreneurial personality even exists. More important is that organisation forms are flexible so that appropriate balance between order and freedom is maintained; ensuring procedures are in place to encourage innovation, whilst also providing a systematic means to manage the new products process through to commercialisation.

Thirdly, ensuring customers' needs act as the prime driver for innovation is deemed to be a critical issue (Foxall, 1989: 14-18). The marketing concept holds that all company activities must be organised around the primary goal of satisfying customers' needs. Organisational structures and procedures reflect a market-orientation and all personnel are expected to be truly customer-focused (Poolton & Ismail, 2000: 799). The prime goal of the firm is to tap so well into customers' needs that new products generate their own source of marketing momentum. Although Martin and Horne (1993: 62) note that the process of NSD is not well defined and does not adhere to conventional empirical mechanisms, NSD process focus indicates the existence of a formalised process for conducting NSD efforts, which allows simplicity and repetition that fosters greater NSD efficiency and effectiveness (Menor & Roth, 2007: 828).

Support for NSD processes has been advocated by several researchers who propose that a performance advantage likely accrues to service firms with formalised processes in place used specifically for developing new services. Although processes specifying the critical activities and outcomes may vary based on the level of investment or newness of the service, what remains important is that process-focused service firms possess a systematic means of transforming an idea into a new offering. Griffin (1997: 429-458) notes that NSD processes tend to be less formal than those found in NPD, although the 'best' service firms identified in Griffin's benchmarking study were found to possess more formal NSD processes across the program of the development projects than did the less innovative service firms. Formal NSD processes were central to services identified as "world class" (Menor & Roth, 2007: 828).

Voss, Johnston, Silvestro, Fitzgerald and Brignall (1992: 40-46) while noting the importance of NSD for firms whose newly implemented ideas are quickly imitated, describe the process of service development as following stages of concept development, prototype testing and launch. Service improvements, however, can be at any stage in the NSD process by feeding back through earlier stages. Bitran and Pedrosa (1998) also depict development through a sequence of stages: strategic assessment, concept development, system design, component design and implementation. Unique to their depiction is that the process of service development involves the creation of component designs (referring to changes in people, service offerings and infrastructure) and architectural knowledge (indicating how design components are linked together without changing the core service).

Although much research has concluded that NSD is a major competitive factor for the service industry (Stevens & Dimitriadis, 2005: 176), research on how services are developed remains fragmented and much less developed than for products. The few empirical studies have not reached consensus on a well-formalised development process – in fact, they have often led to contradictory results. It is surprising that there has not been more effort to develop a specific service development model (Johns & Storey, 1998: 201). An exception is the normative model of new service development by Scheuing and Johnson (1989b: 30) which makes the important distinction between the design of the service and the design of the delivery process, as indicated in Figure 3.7.

While NSD process cycle (Figure 1.1) suggested a model describing the NSD sequence which identifies four broad stages and 13, the normative model for NSD (Figure 3.7) is characterised by a 15-step sequence of activities. The normative model describes in considerable detail the intricate interplay between design and testing of the new service and is valuable because it illustrates the various internal and external activities and interactions needed throughout the NSD process. In this respect, the normative model takes into account the complexity of service design and the many iterative steps involved in service development and highlights key influences during the development process, both from within the service firm and from its environment. Thus, the strategic issues and environmental concerns are included as key parts of the normative NSD model.

Conversely, the systematic learning model for NSD discussed in section 3.4.3.5 is not normative. The model reveals the systematic nature of the NSD process but also provides an in-depth representation of the nature of NSD process, of the main tasks that will be executed its course, of the main contributors

to the process and of the way each individual, group and technical device contributes to the process. The systematic learning model presents many advantages compared to the sequential development models, which ignore many organisational aspects that play a vibrant role from the earliest to the last stage of NSD in service firms.

3.4.5 NPD process types

In the extant literature, three main ways of facing a NPD process, in chronological order, are known as first-generation, second-generation, and third-generation processes. Takeuchi and Nonaka (1986: 137) highlighted that, given the high speed with which changes occur and the growing competence in the NPD field, firms must focus their process on speed and flexibility, proposing a product development process on a working team devoted to the project from beginning to end, the selection of whose members is multidisciplinary.

According to Varela and Benito (2005: 396), first-generation schemes have a functional structure where the technical area acts as the NPD guide, marketing being limited to the final phase (that of launch). These models follow a control and measure methodology, ensuring that the project is adequately developed and that all tasks are fulfilled. Second-generation schemes were developed by taking the first models as a basis. This scheme adjusts to a systematic process called “stage-gate” (Cooper, Edgett & Kleinschmidt, 2002: 1) that serves as a guide starting from the generation of a new product idea to its launching. The proposed process is a sequential and, as happens with first-generation schemes, has a rigid structure. On the other hand, it includes aspects that involve important advantages derived basically from the purely inter-functional approach (Cooper & Kleinschmidt, 1991: 140-145) both in its actions and decisions: together with R&D, the marketing department takes an active part in the entire process of the new product project, generating market information and incorporating it into the decision-making (Varela & Benito, 2005: 396). This scheme also presents some limitations, mainly derived from its structural rigidity, a feature already present in first-generation schemes.

However, leading firms are more likely to have moved from simpler stage-gate processes to sophisticated, facilitated or third generation processes in order to enhance effectiveness of their new product processes by optimising third generation processes. Third generation processes incorporate flexibility, focus, fluid stages, fuzzy gates and facilitation.

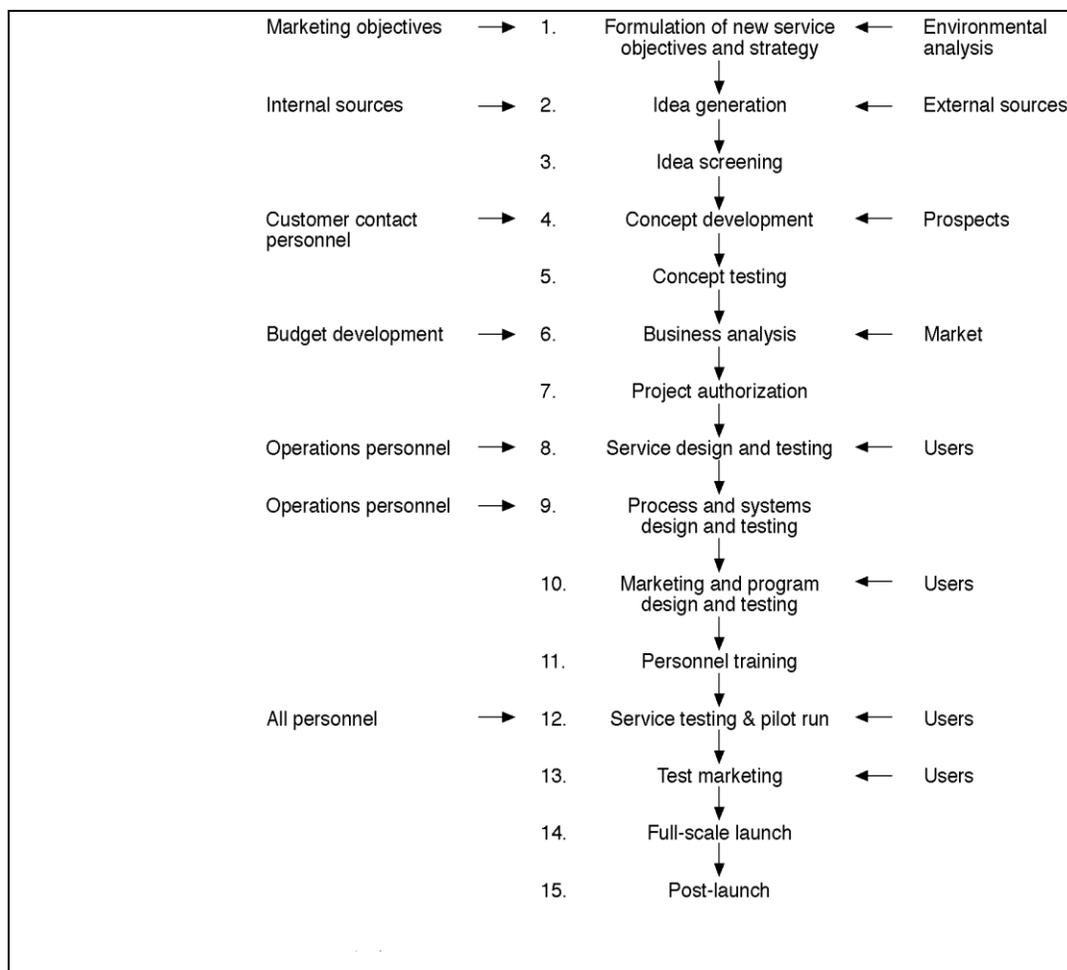


Figure 3.7: Normative model of NSD process

Source: Scheuing and Johnson, 1989b: 30.

In third generation scheme, controls are not necessarily binding. The working team, closely involved until the end, is responsible for combining and coordinating every development phase to such an extent that management does not impose a product concept or a specific work plan (Varela & Benito, 2005: 397). Management will only provide a strategic guide or a generic aim and will encourage the adequate environment to make the innovating process easier. Thus, the team works from the beginning as an independent group that takes initiatives and risks, and self-imposes a work rhythm (Varela & Benito, 2005: 397). Management will support the project economically, but it will not actively take part in decisions. The enrichment and growth of the group will depend on the relationships generated within the team.

Benefits of this structured, tightly managed approach include an apparently rational, sequential process with emphasis on analysis of the products' 'fit' with the company's objectives and resources. It also provides a common focus and language for various departments/teams and an implicit multifunctional coordination since the various stages would be conducted within different organisational areas requiring shared information. As with many models, the apparent simplicity and therefore ease of understanding and application are benefits of this model and substantial reductions in new product failure have been attributed to its use.

Although they provide a descriptive view of on-going processes, sequential development models suffer from three major weaknesses (Stevens & Dimitriadis, 2005: 178-179): the implementation of 'stage-gate' systems leads to time consuming and overly bureaucratic processes that slow projects down. The description of the stages does not integrate the way companies organise multi-functional development teams. Sequential models do not either help to define what must be produced during each stage.

Zeithaml *et al.* (2006: 255) hypothesise that although the process of developing new services should be structured and should follow a set of defined stages, it should not become overly rigid or bureaucratized. Developing new products and services is very time consuming and very risky, but it is essential to the continued long-term success of a company. As discussed in section 1.6.4, the NSD process cycle (Figure 1.1) integrates many of these facilitating conditions, activities and outcomes. Many methodologies can be used to develop products and services although research suggests that products that are designed and introduced via the steps in a structured planning framework have a greater likelihood of ultimate success than those not developed within a framework. Radical innovations in the hospitality sector can arise from technology leaps, mega trends or through the company's capability and innovation culture as discussed in sections 1.6.5 and 2.4.2.

3.5 TYPOLOGY OF INNOVATIONS

The role of customers, the service company itself (as discussed in sections 5.2.1 and 5.2.2) and suppliers are helpful in distinguishing various outcomes of the NSD process in service companies. Den Hertog (2000) presents a typology of five types of innovation, describing them by their linkages with the three types of actors as well as the role played by the actors:

- **Supplier-dominated innovation** – this type is often considered to be the dominant type of innovation in services. Innovations from external suppliers are disseminated and implemented by service industry users who, in their turn, satisfy the needs of their clients. Typical for a supplier-

dominated innovation, at least initially, is little scope for user industries to influence the actual product delivered by the supplier. The adopting company often has to bring about some organisational changes in order to be able to use the innovation – to adapt its firm and employees – and to offer more efficient and higher quality services as a result. Many IT-based innovations can be considered to be supplier-dominated. The financial services sector is a heavier user of hardware, software and information networks than the hospitality service sector.

- **Innovation within services:** the actual innovation and implementation take place in the service company itself. Innovation within services is often induced by strategic considerations. Such innovations may be technological, non-technological or (as in many cases) a combination of the two.
- **Client-led innovation:** the service company is responding to needs clearly articulated by the clients. Although, in a sense, every successful innovation is a reaction to a perceived market need. As discussed in section 5.2.1 financial services, and especially in banking, the corporate sector is considered to be considerably more complex, in terms of frequency and value of transactions than the more frequently examined retail banking market. The complexity of demands in the corporate market is commonly greater than in personal market and there are more non-standard or custom-built elements in the product and services mix as one progresses away from retail banking applications through to corporates of different size.
- **Innovation through services:** it is a more complicated type of innovation process taking place and found mostly in business-to-business service industries. The service company influence the innovation process taking place within the client company. The service company may provide knowledge and/or resources that support the innovation process in various ways. Despite these inputs much, if not all, of the innovation process takes place at the client's site.
- **Paradigmatic innovation:** this type of innovation affects all actors in a value chain, and can thus be called a paradigmatic innovation. It involves complex and pervasive innovations affecting suppliers, customers and the service companies itself. When driven by fundamentally new technologies, such innovations are labelled technological revolutions or new technology systems. Similarly, they may also be driven by regulations, resource constraints and other dramatic changes that require innovation to take place across many elements of the value chain, implying completely new infrastructures, new types of knowledge and adaptation on the part of intermediate and final users in the financial sector.

However, according to Gadrey, Gallouj and Wenstein (1995: 4-10) there are four types of financial service innovations as follows:

- innovations in service products;
- architectural innovations which bundle or un-bundle existing service products;
- innovations which result from the modification of an existing service product; and
- innovations in processes and organization for an existing service product.

Although it is evident from the extant literature that the types of new product developments provide the basis for describing the innovative nature of new financial services, not much work has been done to investigate whether there are types of developments that are predominantly applicable to services.

3.6 CONCLUSION

There is a general agreement that differences between goods and services exist, and that the distinctive characteristics discussed result in challenges for managers of services. Marketers therefore need to be creative not only in developing new services but also in promoting, pricing and distributing these services. More important is the need to clearly distinguish a company's service offerings from that of its competitors. Although huge efforts have been devoted to exploring and understanding the NSD strategy and process, there still lacks empirical evidence to indicate whether hotels with different strategies emphasise different stages of the NSD process.

The next chapter will be devoted to the hospitality service sector environment in which the empirical research will be conducted.

CHAPTER 4

THE HOSPITALITY ENVIRONMENT

4.1 INTRODUCTION

This chapter will be devoted to the hospitality sector environment in which the empirical research will be conducted. It will include a universal perspective on the service management of the hospitality sector. The chapter will conclude with a theoretical discussion of new service development in the hospitality sector.

4.2 HOSPITALITY: DEFINITIONAL AND THEORETICAL ISSUES

The word hospitality has early roots dating from the ancient days of Roman civilisation (Dittmer, 2002: 5) and is derived from the Latin verb *hospitare*, meaning ‘to receive as a guest’. Several related words come from the same Latin root, including *hospital*, *hospice*, and *hostel*. In each of these, the principal meaning focuses on a host who receives, welcomes and caters to the needs of people temporarily away from their homes. The phrase ‘to receive as a guest’ implies a host prepared to meet a guest’s basic requirements, which traditionally are food, beverages and lodging or shelter. Consequently, the term hospitality has become increasingly popular as an all embracing nomenclature for a larger grouping of firms including hotels (Mullins, 2001: 13).

As a collective term, the hospitality industry may be inferred in a number of ways to include hotels, restaurants, pubs, clubs, cafes, guest houses, contract catering, hospital, education and leisure catering. According to Mullins (2001: 13), the hospitality industry may be divided into two major sector headings, namely commercial (accommodation, meals, licensed trade, tourism and travel) and industrial and public services (industrial, public services, hospitals and residential homes). An alternative way of dividing the industry is suggested by Hornsey and Dann (1984) who ‘for the sake of convenience’ use four headings:

- the hotel sector (hotels, restaurants, pubs and clubs);
- industrial catering;
- institutional catering and domestic services; and
- the fast food industry.

Harrison and Enz (2005: 47) posit that hospitality can be divided into several major industries: lodging, restaurants, other food services, airlines, gaming, cruise lines, theme parks, time share and tourism. Many restaurant and lodging firms are involved in other types of food services. Timeshares are combined with regular lodging in the same resorts. In addition, although resorts are typically included in lodging, they may be better classified as a separate segment. As diverse as the hospitality industry is, there are some powerful and common dynamics which include the delivery of services and products and the guests' impressions of them.

In the extant literature for historical and sociological bases of hospitality, King (1995: 229-231) describes hospitality in general as having four attributes:

- a relationship between individuals who take the role of host and guest;
- this relationship may be commercial or private (social);
- the keys to successful hospitality in both the commercial and private spheres include knowledge of what would evoke pleasure in the guest; and
- hospitality as a process that includes arrival, providing comfort and fulfilment of the guest's wishes, and departure.

Private hospitality includes acts by individuals towards other individuals without concern for financial reimbursement in a private setting such as a home, while commercial hospitality involves provision of meals, beverages, lodgings and entertainment provided for a profit. Commercial hospitality has several key elements that must be included in a model of hospitality (including host employee and guest customer who are involved in face to face interactions) and has application beyond the hospitality industry as shown in Figure 4.1. The author suggests that commercial hospitality has several key elements that must be included in a model of hospitality

As indicated in Figure 4.1, the host understands and anticipates the guest's wants and expectations and has the job skills to provide it. The host also has social skills and 'polish' and interacts with courtesy, warmth and tact, but maintains a social distance and defers to the guest unless the guest has signalled that a less formal relationship is desired. The frontline host employee is given support by the company through provision of resources needed to deliver the service and the in-depth knowledge of guest wants and expectations through ongoing market research.

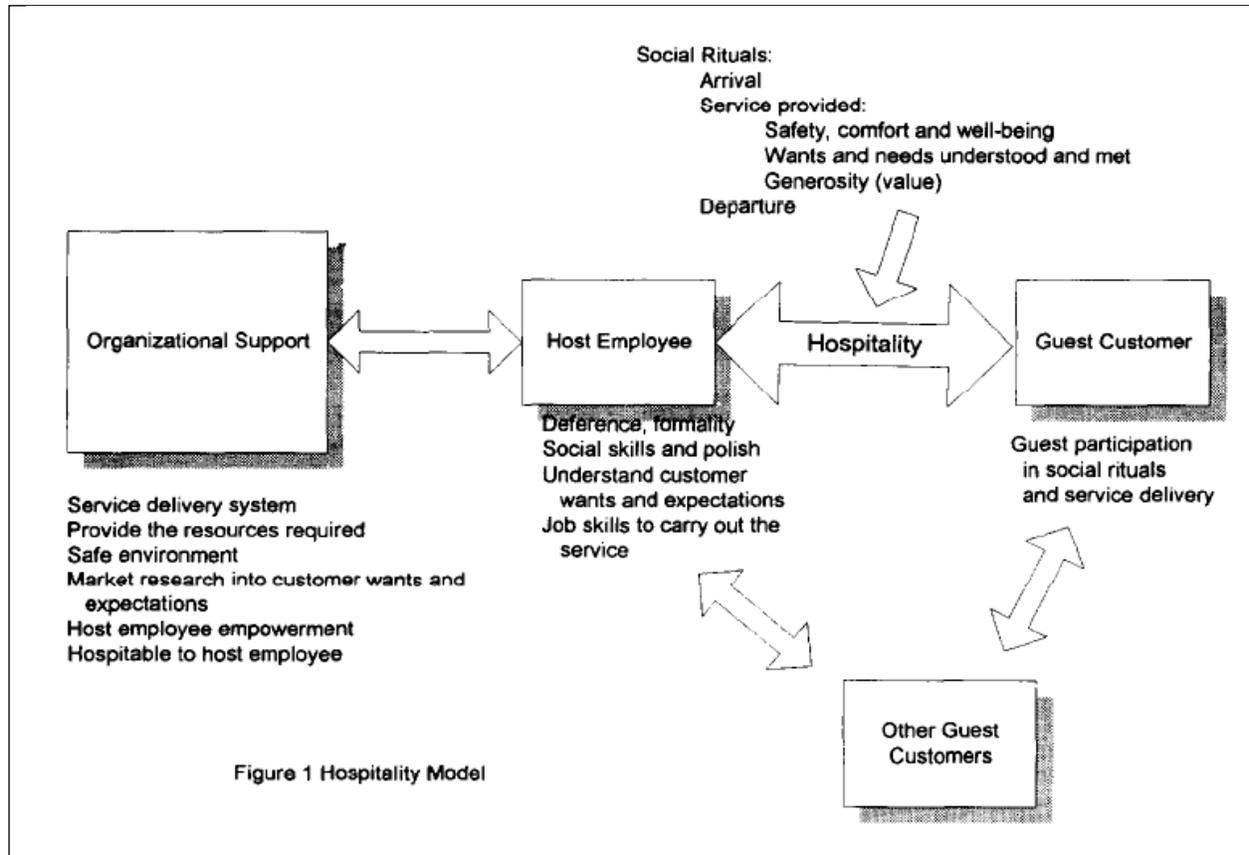


Figure 4.1: Hospitality model

Source: King, 1995: 230.

According to King (1995: 230), the service delivery system is the means by which the host employee meets the guest's needs and expectations. Both the host employee and the company bear the responsibility for ensuring the guest's safety and well-being. In addition, the firm provides a work environment that is hospitable to the host employees, and empowers them so they can fulfil a guest's wants and needs effectively and they can quickly resolve any problems that may arise in the delivery of the service. The host employee maintains control over the process. Additionally, there is a hospitality process which includes social rituals associated with arrival and departure, specifically the initial greeting and welcome of the guest upon arrival and upon departure, the parting, thanking and the invitation to return.

These rituals define the guest's status, recognising his or her importance to the company. The service that is provided ensures the guest's safety, comfort and well-being, generously meeting the guest's

needs and desires. Some customers or guests may be unwilling or unable to play their parts in these social rituals. The host employee has the social skills to guide the guest so that the guest receives the desired level of service. However, the hospitality model does not capture pre-arrival activities in the social rituals.

More recently, Baker, Bradley and Huyton (2000: 44) argue that a typical hotel stay for a guest can be divided into four distinct phases, namely pre-arrival, arrival, occupancy, and departure. This is also known as the guest cycle. The guest cycle indicates the stages that a hotel guest goes through in the process of consuming the hotel product or service. It is a clarification of the structure that provides the real picture of what the hotel product or service should be, starting from the pre-arrival stage, where the most important service activity is the sales and reservation process. Upon confirmation of the reservation, a guest arrives on the booked date and expects to be given a cordial reception and be checked into an appropriate guest room. At this stage, the guest registers, a room is assigned to him or her, a room key is issued and his or her luggage is handled by hotel staff as he or she is guided to the guest room.

The third phase in the cycle is occupancy, where the guest takes up his/her room and begins to appropriate applicable and desired products and services offered by the hotel. These include the comfort of the room, guestroom supplies, telephone, entertainment, information, transportation, safe deposit, food and beverage, accounts and billing among others. The last stage of this cycle is the point of departure where the guest's final billing and account settlement is done. The guest is checked out and outbound transportation as well as luggage handling is done. During all these, at the centre of all activities that surround the guest's stay, is the management of coordinating processes and general staff hospitality. New services can be developed at any and each of the phases of the guest cycle.

From insights of the natural processes of hospitality relevant to modern commercial hospitality companies Guerrier (1999) explains the provision of hospitality as:

- providing basic human needs for food, drink and somewhere to sleep for people who are not regular members of the family;
- rewarding hosts by enhanced prestige in the community if they provide lavish hospitality to guests;
- and

- an exchange for the mutual benefit of the host and the guest.

Zeithaml *et al.* (2006: 4) articulate that ‘services are deeds, processes and performance’ and even add that there are industries or sectors whose market offering is basically deeds, processes and performances meant to satisfy the needs of customers. Based on the overview of the hotel product or service and the guest cycle (Baker *et al.*, 2000: 44), it can be concluded that the hotel product offering is composed of both tangibles and intangibles.

The reservation process, the arrival procedures, the guests’ stay and departure activities are largely seen as of a services nature. The only parts that reflect tangibility are the physical hotel and rooms offered to guests, the restaurant’s food and beverages and the other components of hotel consumables that the customer may see, feel, experience and touch. It can therefore be concluded that hospitality, in the modern sense, is both commercial and interactive. It is conferred by a host or a provider (provides emotional and physiological comfort to the guest in exchange for value from the guest in the form of sales, profits and long term customer equity) on a guest or a receiver who is away from home. The study will focus on classified lodging firms.

Although there are some common factors among the different divisions, and some movement of staff from one division to another, the hospitality industry comprises separate and distinct sectors (Mullins, 2001: 14). If the word hospitality refers to the act of providing food, beverages and lodging to travellers, then hospitality industry consists of firms that do this. It can be concluded that the hospitality industry provides services primarily to travellers, in a broad sense of the term as well as providing food, beverages, lodging or some combination of the three, which other businesses provide only on the most incidental basis.

4.2.1 Hospitality service characteristics

Although hospitality is recognised as one of the largest industries worldwide, it still remains a conglomerate composite of diverse sectors (Ottenbacher, Harrington & Parsa, 2009: 263-264) and related fields. In their review of the existing literature for definitions of hospitality, Hepple, Kipps and Thomson (1990: 305-317) identified four distinct characteristics of hospitality in the modern sense: it is conferred by a host on a guest who is away from home; it is interactive, involving the coming together of a receiver and a provider; it is comprised of a blend of tangible and intangible factors and lastly, the

host provides for the guests' security and psychological and physiological comfort. However, this perspective fails to adequately define hospitality as discussed in section 4.2.

It has been argued that the range of services is too broad to allow a clear strategic analysis (Ottenbacher *et al.*, 2009: 269) hence the need to segment services into clusters that share certain characteristics, and then examine the strategic implications. According to Hsu and Powers (2002: 19-22) and Bowie and Buttle (2004: 24) the six characteristics of hospitality services include the following:

- intangibility;
- people as part of the product;
- demand patterns;
- perishability;
- channels of distribution; and
- Interdependence.

4.2.1.1 *Intangibility*

The tangibility spectrum, discussed in section 1.6.7.2, reinforces that all services have both tangible and intangible elements. In addition to the tangible food and beverages, foodservice and lodging operations also provide an intangible service: convenience, hospitality, social contact, atmosphere, relaxation, and perhaps entertainment (Hsu & Powers, 2002: 19). A meal in a restaurant may be delicious, but if the room in which it is served is unattractive and dirty, the experience is likely to be a failure for many customers. It is much harder for hotel customers to test or evaluate services since they have no direct means of knowing how good the services are before purchase.

Marketing intangibles create difficulties for the service provider. Customers often sense a higher level of risk and also find it difficult to assess quality. Customers need to be provided with information to help them to choose an appropriate hospitality outlet to satisfy their particular needs and wants. The challenge for marketers is to provide such information in a way that will encourage customers to choose their offer without raising customer expectations too high, and then fail in delivering customer satisfaction.

4.2.1.2 *People as part of the product*

A service usually involves people on both sides of the transaction. In most hospitality services, both the service provider and the customer must be present for the transaction to occur (Kotler, Bowen & Makens, 2006: 43). Customer contact employees are part of the product. Both customers and employees must understand the service delivery system, since they are co-producing the service. Customers must understand the menu items in a restaurant so that they get the dish they expect. As discussed in section 3.4.3, it is mutually beneficial for the three parties to work together to create a positive service encounter (Cook *et al.*, 2002: 160).

In hospitality services where interaction among individuals is intensive, guests not only come in contact with service personnel but also have contact with other customers. Services of this type make personal contact between service staff and customers as well as between customers and other customers more important. Therefore, employees and customers are literally part of the product (Hsu & Powers, 2002: 19-20). A noisy neighbour in a hotel or a loud party at the next table in a restaurant may ruin a guest's experience – one that hospitality operation staff has tried so hard to perfect. Therefore, service staff, guests themselves, and other guests are all part of the product.

These factors mean that customer interaction with hospitality staff and other guests provides a variety of opportunities to influence customer satisfaction positively or negatively. According to Hsu and Powers (2002: 19-20), positive influence can be affirmed in the following ways:

- adopting appropriate booking policies;
- training staff effectively;
- ensuring that customer segments are compatible; and
- ensuring that the operation system is suitable for the projected market demand.

The customer is typically involved in the production core of the firm or the delivery system and it is therefore impossible to separate and protect the production core from external intrusions. Since the hospitality firm is an open system, the external environment intrudes through tremendous variability that individual customers can bring with their varying service expectations, as well as all the uncertainty that open systems create. Consequently, the hospitality firm has to develop formal policies

and procedures for handling uncertainty, processing information and building a strong culture to guide employees in satisfactorily handling customers.

In producing a hospitality service, experienced employees may not rely on past procedures and ways of doing things, as they are continually faced with new situations that require unique approaches to appropriately meet the customer's needs. The delivery of hospitality services requires a capacity to process information. Each interaction contains much uncertainty, which requires a great deal of information processing. According to Grönroos (2000: 331), everything a service firm does for its customers is first perceived by its employees.

If employees do not understand the wants of the customers and how the service offering can fulfil these wants, they will not be effective in their interaction with customers. The customer contact employee can only do their job if they are supported by back office employees. Thus, a company's top leadership team must learn to engage everyone in the service mission by spending considerable effort communicating the service mission and vision to all employees. The 'back of the house' employees should know how important their role is in supporting those in the 'front of the house'.

4.2.1.3 Demand patterns

Although demand levels fluctuate unpredictably in the hospitality sector (Lovelock & Wirtz, 2004: 259-261) and threaten service productivity it is difficult to minimise bottlenecks since the time and effort it takes to serve individual customers varies greatly (Klassen & Rohleder, 2002: 527). Because of the variability in demand patterns, service marketing and operations management are often concerned with 'managing demand' (Hsu & Powers, 2002: 21). This involves thinking through the needs of the guests and the firms and managing the marketing mix to meet the different challenges that occur during different demand periods.

In hospitality operations, demand variation can occur at different seasons of the year, different months of the year, different times of the week, and different times of the day (Kandampully, 2000: 12; Palmer 2001: 389); the variation can be cyclical or unpredictable. The under or over-utilisation of capacity creates operational difficulties. Sudden unexpected increases in customers can lead to production problems, unacceptable waiting times and dissatisfied customers. The profitability of hospitality firms

suffers during low season periods, so one of the challenging roles for marketing is to increase demand in low season periods and deflect over-demand from peak periods to other periods. In situations of under-demand, or oversupply a hotel company might offer different and alternative services. New products and services represent a decisive resource and opportunity in hospitality.

4.2.1.4 Perishability

Since services are perishable, managing demand and supply is critical in the hospitality sector (Kotler *et al.*, 2003: 59). An unoccupied guest room cannot be sold after the night has passed. Similarly, when a guest leaves a restaurant because the waiting line is too long, the revenue from that particular meal is lost forever (Hsu & Powers, 2002: 21). The inability to store excess production in inventory makes capacity utilisation critical to the management and marketing of services.

High fixed costs will still occur during periods of low demand (Mullins, 2001: 24). The income lost from a hospitality room unsold on one day cannot be recouped later: it is lost forever. Additional hotel rooms may not be available to satisfy a higher than expected demand, resulting in a lost opportunity to generate income. Managing the inventory is a critical issue in optimising customer satisfaction, sales and profitability for the hospitality managers. Consequently, hospitality operations should be designed in such a way to limit the chances that a bottleneck might occur in the system (Klassen & Rohleder, 2002: 527; Lovelock & Wirtz, 2004: 261-264).

4.2.1.5 Channels of distribution

The hospitality industry has different kinds of channels of distribution. For example, travel agents and tour wholesalers sell rooms for many hotels. However, these arrangements are rapidly changing because of the global distribution systems (GDS). GDS are increasing the reach of individual companies and the types and number of intermediaries (Bowie & Buttle, 2004: 28; Hsu & Powers, 2002: 21). These developments provide a challenge to hospitality service marketers. Hence, both traditional and online distribution through third-party intermediaries and the hotel website become relevant (Gardini, 2004: 349).

According to Reid and Bojanic (2001: 225) direct channels have the benefit of enabling closer contact with the customer and the hotel responding more rapidly to market changes. Moreover, hotels face the challenge of successfully diverting customers to utilize direct distribution channels rather than

intermediaries (Gardini, 2004: 350). Intermediaries are utilized in multi-channel systems as they add value to the hotel distribution strategy through their knowledge and expertise (Reid & Bojanic, 2001: 225) and deal directly with the customers. Hotels might need to use such intermediaries' knowledge and expertise in developing new services.

4.2.1.6 *Interdependence*

Tourists make a variety of travel purchase decisions in one trip, and their overall satisfaction with a visit is based upon a complex set of evaluations of different elements – including travel arrangements, accommodation, attractions and facilities of a destination (Bowie & Buttle, 2004: 24). The choice of hospitality products is only one element on which the consumer needs to decide. Hotel operations combine both a productive and a service element. However, although hotels are not pure service companies, they exhibit many of the basic characteristics common to other service industries. With the increase in automation in hospitality trade, service is rendered not only by people but also by electronic and mechanical devices and complex systems maintained by hospitality firms (Hsu & Powers, 2002: 18). For example, in-room television check-out, minibars, and reservations systems are all provided with minimal human involvement.

Although the hospitality sector has unique characteristics and requirements of operation (Ottenbacher *et al.*, 2009: 264-273) there are also common and incongruent characteristics of the hospitality sector. Consequently, despite the apparently indefinable nature of the hotel product, new service development can represent an important source of competitive advantage because new services can lead to more satisfied and loyal customers and greater sales revenue. Increased performance may also benefit managers and staff whose tangible and intangible benefits include job satisfaction, profit sharing and esteem. These issues will be taken into consideration as this study attempts to discuss frameworks for NSD strategy and process in the hospitality sector.

4.3 CHARACTERISTICS OF HOSPITALITY FIRMS

The hospitality industry is often perceived as one of the most 'global' in the service sector (Whitla, Walters & Davies, 2006: 777) as well as the largest and fastest growing industry in the world. Hospitality operations are inherently complex both from the perspective of technology of producing the products and services they deliver and from the inherent variability introduced by the customer and the nature of service operations (Lashley & Morrison, 2002: 173). There are several characteristics of

hospitality firms that impact on marketing. These include ownership and size, ownership and affiliation and hotel classification schemes.

4.3.1 Ownership and size

Virtually all hospitality firms started as single unit enterprises and most remain single unit operations throughout their commercial life. Unlike the large hospitality firms, smaller, single site, owner-managed hospitality units can give regular customers a more personalised service. However, a characteristic feature of the industry is the predominant number of small, independent hotels who often may be operated and managed by the proprietors. Such hotels provide an equally important area of study into new service development strategy and process as much of the ‘theory’ of hospitality management is grounded in the study of large scale firms.

According to Morrison and Thomas (1999: 148-154), the characteristics of small single site hospitality firms include the following:

- the owner and management roles are combined;
- owners are close to the customer;
- owners can be more entrepreneurial and innovative, responding quickly to changes in the macro and microenvironments;
- there is a focus on operations and the immediate issues facing the business; and
- there is a short-term planning timeframe.

In hospitality, large firms tend to manage the large size units and have a higher proportion of hotel rooms and restaurant seats compared to small firms. Whilst the three-star market incorporates both privately owned hotels and mid-market chains, larger upscale and luxury units tend to be owned by large firms (Bowie & Buttle, 2004: 89). The characteristics of larger hospitality firms include the following:

- the separation of ownership and management – typically the general managers and directors of a hospitality firm will only own a token share-holding or share option;
- ownership is normally diffused across a large number of shareholders, although financial investment companies may hold larger stakes in the business;

- multiple site operations – the largest hospitality firms comprise thousands of geographically dispersed units across dozens of countries in all continents, under a complex combination of different brands targeting a variety of markets, using a range of business formats (ownership, franchising, management contract) and employing hundreds of thousands of staff; and
- employment of professionals to manage at both the unit level and at head office – these professionals have developed considerable expertise in hospitality operations management as well as functional disciplines of finance, human resources and marketing management.

An important issue in the hotel industry related to the size effect is the combined requirement of both fixed assets as equipment and human resources in the service delivery process (Orfila-Sintel *et al.*, 2005). Therefore, the industry must face a very high fixed cost structure. The production unit in size is relevant since the economies may explain some strategic decisions made by companies. Large companies enjoy significant advantages in terms of economies of scale, giving cost savings in purchasing; access to specialist agencies like financial consultants, design consultants, advertising and public relations agencies as well as financial markets, which provides significant financial resources for investment; focus on long-term strategic planning; and powerful computerised distribution systems.

The ownership structure and the degree of dependence on other organisational structures influence the framework of management innovation decisions. Some hotels are independently managed; others belong to a hotel chain or to a more diversified firm conglomerate. Ownership and management do not necessarily happen together: companies specialising in managing hotels rent the assets or hotel owners contract the management abilities through management or franchise contacts.

As Sirilli and Evangelista (1998: 882-899) suggest, different organisational structures of the production units may affect the innovative behaviour. The size dependence of intensity of innovation among innovative firms is idiosyncratic. Some studies suggest a U-shaped curve, like Brouwer and Kleinknecht (1997:1236-1238) when analysing the size distribution of innovative activity, comparing services and manufacturing. The size of the hotel is able to determine the success and profitability of the implemented innovations.

4.3.2 Hospitality ownership and affiliation

There are at least six forms of hospitality ownership and affiliation, and these are described by Bowie and Buttle (2004: 90-91) as in the following ways:

- **Owned** – a company, partnership or individual can own the freehold property. Ownership enables the company to develop the property without constraints (subject to planning controls and permission). The firm may borrow funds from lenders to purchase or develop the business. However, ownership of freehold property ties up capital within the business. Independent operators typically own or lease their property.
- **Leased** – a company, partnership or individual can lease the property from a landlord and pay commercial rents. The landlord has to approve structural alterations, and lease contract details can be complex. In recent years, major hospitality firms have sold their freehold properties and then leased them back to continue to operate the hotel business. This has released funds to help fuel the expansion of hospitality firms.
- **Management contract, with equity stake** – specialist hotel management firms take an equity stake in the property, which demonstrates a long-term commitment to the landlord and the business. This type of management contract enables the management firm to share in the profits of any property inflation.
- **Equity-free management contract** - specialist hotel management companies can be responsible for the entire operations of a hotel property on behalf of the owners. This type of management contract is less complex than an equity-stake contract.
- **Franchise** – in franchise operations, the franchisor (the company who owns the franchise) will offer a branded concept to a franchisee, which operates the business according to the standards set by the franchisor. The franchisee buys the franchise and pays a commission on turnover to the franchisor for continued marketing and organisational support. A frequent cause of tension in franchising is the relationship between the franchisee and franchisor. The franchisor needs to have consistent brand standards, and will monitor each unit to check conformance. Franchisees often expect more investment in advertising and product development from the franchisor, and this can also be a source of conflict.
- **Consortium** – independent hotels seeking the benefits that group-owned chains enjoy, can affiliate to a hotel consortium. Membership of a hotel consortium enables independent hoteliers to retain their entrepreneurial freedom and to link to global computerised reservation systems; buy into an

international or domestic brand; participate in the consortium's national and international marketing communication campaigns; extend their distribution channels; enjoy discounted prices when purchasing, due to the consortium's bulk purchasing power; and belong to a group of similar independent hoteliers, and share management and marketing information. According to Briggs, Sutherland and Drummond (2007: 108-112), independent hotels normally take a transactional approach while hotels that are part of a chain usually take a transformational approach.

Although chain hotels have access to valuable operating knowledge shared by other hotels in the chain (Ingram & Baum, 1997: 99-100) and enjoy higher survival rates and economies of scale, they are equally constrained strategically as they cannot make independent decisions without reference to the strategic directions of the parent company (Ramanathan, 2012: 47). In the turbulent hospitality industry, chains and independent hotels alike are forced to look for ways of improving quality and reputation, cutting costs and increasing sales and profits (Ottenbacher & Gnoth, 2005: 205). Adding to these challenges is fierce competition among hotel firms, technological innovations and changing customer needs. Due to the increasing level of competition in the global hospitality industry, companies in this industry are becoming more aware of the need to develop new services and service performances to the emerging requirements of the sophisticated global customers. The branded hotel chains utilise all forms of ownership. Companies like Hilton, Marriott and InterContinental Hotels Group use a combination of ownership, lease, management contract and franchise to operate properties throughout the world.

The development of innovations has become a strategic weapon for both successful hospitality chains and independent hospitality firms alike. Hotel chains need to standardise significant aspects of their amenities and service, particularly for business travellers. One approach to improving quality and reputation is through innovation, or the ability to develop and launch new and successful hospitality services. Thus, innovation and new service development in the hospitality sector is more critical in operational service settings than ever before, both for growth and survival. Given this situation, it is not unreasonable to speculate that a significant part of Kenya's future hotel industry will be in the form of hotel chains.

4.3.3 Hotel classification schemes

Classification refers to a grouping together of different types of serviced accommodation differentiated by criteria of physical facilities, location, price and/or type of services offered. 'Grading' is often used as a general term, sometimes to mean 'classification' but more widely accepted to mean 'quality grading', which is a more subjective assessment of the quality of those facilities and services objectively assessed under 'classification'. Hotel quality rating or hotel service grading should not be confused with classification or categorisation (Holloway, 2002: 167).

Generally, hotels can be classified into five, six or seven categories because they provide a broad spectrum of facilities. Classification is awarded according to the spectrum of facilities, while classification and grading represents the overall quality of facilities and services of the hotel establishment (Ingram, 1996: 32). Other types of serviced accommodation such as guesthouses have a more limited range of facilities and may, therefore, have fewer categories: usually two or three.

The hotel category classification indicates the level and complexity of services provided. Their influence over the innovation propensity is simultaneously an endogenous and exogenous outcome. It is endogenous in the sense that higher categories include more services, equipment complexities and organisational aspects to be innovated. On the other side, a category cross comparison is able to explain some of the innovation patterns. Hotel classification will be discussed in section 4.9.

4.4 HOTEL SERVICE OFFERING

Hotel firms offer products which comprise tangible and intangible elements that merge into a unique combination of production and services (in section 1.6.7.2). Hotels offer three core consumer products: accommodation, food and beverages. However, the majority of the hotels are 'accommodation led', with most revenue deriving from the sale of rooms, followed by food and then beverages. While provision of a hotel room is a pure service activity, food and beverage functions involve processing and retailing processes. This means that the actual delivery of hospitality services may differ widely and the benefits derived may be associated with feelings or emotions.

Akan (1995: 39-44) gives three dimensions of the hotel product/services offering. He says that these include the hotel, the personnel, and the process. This argument is summarised in Table 4.1.

Table 4.1: The three dimensions of hotel product/service

| Hotel product/ service dimensions | The hotel | The personnel | The process |
|--|--|--|---|
| Details of the dimensions | <ul style="list-style-type: none"> • The exterior appearance • Interior appearance • Furniture • Ease of access • Name/image • Room offerings such as soap, shampoo, sheets, etc. • Food/beverage | <ul style="list-style-type: none"> • Skills • Knowledge and training • Experience • Physical appearance • Understanding • Friendliness • Respect • Communication • Responsibility • Motivation • Attitude | <ul style="list-style-type: none"> • Accurate reservation, check in and billing • Prompt service • Fast and accurate food service • Speed of transactions • Recognition and personalising customer service • Listening and understanding customers • Solving problems • General information on services and pricing |

Source: Adapted from Akan, 1995: 40-41.

It may be concluded from Table 4.1 that the hotel product/service dimensions are mostly service in nature. The hotel dimension is the only tangible component. The other two dimensions of the personnel and the process are intangible. This study will consequently evaluate and discuss the hotel product largely as a service offering but not ignoring the fact that it has a physical component such as the hotel design, room décor, ambience, food, and beverages.

Some functional areas, departments and company services can be easily identified as spaces where innovation can take place. To ensure appropriate preparation and delivery of hotel products and services, managers focus on two major areas, namely the administrative departments and the service departments or operational areas (Chon & Sparrowe, 2000: 172-184). The hotel products and services are created and delivered with the support from functions such as general management, accounting, human resources and marketing. Service departments are the core focus for guest services and satisfaction. Front desk operation is for the management of reservations, check-in and check-out of guests, ensuring hospitality as well as communication and information transfer.

Housekeeping and laundry is responsible for the preparation and managing the outlook and interior décor of guest rooms while ensuring the guest supplies and comfort in the room. They work very closely with maintenance and security departments to facilitate continuous operation and efficiency of hotel facilities and installation as well as the safety of guests. The food and beverage operation is the function that produces and serves food and beverage offerings according to guests' needs within the hotel. Each department or section of the firm might perhaps be operating efficiently in its own right. But what are equally important are the interrelationships and interactions with other departments or sections, and the attitudes and behaviour of employees.

Chon and Sparrowe (2000: 172-184) explain the other side of administration and say that general management oversees operations, guests, employees and profitability while accounting looks at cash, stock, debt, credit and payroll management as well as bookkeeping and general control of transactions. Human resources ensure quality recruitment, training, development, remuneration, industrial relations, welfare and retention of needed manpower. The function of marketing is to execute the marketing mix responsibility of product, price, place and promotion. In all these, there is an important linkage that places administration and service departmental functions together to ensure guests' products and services are efficiently, effectively and profitably delivered. New services can be developed along each functional area and department.

4.4.1 The hospitality product

The main purpose of hotels is to provide a hospitality service that is basically composed of accommodation, food and drink but in a warm friendly environment (George, 2001: 18). Hotels usually offer a full range of accommodation and services (Bardi, 2003: 9), which may include the following:

- guest lodging rooms or suites;
- public dining and banqueting facilities;
- meetings or convention rooms;
- lounge and entertainment areas;
- gaming and casino operations;
- ground transportation to and from an airport or city centre;
- swimming pool and other sports and recreational facilities;
- body, health and beauty shop;
- speciality shops; and

- television, video, Internet and other room entertainment and services;
- personal service valet and laundry services; and
- concierge services.

The above description of the hotel product offering fits a full service hotel. However, there are hotels that offer limited services and are targeted at cost conscious travellers (Bardi, 2003: 12). Services in such hotels may only include basic room accommodation, minimal public dining facilities, cable television, valet and laundry services and ground airport or city centre transportation.

According to Hsu and Powers (2002: 170-173), the hospitality service offering is a bundle of features and benefits, and has three elements as shown in Figure 4.2. These include the following:

- **The core benefit** - the generic function that a product provides for its guests. It is “the reason for being on the market”. For example, a hotel’s core benefit is a night’s lodging. For a resort, it is both lodging and some combination of recreation and relaxation. A restaurant’s core benefit is the provision of nourishment and a pleasant social experience (Hsu & Powers, 2002: 170).
- **Essential facilitating services** - these are absolutely essential to an operation. Without facilitating services, delivery of the core benefit becomes impossible. In a hotel, the absence of a front desk or housekeeping can make the hotel’s operation impossible. In a restaurant, a kitchen provides a facilitating service; without it, the operation cannot function. In addition to being essential, facilitating services can be arranged in such a way that they can also be used to differentiate the operation from its competitors (Hsu & Powers, 2002: 170-171). An example is a restaurant that has not just a kitchen but one that provides exceptional cuisine, or perhaps an open kitchen with display cooking. Facilitating goods are also necessary to the success of an operation. The availability of raw food ingredients is clearly essential. Linen and appropriate furnishings are necessary to a hotel, as is a parking lot for travellers by car. All these are goods and services that facilitate the delivery of the core benefit.
- **Competitive supporting services** – these are not essential to providing the core benefit, but are critical to marketing the operation. Supporting services are used to differentiate an operation from its competitors. For example, a restaurant is not a necessary component of a hotel, but the presence of a restaurant can be used to differentiate one business from another. One of the most powerful supporting services in lodging is the reservation system. The convenience, courtesy, and accuracy

of a hotel chain's reservation service are important in differentiating one chain from another. Another supporting service offered by most hotel chains and an increasing number of restaurants is membership to frequent traveller clubs or frequent diner clubs. This service is intended to bind customers to an operation (Hsu & Powers, 2002: 172). Supporting goods are required to maintain an operation's supporting services. For example, membership cards and correspondence are essential for the frequent traveller or diner club service, and reservation confirmations are needed for the reservation system (Hsu & Powers, 2002: 173).

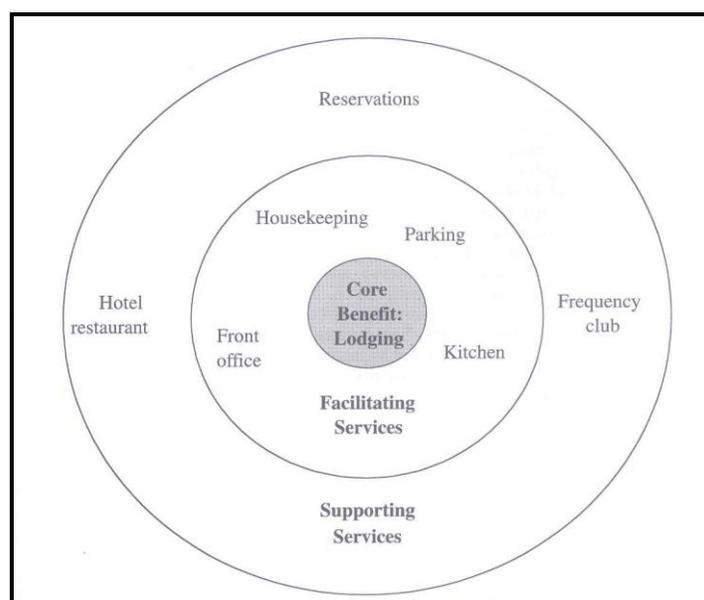


Figure 4.2: Three elements of the basic service offering in a hotel

Source: Hsu and Powers, 2002: 171.

As indicated in Figure 4.2, the basic service offering to hotel guests includes a core benefit, or the generic product such as lodging or nourishment. However, the core benefit requires facilitating services, such as a front desk and housekeeping, to make delivery of the core benefit possible. Supporting services, such as loyalty clubs are critical to the marketing of the product because they differentiate the product offering from those of competitors. New services can be developed along each element of the service offering in a hotel.

According to Shoemaker, Lewis and Yesawich (2007: 49), there are four major interrelated elements that customers receive when purchasing and using hospitality products namely:

- **The physical product** – It is the tangible component of the service. It is mostly the physical product over which the management has direct or almost direct control (Shoemaker *et al.*, 2007: 50). Management’s decisions or practices directly affect the physical product. In some cases, management expertise determines the quality of the product, as in the case of a chef. Alternatively, quality of the product may depend on management’s willingness to spend or not spend in pursuit of the target market it wishes to serve. For instance, the beds, food, room size, furnishings, bathroom amenities, elevator service, heating and air conditioning, TVs, general repairs and so forth.
- **Service environment** - The service environment (or the “servicescape”), is defined as the “physical environment in which the service is delivered (Shoemaker *et al.*, 2007: 50). The servicescape at check-in may be the new business with one clerk at each. While environmental items may or may not be tangible, they are something the customer feels. That feeling is central to the hospitality product. In this category of service environment, the management may also have some control, although perhaps not directly or easily. For example, putting electronic locks on bedroom doors is something very physical and tangible, but it is not the electronic lock that is being sold to the customer. What is sold is the benefit of the feature – a feeling of security, a very important but intangible attribute for many hotel customers. Because services are intangible, customers often look to the servicescape for clues on how to behave.
- **Service product** – This is the core performance or service purchased by the patron. The service product defines how the service works in theory. The idea is that management develops and plans all the actions employees will undertake when hosting guests (Shoemaker *et al.*, 2007: 50). It includes non-physical, intangible attributes that management should control. Items in this category depend heavily on the personal attributes of employees, such as friendliness, speed, attitude, professionalism, and responsiveness. While some may depend on employee aptitude, but also on the system, such as handling of reservations, others depend strictly on management decisions, such as whether to offer a particular service.
- **Service delivery** - This is the final component of the service. According to Shoemaker *et al.* (2007: 51), service delivery refers to what happens when the customer actually consumes the service. The “moment of truth” is when the service product meets the service delivery.

New services can be developed along each element or a combination of the elements of the hospitality product depending on either of the two perspectives discussed.

4.4.2 Types of establishments

There are various types of establishments that are used to provide accommodation, namely an inn, hotel, motel or motor inn, lodge, tourist home or guest house, bed and breakfast, hostel, condominium, hospital, resort, commercial hotel, conventional hotel or conference centre, casino hotel, health spa, and nursing home or hospice (Dittmer, 2002: 213). Table 4.2 gives a description that differentiates between these types of establishments.

Table 4.2: Types of accommodation establishments

| Accommodation facility | Descriptive definition of the accommodation establishment |
|-------------------------------|--|
| Hotel | Term used traditionally to identify a lodging facility usually with a reception and has two or more storeys providing food, accommodation as well as other services to its guests |
| Lodge | Term used traditionally to refer to an accommodation establishment associated with a particular outdoor activity such as hunting, skiing, etc. and located in a natural surrounding |
| Motel/ Motor inns | Just like a hotel, but may be single storey and located on the highways to provide services to motor travellers |
| Condominium | This is a furnished rental housing unit within a multi-unit complex each with a kitchen, living room, bedroom and bath. Each condominium is independently owned but provided with maintenance services by the management of the condominium complex at a small fee |
| Tourist home or guesthouse | Terms used to describe private homes in which owners rent spare bedrooms to transient guests and serve them food and beverages as well. They are usually owner managed |
| Bed and breakfast | They originated in Europe and are closely related to guesthouses but provide accommodation that is tied to a full breakfast within its pricing or rate |
| Resorts | These are lodging facilities that feature recreational facilities for their guests, for example sun bathing, swimming, tennis and golf. They include all-inclusive resorts such as Club Med, etc. |
| Commercial hotels | This is a specialised hotel property meant to cater for business travellers such as executives and sales personnel who need transient lodging |
| Inn | Originated from England and traditionally meant to provide room, food and |

| Accommodation facility | Descriptive definition of the accommodation establishment |
|--------------------------------------|---|
| | entertainment to travellers and the resident community |
| Self catering | A house, cottage, chalet, bungalow, flat, studio, apartment, villa, houseboat, tent or similar accommodation where facilities and equipment are provided for guests to cater for themselves |
| Health spas | These are highly specialised lodging facilities that provide some form of beneficial health related services such as weight reduction/gains, cosmetic therapy, and drug related rehabilitation among others. |
| Caravan and camping | This is a facility that provides ablutions and toilet facilities and space for guests to provide for their own accommodation such as tents, motor homes and caravans |
| Convention hotels/conference centres | A convention is a gathering of people sharing some business, profession, social or vocational interests. A convention hotel or conference centre therefore is a specialised hotel that focuses on conventions as the primary source of business |
| Casino hotels | This is a transient hotel that houses gaming casinos, which includes games of chance using cards/dice, blackjack, roulette and poker |
| Nursing homes or hospices | A facility that provides room, food and beverage to people requiring nursing or related care. It includes a centre for taking care of chronically or terminally ill patients |
| Hospitals | This is regarded as specialised lodging facilities providing accommodation, food, beverages, and entertainment to customers, using the facility for medical reasons |
| Backpacker and hostelling | These are inexpensive lodging establishments with limited services meant for the younger customer who do not bother about privacy |

Source: Dittmer, 2002: 209-221; Tourism Grading Council of South Africa, 2005: A6-A7.

As indicated in Table 4.2, not all properties or facilities that offer accommodation and food may qualify as a hotel. According to the National Tourism Policy of 2003 (Republic of Kenya, 2003: 35), a hotel is defined as ‘an establishment registered under the Hotel and Restaurant Act and which may provide food and accommodation to over five adult persons for a minimum of 24 hours’. The study will use the term hotel to refer to any facility amongst those in Table 4.2 and which provides accommodation, food, beverages, entertainment and other allied services to tourists and any other traveller.

There are many different types of hotels and many different ways of attempting to distinguish between them and to categorise them. For instance, Medlik and Ingram (2000:13-24) adopt the following criteria for classifying the main types of hotels:

- the **location**, for example cities, towns, coastal resorts or country; and **position** within its location, for example city or town centre, along the beach or a highway;
- the relationship with a particular **means of transport**, for example motels, railway hotels or airport hotels;
- the **purpose of the visit** and main reason for the guests' stay, for example business hotels, convention hotels, holiday hotels;
- pronounced tendencies to a **short or long duration** of guests' stay, for example a transit or a residential hotel;
- the **range of facilities and services**, for example open to residents and non-residents, provision of overnight accommodation and breakfast only, or an apartment hotel;
- the distinction between **licensed and unlicensed** hotels;
- the **size** of the hotel, for example by number of rooms or beds – a large hotel would have several hundred beds or bedrooms;
- the **class or grade** of the hotel as in hotel guides and classification and grading system, for example five-star luxury or quality hotel, or one-star basic standard hotel; and
- the **ownership and management** of the hotel, for example chain or group hotels or individually owned independent hotels.

Hotels are presented to customers in varied forms depending on need, type of travel activity, and physical location of the hotel. Within this context, Abbott and Lewry (2002: 4-5) outline the various types of hotels and other accommodation providers. They list them as follow:

- cruise liners which they describe as floating resorts;
- boats such as chartered luxury yachts;
- camp sites with accommodation facilities such as tents or caravans;
- holiday camps;
- timeshare complexes where residents are also partly owners for a given period;
- convention or conference centres;
- students' halls of residence; and
- hospitals and hospices.

Abbott and Lewry (2002: 5) argue that hotels may be referred to as suburban, motel, resort or county hotel depending on their location. The authors assert that size may also determine hotel type into categorisation such as small, medium, large and major hotels. More recently, Walker (2007: 134) classified hotels according to location, price and type of services offered. A list of hotels based on these classifications would be as follows:

- city centre hotels – luxury, first class, midscale, economy, suites;
- resort hotels- luxury, midscale, economy, suites, condominium, time-share, convention;
- airport hotels – luxury, midscale, economy, suites;
- freeway hotels and motels – midscale, economy, suites;
- casino hotels – luxury, midscale, economy;
- lodges – luxury, midscale, economy.
- full service hotels;
- convention hotels;
- economy/budget hotels;
- boutique hotels;
- extended stay hotels; and
- bed and breakfast inns

The emergence of “boutique hotels” during recent times is an excellent example of an innovative offering in an otherwise standardised industry (Victorino, Verma, Plaschka & Dev, 2005: 559).

Boutique hotels offer a different lodging experience compared to mid- to large chain hotels. Boutique hotels have a unique architecture, style, décor and size. They are smaller than their chain competitors, with about 25 to 125 rooms and a high level of personal service (Walker, 2007: 145). The boutique hotel typically features a contemporary or minimalist décor while also offering many additional lifestyle amenities. Hotel guests tend to perceive boutique hotels as a stylish location for which they are willing to pay premium room rates for. Recently, the boutique hotel trend has crossed over into the mid-priced hotel market. Rather than focusing exclusively on the functionality of the hotel product offering, mid-price hotels are beginning to consider the aesthetic appearance of the building’s structure and décor. Hotels’ guest rooms as well as lobbies are being redesigned in order to stand out amongst the basic hotel offerings.

4.4.3 Hospitality brands and branding

Brands are a major power in every part of the economy, but perhaps one reason they are especially powerful in hospitality is due to the intangible nature of the hospitality product (Hsu & Powers, 2002: 190). Hsu and Powers (2002: 180) further note that brands help with the introduction of new products. For example, when Holiday Inn Express decided to enter the limited service lodging market, the name Holiday Inn Express for its 'new' product (often older properties converted to the new concept) drew on the reputation built over the years by the Holiday Inn name. Most service firms offer a line of products rather than a single product (Lovelock & Wirtz, 2004: 112). Some of these products are distinctly different from one another – for example when a firm is engaged in several areas of business.

Brands are increasingly seen as valuable assets and sources of differentiation playing an integral part in marketing strategy (Lim & O'Cass, 2001: 120) and are central to the marketing of hospitality firms. Hospitality firms develop branded concepts, and then blend the elements of the marketing mix to provide target customers with a better brand offer than the competitors. It is crucial that each element of the marketing mix is consistent with all the other elements. For example, a luxury hotel brand cannot be successfully located in a 'down market' area, and a cheap, cheerful restaurant cannot successfully promote gourmet cooking.

The limited physical evidence in a service brand means that the development of services depends on the culture of the company and the training and attitude of its employees (De Chernatony & Segal-Horn, 2003: 1095). As such, in many cases, due to the nature of services, the actions and behaviour of the service employee are the actual service being purchased by the consumer. Sundaram and Webster (2000) advocate that customer evaluations of services are based on their interactions with employees. Not only employee's expertise, but also their ability to build and maintain relationships with customers, becomes an inseparable part of the service offering.

Although independents are important, hotel chains with deep pockets for heavy advertising, play a major role in almost all sectors of the industry. In such a competitive environment, branding offers a means of establishing a differentiated identity and a basis for attempting to rally consumer loyalty (Hsu & Powers, 2002: 190). Consistent with market orientation, successful brand management requires a customer focus. Combined with the identified uniqueness of services and the growing prominence of

service marketing, is the heightened importance of brand equity as a marketing imperative and the need to understand and manage brand associations (O’Cass & Grace, 2004: 258).

According to Berry (2000: 128), branding represents the foundation of services marketing for the twenty first century, given the inherent difficulty in differentiating products that lack visible characteristics. Hsu and Powers (2002: 179) argue that branding is seen as a product characteristic because a brand is associated, in the consumer’s mind with the product it represents. However, service firms need to focus, not only on enhancing the functional aspects of their product, for example the servicescape, but also on creating an emotional bond between the product and the consumer that reflects the consumer’s desires and expectations (Harris & de Chernatony, 2001: 441-442).

Branding can be used at both corporate level and product level by almost any service firm. Branding, and in particular the proliferation of hospitality brands, has used purely descriptive criteria for segmenting markets. This product orientated approach has led to inaccurate positioning strategies, resulting in consumer confusion over the lack of perceived differences between competing brands. The example of Sarova Hotels, one of the innovators in multi-brand development in Kenya, supports this argument. Sarova Hotels currently promotes eight different product brand names, but all are marketed under the Sarova names, with similar logos and collateral and same call numbers for central reservations. This has led to a confused product offering, where consumers are not clear which Sarova Hotel brand stands for which lodging offer.

As firms strive to consistently create and deliver superior service quality in line with the brand promise, thereby engendering customer satisfaction and achieving a competitive advantage, the role of brand management in a market oriented service operation becomes a focus for the entire firm (King & Grace, 2006: 370-371). In an increasingly competitive environment, the ability of the employee to positively (or negatively) impact a company’s success gives rise to employees being considered to be central to the brand building process.

4.4.4. The hospitality marketing mix

The conventional marketing mix of the 4Ps, namely product, price, place and promotion was originally seen as largely representative of a tangible market offering. The difference between product and service offerings inspired the need to revise the marketing mix into 7Ps, which now include people, process

and physical evidence. This facilitates the inclusion of highly service oriented market offerings (Zeithaml *et al.*, 2006: 25-26). The added component of people reflects employees' level of training, experience, motivation, reward level, teamwork as well as customer dispositions such as education, loyalty and attitude. Physical evidence is an aspect of the mix that encapsulates service facilities and equipment design, signage, employee dress, business cards, reports, transaction statements, room ambience and décor. Processes denote the flow of service activities and logistics, level of customisation and standardisation as well as customer involvement in the service process.

Several authors (Renaghan, 1981: 31-35; Shoemaker *et al.*, 2007: 63-64; Brunner, 1989: 72-77; Bowie & Buttle, 2004: 31) have discussed the marketing mix with the aim of developing one specifically for hospitality. Renaghan (1981: 31-35) proposed a three element marketing mix for the sector namely the product service mix, the presentation mix and the communication mix. The product service mix is the combination of products and services, whether free or for sale, that are offered to satisfy the needs of the target market.

The presentation mix is all of the elements used by the firm to increase the tangibility of the product/service mix in the perception of the target market at the right place and time and the communications includes all communications between the company and the target market, which increase the tangibility of the product or service (Shoemaker *et al.*, 2007: 63-64). This was later modified by Brunner's 4Cs framework of concept mix, cost mix, channel mix and communication mix (Brunner, 1989: 72-77). Recently, Bowie and Buttle (2004: 31) suggested three marketing mixes for hospitality products, namely the pre-encounter marketing mix, the encounter marketing mix and the post-encounter marketing mix (shown in Table 4.3). Each one of the marketing mixes is aimed at influencing demand at different times of the service encounter. The table summarises what is important at each stage of the customer relationship with the company.

As indicated in Table 4.3, different parts of the eight-element marketing mix are important at each of the stages – before, during and after the encounter. Before the encounter, marketing communications such as advertising, selling, price lists and brochures influence expectations. Marketers need to understand the product or service expectations of customers as they design offers for the customer. They should also make products easy to buy by establishing appropriate distribution channels. During the encounter, customers come in to contact with the people element of the marketing mix (employees

and other customers), processes and physical evidence at locations where the service is produced and consumed. After the encounter, hospitality marketers need to communicate with customers to find out what they thought of the experience, to identify and satisfy customer complaints, and to encourage the customer to return and give positive word-of-mouth. Marketing communications are therefore used to build future demand from existing customers.

Table 4.3: Marketing before, during and after the encounter

(√ Indicates which element is important in each particular marketing mix)

| Marketing mix element | Pre-encounter marketing mix | Encounter marketing mix | Post-encounter marketing mix |
|--------------------------|-----------------------------|-------------------------|------------------------------|
| Product/service offer | √ | √ | |
| Location | √ | √ | |
| Price | √ | √ | |
| Distribution | √ | | |
| Marketing communications | √ | √ | √ |
| Physical environment | √ | √ | |
| Process | √ | √ | √ |
| People | | √ | |

Source: Bowie and Buttle, 2004: 31.

Although there is general support for the 7Ps, different authors have coined different terminologies to the additional 3Ps such as participants for people and programming for processes (Rafiq & Ahmed, 1995: 4-15). However, these authors add that the physical evidence component has received least support as most scholars see this argument as largely product- oriented, based on the original 4Ps theory of the marketing mix.

According to Morrison (2002: 249), the 8Ps of hospitality marketing mix are product, partnership, people, packaging, programming, place, promotion and lastly price; the new ones being packaging, programming and partnership. Packaging and programming are basically meant to address the creation of the product consumption process. Partnership is the focus on potential market support obtainable from other players and strategic alliances, which may help create synergies. Partnerships may be very important in hospitality and tourism as the destination mix theory reveals a wide mix of different businesses such as hotel and catering, travel agents and tour operators, attraction entrepreneurs, airlines and national marketing companies (Morrison, 2002: 282). Through partnering, hotels may play

complementary roles together with the other relevant sectors to create sustainable NSD strategies and competitive services for the hotel sector.

The hotel is mainly the physical hotel, its design, room, furniture and ease of access while the people is mainly focussing on their training, experience, appearance, friendliness, respect and communication ability (Akan, 1995: 39-43). The service process is described as the sum of those aspects that include speed, accuracy, promptness, understanding, quality of the service encounter, attention and understanding. In this aspect, it can be seen that management of the hotel product/service quality may adequately borrow from the 7Ps framework of the service marketing mix as well as the 8Ps concept of the hospitality marketing mix.

The significance of people in the hotel service process cannot be underestimated as, according to Zeithaml *et al.* (2006: 354), people are the service, the brand, the marketers and the organisation in the eyes of customers. The role of employees and their behaviour takes much greater value in a service business than it does in manufactured products (Maxwell, Watson & Quail, 2004: 162). These authors add that the need for quality service has catalysed a need for strategic human resource development in the hotel sector.

The centrality of people in a service trade is heightened by a study that was carried out on behaviour differentiation in service by Bacon (2005: 61-66). The author argues that differentiation has always attracted imitation, especially in the marketing of physical goods. Service firms such as hotels, supermarkets, restaurants and banks should focus on employee behaviour to acquire a people-based culture, which is hard to imitate. Incidentally, hotel services can easily be built and developed on the culture of the local people, especially if it stands out as unique.

4.5 THE KENYAN ECONOMY

Kenya's economy moved to a path of accelerating growth after 2002 following two decades of stagnation in per capita income and high volatility of economic activity (World Bank, 2016:1-2). The country has established itself as an important regional player on the continent on multiple fronts and provides a good example of a developing country that has embraced tourism as a tool for socio-economic development (Akama & Kieti, 2007: 735-736). The share of services in Kenya's exports is 25 percent when trade is measured in terms of gross value (World Bank, 2016:14).

According to World Bank (2016: 1) gross domestic product (GDP) growth increased steadily from below 1 percent in 2002 to 7 percent in 2007. This was the first time since 1986 that GDP growth reached 7 percent and the only period of 5-year accelerating growth in independent Kenya's history. Since 2007, the economy has had several shocks, starting with the post-election violence in January 2008, which brought GDP growth to a halt, followed by a slow recovery in 2009. Economic growth has started to rebound since 2010 and has stabilized since, although at rates lower than before 2008. Kenya's economy has been inconsistent since 2010, with the country achieving a high economic growth rate of 5.8 per cent in 2010 (GoK, 2012: 1) followed by 4.4 per cent, 4.6 per cent and 4.7 per cent in 2011, 2012 and 2013 respectively. Then the growth rate increased marginally to 5.3 per cent in 2014 and 5.6 per cent in 2015 (GoK, 2016: 1).

Tourism is a key sector in Kenya and directly contributes about 4.1 per cent of GDP and 3.5 per cent of total employment (WTTC, 2015a: 9). Despite this seemingly low contribution, the general tourism economy, which captures linkages backward and forward, contributes 10.5 per cent of GDP. The sector also contributes almost 18.3 per cent in foreign exchange earnings and employs about 206,400 people in the travel and tourism direct industry jobs (World Travel and Tourism Council, 2015: 7). Tourism has been recognised as one of the sectors that will drive economic growth in the achievement of *Kenya Vision 2030* (KIPPRA, 2009: 4).

According to the Kenya Institute of Public Policy Research and Analysis (KIPPRA) (2009: 2-3), Kenya's economic performance witnessed the highest growth level in two decades, between 2002 and 2007, with growth in real GDP estimated at about 7.0 per cent in 2007. In the 1990s, GDP also experienced great inconsistency ranging between negative figures and 4 per cent. The country began to register positive growth after the millennium which peaked at 7 per cent in 2007, but again tumbled to 1.7 per cent in 2008. The economy rebounded in 2010 to 2012 by showing growth rates in excess of 5 per cent. For the last ten years, other than 2005, Kenya recorded lower annual GDP growth than the average for sub-Saharan Africa (SSA) and compared to its neighbours in the East African Community (EAC). Kenya's annual growth rate for the decade averaged 4.6 per cent, compared to 6 per cent for SSA, 6.9 per cent for Tanzania, and 7.1 and 7.2 per cent for Uganda and Rwanda respectively (Randa & Gubbins, 2013).

Kenya's economy is estimated to have expanded by 5.3 per cent in 2014, compared to 5.7 per cent in 2013. However, accommodation and food services (hotels and restaurants) sector contracted for the second year in a row. The tourism sector performance decreased in 2014 on account of a number of the following factors:

- insecurity;
- negative travel advisories; and
- fear of continued spread of Ebola in West African countries.

Consequently, the number of international visitor arrivals contracted by 11.1 per cent from 1,519,600 in 2013 to 1,350,400 in 2014 respectively.

Kenya Vision 2030 is Kenya's development blueprint covering the period 2008 to 2030. The Vision targets a GDP growth of 10 per cent per annum (Ministry of Planning & National Development, 2007: 1) which implies that Kenya's income per capita would double by 2018. It envisages that by the year 2030 Kenya will have become an industrialised middle-income economy. In the recent past, only a handful of countries, mostly oil-producing, have been able to grow at a double digit rate. For instance, in 2006 and 2007 in Asia, the fastest growing economies were China and India at an average of *11.2 per cent* and about *9.5 per cent* respectively. In South America, Venezuela grew at about *9.3 per cent*. Africa, Sudan, Angola and Equatorial Guinea have grown at about double digit levels after discovering new oil fields. Ethiopia is the only non-oil exporting Sub-Saharan African country that has been growing at double digits, mainly due to high infrastructure investment and commercialisation of agriculture. Ethiopia's growth, however, is threatened by high inflation and vulnerability to drought.

Kenya's growth target is, ambitious and cannot be realised and sustained without a keen commitment to reforms, according to the above analysis. Sustainable growth, as envisaged in the Vision requires that the growth strategy takes into account social and environmental concerns. Moreover, if growth is erratic then it will be difficult to realise the time bound goals. Estimates on growth in productivity reveal that total factor productivity (TFP) has played a significant role in the recent growth performance, growing at about 2.6 per cent between 2003 and 2006 compared to an average of about -1.0 per cent between 1990 and 2000. The key prerequisites to increasing productivity include improving the investment climate, developing infrastructure, research and development, and development of human skills.

According to the Kenya Economic Report (KIPPRA, 2009: 7-8), the high cost of food, energy and transport pushed inflation from 10.5 per cent in 2005 to 14.5 per cent in 2006, before declining to 9.8 per cent in 2007. However, during the first five months of 2008, inflation increased to 31.5 per cent. Between 2006 and 2007, about three-quarters of the direct increases in overall inflation were due to changes in food prices. Kenya still suffers high food deficits and hunger. The post-election violence that disrupted economic activity, coupled with rising international food and energy prices in 2008, exacerbated the situation. Like many other developing countries, Kenya has faced unstable energy and food prices and the global financial crisis that could lead to lower than projected medium-term growth.

Kenya has a strong export-oriented services economy and is now the fifth largest economy in Sub-Saharan Africa behind Nigeria, South Africa, Angola and Sudan, with a gross domestic product of US\$55.2 billion (World Bank, 2014). The economy remains resilient and the overall assessment of debt sustainability and other indicators is positive. The performance of the tourism sector, which largely depends on the political stability, is likely to improve on condition that aggressive marketing is sustained to restore confidence and global economic recovery. Also, the recent growth experience reveals the country can move towards realising the ambitious growth targets set in *Kenya Vision 2030*. The will and innovativeness to undertake the necessary policy reforms are key to the country's growth and development.

4.6 GROWTH AND DEVELOPMENT OF TOURISM IN KENYA

The tourism sector recently witnessed both growth and decline. Between 2010 and 2014 the average annual growth rate was 6.2 per cent compared to 3.4 per cent for Africa and 3.1 per cent for global tourism (WTTC, 2015a: 8). In 2010, tourism revenue grew by 16.8 per cent and overtook horticulture to become the leading foreign exchange earner in Kenya, with earnings of KShs 489.3 billion. Tourism registered a growth rate of 0.8 percent in 2013 and 1.0 percent in 2014 due to terrorist attacks. The sector has demonstrated potential for quick gains based on the available resources and registered earnings of about KShs 561.8 billion by end of 2014 (GoK, 2015: 211).

There are clear regional distribution issues in the tourism sector in Kenya. The distribution of hotel bed-nights by international tourists is uneven or skewed. It can be inferred that tourism, as one of the key sectors that will drive the growth of Kenya's economy, will make the need for new products and services more pronounced and compelling to the hospitality firms. It can be argued that in the tourism

industry the different sectors (for example accommodation, amenities, attractions, transportation and activities) have different risks in their service systems, hence making each of them NSD sector specific. Tourism development in Kenya has largely been guided by policies outlined in the *Sessional Paper No. 8 of 1969*; hence the need for a new policy, which was identified in the early 1990s. Subsequently, the *Tourism Master Plan* was developed through the assistance of Japanese International Development Agency (JICA) in 1995. The plan was, however, not adopted. In 2002, the Ministry of Tourism and Wildlife initiated the process of developing a comprehensive tourism policy and legislation. Though a Tourism policy and Act have been developed, they are yet to be fully implemented. The Tourism Act 2012 Chapter 383 makes provisions for the development and promotion of sustainable tourism for the social, economic and environmental benefit of Kenyan citizens.

According to Table 4.4, the tourism sector is more significant in terms of contribution to GDP for Kenya (10.5 per cent) than its sub-Saharan competitor South Africa (9.4 per cent) and Singapore (10.1 percent). It is also of almost equal significance in terms percentage visitor exports contribution to exports with Morocco (5.6 per cent) and South Africa (5.5 per cent). With respect to percentage of total contribution to employment (shown in Table 4.4) the tourism sector is significantly important for Morocco, Tunisia, Tanzania and Egypt, contributing over 10 per cent. Kenya's total contribution of tourism sector to employment is 9.2 per cent.

According to the WEF Travel and Tourism Competitive Index, Kenya was ranked 8th regionally and 96th overall out of 140 tourism destinations, up four places since 2008 (World Economic Forum, 2013). WEF uses composite indices on competitiveness, which take into account various factors including macro-economic stability, business environment and company strategy. The Travel and Tourism Competitive Index (TTCI) aims to measure the factors and policies that make it attractive to develop the travel and tourism sector in different countries. The TTCI is based on three broad categories of variables that facilitate or drive travel and tourism competitiveness, namely travel and tourism regulatory framework, travel and tourism business environment and the infrastructure, and travel and tourism human, natural and cultural elements. Kenya's competitive ranking is lower compared to African destinations such as Seychelles (38), Mauritius (58), South Africa (64), Cape Verde (87), Namibia (91), The Gambia (92) and Botswana (94). The competitiveness indices are produced annually and allow benchmarking and monitoring and are, therefore, continuously becoming popular.

Table 4.4: Contribution of tourism to national economy in 2014

| Country | Percentage of GDP | Travel and Tourism exports (US\$ billion) | Percentage of total exports | Travel and Tourism employment | Percentage of total employment |
|--------------|-------------------|---|-----------------------------|-------------------------------|--------------------------------|
| Malaysia | 14.9 | 49.2 | 8.6 | 1,769,900 | 13.0 |
| Singapore | 10.1 | 30.4 | 3.3 | 302,900 | 8.5 |
| Morocco | 17.9 | 19.1 | 5.6 | 1,740,700 | 16.0 |
| South Africa | 9.4 | 32.9 | 5.5 | 1,497,600 | 9.9 |
| Egypt | 12.8 | 36.0 | 4.2 | 2,944,100 | 11.6 |
| Tunisia | 15.2 | 7.1 | 2.3 | 472,800 | 13.9 |
| Kenya | 10.5 | 6.4 | 5.1 | 543,700 | 9.2 |
| Tanzania | 14.0 | 5.1 | 5.8 | 1,337,100 | 12.2 |

Source: WTTC, 2015a: 12-14.

Kenya faces various challenges in realising its full potential in the tourism sector. This includes low competitiveness with regard to infrastructure, lack of an effective policy environment and lower number of developed heritage sites, slow issuing of work permits in the tourism industry; relatively high levels of taxation in the tourism industry, negative publicity due to insecurity and environmental degradation and congestion. By leveraging its competitive advantages and dealing with the extant disadvantages, Kenya could close the gap.

4.7 INNOVATION AND TECHNOLOGY IN HOSPITALITY COMPANIES

New hospitality developments range from true innovations, which are totally new-to-the-world services, as discussed in section 1.6.2, with an entirely new market to fairly minor modifications of existing services. A minor modification might be a simple adaptation of an existing hospitality service (for example swipe cards instead of keys) or it may be an attempt to offer some added value additional new facilities (for example holiday homes).

Technological change creates new products, processes and services and in some cases entirely new industries (Harrison & Enz, 2005: 41). For the purpose of this study technology refers to human knowledge about products and services and the way they are made and delivered. For example, there is technology associated with cooking or cleaning a room.

Technological innovation is usually defined as the conversion of technological knowledge into new products; new services or new processes introduced onto the market, as well as the significant technological changes in products, services and processes (Orfila-Sintes, Crespi-Cladera & Martinez-Ros, 2005: 852). Technological innovation is also depicted as an improvement in a product or service in terms of performance, quality, cost, speed or other characteristics. Technological innovation within the tourist accommodation activity has to capture the particular and differential features of the sector, characterised by the nature of the service.

Technological innovations can take the form of new products or processes such as cellular phones or cookware. When an innovation has an impact on more than one industry or market, it is referred to as a basic innovation, for instance light bulbs, superconductors and fibre optics. Service innovation is a crucial aspect of a company's ability to differentiate itself from its competitors and can contribute more to a firm's revenues. The hospitality industry has the challenge of selecting appropriate technology for consumers.

There are some aspects that characterise service and have a great influence on the definition of technological innovation (Gallouj & Winstein, 1997: 537-552). First, there is a close interaction between production and consumption (coterminality) that complicate the typical product and process manufacturing distinction. The coterminality implies that the innovation activities will focus on service customisation, adapting the service provided to customer requirements. Moreover, there is a higher degree of service heterogeneity – the exchange object differs from one case to another. Only institutional changes, effectively implemented as a business strategy, must be regarded as technological innovations, and not those spontaneously generated and derived from human interactions. This characteristic fits the set of services provided to their customers.

The second aspect is intangibility and growth of information contents in the provision of services. Information and communication technology plays a critical role in the innovation activities of tourist accommodation businesses: to reach the potential customers with information that helps them get a deeper understanding of the service purchased; to reach the largest share of the demand; and to obtain and process the information for a better business performance.

Thirdly, the role of human resources is a key competitive factor. The importance of the human factor in service activities is associated with the capability to establish the quality and features of the service

finally provided. Training and education activities are explicitly considered as ways to improve and upgrade the technological capabilities of service firms. Lastly, changes in the organisation structure can be linked to the introduction of new technologies, and should be included as technological innovation activities. These organisational issues are relevant in the accommodation industry to fulfil the services requirements.

According to Victorino *et al.* (2005: 559-560), the technological innovations that were found to be most beneficial included: a wake-up call system, electronic door locks, in-room pay-per-view, video cassette players, multiple line phones, video libraries, personal computers, voice mail, computer modem connections, video check out, electronic in-room safes, and software libraries. However, the authors argue that it may be impractical for a specific hotel or chain to adopt all available technological amenities due to lack of operational capabilities or limited resources. Instead, hotels must determine which technological innovations will most benefit their organisation.

Technological innovation can be generated internally and also outsourced and there is no empirical evidence on the accommodation pattern. In this sense, it could be hypothesised in line with some empirical findings on technological innovation in the service industry which show that, with the exception of knowledge intensive based services like data processing or telecommunications sectors, most companies innovate through purchase of equipment, components and materials from their suppliers (Orfila-Sintes *et al.*, 2005: 853). Hjalager (2002: 465-474) typifies the hotel industry as a supplier-dominated sector that innovates through the incorporation of technological elements developed by its suppliers.

Supplier-dominated sectors have innovation coming almost exclusively from suppliers of machinery and other inputs. Service companies in these sectors such as hotels and restaurants are usually mass-service organisations. They tend to have many customers and transactions typically involve short client contact times and little client specific judgement (De Jong, Bruins, Dolfsma & Meeijard, 2003: 24). In these sectors innovation is usually not of a very radical nature. It is not unexpected that only a few researchers have studied innovation in these sectors, because supplier-dominated sectors are considered less innovative.

4.7.1 Competitive innovations in hotels

As a result of continuous innovation, hotels have improved the quality of their services by predicting customer needs and wants, increasing loyalty through various programs, expanding customer base while reducing unused capacities and increasing efficiency and productivity (Bilgihan & Nejad, 2015: 5). Extensive international research uncovered major hotel industry competitive innovations over the past 20 years (Olsen *et al.*, 1997: 33; Bilgihan & Nejad, 2015: 1-5). According to the authors, the innovations were as follows:

- **frequent guest programs:** programs designed to build customer loyalty by providing special privileges and free travel opportunities to frequent guests;
- **strategic alliances:** efforts made by firms to formally cooperate in advertising and marketing programmes, sharing products and customers and financing activities designed to maximise hotel occupancy;
- **computer reservation systems:** first pioneered by Holiday Inn, these programmes work similarly to airline reservation systems. Designed to fill rooms at rates that maximise the revenue yield per room, these programs also make it easier for the customer and travel agent to secure desired accommodations at appropriate prices;
- **amenities:** added products and services available to guests once they have registered. Often include toiletries and in-room services;
- **branding:** attempts by hotel firms to create and deliver new products to the customer. Often thought of as levels of service such as budget, economy, luxury and business class hotels. Each product is associated with specific products and services to differentiate it from the competition. Brands are available in several of these segments as well;
- **technological innovation:** this method includes a wide array of advancements designed to improve the products and services offered by hotels. They include all elements of communication systems, online booking websites, decision support systems for management, accounting services, safety and security programs, energy and conservation programs, automated check-in and check-out services;
- **niche marketing and advertising:** these programmes were designed to zero in on specific target markets emphasising special products and services to those markets;
- **pricing tactics:** this method is generally viewed as discounting and yield management (maximising the revenue per room based on demand projections);

- **cost containment:** the attempt to operate as efficiency as possible by reducing all costs associated with running a hotel;
- **service quality management:** the attempt by hotels to improve service quality by such techniques as Total Quality Management, continuous process improvement, among others;
- **franchising and the management fee:** this method of growth is viewed as a competitive method for those firms that possess unique capacity to deliver the necessary capabilities in each case;
- **innovative collaboration:** this method is based on two or more entities collaborating between different industries to build a new service offerings such as creating co-branded bikes for hotel guests or creating a new business model based on collaborative economy like Airbnb;
- **in-room sales and entertainment:** this method offers an array of possibilities to improve the revenue yield of each rented room by providing such items as pay-per-view on-demand movies, beverages, snacks and concierge services;
- **special services for frequent guests:** this program goes beyond the early frequent guest programmes and offers such attributes as automated check-in and check-out, special seating, lounges, merchandise discounts in the hotel and overall improved choices and upgrades for all products and services;
- **conservation/ecology programmes:** methods in this category are designed to address the guests' growing awareness for conservation and desire for clean air in the hotel and its rooms. It is seen as a way of attracting guests who value these efforts;
- **business services:** designed to meet the needs of the increasingly pressured business traveller, these methods include a full range of business services in the hotel and/or room as well as a full range of communication services;
- **database management:** this method takes advantage of growing technological capabilities to fully track the guest and his or her habits. This information is now being fully integrated into all other information systems utilised by the hotel;
- **core business management:** the recognition of doing one or few things well underpins this method. Companies have divested themselves of peripheral business units in order to concentrate on the core business of hotel management; and
- **direct customer marketing:** the information highway and advancing technology now make it possible for firms to sell directly to the customer using information provided by database marketing

programs. This method will grow in popularity as more travellers seek to make their own travel plans through such channels as the Internet.

The findings indicated that all the innovations were quickly copied by competitors. In other words, some were successful and some were not in gaining and keeping customers. Consequently, all the competitive innovations in hotels are either linked to systems, people and/or the service strategy as discussed in section 2.7 and section 3.3.2. New services can also be developed along each element or a combination of the elements of the hospitality product as discussed in section 4.4.

4.8 NSD IN THE HOSPITALITY SECTOR

The hospitality sector is rapidly changing due to accelerations in information technology (Olsen & Connolly, 2000: 30-40). Managers will need to make proactive changes which focus even more intensely on customers' preferences, quality and technological interfaces in order to stay competitive in such a dynamic environment (Karmarkar, 2004: 100-108). Thirdly, travellers today do not exhibit, as in past decades, a truly brand loyalty behaviour. Travellers, instead, are choosing to patronise hotels that offer the best value proposition under existing budgetary constraints (Olsen & Connolly, 2000: 30-40).

In order to add value to the guests' experience, hotel managers and marketers must meet the challenge of determining which services are preferred by hotel guests, and prioritising those preferences which add the greatest value to the hotel's existing offering. The importance of studying innovation's role in the hospitality sector seems obvious, however, analysis in service innovation research is lacking in comparison to product innovation research. Research studies on innovation in the hospitality sector included in this review are detailed in Table 4.5.

Table 4.5: Research works on product innovation in the hospitality sector

| Study by | Research problem | Source(s) of data | Relevant variables and results |
|---|---|---|--|
| Victorino, Verma, Plaschka and Dev (2005) | Impact of service innovation on customers' choices within the hotel and leisure industry | <ol style="list-style-type: none"> 1. Business and leisure travellers in the United States 2. Mail survey - electronic questionnaire to 930 travellers | <ol style="list-style-type: none"> 1. Service innovation does not matter when guests select hotels 2. Type of lodging has largest impact on customer's hotel choice 3. Service innovation has a larger influence on choice when guests stay at economy hotels rather than mid-range to upscale hotels 4. Leisure travellers are more influenced by innovative amenities than business travellers |
| Orfila-Sintes, Crespi-Cladera and Martinez-Ros (2005) | Investigation into technological innovation activity for tourist accommodation services. | <ol style="list-style-type: none"> 1. Hotels in Balearic Islands 2. Structured interviews: face-to-face using a pilot questionnaire in 9 hotels. 3. Mail survey: questionnaire to 331 managers | Higher-category hotels are more innovative than lower-categories hotels; an aggregated measure of technological innovation presents a rate over the average for hotels that belong to a chain, and that for hotels under management contract. Half of innovative firms adjust the human capital skills and abilities. The hotel industry is a supplier-driven sector. |
| Sigala & Chalkiti (2007) | Study of the level, type and processes of NSD efforts that hotels undertake for creating, assessing and further improving their NSD practices | <ol style="list-style-type: none"> 1. Hotels in Greece | <ol style="list-style-type: none"> 1. Hotels need to substantially increase their NSD activities 2. NSD in services should consider the ad hoc nature of processes in service development 3. Role and participation of guests and stakeholders in NSD processes remains important. |

| Study by | Research problem | Source(s) of data | Relevant variables and results |
|--|--|--|--|
| Ottenbacher, Gnoth and Jones (2006) | Examining factors that contribute to the success in high contact new service development projects | <ol style="list-style-type: none"> 1. Personal interview- 8 managers from differently rated and sized hotels 2. Mail survey - questionnaires to 183 hospitality managers involved in developing new products in Germany (response rate 38.1) | <p>Seven factors that influence the outcome of high contact NSD:</p> <ol style="list-style-type: none"> 1. Market attractiveness 2. Strategic human resource management 3. Market responsiveness 4. Empowerment of employees 5. Training of employees 6. Employee commitment 7. Marketing synergy |
| Hallin and Marnburg (2007) | Knowledge management in the hospitality industry | <ol style="list-style-type: none"> 1. Analysis of historic data 2. Review of extant literature | <ol style="list-style-type: none"> 1. Industrial studies 2. Inter-organisational studies 3. Intra-organisational studies |
| Ottenbacher (2007) | Hospitality innovation and performance dimensions | <ol style="list-style-type: none"> 1. Mail survey - questionnaires to 480 hospitality managers involved in developing new products in Germany (response rate 38.5) | <ol style="list-style-type: none"> 2. Market performance 3. Financial performance 4. Employee and customer relationship enhancement |
| Rodgers (2008) | Identifying technological challenges and innovation solutions in each of the food production philosophies in the food service sector | <ol style="list-style-type: none"> 1. Analysis of historical data 2. Review of industry reports | <ol style="list-style-type: none"> 1. Innovation in food preparations 2. Potential future developments in food service innovation |
| Kitsios, Doumpos, Grogouridis, Zopounidis (2008) | Criteria that contribute to the success of NSD projects in the hospitality industry | <ol style="list-style-type: none"> 1. In depth structured interviews with questionnaires from hotel managers in Greece | Firms which conducted more rigorous forms of service development activities are more successful at developing and launching new services |

Table 4.5 provides an overview of studies on product innovation in the hospitality industry and the key characteristics of each study by summarising the pioneering works of several contributors. It can be concluded that although there have been significant research efforts addressing NPD or NSD for the services sector, the NSD literature relating to hospitality service products has received inadequate coverage.

4.9 CUSTOMER INVOLVEMENT IN NSD

Bowen (1986: 371-383) argues that the customer should be managed as a quasi or partial employee and even further suggests using the same general motivation strategy for customers that are proposed for any employee. Hospitality companies must ensure that the guest has the appropriate knowledge, skills and abilities to perform whatever role he or she has to play to obtain the quality service experience sought. The company should train customers like employees and reward their efforts just as employees are rewarded. Customers might find it beneficial to co-produce hospitality services: they may get lower prices by helping produce their own service experience; they may save waiting time by self-registering at a kiosk in a hotel; and they may have greater choice by serving themselves.

There is co-production with the customer in many hospitality products. Although there are unique managerial challenges of having the customer inside the boundary of the company because of the element of co-production in service industries, the hospitality company can leverage the customers as co-producers, effective marketers and a source of information and new ideas to the company. Bowen and Shoemaker (1998: 13-25) suggest that customers should even get involved in the hiring process as one way of reducing role conflict.

Successful hospitality companies look beyond traditional employment definitions of the company and include customers as potential partners (Bettencourt, 1997: 383-406). In other words, if customers contribute time, effort or other resources to the service production process, they should be considered as part of the company (Zeithaml & Bitner, 2000: 322). Further, if customers are considered part of the company's production resources, they should be managed the same as other parts of the service delivery system (section 3.4.8).

Customising the service experience for hotel guests is another means of service innovation (Victorino *et al.*, 2005: 560). Some examples of service customisation include: allowing guests to have flexible

check in/out times, personalising room décor, or having child care options available. Customised options adapt the hotel's service offering to each individual guest's preferences. However, customisation is not easy to implement due to the operational capabilities of the company, as indicated in section 3.2.1.2. For example, a flexible check in/out policy could lead to labour scheduling problems.

Customers have many alternatives for fulfilling their needs and it is easy to compare these alternatives using all of the information that is available. The stronger the competition, the more incentives are given to switch service providers. Secondly, consumers are becoming more sophisticated. Consumers have access to a proliferation of information about products and services. This information allows them to focus on overall value, rather than price or quality alone. Also, consumer advocacy firms provide helpful tips for getting bargains and avoiding companies with poor reputations.

Finally, there is an increased emphasis on the individual needs of customers. There is more customisation of products and promotions. Improved technology has made database marketing possible, allowing more precise targeting of markets and less wasted coverage with promotions. Companies are able to service more market segments by introducing new brands or forming relationships with other firms (for instance strategic alliances, mergers and acquisitions).

4.10 THE HOTEL SECTOR IN KENYA

While Kenya has a number of strengths that support its potential for long-term growth as a competitive tourist destination (World Bank, 2010: 13) the country's tourism demand has followed a pattern of peaks and valleys. Policy choices continue to evolve in the right direction and structural reforms over the past two decades have positioned the country well to fully tap its advantageous geography and promote private sector growth. Although tourism activities are largely concentrated in the coastal region (63 per cent) and Nairobi (20 per cent), tourism remains a significant source of foreign exchange earnings in Kenya.

Tourism earnings went down to KSh 84.6 billion in 2015 compared to KSh 87.1 billion in 2014. International visitor arrivals declined by 12.6 per cent to 1,180.5 thousand in 2015. The sector's suppressed performance was mainly due to security concerns, particularly in the coastal region, and negative travel advisories from some European source market (GoK, 2016: 207). The hotel capacity,

defined as hotel bed-nights available contracted by 3.0 per cent from 18,849.6 thousand in 2012 to 18,292.2 thousand in 2013 (GoK, 2014: 209). Accommodation and food service activities recorded a second consecutive annual contraction of 17.2 per cent in 2014 compared to a contraction of 4.6 per cent in 2013. The contraction was attributed to both internal and external shocks. The poor performance was reflected in a significant decline in bed occupancy, primarily due to reduced international tourists. This resulted in a drop in bed occupancy from 36.1 per cent in 2013 to 31.6 per cent in 2014 and 29.1 per cent in 2015. Room occupancy dropped from 38.1 per cent in 2014 to 37.2 per cent in 2015 (GoK, 2016: 207). Average room rates for first class branded hotels suggest that there has been over-supply of accommodation in Kenya.

Bed nights by domestic tourist in the country are concentrated in the Coast and Nairobi. This pattern, which is also similar to that of inbound tourists, is a cause for concern. Studies have shown that at the Coast, beaches have seriously been degraded and polluted, coral reefs and mangrove forests substantially destroyed and marine species adversely affected due to over-concentration of tourism activities (GoK, 2009: 98). Comparing the inbound and domestic overnight stays for selected countries for 2014, Kenya has a very small proportion of domestic overnight stays in relation to inbound tourists. Perhaps this suggests that while marketing efforts should still be undertaken in overseas source markets, it is imperative for Kenya to expend more efforts in targeting domestic tourists. Domestic tourists could greatly help reduce seasonal fluctuations of overnight stays, especially in periods of negative advisories. It is important to determine what products and services the domestic tourists prefer and ensure that they are supplied.

In spite of fluctuating tourism earnings and average length of stay, per capita tourist expenditure in Kenya is low compared to other destinations including Tanzania, Tunisia, Malaysia and Mauritius. Data on average room rates indicate that there is over-supply of accommodation especially for one to three star hotels, thus contributing to comparatively lower room rates (Kenya Tourist Board, 2005: 112). However, striving to simply increase tourist volume in a mature destination like Kenya will stress and irrevocably damage the natural and cultural assets on which the tourism industry depends (World Bank, 2010: 62). Kenya could move up the tourism value chain to become more competitive and capture greater value from tourism by increasing the value tourism brings to Kenya's economy by attracting visitors who stay longer and spend more. This requires developing a new mix of tourism products that augment existing offerings with new and innovative options.

There are clear regional distribution aspects in the hospitality sector in Kenya. The distribution of hotel bed nights by international tourists is uneven or skewed. About 60 per cent of tourist hotels are locally owned (GoK, 2009: 99). In addition, about 80 per cent of the total purchases of tourist hotels are obtained within the country. However, Seychelles which is the most competitive country in sub-Saharan Africa, ranked 38th overall (World Economic Forum, 2013) has good tourism infrastructure, especially in terms of available hotel rooms.

The occupancy rates have consistently been below 50 per cent for most of the last decade. Thus this study will be carried out in the face of under capacity of beds and declining markets. Yet even before these events, the situation described here has put particular pressure on the hospitality sector, and innovative service development could be regarded as a major strategy out of a sluggish if not a declining market. New services and products can also lead to improved image, enhanced customer loyalty and increased ability to attract new customers.

It can be concluded that the hospitality sector in Kenya has for almost a decade mainly operated with a high idle capacity, which is an overall occupancy rate of less than 50 per cent. The highest idle rate during the period was 66.4 per cent realised only in 2003. It is feasible that the extra bed capacity for hotels envisioned according to Kenya's Vision 2030 flagship projects, discussed in section 4.6.1 might increase the idle capacity. Yet, the country has potential to competitively grow its inbound and domestic overnight stays (World Bank, 2010: 14-15).

There are many different types of accommodation, namely town hotels, vacation hotels, lodges, tented camps and house stays. According to the World Bank (2010: 8-9) Kenya's tourism product offering is fragmented and new product development is hindered by poor access to finance. It can be inferred that tourism, as one of the key sectors that will drive the growth of Kenya's economy, will make the need for new products and services more pronounced and compelling. It can also be argued that in tourism industry, the different sectors (accommodation, amenities, attractions, transportation and activities) have different risks in their service systems hence making each of them NSD sector specific.

4.11 SCOPE OF THE STUDY

As mentioned in the demarcation section of this study in the introductory chapter this is an exploratory study aimed at investigating the strategy and process of new service development in the hospitality

sector in Kenya. Hospitality is the largest business activity in the world and a very important component of the service industry in Kenya's national economy. Accommodation and restaurant sub-sectors account for key indicators of performance in the tourism sector (KIPPRA, 2016: 81). The total contribution of Travel & Tourism to GDP was KSh 561.8 billion (10.5 per cent of GDP) in 2014, and in 2015, and to rise by 5.1 per cent per annum to KSh 964.2 billion (10.3 per cent of GDP) in 2025 (WTTC, 2015b: 1; KIPPRA, 2016: 77). This indicates the significance of the hospitality sector in Kenya's tourism.

The industry is diverse, global and cyclical. This makes hospitality management quite complex, because of increased competitiveness and changes in tourism demand and confirms the thesis that complexity, dynamics, heterogeneity and uncertainty are the main characteristics of today's environments. Competitiveness requires new hotel products, an increase in the hotel quality and changes in the behaviour of employed staff. Conversely, hotel guests have ever increasing demands, with the hotel management having to compete in order to create a more attractive and creative service.

NSD in hospitality firms has nearly been ignored as a theme in the services marketing literature. Menor *et al.* (2002: 135-157) underline that significant effort is required to clarify the existing works, which are scarce and scattered. The gaps in literature provide more substance and relevance to the execution of this study in order to make contribution to the need for research among hospitality firms in Kenya.

To execute the empirical part of this study among classified hotels, it is necessary to use respected publications such as the most current government printed Kenya Gazette as the source to select classified hotels from the hospitality enterprises in Kenya.

This hotel grading and classification will be discussed in the next section.

4.12 HOTEL CLASSIFICATION

As indicated in the introductory chapter the empirical part of the research will be executed amongst classified hotels in Kenya based on the quantitative selection criteria that will be motivated in chapter six. It is however necessary to provide a discussion on hotel classification as this will be used to select the classified hotels from the hospitality sector in Kenya. The discussion will highlight various perspectives of grading and classification.

4.12.1 Grading and classification

Since 1962 the World Tourism Organisation (WTO) has sought to develop a universally accepted hotel rating system. Although there are several alternative hotel classification systems, the WTO model is generally accepted to classify hotels by most countries. This is a method of providing hotel establishments a certain number of stars, ranging from one to five, depending on predetermined quality attainment conditions (Abbott & Lewry, 2002: 6). The framework is merely a guiding summary and may vary from country to country depending on a destination's quality focus and strategy.

Today, standardisation and competitive marketing of hotel services to foreign customers and tourist professionals have emerged as driving forces for instituting hotel classification systems. While the debate continues in the hotel industry as to whether formal classification is in fact necessary or not, there are currently moves in a number of world regions – Europe, Scandinavia, South East Asia and Middle East – for some form of harmonised regional system. For instance, Article 115 of the Treaty for the Establishment of the EAC signed on 30th November 1999 by Kenya, Uganda and Tanzania and entered into force on 7th July 2000 sets out a vision for standardisation of hotel classifications within the EAC. Kenya operates five categories for serviced accommodation: hotels are graded from one to five stars. Guest houses are graded from one to three stars.

4.12.2 Approaches of rating accommodation

Star rating of hotels is largely used in order to guide potential guests on the nature of facilities and services that can be expected (Ramanathan, 2012: 47). This rating varies from one star to five in Kenya. Universally, the higher the star the higher expected diversity, level of service and facilities in a hotel. According Lawson (1995: 12) the general characteristics of hotel rating schemes from one to five star categories are as follows:

- hotels with good basic facilities and furnishings ensuring comfortable accommodation. Meals services may be limited. Includes small private hotels;
- hotels having higher standards of accommodation and more facilities providing good levels of comfort and amenity. This includes private hotels and budget accommodation;
- well-appointed hotels with spacious, very comfortable accommodation, mostly with en-suite bathrooms. Full meal facilities are provided, as well as a range of amenities;
- high quality hotels, well equipped and furnished to a very high standard of comfort, offering a very wide range of services and amenities for guests and visitors; and

- outstanding hotels with exceptional quality accommodation and furnishings to the highest international standards of luxury, providing impeccable services and extensive amenities.

The development of classification and grading schemes for hotels and other accommodation in Kenya is an important activity but one which may give rise to disagreement among various stakeholders. Kenya's Hotel and Restaurant Authority reviewed its classification recently and upon publication attracted a lively debate amongst hotelkeepers and government officials (Anon, 2005: 12). This study will provide a meaningful contribution to new service development in hotels in Kenya in order to enhance growth and competitiveness.

As a result, the question of how hotel ratings compare across the world is periodically raised by various public and private sector interests. Historically, hotel classification systems were developed to ensure safe and reliable lodging and food for travellers at a time when very few such trustworthy establishments existed. With the unprecedented growth of international tourism, the focus has moved from consumer protection to consumer information. This study will adopt the WTO model which is generally accepted in most countries, including Kenya, to classify hotels. Table 4.6 provides a summative reference for the various hotel star grades.

Table 4.6: Hotel classification criteria

| Star rating | Star mark | Description of Facilities |
|-------------|-----------|---|
| One star | * | <ul style="list-style-type: none"> • Hotels with basic facilities and services meeting the quality standards. • In harmony and conformity with locality • Separate and independent access for the hotel guests and delivery • Reception staff in uniform and presentable • At least ten lettable rooms • 100 per cent private bathrooms • At least one restaurant that is well furnished and lit • One meeting room with not least than 40 square metres • Glass washing and drying machine shall be available • Enough storage capacity for water to last at least one day in case of a breakdown in supply • Drinking water must be safe and portable and shall meet WHO standards |

| Star rating | Star mark | Description of Facilities |
|-------------|-----------|---|
| | | <ul style="list-style-type: none"> • Lifts shall be provided for buildings of four or more storey including ground floor |
| Two star | ** | <p>Same as one star but</p> <ul style="list-style-type: none"> • With comfortable facilities, offering some services and amenities • Some claim to style and beauty • Good quality and harmony of colours • Enough storage capacity for water to last at least three days in case of a breakdown in supply • Drinking water must be safe and portable and shall meet WHO standards • Lifts shall be provided for buildings of four or more storeys including ground floor |
| Three star | *** | <p>Same as two star but with excellent facilities, offering a wider array of services and amenities</p> <ul style="list-style-type: none"> • All rooms to be approached through a corridor except for cottages • Good quality uniforms • Restaurant should be same as in a one star but with a coffee shop or snack bar in addition • Provision for smoking and non-smoking area • At least one per cent of the rooms shall be suites • Safe deposit available though not necessarily in the rooms • Enough storage capacity for water to last at least five days in case of a breakdown in supply • Drinking water must be safe and portable and shall meet WHO standards • Lifts shall be provided for buildings of four or more storey including ground floor |
| Four star | **** | <ul style="list-style-type: none"> • Hotels with superior facilities, offering a wide range of services and amenities • Mosquito nets available • High quality furniture and fittings • Enough storage capacity for water to last at least one week in case of a breakdown in supply • Drinking water must be safe and portable and shall meet WHO standards • Lifts shall be provided for buildings of four or more storeys including ground floor and a service lift provided |

| Star rating | Star mark | Description of Facilities |
|-------------|-----------|---|
| Five star | ***** | <p>Same as for three star but,</p> <ul style="list-style-type: none"> • Hotels with exceptional facilities, offering a full range of services and amenities • Locality and environment of high international standards • Building wholly detached • Exceptionally high quality of finishing • Enough storage capacity for water to last at least one week in case of a breakdown in supply • Lifts shall be provided for buildings of four or more storeys including ground floor and a service lift provided |

Source: Government of Kenya, 2005.

As indicated in Table 4.6, the star marks are awarded to a particular hotel depending on the summative quality reference and expectations with a five-star rating given to the highest of quality and standards in offering. One-star hotels offer comparatively low quality service offerings. The hotel category classification indicates the level and complexity of services provided. Their influence over the innovation propensity is simultaneously an endogenous and exogenous outcome.

The national distribution of classified hotels from one to five-star category in Kenya will be provided in chapter six.

4.13 CONCLUSION

This chapter was devoted to the hospitality service sector environment in which the empirical research will be conducted.

The review of the existing NSD literature has been undertaken to highlight the most salient issues associated with NSD practices and to justify a case for further research in the area of the hospitality services sector. It is argued that existing models do not incorporate sufficiently the heterogeneity of different service sectors. Research is therefore required to investigate the NSD process and strategy in the hospitality sector through exploration of sectoral differences to enable existing models to be improved, or an alternative approach to be developed.

The next chapter will provide a description of new service development in the financial services sector.

CHAPTER 5

NEW SERVICE DEVELOPMENT IN THE FINANCIAL SERVICES SECTOR

5.1 INTRODUCTION

The financial sector was chosen for mapping of the study against the hospitality sector because of the increased level of service development activities in the financial industry (Alam & Perry, 2002: 519) and its prominence in empirical studies has given the more product-like features of financial services (Dolfsma, 2004: 325). The significance of the financial services sector has been highlighted by the recent fundamental changes that it has experienced. These include deregulation, increasing competition, higher costs of developing new products and the rapid pace of technological change, more demanding customers, and consolidation of corporations (Akamavi, 2005a: 359). These myriad of changes have exerted unprecedented pressure on managers in financial sector to adapt to the changes by developing and launching new products.

This chapter will holistically review the literature and critically examine NSD in the financial services sector. The chapter will conclude with a description of the key findings and concepts of NSD in the financial sector that could be considered and extended to the hospitality sector for the empirical part of this study.

5.2 FINANCIAL SERVICES INDUSTRY

The financial services industry can be defined broadly to include all Standard Industrial Classification (SIC) codes starting with digit six (Mulligan & Gordon, 2002: 29). This classification includes insurance and real estate (except construction). This chapter will concentrate on those services typically classified as “financial”. These include depository institutions; non-depository credit institutions; security and commodity brokers, dealers, exchanges and services; insurance carriers; insurance agents, brokers and service; and holding and other investment offices.

A financial system is composed of a set of structures and institutions, including money markets, bond markets, equity markets and banks. Using this system, individual customers, firms and governments

obtain funding and invest savings (May, 2004: 271). Unlike the hospitality sector, considerable restructuring of the industry has occurred through mergers, acquisitions and “coopetition” in which competing companies cooperate to mutual advantage. The financial services sector can broadly be defined to include depository institutions; security and commodity brokers, dealers, exchanges, and services; insurance carriers; insurance agents, brokers, and service; holding and investment offices, insurance and real estate (except construction). The financial services sector was selected for comparison with the hospitality sector because the former is well covered in the extant literature and is usually organised in a sequential manner (de Jong & Vermeulen, 2003: 844).

Financial service firms are relatively unique in regard to their value chains in that they can typically add value to the end product without physically possessing any intermediate product. In fact, ownership and the ability to use financial assets rarely require their physical possession. Although ownership is sometimes confirmed with a physical certificate, only an electronic record is necessary, whether the asset is stock, bond, mutual fund, derivative, gold bullion, futures contract, or any form of money other than cash (Mulligan & Gordon, 2002: 32).

According to Menor and Roth (2008: 267), the emergence of heightened competition, increased heterogeneity of customer demands, and shortened product life cycles, service firms across many industries are increasingly faced with the challenges of determining how best to manage the development of new offerings. Within the service industry, financial services easily comprise the largest component, with annual revenues nearly equalling the total of that in all other service sectors, including business services, and health, legal and engineering services (Mulligan & Gordon, 2002: 30). A detailed discussion of the financial sector with reference to the three forces: the customer, the competition, and the corporation (the 3Cs) as discussed in section 2.6 follows in the next section.

5.2.1 NSD in the financial services sector

The subject of NSD in the financial services sector has received a considerable amount of attention over the last three decades compared to other service sectors. Although there exists a number of gaps and deficiencies in the literature, research contributions in the field of financial service innovation have grown steadily. All the studies included in this review are detailed in Table 5.1.

Table 5.1: Research works on product innovation in the financial sector

| Study by | Research problem(s) | Sources of data | Relevant variables and results |
|---|--|---|---|
| Haaroff (1983) | Investigation of new financial service development | 1. Case study research with the Midland Bank in the United Kingdom (UK) | 2. Lack of market research 3. Decision of developing new financial service was driven by desire to be the first to market with the service in the UK |
| Shostack (1984), Macmillan and McCaffery (1984) | Research into designing service delivery The identification of barriers to fast response as key ingredient of success | 1. Exploratory case study 2. Interviews with product managers responsible for introduction of new products | Blueprint for new services development Response barriers that inhibited competitors reactions to new products: 1. Commitment in terms of prior investments and operating systems 2. Strategic issues 3. Organisational issues 4. Internal politics 5. Product characteristics |
| Davison <i>et al.</i> (1989) | Analysing the nature and the role of the new service development process with particular focus on the use of market research | 1. Exploratory research of 20 personal interviews with marketing and market research executives from financial institutions, followed by survey research among 375 financial institutions | Reasons for limited use of market research: 1. Copying of competitors 2. Complexity of service, cost, and commitment to launch 3. Personal nature of financial products |
| Easingwood and Storey (1991) | Investigation into success factors for new financial products | 1. A mailed questionnaire sent to 125 marketing managers involved in new products | Success factors: 1. Overall quality 2. Differentiated product 3. Product fit and internal marketing 4. Use of technology |

| Study by | Research problem(s) | Source(s) of data | Relevant variables and results |
|--------------------|--|---|---|
| De Bretani (1991) | Research into factors in new service development in the business-to-business services sector incorporating conceptual and research paradigms of new manufactured goods | 1. Exploratory stage involving 95 personal interviews with managers responsible for NSD, followed with survey research among 184 companies | <ol style="list-style-type: none"> 1. Proficiency in NSD 2. Market characteristics 3. Nature of new service offering |
| Donnelly (1991) | Description of success factors for banking products | 1. Theoretical/conceptual contribution | <p>Six Ss for success:</p> <ol style="list-style-type: none"> 1. Superiority 2. Sociability 3. Satisfaction 4. Simplicity 5. Separability 6. Speed |
| Thwaites (1992) | Research into the characteristics of an organisation that influences the effectiveness of the new product development process in financial services | 1. A panel of informed opinion drawn from senior levels of academia, banking, building societies, management consultancy and technological services (n=15) was followed, by a mailed questionnaire to 109 members of Building Societies Association | <p>Three organisational dimensions were derived through factor analysis:</p> <ol style="list-style-type: none"> 1. Mission 2. People 3. Communication |
| De Brentani (1993) | Research into the NSD process in financial companies | 1. Mailed questionnaire to marketing managers involving 56 successful products and 50 failures | <ol style="list-style-type: none"> 1. Formal up-front design and evaluation, extensive launch programme, supportive and high involvement NSD environment 2. Marketing dominated NSD process 3. Customer-driven and expert driven NSD process |

| Study by | Research problem(s) | Source(s) of data | Relevant variables and results |
|----------------------------|---|---|---|
| Thwaites (1992) | Research into the characteristics of an organisation that influences the effectiveness of the new product development process in financial services | 1. A panel of informed opinion drawn from senior levels of academia, banking, building societies, management consultancy and technological services (n=15) was followed, by a mailed questionnaire to 109 members of Building Societies Association | Three organisational dimensions were derived through factor analysis: 1. Mission 2. People 3. Communication |
| De Brentani (1993) | Research into the NSD process in financial companies | 1. Mailed questionnaire to marketing managers involving 56 successful products and 50 failures | 1. Formal up-front design and evaluation, extensive launch programme, supportive and high involvement NSD environment 2. Marketing dominated NSD process 3. Customer-driven and expert driven NSD process |
| Wathen and Anderson (1995) | Examination of new services design | 1. Survey: a mailed questionnaire to 142 banks | 1. Customer information in service delivery systems 2. Task technology 3. Communication 4. Service job design: centralisation |
| Edgett (1996) | Investigating new financial product development | 1. Survey: a mailed questionnaire to 80 senior executives involved in developing new products | 1. Frequency of new product activities 2. Completeness of the new product process 3. Quality execution of process activities 4. Linking performance and the process |

| Study by | Research problem(s) | Source(s) of data | Relevant variables and results |
|-----------------------------|---|--|--|
| Edvardsson (1997) | Framework for new service development | 1. Experimental/theoretical contribution | 1. Service concept 2. Service process 3. Service system 4. Resource structure |
| Lockett and Littler (1997) | Exploration of new financial services | 1. Survey research to 1,500 financial institutions | 1. Channel strategy 2. Competing technologies 3. Perceived innovation characteristics 4. Customer learning requirements |
| Johne (1999) | Review different types of innovation | 1. Explanatory | Three types of innovation: 1. Product innovation 2. Process innovation 3. Market innovation |
| John and Davies (2000) | Types of innovation | 1. Pre-notification written outline questions 2. Face-to-face structured interviews 3. Archives | 1. Market innovation 2. Product innovation 3. Process innovation 4. Dimension of innovation capability |
| Kelly and Storey (2000) | Investigation into systematic procedures for generating and filtering new service ideas | 1. Survey research of 156 service companies from financial services, transport, telecommunication and media 2. Response rate: 28 per cent | 1. Approach to NSD: Prospector, Analyser, Defender, Reactor 2. Satisfaction with NSD 3. Idea generation |
| Oldenboom and Abratt (2000) | Investigation into the success and failure factors in innovating financial services | 1. Survey research of 292 financial service companies. Response rate: 43 per cent | 1. Adequate skills and resources 2. Product advantage 3. Degree of service newness 4. Cross-functional integration |

| Study by | Research problem(s) | Source(s) of data | Relevant variables and results |
|--------------------------------|---|---|--|
| Alvonitis <i>et al.</i> (2001) | Investigate the relationship between financial product innovativeness and performance outcome | <p>Survey research of 110 Greek financial companies: Personalised pre-notification letter and telephone</p> <p>Parallel Translation of English version questionnaire into Greek</p> <p>Pre-test and Pilot</p> <p>Four Translators</p> <p>Four Greek post-graduates students from UK Universities and Four Greek Executives from Greek financial companies</p> <p>Three academics and seven practitioners from the financial companies</p> <p>Dropping method: questionnaires were handed to respondents and picked-up</p> <p>Follow-up: telephone and fax</p> <p>Response rate: 71.4 per cent</p> | <p>1. Service innovativeness</p> <p>2. New service delivery:</p> <ul style="list-style-type: none"> • Operating/delivery process • Services modification • Service newness to the market • Service newness to the company • Service line extensions • Service repositionings <p>3. NSD process</p> <ul style="list-style-type: none"> • Idea generation and screening activities • Business analysis and market strategy activities • Technical development • Testing activities • Launching <p>4. Cross-functional involvement:</p> <ul style="list-style-type: none"> • Systematic behaviour • Documentation • Assignment of responsibility <p>5. New service performance (Overall)</p> <ul style="list-style-type: none"> • Financial performance • Non-financial performance |
| Kandampully (2002) | Examination of innovation service | 1. Theoretical/conceptual contribution | <p>1. Core competency</p> <p>2. Knowledge</p> <p>3. Resources</p> |

| Study by | Research problem(s) | Source(s) of data | Relevant variables and results |
|-------------------------------|---|---|--|
| Shin and Jemella (2002) | Investigation into the business process re-engineering (BPR) methods for financial institutions | 1. Case study: Chase Manhattan Bank | 1. Concept of BPR 2. Phased approach to BPR 3. Organisation assessment 4. Performance improvement 5. Introduction of new products |
| De Jong and Vermeulen (2003) | Review the literature to classify new service development | 1. Explanatory | 1. Innovation 2. Organisation of NSD 3. Relationship between NSD organisation and innovation process |
| Rajatanavin and Speece (2004) | Examines the integration of customer views into the NSD process | 1. Qualitative research: Thai insurance industry 2. In-depth face-to-face interviews: 15 senior managers and executives of marketing and actuary | 1. Role of customer views in NSD 2. Sales force as information transfer mechanism 3. Stages of the NSD process 4. Sales force contribution to NSD |
| Gerrard and Cunningham (2003) | Examine the diffusion of internet banking | 1. Interview: 16 consumers (Eight adopters of e-banking and non-adopters) 2. Survey: 240 usable responses (111 adopters and 129 non-adopters) | 1. Convenience 2. Accessibility 3. Confidentiality 4. Compatibility 5. PC competence 6. Economic benefits 7. Social desirability 8. Complexity 9. Innovativeness |

| Study by | Research problem(s) | Sources of data | Relevant variables and results |
|-----------------------------|--|---|---|
| Roberts and Amit (2003) | Investigation into the adoption of new financial services and the process | 1. Analysis of historic data | 1. Innovation 2. Financial performance |
| Blazevic and Lievens (2004) | Analyse the relationship between new financial process antecedents and performance | 1. Survey: Mailed questionnaire to 154 banks with response rate of 42 per cent | 1. Nature of communication 2. Organisational design 3. Project learning 4. Performance |
| Syson and Perks (2004) | Examines the NSD network perspective of NSD process | 1. Case study: Single financial services company: Yorkshire Building Society 2. Triangulated documentary sources and observation | 1. Level of innovation: <ul style="list-style-type: none"> • Service improvements • Service line extensions 2. Value of network perspectives |
| Akamavi (2005b) | Examine the banking process innovation | 1. Case study: Observation and interviews | 1. Service quality 2. Process innovation as NSD 3. Process re-engineering: e-banking process operation 4. Performance results of e-process map or virtual process: <ul style="list-style-type: none"> • Benchmarking indicative measures; and • Improvement assessment |

| Study by | Research problem(s) | Sources of data | Relevant variables and results |
|--------------------------------|--|---|---|
| Alam (2006) | Comparative analysis of new service development strategy and process in two countries | 1. Cross sectional study: survey of large financial companies, 274 in USA and 262 in Australia | 1. New service strategy 2. New service development stages |
| Stevens and Dimitriadis (2005) | Examine the development process of a new financial product Identify learning actions that may contribute to its effectiveness | 1. Two qualitative longitudinal case studies: a well-known French bank and of a retailer 2. Multiple semi-directed interviews, observation and text analysis | 1. Actors in the NSD process 2. The decision making process 3. Transformations occurring during NSD process: <ul style="list-style-type: none"> • Interaction process between the business and the client • The information systems; and • The organisational chart |
| Menor and Roth, (2008) | What can service companies do to improve their ability to offer new services | 1. Survey data from 166 retail banks | NSD success results from building competence in the management of service development resources and routines. NSD competence is represented by a system of four dimensions: <ul style="list-style-type: none"> • formalised NSD processes, • market acuity, • NSD strategy, and • Information technology use and experience. |

It is evident in Table 5.1 that most of the studies in the financial sector were conducted within the banking sub-sector, yet the financial sector too has different product and service features within each sub-sector. Additionally, the financial sector consists of information-processing services while the hospitality enterprises provide people-processing services as indicated in section 3.2.2 thereby posing different service development challenges and opportunities. NSD competence is represented by formalised NSD processes, market acuity, NSD strategy, and technology use in the financial sector while NSD success results from building competence in the management of service development resources and routines within the sector.

Previous studies indicate limited use of market research in NSD due to copying of competitors and personal nature of the financial products. Similarly, transformations in the service design, service system and service process occur as a result of numerous interactions between the customers, employees, company, competition and other players. As an upshot, NSD strategy and process studies conducted in the financial sector as indicated in Table 5.3 majorly focused on various perspectives of the customer, corporation, and competition as discussed in section 2.7.

5.3 TECHNOLOGY AND INNOVATION

Technology and innovation are increasingly identified as major forces behind the growth of services. Information and communication technology (ICT) is playing a pivotal role in increasing the pace of change and revolutionising the ways in which most of the “traditional” services are developed, produced, traded and delivered as well as offering opportunities for the generation of new activities in many service industries. The growth and development of ICT has also facilitated an increase in competition, reshaped traditional boundaries between industries and sectors increasing competitive pressures.

According to Orfila-Sintes, Crespí-Cladera and Martínez-Ros (2005: 851), technological innovation is usually defined as the conversion of technological knowledge into new products, new services or new processes introduced into the market, as well as the significant technological changes in products, services and processes. Technological innovation is also depicted as an improvement in a product or service performance in terms of quality cost, speed or number of characteristics. There are some aspects that characterise service and have influence on technological innovation, namely the following:

- The simultaneous production and consumption (co-terminality) implies that innovation activities will focus on service individualisation, adapting the service provided to the customer requirements. Moreover, the coterminality leads to a higher degree of service heterogeneity. Only institutional changes effectively implemented as a business strategy, and not those spontaneously generated and derived from human interaction, may be regarded as technological innovation. While this characteristic fits the set of services that hotels provide to their customers, tradition and aversion of some consumers to adopt new technology in the financial sector dictates that firms continue to provide paper-based transaction audit trails. Mulligan and Gordon (2002: 32) posit that the globalisation of finance and the development of international standards imply the development of major global players; economic forces and technological advances, especially with the Internet, have driven this consolidation across international boundaries and across types of financial services.
- Intangibility means that firms have to creatively deal with the growing information contents in the development and provision of services. Financial service firms are relatively unique in their value chain in that they can add value to the end product without physically possessing any intermediate product. In fact, ownership and ability to use financial assets rarely require their physical possession. While ownership is sometimes confirmed with a physical certificate, only an electronic record is necessary, whether the asset is a stock, bond, mutual fund, derivative, gold bullion, futures contract, insurance contract or any form of money other than cash (Mulligan & Gordon, 2002: 32).
- The heterogeneity of services signifies the role of human resources as a key competitive factor. It is associated with capability to establish the quality and features of the service finally provided. The introduction and constant development of technology has streamlined and simplified the workplace and created a demand for knowledge workers, while the waves of downsizing are expected to create flatter and less costly firms. Ironically, the financial services industry has been doing business electronically for many years, but for some reasons many business-to-customer information transfers continue to be executed via traditional paper based formats. These include such functions as prospectus delivery, statement reporting and transaction confirmation. Training and education could be considered as ways of improving and upgrading the intellectual capabilities of a service company.

The financial sector plays a critical role in the development process through financial intermediation (KIPPRA, 2009: 107). Financial service companies should be able to implement a growing number of strategic business initiatives to ensure survival and growth. Although regulatory statutes demand the use of paper reporting for many types of transactions (Mulligan & Gordon, 2002: 32) in the financial sector, industry leaders must continue to pressure both the customers and regulatory agencies to adopt electronic distribution and information management methods.

5.4 KENYA'S DEVELOPMENT PLAN

Kenya Vision 2030 programme plan comes after the successful implementation of the Economic Recovery Strategy for Wealth and Employment Creation (ERS-WEC) which has seen the country's economy back on the path to rapid growth since 2002, when GDP was at 0.6 per cent rising to 6.1 per cent in 2006 (Ministry of Planning & National Development, 2007: 1). The vision is anchored on three pillars: the economic pillar, which aims at providing prosperity for all Kenyans through an economic development programme aiming to achieve an average GDP growth rate of 10 per cent per annum within the next 25 years; the social pillar seeks to build "a just and cohesive society with social equity in a clean and secure environment"; and the political pillar aims at realising a democratic political system founded on issue-based politics that respects the rule of law, and protects the rights and freedoms of every individual in the Kenyan society. The relationships between the pillars are shown in Figure 5.1.

The Kenya Vision 2030 is to be implemented in successive five-year medium term plans with the first plan covering the period 2008–2012. After 2010 another five-year plan was produced covering the period 2012–2017, and so on till 2030. The 2030 vision for financial services is to have a vibrant and globally competitive financial sector driving high-levels of savings and financing Kenya's investment needs (Ministry of Planning & National Development, 2007: 6). As part of its macro-economic goals, savings and investment rates will rise from 17 per cent to 30 per cent of GDP. This will be achieved through measures that include increasing of bank deposits from 44 per cent to 80 per cent of GDP and reducing the cost of borrowed capital, which are interest rates.

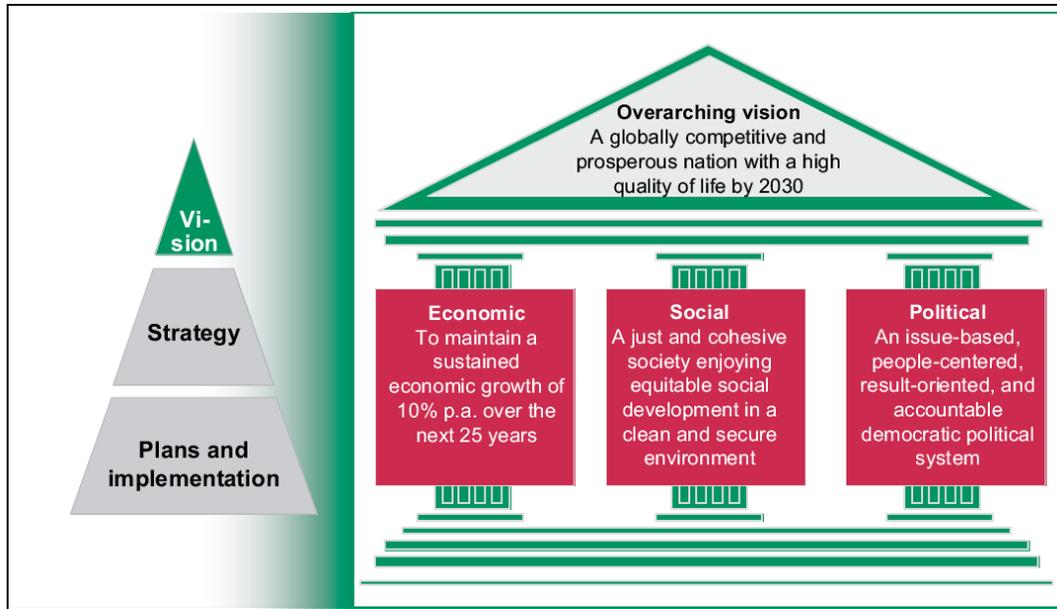


Figure 5.1: Thematic overview of Kenya Vision 2030

Source: Ministry of Planning & National Development, 2007: 1.

The country will also decrease the share of population without access to finance from 85 per cent to below 70 per cent at present, and increase stock market capitalisation from 50 per cent to 90 per cent of GDP. Savings of up to 10 per cent of GDP for investment will be raised from remittances and FDI and sovereign bonds. Reforms in the banking sector will be undertaken to facilitate the transformation of the large number of small banks in Kenya to larger, stronger banks.

Although by regional standards, Kenya's financial system is relatively well developed and diversified, major structural impediments prevent it from reaching its full potential. Cross-country comparisons have shown the importance of a well-developed financial sector for long-term economic growth and poverty alleviation. Experience from other developing economies has shown the detrimental effect of government ownership and the positive impact the foreign banks ownership can have on the development of a market-based financial system. Countries with better developed banking systems and capital markets enjoy higher growth rates; and it is the poorest segments of society that stand to gain most (Beck, Levine & Loayza, 2000; Beck, Demirgüç-Kunt & Levine, 2004). The Kenyan financial system enjoys higher levels of credit channelled to the private sector and higher deposits in financial institutions than other SSA and low income countries.

Financial markets are different from other markets in that they involve the inter-temporal exchange of monetary resources: money today for the promise of money tomorrow (Beck & Fuchs, 2004: 3). Lack of information about the counterpart, lack of monitoring and enforcement tools vis-à-vis the counterpart and uncertainty about the value of money tomorrow can hamper the efficiency of this exchange and thus the efficient functioning of financial markets. Governments have an important role to play in reducing these frictions and making financial markets work efficiently. Transparency – higher accounting and disclosure standards for both borrowers and banks – and market discipline reduce information and monitoring problems. Effective protection of outside investors, both bank creditors and minority shareholders, as well as contract enforcement and property right protection in general help reduce monitoring and enforcement problems. Monetary stability is a pre-condition for market participants to be willing to engage in long-term financial contracts.

While governments have an important role in creating an enabling environment for efficient financial markets, experience in both developed and developing countries has shown the negative impact of government ownership on financial development. Formerly seen as a necessary tool to foster financial and economic development, government-owned banks have fallen far short of delivering on their promises and have especially prevented developing economies from building market-based financial systems (Beck & Fuchs, 2004: 3).

5.5 CROSS-SECTORAL COMPARISON

The contemporary body of research focuses on some particular sectors. Financial services are well covered (Oldenboom & Abratt, 2000: 233-245, Stevens & Dimitriadis, 2005: 175-198; Menor & Roth, 2008: 267-284) in the extant literature. Most findings recognise that NSD is related to the so-called production intensive services like banks, insurances, telecommunications, transport and wholesale services. These services, while putting considerable effort into the simplification of the service offerings, are also keen on the adaptation of standardised services to particular user needs (De Jong & Vermeulen, 2003: 844).

According to Dolfsma (2004: 325), financial services feature very prominently in empirical studies, and given the more product-like features of financial services, these findings might not be representative for a broader range of services across a heterogeneous range. There is therefore greater

need for effective NSD because the service segment produces the highest growth in the gross domestic product of most industrialised countries (Froehle, Roth, Chase & Voss, 2000: 3-17; Bitner, Ostrom & Morgan, 2008: 66).

The financial services are comparatively more knowledge intensive than hospitality services; bank services involve low interpersonal attention while in the majority of hospitality services (and in hotel services in particular) a high level of contact occurs between delivery staff and customers. Further, the two service sectors differ greatly in their underlying technologies, available human resources, nature and intensity of competition and bargaining power of the customers. According to Lovelock and Wirtz (2004: 14-15), each category involves fundamentally different processes, with vital implications for marketing, operations, and human resource managers. Strategies and processes will, therefore, be crafted differently depending on what type of service is being examined.

Therefore the production intensive services like hospitality should and can be distinguished from services where innovation is dominated by suppliers or where innovation has a continuous, incremental nature due to high knowledge-intensity, such as in scientific, engineering and financial services. These consumer-oriented services, especially the hospitality services sector, are often considered to be less innovative. Hence there is need for review and comparison of NSD strategy and process in these two service sectors.

The financial services sector (one of the economically most powerful sectors) and the hospitality industry (one of the world's largest service sectors) (Kotler, Bowen & Makens, 2006: 10) have become widely used to exemplify maximally differing service sectors. The current study will focus on the hospitality service sector. Given the exemplary differences between these large and influential services industries, and to follow up on Johnes and Storey's (1998: 219) challenge to test whether findings in the financial service sector apply to other service sectors, the present study will use the financial services sector as a point of reference to study the hospitality services sector to study the NSD strategy and process.

The literature review has served to outline current thinking in areas, which are seen to be relevant to better understanding NSD in financial services sector. Furthermore, Table 4.5 and Table 5.3 list the key characteristics of each study by summarising the pioneering works of several contributors. It can be

concluded that although there have been significant research efforts addressing NPD for the services sector, most of the studies have focused more on financial services. In particular, the new service literature relating to hospitality service products has received inadequate coverage.

As discussed in section 5.3, various types of innovation occur in service companies, and in some service sectors particular types of innovation are more dominant than in others. Although researchers have attempted to capture sectoral differences in innovation types by developing taxonomic models of industrial sectors, little effort has been done to propose NSD strategy and process unique to the hospitality sector. The current study will use the financial services sector only as a point of reference to study the hospitality services sector. The objectives of the study will be discussed in the next chapter.

5.6 CONCLUSION

The review of the existing NSD literature in the financial services sector has been undertaken to highlight the most salient issues associated with NSD practices and to justify a case for further research in the area of the hospitality services sector. It is argued that existing models do not incorporate the heterogeneity of different service sectors sufficiently. Research is therefore required to investigate the NSD process and strategy in the hospitality sector through exploration of sectoral differences between financial and hospitality services, to enable existing models to be improved, or an alternative approach developed. The financial services sector and the hospitality industry are used to exemplify maximally differing service sectors.

The next chapter will provide a description of the problem statement and the various research propositions linked to the primary and secondary objectives of the study.

CHAPTER 6

RESEARCH METHODOLOGY

6.1 INTRODUCTION

Chapter 5 was devoted to reviewing literature on the financial sector. This chapter presents the various research propositions, research process and approach planned for the empirical part of the study. The various research designs, questionnaire design, statistical procedures and their selection rationales are elaborated upon.

6.2 RESEARCH PROPOSITIONS

The next section will provide a description of the various research propositions linked to the primary and secondary objectives of the study discussed in section 1.4.

Cooper and Schindler (2008: 64) state that propositions are statements about observable phenomena (concepts) that may be judged as true or false, while a hypothesis is a proposition formulated for empirical testing. According to Zikmund (2003: 43-44), a proposition explains the logical linkage among certain concepts by asserting a universal connection between concepts. A hypothesis is an unproven proposition or supposition that tentatively explains certain facts or phenomena; a proposition that is empirically testable. However, Cooper and Schindler (2008: 64-67) state that research literature disagrees about the meaning of the terms hypothesis and propositions. According to Krishnaswamy, Sivakumar and Mathirajan (2006: 161) exploratory studies are not carried out without some hypothesis.

Cooper and Schindler (2008: 64) note that the immediate purpose of exploration (research) is usually to develop hypothesis or questions for further research. The researcher decided to use research propositions rather than hypotheses in this study for the following reasons:

- The empirical part of this study is of an exploratory nature using both quantitative and qualitative techniques (Cooper & Schindler, 2008: 145) and propositions are used to ensure the exploration will be judged successfully (Yin, 2009: 28). Propositions provide the rationale and direct attention to observable concepts that should be examined within the scope of the study.

- Propositions are formulated to help identify relevant information, primary unit of analysis and keep the study within feasible limits (Yin, 2009: 130). The propositions help organise case studies and provide a theoretical orientation that can be extremely useful in guiding case study analysis.
- Propositions help to define alternative explanations to be examined. By suggesting a link between two concepts, a scientific proposition can suggest promising areas of inquiry for researchers for areas of study where valid hypothesis can rarely be made.
- Propositions are advanced aiming for the encouragement of subsequent empirical research to provide conclusive evidence on underdeveloped areas (Bailey, 1994: 41). The researcher made propositions to spur further research on questions and to further evidence and experimental methods to be discovered that will make them testable hypotheses.

However, propositions have been found to have drawbacks. Since they do not rely on testable data, they are more difficult to disapprove in a scientific context. They only need to be convincing and internally consistent.

Research propositions formulated will be judged according to the definition of Cooper and Schindler (2008: 64) that a proposition is a statement about concepts that may be judged true or false if it refers to observable phenomena. The propositions will be accepted if they are judged as true or rejected if they can be judged as false.

Prior to each proposition the relevant statements that relate to the components in each step will be indicated. The following propositions were formulated in Chapter 1 and will be explored in the next section:

6.2.1 Propositions 1 and 2

There are several characteristics of hospitality businesses that impact on marketing. These include ownership and size, ownership and affiliation, and hotel classification schemes. Generally, hotels can be classified into five, six or seven categories because they provide a broad spectrum of facilities. Classification and grading represents the overall quality of facilities and services in the establishment (Ingram, 1996: 32). The lower the star rating the more limited the range of facilities and services.

The hotel category classification indicates the level and complexity of services provided. Their influence over the innovation propensity is simultaneously an endogenous and exogenous outcome. It is endogenous in the sense that higher categories include more services, equipment complexities, and organisational aspects to be innovated. On the other side, a category cross comparison is able to explain some of the innovation patterns. Hotel classification is discussed in section 4.9.

Proposition 1:

There is a significant difference in the number of new services developed and offered by the hotels in various star categories in Kenya.

Proposition 2:

There is a significant difference between hotel categories when factoring innovation considerations into decision making in Kenya.

6.2.2 Propositions 3 and 4

Service companies are challenged by globalisation, fierce competition, new technologies and changing customer needs and preferences (Ottenbacher & Harrington, 2010: 3-4). These trends compel service companies to constantly adapt to the turbulent environmental factors thereby placing innovation at the core of their competitive strategy. Innovation is extremely complex and hence success depends on systematic effective management of a variety of different activities (Dolfsma, 2004: 3). Although NSD has become a competitive imperative and a survival necessity for all service businesses including hospitality (Sigala, 2012: 966), for many businesses it tends to be a haphazard process despite there being benefits of formalising the process (Dolfsma, 2004: 15). Few businesses use methods to elicit ideas for new services and develop and select among them subsequently.

Proposition 3:

Hotel managers in Kenya use the NSD strategy to plan and manage their products and services.

Proposition 4:

Hotel managers in Kenya apply and use the NSD concept for marketing and strategy decision making purposes.

6.2.3 Proposition 5

Service businesses represent an increasingly important business sector, yet new product development literature is inclined towards production businesses (Olsen & Sallis, 2006: 466). According to the Kenya Economic Report (2009), the services sector contributed about 45 per cent of growth in GDP and 60 per cent of formal sector employment, with the key sub-sectors being transport and communication, wholesale and retail trade and hotels and restaurants. The main challenges facing Kenya's export competitiveness are supply-side constraints, low technological development and innovation.

According to Kim and Mauborgne (2005: 4) companies outperform their rivals to grab a greater share of the existing demand; they posit argue that rather than striving to outperform the competition, companies should strive for value innovation. The hotel industry is rapidly changing and to be competitive in such a dynamic environment, hotel managers have to make proactive changes in order to meet customer demands and technological interfaces (Ottenbacher & Harrington, 2010: 6). Similarly, hotels configure their operations and internal processes to develop the core competencies of service excellence, sustainable competitive advantage and outperforming other hotels in their peer groups. Thus, hotels' ability to innovate is regarded more and more as a key factor in successfully differentiating in a competitive environment. As discussed in section 2.2.2, hotel marketers need to understand the relationship between the hotel's competitive performance and the types of new services.

Proposition 5:

Hotels that substantially outperform their industry peers develop more types of services.

6.2.4 Proposition 6

According to Chathoth and Olsen (2003: 424), businesses that use strategic alliances as a source of competitive advantage take strategic measures to improve profitability as the alliance progresses. Some hotels are independently managed; others belong to a hotel chain or to a more diversified business conglomerate. Ownership and management do not necessarily happen together; businesses specialised in managing hotels rent the assets, or hotel owners contract the hotel management capability through management or franchise contacts. Independent operators typically own or lease their property while branded hotel chains utilise all forms of ownership – such as lease, management contract, and franchise to operate properties.

The ownership structure and the degree of dependence on other organisational structures influence the framework of management innovation decisions (Sirilli & Evangelista, 1998: 882-899). Chathoth and Olsen (2003: 421) further argue that access to specialised strategic resources at low cost makes the alliance alternative an attractive proposition for companies to consider as part of strategy formulation. With statistics showing that strategic alliances are a form of competitive advantage, it is imperative that hospitality professionals understand the implications of this strategic option.

Proposition 6:

The NSD approaches of chain hotels and independent hotels are different.

6.3 RESEARCH DESIGN

This study seeks to understand the NSD strategy and process in the hospitality sector, hence the use of exploratory sequential mixed methods design (Creswell, 2014: 246). It is exploratory in nature, given that NSD remains underdeveloped and lacking in empirical generality; and research on how new services are developed in the hospitality sector remains fragmented and less developed. Exploratory research is a useful preliminary step (Smith & Albaum, 2010: 21) that helps ensure that a more rigorous, more conclusive future study will not begin with an inadequate understanding of the nature of the management problem (Polonsky & Waller, 2005: 90-99; Zikmund, 2003: 110-111); it is also flexible and adaptive and changes as the research begins to become clearer to the researcher (Krishnaswamy *et al.*, 2006: 161).

According to Malhotra (2007: 78), formulating a research design involves the following steps:

- design of the exploratory, descriptive, and/or causal phases of the research;
- definition of the information needed;
- specification of the measurement and scaling procedures;
- construction and pre-testing of the questionnaire (or interview guide) or an appropriate form for data collection;
- decisions about the sampling process and sample size; and
- the plan of data analysis.

The six steps mentioned above are explained in the next section.

6.4 CLASSIFICATION OF RESEARCH DESIGNS

While Smith and Albaum (2010: 21) posit that research designs are associated with three types of studies namely exploratory, descriptive and causal, Zikmund (2003: 54) states that business research can be classified on the basis of either the technique (such as experiments, surveys, or observational studies) or the function (i.e. exploratory, descriptive or causal). Malhotra (2007: 79) argues that research designs may be broadly classified as either exploratory on the one hand, or conclusive (i.e. descriptive or causal) as shown in Figure 6.1. The selection of the research design is discussed in the next section.

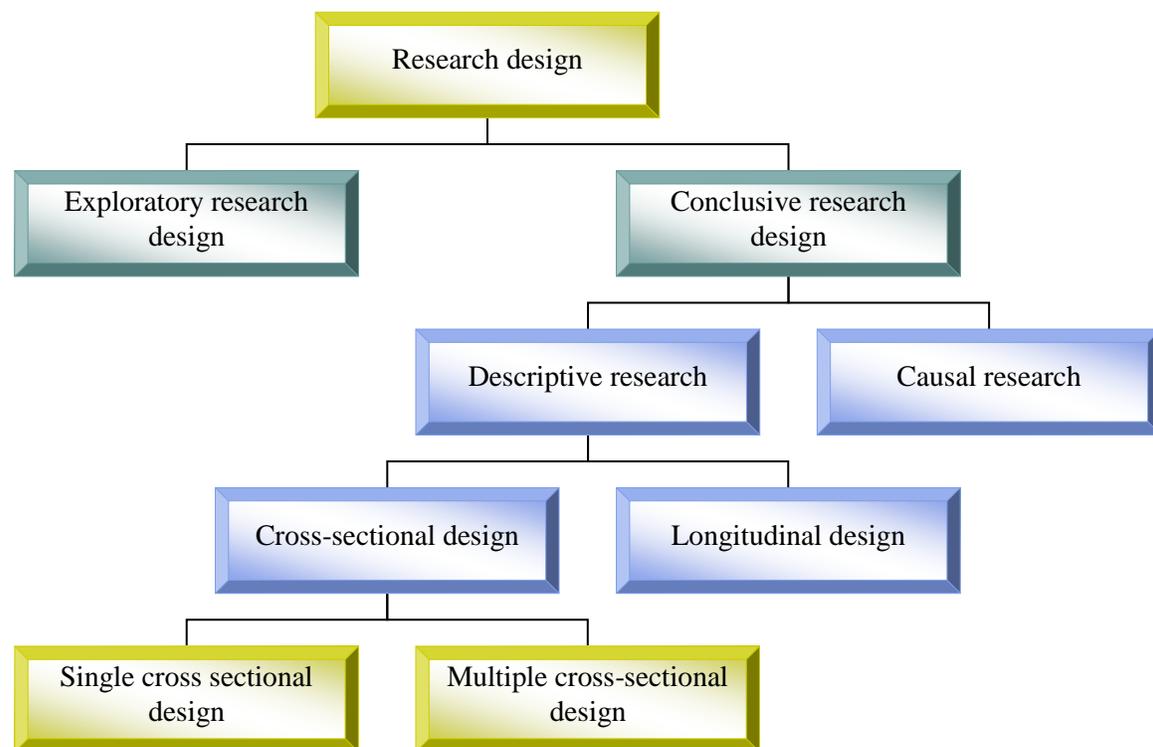


Figure 6.1: Classification of marketing research designs

Source: Malhotra, 2007: 79.

(a) Exploratory research

The exploratory study will be conducted as an introductory phase of the larger study (Smith & Albaum, 2010: 21) to clarify and define the nature of the problem (Zikmund, 2003: 54) using case studies. Yin (2009: 6) postulates that a view that arranges different research strategies hierarchically is flawed; and that case studies are far from being only an exploratory strategy. According to Cooper and Schindler

(2008: 147-150), there are four exploratory techniques with wide applicability for management researchers: secondary data analysis, experience surveys, focus groups, and two-stage designs. Further, Krishnaswamy *et al.* (2006: 161) posit that the search of secondary sources of information, obtaining information from knowledgeable persons and examination of analogous situations are key stages in most exploratory studies. This study will use two-stage design in the exploratory research design: case study and descriptive research. Information will be collected across all the four key stages of exploratory research in this study.

The case studies will be used to elucidate the NSD process and strategy by obtaining information from knowledgeable persons and also achieve greater precision in the formulation of the problem (Krishnaswamy *et al.*, 2006: 161) as a preliminary part of a large study in the two-stage research process while the survey will be used to define the prevalence of the NSD process and strategy in the hospitality sector in Kenya. The secondary data and information gathered from reviewing literature in the financial sector is for examination of analogy.

As used in several previous innovation studies (Joshi & Sharma, 2004; Sivadas & Dwyer, 2000; Sethi, 2000), the respondents in the exploratory case study (Yin, 2009: 1) will be prompted to provide information regarding a new service project that was completed most recently (not a successful, failed, or typical project, but one that they worked on most recently). This will be investigated using in-depth face-to-face interviews with individuals involved in NSD.

(b) Descriptive research

The descriptive part of this study will be more formalised with clearly stated investigative questions (Cooper & Schindler, 2008: 151-153) and propositions, and whose objectives include the following:

- the description of phenomena or characteristics associated with the subject population (the *who*, *what*, *when*, *where* and *how* of a topic);
- estimation of proportions of the population that have these characteristics; and
- discovery of associations among different variables within the population.

The major objective of the cross-sectional descriptive research will be to describe the market characteristics or functions. According to Krishnaswamy *et al.* (2006: 163) descriptive research focuses

on fact finding with adequate interpretations. The cross-sectional design will involve the collection, analysis and interpretation of information from the sample of population elements at a single point in time.

(c) Causal research

This study will not seek to discover the effect that variables have on other variables or why certain outcomes are obtained (Zikmund, 2003: 54-56). The concept of causality is grounded in the logic of hypothesis testing, which in turn produces deductive conclusions. Such conclusions are probabilistic and can never be demonstrated with certainty, but within a margin of error.

Table 6.1 groups research design issues using three different descriptors.

Table 6.1: A comparison of basic research designs

| | Exploratory | Descriptive | Causal |
|------------------------|---|---|---|
| Objective | <ul style="list-style-type: none"> Discover ideas and insights | <ul style="list-style-type: none"> Describe market characteristics or functions | <ul style="list-style-type: none"> Determine cause and effect relationships |
| Characteristics | <ul style="list-style-type: none"> Flexible Versatile Often the front end of research design | <ul style="list-style-type: none"> Marked by prior formulation of specific hypotheses Pre-planned and structured design | <ul style="list-style-type: none"> Manipulation of one or more independent variables Control of other mediating variables |
| Methods | <ul style="list-style-type: none"> Expert surveys Pilot surveys Secondary data Qualitative research | <ul style="list-style-type: none"> Secondary data Surveys Panels Observational and other data | <ul style="list-style-type: none"> Experiments |

Source: Malhotra, 2007: 81.

As indicated in Table 6.1, there are three basic research designs namely exploratory, descriptive and causal depending on the objective and characteristics of the study as well as the methods of data collection.

The researcher will make use of both qualitative research design to clarify the exact nature of NSD strategies and processes in the hospitality sector, and the descriptive research design to identify distinguishing characteristics, elemental properties and empirical boundaries of NSD. The application of mixed methodology research (Creswell & Plano Clark, 2007: 6) was motivated by the need to expand the scope of the study by offsetting the weaknesses of either approach alone (Rossman & Wilson, 1991: 627-638; Greene, Caracelli & Graham, 1989: 255-261).

Through triangulation, the findings of one research strategy will be validated against the results of another investigation, to provide accuracy for the data and alternate explanations (Bryman, 2001: 447). Both scientific and interpretivist qualitative methods are needed to provide the information required for sound and effective decision making in the business world (Burns & Burns, 2008: 21).

6.4.1 Potential sources of error

Several potential sources of error can affect the research process ultimately invalidating the findings. As discussed in section 6.2 research designs consist of six components, with which errors can be associated. When errors occur in the research design, they may affect the various stages in the research process. There are three major sources of error in communication research: measurement scales, questions and survey instruments, and interviewers and respondents. As shown in Figure 6.2, total error is composed of random sampling error and non-sampling errors.

There researcher will minimise errors through precision in the research design (Smith & Albaum (2010: 31) pre-test the data collection instruments in order to resolve issues relating to measurement scales, questions and survey instruments.

6.4.2 Dealing with non-responses

In most surveys, a non-negligible fraction of designated respondents still fail to provide all the requested data items or fail to respond altogether (Korinek, Mistiaen & Ravallion, 2007: 213-235). Survey non-response threatens the validity of a probability sample survey when the reasons for non-participation are correlated with key survey measures (O'Brien, Black, Carley-Baxter & Simon, 2006: 419).

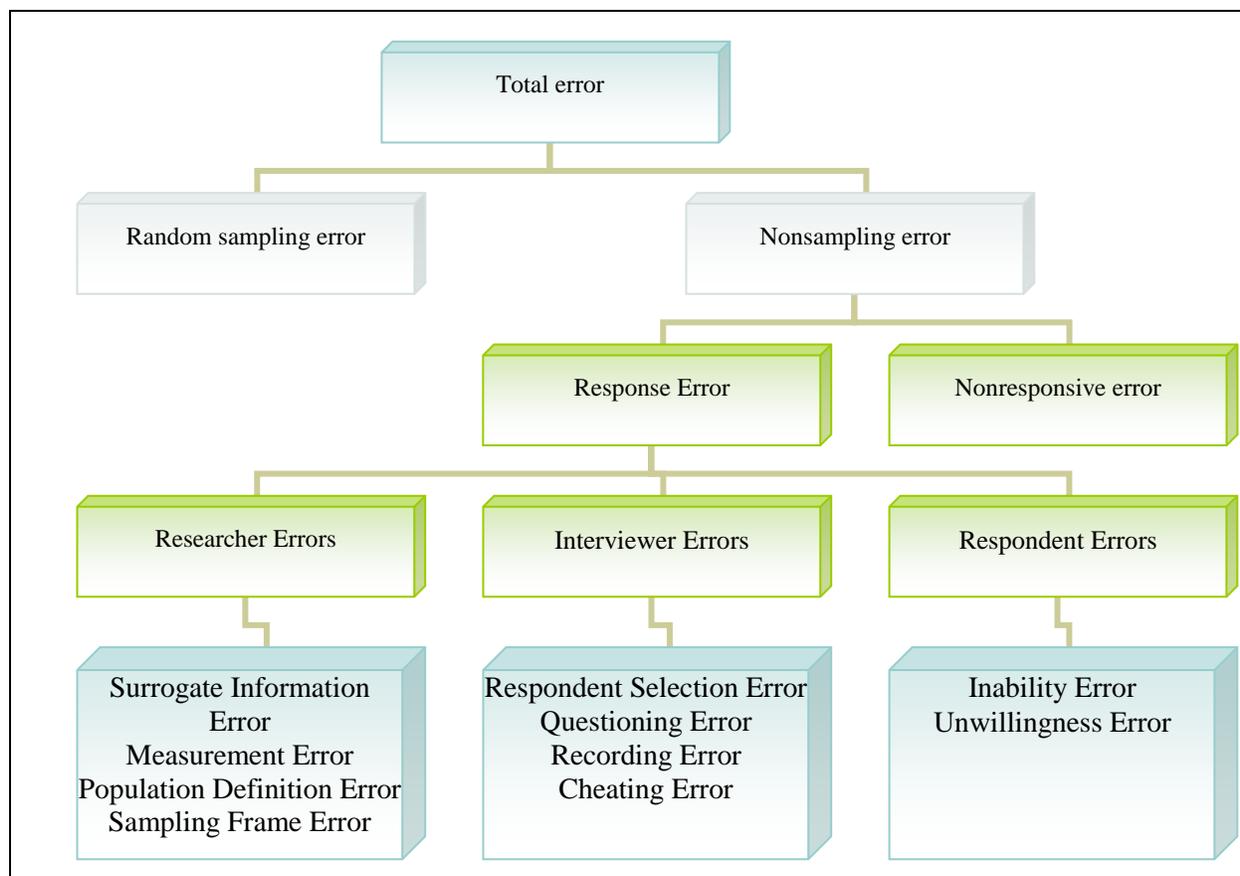


Figure 6.2: Potential sources of error in research design

Source: Malhotra, 2007: 94.

Korinek *et al.* (2007: 213) argue that if the decision to respond is statistically dependent on the variables under investigation the sub-sample of the survey respondents will not accurately reflect the true distribution of the variables of interest in the population. This will in turn result in systematic bias in the sample-based inferences, even in large samples. According to O'Brien *et al.* (2006: 419-420), characteristics that have the biggest effect on participation are interviewer tenure, attitudes, and expectations. Experienced interviewers do have higher cooperation rates, especially in difficult-to-enumerate areas. Acceptance of the survey topic, explanation of respondent was selected, using a letter of introduction from someone influential (sponsorship), confidentiality and anonymity also appear to increase respondent participation overall and for individual survey items.

Refusal-aversion training has taken a variety of forms. O'Brien *et al.* (2006: 420) observe that survey businesses always prepare interviewers to address reluctance through two approaches. **Pre-emptive**

messages target anticipated concerns and often appear in standardised survey introductions or pre-survey letters. **Prescriptive messages** are provided in written form or embedded in survey instruments through help screens for frequently asked questions. The authors further assert that two conversational skills appeared to help interviewers: the ability to tailor their strategies based on perceptible cues from the respondent and the environment, and the ability to maintain the interaction long enough to search for more cues by which to invoke tailoring. Korinek *et al.* (2007: 214) argue that correcting for unit non-response requires that some structure is imposed on the set of non-respondents without observing a single requested variable in the survey.

Alternatives to the imputation methods discussed above are adjustment procedures and model-based methods to correct for nonresponse. To reduce any possible non-response errors the researcher will make greater use of mixed modes of refusal aversion and imputation methods in the light of the low number of responses that could be analysed.

6.5 DEFINITION OF THE INFORMATION NEEDED

Zikmund (2003: 62) states that there are four basic categories of techniques for obtaining insights and gaining a clearer idea of a problem: secondary data analysis, pilot studies, case studies and experience surveys. Cooper and Schindler (2008: 104) argue that information sources are generally categorised into three levels: primary sources, secondary sources and tertiary sources. The levels of information requirement, data collection methods, research methods for collecting primary data, and the research strategy are discussed in the next section.

6.5.1 Levels of information

Primary sources are original works of research or raw data without interpretation or pronouncements that represent an official opinion or position (Cooper & Schindler, 2008: 104) and are gathered and assembled specifically for the research project at hand (Zikmund, 2003: 175). Primary sources are always the most authoritative, because the information has not been filtered or interpreted by a second party. Secondary sources are interpretations of primary data available internally or externally. Tertiary sources may be interpretations of a secondary source, but generally are represented by indexes, bibliographies, and other finding aids such as Internet search engines. This study will rely on both primary research and secondary data sources.

6.5.2 Data collection methods

Research may be categorised into two types: qualitative or quantitative according to two fundamentally different and competing schools of thought (Amaratunga, Baldry, Sarshar & Newton, 2002: 17-18). This study used both qualitative and quantitative approaches because the larger study used case studies to elucidate the underlying NSD processes and strategies in the hospitality sector as well as a survey method to define prevalence (Creswell, 2014: 246). Views on NSD were derived from the extensive literature research. The literature included information on strategy, empirical results conducted on NSD, and challenges, problems, and criticisms associated with NSD.

The researcher used face-to-face interviewing methods for top managers in the hospitality sector and industry experts; and investigation of secondary data to analyse and evaluate the environmental context of the problem, as discussed in sections 1.7.4, 1.7.5 and 4.7. The interviews were used for re-conceptualisation of the research problem and to orient questions used in the survey.

A self-administered questionnaire was used for the quantitative descriptive research. Data collection tools were standardised by pre-testing to assure reliability of the tool and to validate the results. Data collected from the eight in-depth interviews were analysed and discussed followed by an analysis of data from the survey questionnaire.

The mixed method approach (Creswell & Plano Clark, 2007: 6) to research is gaining ground as appropriate a best practice in conducting triangulated research. According to Yin (2009: 174), three different rationales have motivated the use of mixed methods for research study. First, the larger study may have called for mixed methods simply to determine whether converging evidence might be obtained even though different methods are used. Secondly, the larger study may have been based on a survey or quantitative analysis of archival data while the case study is used to build on the findings of other enquiries. Thirdly, the larger study might knowingly have called for case studies to elucidate some underlying process and used another method to define prevalence or frequency of such processes.

6.5.3 Data collection instrument

The aim of the questionnaire was to include key measures of NSD strategy and development in the hospitality sector. The researcher followed the updated paradigm for scale development (Gerbing & Anderson, 1988: 187-190) to develop and purify measures and to test and validate the questionnaire.

The questionnaire was designed using information synthesised from the literature on NSD strategy and process, information obtained from persons involved in NSD within hotels using semi-structured interviews and the examination of analogous situations within the financial sector (Krishnaswamy *et al.*, 2006: 161) as discussed in Chapter 5. The questions in the questionnaire were developed to link the secondary research objectives and research propositions as indicated in section 6.7.6.

This study will use two-stage design in the exploratory research design: case study and descriptive research. Information will be collected across all the four key stages of exploratory research (Krishnaswamy *et al.*, 2006: 161) in this study.

In the case studies, the researcher asked the managers to indicate whether or not several issues mentioned in the literature adequately described their experiences. Two managers and three academics conversant with NSD were asked to assess each item in the pre-test questionnaire (Appendix B) for clarity, specificity and representativeness of the qualitative interview guide. This process eliminated a few items that were found to be ambiguous. The respondents proposed some improvement and alterations. The resulting questionnaires (Appendix C and Appendix D) were used in a survey of eight managers and the quantitative part of the study. Cooper and Schindler (2008: 223) provide a comparison of the various communication approaches. As indicated in Table 6.2, each approach has its own advantages and disadvantages. The details of questionnaire design are discussed in section 6.7.

A rigorous qualitative research methodology of case study was adopted (Yin, 2009: 18) because NSD is a fairly new area of research and there is need to delve deep to gain understanding of the NSD phenomenon, and to generate rather than to test the underlying theory (Alam & Perry, 2002: 518-519). This method was selected because the interviewer could answer questions about the survey, probe for answers, use follow-up questions, and gather information. A self-administered survey questionnaire (Appendix D) was used in the quantitative part of the research because this method allows for expanded geographic coverage and contact with otherwise inaccessible participants.

The primary research data required for this study will first be qualitative followed by quantitative research. The qualitative research will be conducted by using personal interviews (Appendix C).

Table 6.2: Comparison of communication approaches

| | Self-administered survey | Telephone survey | Survey via personal interview |
|----------------------|---|---|--|
| Description | <ul style="list-style-type: none"> • Mailed, faxed or couriered to be self-administered – with return mechanism generally included • Computer-delivered via intranet, internet and online services • People are intercepted in a central location and studied via paper or computerised instrument – without interviewer assistance | <ul style="list-style-type: none"> • People selected to be part of the sample are interviewed on the telephone by a trained interviewer | <ul style="list-style-type: none"> • People selected to be part of the sample are interviewed in person by a trained interviewer |
| Advantages | <ul style="list-style-type: none"> • Allows contact with otherwise inaccessible participants • Incentives may be used to increase response rate • Often lowest-cost option • Expanded geographic coverage without increase in costs • Requires minimal staff • Perceived as more anonymous • Allows participants time to think about questions • More complex instruments can be used • Fast access to the computer-literate • Rapid data collection • Participant who cannot be reached by phone (voice) may be accessible • Sample frame lists viable locations rather than prospective participants • Visuals may be used | <ul style="list-style-type: none"> • Lower costs than personal interview • Expanded geographic coverage without dramatic increase in costs • Uses fewer, more highly skilled interviewers • Reduced interviewer bias • Fastest completion time • Better access to hard-to-reach participants through repeated call-backs • Can use computerised random dialling • Computer-assisted telephone interviewing: Responses can be entered directly into a computer file to reduce error and cost | <ul style="list-style-type: none"> • Good cooperation from participants • Interviewer can answer questions about survey, probe for answers, use follow-up questions, and gather information • Special visual aids and scoring devices can be used. • Illiterate and functionally illiterate participants can be reached • Interviewer can pre-screen participant to ensure he or she fits the profile. • Computer-assisted personal interviewing: Responses can be entered into a portable micro-computer to reduce error and cost |
| Disadvantages | <ul style="list-style-type: none"> • Low response rate in some modes • No interviewer intervention available for probing or explanation • Cannot be long or complex | <ul style="list-style-type: none"> • Response rate is lower than for personal interview. • Higher costs if interviewing geographically dispersed sample | <ul style="list-style-type: none"> • High costs • Need for highly trained interviewers • Longer period needed in the field collecting data • May be wide geographic sample |

| | Self-administered survey | Telephone survey | Survey via personal interview |
|--|--|---|--|
| | <ul style="list-style-type: none"> • Accurate mailing lists needed • Often participants returning survey represent extremes of the population • Anxiety among some participants • Directions/software instruction needed for progression through the instrument • Computer security • Need for low-distraction environment for the survey completion | <ul style="list-style-type: none"> • Interview length must be limited • Many phone numbers are unlisted or not working, making directory listings unreliable • Some target groups are not available by phone • Responses may be less complete • Illustrations cannot be used | <p>dispersion</p> <ul style="list-style-type: none"> • Follow-up is labour-intensive • Not all participants are available or accessible • Some participants are unwilling to talk to strangers in their homes • Some neighbourhoods are difficult to visit • Questions may be altered or participant coached by interviewers. |

Source: Cooper and Schindler, 2008: 223.

6.5.4 Research strategy

Each research strategy has its own specific approach to collect and analyse empirical data and therefore each strategy has its own advantages and disadvantages (Amaratunga *et al.*, 2002: 20; Yin, 2009: 5-8). Although each strategy has its own characteristics, there are overlapping areas, which bring complexity to the process of strategy selection. A research strategy should be chosen as a function of the research situation in order to avoid misfits between the desired outcome and the chosen strategy. The conditions which should influence a choice of research strategy include the type of question posed, the control over actual behaviour elements, and the degree of focus on historical or contemporary events (Yin, 2009: 8). Table 6.3 depicts research strategies versus characteristics.

A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident (Yin, 2009: 18). According to Yin (2009: 27), five components of a research design are especially important for case studies:

- a study's questions
- its propositions, if any
- its unit(s) of analysis
- the logic linking the data to the propositions, and
- the criteria for interpreting the findings.

Table 6.3: Research strategies versus relevant situations

| Strategy | Form of research question | Requires control over behavioural events? | Focuses on contemporary events? |
|--------------------------|---|---|---------------------------------|
| Experiment | How?, why? | Yes | Yes |
| Survey | Who?, what?, where? How many?, how much? | No | Yes |
| Archival analysis | Who?, what?, where? How many?, how much? | No | Yes/No |
| History | How?, why? | No | No |
| Case study | How?, why? | No | Yes |

Source: Yin, 2009: 8.

Table 6.3 illustrates the outcome of the intersection between most common research strategies and the three conditions identified above.

The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points (Yin, 2009: 18). As one result may rely on multiple sources of evidence – with data needing to converge in a triangulating fashion – another result may benefit from prior development of theoretical propositions to guide data collection and analysis.

Previous work on NSD as discussed in section 4.6 suggests that an overwhelming amount of research used quantitative methods. Following the discussion in sections 6.5.3 and 6.5.4, the survey method (via a self-administered questionnaire) and a case study strategy will be used given the purpose of the study, the questions being investigated, and the degree of focus on contemporary events (Creswell, 2014: 14).

A small number of selected hotels will be studied in their real life, temporal, and spatial contexts using the case study strategy. The researcher will have direct in-depth contact with hotel managers as participants in the empirical examination. The researcher will collect empirical data in multiple ways that support each other, namely: observation, interviews, and analyses of archival data.

6.6 MEASUREMENT AND SCALING PROCEDURES

Measurement is the assignment of numbers or other symbols to characteristics of objects according to set rules (Malhotra, 2007: 267), while scaling involves the generation of a continuum upon which

measured objects are located. According to Zikmund (2003: 741), a scale is any series of items that are progressively arranged according to value or magnitude; a series into which an item can be placed proportionate to its quantification.

Particular attention will be given to the objectives of the study and the operational definition of the concepts and characteristics to be measured.

6.6.1 Primary scales of measurement

Measurement can be undertaken at different levels. The levels reflect corresponding numbers assigned to the characteristics in question and the meaningfulness of performing mathematical operations on the numbers assigned. The four primary scales of measurement are nominal, ordinal, interval, and ratio. The first two can be classified with categorical variables while the last two are used with continuous variables. Table 6.4 indicates the primary scales of measurement, their basic characteristics and the respective permissible statistics for each scale.

The four primary types of scales depicted in Table 6.4 do not exhaust the measurement level categories. The study used the nominal, ordinal and interval measurement scales based on the consideration of the permissible statistics. Scaling techniques will be discussed in the next section.

Table 6.4: Primary measurement scales

| Scale | Basic characteristics | Permissible statistics | |
|-----------------|--|---------------------------------|---|
| | | Descriptive | Inferential |
| Nominal | Numbers identify and classify objects | Percentage, mode | Chi-square, binomial test |
| Ordinal | Numbers indicate the relative positions of the objects but not the magnitude of differences between them | Percentile, median | Rank-order correlation, Friedman ANOVA |
| Interval | Differences between objects can be compared; zero point is arbitrary | Range, mean, standard deviation | Product-moment correlations, t-tests, ANOVA, regression, factor analysis, |
| Ratio | Zero point is fixed; ratios of scale values can be computed | Geometric mean, harmonic mean | Coefficient of variation |

Source: Adapted from Malhotra, 2007: 253.

6.6.2 Comparison of scaling techniques

The scaling techniques commonly used in marketing research can be classified into comparative and non-comparative scales (Malhotra, 2007: 257). A comparative rating scale is any measure of attitudes that asks respondents to rate a concept in comparison with a benchmark explicitly used as a frame of reference (Zikmund, 2003: 735). Malhotra (2007: 257-263) emphasises that comparative scales involve the direct comparison of stimulus objects hence comparative scale data must be interpreted in relative terms and have only ordinal or rank order properties; the comparative scales include paired comparisons, rank order, constant sum scales, Q-sort, and other procedures.

According to Malhotra (2007: 272-278), a non-comparative scaling technique is a method in which a stimulus object is scaled independently of the other objects in the stimulus set. The respondents do not compare the object being rated either to another object or to some specified standard. These are also often referred to as monadic scales since they evaluate only one object at a time. Non-comparison techniques consist of continuous and itemised rating scales which are described in Table 6.5. The itemised rating scales are further classified as Likert, semantic differential, or Stapel scales.

As indicated in Table 6.5, each of the non-comparative scales has its own advantages and disadvantages. Hence, the choice of particular scaling techniques in a given situation will be based on theoretical and practical considerations.

Table 6.5: Basic non-comparative scales

| Scale | Basic characteristics | Advantages | Disadvantages |
|------------------------------|--|--|---|
| Continuous rating scale | Place a mark on a continuous line | Easy to construct | Scoring can be cumbersome unless computerised |
| Itemised rating scale | | | |
| Likert scale | Degree of agreement on a 1 (strongly disagree) to 5 (strongly agree) scale | Easy to construct, administer, and understand | More time consuming |
| Semantic differential | Seven-point scale with bipolar labels | Versatile | Controversy as to whether the data are interval |
| Stapel scale | Unipolar ten-point scale, -5 to +5, without a neutral point | Easy to construct; administered over telephone | Confusing and difficult to apply |

Source: Adapted from Malhotra, 2007: 272.

The researcher can use single-item or multiple-item scales. As a general rule, the scaling technique used will be the one that will yield the highest level of information feasible. Several scale items will be used to measure the characteristic of interest. Multi-item scales should be evaluated for reliability, validity, and generalisability. Criteria for evaluating measurement tools are discussed in the next section.

6.6.3 Characteristics of good measurement

Zikmund (2003: 300) identifies the three major criteria for evaluating measurements as reliability, validity and sensitivity; whereas Malhotra (2007: 283-288) suggests the reliability, validity and generalisability of a scale. According to Cooper and Schindler (2008: 289-295), the three major criteria for evaluating a measurement tool are: validity, reliability, and practicality. Creswell (2014: 170) emphasizes that validity and reliability of scores on instruments lead to meaningful interpretation of data.

(a) Reliability

Reliability refers to the degree to which measures are free from error and therefore yield consistent results if repeated measurements are made on the same characteristic (Zikmund, 2003: 300; Malhotra, 2007: 284). According to Cooper and Schindler (2008: 292), a measure is reliable to the degree that it supplies consistent results. Reliability is a necessary contributor to validity, but is not a sufficient condition for validity. A reliability coefficient can be determined where the sum of item variances will be compared to the variance of the sum scale.

This coefficient can vary from 0 to 1 and a value of 0.6 (60%) or less will indicate unsatisfactory internal consistency or reliability (Malhotra, 2007: 285). Multiple sources will be used for data triangulation to address the potential problems of construct validity and reliability since multiple sources of evidence provide multiple measures of the same phenomenon.

(b) Validity

According to Malhotra (2007: 286), validity is the extent to which differences in observed scale scores reflect true differences among objects on the characteristic being measured. A researcher can utilise various types of validity criteria to prove whether he/she has measured the truth. Researchers may assess content validity, criterion validity, and construct validity to measure research results.

(i) Content validity

According to Cooper and Schindler (2008: 290), the content validity measures the extent to which the instrument provides adequate coverage of the investigative questions guiding the study. A determination of content validity involves judgement. The research designer may determine it through careful determination of the topic, the items to be scaled, and the scales to be used. Alternatively, the designer may use a panel of persons to judge how well the instrument assesses all relevant aspects of the conceptual or behavioural domain that the instrument is intended to measure.

(ii) Criterion validity

According to Cooper and Schindler (2008: 291), criterion validity reflects the success of measures used for prediction or estimation. Criterion validity concerns accuracy of an instrument to predict a well-accepted indicator of a given concept, or a criterion. The researcher must ensure that any criterion measure is judged in terms of four qualities: relevance, freedom from bias, reliability, and availability.

(iii) Construct validity

Construct validity addresses the question of what construct or characteristics the scale is measuring. An attempt is made to answer theoretical questions of why a scale works and what deductions can be made concerning the theory underlying the scale (Malhotra, 2007: 287). Construct validity includes convergent, discriminant and nomological validity.

- **Convergent validity** is the extent to which the scale correlates positively with other measures of the same construct. It is not necessary that all these measures be obtained by using conventional scaling techniques.
- **Discriminant validity** is the extent to which a measure does not correlate with other constructs from which it is supposed to differ. It involves demonstrating a lack of correlation among differing constructs.
- **Nomological validity** is the extent to which the scale correlates in theoretically predicted ways with measures of different but related constructs. A theoretical model is formulated that leads to further deductions, tests and inferences.

(c) Sensitivity

It refers to an instrument's ability to accurately measure variability in stimuli or responses (Zikmund, 2003: 304). The sensitivity of a scale is an important measurement concept, particularly when changes in attitudes or other hypothetical constructs are under investigation. The sensitivity of a scale can be increased by allowing for a greater range of possible errors.

(d) Generalisability

Generalisability refers to the degree to the extent to which one can generalise from observations at hand to a universe of generalisations (Malhotra, 2007: 287-288). The set of all conditions of measurement over which the investigator wishes to generalise is the universe of generalisation. These conditions may include items, interviewers, or situations of observation. A researcher may wish to generalise a scale developed for use in personal interviews to other modes of data collection. Likewise, the researcher may generalise, for example: from a sample of items to the universe of items; from a sample of items of measurement to the universe of times of measurement; or from a sample of observers to a universe of observers. A measure has practical value for the research if it is economical, convenient, and interpretable (Cooper & Schindler, 2008: 295-296).

The measuring instruments will be evaluated in terms of reliability, validity, and sensitivity. The subsequent choice of a validity assessment method by the researcher will be dependent on the type of question format used in the questionnaire. The researcher will use index measures when investigating hypothetical constructs to allow for a greater range of possible scores in order to increase sensitivity of the measurement instrument. Likewise, the researcher will generalise findings from a sample of items to the universe of items. These will be discussed in chapter seven after the questionnaire has been developed.

6.7 QUESTIONNAIRE DESIGN AND TESTING

The process of designing the measurement instrument was in accordance with the research objectives (Brace, 2004: 11), the research problem, the propositions, and the different measurement aspects. The questionnaire was designed based on the extant literature and the research objectives for the present study. Questionnaire design and the type of interviewing procedures are discussed below.

6.7.1 Preliminary considerations

Prior to the development of the questionnaire, a number of factors were considered within the entire framework of the study to be undertaken. Although there is no single generally accepted method for designing a questionnaire (Stevens, Wrenn, Sherwood & Ruddick, 2008: 139-140) various research texts have suggested procedures ranging from 4 to 14 sequential steps. The study questionnaire will be designed based on the framework of McDaniel and Gates (1996: 404) as follows:

- Step 1: Determine the survey objectives, resources and constraints
- Step 2: Determine the data collection methods
- Step 3: Determine the questions' response format
- Step 4: Decide on the wording of questions
- Step 5: Establish the questionnaire flow and layout
- Step 6: Evaluate the questionnaire and layout
- Step 7: Obtain approval from all relevant parties
- Step 8: Pre-test and revise the questionnaire
- Step 9: Prepare the final copy
- Step 10: Implement the questionnaire.

The researcher will develop questionnaires based on the literature derived from Chapters 1 to 5 and based on the in-depth interviews. The questions asked will be a function of the research objectives and of the survey design used in the study and divided into four major sections as follows: business characteristics, NSD strategy, NSD process and the significance of NSD. The research propositions derived from a conceptual analysis and the insights from the interviews will also guide the questionnaires. Principles associated with questionnaire design will be applied (Zikmund, 2003: 330-362; Brace, 2004: 113-140; Malhotra, 2007: 300-322). Complementary questions that are to be addressed by both the case study and survey methods will be used (Yin, 2009: 173-174).

6.7.2 Asking questions

The precise wording of questions plays a vital role in determining the answers given by the respondents. Clear distinction must be made between the research question and the particular question you ask the respondents. Question wording is the translation of the desired question content and structure into words that respondents can clearly and easily understand (Malhotra, 2007: 311). If a

question is worded poorly, respondents may refuse to answer it or may answer it incorrectly. These two problems, according to Malhotra (2007: 311-314), can be avoided when developing questions by using the following guidelines:

- clearly define the issue being addressed;
- use ordinary words;
- avoid ambiguous words;
- avoid leading questions;
- avoid implicit alternatives;
- avoid implicit assumptions;
- avoid generalisations and estimates; and
- use positive and negative statements.

The researcher strictly adhered to the above-mentioned principles and guidelines while constructing the questionnaire.

6.7.3 Types of questions and data

Different types of questions are appropriate for different purposes, and different types of data can be used and analysed differently (Brace, 2004: 54). It is important for the researcher to understand the range of question types available because the choice of question type will determine the information that is elicited. It is also important to understand the different types of data that will be generated, because that will determine the types of analysis that can be carried out. At the time when the questions are being formulated, the researcher should thus be thinking about how the data are to be analysed so that the information collected can be analysed in the way that is required.

Questions can be classified in terms of their degree of structure and disguise (Stevens *et al.*, 2008: 135). According to Malhotra (2007: 307), a question may be unstructured or structured.

a) Unstructured questions

Unstructured questions will be used in the qualitative part of the study. The researcher will use open ended questions (2007: 307-308) for the following reasons:

- They are good as first questions on a topic.

- They enable the respondents to express general attitudes and opinions that can help the researcher interpret their responses to structured questions.
- Their comments and explanations can provide the researcher with rich insights.
- They are useful in exploratory research.

A principal disadvantage is that potential for interviewer bias is high; coding of responses is costly and time consuming. Implicitly, unstructured questions give extra weight to respondents who are more articulate. Also, unstructured questions are not suitable for self-administered questionnaires.

b) Structured questions

Structured questions prespecify the set of response alternatives and the response format. A structured question could request a multiple choice response, a dichotomous response, or a response on a scale (Malhotra, 2007: 308). According to Dillon *et al.* (1993: 310), there are several issues related to itemised question formats:

- the number of response alternatives;
- the nature and degree of verbal description;
- the number of favourable and unfavourable categories;
- the statement of neutral position; and
- the forced or unforced nature of the scale.

The obvious advantages of the close-ended question format (Dillon *et al.*, 1993: 310) relate to:

- their ease of use in the field;
- their ability to reduce interview bias; and
- their ability to reduce bias based on differences in how articulate respondents are.

The questionnaire will include both unstructured and structured questions.

6.7.4 Constructing the questionnaire

The questionnaire was divided into four distinct sections as can be observed in Appendix 3:

- **Introduction, qualification and screening questions.**
- **Section A:** Classification questions.

- **Section B:** Specific new service development questions.
- **Section C:** NSD related to strategic marketing, strategic planning and service marketing.
- **Section D:** The importance of execution of the new service development stages, NSD strategy.

The questionnaire was compiled based on the expected marketing expertise of the respondents in the sample, and the theoretical discussions concerning:

- objectives of the study;
- different measurements and scales;
- preliminary considerations involved in designing questionnaires;
- general guidelines for asking questions; and
- data processing and analysis.

6.7.5 Pretesting of the questionnaire

According to Cooper and Schindler (2008: 358), the final step toward improving survey results is pretesting: the assessment of questions and instruments before the start of a study. The authors emphasise the value of pretesting individual questions, questionnaires, and interview schedules. The reasons include: discovering ways to increase participant interest; increasing the likelihood that the participants will remain engaged to the completion of the survey; discovering question content, wording and sequencing problems; discovering target question groups where researcher training is needed; and exploring ways to improve the overall quality of survey data. There are three main kinds of pilot studies (Kent, 2007: 154):

- qualitative research among the target population to check language and the range of likely opinions;
- pretesting the questionnaire to see how it works; and
- a small-scale pilot survey to obtain approximate results.

The appropriateness of the questionnaires will be confirmed through evaluation by academics knowledgeable about NSD to check language and the range of likely opinions, and through a pre-test with marketing decision makers in the hospitality sector to see how it works. The comments and answers given in the pre-test (Appendix B) will be used to refine the questionnaire before it is used in its final form as discussed in section 6.5.3. Relevance and accuracy during questionnaire design will be applied (Zikmund, 2003: 330-362; Brace, 2005: 113-137; Malhotra, 2007: 300-322).

6.7.6 Questions in the final questionnaire

The linkage between the questions in the questionnaire, secondary research objectives and research propositions is indicated in Table 6.6.

Table 6.6: Questions, research objectives and propositions

| Questions linked to secondary objectives | |
|---|------------------|
| Objectives | Questions |
| To establish the types of new services developed and offered by the hospitality sector. | 2,3,13 &15 |
| To identify NSD strategies used by the hospitality sector. | 4,5,7,11,14, 16 |
| To determine the greatest benefits of NSD to the hospitality sector. | 10 & 22 |
| To identify the significance of the stages of the new service development process by the hospitality sector. | 20 |
| To determine the relationship between the hotel's competitive position and types of new services. | 2,3,12 &17 |
| To find out the differences in the NSD approaches of the chain and independent hotels. | 16 |
| To establish the extent of customer involvement in NSD by hotels. | 3, 7 &18 |
| To determine functional responsibility for the NSD in the hospitality sector. | 6,9 &18 |
| To determine how much hotels spend on NSD related activities relative to sales. | 21 |
| There is a significant difference in the number of new services developed and offered by the hotels in various star categories in Kenya | 1, 2 |
| There is a significant difference between hotel categories when factoring innovation considerations into decision making in Kenya | 9, 21, 22 |

| Questions linked to secondary objectives | |
|--|-----------------------|
| Objectives | Questions |
| Hotel managers in Kenya use the NSD strategy to plan and manage their products and services. | 6, 10, 13, 15, 16, 20 |
| Hotel managers in Kenya apply and use the NSD concept for marketing and strategy decision making purposes. | 9, 14, 16 |
| Hotels that substantially outperform their industry peers develop more types of services. | 2, 3, 10, 11, 12 |
| The NSD approaches of chain hotels and independent hotels are different. | 13, 16, 20 |

Table 6.7: The linkage between different sections, questions, question formats and different scales

| Section | Question | Question format | Scale type |
|----------------|-----------------|------------------------|------------------------------------|
| A | 1 | Close-ended | - |
| B | 2 | Close-ended | - |
| | 3 | Close-ended | - |
| | 4 | Close-ended | - |
| | 5 | Close-ended | 5-point Likert plus a "don't know" |
| | 6 | Close-ended | - |
| | 7 | Close-ended | 5-point Likert plus a "don't know" |
| | 8 | Close-ended | - |
| | 9 | Close-ended | - |
| | 10 | Close-ended | 5-point Likert plus a "don't know" |
| | 11 | Close-ended | - |
| | 12 | Close-ended | 5-point Likert plus a "don't know" |
| C | 13 | Close-ended | 5-point Likert plus a "don't know" |
| | 14 | Close-ended | - |
| | 15 | Close-ended | - |
| | 16 | Close-ended | 5-point Likert plus a "don't know" |

| Section | Question | Question format | Scale type |
|----------|----------|-----------------|------------------------------------|
| | 17 | Close-ended | - |
| | 18 | Close-ended | 5-point Likert plus a "don't know" |
| D | 20 | Close-ended | 5-point Likert plus a "don't know" |
| | 21 | Close-ended | - |
| | 22 | Close-ended | - |
| | 23 | Close-ended | - |

6.8 THE INTERVIEW PROCEDURE

The in-depth interviews were conducted using the key informant guide (Appendix B) with eight managers because the purpose of the investigation was to probe strategies and processes used by managers and practitioners in developing new services in respective hotels. The main goal of the interviews was to capture the views of the informants (Churchill & Brown, 2006: 83) and not the analytic framework of the researcher. The interview was designed to understand the decision makers' perception and to encourage them to reveal their notions of what is relevant.

All the respondents were key informants because they were closely involved in and had an understanding of NSD. The potential informants were identified from industry directories and contacted by e-mail and telephone. The informant managers were mostly hotel managers and marketing managers, or their equivalents, from the gateway cities of Mombasa and Nairobi. Tourism activities in Kenya are largely concentrated in the coastal region followed by Nairobi. These two cities were the earliest to start the modern hotel industry in Kenya and have a relatively higher standard of development. More importantly, most hotels have headquarters in these cities, using them as a base for expansion and central reservations. The major considerations in selecting hotels were their star levels, location, ownership structures, and the need to cover all types of hotels.

The interviews were semi-structured because this would allow for flexibility and would give respondents scope to delineate their views more freely (Yin, 2009: 107). Research propositions were used as the basis for further inquiry. The researcher used a case study protocol (Yin, 2009: 79-82) to ensure a consistent pathway to analysing the interview data. Most questions were open-ended but some

asked the interviewees to place their responses on a five-point Likert scale. The key informant interview guide was developed using prior theory in NSD, and by consulting with academics and practitioners that have substantive expertise in NSD. The key informant interview guide was tested in a pilot case study not included in the sample. Each interview lasted about two hours.

A set of interview topics guided the interviews, with a list of probing questions to draw out respondent opinions. The interview questions were designed to probe: the process and sequence of NSD activities; the importance of various NSD stages; types of NSD strategies; benefits of developing new services; and strategies adopted by various hotels in developing new services. Several documents and archival records were consulted to enable triangulation.

Detailed notes of the interviews were taken. Other documents and archival records were consulted to triangulate the data: marketing brochures, service information leaflets, internal reports, memoranda and minutes of meetings. The researcher also received feedback from the respondents in the targeted group (member checking), and expert reviews from academics knowledgeable about NSD. The member checking process allowed the participating hotel managers the chance to correct errors of fact or errors of interpretation, thereby adding to the validity of the researcher's interpretation of qualitative observations.

Findings from the interviews were used to re-conceptualise the research problem and to inform the questionnaire development (Appendix D). The facts of each case study were supported by evidence from the multiple sources. The researcher dropped and collected the survey questionnaires and was able to track progress on data collection. Therefore, the validity and reliability of the sample and data collection were established.

6.9 POPULATION AND SAMPLING

The basic idea of sampling is that by selecting some of the elements in a population, we may draw conclusions about the entire population (Cooper & Schindler, 2008: 374). According to Zikmund (2003: 369), sampling decisions are often complex and there is no single "right" way to make them. The population in question is all classified hotels in Kenya and the sample is a subset of this particular population as mentioned in Chapter 1.

There are several compelling reasons for sampling, including lower costs, greater accuracy of results, and greater speed of data collection, as well as the availability of population elements (Cooper & Schindler, 2008: 375-376). Sampling, whether from consumers or businesses, is thus appropriate when the population size is large and if the cost and time associated with obtaining information from the population is high. Sudman and Blair (1999: 273) identified several issues that distinguish business samples from consumer samples.

The most significant distinguishable issue is the enormous variability in the size of the businesses. It is a common practice in the literature on hotel activities to use the number of beds or the equivalent number of rooms as indicator of hotel size (Orfila-Sintes *et al.*, 2005: 857). Then one has to decide the appropriate unit within the business to study. Another factor is determining who the appropriate respondents are within the businesses.

Representative samples are generally obtained by following a set of well-defined procedures (Hair, Money, Page & Samouel, 2007: 171). These include the following steps:

- defining the target population;
- choosing the sampling frame;
- selecting the sampling method;
- determining the sample size; and
- implementing the sampling plan (selecting the sampling units).

6.9.1 Defining the target population

Cooper and Schindler (2008: 374) define a population (also referred to as a universe) as the total collection of elements about which we wish to make some inferences. It consists of the total number of entities in which we have interest, i.e. the collection of individuals, objects or events about which inferences will be made (Diamantopoulos & Schlegelmilch, 2005: 10). The target population is the complete group of objects or elements relevant to the research project (Hair *et al.*, 2007: 173). The research population for the study was defined as classified hotel establishments in Kenya with a graded status from the Ministry of Tourism.

The conditions for inclusion in the study was that (a) the hotel was located in Kenya, (b) the hotel was classified on the one-star to five-star grading system as a hotel establishment. The designation of the

research population therefore excluded accommodation establishments that were classified as guest houses and self-catering units. Table 6.8 indicates the list of classified hotels and lodges in Kenya.

Table 6.8: Classified hotels and lodges in Kenya

| Star rating | Town hotels | | Vacation hotels | | Lodges | |
|--------------|------------------|----------------|------------------|----------------|------------------|----------------|
| | Number of hotels | Number of beds | Number of hotels | Number of beds | Number of lodges | Number of beds |
| Five star | 9 | 3389 | 3 | 1470 | 6 | 898 |
| Four star | 1 | 167 | 10 | 3876 | 8 | 855 |
| Three star | 12 | 2353 | 11 | 2785 | 24 | 2707 |
| Two star | 15 | 1390 | 38 | 6809 | 18 | 1270 |
| One star | 20 | 1651 | 2 | 448 | 0 | 0 |
| TOTAL | 57 | 8,950 | 64 | 15,388 | 56 | 5,730 |

Source: GoK, Ministry of Tourism.

Classified hotels and lodges between three-star and five-star categories represent 61.53 per cent of the national accommodation capacity (by number of beds) depicted in Table 6.8.

The hospitality sector was chosen because the sector includes a set of businesses that are homogenous in production and in competitive setting; it represents a relatively high weight of total tourist expenditure and is indispensable for the development of the services required of a tourist destination. Kenya was selected because it provides a good example of a developing country that has embraced tourism as a tool for socio-economic development (Ministry of Planning and National Development, 2007: 1; Akama & Kieti, 2007: 735).

6.9.2 Choosing the sampling frame

The sampling frame provides a working definition of the target population (Hair *et al.*, 2007: 173). It is the listing of all population elements from which the sample will be drawn (Cooper & Schindler, 2008: 374 and Hair *et al.*, 2007: 173). According to Wegner (2000: 23), a sampling frame is a database of target population members containing contact information (such as telephone and fax numbers, e-mail addresses and physical addresses). Ideally, it is the complete and correct list of all the elements in the population from which the sample is drawn.

According to Wegner (2000: 22), a sampling unit is the person, company or product which can be physically identified for interview or measurement on the specific variables identified. It can therefore be concluded that the sampling frame consists of sampling units. Population elements would be individuals responsible for marketing decisions within the three to five star classified hotels in Kenya – it excluded one- and two-star establishments in the population. From the population of three to five-star hotels and lodges, the researcher selected a sample frame of eight establishments based on the low number of respondents, easy of access for study purposes and the level of knowledge on NSD of the respondents for the qualitative study. Preliminary criteria for inclusion in the sample could vary by geographical location, type of ownership, years in existence, type of establishment, and government classification. Obtaining eight interviews was deemed adequate to meet the objectives of the study (Mason, 2011: 34).

A stratified sampling method was used to select the sampling units within each hotel star category. Three five-star, two four-star and three three-star hotels were selected. The person in the hospitality business responsible for the marketing decision-making was selected. The researcher used stratified random sampling in order to partition the sampling frame into relatively homogenous subgroups based on star classification. The researcher usually did the stratification on the basis of his past experience with the hospitality sector.

A quota sampling method was used to ensure representativeness of the sample between the two gateway cities of Nairobi and Mombasa. These two cities were the earliest to start the modern hotel industry in Kenya and have a relatively higher standard of development. . More importantly, most hotels are have headquarters in these cities, and use them as a base for expansion and central reservations. The sampling frame of the study is shown in Table 6.9.

Judgement sampling was used to identify the respondents for the interviews. The researcher selected respondents from three-star, four-star and five-star hotels using judgement sampling because they were most likely to have marketing functions in their organisational structures, they might have been readily available to participate in the study, and they could provide the information required. Although 3 to 5 star hotels and lodges represent 47 per cent of the target population, they provide 61.5 per cent of the national bed capacity.

As indicated in Table 6.9, the sample frame selected for this study was all classified three to five star hotels in Kenya published in the Kenya Gazette of 2005. The classified hotels were selected because they consist of a set of businesses that are homogenous in production and in competitive setting and their managers are more likely to be knowledgeable about the application of NSD concepts. The total sample points in the sampling frame are 84 hotels.

Table 6.9: Classified hotels and lodges in Kenya

| Star rating | Town hotels | Vacation hotels | Lodges | Total |
|--------------------|--------------------|------------------------|---------------|--------------|
| Five star | 9 | 3 | 6 | 18 |
| Four star | 1 | 10 | 8 | 19 |
| Three star | 12 | 11 | 24 | 47 |
| TOTAL | 22 | 24 | 38 | 84 |

Source: GoK, Ministry of Tourism.

6.9.3 Selecting the sampling method

Selection of the sampling method to use in a study depends on a number of related theoretical and practical issues (Hair *et al.*, 2007: 174). These include considering the nature of the study, the objectives of the study, and the time and budget available. According to several authors (Zikmund, 2003: 379-380; Hair *et al.*, 2007: 174), traditional sampling methods can be divided into two broad categories:

- a) Probability sampling method where each element in the sample frame has a known and equal chance to be selected (Zikmund, 2003: 379). In probability sampling, sampling elements are selected randomly and the probability of being selected is determined ahead of time by the researcher (Hair *et al.*, 2007: 174).
- b) Non-probability sampling method where the researcher is not able to determine the chance of a single element from the sample frame of being selected (Zikmund, 2003: 380). The inclusion or exclusion of elements in a sample is left to the discretion of the researcher.

The researcher used probability and non-probability sampling methods in the study. A three-stage sampling procedure was used the qualitative part of the study. Judgemental sampling, stratified random sampling, and quota sampling methods were used respectively as discussed in section 6.9.2.

6.9.3.1 Probability sampling

Probability sampling usually involves taking large samples considered to be representative of the target population from which they are drawn (Hair *et al.*, 2007: 175). In drawing a probability sample the selection of elements is based on some random procedure that gives elements a known and non-zero chance of being selected, thereby minimising selection bias. Findings based on a probability sample can be generalised to the target population with a specified level of confidence.

According to Hair *et al.* (2007: 175-180), the most commonly used probability sampling techniques are: simple random, systematic, stratified, cluster sampling and multi-stage sampling.

Probability and non-probability sampling designs were used in the study to draw a representative sample.

6.9.3.2 Non-probability sampling

In non-probability sampling the selection of the sample of sample elements is not necessarily made with the aim of being statistically representative of the population. The researcher uses subjective methods such as personal experience, convenience, expert judgement and so on to select the elements in the sample (Hair *et al.*, 2007: 181). Consequently, the probability of any element of the population being chosen is not known. Moreover, there are no statistical methods for measuring the sampling error for non-probability samples.

The most frequently used nonprobability sampling methods (Hair *et al.*, 2007: 181-182 and Wegner, 2000: 112-113) are: convenience, judgement (purposive), quota and snowball sampling.

In making these sampling decisions, the researcher considered three aspects: a higher hotel category classification indicates the level and complexity of services provided; higher hotel categories include more services, equipment complexities and organisational aspects to be innovated; and three to five star hotels are patronised by the majority of international tourists (KTB, 2003: 21; Akama & Kieti, 2007: 738-739) visiting Kenya. The study used both probability (stratified sampling) and non-probability (quota and judgemental) sampling techniques.

6.9.4 Determine the sample size

The determination of the appropriate sample size is a crucial aspect of business research (Zikmund, 2003: 401) and is complex because of the many factors that need to be taken into account simultaneously. According to Hair *et al.* (2007: 182-183), these factors include elements in the target population, the type of sample required, the time available, the budget, the required estimation precision, whether the findings need to be generalised, and, if so, with what degree of confidence.

The more sample points one selects and plots, the closer the overall mean of the samples will be to the mean of the population and vice versa. While a sample size needs to be sufficiently large, there is some disagreement as to what sufficiently large means. However, it is generally agreed that a sample size of 30 is large enough (Terrell, 2012: 122).

Although formulas based on statistical theory can be used to compute the proper sample size (Zikmund, 2003: 401), alternative *ad hoc* methods are often used for pragmatic reasons, such as budget and time constraints (Hair *et al.*, 2007: 183 and Herbst, 2001: 144). According to Hair *et al.* (2007: 183), when statistical formulas are used to determine the sample size, three decisions must be made:

- The degree of confidence: Historically a 95 per cent confidence level (<0.05 chance of the estimated population parameter being incorrect) has been used.
- The specified level of precision (amount of acceptable error): Managerial and/or researcher judgement also is involved in determining the level of precision.
- The amount of variability (population homogeneity): The variability of the population is measured by its standard deviation. If the population is homogenous it has a small standard deviation hence a small sample is necessary. In practice, it is unlikely that the true standard deviation is known. Typically, the researcher uses an estimate of the standard deviation on previous similar studies or a pilot study.

The study uses an *ad hoc* method for determining the sample sizes for the quantitative part of the study based on the considerations discussed. The sample size of 70 was determined by the researcher in this study based on a sample proportion for a population of 84, as shown in Table 6.9 for the three- to five-star classified hotels and lodges in Kenya. The selected sample size also meets the three considerations above.

6.9.5 Implement sampling plan

The researcher implements the sampling plan after all the details of the sampling design have been agreed upon (Hair *et al.*, 2007: 187), i.e. the target population has been defined, the sampling frame has been chosen, the sampling method has been selected, and the appropriate sample size determined. If the sampling unit is companies, then the type of companies must be specified as well as the titles and perhaps names of individuals that will be interviewed. Many details must be decided on before a final sample plan is accepted and implemented because, once data is collected it, is too late to change the sampling design. The unit of analysis in the study was hotel managers, or their equivalents, and three- to five-star hotels were the sampling units.

6.10 PLAN OF DATA ANALYSIS

Conversation analysis was used to analyse qualitative data since this approach employs an inductive approach where theory construction develops from analysing conversations in progress (Neuendorf, 2002: 7). To ensure data quality, an item was included in the qualitative study that asked informants to provide a self-report of their level of knowledge of NSD issues mentioned in the survey (Joshi & Sharma, 2004: 47-59). These characteristics of the key informants would imply that they have the requisite knowledge and confidence to respond to the NSD issues under study. The qualitative work was used to progress towards a stronger conceptual foundation.

According to de Vaus (2002: 203) the four broad factors that affect how data is analysed are: the number of variables being examined; the level of measurement variables; whether we want to use the data for descriptive or inferential purposes; and ethical responsibilities. The quantitative study incorporated these four factors in the analysis. Univariate analysis was used for frequency counts while bivariate cross tabulation analysis was used to establish patterns and relationships between variables. The chi-square test of significance was applied to determine the extent to which the findings could be generalized.

Through cross tabulation, data was patterned enabling comparison and identification of frequencies and significant relationships between the data (Burns & Burns, 2008: 136). Non-parametric procedures was used to test for significance of the difference and relationship between two groups. Mann-Whitney and Wilcoxon tests was used to test location or central tendency. The test was preferred since it does not

assume normality and it is able to test two independent samples to find out if values of a particular group differ between two groups. The test can also be used in ordinal (Likert) scales.

Findings from the survey questionnaire will be analysed and discussed on a question-by-question basis in chapter seven.

6.11 CONCLUSION

This chapter provided a description of the various types of research designs and philosophies as well as data collection methods. The face-to-face interviewing technique and the self-completion questionnaire methods were highlighted. Special reference was made to defining the target population, choosing the sampling frame, selecting the sampling method, determining the sample size, and implementing the sampling plan.

The next chapter, which forms part of the exploratory field study of section the research study and the descriptive survey, will provide a discussion on the results. It will address the outcomes of the different research propositions as formulated in Section 6.2.

CHAPTER 7

DATA ANALYSIS AND INTERPRETATION

7.1 INTRODUCTION

This chapter presents results collected from the field using the case study and the survey methods. The survey assessed service innovation strategy and process in the hospitality industry in Kenya. The results were analysed according to the study objectives and research propositions, and are presented in tables for descriptive statistics, discussions and inferential analysis where applicable.

The reporting will start with the qualitative data analysis and interpretation followed by the quantitative data based on descriptive statistical analysis of frequencies and mean scores. Cross tabulation procedure will be used to reveal possible differences or similarities by hotel type. Non-parametric procedures will mainly be used to test for significance of the difference and relationship between two groups. Mann-Whitney and Wilcoxon tests will be used to test location or central tendency. The test was preferred since it does not assume normality and it is able to test two independent samples to find out if values of a particular group differ between two groups. The test can also be used in ordinal (Likert) scales. Two-sample Kolmogorov-Smirnov test was used to test location and shape.

The research results will be supplemented by other relevant and important cross tabulations, the representatives of the sample and validity of the questionnaire. The reporting will be concluded with a major summary of the findings and possible support for various research propositions.

7.2 QUALITATIVE DATA

Eight in-depth interviews were conducted with eight hotel managers from three, four and five star rated properties in the gateway cities of Nairobi and Mombasa to ensure proportionate representation, and to allow respondents to express their viewpoints for the qualitative phase of the research. The interviews were conducted with eight managers in six different hotels (two managers from five star establishments, and three managers each, for three and four star category) using the key informant protocol (Appendix C). A total of four managers were proportionately drawn from Nairobi and four from Mombasa hotels respectively. A three-stage sampling procedure was used as follows: judgement sampling, stratified random sampling and quota sampling respectively to identify the respondents. The

respondent for each case was the hotel manager selected from the participating establishments. Each manager was a key informant since they had knowledge and experience in the hospitality sector ranging from 7 to 16 years.

The key informant interview guide (Appendix C), was developed after pretesting with five managers and used to ensure a consistent pathway of inquiry to analyse the interview data (Yin, 2009: 130) while following the theoretical propositions. Each interview lasted approximately two hours. Data was analysed following the theoretical propositions that led to the case study. Detailed notes of the interviews were taken. Other documents and archival records were consulted to triangulate the data: marketing brochures, service information leaflets, internal reports, memoranda and minutes of meetings.

Multiple sources were used for data triangulation to address the potential problems of construct validity and reliability since multiple sources of evidence provide multiple measures of the same phenomenon. The interview data was analysed using manual methods.

7.2.1 Results of the interviews

The descriptive, interpretive and thematic coding is provided in Figure 7.1. The summary statements were organised based on the propositions and key quotations noted to add transparency and depth of understanding. The six themes or categories were as follows:

- Category 1. Number of new services
- Category 2. Innovation considerations in decision making
- Category 3. Use of the NSD strategy by hotel managers
- Category 4. Application of the NSD concept by the hotel manager
- Category 5. Types of service developed by the hotel
- Category 6. NSD approaches by the hotel.

The results of each category are examined as indicated in the propositions in section 1.4.3.

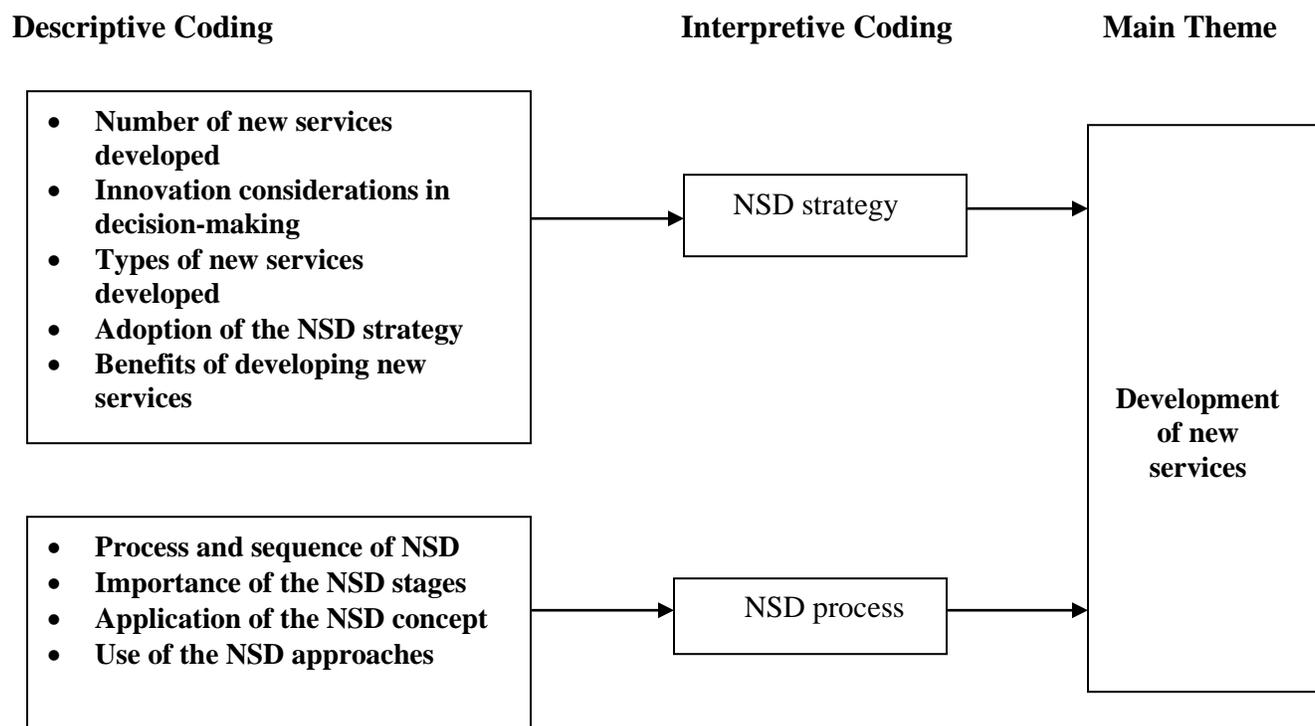


Figure 7.1: Conceptual interpretation of major findings

7.2.1.1 Number of new services

The results indicated that the star category of the hotel did not necessarily determine the number of services developed by a hotel, although there was a tendency of luxury hotels investing higher budgets for marketing purpose. The five and four star hotels emphasised more on service quality and showed that most of their customers expected it. The views were consistent with the approaches to ranking accommodation (Ramanathan, 2012: 47). One participant stated that the number of new services introduced in the hotel depended on the hotel's service plan or strategy.

As the managers explained,

“The service advantage derived from developing new services is usually short lived. Most hotel innovations are improvements of existing services or imitations from market leaders because of budgetary constraints” (Manager #1).

“We develop new service offerings for our guests’ sake. The hotel business is a people oriented business” (Manager #6).

The views of one participant (Manager #1) is supported by Bean and Radford (2002: 83-85) observation that an organisation’s competitive advantage almost solely depends on its ability to innovate. Although the number of new services varied among different hotel star categories, two of the participants (Manager #6 and #7) indicated that the ability of a hotel to innovate was perceived to be an essential core competency in the business environment (Butlin & Carnegie, 2001: 107-110; Lin, 2001: 1-16). Two of the participants remarked that the customer expectations and competitive intensity (Shoemaker *et al.*, 2007: 260) influenced the number of new services developed by each hotel. Therefore, there was no significant difference in the number of new services developed and offered by the hotels in various star categories. The proposition was false.

7.2.1.2 Innovation decisions

One of the problems identified about the NSD process and strategy in the hospitality sector was the insufficiency of the NSD process in providing uniform basis for decision making. The participants acknowledged that they used the NSD concepts and strategy in planning, managing and making decisions.

As a participant (Manager #2) explained,

“Chain hotels usually have a clear, well documented service strategy and vision. And the plan is clearly communicated and marketed to all employees, supported by the management team. The buy in by the employees makes implementation easier and more successful for the chain hotels. Independent hotels tend to focus more on training their employees for improved productivity and customer service while developing new products”.

Another participant (Manager #8) expressed a similar view on the innovation considerations in decision-making, stating:

“The type of services developed and introduced at the establishment heavily depends on the type of clientele, hotel star ranking and location of the establishment. Some service offerings are done in

the hotel just to improve the customers comfort and experience, target new service lines and enter new markets and not to earn additional revenue”.

While one participant stated that some hotels introduced new services to serve new customer segments, others simply imitated their competitors for fear of being outmanoeuvred. Another participant indicated that some hotels simply modified their offerings in order to increase their margins or market share, access to new markets, and/or simply improve perception of how well the hotel is managed. The findings validated the fact that hotels made innovation considerations in decision-making and gained competitive advantage through managerial actions and decisions (Kim & Mauborgne, 2005: 10; Drummond *et al.*, 2004: 4-5; Hamel & Prahalad, 1989: 63-76; Teece *et al.*, 1997: 509-533).

Hence, there is no significant difference between hotel categories when factoring innovation considerations in decision-making.

7.2.1.3 Practice of NSD

NSD is risky because the new service failure rate is almost 50 per cent and the knowledge about how innovations should be developed is limited. The five participants confirmed that it was important to keep introducing new offerings in the Kenyan market because of the changing guest profiles and preferences. As one participant explained, they indeed used the NSD concepts and strategy in planning, managing and making decisions (Smith & Fischbacher, 2005: 1025). As another participant remarked that some hotels introduced new services to “serve new customer segments, while others simply imitated their competitors for fear of being outmanoeuvred” (Alam, 2005: 247). However, the participants indicated that other hotels simply modified their offerings in order to increase their margins or market share, access to new markets, and/or simply improve perception of how well the hotel is managed (Kelly & Storey, 2000: 49-50).

As one participant explained,

“We know it is important to develop new services for our customers, and we normally do it. But the ease with which the services are copied by other competing establishment makes it uneconomical to invest heavily in new service development” (Manager #1).

Another participant expressed a similar view on the use of the NSD strategy by hotel managers, stating:

“The chain hotels usually launch products that are expressively new and generate essential value for customers as well as improve their quality and reputation because they can afford it. Independent hotels introduce new products that lower costs, provide improved performance or greater perceived value” (Manager #3).

Chain hotels are more innovative because they have more financial resources, diverse facilities, professional and skilled workers, higher technical potential and knowledge and better scale economies for raising capital (Sirilli & Evangelista, 1998: 882-889; Orfila-Sintes, Crespi-Cladera & Martinez-Ros, 2005: 852-865; Lopez-Fernandez, Serrano- Bedia, Gomez-Lopez, 2011: 145-150).

As one participant explained, most hotels in this industry wait for the superior rivals or market leaders to introduce a new product and then play catch up to avoid being left behind. As a consequence, innovation in services within hotels does not require much R&D nor do hotels invest much in fixed assets to support innovations (de Jong & Vermeulen, 2003: 845).

Therefore, hotels use the NSD strategy to modify and develop services and products for various reasons, although the ease with which the services are copied by other competing establishment makes it uneconomical to invest heavily in new service development.

7.2.1.4 Application of NSD concept

Based on the interviews, application of the NSD concept in the hospitality industry was common. The hotel executives regarded application of the NSD as critical and strategic. The participants acknowledged that customer demands had increased because most of the visitors had diverse needs and expectations. Very rarely are new services developed purely for the bottom-line profit they add (Johne & Storey, 1998: 196).

As the participant explained,

“The central goal of new developing services in the hospitality is to introduce services and products that provide benefits to the customers and to the business. The financial benefits from new service offerings are not very inspiring” (Manager #6).

Another participant further pointed out that,

“It does not really matter which process you follow in developing new services. What matters is the ultimate service quality and advantage created by the new services, because other hotels easily copy and implement them without incurring a lot of costs” (Manager #8).

The phrase “*new services*” was mentioned several times by each participant. Developing new services was both critical and strategic for the company, industry and the customers in general (Ottenbacher & Harrington, 2009: 524; Menor & Roth, 2007: 825; Zeithaml *et al.*, 2006: 8-9). However, as one participant pointed out, the hotel industry adopted the NSD concept but did not find all new service development stages important and useful all the time.

Application of the NSD concept by managers in hotels for marketing and strategy decision making purposes was dominantly influenced by the desire to achieve higher overall customer satisfaction through increasing number of satisfied customers as well as increasing the satisfaction of existing customers.

One participant emphasized,

“We pay extra ordinary attention to our customers. The complements and complaints give us invaluable feedback to continuously improve our services” (Manager #3).

Therefore, while the hotels used the NSD concepts for marketing and strategy decision making purposes, the hotel companies in practice often employed highly iterative, non-linear and informal processes in the NSD (Menor *et al.*, 2002: 135-157) depending on the context. This finding was consistent with John and Storey’s (1998: 201) argument that “while the NSD has to follow the same generic process of NPD, the relative importance of each stage and how each stage is carried out is affected by the unique characteristics of services.

7.2.1.5 Types of service

The types of new services developed by a business characterises the innovativeness of the business (Alam, 2005: 237), and increases the understanding of how companies achieve success with service innovations (De Brentani, 2001: 169-187). The interview results showed that although most hotels

developed moderately innovative products that provided improved performance or greater perceived value for their customers, hotels preferred to grow their business.

As a participant explained,

“The independent hotels are usually more flexible in responding to customer needs and issues. It is easier for such hotels to adapt to the changing needs of the customer and offer tailor made services” (Manager #1).

Hotels that substantially outperformed their industry peers exhibited greater flexibility in responding to their internal and external environments (Takeuchi & Nonaka, 1986: 137). Speed was a new paradigm for innovation (Akgün & Lynn, 2002: 117). Hence, leading hotels were more likely to have moved to sophisticated and faster processes in order to enhance effectiveness of their new product processes by optimising greater operational efficiency.

As another participant highlighted,

“The chain hotels usually launch products that are expressively new and generate essential value for customers as well as improve their quality and reputation because they can afford it. Independent hotels introduce new products that lower costs, provide improved performance or greater perceived value” (Manager #3).

The participants emphasized the importance of learning customers’ in order to uncover latent needs through observation, customer feedback and comments as a way of involving them in the NSD process. Although there were no differences between chain and independent hotels with regard to the types of service developed. However, the participants believed innovation was key to a hotel’s competitiveness.

The participant explained,

“Based on my experience, I have not observed any notable differences in management approach about new service development between chain and independent hotels” (Manager #2).

It would appear from the interviews that hotels which substantially outperformed their industry peers to grab a greater share of the existing demand (Kim & Mauborgne, 2005: 4-5) developed more types of services, although there were no notable differences in the implementation of the NSD strategy between chain and independent hotels. This finding is consistent with Deszca, Munro and Noori's (1999: 618) suggestion that firms in highly competitive industries face pressure to shorten new product development cycle times in order to surpass competitors, reap speedier returns on investments, and reduce the risks associated with passage of time.

7.2.1.6 NSD approaches

Every hotel company chooses its own target market and develops its own set of products and services and these domain decisions are then supported by appropriate decisions concerning the company's technology, structure and process (Miles & Snow, 2003: 28-29). The interviews showed that although most establishments in the hospitality sector preferred to grow substantially, they developed moderately innovative products that provided improved performance or greater perceived value for their customers. Consequently, most hotels were either reactors (responding to product or market changes only when forced by environmental pressures) or defenders (located and maintained secure niches by protecting their positions). This finding is inconsistent with previous studies (Kelly & Storey, 2000: 49-50) which depicted service companies as either being prospectors or analyzers accordingly to Miles and Snow's (2003: 28-30) typology.

A participant explained,

“Most establishments in the hospitality sector prefer to develop moderately innovative products that provide improved performance or greater perceived value for their customers. Cost is a major constraint” (Manager #7).

Although the participants willingly developed new services in their establishments their respective NSD approaches were mainly influenced by customers, competition and financial capacity. Customer involvement in the NSD process was also found to be relatively high.

As a participant stated:

“The independent hotels are usually more flexible in responding to customer needs and issues. It is easier for such hotels to adapt to the changing needs of the customer and offer tailor made services” (Manager #1).

Another participant expressed a similar view on the influence of customers on the NSD approaches of hotels, stating:

“The chain hotels usually launch products that are expressively new and generate essential value for customers as well as improve their quality and reputation because they can afford it. Independent hotels introduce new products that lower costs, provide improved performance or greater perceived value” (Manager #3).

Firm size, ownership and management (Alam & Perry, 2002: 519) influenced the NSD approaches of the hotels. The eight participants agreed that the NSD approaches of chain and independent hotels were different.

As a participant stated,

“.....of course the chain hotels have the financial muscle to develop and launch new services any time of the year. It just depends on the influence from the head office” (Manager #5).

Another participant explained,

“Different hotels derive their advantage over the competition from different sources. For instance, the central reservation system from their headquarter, unique location around a popular resort, game park or access road and so on. So developing more services to outperform their peers is one among the many options available to hotel property” (Manager #8).

Based on the interviews, there were differences in the implementation of the NSD strategy between chain and independent hotels.

Generally, the hospitality sector is supplier-dominated and most innovation tends to come from suppliers of inputs rather than from within the sector. Hence, innovation is usually moderate and not of a very radical nature. It was also established that one main goal of the sector is to keep an eye on

customer needs and preferences which is usually achieved through adaptation of standardised services to particular customers.

7.3 QUANTITATIVE DATA

A sample frame as described in section 6.9.2 was obtained from the Kenya gazette published by the Ministry of Tourism. The sample frame used in the study to fill the different strata is shown in shown in Table 7.1 and it depicts the composition of different strata per hotel type and location in Kenya based on three-star to five-star classification. The survey questionnaire is shown in Appendix F.

Table 7.1: Description of sample frame

| Star rating | Town hotels | Vacation hotels | Lodges | Total |
|--------------------|--------------------|------------------------|---------------|--------------|
| Five-star | 9 | 3 | 6 | 18 |
| Four-star | 1 | 10 | 8 | 19 |
| Three-star | 12 | 11 | 24 | 47 |
| TOTAL | 22 | 24 | 38 | 84 |

The field work was conducted in Nairobi and Mombasa by the researcher between April 15, 2011 and August 20, 2011 and the response from the sample frame is depicted in Table 7.2. The realization rate was used because it accounts for undercoverage of the sampling frame, unit nonresponse, and misclassification of eligible units as ineligible, whereas the response rate accounts only for nonresponse.

Table 7.2: The survey response

| Star rating | Nairobi | Mombasa | Response | Percent |
|--------------------|----------------|----------------|-----------------|----------------|
| Five-star | 5 | 3 | 8 | 22.9 |
| Four-star | 8 | 7 | 15 | 42.9 |
| Three-star | 9 | 3 | 12 | 34.2 |
| TOTAL | 22 | 13 | 35 | 100 |

Data was collected in hotel establishments in Nairobi and Mombasa. The total establishments participating were 22 establishments in Nairobi and 13 establishments in Mombasa.

The reasons for a relatively low response rate depicted in Table 7.2 are:

- A significant number of classified hotels and lodges between one-star and two-star categories, representing *38.5 per cent* of the national accommodation capacity, do not know about or apply the NSD strategy and process.
- A large number of the three to five star establishments (35 out of 84) are lodges located mainly in game parks and reserves but with headquarters in Nairobi and Mombasa.
- New classified five star hotels in Nairobi built over the last nine years have not been gazetted yet by the Ministry of Tourism.

It is evident from Table 7.2 that only *41.8 per cent* (35/84) of the establishments participated in the survey. Reasons for this phenomenon are:

- Hotel managers not returning the questionnaires after accepting to participate in the survey.
- Hotel managers not interested or willing to participate in the survey.

A total of 35 questionnaires were completed and collected for analysis. The response rate of the survey was *41.8 per cent*. However, the numbers vary through some of the findings because there was limited interviewer intervention for probing the participants to give full information in some cases due to the difficulty of securing appointments for follow-up.

7.4 THE REPRESENTATIVENESS, RELIABILIBLITY AND VALIDITY OF THE RESULTS

Before a question-by-question exposition of the results will be reported, it is important to describe the representativeness, validity and the reliability of the results. This is necessary to provide the correct context in which the results can be interpreted and conclusions can be drawn.

7.4.1 Representativeness of the results

The researcher used judgement sampling to choose the sample frame. Stratified sampling method was used to select the sampling units as indicated in Table 6.9. The results achieved during this study are only representative of the establishments in Nairobi and Mombasa, where the study was conducted. In making these sampling decisions, the researcher considered four aspects:

- Higher hotel category classification indicated the level and complexity of services provided and included more services, equipment complexities and organisation aspects to be innovated.

- Most hotels are headquartered in Nairobi and Mombasa, using them as a base for expansion and central reservations since these two cities were the earliest to start the modern hotel industry in Kenya and have a relatively higher standard of development.
- Tourism activities in Kenya are largely concentrated in the coastal region followed by Nairobi as discussed in section 4.8.
- Poor co-operation was received from the eligible sample elements as only 35 of the 50 eligible sample elements were willing to participate in the survey.

7.4.2 Reliability and validity

As the research design for this study is of an exploratory nature, the questionnaire was designed from the literature and tested in a specific industry with a low sample realisation as depicted in Table 7.2. Based on this, the Cronbach's alpha score for the measurement of internal consistency in the proposed study is not used to test the construct reliability.

As discussed in section 6.6.3, content validity was used to measure the extent to which the instrument provided adequate coverage of the investigative questions guiding the study. The researcher determined content validity by involving judgement through careful determination of the topic, the items to be scaled and the scales to be used. Validity was measured by the researcher in assessing accuracy of rating made by the different respondents in terms of agreement/disagreement with different items measured in this study. Consistency of rating made by different respondents was assessed and concerned more with opinions, values and attitudes. Multiple sources were used in the qualitative study for data triangulation to address the potential problems of construct validity and reliability since multiple sources of evidence provides multiple measures of the same phenomenon.

The content of the measures in the questionnaire originated from previous studies reported in the literature review as well as the qualitative part of the study, and was regarded to be sufficient to address the objectives of this study formulated in chapter one.

7.5 RESULTS OF THE QUANTITATIVE DATA

The researcher will report the results on scaled questions by tables for descriptive statistics such as mean, median, mode and frequencies, while inferential analysis will be used where applicable. The results were analysed as per the research propositions and within each thematic area.

7.5.1 Section A: Demographic profile and business characteristics of hotels

The purpose of Section A was to obtain (a) municipal location of the establishments, (b) type of establishment, (c) star classification, (d) room and bed information on establishments, and (e) number of employees in the establishments included in the empirical part of this study.

7.5.1.1 Location and classification of establishment

The following results provide the necessary classification information that will be vital for cross tabulation later on in the analysis. The result of the location and star classification is illustrated in Table 7.3.

Table 7.3: Location and star classification

| | | | Star classification | | | Total |
|---------------------------|---------|------------------------------------|---------------------|--------|--------|--------|
| | | | 3-star | 4-star | 5-star | |
| Location of establishment | Nairobi | Number | 4 | 8 | 9 | 21 |
| | | % within location of establishment | 19.0% | 38.1% | 42.9% | 100.0% |
| | Mombasa | Number | 4 | 7 | 3 | 14 |
| | | % within location of establishment | 28.6% | 50.0% | 21.4% | 100.0% |
| Total | | Number | 8 | 15 | 12 | 35 |
| | | % within location of establishment | 22.9% | 42.9% | 34.3% | 100.0% |

As indicated in Table 7.3, *22.9 per cent* of the classified hotels were three-star, *34.3 per cent* were five-star, while *42.9 per cent* were four-star establishments. The majority of the hotel establishments are located in Nairobi (*60 per cent*) while the rest (*40 per cent*) are located in Mombasa. In Nairobi *95.2 per cent* were located in town while *4.8 per cent* were vacation hotels located out of town. In Mombasa *85.7 per cent* were vacation hotels and only *14.3 per cent* were town hotels. More town hotels (*62.9 per cent*) than vacation hotels (*37.1 per cent*) participated in the survey. However, regional distribution

aspects in the tourism sector in Kenya remain evident as shown in section 4.8. Mombasa is a coastal town and attracts more tourists interested in vacation than Nairobi which is mostly regarded as a short stay or transit town.

7.5.1.2 Type of establishment

The findings in Table 7.4 indicate 22 (62.9 per cent) of the hotels were town hotels while 13 (37.1 per cent) were vacation hotels.

Table 7.4: Number of rooms and beds

| Type of establishment | Frequency | Percent | Cumulative Percent |
|-----------------------|-----------|---------|--------------------|
| Town hotels | 22 | 62.9 | 62.9 |
| Vacation hotels | 13 | 37.1 | 100.0 |
| Total | 35 | 100.0 | |

7.5.1.3 Number of rooms and beds

The average rooms available in the hotels are 167.1, with the minimum being 35 and the maximum 376 as shown in Table 7.5.

Table 7.5: Number of rooms and beds

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---------------------|----|---------|---------|----------|----------------|
| Q1.4Number of rooms | 35 | 35.00 | 376.00 | 167.1429 | 74.42451 |
| Q1.5Number of beds | 34 | 41 | 646 | 287.97 | 136.652 |

The average number of beds indicated by the hotels was 288 with the lowest being 41 and the highest being 646. This shows that a correlation exists between the number of hotel rooms and the number of beds.

7.5.1.4 Number of employees

The number of employees engaged by the establishment is indicated in Table 7.6. The findings in Table 7.6 indicates the most of the three-star establishments (50 per cent) have between 101 to 150 employees, 25 per cent have between 201 to 250 employees, and 12.5 per cent have either between 51 to 100 or 201 to 250 employees.

Table 7.6: Number of employees

| Number of employees | Three-Star | | Four-Star | | Five-Star | | Table Total | |
|---------------------|------------|---------------|-----------|---------------|-----------|---------------|-------------|---------------|
| | Number | Col % | Number | Col % | Number | Col % | Number | Col % |
| Between 51 to 100 | 1 | 12.5% | 1 | 6.7% | 0 | 0 | 2 | 5.7% |
| Between 101 to 150 | 4 | 50.0% | 4 | 26.7% | 1 | 8.3% | 9 | 25.7% |
| Between 151 to 200 | 2 | 25.0% | 1 | 6.7% | 0 | 0 | 3 | 8.6% |
| Between 201 to 250 | 1 | 12.5% | 2 | 13.3% | 0 | 0 | 3 | 8.6% |
| 251 and Above | 0 | 0 | 7 | 46.7% | 11 | 91.7% | 18 | 51.4% |
| Table Total | 8 | 100.0% | 15 | 100.0% | 12 | 100.0% | 35 | 100.0% |

Among the four-star establishments, 46.7 per cent have 251 and above employees, 26.7 per cent had between 101 to 150 employees, 13.3 per cent have between 201 to 250 employees while 6.7 per cent and another 6.7 per cent have either between 51 to 100 employees or between 150 to 200 employees respectively while among the five-star hotels 91.7 per cent have more than 250 employees while only 8.3 per cent had between 101 to 150 employee as shown in Table 7.6.

The main finding is that the majority of establishments (51.4 per cent) have more than 250 employees. These establishments are mostly four-star and five-star.

7.5.1.5 Type of management

The classification of the establishments based on the type of management is classified in Table 7.7.

Table 7.7: Types of management

| Type of management | Frequency | Percentage |
|------------------------------|-----------|--------------|
| Independently managed hotels | 18 | 51.4 |
| Chain managed | 15 | 42.9 |
| Management contract | 1 | 2.9 |
| Franchise Operation | 1 | 2.9 |
| Total | 35 | 100.0 |

Most of the establishments (*51.4 per cent*) are independently managed while *42.9 per cent* are chain managed. Only *2.9 per cent* of the participating establishments are operating under a franchise and a management contract.

The main finding is that most of the establishments (51.4 per cent) in Kenya are independently managed while 42.9 per cent belong to hotel chains.

7.5.1.6 Length of operation

The length of years the establishments have operated in Kenya is depicted in Table 7.8. Among the three-star establishments *37.5 per cent* have been in existence for 30 to 40 years, *25 per cent* have been in existence for over 40 years, *12.5 per cent* have been existence for either 20 to 29 years, 10 to 19 years or less than 9 years respectively. A majority of the four-star establishments have been in existence for over 40 years (*33.3 per cent*) and 30 to 40 years (*33.3 per cent*) while *13.3 per cent* existed for either 20 to 29 years and 10 to 19 years respectively and only *6.7 per cent* have been in existence for less than 9 years. Furthermore, a majority of the five-star hotels have been in existence for more than 40 years, *25 per cent* for less than 9 years, *16.7 per cent* for 30 to 40 years and 20 to 29 years respectively and *8.3 per cent* for 10 to 19 years as shown in Table 7.8.

Table 7.8: Length of operation

| Length of operation (in years) | Three-Star | | Four-Star | | Five-Star | | Table Total | |
|--------------------------------|------------|--------|-----------|--------|-----------|--------|-------------|--------|
| | Number | Col % | Number | Col % | Number | Col % | Number | Col % |
| Less than 9 years | 1 | 12.5% | 1 | 6.7% | 3 | 25.0% | 5 | 14.3% |
| 10 to 19 Years | 1 | 12.5% | 2 | 13.3% | 1 | 8.3% | 4 | 11.4% |
| 20 to 29 Years | 1 | 12.5% | 2 | 13.3% | 2 | 16.7% | 5 | 14.3% |
| 30 to 40 Years | 3 | 37.5% | 5 | 33.3% | 2 | 16.7% | 10 | 28.6% |
| 40 Years and Above | 2 | 25.0% | 5 | 33.3% | 4 | 33.3% | 11 | 31.4% |
| Total | 8 | 100.0% | 15 | 100.0% | 12 | 100.0% | 35 | 100.0% |

The main finding is that the majority of establishments (60 per cent) have been in operation in Kenya for over 30 years.

7.5.1.7 Customers' origin

The description of where customers originate from is indicated in Table 7.9. Over *70 per cent* of the hotel industry customers originate from outside the African continent (*21.6 per cent*) with majority of the visitors coming from the United Kingdom (*12.5 per cent*), United States/Canada (*12.0 per cent*) and Germany (*10.6 per cent*). In Africa, most of the customers come from East Africa (*11.5 per cent*) while *10.1 per cent* come from the rest of Africa. Less than *10 per cent* of customers originated from other regions.

Table 7.9: Description of customer origin

| Country of origin | Number | Percentage of responses (%) | Percentage of cases (%) |
|---------------------------------|------------|-----------------------------|-------------------------|
| United Kingdom | 26 | 12.5 | 74.3 |
| Unites States of America/Canada | 25 | 12.0 | 71.4 |
| Australia/New Zealand | 9 | 4.3 | 25.7 |
| Germany | 22 | 10.6 | 62.9 |
| France | 20 | 9.6 | 57.1 |
| Italy | 14 | 6.7 | 40.0 |
| Switzerland | 17 | 8.2 | 48.6 |
| China | 9 | 4.3 | 25.7 |
| India | 10 | 4.8 | 28.6 |
| East Africa | 24 | 11.5 | 68.6 |
| Rest of Africa | 21 | 10.1 | 60.0 |
| Other | 11 | 5.3 | 31.4 |
| Total responses | 208 | 100.0 | 594.3 |

The main finding is that the majority of hotel industry customers (73.1 per cent) to Kenya originate outside the African continent.

Based on the analysis, there is no evidence that the number of new services developed is related to hotels' star rating for the hospitality sector in Kenya. There is a higher proportion of independently-managed establishments than those belonging to hotel chains. It is also evident that the majority of the establishments have been in operation in Kenya for over 30 years. Similarly, the majority of the hotel industry customers to Kenya originate from outside the African continent.

7.5.2 Section B: Innovation strategy

The purpose of Section B was to determine the hotel industry application of the NSD and establish how classified and independent hotels in Kenya develop their NSD strategies. The following results provide the necessary information on innovation strategy in the hotel sector.

7.5.2.1 Number of service innovations

The number of service innovations introduced in the establishment in the last three years is indicated in Table 7.10. Most establishments had introduced less than 20 (*68.8 per cent*) new service innovations in the past three years with *43.8 per cent* of the establishments having introduced less than 10 new service innovations as indicated in Table 7.10. It was established that *25 per cent* have introduced 10 to 20 and 20 to 30 new service innovations respectively while only *6.3 per cent* have introduced over 30 new service innovations as shown in Table 7.10.

Although five-star hotels report the highest proportion (*9.1 per cent*) of establishments that have introduced over 30 new service innovations over the last 3 years, they are marginally followed by four-star hotels at *7.7 per cent*. A higher proportion of four-star hotels (*62.5 per cent*) have introduced between 20 to 30 new service innovations compared to five-star hotels (*37.5 per cent*). There are no three-star hotels that reported introducing more than 20 new service innovations over the last three years. The correlation between services developed and star classification is shown in Table 7.11. The Pearson's correlation coefficient is 0.262 indicating a weak positive relationship between services developed and star classification.

Table 7.10: Number of service innovations

| New innovations | | Hotel star classification | | | Total |
|---------------------|------------------------------|---------------------------|---------------|---------------|---------------|
| | | 3-star | 4-star | 5-star | |
| Less than 10 | Number | 6 | 3 | 5 | 14 |
| | % within New Innovations | 42.9% | 21.4% | 35.7% | 100.0% |
| | % within star classification | 75.00% | 23.1% | 45.50% | 43.8% |
| 10 to 20 | Number | 2 | 4 | 2 | 8 |
| | % within New Innovations | 25.0% | 50.0% | 25.00% | 100.0% |
| | % within star classification | 25.0% | 30.8% | 18.20% | 25.0% |
| 20 to 30 | Number | 0 | 5 | 3 | 8 |
| | % within New Innovations | 0.0% | 62.50% | 37.50% | 100.0% |
| | % within star classification | 0.0% | 38.5% | 27.3% | 25.0% |
| Over 30 | Number | 0 | 1 | 1 | 2 |
| | % within New Innovations | 0.0% | 50.0% | 50.0% | 100.0% |
| | % within star classification | 0.0% | 7.7% | 9.1% | 6.3% |
| Total | Number | 8 | 13 | 11 | 32 |
| | % within New Innovations | 25.0% | 40.6% | 34.4% | 100.0% |
| | % within star classification | 100.0% | 100.0% | 100.0% | 100.0% |

Table 7.4: Correlation between services developed and star classification

| | | New services developed | Star classification |
|------------------------|---------------------|------------------------|---------------------|
| New services developed | Pearson Correlation | 1 | .262 |
| | Sig. (2-tailed) | | .148 |
| | N | 32 | 32 |
| Star classification | Pearson Correlation | .262 | 1 |
| | Sig. (2-tailed) | .148 | |
| | N | 32 | 35 |

The main finding is that there is no evidence that the number of new services developed is related to a hotel's star rating for the hospitality sector in Kenya. The second main finding is that majority of the hotels (68.8 per cent) have introduced less than 20 new service innovations in the last three years. The other finding is that a higher proportion of four-star hotels (62.5 per cent)

have introduced between 20 to 30 new service innovations compared to five-star hotels (37.5 per cent).

7.5.2.2 Type of service offered

The type of services provided by the establishments to their customers is shown in Table 7.12. Majority of the three-star establishments (87.5 per cent) offer a mixture of both standardised and customised services while 12.5 per cent offer only standardised services. 60 per cent of the four-star establishments also offer a mixture of services, while 20 per cent offer mainly standardised services, 6.7 per cent offer either only standardised services, only customised services or mainly customised services respectively.

Table 7.5: Types of services

| Description of services offered | Three-Star | | Four-Star | | Five-Star | | Total | |
|---------------------------------|------------|--------|-----------|--------|-----------|--------|--------|--------|
| | Number | Col % | Number | Col % | Number | Col % | Number | Col % |
| Only Standardised services | 1 | 12.5% | 1 | 6.7% | 1 | 8.3% | 3 | 8.6% |
| Mainly Standardised services | 0 | 0 | 3 | 20.0% | 5 | 41.7% | 8 | 22.9% |
| A mixture | 7 | 87.5% | 9 | 60.0% | 5 | 41.7% | 21 | 60.0% |
| Mainly Customised Services | 0 | 0 | 1 | 6.7% | 1 | 8.3% | 2 | 5.7% |
| Only Customised Services | 0 | 0 | 1 | 6.7% | 0 | 0 | 1 | 2.9% |
| Total | 8 | 100.0% | 15 | 100.0% | 12 | 100.0% | 35 | 100.0% |

Among the five-star establishments, 41.7 per cent offer a mixture of services, another 41.7 per cent offer mainly standardised services, 8.3 per cent offer either mainly customised services only standardised services.

The main finding is that most establishments (60 per cent) offered a mixture of both standardised services and customised services. The second main finding is that the proportion of establishments offering standardised services is higher than those offering customised services.

7.5.2.3 Growth objective of establishments

Table 7.13 illustrates the growth objective of the establishments in the next 3 to 5 years. Most establishments (60 per cent) preferred to grow substantially, 37.1 per cent prefer to grow moderately

while 2.9 *per cent* want to remain the same size. Of the 60 *per cent* hotels that desire to grow substantially 62.2 *per cent* are three-star, 60 *per cent* are four-star while 58.8 *per cent* are five-star classification.

Table 7.6: Growth objectives of the establishments

| Growth objective of the establishment | Three-Star | | Four-Star | | Five-Star | | Table Total | |
|---------------------------------------|------------|--------|-----------|--------|-----------|--------|-------------|--------|
| | Count | Col % | Count | Col % | Count | Col % | Count | Col % |
| Remain the Same Size | 1 | 12.5% | 0 | 0 | 0 | 0 | 1 | 2.9% |
| Grow Moderately | 2 | 25.0% | 6 | 40.0% | 5 | 41.7% | 13 | 37.1% |
| Grow Substantially | 5 | 62.5% | 9 | 60.0% | 7 | 58.3% | 21 | 60.0% |
| Table Total | 8 | 100.0% | 15 | 100.0% | 12 | 100.0% | 35 | 100.0% |

Similarly, 41.7 *per cent* of the establishments who prefer to grow moderately are five-star hotels, 40 *per cent* are four-star while 25 *per cent* are three star hotel classification. Only 12.5 *per cent* three-star establishments want to remain the same size.

To test whether there are significant differences in preferences as far as growth strategy among establishments in three-star classifications, Kruskal-Wallis (H-Test) was performed on all eight the items using a 0.05 level of significance at one degree of freedom. It showed no significant differences in growth objective between the star classification at $P=0.992$ as shown in Table 7.14.

Table 7.7: Preference of growth strategy

| Test Statistics | Difference |
|-----------------|------------|
| Chi-Square | 0.015 |
| df | 2 |
| Asymp. Sig. | 0.992 |

The first main finding is that there are no significant differences in growth objectives between various hotel star categories. The second main finding is that most hotels' (60 per cent) growth objective is to grow substantially.

7.5.2.4 Primary business challenges

Despite the growth objective desired by the establishments in section 7.5.2.3, most establishments face various primary business challenges over the next three years. Table 7.15 shows the summary of the mean rank and sum of ranks for the primary business challenges experienced by the various types of establishments. The goal of using the mean ranks is to test for differences of the primary business challenges that are caused the type of establishment.

As shown in Table 7.15, growing revenue (Q5.5) ranks the highest among all challenges faced by town hotels at a mean rank of 20.14, followed by attracting, retaining and motivating talented people (Q5.6) with a mean rank of 19.32. Conversely, responding effectively to threats and opportunities of globalisation (Q5.7) with a mean rank of 18.85 and increasing operating speed and adaptability with a mean rank of 16.58 are the two most primary business challenges that the vacation hotels anticipate to face over the next 3 years.

Table 7.8: Primary business challenges

| Primary Business challenges | Type of establishments | N | Mean Rank | Sum of Ranks |
|--|--|------|-----------|--------------|
| | Q5.1 Innovating to achieve competitive differentiation | Town | 21 | 18.40 |
| Vacation | | 13 | 16.04 | 208.50 |
| Total | | 34 | | |
| Q5.2 Reducing costs and increasing efficiencies | Town | 21 | 18.79 | 394.50 |
| | Vacation | 13 | 15.42 | 200.50 |
| | Total | 34 | | |
| Q5.3 Profitability, acquiring and retaining customers | Town | 22 | 19.18 | 422.00 |
| | Vacation | 13 | 16.00 | 208.00 |
| | Total | 35 | | |
| Q5.4 Responding effectively to disruptions of our business model | Town | 21 | 17.88 | 375.50 |
| | Vacation | 12 | 15.46 | 185.50 |
| | Total | 33 | - | - |

| Primary Business challenges | Type of establishments | N | Mean Rank | Sum of Ranks |
|---|-------------------------------|----------|------------------|---------------------|
| Q5.5 Growing revenue | Town | 22 | 20.14 | 443.00 |
| | Vacation | 13 | 14.38 | 187.00 |
| | Total | 35 | - | - |
| Q5.6 Attracting, retaining and motivating talented people | Town | 22 | 19.32 | 425.00 |
| | Vacation | 13 | 15.77 | 205.00 |
| | Total | 35 | - | - |
| Q5.7 Responding effectively to threats and opportunities of globalisation | Town | 22 | 17.50 | 385.00 |
| | Vacation | 13 | 18.85 | 245.00 |
| | Total | 35 | - | - |
| Q5.8 Increasing operating speed and adaptability | Town | 21 | 18.07 | 379.50 |
| | Vacation | 13 | 16.58 | 215.50 |
| | Total | 34 | - | - |
| Total | Town | 21 | 18.40 | 386.50 |
| | Vacation | 13 | 16.04 | 208.50 |

This indicates that responding effectively to disruptions of the business model, and increasing operating speed and adaptability in the hotel industry are not significant business challenges. The key factor that worries most establishments is growing revenue, cost reduction, increasing efficiency in delivery of services and profitability. Further, Friedman's test was used to check if there are major differences in average ranks of the business challenges that the surveyed establishments anticipated to face over the next 3 years. The results are shown in Table 7.16.

Table 7.9: Test statistics on business challenges

| | |
|-------------|--------|
| N | 31 |
| Chi-Square | 22.254 |
| df | 7 |
| Asymp. Sig. | 0.002 |

Friedman's chi-square test value was 22.25 at 7 degrees of freedom and $P=0.002$ shows that significant differences in the ranking and expectation on the primary business challenges might affect hotel industry operations and delivery of services to their customers. This means that hotels perceive

challenges differently and some challenges apply to different hotels contrarily. No uniformity of challenges among the establishments was noted.

For majority of the establishments, growing revenue, reducing costs and increasing efficiencies as well as retaining high calibre workforce are the major challenges they anticipate to significantly affect their businesses over the next 3 years as opposed to changes in the business model, innovation/product differentiation, operating speed and adaptability among others.

The main finding is that there are significant differences in the ranking and expectation of the primary business challenges that might affect hotels over the next three years.

7.5.2.5 Commitment to innovation

The change in the establishments' commitment to innovation in terms of management attention and investment in the past year is shown in Table 7.17.

Table 7.10: Establishments' commitment to innovation

| Commitment to innovation | Frequency | Percent |
|---|------------------|----------------|
| Significantly increased innovation commitment | 22 | 62.9 |
| Somewhat increased innovation commitment | 10 | 28.6 |
| Business as usual- no change in innovation | 1 | 2.9 |
| Somewhat decreased innovation commitment | 1 | 2.9 |
| Significantly decreased innovation commitment | 1 | 2.9 |
| Total | 35 | 100 |

Commitment to innovation is high among a majority of the establishments in the past year. According to more than half of the establishments (*62.9 per cent*), management's attention and investment to innovation significantly increased in their establishment while *28.6 per cent* felt it has somewhat improved which cumulated to *91.4 per cent* of responses indicating most managements are highly committed to increasing innovation. In spite of this, *2.9 per cent* felt their establishments do not have much commitment to innovation and everything was business as usual, another *2.9 per cent* also feel

their management has somewhat decreased commitment to innovation and 2.9 *per cent* have a management that has significantly decreased commitment to innovation as shown in Table 7.17.

The main finding is that most establishments (62.9 per cent) management's attention to and investment in innovation have significantly increased in the past year.

7.5.2.6 Extent of engagement in the NSD strategies

To find out the extent to which the establishments are engaged in various NSD strategies the following activities were measured to establish the most significant strategy used in town and vacation hotels as indicated in Table 7.18.

Table 7.11: Engagement in the NSD activities

| NSD activities | Mean | |
|---|-------------|-----------------|
| | Town hotels | Vacation hotels |
| Q7.1 Identifying potential new revenue stream through new products, services or business model | 3.95 | 4.38 |
| Q7.2 Analysing investor and stakeholder expectations related to innovation | 3.67 | 3.92 |
| Q7.3 Identifying opportunities to enhance or differentiate brand image through innovation strategies | 4.21 | 4.23 |
| Q7.4 Benchmarking innovation practices of competitors and innovation leaders | 3.76 | 4.00 |
| Q7.5 Highlighting innovation in recruitment of employees | 3.45 | 3.92 |
| Q7.6 Building awareness of innovation in the organisation | 3.55 | 3.85 |
| Q7.7 Identifying opportunities to build a culture of innovation by pursuing innovation strategies | 3.59 | 3.73 |
| Q7.8 Including innovation in scenario planning or strategic analysis | 3.82 | 4.00 |
| Q7.9 Improving efficiencies and reducing waste | 4.05 | 4.31 |
| Q7.10 Analysing risks associated with not fully addressing innovation issues | 3.41 | 4.08 |
| Q7.11 Revising compensation approaches and management incentives to promote innovation related strategies | 3.27 | 3.85 |

N= 35 (Town hotels=22 and vacation hotels=13)

The NSD activities with the highest mean in the town hotels were identifying opportunities to enhance or differentiate brand image through innovation strategies (4.21), and improving efficiencies and

reducing waste (4.05) respectively. Identifying potential new revenue stream through new products, services or business model (4.38) and identifying opportunities to enhance or differentiate brand image through innovation strategies (4.23) had the highest mean respectively in vacation hotels. The vacation hotels had comparatively higher mean for all of the NSD activities than town hotels as shown in the Table 7.18.

To confirm whether the differences were significant the Mann-Whitney U test and the Wilcoxon W test were done and the results are as shown in Table 7.19. The Pearson correlation test was done to establish the level of association between star classification and number of services developed by each establishment as shown in Table 7.19. As indicated in Table 7.19, it can be seen that the correlation coefficient (r) equals 0.148 indicating a weak positive relationship as $p < 0.05$ and the Pearson's correlation coefficient is 0.262.

Table 7.12: Test statistics for engagement in the NSD activities

| NSD activities | Mann-Whitney U | Wilcoxon W | Z | Asymp. Sig. (2-tailed) | Exact Sig. [2*(1-tailed Sig.)] |
|---|----------------|------------|--------|------------------------|--------------------------------|
| Q7.1 Identifying potential new revenue stream through new products, services or business model | 104.000 | 357.000 | -1.442 | 0.149 | 0.191(a) |
| Q7.2 Analysing investor and stakeholder expectations related to innovation | 121.000 | 352.000 | -0.575 | 0.565 | 0.600(a) |
| Q7.3 Identifying opportunities to enhance or differentiate brand image through innovation strategies | 120.000 | 310.000 | -0.148 | 0.883 | 0.910(a) |
| Q7.4 Benchmarking innovation practices of competitors and innovation leaders | 105.000 | 336.000 | -0.826 | 0.409 | 0.449(a) |
| Q7.5 Highlighting innovation in recruitment of employees | 92.500 | 345.500 | -1.481 | 0.139 | 0.157(a) |
| Q7.6 Building awareness of innovation in the organisation | 119.000 | 372.000 | -0.872 | 0.383 | 0.428(a) |
| Q7.7 Identifying opportunities to build a culture of innovation by pursuing innovation strategies | 113.500 | 366.500 | -0.306 | 0.759 | 0.778(a) |
| Q7.8 Including innovation in scenario planning or strategic analysis | 121.000 | 374.000 | -0.796 | 0.426 | 0.468(a) |
| Q7.9 Improving efficiencies and reducing waste | 103.500 | 334.500 | -1.257 | 0.209 | 0.246(a) |
| Q7.10 Analysing risks associated with not fully addressing innovation issues | 90.000 | 343.500 | -1.886 | 0.059 | 0.073(a) |
| Q7.11 Revising compensation approaches and management incentives to promote innovation related strategies | 103.500 | 343.000 | -1.402 | 0.161 | 0.180(a) |

a Not corrected for ties. b Grouping Variable: Q1.2Type of establishment

It can be concluded that there is no evidence that the number of new services developed is related to a hotel's star rating for the hospitality sector in Kenya. The difference in the level of engagement in innovation activities between town and vacation hotels in analysing risks associated with not fully addressing innovation issues at $P=0.059$ is not significant. This means that although vacation hotels, which are ranked higher at 22.08, show a higher level of engagement in innovation activities than town hotels (mean rank 15.59) there is no significant differences between the two types of establishments as they recorded P values of more than 0.05 as shown in Table 7.18.

The main finding is that there is no significant difference in the level of engagement in innovation activities between town hotels and vacation hotels.

7.5.2.7 Decision making on innovation

According to all respondents, their establishments factor innovation considerations into decision-making. The details of 'who' in the establishments typically factored innovation consideration into decision-making are indicated in Table 7.20.

Table 7.13: Decision making and innovation

| Responsibility for decision | | Type of establishment | | Total |
|---|--------------------------------|-----------------------|--------|--------|
| | | Independent | Chain | |
| Managers in certain non-marketing functions/units | Number | | | |
| | % within who makes decisions | 33.3% | 66.7% | 100.0% |
| | % within type of establishment | 5.0% | 15.4% | 9.1% |
| Top management | Number | 14 | 8 | 22 |
| | % within who makes decisions | 63.6% | 36.4% | 100.0% |
| | % within type of establishment | 70.0% | 61.5% | 66.7% |
| Managers in marketing-dedicated roles | Number | 2 | 0 | 2 |
| | % within who makes decisions | 100.0% | 0.0% | 100.0% |
| | % within type of establishment | 10.0% | 0.0% | 6.1% |
| Selected management committee | Number | 3 | 3 | 6 |
| | % within who makes decisions | 50.0% | 50.0% | 100.0% |
| | % within type of establishment | 15.0% | 23.1% | 18.2% |
| Total | Number | 20 | 13 | 33 |
| | % within who makes decisions | 60.6% | 39.4% | 100.0% |
| | % within type of establishment | 100.0% | 100.0% | 100.0% |

As summarised in Table 7.20, many establishments indicate that their top management is the main decision maker with regards to investment to innovation. This is according to *66.7 per cent* of the responses. Conversely, *18.2 per cent* feel selected management committees from various departments are the main ones involved in decision making as regards innovation, *9.1 per cent* indicated it is managers in certain non-marketing functions or units while *6.1 per cent* indicated it is managers in marketing-dedicated roles who make decisions on innovation activities to be initiated as shown above. Top management is also the main decision makers in choice of investment and innovation both in independent and chain hotels. In this independent hotels record a high of *70 per cent* while chain hotels record *61.5 per cent*.

The first main finding is that decision-making regarding innovation considerations are mainly made by the top management (66.7 per cent) who determines strategy of the organisation as whole. The second main finding is that there is a difference between independent and chain hotels on who typically factors innovation considerations into decision-making.

7.5.2.8 Benefits of developing new services

The benefits to the establishments of developing new products and services are indicated in Table 7.20.

Table 7.20 shows that the greatest benefits of developing new products and services for hotels are access to new markets (mean of 4.20), increased margins or market share due to new products and services (mean score of 4.09) and improved perception of how well the hotel is managed (mean score of 4.09) respectively. Conversely, the lowest ranked benefits are reduced costs due to energy efficiency (mean score of 3.72) and reduced risk (mean score of 3.60).

The mean ranks were used to compare the effect of hotel star-classification on the benefits of developing new services. Improved regulatory compliance (mean rank of 19.88), better innovation of product/service offerings (mean rank of 19.25) and improved ability to attract and retain top talent (mean rank 18.88) were the greatest benefits among three-star establishments respectively. Four star establishments ranked access to new markets (mean rank 18.60) and improved regulatory compliance (mean rank 18.46) as the greatest benefits of developing new services. Conversely, increased employee productivity (mean rank 20.54), increased competitive advantage (mean rank

20.00) and improved brand reputation (mean rank 19.91) were ordered as the great benefits of developing new services by the five-star establishments.

Further, differences are seen in the benefits of developing new products to enhanced stakeholder/investor relations among the hotel classifications where four-stars score it at 16.64, three-stars at 17.31 while five rank lowest at 18.63 as shown in Table 7.21. Better innovation of business model and processes is viewed as a higher benefit among the three-star classification (18.75) followed by the five-star classification establishments (18.58) and least of a benefit by the three-star classification (17.13). Better innovation of products and service offerings was ranked highest by the five-star classifications establishments at 19.33, 19.25 by three-star classifications and 16.27 by five-star classifications as a benefit to develop new products by establishments.

Table 7.14: Benefits of developing new products/services

| | Mean | Total | Three-Star | | Four-Star | | Five-Star | |
|--|------|-------|------------|-----------|-----------|-----------|-----------|-----------|
| | | | N | Mean rank | N | Mean rank | N | Mean rank |
| Access to new markets | 4.20 | 35 | 8 | 15.88 | 15 | 18.60 | 12 | 18.67 |
| Increased margins or market share due to new products/services | 4.09 | 34 | 7 | 12.57 | 15 | 18.27 | 12 | 19.42 |
| Improved brand reputation | 3.88 | 34 | 8 | 12.75 | 15 | 18.27 | 11 | 19.91 |
| Improved perception of how well the hotel is managed | 4.09 | 35 | 8 | 17.06 | 15 | 17.33 | 12 | 19.46 |
| Improved regulatory compliance | 3.79 | 34 | 8 | 19.88 | 14 | 18.46 | 12 | 14.79 |
| Reduced costs due to energy efficiency | 3.72 | 32 | 7 | 16.50 | 14 | 17.57 | 11 | 15.14 |
| Increased competitive advantage | 3.91 | 35 | 8 | 14.75 | 15 | 18.13 | 12 | 20.00 |
| Reduced risk | 3.60 | 35 | 8 | 19.06 | 15 | 16.00 | 12 | 19.79 |
| Improved ability to attract and retain top talent | 3.83 | 35 | 8 | 18.88 | 15 | 17.97 | 12 | 17.46 |
| Increased employee productivity | 3.77 | 35 | 8 | 18.31 | 15 | 15.80 | 12 | 20.54 |
| Enhanced stakeholder/investor relations | 3.82 | 34 | 8 | 17.31 | 14 | 16.64 | 12 | 18.63 |
| Better innovation of business models and processes | 3.74 | 35 | 8 | 18.75 | 15 | 17.13 | 12 | 18.58 |
| Better innovation of product/service offerings | 3.91 | 35 | 8 | 19.25 | 15 | 16.27 | 12 | 19.33 |
| Don't know | 3.93 | 30 | 8 | 16.50 | 12 | 15.58 | 10 | 14.60 |

Friedman's analysis of variance test was done (Table 7.22) and the results showed significant differences in ranking and recognition of the greatest benefit to the hotels in establishing new products

and services. At Friedman's chi-square value of 31.493, 13 degrees of freedom and $P=0.003$, there was significant differences in preference of ranking of the test variables. This shows that hotels generally attach value differently to new product development. There are establishments which consider NSD as an avenue to accessing new markets while it is a branding issue for others.

Table 7.15: Friedman's test on benefits of NSD

| | |
|-------------|--------|
| N | 25 |
| Chi-Square | 31.493 |
| df | 13 |
| Asymp. Sig. | 0.003 |

a. Friedman Test

Further analysis was done to assess differences in ranking in benefits between Nairobi and Mombasa as indicated in Table 7.23.

Table 7.16: Ranking benefits on new products/services

| Benefits of developing new products/services | N | | | Mean | |
|--|---------|---------|-------|---------|---------|
| | Nairobi | Mombasa | Total | Nairobi | Mombasa |
| Q10.1 Access to new markets | 21 | 14 | 35 | 17.33 | 19.00 |
| Q10.2 Increased margins or market share due to new products/services | 20 | 14 | 34 | 18.68 | 15.82 |
| Q10.3 Improved brand reputation | 21 | 13 | 34 | 17.67 | 17.23 |
| Q10.4 Improved perception of how well the hotel is managed | 21 | 14 | 35 | 17.31 | 19.04 |
| Q10.5 Improved regulatory compliance | 20 | 14 | 34 | 16.75 | 18.57 |
| Q10.6 Reduced costs due to energy efficiency | 18 | 14 | 32 | 14.69 | 18.82 |
| Q10.7 Increased competitive advantage | 21 | 14 | 35 | 18.31 | 17.54 |
| Q10.8 Reduced risk | 21 | 14 | 35 | 18.29 | 17.57 |
| Q10.9 Improved ability to attract and retain top talent | 21 | 14 | 35 | 18.52 | 17.21 |
| Q10.10 Increased employee productivity | 21 | 14 | 35 | 17.45 | 18.82 |
| Q10.11 Enhanced stakeholder/investor relations | 21 | 13 | 34 | 17.26 | 17.88 |
| Q10.12 Better innovation of business models and processes | 21 | 14 | 35 | 17.24 | 19.14 |
| Q10.13 Better innovation of product/service offerings | 21 | 14 | 35 | 19.05 | 16.43 |
| Q10.14 Do not know | 17 | 13 | 30 | 15.32 | 15.73 |

Benefits linked to reduced costs due to energy efficiency benefit show higher ranking in Nairobi (mean of 14.69) than in Mombasa (mean of 18.82); increased margins or market share due to new

products/services on the other hand is ranked higher in Mombasa (mean of 15.82) than in Nairobi (mean of 18.68). Improved regulatory compliance ranks higher (mean of 16.75) in Nairobi than in Mombasa (mean of 18.57). The results of the differences in benefits received by establishing new products are as shown in the Table 7.23.

Mann-Whitney U and Wilcoxon W tests were also done to confirm if the difference in ranking between Nairobi and Mombasa in terms of benefits is significant. As shown in Table 7.24, no significant location differences is seen in any of the 13 items in terms of benefits received by the new products among the establishments.

Table 7.17: Mann-Whitney U and Wilcoxon W test statistics

| Benefits of developing new products/services | Mann-Whitney U | Wilcoxon W | Z | Asymp. Sig. (2-tailed) | Exact Sig. [2*(1-tailed Sig.)] |
|--|-----------------------|-------------------|----------|-------------------------------|---------------------------------------|
| Q10.1 Access to new markets | 133.000 | 364.000 | -.511 | .610 | .654(a) |
| Q10.2 Increased margins or market share due to new products/services | 116.500 | 221.500 | -.906 | .365 | .416(a) |
| Q10.3 Improved brand reputation | 133.000 | 224.000 | -.133 | .894 | .917(a) |
| Q10.4 Improved perception of how well the hotel is managed | 132.500 | 363.500 | -.534 | .593 | .630(a) |
| Q10.5 Improved regulatory compliance | 125.000 | 335.000 | -.556 | .578 | .616(a) |
| Q10.6 Reduced costs due to energy efficiency | 93.500 | 264.500 | -1.350 | .177 | .220(a) |
| Q10.7 Increased competitive advantage | 140.500 | 245.500 | -.234 | .815 | .829(a) |
| Q10.8 Reduced risk | 141.000 | 246.000 | -.214 | .830 | .855(a) |
| Q10.9 Improved ability to attract and retain top talent | 136.000 | 241.000 | -.390 | .696 | .727(a) |
| Q10.10 Increased employee productivity | 135.500 | 366.500 | -.420 | .674 | .702(a) |
| Q10.11 Enhanced stakeholder/investor relations | 131.500 | 362.500 | -.187 | .852 | .861(a) |
| Q10.12 Better innovation of business models and processes | 131.000 | 362.000 | -.578 | .563 | .606(a) |
| Q10.13 Better innovation of product/service offerings | 125.000 | 230.000 | -.786 | .432 | .474(a) |
| Q10.14 Do not know | 107.500 | 260.500 | -.133 | .894 | .902(a) |

a. Not corrected for ties.

b. Grouping Variable: Q1.1Location

Further, the Bonferroni post hoc test was done to control for family-wise error because of the repeated use of the Mann-Whitney U and Wilcoxon W tests. There was an overall significant difference between the means at the different hotels in Nairobi and Mombasa as indicated in Table 7.25. The ANOVA with repeated measures with a Greenhouse-Geisser correction (Table 7.25), indicates that the mean scores for benefits of developing new services are statistically significantly different ($F(1.000, 34.000)=224.269, p<0.0005$), hence the need for pairwise comparisons as shown in Table 7.26.

Table 7.18: Tests of Within-Subject Effects

| Measure:Benefits | | | | | | | |
|------------------|--------------------|-------------------------|--------|-------------|---------|------|---------------------|
| Source | | Type III Sum of Squares | df | Mean Square | F | Sig. | Partial Eta Squared |
| Location | Sphericity Assumed | 137.200 | 1 | 137.200 | 224.269 | .000 | .868 |
| | Greenhouse-Geisser | 137.200 | 1.000 | 137.200 | 224.269 | .000 | .868 |
| | Huynh-Feldt | 137.200 | 1.000 | 137.200 | 224.269 | .000 | .868 |
| | Lower-bound | 137.200 | 1.000 | 137.200 | 224.269 | .000 | .868 |
| Error(location) | Sphericity Assumed | 20.800 | 34 | .612 | | | |
| | Greenhouse-Geisser | 20.800 | 34.000 | .612 | | | |
| | Huynh-Feldt | 20.800 | 34.000 | .612 | | | |
| | Lower-bound | 20.800 | 34.000 | .612 | | | |

The results of the Bonferroni post hoc test presented in Table 7.26 indicates that the specific means for access to new markets as a benefit of developing new services statistically differed significantly between hotels in Nairobi and Mombasa.

Table 7.19: Boniferroni post hoc test statistics

| Measure:Benefits | | | | | | |
|---|--------------|-----------------------|------------|-------------------|---|-------------|
| (I) location | (J) location | Mean Difference (I-J) | Std. Error | Sig. ^a | 95% Confidence Interval for Difference ^a | |
| | | | | | Lower Bound | Upper Bound |
| Nairobi | Mombasa | -2.800* | .187 | .000 | -3.180 | -2.420 |
| Mombasa | Nairobi | 2.800* | .187 | .000 | 2.420 | 3.180 |
| Based on estimated marginal means | | | | | | |
| *. The mean difference is significant at the .05 level. | | | | | | |
| a. Adjustment for multiple comparisons: Bonferroni. | | | | | | |

The main finding is that the greatest benefits of developing new products and services for hotels are access to new markets (mean score of 4.20), increased margins or market share due to new products and services (mean score of 4.09) and improved perception of how well the hotel is managed (mean score of 4.09) respectively.

7.5.2.9 Establishment's competitive position

The respondents were asked to describe the hotel's competitive position. The description of the establishments' competitive position based on their star classification is indicated in Table 7.27.

Table 7.20: Competitive position of establishments based on star ranking

| | Three-Star | | Four-Star | | Five-Star | | Total | |
|--|------------|---------|-----------|---------|-----------|---------|--------|---------|
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| Substantially outperforming industry peers | 1 | 12.5% | 0 | 0 | 1 | 8.3% | 2 | 5.9% |
| Slightly outperforming industry peers | 0 | 0 | 2 | 14.3% | 1 | 8.3% | 3 | 8.8% |
| At par with industry peers | 2 | 25.0% | 4 | 28.6% | 1 | 8.3% | 7 | 20.6% |
| Slightly Underperforming Industry peers | 3 | 37.5% | 4 | 28.6% | 5 | 41.7% | 12 | 35.3% |
| Substantially underperforming industry peers | 2 | 25.0% | 4 | 28.6% | 4 | 33.3% | 10 | 29.4% |
| Table Total | 8 | 100.0% | 15 | 100.0% | 12 | 100.0% | 35 | 100.0% |

As shown in Table 7.27, 37.5 per cent of three-star establishments are slightly underperforming their industry peers, 25 per cent are substantially underperforming industry peers while another 25 per cent were at par with industry peers respectively. The proportion of establishments which are substantially outperforming their peers is 12.5 per cent. Among the four-star establishments 28.6 per cent are either at par, slightly underperforming or substantially underperforming their industry peers while 14.3 per cent are slightly outperforming their industry peers. Amongst the five-star establishments, 41.7 per cent are slightly underperforming, 33.3 per cent are substantially underperforming while 8.3 per cent were either at par, slightly outperforming or substantially outperforming their industry peers.

Most of the establishments' competitive position is either slightly outperforming industry peers (35.3 per cent of the respondents) or substantially underperforming industry peers (29.4 per cent); 20.6 per

cent of the establishments are at par with industry peers. Conversely, only 5.9 per cent of the establishments are substantially outperforming industry peers and 8.8 per cent are slightly outperforming industry peers. Further statistical test are done to establish the level of association between competitive position and type of services developed by each establishment as shown in Table 7.28.

Table 7.21: Correlation of competitive position and number of new services

| | | Type of services developed | Competitiveposition |
|----------------------------|---------------------|----------------------------|---------------------|
| Type of services developed | Pearson Correlation | 1 | .360 |
| | Sig. (2-tailed) | | .034 |
| | N | 35 | 35 |
| Competitiveposition | Pearson Correlation | .360* | 1 |
| | Sig. (2-tailed) | .034 | |
| | N | 35 | 35 |

As indicated in Table 7.28, the correlation coefficient (r) equals 0.034 indicating a weak positive relationship as $p < 0.05$ and the Pearson's correlation coefficient is .360. It can be concluded that for the hospitality sector in Kenya there is no evidence that the type of new services developed is related to the hotel's competitive position.

The main finding is that there is no evidence that the number of new services developed is related to the hotel's competitive position in Kenya.

7.5.2.10 Contribution to success

This question assesses the contribution of various aspects on the success of establishments as shown in Table 7.29. Mean ranks are used to establish which aspects are considered as having the highest contribution to the success of the establishments.

Competing on price and providing relatively low cost services ranks highest among three-star classifications (23.00), followed by four-star classification (19.33) and lowest by five-star classification at 13.00 as a contribution to the success of establishments as shown in Table 7.29. There are differences in the mean ranks among star classification in their assessment of the contribution of rapid delivery of services to the success of establishments where three-star classifications rank this item

highly at 13.88, four-star classifications rank it at 18.53 while five-star classifications rank it at 20.08. Three star classifications' mean rank of the quality of services provided by establishments as important to their success is 16.00; four-star classifications mean rank is 16.83 while five-star classifications mean rank is 20.79 as shown in the Table 7.29; having a variety of delivery channels has a mean rank of 16.50 by three-star classifications; 17.33 by four-star classifications and highest at 19.83 by five-star classification as a contribution to the success of the establishments.

There are differences in mean rank of the contribution of providing a full or broad range of services among the star classifications where three-star classifications had a mean rank of 15.19, four-star classifications a mean rank of 18.20 and five-star classifications at 19.63. Creativity or flair in the services provided also show some differences in mean ranking among the star classifications where the three-star establishments had a mean rank of 14.56, four-star classifications a mean rank of 18.07 and five-star classifications at 20.21. Having a specialist knowledge or abilities indicate differences in ranking among the star classifications with three-star establishments ranking it lowest (13.38), followed by four-star classifications (18.73) and lastly five-star classifications (20.17).

Conversely, paying attention to an individual customer or client has the lowest mean rank by five-star classifications (17.42), moderate by three-star classifications (17.75) and highest by 4-star classifications (18.60) as a contribution to the success of establishments as illustrated in the Table 7.28.

There are also differences in scores among the establishments on contribution of having marketing or promotional skills to the success of an establishment with four-star classifications ranking it at 15.93, three-star classifications at 17.00 while five-star classifications rank it at 19.67. Maintaining organisational flexibility is also ranked by the five-star classifications at 15.75, four-star classifications at 17.00 and three-star classifications at 21.00. The three-star classifications rank the skills of the management and workforce highly at 15.25 compared to four-star classifications, which rank it at 16.25 and five-star classifications at 19.86 respectively. There are also differences in ranking of the contribution of using advanced or recently introduced technology among the establishment where the three-star classifications rated this item high at 14.75, followed by four-star classifications at 17.00 and five-star classifications at 19.92.

Table 7.22: Contribution to NSD success

| Factors contributing to NSD success | | Star classification | | | |
|---|-----------|---------------------|-----------|-----------|-------|
| | | Three-Star | Four-Star | Five-Star | Total |
| Competing on price/providing relatively low cost services | N | 8 | 15 | 12 | 35 |
| | Mean rank | 23.00 | 19.33 | 13.00 | |
| The rapid or timely delivery of services | N | 8 | 15 | 12 | 35 |
| | Mean rank | 13.88 | 18.53 | 20.08 | |
| The quality of the services provided | N | 8 | 15 | 12 | 35 |
| | Mean rank | 16.00 | 16.83 | 20.79 | |
| Having a variety of delivery channels | N | 8 | 15 | 12 | 35 |
| | Mean rank | 16.50 | 17.33 | 19.83 | |
| Providing a full or broad range of services | N | 8 | 15 | 12 | 35 |
| | Mean rank | 15.19 | 18.20 | 19.63 | |
| Creativity or flair in the services provided | N | 8 | 15 | 12 | 35 |
| | Mean rank | 14.56 | 18.07 | 20.21 | |
| Having a specialist knowledge or abilities | N | 8 | 15 | 12 | 35 |
| | Mean rank | 13.38 | 18.73 | 20.17 | |
| Paying attention to individual customer or client needs | N | 8 | 15 | 12 | 35 |
| | Mean rank | 17.75 | 18.60 | 17.42 | |
| Having an established reputation | N | 8 | 14 | 12 | 34 |
| | Mean rank | 18.50 | 17.64 | 16.67 | |
| Having marketing or promotional skills | N | 8 | 14 | 12 | 34 |
| | Mean rank | 17.00 | 15.93 | 19.67 | |
| Maintaining organisational flexibility/our ability to adopt | N | 8 | 14 | 12 | 34 |
| | Mean rank | 21.00 | 17.00 | 15.75 | |
| The skills of our management and workforce | N | 8 | 14 | 12 | 34 |
| | Mean rank | 15.25 | 19.86 | 16.25 | |
| Using advanced or recently introduced technologies | N | 8 | 14 | 12 | 34 |
| | Mean rank | 14.75 | 17.00 | 19.92 | |
| Fulfilling standards or regulations | N | 8 | 14 | 12 | 34 |
| | Mean rank | 16.00 | 17.18 | 18.88 | |
| The organisational structure of the business (e.g. number or location of our sites of hotels) | N | 8 | 14 | 12 | 34 |
| | Mean rank | 20.63 | 17.43 | 15.50 | |

Fulfilling standards and regulations showed some differences in mean rank between three-star (16.00); four-star (17.18) and five-star establishments (18.80) in terms of its contribution to the success of the establishments.

Table 7.23: Mean differences of the NSD success factors

| The NSD success factors | Chi-Square | df | Asymptotic Significance |
|---|------------|----|-------------------------|
| Competing on price/providing relatively low cost services | 5.307 | 2 | .070 |
| The rapid or timely delivery of services | 2.397 | 2 | .302 |
| The quality of the services provided | 1.845 | 2 | .398 |
| Having a variety of delivery channels | .731 | 2 | .694 |
| Providing a full or broad range of services | 1.138 | 2 | .566 |
| Creativity or flair in the services provided | 1.734 | 2 | .420 |
| Having a specialist knowledge or abilities | 2.808 | 2 | .246 |
| Paying attention to individual customer or client needs | .178 | 2 | .915 |
| Having an established reputation | .223 | 2 | .895 |
| Having marketing or promotional skills | 1.156 | 2 | .561 |
| Maintaining organisational flexibility/our ability to adopt | 1.728 | 2 | .421 |
| The skills of our management and workforce | 1.716 | 2 | .424 |
| Using advanced or recently introduced technologies | 1.577 | 2 | .454 |
| Fulfilling standards or regulations | .511 | 2 | .774 |
| The organisational structure of the business (e.g. number or location of our sites of hotels) | 1.426 | 2 | .490 |

Test Statistics (a, b): a Kruskal Wallis Test; b Grouping Variable: Q1.3starclassification

Similarly, the contribution of the organisational structure of business to success of establishment for five-star establishments ranked at 15.50, four-star at 17.43 and three-star establishments at 20.63. To qualify whether these mean differences are significant, the Kruskal Wallis test was done using star classification as a grouping variable as shown in Table 7.30.

At $p=.070$ the test statistics show no significant difference in mean ranking of competing on prices and providing relatively low cost services as a contribution to the success of the establishments among all the star categories. These results also apply to the other aspects: rapid or timely delivery of service ($p=.302$); the quality of the services provided ($p=.398$); having a variety of delivery channels ($p=.694$);

providing a full or broad range of services ($p=.566$) and creativity or flair in the services provided ($p=.420$). There are also no significant difference in ranking of contribution of having a specialist knowledge or abilities ($p=.246$) among all hotel star categories; paying attention to individual customer or client needs ($p=.915$); having an established reputation ($p=.895$); having marketing or promotional skills ($P.361$); maintaining organisational flexibility/ability to adopt ($p=.421$); the skills of management and workforce ($p=.424$); using advanced or recently introduced technologies ($p=.454$); fulfilling standards or regulations ($p=.774$) and the contribution of the organisational structure of the business (such as number or location of our sites of hotels) to success of establishments ($p=.490$). Any other differences in ranking of the contribution of the above aspects to success of the business establishments are due to factors other than the star classifications.

The main finding is that there is no significant difference of the various NSD success factors to the establishments in different star classification. However, the most relevant factors is competing on price/providing relatively low cost services and having specialist knowledge or abilities.

7.5.3 Section C: The NSD process

The purpose of Section C was to establish the NSD process used by classified hotels in Kenya to develop services. The following results provide the necessary information on the NSD process in the hotel sector.

7.5.3.1 Extent of change in the organisation

Table 7.31 indicates the extent to which organisational changes relating to the NSD in the establishments had changed compared with three years ago using star classification as the grouping variable.

As indicated in Table 7.31, there are differences in the mean among the three-, four- and five- star establishments in the extent of change in organisational activities. Four-star establishments have higher extent of changes on products or services provided by the hotel compared with three years ago (4.21) while five-star establishments have a mean of 4.20 and three-star establishments have a mean of 3.63.

Table 7.24: Extent of change of organisational activities

| Organisational activities | Star Classification | | | | | | |
|---|---------------------|------|-----------|------|-----------|------|-------|
| | Three-Star | | Four-Star | | Five-Star | | Total |
| | N | Mean | N | Mean | N | Mean | N |
| Q13.1 Products or services provided by the hotel | 8 | 3.63 | 14 | 4.21 | 10 | 4.20 | 32 |
| Q13.2 The ways in which the services the hotel provides are produced | 8 | 3.63 | 14 | 4.14 | 10 | 4.10 | 32 |
| Q13.3 The ways in which the services the hotel provides are delivered | 8 | 3.63 | 14 | 4.14 | 10 | 4.40 | 32 |
| Q13.4 Technology used in service delivery and production | 8 | 3.25 | 14 | 4.00 | 10 | 4.10 | 32 |
| Q13.5 The skills of the workforce used to produce or deliver services | 8 | 3.50 | 14 | 4.14 | 10 | 4.30 | 32 |
| Q13.6 The organisational structure of your hotel | 8 | 3.50 | 14 | 4.14 | 10 | 4.00 | 32 |
| Q13.7 The way in which the hotel inter-relates with your customers | 8 | 3.50 | 14 | 3.79 | 10 | 4.00 | 32 |
| Q13.8 The way in which the hotel inter-relates with other businesses | 8 | 3.38 | 14 | 3.71 | 10 | 3.90 | 32 |

The ways in which the services the hotel provides are delivered, show differences in change over the past three years with five star hotels having a high mean of 4.40, four-star had a mean of 4.14 and three-star establishments had a low mean of 3.63.

Products or services provided by the hotel (4.20), the ways in which the services the hotel provides are delivered (4.40), and the skills of the workforce used to produce or deliver services (4.30) are the organisational activities that had higher extent of changes in five-star establishments compared with three years ago. The organisational activities which that had the highest extent of change compared with three years ago in the three- and four-star establishments were similar but had varying mean for each activity. The organisational activities included products or services provided by the hotel, the ways in which the services the hotel provides are produced, and the ways in which the services the hotel provides are delivered respectively.

In order to test whether the differences observed in the mean ranks for various organisational activities among the star categories was significant, the Kruskal-Wallis (H-Test) was performed on all the 8 items using a 0.05 level of significance at 1 degree of freedom. The ranks were performed based on three categories (three-star, four-star and five-star establishments). Table 7.32 shows the obtained test scores.

Table 7.25: Test statistics of organisational activities

| Organisational activities | Chi-Square | df | Asymptotic Significance |
|--|------------|----|-------------------------|
| Q13.1 The products/service provision | 1.163 | 2 | 0.559 |
| Q13.2 Services production | 0.948 | 2 | 0.623 |
| Q13.3 Service delivery | 1.854 | 2 | 0.396 |
| Q13.4 Technology used in service delivery and production | 2.847 | 2 | 0.241 |
| Q13.5 Skills for service production or delivery | 2.381 | 2 | 0.304 |
| Q13.6 Organisational structure | 1.586 | 2 | 0.452 |
| Q13.7 Hotel inter-relate with customers | 0.361 | 2 | 0.835 |
| Q13.8 Hotel inter-relationship with other businesses | 0.668 | 2 | 0.716 |

a Kruskal Wallis Test df=1, b Grouping Variable: Q1.3starclassification

Using a level of 0.05 at 1 degree of freedom, despite the difference in mean ranks, the test shows no significant difference in change over the past three years in the three-star classification among the eight items of service provision measured. The ways in which the services provided by the hotel are produced (Q13.2) has $p=0.559$, service delivery (Q13.3) with a $p=0.396$, use of technology in service production (Q13.4) had $p=0.623$ among other test variables (questions) as shown in Table 7.31. From the above discussion, changes in service provision in the past three years in Nairobi and Mombasa was not significantly different. Therefore, the extent of organisational changes over the last three years across various establishments and locations is not significantly different. This can be explained by the slow pace of change and development of new services within the hospitality sector as indicated in Table 7.32.

The main finding is that different hotel categories have experienced different changes in organisational activities over the last three years, although the differences are not significant.

7.5.3.2 Establishments' approach to innovation

Table 7.33 indicates the description of the establishments' approach to innovation using the establishments' type of management as the grouping variable.

Table 7.26: Establishments approach to innovation

| Establishments' approach to innovation | Type of Management | | | Total | |
|---|--------------------|-----------------------------|---------------|--------|---------------------|
| | | Independently managed hotel | Chain managed | | Franchise operation |
| Locates and maintains a secure niche by protecting the hotel's position in a relatively stable product or service area (defender) | Number | 8 | 6 | 0 | 14 |
| | % | 44.4% | 40.0% | .0% | 41.2% |
| Responds to product and market changes only when forced by environmental pressures (reactor) | Number | 2 | 0 | 1 | 3 |
| | % | 11.1% | .0% | 100.0% | 8.8% |
| Values being 'first' with new products, markets and technologies (prospector) | Number | 4 | 9 | 0 | 13 |
| | % | 22.2% | 60.0% | .0% | 38.2% |
| Seldom first to market, but frequently a fast follower with a more cost-efficient or innovative product (analyser) | Number | 4 | 0 | 0 | 4 |
| | % | 22.2% | .0% | .0% | 11.8% |
| Total | Number | 18 | 15 | 1 | 34 |
| | % | 100.0% | 100.0% | 100.0% | 100.0% |

As indicated in Table 7.33, most of the establishments' approach to innovation is to locate and maintain a secure niche by protecting the hotel's position in a relatively stable product or service area (*41.2 per cent*) out of which *44.4 per cent* were independently managed establishments, *40 per cent* chain managed hotels. Fewer establishments (*38.2 per cent*) preferred being "first" with new products, markets and technologies with chain managed hotels leading (*60 per cent*), followed by independently managed hotels (*22.2 per cent*). A total of *8.8 per cent* of the surveyed establishments respond to product and market changes only when forced by environmental pressures, while *11.8 per cent* were seldom first to market, but are frequently fast followers with more cost-efficient or innovative products. As can be seen, majority of the respondents classify their establishments as either defenders or prospectors in their approach to NSD.

In order to test whether there is a relationship between type of management and approach to innovation and whether the differences can be inferred to the overall population of hotels a chi-square test was done. The chi-square test was calculated at 0.05 significance levels which is a minimum likelihood that the relationship between type of management and approach to innovation is due to sampling error. The Pearson Chi-Square test is shown in Table 7.34.

Table 7.27: Relationship between innovation approach and type of management

| Statistical Test-Chi-Square Tests | | | |
|-----------------------------------|---------|----|-------------------------|
| | Value | df | Asymptotic significance |
| Pearson Chi-Square | 18.319a | 6 | 0.005 |
| Likelihood Ratio | 15.509 | 6 | 0.017 |
| Linear-by-Linear Association | 0.027 | 1 | 0.869 |
| N of Valid Cases | 34 | | |

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .09.

As indicated in Table 7.33 there is a significant level of $p < 0.005$ at 18.319 and 6 degrees of freedom although 66.7 per cent of cells have expected count of less than 5. This indicates a significant relationship at $p < 0.005$. Therefore this implies that there is a strong relationship between type of management and approach to innovation. Type of management determines the approach to innovation used by the hotel establishments.

The main finding is that most of the establishments' (79.4 per cent) approach to innovation was either to locate and maintain a secure niche by protecting the hotel's position in a relatively stable product or service area (defenders), or being "first with new products, markets and technologies" (prospectors). The second main finding is that there is a strong relationship between the type of management and approach to innovation. The third main finding is that the type of management determines the approach to innovation used by the hotel establishments.

7.5.3.3 Types of new services developed

Table 7.35 illustrates the types of new services developed by the establishments over the last two years using the star classification as the grouping variable.

As shown in Table 7.35, *12.5 per cent* of three star establishments and *6.7 per cent* of four star establishments have developed new services for markets as yet undefined. Conversely, *25 per cent* of the five star and *6.7 per cent* of the four star establishments have developed new services for markets that are already served by existing products that meet the same generic needs. Out of the *28.6 per cent* of establishments that have developed new services that attempt to offer existing customers of the

establishments' services not previously available from the hotels, 37.5 per cent were three-star and 46.7 per cent were four-star establishments.

Table 7.28: Types of new services developed

| Type of new service(s) | | Star Classification | | | Total |
|--|------------------|---------------------|---------------|---------------|---------------|
| | | Three Star | Four Star | Five Star | |
| New services for markets as yet undefined | Number | 1 | 1 | 0 | 2 |
| | Frequency | 12.5% | 6.7% | .0% | 5.7% |
| New services for a market that is already served by existing products that meet the same generic needs | Number | 0 | 1 | 3 | 4 |
| | Frequency | .0% | 6.7% | 25.0% | 11.4% |
| New services that attempt to offer existing customers of the establishment a service not previously available from the hotel | Number | 3 | 7 | 0 | 10 |
| | Frequency | 37.5% | 46.7% | .0% | 28.6% |
| Services that represent extension of the existing service line | Number | 2 | 2 | 3 | 7 |
| | Frequency | 25.0% | 13.3% | 25.0% | 20.0% |
| Changes in certain features of existing services currently on offer to the currently served market | Number | 2 | 3 | 3 | 8 |
| | Frequency | 25.0% | 20.0% | 25.0% | 22.9% |
| Highly visible changes on service appearance that create excitement and may motivate employees | Number | 0 | 1 | 3 | 4 |
| | Frequency | .0% | 6.7% | 25.0% | 11.4% |
| Total | Number | 8 | 15 | 12 | 35 |
| | Frequency | 100.0% | 100.0% | 100.0% | 100.0% |

Similarly, 20 per cent of the establishments have developed services that represent extension of the existing service lines. Within this category the distribution of the establishments is as follows: 25 per cent three-star, 13.3 per cent four-star and 25 per cent five-star. Among the establishments, which have indicated they developed new services based on changes in certain features of existing services currently on offer to the currently served market, 25 per cent were five-star, 20 per cent were four-star while 25 per cent were three star. New services that had highly visible changes on service appearance, which create excitement and may motivate employees, are developed by 11.4 per cent of the establishments with 25 per cent being five-star while 6.7 per cent are four-star.

In order to establish whether hotel classification is associated with development of new services, statistical chi-square tests were done as indicated in Table 7.36.

Table 7.29: NSD and hotel classification

| Statistical Chi-Square Tests | | | |
|------------------------------|---------|----|-------------------------|
| | Value | df | Asymptotic Significance |
| Pearson Chi-Square | 13.694a | 10 | .187 |
| Likelihood Ratio | 18.316 | 10 | .050 |
| Linear-by-Linear Association | 1.647 | 1 | .199 |
| N of Valid Cases | 35 | | |

a. 18 cells (100.0%) have expected count less than 5. The minimum expected count is .46.

The chi-square test shows no significant association (value=13.694, df=10 $p>0.05$) between the two variables as indicated in Table 7.36. Star classification category does not necessarily determine whether hotels developed new services. Any new service development is due to other factors other than the star classification category.

The main finding is that most establishments (50.4 per cent) develop new services that attempt to offer existing customers of the establishment a service not previously available from the hotel, and changes in certain features of existing services currently on offer to the currently served market. The second main finding is that there is no significant association between hotel star ranking and developing new services.

7.5.3.4 Execution of the NSD strategy

Table 7.37 indicates the execution of the NSD strategy in establishments using the type of management as the grouping variable. In the frequency distribution out of 33 responses, 18 (54.5 per cent) establishments are independent while 15 (45.5 per cent) are chain managed. From the average ranking shown above, differences are seen between independent management and chain management. Based on the rankings of the hotel managers, differences are observed between the two categories. The mean rankings for the chain managed establishments are higher for all the NSD strategy items than the independently managed establishments.

As summarised in Table 7.37 the hotels in Kenya do not differ considerably on strategic dimension for their NSD programs. The independently-managed hotels have a stronger tendency introduce services that

allowed the hotel to enter a new market (mean 3.94) and new services that create new services line for the hotel (mean of 3.78) as the key NSD strategies.

The three NSD strategies with the highest means among the chain-managed hotels are service offered new features versus competitive services (mean of 4.20, standard deviation 0.775), the new service created new services line for the hotel (mean of 4.13) and the service being a modification of an existing service in the hotel (mean of 4.00).

To establish whether there are significant differences in the mean rank between chain and independently owned hotels in the execution of the NSD strategy the Kruskal-Wallis test was done as shown in Table 7.38.

Table 7.30: Execution of the NSD strategy

| The NSD strategy items | Type of Management of Establishment | | | | | | | |
|--|-------------------------------------|------|----------------|-----------------|------------------|------|----------------|-----------------|
| | Independently Managed | | | | Chain Management | | | Total |
| | N | Mean | Std. Deviation | Std. Error Mean | N | Mean | Std. Deviation | Std. Error Mean |
| Q16.1 The service allowed the hotel to enter a new market | 18 | 3.94 | 0.998 | 0.235 | 16 | 3.81 | 1.377 | 0.344 |
| Q16.2 The service was totally new for the world | 17 | 2.06 | 1.197 | 0.290 | 15 | 2.87 | 1.060 | 0.274 |
| Q16.3 Service offered new features versus competitive services | 17 | 3.00 | 1.323 | 0.321 | 15 | 4.20 | 0.775 | 0.200 |
| Q16.4 The new service created new services line for the hotel | 18 | 3.78 | 1.060 | 0.250 | 15 | 4.13 | 0.743 | 0.192 |
| Q16.5 The service was totally new for the hotel | 18 | 3.17 | 0.985 | 0.232 | 13 | 3.92 | 0.954 | 0.265 |
| Q16.6 The service required the installation of new software and/or hardware | 18 | 3.17 | 1.339 | 0.316 | 15 | 3.53 | 1.060 | 0.274 |
| Q16.7 Service required change in customers' buying behaviour | 18 | 3.28 | 1.487 | 0.351 | 15 | 3.87 | 0.915 | 0.236 |
| Q16. 8 Service a modification of an existing service in the hotel | 18 | 3.61 | 1.037 | 0.244 | 16 | 4.00 | 1.211 | 0.303 |
| Q16.9 The service was a revision of an existing service | 18 | 3.44 | 1.199 | 0.283 | 15 | 3.53 | 1.457 | 0.376 |
| Q16.10 The service required similar NSD and marketing efforts compared to hotel's current services | 16 | 3.19 | 1.223 | 0.306 | 14 | 3.29 | 1.139 | 0.304 |
| Q16.11 The service was a repositioning of an existing service of the hotel | 16 | 3.31 | 1.448 | 0.362 | 14 | 3.50 | 1.286 | 0.344 |

*Each item of NSD strategies used a scale of 1-5, where 1 is "strongly disagree" and 5 is "strongly agree".

As shown in Table 7.38, there are significant differences in the execution of NSD strategies between the chain and independently managed hotels on three items. The implementation of three NSD strategies namely: services totally new for the world ($P=0.44$), services offering new features versus competitive services ($P=0.008$) and services totally new for the hotels ($P=0.058$) were significantly different between the chain and independently managed hotels. All the other P- values for the test variables are above 0.05.

Table 7.31: The NSD strategy execution test statistics

| The NSD strategy items | Chi-Square | df | Asymp. Sig. |
|--|------------|----|--------------|
| Q16.1 The service allowed the hotel to enter a new market | 0.178 | 1 | 0.673 |
| Q16.2 The service was totally new for the world | 4.067 | 1 | 0.044 |
| Q16.3 Service offered new features versus Competitive services | 7.047 | 1 | 0.008 |
| Q16.4 The new service created new services line for the hotel | 1.284 | 1 | 0.257 |
| Q16.5 The service was totally new for the hotel | 3.602 | 1 | 0.058 |
| Q16.6 The service required the installation of new software and/or hardware | 0.622 | 1 | 0.430 |
| Q16.7 Service required change in customers' buying behaviour | 1.380 | 1 | 0.240 |
| Q16. 8 Service a modification of an existing service in the hotel | 2.934 | 1 | 0.087 |
| Q16.9 The service was a revision of an existing service | 0.420 | 1 | 0.517 |
| Q16.10 The service required similar NSD and marketing efforts compared to hotel's current services | 0.051 | 1 | 0.821 |
| Q16.11 The service was a repositioning of an existing service of the hotel | 0.089 | 1 | 0.765 |

The main finding is that most hotels have a stronger tendency to target new services that create new services lines (mean score of 3.91). The second main finding is that there is a significant difference in the implementation of the NSD strategy between chain and independent hotels. The third main finding is that the type of management adopted by the establishment influenced the execution of the NSD strategy.

7.5.3.5 Innovation and competitiveness

Most of the independently managed establishments (*94.4 per cent*) confirmed that pursuing innovation-related strategies are necessary to be competitive, while *5.6 per cent* did not as shown in Table 7.39.

Similarly, most of the hotels (*94.1 per cent*) noted that pursuing innovation-related strategies was necessary to be competitive. Very few hotel managers (*5.6 per cent* for independently managed and *6.7 per cent* of chain or franchise hotels) indicated that pursuing innovation-related strategies will be necessary in the future to be competitive.

Table 7.32: NSD and competitiveness

| | | Type of management | | | Total |
|--------------|-----------------------------|-----------------------|--------------|------------------|---------|
| | | Independently managed | Chain hotels | Franchise hotels | |
| Yes | Number | 17 | 14 | 1 | 32 |
| | % within type of management | 94.40% | 93.30% | 100.00% | 94.10% |
| No | Number | 1 | 1 | 0 | 2 |
| | % within type of management | 5.60% | 6.70% | 0.00% | 5.90% |
| Total | Number | 18 | 15 | 1 | 34 |
| | % within type of management | 100.00% | 100.00% | 100.00% | 100.00% |

The main finding is that most of the hotel managers (94.1 per cent) know that pursuing innovation-related strategies is necessary to be competitive.

7.5.3.6 Influence of functional responsibility on innovation

As indicated in Table 7.40, hotel guests or customers have the highest mean of 4.74 (standard deviation of 0.448) in terms of functional responsibility followed by the sales and marketing function with a mean of 4.62 (standard deviation of 0.493). Senior leadership had a mean score of 4.41, followed by management of rooms (mean score of 4.33), food and beverage department (mean score of 4.32) and then competitors (mean score of 4.18).

The lowest mean score (3.74) is recorded by employees not among top leadership. Principal Axis Factoring was used to determine the latent constructs behind the observations and identify similar groups of variables influencing functional responsibility on innovation. Table 7.40 shows the actual factors that were extracted. There were three factors with eigenvalues greater than 1. Factors 1 and 2 cumulatively account for 54.280 per cent of the variability in all the 11 variables.

Table 7.33: Influence of functional responsibility on innovation

| Functional responsibility | N | Mean | Std. Deviation |
|--|----|------|----------------|
| Q18.1 Sales/marketing | 34 | 4.62 | 0.493 |
| Q18.2 Rooms management | 33 | 4.33 | 0.816 |
| Q18.3 Hotel guests/customers | 34 | 4.74 | 0.448 |
| Q18.4 Partners or businesses in the supply chain | 33 | 4.03 | 0.918 |
| Q18.5 Senior leadership | 34 | 4.41 | 0.783 |
| Q18.6 Employees not among top leadership | 34 | 3.74 | 1.286 |
| Q18.7 Investors/shareholders/capital providers | 33 | 4.00 | 1.090 |
| Q18.8 Food and beverage department | 34 | 4.32 | 0.727 |
| Q18.9 Competitors | 34 | 4.18 | 0.626 |
| Q18.10 Information communication and technology | 34 | 4.41 | 0.557 |
| Q18.11 Research publications | 34 | 3.91 | 1.190 |

The Rotated Component Matrix indicated in Table 7.42 shows the factor loadings for each variable influencing the functional responsibility on innovation. Senior leadership, employees not among top leadership, investors/shareholders/capital providers, information communication and technology and research technology and research publications loaded strongly on Factor 1, while the sales/marketing/function, hotel guests/customers and food/beverage department loaded strongly on Factor 2. From the initial solution only three factors have eigenvalues of more than 1 which account for 71.452 per cent of variability of the original test variables as shown in the Table 7.41.

Table 7.34: Total Variance Explained

| Component | | | | | | |
|-----------|-------|---------------|--------------|-------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 5.373 | 48.844 | 48.844 | 3.230 | 29.366 | 29.366 |
| 2 | 1.324 | 12.040 | 60.884 | 2.741 | 24.914 | 54.280 |
| 3 | 1.162 | 10.567 | 71.452 | 1.889 | 17.171 | 71.452 |
| 4 | 0.838 | 7.619 | 79.071 | | | |
| 5 | 0.698 | 6.348 | 85.419 | | | |

| Component | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
|-----------|-------|---------------|--------------|-------|---------------|--------------|
| 6 | 0.426 | 3.872 | 89.291 | | | |
| 7 | 0.382 | 3.475 | 92.766 | | | |
| 9 | 0.199 | 1.809 | 97.318 | | | |
| 10 | 0.176 | 1.604 | 98.921 | | | |
| 11 | 0.119 | 1.079 | 100.000 | | | |

Extraction Method: Principal Component Analysis.

Table 7.35: Rotated Component Matrix

| | Rotated Component Matrix ^a | | |
|--|---------------------------------------|--------------|--------------|
| | Component | | |
| | 1 | 2 | 3 |
| Q18.1 Sales/marketing function | -0.028 | 0.907 | 0.202 |
| Q18.2 Rooms management | 0.334 | 0.465 | 0.593 |
| Q18.3 Hotel guests/customers | 0.346 | 0.784 | 0.018 |
| Q18.4 Partners or businesses in the supply chain | 0.452 | 0.345 | 0.560 |
| Q18.5 Senior leadership | 0.826 | 0.242 | 0.229 |
| Q18.6 Employees not among top leadership | 0.566 | 0.032 | 0.546 |
| Q18.7 Investors/shareholders/capital providers | 0.550 | 0.494 | -0.133 |
| Q18.8 Food and beverage department | 0.438 | 0.705 | 0.225 |
| Q18.9 Competitors | -0.020 | 0.010 | 0.848 |
| Q18.10 Information communication and technology | 0.692 | 0.392 | 0.154 |
| Q18.11 Research publications | 0.904 | 0.108 | 0.139 |

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

The main finding is that hotel guests/customers have the highest influence in driving the establishments' attention to innovation. The second main finding is that three factors have the highest correlation with the test variables. The patterns show that the major influences of functional responsibility on NSD are the research publication, the sales and marketing function, and senior leadership.

7.5.3.7 Importance of the NSD stages

As indicated in Table 7.43, although all the stages of NSD are important in the hospitality sector, personnel's training for service delivery workforce (Q20.10) has the highest mean score of 4.42 followed by business analysis (Q20.5) with a mean score of 4.29.

Table 7.36: Importance of the NSD stages

| The NSD stages | N | Mean | Standard Deviation |
|---|----|-------------|--------------------|
| Q20.1 Business strategy development or review | 34 | 4.18 | .758 |
| Q20.2 New service strategy development | 33 | 4.18 | .683 |
| Q20.3 Idea generation-screen ideas against new service strategy | 34 | 3.94 | 1.153 |
| Q20.4 Concept development and evaluation - test concepts with customers and employees | 34 | 4.09 | 1.164 |
| Q20.5 Business analysis - test for profitability and feasibility | 34 | 4.29 | .970 |
| Q20.6 Formation of cross functional teams | 34 | 3.88 | 1.066 |
| Q20.7 Service development and testing-conduct service prototype test | 33 | 3.76 | 1.119 |
| Q20.8 Process and systems design and testing | 33 | 3.88 | 1.053 |
| Q20.9 Market testing - test service and other marketing mix elements | 33 | 3.94 | 1.059 |
| Q20.10 Personnel training for service delivery workforce | 33 | 4.42 | 1.032 |
| Q20.11 Commercialisation | 33 | 3.88 | .857 |
| Q20.12 Post launch evaluation | 33 | 3.82 | .983 |

Both business strategy development and review (Q20.1) and new service strategy development (Q20.2) have mean scores of 4.18 respectively. Concept development (20.4) has a mean score of 4.09, idea generation (Q20.3) a mean score of 3.94 and market testing (Q20.9) a mean score of 3.94. Table 7.43 shows that service development and testing (Q20.7) has the lowest mean score of 3.76 process followed by post launch evaluation (Q20.12) with mean score of 3.82.

Factor analysis was used (see Table 7.44) to identify the significance of the NSD stages in the hospitality sector. The analysis was preferred due to the capacity to detect underlying relationships between the test variables. **The KMO and Barlett's Test** below tested the suitability for structure detection. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy indicates the proportion of

variance caused by underlying factors. The high p value of 0.782 (close to 1.0) as indicated in Table 7.43 implies that data from the test questions was suitable for factor analysis.

Table 7.37: KMO and Bartlett's test on the NSD stages

| | | |
|---|--------------------|--------------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy | | 0.782 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 204.083 |
| | df | 66 |
| | Sig. | .000 |

The Bartlett's test below shows that the correlation matrixes are identity matrix since they have a significance level of P.000 which is less than 0.05. The above tests allows for factor analysis since the values are within the acceptable range. Test of communalities was also used as shown in Table 7.45 to check the suitability of the data. Initial and extraction communalities ascertained that the data was suitable for factor analysis. Both show higher P values of more than 0.05 indicating that the data is acceptable for factor analysis.

Table 7.38: Test of communalities on the NSD stages

| The NSD stages | Initial | Extraction |
|--|----------------|-------------------|
| Q20.1 Business strategy development or review | 1.000 | .831 |
| Q20.2 New service strategy development | 1.000 | .865 |
| Q20.3 Idea generation-screen ideas against new service strategy | 1.000 | .584 |
| Q20.4 Concept development and evaluation –test concepts with customers and employees | 1.000 | .747 |
| Q20.5 Business analysis- Test for profitability and feasibility | 1.000 | .728 |
| Q20.6 Formation of cross functional teams | 1.000 | .651 |
| Q20.7 Service development and testing-conduct service prototype test | 1.000 | .515 |
| Q20.8 Process and systems design and testing | 1.000 | .806 |
| Q20.9 market testing –test service and other marketing mix elements | 1.000 | .813 |
| Q20.10 Personnel training for the service delivery workforce | 1.000 | .655 |
| Q20.11 Commercialisation | 1.000 | .702 |
| Q20.12 Post launch evaluation | 1.000 | .735 |

Extraction Method: Principal Component Analysis.

Table 7.46 shows the variance explained by the initial solutions of each of the factors (test questions).

Table 7.39: Total variance explained for the NSD stages

| Component | Initial Eigen values | | |
|-----------|----------------------|---------------|---------------|
| | Total | % of Variance | Cumulative % |
| 1 | 5.850 | 48.747 | 48.747 |
| 2 | 1.619 | 13.494 | 62.242 |
| 3 | 1.163 | 9.696 | 71.937 |
| 4 | .840 | 6.997 | 78.934 |
| 5 | .620 | 5.165 | 84.098 |
| 6 | .537 | 4.471 | 88.569 |
| 7 | .448 | 3.730 | 92.299 |
| 8 | .267 | 2.225 | 94.524 |
| 9 | .242 | 2.020 | 96.544 |
| 10 | .179 | 1.489 | 98.033 |
| 11 | .139 | 1.156 | 99.189 |
| 12 | .097 | .811 | 100.000 |

Extraction Method: Principal Component Analysis.

As indicated in Table 7.46, only three factors in the initial solution have eigenvalues bigger than one. The three account for *71.9 per cent* of the total variability of the original variables (questions) and hence have a high latent influence. To explain this variation and their level of influence the following extraction and rotation was used as indicated in Table 7.47.

Table 7.40: Extraction and rotation of squared loadings

| Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|-------------------------------------|---------------|--------------|-----------------------------------|---------------|--------------|
| Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 5.850 | 48.747 | 48.747 | 3.305 | 27.538 | 27.538 |
| 1.619 | 13.494 | 62.242 | 2.728 | 22.731 | 50.269 |
| 1.163 | 9.696 | 71.937 | 2.600 | 21.668 | 71.937 |

As shown in Table 7.47, the cumulative variability from the extracted sums of squared loading of the three factors is *71.9 per cent*, a difference of about *10 per cent* from the initial solution which is not

fully explained by this factor model since the variation of the initial is lost by the three latent factors unique to the original variables (questions).

The rotation factor above is used to make explanations to the models. From the totals all the factors have gone through some changes and adjustments which can be further explained by the scree plot (Figure 7.2) which confirms the choice of the three components that show the highest influence from the initial solution.

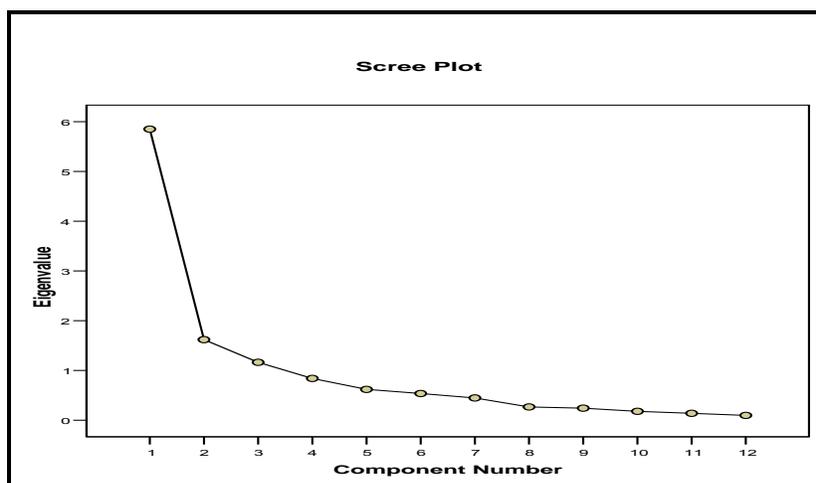


Figure 7.2: Scree plot for the NSD stages

The unrotated factor matrix indicated in Table 7.47, shows the relationship between the factors. All the test variables (questions) show a correlation with all the factors in the component matrix. Seven test variables (Q20.4, Q20.6, Q20.7, Q20.8, Q20.9, Q20.10 and Q20.12) show negative correlation to the third factor while Q20.1, Q20.2, Q20.4, Q20.6 and Q 20.8 show negative correlation with the second factor.

The component matrix as shown in Table 7.48 was transformed into rotated component matrix (Table 7.48) to clearly show the correlations between the variables with the three factors. The factor transformation matrix (see Table 7.48) describes the specific rotation applied to the three factors and has been used to compute the rotated matrix. As indicated in Table 7.49, the small off diagonal (-.345) corresponds to small rotations while the larger off diagonals show large rotations (-.798).

Table 7.41: Component matrix for the NSD stages

| The NSD stages | Component | | |
|--|-----------|-------|-------|
| | 1 | 2 | 3 |
| Q20.1 Business strategy development or review | .681 | -.036 | .605 |
| Q20.2 New service strategy development | .800 | -.106 | .463 |
| Q20.3 Idea generation – screen ideas against new service strategy | .647 | .142 | .382 |
| Q20.4 Concept development and evaluation –test concepts with customers and employees | .676 | -.515 | -.161 |
| Q20.5 Business analysis – test for profitability and feasibility | .795 | -.301 | .071 |
| Q20.6 Formation of cross functional teams | .680 | -.422 | -.102 |
| Q20.7 Service development and testing-conduct service prototype test | .639 | .264 | -.193 |
| Q20.8 Process and systems design and testing | .775 | -.008 | -.452 |
| Q20.9 Market testing – test service and other marketing mix elements | .829 | .284 | -.214 |
| Q20.10 Personnel training for the service delivery workforce | .592 | .513 | -.203 |
| Q20.11 Commercialisation | .190 | .799 | .166 |
| Q20.12 Post launch evaluation | .832 | .045 | -.200 |

Extraction Method: Principal Component Analysis. 3 components extracted.

Table 7.42: Component transformation for the NSD stages

| Component | 1 | 2 | 3 |
|-----------|-------|------|--------------|
| 1 | .649 | .578 | .495 |
| 2 | .603 | .006 | -.798 |
| 3 | -.464 | .816 | -.345 |

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalisation

The rotated component matrix as indicated in Table 7.50 shows high correlations of each of the test variables with the three latent factors. All the test variables (questions) show positive correlation with the three factors other than Q20.10, Q20.11 and Q20.12 which show negative correlations.

As shown in Table 7.50 the first factor is highly correlated with market testing (Q20.9) at P.808, personnel training for service delivery (Q20.10) at P.788 and process and systems design and testing

(Q20.8) at P.708. The second factor is highly correlated with business strategy development and review (Q20.1) at P.887, new service development (Q20.2) at P.839 and idea generation at (Q20.3) at P.686.

Table 7.43: The NSD stages rotated component matrix

| | Component | | |
|--|-------------|-------------|-------------|
| | 1 | 2 | 3 |
| Q20.1 Business strategy development or review | .141 | .887 | .157 |
| Q20.2 New service strategy development | .241 | .839 | .320 |
| Q20.3 Idea generation-screen ideas against new service strategy | .329 | .686 | .075 |
| Q20.4 Concept development and evaluation –test concepts with customers and employees | .203 | .256 | .800 |
| Q20.5 Business analysis- Test for profitability and feasibility | .302 | .516 | .609 |
| Q20.6 Formation of cross functional teams | .235 | .307 | .708 |
| Q20.7 Service development and testing-conduct service prototype test | .663 | .213 | .172 |
| Q20.8 Process and systems design and testing | .708 | .079 | .546 |
| Q20.9 Market testing –test service and other marketing mix elements | .808 | .305 | .257 |
| Q20.10 Personnel training for the service delivery workforce | .788 | .180 | -.046 |
| Q20.11 Commercialisation | .528 | .250 | -.601 |
| Q20.12 Post launch evaluation | .661 | .318 | .445 |

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalisation. Rotation converged in 5 iterations

The third factor is highly correlated with concept development (Q20.4) at P.800, formation of cross functional teams (Q20.6) at P.708 and business analysis (Q20.5) at P.809 as shown in the table above. In summary the principal axis factor extraction indicated three latent factors that have shown the relationship between the various NSD stages. The analysis showed that each of the NSD stages was significant in the hospitality sector.

The main finding is that all the stages of NSD are significant in the hospitality sector. The second main finding is that personnel training for service delivery workforce and business analysis (test for profitability and feasibility) are the most important stages of NSD in the hospitality sector.

7.5.3.8 Investment on innovation

The objective was to determine the amount of investment by establishments on innovation-related activities relative to sales as indicated in Table 7.51.

As shown in Table 7.51, *24.2 per cent* of the hotel establishments spend less than 5 per cent of their sales on innovation, while *33.3 per cent* spend between 5-10 per cent of sales. A total of *18.2 per cent* of the establishments spend over 15 per cent while *21.2 per cent* of the establishments spend between 11-15 per cent of their sales revenue on innovation. None of the respondents indicated not spending on innovation-initiatives. Regardless of the type of management, majority of the establishments (over *50 per cent*) spend not more than 10 per cent of their sales revenue on innovation initiatives.

Table 7.44: Innovation expenditure

| Expenditure on Innovation | | Type of management | | | Total |
|---------------------------|-----------|-----------------------------|---------------|---------------------|---------|
| | | Independently managed hotel | Chain managed | Franchise operation | |
| Less than 5% of sales | Number | 5 | 2 | 1 | 8 |
| | Frequency | 27.80% | 14.30% | 100.00% | 24.20% |
| Between 5-10% of sales | Number | 6 | 5 | 0 | 11 |
| | Frequency | 33.30% | 35.70% | 0.00% | 33.30% |
| Between 11-15% of sales | Number | 3 | 4 | 0 | 7 |
| | Frequency | 16.70% | 28.60% | 0.00% | 21.20% |
| Greater than 15% of sales | Number | 4 | 2 | 0 | 6 |
| | Frequency | 22.20% | 14.30% | 0.00% | 18.20% |
| Do not know | Number | 0 | 1 | 0 | 1 |
| | Frequency | 0.00% | 7.10% | 0.00% | 3.00% |
| Total | Number | 18 | 14 | 1 | 33 |
| | Frequency | 100.00% | 100.00% | 100.00% | 100.00% |

The main finding is that most establishments' (57.5 per cent) expenditure on innovation initiatives does not exceed 10 per cent of their sales revenue regardless of the type of management.

7.5.3.9 Effect of innovation-related decisions

The effect of innovation-related decisions is varied across various types of establishments as indicated in Table 7.52. Most establishments (*82.4 per cent*) indicated that innovation-related actions/decisions

had added to profit, while 8.8 *per cent* indicated they have broken even. Similarly, 8.8 *per cent* of the establishments either do not engage in innovation-related activities or do not know the effect of innovation-related decisions.

Only 9.5 *per cent* of town and 7.7 *per cent* of neither vacation hotels felt they had broken even – neither adding to nor subtracting from profit while 4.8 *per cent* of vacation hotels do not engage on any innovation-related activities.

Table 7.45: Effect of innovation-related decisions

| Effect of innovation-related decisions | | Type of establishment | | Total |
|---|--------------------------------|-----------------------|----------|---------|
| | | Town | Vacation | |
| They have added to profit | Number | 17 | 11 | 28 |
| | % within effect of innovation | 60.7% | 39.3% | 100.0% |
| | % within Type of establishment | 81.0% | 84.6% | 82.4% |
| They have broken even – neither adding to nor subtracting from profit | Number | 2 | 1 | 3 |
| | % within effect of innovation | 66.7% | 33.3% | 100.0% |
| | % within Type of establishment | 9.5% | 7.7% | 8.8% |
| My hotel does not engage in innovation-related activities | Number | 1 | 0 | 1 |
| | % within effect of innovation | 100.0% | 0.0% | 100.0% |
| | % within Type of establishment | 4.8% | 0.0% | 2.9% |
| Don't know | Number | 1 | 1 | 2 |
| | % within effect of innovation | 50.00% | 50.00% | 100.00% |
| | % within Type of establishment | 4.80% | 7.70% | 5.90% |
| Total | Number | 21 | 13 | 34 |
| | % within effect of innovation | 61.8% | 38.2% | 100.0% |
| | % within Type of establishment | 100.0% | 100.0% | 100.0% |

Majority of the responses show that the above benefits in establishing new services and products had effects on their investment. Added profit is the major preceding effect of the above benefits to investment in hotel related action/decisions according to 80 *per cent* of the responses. Other hotels (8.8 *per cent*) noted that effects of above have neither added nor subtracted from their investment while 5.9 *per cent* did not engage in any innovation related activities as shown in the table above. Both Nairobi (80 *per cent*) and Mombasa (85.7 *per cent*) showed that innovation activities and their benefits have had effect on their investment/business.

The main finding is that the effect of innovation-related decisions and actions by most establishments' (82.4 per cent) adds to their profits.

7.5.3.10 Value proposition for innovation

Majority of the establishments (79.4 per cent) have developed a clear business case or proven value proposition for addressing innovation as indicated in Table 7.53.

Table 7.46: Development of the NSD strategy

| | Frequency | Percent |
|--------|------------------|----------------|
| Yes | 27 | 79.4 |
| No | 6 | 17.6 |
| Unsure | 1 | 2.9 |
| Total | 34 | 100 |

As shown in Table 7.53, 17.6 per cent of the establishments do not have a clear proposition for addressing innovation while 2.9 per cent are unsure.

The main finding is that most of the establishments (79.4 per cent) developed a clear business case or proven value proposition (NSD strategy) for addressing innovation.

7.6 MAJOR FINDINGS

The results obtained in the study yielded the following major findings that are representative of the 3-5 star classified hotels in Nairobi and Mombasa. The findings will be used to determine whether the propositions may be judged as true or false, as indicated in section 6.2.

The following major findings are reported:

1. Most of the establishments in Mombasa (85.7 per cent) are vacation hotels.
2. There is no evidence that the number of new services developed is related to hotels' star rating for the hospitality sector in Kenya.
3. Majority of establishments (51.4 per cent) have more than 250 employees. These establishments were mostly four-star and five-star.
4. Most of the establishments (51.4 per cent) in Kenya are independently managed while 42.9 per cent belong to hotel chains.

5. The majority of the establishments (60 per cent) have been in operation in Kenya for over 30 years.
6. The majority of the hotel industry customers (73.1 per cent) to Kenya originate from outside the African continent.
7. Most of the hotels (68.8 per cent) introduced less than 20 new service innovations in the last three years.
8. A higher proportion of four-star hotels (62.5 per cent) introduced between 20 to 30 new service innovations compared to five-star hotels (37.5 per cent).
9. Most establishments (60 per cent) offered a mixture of both standardised services and customised services.
10. The proportion of establishments offering standardised services is higher than those offering customised services.
11. There are no significant differences in growth objectives between various hotel star categories.
12. Most hotels' (60 per cent) growth objective is to grow substantially.
13. There are significant differences in the ranking and expectation of the primary business challenges that might affect hotels over the next three years.
14. For most establishments (62.9 per cent), management's attention and investment to innovation has significantly increased in the past year.
15. There is no significant difference in the level of engagement in innovation activities between town hotels and vacation hotels.
16. Decision-making regarding innovation considerations is mainly made by the top management (66.7 per cent), which determines strategy of the organisation as a whole.
17. There is a difference between independent and chain hotels on who typically factors innovation considerations into decision-making.
18. The top benefits of developing new products and services for hotels are access to new markets (mean score of 4.20), increased margins or market share due to new products and services (mean score of 4.09) and improved perception of how well the hotel is managed (mean score of 4.09) respectively.
19. There is no evidence that the number of new services developed is related to the hotels' competitive position in Kenya.
20. There is no significant difference in the various NSD success factors and the establishments in different star classification.

21. Different hotel categories experience different changes in organisational activities over the last three years, although the differences were not significant.
22. Most of the establishments' (79.4 per cent) approach to innovation is either to locate and maintain a secure niche by protecting the hotel's position in a relatively stable product or service area (defenders), or be 'first' with new products, markets and technologies (prospectors).
23. There is a strong relationship between the type of management and the approach to innovation.
24. The type of management determines the approach to innovation used by the hotel establishments.
25. Most establishments (50.4 per cent) develop new services that attempt to offer existing customers of the establishment a service not previously available from the hotel, and changes in certain features of existing services on offer to the currently served market.
26. There is no significant association between hotel star ranking and developing new services.
27. Most hotels have a stronger tendency to target new services that create new services lines (mean score of 3.91).
28. There is a significant difference in the implementation of the NSD strategy between chain and independent hotels.
29. The type of management adopted by the establishment influences the execution of the NSD strategy.
30. Most of the hotel managers (94.1 per cent) know that pursuing innovation-related strategies are necessary to be competitive.
31. Hotel guests/customers have the highest influence in driving the establishments' attention to innovation.
32. Three factors have the highest correlation with the test variables. The patterns show the major influences of functional responsibility on the NSD are research publication, sales and marketing function and senior leadership.
33. All the stages of NSD are significant in the hospitality sector.
34. Personnel training for service delivery workforce and business analysis (test for profitability and feasibility) are the most important stages of NSD in the hospitality sector.
35. Most establishments' (57.5 per cent) expenditure on innovation initiatives does not exceed 10 per cent of their sales revenue, regardless of the type of management.
36. The effect of innovation-related decisions and actions by most establishments' (82.4 per cent) adds to their profits.

37. Most of the establishments (79.4 per cent) developed a clear business case or proven value proposition (NSD strategy) for addressing innovation.

7.6 RESEARCH PROPOSITIONS

The research propositions as formulated in section 1.4.3 and motivated in section 6.2 will be evaluated against the literature review, research results and main findings.

7.6.1 Proposition 1

There is a significant difference in the number of new services developed and offered by the hotels in various star categories in Kenya.

Theoretical assumptions that classification and grading represents the overall quality of facilities and services in the establishment (Ingram, 1996: 32) and the hotel category classification indicates the level and complexity of services provided and has the innovation propensity in the sense that higher categories include more services, equipment complexities and organisational aspects to be innovation reflected in questions 1 and 2.

Results in question 1

There is no evidence that the number of new services developed is related to a hotel's star rating for the hospitality sector in Kenya.

It can be concluded that this finding cannot support the aspect of new service development in hotels and therefore proposition 1 is false.

Results in question 2

The total sample surveyed included *42.9 per cent* four-star and *34.3 per cent* five-star hotels and established that a higher proportion of four-star hotels (62.5 per cent) have introduced between 20 to 30 new service innovations compared to five-star hotels (37.5 per cent), while the proportion is the same for both star categories (50 per cent each) for introducing over 30 new service innovations over the last three years.

This result showed as part of the theoretical assumptions in proposition 1 differs slightly from the extant literature.

If the results above are viewed collectively then this proposition is false.

7.6.2 Proposition 2

There is a significant difference between hotel categories when factoring innovation considerations into decision making in Kenya.

Proposition 2 cannot be judged as true based on the empirical results from question 9, 21 and 22 respectively.

Results in question 9

Decision-making regarding innovation considerations, is mainly made by the top management (66.7 *per cent*) who determines strategy of the organisation as a whole.

This research result does not support proposition 2 hence the proposition is false.

Results in question 21

Most establishments' (57.5 *per cent*) expenditure on innovation initiatives do not exceed 10 per cent of their sales revenue regardless of the type of management.

This research result does not support proposition 2 therefore the proposition is false.

Results in question 22

The effect of innovation-related decisions and actions by most establishments' (82.4 *per cent*) added to their profits.

This research result does not support proposition 2 and hence the proposition is false.

7.6.3 Proposition 3

Hotel managers in Kenya use the NSD strategy to plan and manage their products and services.

Proposition 3 can be supported by the empirical research results from questions 6, 10, 15, 16 and 20 respectively.

Results in question 6

Most establishments (62.9 per cent) managements' attention and investment to innovation have significantly increased in the past year.

This finding supports the aspect of managements' attention to innovation by managers in proposition 3.

Results in question 10

There is no significant difference in the various NSD success factors to the establishments in different star classifications.

The empirical finding supports the managements' knowledge of the NSD success factors in proposition 3.

Results in question 13

Different hotel categories experience different changes in organisational activities over the last three years, although the differences are not significant.

The research results neither support nor does not support proposition 3.

Results in question 15

Most establishments (50.4 per cent) develop new services that attempt to offer existing customers of the establishments' services not previously available from the hotels, and changes in certain features of existing services currently on offer to the currently served markets.

The empirical finding supports aspect of NSD in hotels in proposition 3.

Results in question 16

There is a significant difference in the implementation of the NSD strategy between chain and independent hotels. The type of management adopted by the establishment influenced the execution of the NSD strategy.

The empirical finding supports aspect of execution of the NSD strategy in hotels in proposition 3.

Results in question 17

Most of the hotel managers (*93.8 per cent*) know that pursuing innovation-related strategies is necessary to be competitive.

The empirical finding supports the managements' knowledge of the NSD success factors in proposition 3.

Results in question 20

All the stages of NSD are significant in the hospitality sector. Market testing (Q20.9) has the highest significance with the first factor and moderately correlated with the second and third factor.

The empirical finding supports the significance and use of NSD in hotels in proposition 3.

If the results above are viewed collectively then this proposition is supported by the empirical results and therefore it is true.

7.6.4 Proposition 4

Hotel managers in Kenya apply and use the NSD concept for marketing and strategy decision making purposes.

Proposition 4 can be supported by the empirical research results from questions 9, 14 and 16 respectively.

Results in question 9

The main finding is that decision making regarding innovation considerations are mainly made by the top management (*66.7 per cent*) who determine strategy of the organisation as whole.

This research result does support proposition 4.

Results in question 14

There is a strong relationship between type of management and approach to innovation. The type of management determines the approach to innovation used by the hotel establishments.

This empirical finding does support proposition 4.

Results in question 16

There is a significant difference in the implementation of the NSD strategy between chain and independent hotels. The type of management adopted by the establishment influences the execution of the NSD strategy.

This empirical finding does support proposition 4.

Based on the collective viewing of the empirical results, proposition 4 is true.

7.6.5 Proposition 5

Hotels that substantially outperform their industry peers, develop more types of services.

Proposition 5 cannot be supported by the empirical research results from questions 2, 3, 10, 11 and 12 respectively.

Results in question 2

The main finding is that majority of the hotels (*68.8 per cent*) have introduced less than 20 new service innovations in the last three years.

The research results neither support nor does not support proposition 5.

Results in question 3

Most establishments (*60 per cent*) offered a mixture of both standardised services and customised services. The proportion of establishments offering standardised services is higher than those offering customised services.

The research results neither support nor does not support proposition 3.

Results in question 10

The greatest benefit to hotels in developing new products and services is access to new markets.

The research result does not support proposition 5.

Results in question 11

There is no evidence that the number of new services developed, is related to the hotel's competitive position in Kenya.

The research result does not support proposition 5.

Results in question 12

There is no significant difference of various the NSD success factors to the establishments in different star classifications.

The research result neither supports nor does not support proposition 5.

If the results above are viewed holistically, then proposition 5 is not true.

7.6.6 Proposition 6

The NSD approaches of chain hotels and independent hotels are different.

Results in question 13

The total sample surveyed included *51.4 per cent* independently managed establishments and *42.9 per cent* belonging to hotel chains. Different hotel categories experience different changes in organisational activities over the last three years, although the differences are not significant.

The research result neither supports nor does not support proposition 6.

Results in question 16

There is a significant difference in the implementation of the NSD strategy between chain and independent hotels. The type of management adopted by the establishment influences the execution of the NSD strategy.

Proposition 6 can be supported by the empirical research results from question 16 above.

Results in question 20

The main finding is that all the stages of NSD are significant in the hospitality sector.

The empirical research results neither supports nor does not support proposition 6.

Proposition 6 is neither true nor false if the results above are viewed jointly.

7.7 CONCLUSION

This chapter provides question-by-question results of the study for total sample. A list of the main findings was developed and the each proposition evaluated against the literature review and the empirical findings. Propositions 3 and 4 are supported and hence true, while propositions 1, 2 and 5 were not supported from the list of main findings and are therefore false. Proposition 6 cannot be conclusively supported from the empirical results of the study.

Chapter 8 will provide conclusions and recommendations based on the major findings provided in this chapter.

CHAPTER 8

CONCLUSIONS AND RECOMMENDATIONS

8.1 INTRODUCTION

The empirical results of the study were discussed in the previous chapter. The chapter concludes the exploratory study by focusing on conclusions, recommendations and limitations of the study. Emphasis will be placed on the outcomes of NSD stages and strategy and final conclusions drawn. Recommendations for future research will be made.

8.2 SUMMARY OF THE MAIN CONCLUSIONS AND IMPLICATIONS

This study investigated the underlying theory of NSD. The literature study was expanded by an empirical research on NSD strategy and process in the hospitality sector in Kenya.

The next section highlights the main conclusions and implications based on the main findings.

a) **Main finding 1**

The hospitality sector develops moderately innovative products that provide improved performance or greater perceived value for their customers.

Most of the establishments' approach to innovation is to locate and maintain a secure niche by protecting the hotel's position in a relatively stable product or service area (defenders) or being "first" with new products, markets and technologies (prospectors). (**Major finding 22 in Chapter 7**).

Most establishments develop new services that attempt to offer existing customers of the establishment a service not previously available from the hotel and changes in certain features of existing services on offer to the currently served market (**Major finding 25 in Chapter 7**).

The hotels have a stronger tendency to target new service lines with new services – create new services lines for the hotels, enter new markets with new services and service modification of existing services respectively (**Major finding 27 in Chapter 7**).

The **main conclusion** is that service innovation occurs at many different levels in the hospitality sector and most of the new services were low innovative services which lacked service differentiation.

The **implication** is that the hospitality sector should increase the distinctiveness and service differentiation of their product in order to improve their innovation performance.

b) Main finding 2

There is a difference in the implementation of the NSD strategy between chain and independent hotels.

There is a difference between independent and chain hotels on who typically factors innovation considerations into decision-making (**Major finding 17 in Chapter 7**).

There is a significant difference in the implementation of the NSD strategy between chain and independent hotels. The type of management adopted by the establishment influenced the execution of NSD strategy (**Major finding 29 in Chapter 7**).

Most of the hotel managers (*93.8 per cent*) know that pursuing innovation-related strategies is necessary to be competitive (**Major finding 30 in Chapter 7**).

Most of the establishments (*79.4 per cent*) have developed a clear business case or proven value proposition (NSD strategy) for addressing innovation (**Major finding 37 in Chapter 7**).

The **main conclusion** is that top management typically determines NSD strategy as a whole and factor innovation decisions in the hospitality sector in Kenya. It will be recalled that *66.7 per cent* of the respondents indicated that decision making regarding innovation considerations was mainly made by the top management.

The **implication** is that all hotel establishments should be more volatile and flexible in decision making and implementation of NSD strategy.

c) **Main finding 3**

Developing new service offerings in the hospitality sector is necessary to access new markets and increase a company's market share.

Section 1.6.6 indicated that innovation plays an important and dual role, as both a major source of uncertainty and change in the environment, and a major competitive resource within the company. Developing a steady stream of successful new products is probably the single most important issue facing managers today (Poolton & Ismail, 2000: 795).

Section 1.6.7.1 indicated that hospitality companies are an ideal example of a market which could benefit from service innovation. Hotel managers must meet the challenge of determining which services are preferred by hotel guests, and then prioritise those preferences which add the greatest value to the hotel's existing service offerings (Victorino *et al.*, 2005: 556).

The greatest benefits of developing new products/services for hotels are access to new markets, increased margins or market share due to new products/services and improved perception of how well the hotel is managed respectively (**Major finding 18 in Chapter 7**).

All the stages of NSD are significant in the hospitality sector. Market testing has the highest significance (**Major finding 33 in Chapter 7**).

The **main conclusion** is that service innovation has a positive impact on customers' choice and perception of quality and can result in increased revenue for a company as it accesses new markets and increases market share. Since hospitality enterprises provide people-processing services, the innovations must result in visible or perceived benefits to the customers.

The **implication** is that it is important for managers to implement innovations which are not only desired by customers but also are economically beneficial to the establishment.

d) **Main finding 4**

All the NSD stages are deemed significant by both the independent and chain hotels in Kenya.

Section 1.6.6 indicated that some innovations may merely raise the cost of doing business without a significant economic benefit, other than to preserve current business and without providing a competitive edge.

The following major findings are collectively indicative of the significance of the NSD stages within the hospitality sector in Kenya:

There is no evidence that the number of new services developed is related to the hotel's competitive position in Kenya (**Major finding 19 in Chapter 7**).

Most of the establishments' approach to innovation is to locate and maintain a secure niche by protecting the hotel's position in a relatively stable product or service area (defenders) or be 'first' with new products, markets and technologies (prospectors). (**Major finding 22 in Chapter 7**).

There is a significant difference in the implementation of the NSD strategy between chain and independent hotels. The type of management adopted by the establishment influenced the execution of NSD strategy (**Major finding 29 in Chapter 7**).

All the stages of NSD are significant in the hospitality sector, though market testing had the highest significance (**Major finding 33 in Chapter 7**).

The **main conclusion** is that although there are significant differences in the implementation of the NSD strategy between independent and chain hotels, all hotels considered all the NSD stages to be significant. Majority of the hotel establishments are defenders and prospectors in their approach to innovation.

The **implication** is that it is important for managers to decide which innovations create value and to integrate their companies' NSD strategy within the corporate strategy. The service delivery workforce should be motivated to actively get engaged in the conduct of NSD stages in a manner that is economically and operationally viable.

e) **Main finding 5**

Customer involvement in NSD process was found to be relatively high but the service encounter dominated by more standardised rather than customised services.

Hotel guests or customers have the highest influence in driving the establishments' attention to innovation (**Major finding 31 in Chapter 7**).

More than half of the establishments offer a mixture of both standardised services and customised services, though the proportion of establishments offering standardised services is higher than those offering customised services (**Major finding 10 in Chapter 7**).

Decision making regarding innovation considerations are mainly made by the top management (66.7 *per cent*) who determine strategy of the organisation as whole (**Major finding 16 in Chapter 7**).

The **main conclusion** is that although hotel guests/customers had the highest influence in driving the establishments' attention to innovation, the top management and not the service delivery workforce determine NSD strategy for most hotels.

The **implication** is that there is need to sell the idea of NSD to the internal customer, as they will be equally be affected by new service introduction. The internal customers are also the link between the establishment and the external customer. They play a pivotal role in the success or failure of the companies' service innovations.

f) **Main finding 6**

There are differences in the NSD strategy and process between the hospitality sector and the financial services sector.

Section 5.2 indicated that financial service companies were relatively unique in regard to their value chains in that they typically can add value to the end product without physically possessing any intermediate product. In fact, ownership and the ability to use financial assets rarely require their physical possession. Although ownership is sometimes confirmed with a physical certificate, only an

electronic record is necessary, whether the asset is stock, bond, mutual fund, derivative, gold bullion, futures contract, or any form of money other than cash.

Further, sections 5.2.1 and 5.2.2 indicated that due to the special need for extensive contact with customers, as well as the level of customisation necessary in services especially business-to-business financial services, the corporate customer's role has become increasingly important. The complexity of products generally has implications on the level and frequency of contact between the client and the account manager. Consequently, corporate financial services commonly require closer and more frequent contact than do retail financial services. Companies conducting business in the global environment are faced with significant competition and the search for competitive advantage has led to the recognition of innovation as a vital ingredient for survival and profitability.

Most of the establishments (*51.4 per cent*) in Kenya were independently managed while *42.9 per cent* belong to hotel chains (**Major finding 4 in Chapter 7**).

More than *70 per cent* of the hotel industry customers to Kenya originated outside the African continent (**Major finding 6 in Chapter 7**).

More than half of the establishments offered a mixture of both standardised services and customised services, though the proportion of establishments offering standardised services is higher than those offering customised services (**Major finding 10 in Chapter 7**).

The greatest benefits of developing new products and services for hotels are access to new markets, increased margins or market share due to new products and services and improved perception of how well the hotel is managed respectively (**Major finding 18 in Chapter 7**).

The **main conclusion** is that sectoral differences exist between financial and hospitality sector based on their underlying technologies, differentiated skills, complementary assets, and routines of NSD, amount of competition, and bargaining power of clients. Additionally, the ability of businesses to eliminate some financial services is constrained by the existence of legislative, contractual, and customer oriented. The barriers to elimination provide additional reasons why NSD strategy and process will be different between the hospitality and financial service sectors.

The **implication** is that the existing NSD models need to be adapted to each service sector recognising the uniqueness of each service sector. A more detailed analysis of the cross-sectoral differences is undoubtedly necessary.

The major findings of this study must be interpreted with caution due to limitations in the research focus, method and data analysis and cannot be generalised beyond the circumstances and conditions in which they occurred. Firstly, the analysis was restricted to the hospitality sector in one country: Kenya. This suggests the need for further studies of NSD in other sectors and countries. Secondly, location of the study is another key limitation. Although tourism activities in Kenya are largely concentrated in the coastal region of Mombasa followed by Nairobi, they may not typically reflect the practices of the entire population. Thirdly, due to the cross-sectional nature of the study, the researcher relied on managerial perceptions of NSD activities in the establishments. Although the problem of bias is continually present in this method as commonly indicated in the extant literature, the key informants were carefully selected to avoid being biased.

Moreover, this study considered only a limited number of factors: NSD strategy and process did not include questioning of the critical success factors of NSD. However, the researcher will make a recommendation on the account of NSD strategy and process appearing in the current marketing literature.

8.3 LINKING THE QUESTIONS AND RESEARCH RESULTS/MAJOR FINDINGS TO THE RESEARCH OBJECTIVES

The results in Chapter 7 enabled the researcher to support, or not support the research propositions. Table 8.1 provides a linkage between the questions in the questionnaire, the secondary objectives and the results and major findings.

All the secondary objectives that formed the empirical part of the study as set out in section 1.4.2 of Chapter 1 were realised. The analysis of the results and discussion of major findings were linked to the secondary objectives. Findings and concepts of NSD generated primarily in the financial sector were considered and extended in proposing the NSD conceptual framework that could be useful to the hospitality sector.

Table 8.1: The linkage between the secondary objectives, questions in the questionnaire and the major findings

| Secondary objectives | Questions | Major findings |
|--|-----------------|----------------------------|
| To establish the types of new services developed and offered by the hospitality sector. | 2,3,13 &15 | 8, 9, 10, 26, 27 |
| To identify NSD strategies used by the hospitality sector. | 4,5,7,11,14 &16 | 10, 20, 22, 25, 28, 29, 37 |
| To determine the greatest benefits of NSD to the hospitality sector. | 10 & 22 | 11, 12, 18, 19, 26, 36 |
| To identify the significance of the stages of the new service development process by the hospitality sector. | 20 | 33 |
| To determine the relationship between the hotel's competitive position and types of new services. | 2,3,12 &17 | 2, 9, 10, 25, 26, 27 |
| To find out the differences in the NSD approaches of the chain and independent hotels. | 16 | 4, 17, 28 |
| To establish the extent of customer involvement in NSD by hotels. | 3, 7 &18 | 6, 10, 25, 31 |
| To determine functional responsibility for the NSD in the hospitality sector. | 6,9 &18 | 16, 17, 31, 32 |
| To determine how much hotels spend on NSD related activities relative to sales. | 21 | 35 |

Figure 8.1 shows a conceptual diagram of how the empirical results come together and the four phases (strategic thinking, strategy alignment, NSD process and the service package respectively) through which new services could be developed. The NSD strategy and process framework proposed in this study is one of adaptation, alignment, and relevance to the hospitality sector to enhance the manager's ability to incorporate strategic thinking and strategy alignment with customers, company, competitors and technology which influence the NSD process and service product.

Viewed in aggregate, this conceptual framework exploits four key stages of NSD process. Analysis reveals that strategic thinking is needed to drive an establishment's strategic orientation and alignment in developing the service product. The NSD process provides new extensions that enrich understanding of the service concept, system and process prior to the development of a new service. The continuous interplay between customers, company and the competitors is optimised using appropriate technology. Hence, NSD process is enabled by strategic thinking and the appropriate alignment of strategic orientation (defender, prospector, analyser and reactor) to the establishments' capability. The service

package provides the final outcome of activities that alter any or all of the five elements i.e. explicit and implicit services, facilitating goods, supporting facility and information.

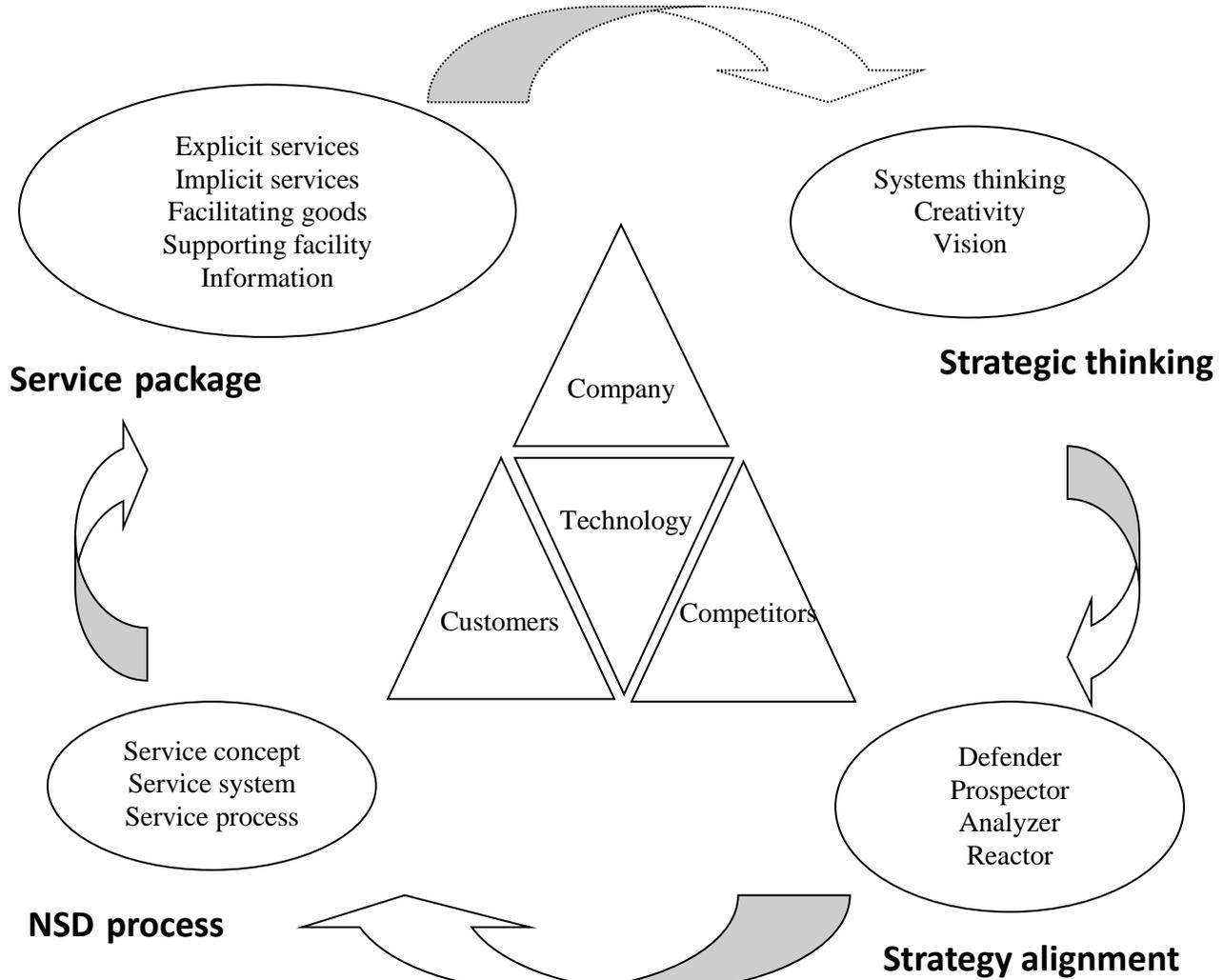


Figure 8.1: NSD strategy and process conceptual framework

8.4 CONTRIBUTION OF THE STUDY

The main contribution of the study is that it has built on the theory in the financial sector and generated new knowledge and proposed solutions for developing new services in the hospitality sector in Kenya. Based on the NSD theory the study created a first step by proposing the NSD strategy and process framework with reference to hospitality sector. Evidence from the extant literature indicates that most empirical studies into NSD have concentrated on the financial services sector, but no published research on the NSD process and strategy in the hospitality sector was found. The study has contributed

knowledge to the field of hospitality which remains theoretically devoid as a subject area and lacking in contributions to the development new services using established methodologies by proposing a conceptual framework for the hospitality sector.

The NSD framework proposed in Figure 8.1 can become the basis for developing and launching new services in the hospitality sector as well as further academic inquiry. The framework builds on new knowledge not previously provided in terms of distinguishing service sectors, and not available in the hospitality sector as shared knowledge and practice. Given this context, the empirical evidence makes a contribution of knowledge with respect to marketing theory as well as advance our understanding of the NSD process and strategy.

The other contribution of the study has been to reveal that there are fundamental differences between various service sectors. The study has validated existing theory that although financial services feature very prominently in empirical studies, given the more product-like features of financial services, the findings might not be representative for a broader range of services across a heterogeneous range to include hotels. Services are heterogeneous across time, companies, and people, hence ensuring consistent NSD process and strategy is challenging. This knowledge is relevant to the hospitality industry, destination marketing organizations and other sectors evaluating service development process and strategy.

The struggle of service firms with their innovative efforts may be related to the acknowledgement that the way in which NSD is conducted may not be as appropriate to the heterogeneous group of sectors referred to as service industries as it is to manufacturing. The study provided innovative and relevant solutions to business operations specifically focused on NSD strategy in hotels in developing countries in general and in Kenya in particular. The establishment's innovation propensity is not influenced by hotel star classification although higher categories include more services, equipment complexities and organisational aspects to be innovative. Hence, providing empirical evidence made a contribution of knowledge with respect to marketing theory as well as advances our understanding of the NSD process and strategy. Adapting the solutions provided in the NSD framework could contribute to success in the innovative efforts within the hospitality sector.

This study has opened up new avenues for research through generating new ideas and propositions about an existing phenomenon aiming for the encouragement of empirical enquiry on these underdeveloped areas. The propositions provided the rationale and direct attention to observable concepts. The study provides a first step in covering the entire NSD process in the hospitality sector which only few studies have done in the past. The empirical data promotes our understanding of the main stages of the NSD process in the hospitality sector.

The findings and discussions on NSD strategy and process in the hospitality sector would be of interest to Kenya Tourism Board, Destination Management Organizations (DMOs), Chief Executive Officers (CEOs) of hotel groups and to the industry associations (Kenya Association of Hotelkeepers and Caterers (KAHC)). The findings are also significant to managers faced with tasks of selecting and managing service innovation in hospitality businesses.

In summary, the study has contributed towards building theory, and the findings of the dissertation were relevant in addressing the research propositions, and relevant to the hotel owners, managers and the hospitality industry. The researcher has undertaken to publish and share the findings of the study with the public and private sector in tourism industry. Following research completion, an executive summary of the study will be distributed to the industry association (KAHC).

8.5 LIMITATIONS OF THE STUDY

The purpose of this thesis was to use exploratory investigation to conduct an empirical research on NSD strategy and process in the hospitality sector in Kenya. In particular, the research sought to build rather than test the underlying theory of NSD. Specific limitations were formulated in the literature review and during the empirical part of the study as follows:

- The nature of the questionnaire and sample size did not allow the researcher to provide statistical proof on the validity and reliability of the measurement instrument in the empirical part of the thesis.
- The study was restricted to the hospitality sector in one country: Kenya. The findings may not be generalisable beyond the sample and industry concerned.
- The location of the study is another key limitation. Although tourism activities in Kenya are largely concentrated in the coast region of Mombasa followed by Nairobi, they may not typically reflect the practices of the entire population.

- The researcher relied on managerial perceptions of NSD activities in the establishments due to the cross-sectional nature of the study. Although the problem of bias is continually present in this method as commonly indicated in the extant literature, the key informants were carefully selected to avoid the bias.
- The major limitation of the study was that the sample frame was relatively inaccurate and the response rate lower than anticipated.
- The results reported here are limited to business-to-customer hospitality services and generalisability of the findings to other types of hospitality services may be limited.

8.6 RECOMMENDATIONS

The recommendations based on the literature review and empirical results achieved in this research are highlighted.

8.6.1 Recommendations for future research

The following are recommendations for future research on NSD strategy and process:

- A longitudinal study methodology exploring service innovation strategy and process over real time should be done to resolve for the retrospective nature of the data collection process.
- Research is needed for further comparative studies of NSD between service sectors since the diversity and complexity of the delivery process is well known.
- Further empirical investigations are required to determine the extent to which findings in one service sector can be transferred to another.
- Research is needed to explore the input customers provide at various stages of the development process of hospitality services.
- Research is needed to develop models for new hospitality service development that includes the stages in NSD process.
- Further empirical research is needed to enhance our understanding of the relationship between a company's competitive position and new service development in the hospitality sector.
- A replication study should be done conducted in other countries and regions with different culture or sub-culture (Asia, Western Europe, Southern Africa etc.).
- Empirical research should be done on the relationship between locality and surrounding of hotels and NSD strategy.

- Research should be done to provide empirical evidence to determine the extent to which hotels emphasise innovation in the recruitment of their employees.
- Research should be done to determine the input of the service delivery workforce at various stages of the development process of hospitality services.
- Further empirical research should be done to establish whether differences exist in the NSD approaches between town hotels and vacation hotels.
- More empirical research on NSD is necessary to enable managers and practitioners in the hospitality sector to NSD strategy and process concepts to improve their innovation decisions.
- Further research is needed to determine the extent to which hospitality establishments' benchmark innovation practices of competitors and innovation leaders.
- Research should be done to determine the relationship between leadership style and culture of innovation in pursuing NSD strategies.

8.6.2 Recommendations based on the literature review

The researcher formulated the following recommendations for possible future empirical research in reaction to the extant literature on NSD strategy and process:

- The researcher noted that NSD remains an underdeveloped area of study in marketing and lacking in empirical generality. Hence, it is recommended that academics should conduct more research studies on the various services and service sectors.
- The marketing literature illustrates that the NSD process is insufficiently uniform to provide a basis for decision making. As this is confusing to the readers and practitioners alike it needs to be addressed in new editions of service marketing textbooks and future literature.
- Research on how new services are developed in the hospitality sector remains fragmented and less developed than for financial services sector. The current NSD concept literature in marketing books and research journals needs to be expanded to include more empirical proof on the strategic value of service innovation in hospitality to students, academics, entrepreneurs and practitioners.
- Several studies have noted that NSD tends for many companies to be a haphazard process. The current literature on the NSD process needs to be revised to be inclusive of the uniqueness of each service sector.

8.6.3 Recommendations to hotel owners and managers

The following are recommendations to hotel owners and managers:

- The main prescription for a creative NSD process is strategic thinking and alignment, coupled with organizational creativity. Managers should build an innovative culture in which new ideas and collaborative thinking are encouraged among our all employees.
- NSD decision makers should work with external partners, such as academic researchers, to evaluate how new technologies can be used to develop and improve the service products in the hospitality sector.
- Managers and hotel owners should develop better ways to evaluate, prioritize, and develop new concepts, and integrate these new ideas into product portfolios so that they always have new ideas in the pipeline ready to be turned into products/services.
- Hotel owners in the hospitality sector to enhance their managers' ability to incorporate strategic thinking and strategy alignment with customer needs, company goals and competitor behaviour which influence the NSD strategy and process.
- Hotel managers should take the responsibility to guide technology decisions and make changes that will enhance NSD strategy and process, as well as improve overall results for their establishments.
- Managers and hotel owners should continuously improve the service product by innovating each element of the service package to become increasingly relevant and competitive.
- The study confirms that a more formalised NSD process will increase the chances of success for hospitality establishments.

REFERENCES

- Abbott, P. & Lewry, S. 2002. *Front office: procedures, social skills, yield and management*, 2nd ed. Oxford: Butterworth Heinemann.
- Abernathy, W. & Clark, K. 1993. Innovation: Mapping the winds of creative destruction. *Research Policy*, **22**(2), 102-122.
- Abernathy, W. & Utterback, J. 1978. Patterns of industrial innovation. *Technology Review*, **80**(7), 40-47.
- Afuah, A. 2003. *Innovation Management*. New York: Oxford University Press.
- Akama, J.S. & Kieti, D. 2007. Tourism and socio-economic development in developing countries: A case study of Mombasa resort in Kenya. *Journal of Sustainable Tourism*, **15**(6), 735-748.
- Akamavi, R.K. 2005a. A research agenda for investigation of product innovation in the financial services sector. *Journal of Services Marketing*, **19**(6), 359-378.
- Akamavi, R.K. 2005b. Re-engineering service quality process mapping: e-banking process. *International Journal of Bank Marketing*, **23**(1), 28-53.
- Akamavi, R.K., Thwaites, D. & Burgess, T.F. 1998. New product development in the financial service sector. *Journal of Financial Services Marketing*, **3**(3), 202-229.
- Akan, P. 1995. Dimensions of service quality: a study in Istanbul. *Managing Service Quality*, **5**(6), 39-43.
- Akgün, A.E. & Lynn, G.S. 2002. New product development team improvisation and speed-to-market: An extended model. *European Journal of Innovation Management*, **5**(3), 117-129.
- Alam, I. 2007. New service development process: Emerging versus developed markets. *Journal of Global Marketing*, **20**(2/3), 43-55.
- Alam, I. 2006. Service innovation strategy and process: A cross-national comparative analysis. *International Marketing Review*, **23**(3), 234-254.
- Alam, I. 2003. Innovation strategy, process and performance in the commercial banking industry. *Journal of Marketing Management*, **29**, 973-999.
- Alam, I. 2002. An exploratory investigation of user involvement in new service development. *Journal of the Academy of Marketing Science*, **30**(3), 250-261.
- Alam, I. & Perry, C. 2002. A customer-oriented new service development process. *Journal of Services Marketing*, **16**(6), 515-534.
- Alvonitis, G. J., Papastathopoulou, P.G. & Gounaris, S.P. 2001. An empirically-based typology of product innovativeness for new financial services: Success and failure scenarios. *The Journal of Product Innovation Management*, **18**, 324-342.

- Amaratunga, D., Baldry, D., Sarshar, M. & Newton, R. 2002. Quantitative and qualitative research in the built environment: application of “mixed” research approach. *Work Study*, **51**(1), 17-31.
- Anon. 2005. Row in new hotel classification. *The East African Standard*. May, 9:12.
- Ansoff, I. 1957. Strategies for diversification, *Harvard Business Review*, September-October, 113-124.
- Ansoff, I. & McDonnell, E. 1990. *Implanting Strategic Management*, 2nd ed. London: Prentice Hall.
- Aranda, D.A. & Molina-Fernández, L.M. 2002. Determinants of innovation through a knowledge-based theory lens. *Industrial Management & Data Systems*, **102**(5), 289-296.
- Athanassopoulou, P. 2006. Determining relationship quality in the development of business-to-business financial services. *Journal of Business-to-Business Marketing*, **13**(1), 87-120.
- Athanassopoulou, P. & Johne, A. 2004. Effective communication with lead customers in developing new banking products. *The International Journal of Bank Marketing*, **22**(2), 100-125.
- Atuahene-Gima, K. 2003. The effects of centrifugal and centripetal forces on product development speed and quality: How does problem solving matter? *Academy of Management Journal*, **46**(3), 359-373.
- Atuahene-Gima, K. & Li, H. 2000. Marketing’s influence tactics in new product development: A study of high technology firms in China. *Journal of Product Innovation Management*, **17**, 451-470.
- Athanassopoulou, P. 2006. Determining relationship quality in the development of business-to-business financial services, *Journal of Business-to-Business Marketing*, **13**(1), 87-116.
- Awang, K.W., Ishak, N.K., Radzi, S.M. & Taha, A.Z. 2008. Environmental variables and performance: Evidence from the hotel industry in Malaysia, *International Journal of Economics and Management*, **2**(1), 59-79.
- Bacon, T. 2005. Superior products and services confer only a fleeting advantage. *Handbook of Business Strategy*, **6**(1), 61-66.
- Bailey, K.D. 1994. *Methods of Social Research*. 4th ed. New York: The Free Press
- Baker, M. & Hart, S. 1999. *Product Strategy and Management*. London: Prentice-Hall.
- Baker, S., Bradley, P. & Huyton, J. 2000. *The Principles of front office operations*. Melbourne: Hospitality Press Pty Ltd.
- Balbontin, A., Yazdani, B., Cooper, R. & Souder, W. 2000. New product development practices in American and British firms. *Technovation*, **20**(5), 257-274.
- Bardi, J.A. 2003. *Hotel front office management*, 3rd ed. Hoboken: John Wiley & Sons, Inc.
- Barney, J.B. 2001. Is the resource based “view” a useful perspective for strategic management research? Yes. *Academy of Management Review*, **26**(1), 41-56.

- Barney, J. 1991. Firm resources and sustained competitive advantage. *Journal of Management*, **17**(1), 99-120.
- Barney, J.B. & Arian, A.M. 2001. The Resource based view: origins and implications. In Hitt, M.A., Freeman, R.E. & Harrison, J.S. (eds.), *Handbook of Strategic Management*. Oxford: Blackwood, 124-188.
- Bean, R. & Radford, R. 2002. *The Business of Innovation: Managing Corporate Imagination for Maximum Results*. New York: Amacom.
- Beck, T., Demirgüç-Kunt, A. & Levine, R. 2004. Finance, Inequality and Poverty: Cross-Country Evidence, *World Bank mimeo*.
- Beck, T., Levine, R. & Loayza, N. 2000. Finance and the sources of growth. *Journal of Financial Economics*, **58**(1-2), 261-300.
- Beck, T. & Fuchs, M. 2004. Structural issues in the Kenyan financial system: Improving competition and access. *World Bank Policy Research Working Paper 3363*.
- Bennet, A. & Bennet, D. 2000. Characterizing the next generation knowledge organization. *Knowledge Management Consortium International, Inc.*, **1**(1), 8-42.
- Berry, L. 2000. Cultivating service brand equity. *Academy of Marketing Science Journal*, **28**(1), 128-137.
- Berry, L.L., Shankar, V., Parish, J.T., Cadwallader, S. & Dotzel, T. 2006. Creating new markets through service innovation. *MIT Sloan Management Review*, **47**(2), 56-63.
- Bettencourt, L.A. 1997. Customer voluntary performance: Customers as partners in service delivery. *Journal of Retailing*, **73**(3), 383-406.
- Bilgihan, A. & Nejad, M. 2015) Innovation in hospitality and tourism industries, *Journal of Hospitality and Tourism Technology*, **6**(3), 1-12.
- Bitner, M.J., Ostrom, A.L. & Morgan, F.N. 2008. Service blueprinting: A practical technique for service innovation. *California Management Review*, **50**(3), 66-94.
- Bitran, G. & Pedrosa, L. 1998. A structured product development perspective for service operations. *European Management Journal*, **16**(2), 169-189.
- Blazevic, V. & Lievens, A. 2004. Learning during the new financial service innovation process antecedents and performance effects. *Journal of Business Research*, **57**, 379-91.
- Bogner, W.C. & Barr, P.S. 2000. Making Sense in Hypercompetitive Environments: A Cognitive Explanation for the Persistence of High Velocity Competition. *Organization Science*, **11**(2), 212-226.
- Bonn, I. 2005. Improving strategic thinking: a multilevel approach. *Leadership & Organization Development*, **26**(5), 336-354.

- Booz, Allen & Hamilton Inc. 1982. *New Products Management for the 1980s*. New York, NY: Booz, Allen & Hamilton.
- Bose, S. & Oh, K.B. 2004. Measuring strategic value drivers for managing intellectual capital. *The Learning Organization*, **11**(4/5), 347-356.
- Bourgeois, L.J. & Eisenhardt, K.M. 1988. Strategic decision processes in high velocity environments: four cases in the microcomputer industry. *Management Science*, **34**(7), 816-835.
- Bowen, D.E. 1986. Managing customers as human resources in service organizations. *Human Resources Management*, **25**(3), 371-383.
- Bowen, J. & Shoemaker, S. 1998. Loyalty: A strategic commitment. *Cornell Hotel and Restaurant Administration Quarterly*, **39**(1), 13-25.
- Bowie, D & Buttle, F. 2004. *Hospitality Marketing: An Introduction*. Oxford: Elsevier Butterworth-Heinemann.
- Brace, I. 2004. *Questionnaire design: How to plan, structure, write survey material for effective market research*. London: Kogan Page.
- Briggs, S., Sutherland, J. & Drummond, S. 2007. Are hotels serving quality? An exploratory study of service quality in the Scottish hotel sector. *Tourism Management*, **28**, 1006-1019.
- Brouwer, E. & Kleinknecht, A. 1997. Measuring the unmeasurable: a country's non-R&D expenditure on product and service innovation. *Research Policy*, **25**(8), 1235-1242.
- Brunner, G.C. 1989. The marketing mix: time for reconceptualisation. *Journal of Marketing Education*, **1**, Summer, 72-77.
- Bryman, A. 2001. *Social Research Methods*. New York: Oxford University Press.
- Buganza, T. & Verganti, R. 2006. Life-cycle flexibility: How to measure and improve the innovative capability in turbulent environment. *Journal of Product Innovation Management*, **23**(5), 393-407.
- Burns, R.B. & Burns, R.A. 2008. *Business research methods and statistics using SPSS*. London: Sage Publications.
- Butlin, M. & Carnegie, R. 2001. Developing innovation in a medium business: a practical approach. In Hamilton, B. (ed.), *Innovation and Imagination at work*, 107-131. Sydney: McGraw-Hill.
- Calantone, R., Garcia, R. & Dröge, C. 2003. The effects of environmental turbulence on new product development strategy planning. *The Journal of Product Innovation Management*, **20**(2), 90-103.
- Caves, R. E. & Ghemawat, P. 1992. Identifying mobility barriers. *Strategic Management Journal*, **13**(1), 1-12.
- Chaffee, E.E. 1985. Three models of strategy. *The Academy of Management Review*, **10**(1), 89-98.

- Chakravarthy, B. 1997. A new strategy framework for coping with turbulence. *Sloan Management Review*, **38**(2), 69-82.
- Chase, R.B. & Apte, U.M. 2007. A history of research in service operations: What's the big idea? *Journal of Operations Management*, **25**(1), 375-386.
- Chathoth, P.K. & Olsen, M.D. 2003. Strategic alliances: a hospitality industry perspective. *Hospitality Management*, **22**(4), 419-434.
- Chofray, J.M. & Lillien, G.L. 1984. Strategies behind the successful industrial product launch. *Business Marketing*, **69**(11), 82-94.
- Chon, K. & Sparrowe, R.T. 2000. *Welcome to hospitality: an introduction*, 2nd ed. Albany: Delmar, Thomson Learning.
- Christensen, C. & Rosenbloom, R. 1995. Explaining the attacker's advantage: technological paradigms, organizational dynamics, and the value network. *Research Policy*, **24**(2), 233-257.
- Churchill, G.A. & Brown, T.J. 2006. *Basic Marketing Research*. 6th ed. Mason: Thomson South-Western.
- Clark, G., Johnston, R., & Shulver, M. 2000. Exploiting the service Concept for Service design and Development. In Fitzsimmons, J. A. & Fitzsimmons, M. J. (eds.), *New Service Development; Creating Memorable Experiences*, 71-91. Thousand Oaks: Sage.
- Clark, K. 1985. The interaction of design hierarchies and market concepts in technological evolution. *Research Policy*, **14**(5), 235-251.
- Collins, J.C. & Porras, J.L. 2002. *Built to Last*. New York: Harper Business.
- Cook, L.S., Bowen, D.E., Chase, R.B., Dasu, S., Stewart, D.M. & Tansik, D.A. 2002. Human issues in service design. *Journal of Operations Management*, **20**, 159-174.
- Cooper, D.R. & Schindler, P.S. 2008. *Business Research Methods*. 10th ed. London: McGraw-Hill.
- Cooper, R.G. 1993. *Winning at New Products: Accelerating the process from Idea to Launch*. 2nd ed. Reading: Addison Wesley.
- Cooper, R.G. 1984. How new product strategies impact on performance. *Journal of Product Innovation Management*, **1**, 5-18.
- Cooper, R.G. & Edgett, S.J. 1999. *Product Development for the Service Sector*. Cambridge: Perseus Books.
- Cooper, R.G. & Edgett, S.J. 1996. Critical success factors for new financial services: a stage-gate approach streamlines the new product development process. *Marketing Management*, **5**(3), 26-37.
- Cooper, R.G., Edgett, S.J. & Kleinschmidt, E.J. 2002. Optimizing the stage-gate process: what best practice companies are doing – part 1, working paper. *Product Development Institute*, **14**, 1-10.

- Cooper, R.G. & Kleinschmidt, E.J. 1994. Determinants of timeliness in product development. *Industrial Marketing Management*, **10**(2), 137-47.
- Cooper, R.G. & Kleinschmidt, E.J. 1991. New product processes at leading industrial firms. *Industrial Marketing Management*, **20**, 137-147.
- Cooper, R.G. & Kleinschmidt, E.J. 1986. An investigation into new product process: Steps, deficiencies, and impact. *Journal of Product Innovation Management*, **3**(2), 71-85.
- Cravens, D.W. & Piercy, N.F. 2013. *Strategic Management*. 10th ed. Singapore: McGraw-Hill.
- Cravens, D.W. & Piercy, N.F. 2006. *Strategic Management*. 8th ed. Singapore: McGraw-Hill.
- Creswell, J.W. 2014. Research Design: *Qualitative, quantitative and mixed methods approaches*. 4th ed. Thousand Oaks: Sage.
- Creswell, J. & Plano Clark, V. 2007. *Designing and conducting mixed methods research*. Thousand Oaks: Sage.
- Creswell, J.W., Plano Clark, V.L., Gutmann, M. & Hanson, W. 2003. Advanced Mixed Methods Research Designs. In Tashakkori, A. & Teddlie, C. (eds.), *Handbook of Mixed Methods in Social and Behavioral Research*, 619-637. Thousand Oaks: Sage.
- Danneels, E. & Kleinschmidt, E. 2001. Product innovativeness for the firm's perspective: its dimensions and their relation with project selection and performance. *Journal of Product Innovation Management*, **18**, 357-373.
- Darroch, J. & McNaughton, R. 2002. Examining the link between knowledge management practices and types of innovation. *Journal of Intellectual Capital*, **3**(3), 210-220.
- D'Aveni, R.A. 1994. *Hypercompetition: Managing the dynamics of strategic maneuvering*. New York: The Free Press.
- Davison, H., Watkins, T. & Wright, M. 1989. Developing new personal financial products – some evidence of the role of market research. *International Journal of Bank Marketing*, **7**(1), 8-15.
- De Brentani, U. 2001. Innovative versus incremental new businesses services: Different keys for achieving success. *Journal of Product Innovation Management*, **18**(3), 169-187.
- De Brentani, U. 1993. The new product process in financial services: strategy for success. *International Journal of Bank Marketing*, **11**(3), 15-22.
- De Brentani, U. 1989. Success and failure in new industrial services. *Journal of Product Innovation Management*, **6**, 239-258.
- De Chernatony, L. & Segal-Horn, S. 2003. The criteria for successful services brands. *European Journal of Marketing*, **37**(7/8), 1095-1118.
- De Jong, J.P., Bruins, A., Dolfsma, W. & Meeijard, J. 2003. Innovation in service firms explored: what, how and why? *Business & Research Policy*, **1**, 1-73.

- De Jong, J.P. & Vermeulen, P.A. 2003. Organizing successful new service development: a literature review. *Management Decision*, **41**(9), 844-858.
- De Vaus, D.A. 2002. *Surveys in Social Research*. St. Leonards: Allen & Unwin.
- Den Hertog, P. 2000. Knowledge-intensive business services as co-producers of innovation. *International Journal of Innovation Management*, **4**(4), 491-528.
- Deszca, G., Munro, H. & Noori, H. 1999. Developing breakthrough products: challenges and options for market assessment. *Journal of Operations Management*, **17**(6), 613-630.
- Devlin, J. & Wright, M. 1995. The changing environment of financial services. In Ennew, C., Watkins, T. & Wright, M. (eds), *Marketing Financial Services*. 2nd ed. Butterworth Heinemann: London, 1-32.
- Diamantopoulos, A. & Schlegelmilch, B.D. 2005. *Taking the Fear out of Data Analysis*. London: The Dryden Press.
- Dillon, W.R., Madden, T.J. & Firtle, N.H. 1993. *Essentials of Marketing Research*. Boston: Irwin.
- Dittmer, P.R. 2002. *Dimensions of the hospitality industry*. 3rd ed. New York: Wiley.
- Dolfsma, W. 2004. The process of new service development – Issues of formalization and appropriability. *International Journal of Innovation Management*, **8**(3), 319-337.
- Donnelly, J.H. 1991. Six Ss for new products success. *Bank Marketing*, May, 36-37.
- Douglas, E. 2001. Entrepreneurship: The link between invention, innovation and success. In Hamilton, B. (ed.), *Innovation and Imagination at work*, 60-86. Sydney: McGraw-Hill.
- Drejer, I. 2004. Identifying innovation in surveys of services: a Schumpeterian perspective. *Research Policy*, **33**(3), 551-562.
- Drew, S. 1995. Strategic benchmarking: innovation practices in financial institutions. *International Journal of Bank Marketing*, **13**(1), 4-16.
- Drummond, G., Ensor, J., Ashford, R. 2008. *Strategic Marketing: Planning and control*. 3rd ed. Burlington: Elsevier.
- Du Plessis, P.J., Jooste, C.J. & Strydom, J.W. 2001. *Applied Strategic Marketing*. Johannesburg: Heinemann.
- Dyer, J.H. & Singh, H. 1998. The relational view: cooperative strategy and source of inter-organizational competitive advantage. *Academy of Management Review*, **23**(4), 660-679.
- Dwyer, L. & Mellor, R. 1991. Organizational environment, new product process activities, and project outcomes. *Journal of Product Innovation Management*, **8**(1), 39-48.
- Easingwood, C.J. & Storey, C. 1993. Success factors for new consumer financial services. *International Journal of Bank Marketing*, **9**(1), 3-10.

- Edgett, S. 1994. The traits of successful new service development. *Journal of Services Marketing*, **8**(3), 40-49.
- Edvardsson, B. 1997. Quality in service development: key concepts and frame reference. *International Journal of Production Economics*, **52**(1/2), 31-46.
- Edvardsson, B. & Olsson, J. 1996. Key concepts for new service development. *Service Industries Journal*, **16**(2), 140-164.
- Edgett, S. 1996. The new product development process for commercial financial services. *Industrial Marketing Management*, **25**(6), 507-15.
- Ferrell, O.C. & Hartline, M.D. 2005. *Marketing Strategy*. 3rd ed. Cincinnati, Ohio: South Western.
- Fitzsimmons, J.A. & Fitzsimmons, M.J. 2011. *Service Management: Operations, Strategy, and Information Technology*. 7th ed. New York: McGraw-Hill.
- Fitzsimmons, J.A. & Fitzsimmons, M.J. 2000. *New Service Development: Creating memorable experiences*. Thousand Oaks: Sage Publications.
- Forcadell, F.J. & Guadamillas, F. 2002. A case study on the implementation of a knowledge management strategy oriented to innovation. *Knowledge and Process Management*, **9**(3), 162-171.
- Foxall, G.R. 1989. Marketing, innovation and customers. *Quarterly Review of Marketing*, Autumn, 14-18.
- Frankfort-Nachmias, C. & Nachmias, D. 1992. *Research Methods in the Social Sciences*, 4th ed. London: Edward Arnold.
- Froehle, C. M. & Roth, A.V. 2007. A resource-process framework of new service development. *Production Operations Management*, **16**(2), 169-188.
- Froehle, C.M., Roth, A.V., Chase, R.B. & Voss, C.A. 2000. Antecedents of new service development effectiveness: an exploratory examination of strategic operations choices. *Journal of Service Research*, **3**(1), 3-17.
- Gadrey, J., Gallouj, F. & Weinstein, O. 1995. New modes of innovation. *International Journal of Service Industry Management*, **6**(3), 4-16.
- Gallouj, F. & Weinstein, O. 1997. Innovation in services, *Research Policy*, **26**(4-5), December, 537-556.
- Garcia, R. & Calantone, R. 2002. A critical look at technological innovation typology and innovativeness terminology: a literature review. *Journal of Product Innovation Management*, **19**(2), 110-132.
- Gardini, M.A. 2004. *Marketing Management in der Hotellerie*. Munich: Oldenbourg Wissenschaftsverlag.

- George, R. 2001. *Marketing South African tourism and hospitality*. Cape Town: Oxford University Press.
- Gerbing, D.W. & Anderson, J. 1988. An updated paradigm for scale development incorporating unidimensionality and its assessment. *Journal of Marketing Research*, **25**(2), 186-192.
- Gerrard, P. & Cunningham, J.B. 2003. The diffusion of Internet banking among Singapore consumers. *International Journal of Bank Marketing*, **21**(1), 16-28.
- Glazer, R. & Weiss, A.M. 1993. Marketing in turbulent environments: decision processes and the time-sensitivity of information. *Journal of Marketing Research*, **30**(4), 509-521.
- Goldstein, S.M., Johnston, R., Duffy, J. & Rao, J. 2002. The service concept: the missing link in service design research? *Journal of Operations Management*, **20**(2), 121-134.
- Gounaris, S.P., Papastathopoulou, P.G. & Avlonitis, G.L. 2003. Assessing the importance of the development activities for successful new services: does innovativeness matter? *International Journal of Bank Marketing*, **21**(5), 266-279.
- Government of Kenya (GoK). 2016. *Economic Survey 2016*. Nairobi: Kenya National Central Bureau of Statistics, Ministry of Planning and National Development.
- Government of Kenya (GoK). 2015. *Economic Survey 2015*. Nairobi: Kenya National Central Bureau of Statistics, Ministry of Planning and National Development.
- Government of Kenya (GoK). 2012. *Economic Survey 2012*. Nairobi: Kenya National Central Bureau of Statistics, Ministry of Planning and National Development.
- Government of Kenya (GoK). 2007. *Economic Survey 2007*. Nairobi: Kenya National Central Bureau of Statistics, Ministry of Planning and National Development.
- Government of Kenya (GoK). 2005. *Ministry for Tourism, Kenya Gazette Supplement*, Legislative Supplement 9, February 16.
- Gray, B.J. & Hooley, G.J. 2002. Market orientation and service firm performance – A research agenda. *European Journal of Marketing*, **36**(9/10), 980-988.
- Greene, J. Caracelli, V. & Graham, W. 1989. Toward a conceptual framework for mixed-methods evaluation designs. *Educational Evaluation and Policy Analysis*, **11**(1), 255-274.
- Griffin, A. 1997. PDMA research on new product development practices: updating trends and benchmarking best practices. *Journal of Product Innovation Management*, **14**(6), 429-458.
- Griffin, A. & Page, A.L. 1996. PDMA success measurement project: recommended measures for product development success and failure. *Journal of Product Innovation Management*, **13**(6), 478-496.
- Grönroos, C. 2000. *Service Management and Marketing: A Customer Relationship Approach*. Chichester: Wiley.

- Grönroos, C. 1998. Marketing services: the case of a missing product. *Journal of Business & Industrial Marketing*, **13**(4/5), 322-338.
- Grönroos, C. 1997. Value-driven relational marketing: from products to resources and competencies. *Journal of Marketing Management*, **13**(5), 407-419.
- Grönroos, C. 1996. The relationship marketing logic. *Asia-Australia Marketing Journal*, **4**(1), 7-18.
- Gruner, K.E. & Homburg, C. 2000. Does customer interaction enhance new product success? *Journal of Business Research*, **49**(1), 1-14.
- Guerrier, Y. 1999. *The Organizational Behaviour in Hotels and Restaurants: An International Perspective*. London: Wiley.
- Haaroff, K. 1983. An exercise in product development for the 1990s: International cash management services. *International Journal of Bank Marketing*, **1**(3), 56-68.
- Hair, J.F., Money A.H., Page, M & Samouel, P. 2007. *Research Methods for Business*. West Sussex: John Wiley & Sons.
- Hallin, C.A. & Marnburg, E. 2008. Knowledge management in the hospitality industry: A review of empirical research. *Tourism Management*, **29**, 366-381.
- Hamel, G. 2002. *Leading the Revolution*. New York: Penguin.
- Hamel, G., Doz, Y. L. & Prahalad, C. K. 1989. Collaborate with your competitors and win. *Harvard Business Review*, **67**(1), 133-139.
- Hamel, G. & Prahalad, C.K. 1989. Strategic intent. *Harvard Business Review*, May-June, 63-76.
- Harness, D. & Marr, N. 2001. Strategies for eliminating a financial services product. *Journal of Product and Brand Management*, **10**(7), 423-438.
- Harrington, R.J., Lemak, D.J., Reed, R. & Kendall, K.W. 2004. A question of fit: the links among environment, strategy formulation and performance. *Journal of Business and Management*, **10**(1), 15-38.
- Harris, F. & De Chernatony, L. 2001. Corporate branding and brand performance. *European Journal of Marketing*, **35**(3/4), 441-456.
- Harrison, J.S. & Enz, C.A. 2005. *Hospitality Strategic Management: Concepts and Cases*, New Jersey: John Wiley and Sons.
- Hax, A. & Wilde, D. 2001. The Delta Model – discovering new sources of profitability in a networked economy. *European Management Journal*, **9**(4), 379-391.
- Hayes, R., Pisano, G., Upton, D. & Wheelwright, S. 2005. *Operations, Strategy, and Technology: Pursuing the Competitive Edge*. Hoboken: Wiley.

- Henderson, R. & Clark, K. 1990. Architectural innovation: The reconfiguration of existing product technologies and the failure of established firms. *Administrative Science Quarterly*, **35**(1), 9-30.
- Hepple, J., Kipps, M. & Thomson, J. 1990. The concept of hospitality and an evaluation of its applicability to the experience of hospital patients. *International Journal of Hospitality Management*, **9**(4), 305-317.
- Herbst, F.J. 2001. *An investigation of the product life cycle concept as an instrument in marketing decision making for selected small organisations in South Africa*. Unpublished doctoral dissertation. Pretoria: University of Pretoria.
- Hitt, M.A. Ireland, R.D. Camp, S.M. & Sexton, D.L. 2001. Strategic entrepreneurship: entrepreneurial strategies for wealth creation. *Strategic Management Journal*, **6**(7), 479-491.
- Hjalager, A.M. 2002. Repairing innovation defectiveness in tourism. *Tourism Management*, **23**(5), 465-474.
- Hofer, C.W. & Schendel, D.E. 1978. *Strategy Formulation: Analytical Concepts*, New York: West.
- Hoffman, K.D. & Bateson, J.E. 2001. *Essentials of Services Marketing: Concepts, Strategies and Cases*. 2nd ed. Cincinnati, Ohio: South-Western Publishing.
- Holloway, J. C. 2002. *The business of Tourism*. 6th ed. Harlow: Pearson Education Limited.
- Hornsey, T. & Dann, D. 1984. *Manpower Management in the Hotel and Catering Industry*, Batsford.
- Hsu, C.H. & Powers, T. 2002. *Marketing Hospitality*. 3rd ed. New York: John Wiley & Sons.
- Hughes, A. & Wood, E. 2000. Rethinking innovation comparisons between manufacturing and services: The experience of CBR SME surveys in the UK. In Metcalfe, J.S. & Miles, I. (eds), *Innovation systems in the service economy; Measurement and case study analysis*, Boston: Kluwer.
- Iansiti, M. & MacCormack, A. 1997. Developing products on internet time. *Harvard Business Review*, **75**(5), 108-117.
- Ingram, H. 1999. Hospitality: A framework for a millennial review. *International Journal of Contemporary Hospitality Management*, **11**(4), 140-147.
- Ingram, H. 1996. Classification and grading of smaller hotels, guesthouses and bed and breakfast accommodation. *International Journal of Contemporary Hospitality Management*, **8**(5), 30-34.
- Ingram, H. & Baum, J.A.C. 1997. Chain affiliation and the failure of Manhattan hotels: 1898-1980. *Administrative Science Quarterly*, **42**(1), 68-102.
- Jain, S.C. 1997. *Marketing planning and strategy*. 5th ed. Cincinnati, Ohio: South-Western.
- Johne, A. 1999. Successful market innovation. *European Journal of Innovation Management*, **2**(1), 6-11.

- Johne, A. 1994. Developing new products: marketing for success. *Capital Market Strategies*, **94**(1), 41-6.
- Johne, A. & Davies, R. 2000. Innovation in medium-sized insurance companies: how marketing adds value. *International Journal of Bank Marketing*, **18**(1), 6-14.
- Johne, A. & Harbone, P. 2003. One leader is not enough for a major new service development: results of a consumer banking study. *Services Industries Journal*, **23**(3), 22-39.
- Johne, A. & Storey, C. 1998. New service development: a review of literature and annotated bibliography. *European Journal of Marketing*, **32**(3/4), 184-251.
- Johns, N. 1999. What is this thing called service. *European Journal of Marketing*, **33**(9/10), 958-973.
- Johnson, G. & Scholes, K. 2004. *Exploring Corporate Strategy*. 6th edition, New Delhi: Prentice Hall.
- Johnson, S.P., Menor, L.J., Chase, R.B. & Roth, A.V. 2000. A critical evaluation of the new services development process: integrating service innovation and service design. In Fitzsimmons, J.A. & Fitzsimmons, M.J. (eds), *New Service Development, Creating Memorable Experiences*. Thousand Oaks: Sage Publications.
- Johnston, R. & Clark, G. 2001. *Service Operations Management*. London: Prentice-Hall.
- Jones, P. 1996. Managing hospitality innovation. *Cornell Hotel and Restaurant Administration*, **37**(5), 86-96.
- Joshi, A. & Sharma, S. 2004. Customer knowledge development: Antecedents and impact on new product performance. *Journal of Marketing*, **68**(4), 47-59.
- Kandampully, J. 2000. The impact of demand fluctuation on the quality of service: A tourism industry example. *Managing Service Quality*, **10**(1), 10-18.
- Kandampully, J. 2002. Innovation as the core competency of a service organisation: the role of technology, knowledge and networks. *European Journal of Innovation Management*, **5**(1), 18-26.
- Karmarkar, U. 2004. Will you survive the services revolution? *Harvard Business Review*, **82**(6), 100-108.
- Kasper, H., Van Helsdingen, P. & Gabbott, M. 2006. *Services Marketing Management: A strategic perspective*. 2nd ed. Chichester: Wiley.
- Kaufman, R. 1991. *Strategic Planning Plus: An Organizational Guide*. Glenview, IL: Scott Foresman.
- Keegan, W.J. & Green, M.C. 2005. *Global Marketing*, 4th ed. London: Prentice-Hall.
- Kelly, D. & Storey, C.S. 2000. New service development: initiation strategies. *International Journal of Services Industry Management*, **11**(1), 45-62.
- Kent, R. 2007. *Marketing Research: approaches, methods and applications in Europe*. London: Thomson.

- Kenya Institute of Public Policy Research and Analysis. 2016. *Kenya Economic Report 2016: Fiscal decentralization*. Nairobi: KIPPRA.
- Kenya Institute of Public Policy Research and Analysis. 2009. *Kenya Economic Report 2009: Building a globally competitive economy*. Nairobi: KIPPRA.
- Kenya Tourist Board. 2005. *Tourism marketing Strategy 2005-2008*. Nairobi: Kenya Tourist Board.
- Kim, B.Y. & Oh, H. 2004. How do hotel firms obtain a competitive advantage? *International Journal of Contemporary Hospitality Management*, **16**(1), 65-71.
- Kim, W. C., & Mauborgne, R. 2005. *Blue ocean strategy: How to create uncontested market space and make the competition irrelevant*. Boston, MA: Harvard Business School.
- King, C.A. 1995. What is hospitality? *International Journal of Hospitality Management*, **14**(3/4), 219-234.
- King, C. & Grace, D, 2006. Exploring managers' perspectives of the impact of brand management strategies on employee roles within a service firm. *Journal of Services Marketing*, **20**(6), 369-380.
- King, N. & Horrocks, C. 2011. *Interviews in qualitative research*. London: Sage Publications.
- Kitsios, F., Doumpos, M., Grigoroudis, E. & Zopounidis, C. 2008. Evaluation of new service development strategies using multi-criteria analysis: Predicting the success of innovative services. *Operations Research International Journal*, **9**, 17-33.
- Klassen, K.J. & Rohleder, T.R. 2000. Demand and capacity management decisions in services: how they impact on one another. *International Journal of Operations Management*, **22**(5): 527-548.
- Kleinknecht, A. 2000. Indicators of manufacturing and service innovation: their strengths and weaknesses. In Metcalf, J.S. & Miles, I. (eds), *Innovation systems in the service economy: Measurement and case study analysis*, 169-186. Boston: Kluwer.
- Knowles, T. 1996. *Corporate strategy for hospitality*. Essex: Longman.
- Korinek, A., Mistiaen, J.A. & Ravallion, M. 2007. An econometric method of correcting for unit nonresponse bias in surveys. *Journal of Econometrics*, **136**(1), 213-235.
- Kotler, P. 2004. *Marketing Management*. Upper Saddle River, N.J.: Prentice-Hall.
- Kotler, P. 2003. *Marketing Management*. Upper Saddle River, N.J.: Prentice-Hall.
- Kotler, P. 2002. *Marketing Management*. Englewood Cliffs, NJ: Prentice Hall.
- Kotler, P. & Armstrong, G. 2006. *Principles of Marketing*, 11th ed. Upper Saddle River, N.J.: Prentice-Hall.
- Kotler, P., Bowen, J. & Makens, J. 2006. *Marketing for Hospitality and Tourism*. 4th ed. Upper Saddle River, N.J.: Prentice-Hall.

- Kotler, P. & Keller K.L. 2006. *Marketing Management*. 12th ed. Upper Saddle River, N.J.: Pearson Prentice Hall.
- Krishnan, V. Eppinger, S.D. & Whitney, D.E. 1997. A model-based framework to overlap product development activities. *Management Science*, **43**(4), 437-451.
- Krishnaswamy, K.N., Sivakumar, A.I. & Mathirajan, M. 2006. *Management Research Methodology: Integration of Principles, Methods and Techniques*. Delhi: Pearson Education.
- Lamb, C.W., Hair, J.F., McDaniel, C., Boshoff, C. & Terblanche, N.S. 2004. *Marketing*, 2nd South African ed. Cape Town: Oxford University Press.
- Langeard, E. & Eiglier, P. 1983. Strategic management of service development. In Berry, L.L. (ed.), *Emerging Perspectives on Services*. Chicago: AMA.
- Lawson, F.R. 1995. *Hotels and Resorts: Planning, Design and Refurbishment*. Oxford: Butterworth-Heinemann.
- Leavy, B. 1997. Innovation and the established organization. *Journal of General Management*, **22**(3), 38-52.
- Lehmann, D.R. 1997. A different game: setting the stage. *Working paper, Report number 97-118*, Cambridge, MA: Marketing Science Institute.
- Leiponen, A. 2006. Managing knowledge for innovation: The case for business-to-business services. *The Journal of Product Innovation Management*, **23**(3), 238-258.
- Lewis, J.P. 2001. *Project Planning, Scheduling and Control*. 3rd edition. New York: McGraw-Hill.
- Lewis, R. 1996. Forum on feasibility studies told like it is. *Hotel & Motel Management*, **211**(14), 21-23.
- Lievens, A. & Moenaert, R.K. 2001. Communication flows during financial service innovation. *International Journal of Bank Marketing*, **19**(2), 68-88.
- Lievens, A., Moenaert, R.K. & S'Jegers, R, 1999. Linking communication to innovation success in the financial services industry: A case study analysis. *International Journal of Service Industry Management*, **10**(1), 23-47.
- Lim, K. & O'Cass, A. 2001. Consumer brand classifications: an assessment of culture-of-origin versus country-of-origin. *Journal of Product & Brand Management*, **10**(2), 120-136.
- Lin, I, 2001. Innovation in the networked world. In Hamilton, B. (ed.), *Innovation and Imagination at Work*, 1-16. Sydney: McGraw-Hill.
- Locketta, A. & Littler, D. 1997. The adoption of direct banking services. *Journal of Marketing Management*, **13**(8), 791-811.
- Lopez-Fernandez, M.C., Serrano-Bedia, A.M. & Gomez-Lopez, R. 2011. Factors encouraging innovation in Spanish Hospitality firms. *Cornell Hospitality Quarterly*, **52**(2), 144-152.

- Lovelock, C. & Gummesson, E. 2004. Whither services marketing? In search of a new paradigm and fresh perspectives. *Journal of Services Research*, **7**(1), 20-41.
- Lovelock, C., Van der Merwe, S. & Lewis, B. 1999. *Services Marketing: A European Perspective*. 3rd ed. London: Prentice-Hall Europe.
- Lovelock, C. & Wirtz, J. 2007. *Services Marketing: People, Technology and Strategy*. 6th ed. New Jersey: Pearson Prentice-Hall.
- Lovelock, C. & Wirtz, J. 2004. *Services Marketing: People, Technology and Strategy*. 5th ed. New Jersey: Pearson Prentice-Hall.
- Lynn, G.S. 1998. New product team learning: developing and profiting from your knowledge capital, *California Management Review*, **40**(4), 74-96.
- Ma, H. 2004. Toward global competitive advantage: Creation, competition, cooperation, and co-option. *Management Decision*, **42**(7), 907-924.
- MacCormack, A. 2001. Product development processes that work: How internet companies build software. *Sloan Management Review*, **42**(2), 75-84.
- MacCormack, A., Verganti, R. & Iansiti, M. 2001. Developing products on internet time: The anatomy of a flexible development process. *Management Science*, **47**(1), 133-150.
- Mackenzie, K. 2001. Survival in the corporate jungle: Innovate or perish. In Hamilton, B. (ed.), *Innovation and Imagination at Work*, 17-34. Sydney: McGraw-Hill.
- MacMillan, I.C. & McCaffery, M.L. 1984. Strategy for financial services: cashing in on competitive inertia. *Journal of Business Strategy*, **4**(3), 58-65.
- Mahoney, J.T. 1995. The management of resources and resource of management. *Journal of Business Research*, **33**(2), 91-101.
- Malhotra, N.K. 2007. *Marketing Research: An Applied Orientation*. New Jersey: Prentice Hall.
- March-Chorda, I. Gunasekaran, A. & Lloria-Aramburo, B. 2002. Product development process in Spanish SMEs: an empirical research. *Technovation*, **22**(5), 301-312.
- Martin, C.R. & Horne, D.A. 1995. Level of success inputs for service innovations in the same firm. *International Journal of Service Industry Management*, **6**(4), 40-56.
- Martin, C.R. & Horne, D.A. 1993. Services innovation: Successful versus unsuccessful firms. *International Journal of Service Industry Management*, **4**(1), 48-64.
- Mason, J. 2011. *Qualitative researching*. London: Sage Publications.
- Mathews, V.E. 2000. Competition in the international hotel industry. *International Journal of Contemporary Hospitality Management*, **12**(2), 114-118.

- Matthing, J., Sandén, B. & Edvardsson, B. 2004. New service development: Learning from and with customers. *International Journal of Service Industry Management*, **15**(5), 479-498.
- Maxwell, G., Watson, S. & Quail, S. 2004. Quality service in the international hotel sector: A catalyst for strategic human resource development. *Journal of European Industrial Training*, **28**(2-4), 159-182.
- May, G. 2004. The future of financial services in Europe. *Foresight*, **6**(5), 271-280.
- Maylor, H. 2005. *Project Management*. 3rd ed. Harlow: Prentice-Hall.
- McDaniel, C. & Gates, R. 1996. *Contemporary Marketing Research*. St Paul: West Publishing Company.
- McKee, D. 1992. An organizational learning approach to product innovation. *Journal of Product Innovation Management*, **9**(3), 232-245.
- McDaniel, C. & Gates, R. 1996. *Contemporary marketing research*. 3rd ed. St. Paul, Minneapolis: West Publishing Company.
- Medlik, S. & Ingram, H. 2000. *The Business of hotels*, 4th ed. Oxford: Butterworth Heinemann.
- Menor, L.J. & Roth, A.V. 2008. New service development and performance: An empirical investigation in retail banking. *Production & Operations Management*, May-June, **17**(3), 267-284.
- Menor, L.J. & Roth, A.V. 2007. New service development competence in retail banking: Construct development and measurement validation. *Journal of Operations Management*, **25**(4), 825-846.
- Menor, L.J., Takikonda, M.V. & Sampson, S.E. 2002. New service development: Areas for exploitation and exploration. *Journal of Operations Management*, **20**(2), 135-157.
- Meyer, M. 1997. Revitalize your product lines through continuous platform renewal. *Research Technology Management*, **40**(2), 17-28.
- Meyer, R. & De Wit, B. 2005. *Strategy: Process, Content, Context: An International Perspective*. 3rd ed. London: Thompson.
- Middleton, V. 2002. *Marketing in travel and tourism*. 3rd ed. Oxford: Butterworth-Heinemann.
- Ministry of Planning and National Development. 2007. *Kenya Vision 2030: A competitive and prosperous nation*. [Online] Available: [ww.investmentkenya.com/Documents/Publications](http://www.investmentkenya.com/Documents/Publications) [Accessed: 14 October 2008].
- Mintzberg, H., Ahlstrand, B. & Lampel, J. 2005. *Strategy Safari: A Guided Tour through the Wilds of Strategic Management*. New York: Free Press.
- Mintzberg, H., Lampel, J., Quinn, J.B. & Ghoshal, S. 2003. *The Strategy Process: Concepts, Contexts, Cases*. 4thed. New Jersey: Pearson Prentice Hall.
- Miles, R. E. & Snow, C. C. 2003. *Organizational Strategy, Structure, and Process*. California: Stanford University Press.

- Montgomery, C.A. & Wernerfelt, B. 1988. Diversification, Ricardian rents and Tobin's q. *Rand Journal of Economics*, **19**(4), 623-632.
- Morrison A.M. 2002. *Hospitality and travel marketing*. 3rd ed. Albany, New York: Delmar Thomson Learning.
- Morrison, A. & Thomas, R. 1999. The future of small firms in the hospitality industry. *International Journal of Contemporary Hospitality Management*, **11**(4), 148-154.
- Morritt, R. 2006. Niche marketing for hotel managers, In Dalgic, T. (ed.), *Handbook of Niche Marketing: Principles and Practice*. New York: Best Business Books.
- Mudie, P. & Pirrie, A. 2006. *Services Marketing Management*. 3rd ed. Oxford: Butterworth-Heinemann.
- Mulligan, P. & Gordon, S.R. 2002. The impact of information technology on customer and supplier relationships in the financial services. *The International Journal of Service Industry Management*, **13**(1), 29-46.
- Mullins, L.J. 2001. *Hospitality Management and Organisational Behaviour*. 4th ed. London: Pearson.
- Mullins, J.W. & Sutherland, D.J. 1998. New product development in rapidly changing markets: An exploratory study. *Journal of Product Innovation Management*, **15**(3), 224-236.
- Nambisan, S. 2001. Why service businesses are not product businesses. *Sloan Management Review*, **42**(4), 72-80.
- Neale, M.R. & Corkindale, D.R., 1998. Co-developing products: Involving customers earlier and more deeply. *Long Range Planning*, **31**(3), 418-425.
- Neuendorf, K.A. 2002. *The content analysis guide book*. Thousand Oaks: Sage Publications.
- Nijssen, E.J., Hillenbrand, B., Vermeulen, P.A. & Kemp, R.G. 2006. Exploring product and service innovation similarities and differences. *International Journal of Research in Marketing*, **23**(3), 241-251.
- Nykiel, R.A. 2005. *Hospitality Management Strategies*. Upper Saddle River: Prentice Hall.
- O'Brien, E.M., Black, M.C., Carley-Baxter, L.R. & Simon, T.R. 2006. Sensitive topics, survey nonresponse, and considerations for interviewer training. *American Journal of Preventive Medicine*, **31**(5), 419-426.
- O'Cass, A. & Grace, D. 2004. Exploring consumer experiences with a service brand. *Journal of Product & Brand Management*, **13**(4), 257-268.
- Ohmae, K. 2001. *The Invisible Continent: Four Strategic Imperatives of the New Economy*. New York: HarperCollins.
- Ohmae, K. 1982. *The Mind of the Strategist: The Art of Japanese Business*. New York: McGraw-Hill.

- Oldenboom, N. & Abratt, R. 2000. Success and failure factors in developing new banking and insurance services in South Africa. *International Journal of Banking Marketing*, **18**(5), 223-245.
- Olsen, M.D. & Connolly, D.J. 2000. Experience-based travel. *Cornell Hotel and Restaurant Administration Quarterly*, **41**(1), 30-40.
- Olsen, M.D. & Roper, A. 1998. Research in strategic management in the hospitality industry. *International Journal of Hospitality Management*, **17**(2), 111-124.
- Olsen, N.V. & Sallis, J. 2006. Marketing scanning for new service development. *European Journal of Marketing*, **40**(5/6), 466-488.
- Olsen, M.D., Zhao, J.L., Cho, W. & Tse, E. 1997. Hotel industry performance and competitive methods: A decade in review: 1985-1994. In *Into the new millennium, a white paper on the global hospitality industry*, 33. Paris: International Hotel and Restaurant Association.
- Orfila-Sintes, F., Crespi-Cladera, R. & Martinez-Ros, E. 2005. Innovation activity in the hotel industry: Evidence from Balearic Islands. *Tourism Management*, **26**(6), 851-865.
- Ottbacher, M.C. 2007. Innovation management in the hospitality industry: different strategies for achieving success. *Journal of Hospitality & Tourism Research*, **31**(4), 431-454.
- Ottbacher, M. & Gnoth, J. 2005. How to develop successful hospitality innovation. *Cornell Hotel & Restaurant Administration Quarterly*, **46**(2), 205-222.
- Ottbacher, M., Gnoth, J. & Jones, P. 2006. Identifying determinants of success in development of new high-contact services: Insights from the hospitality industry. *International Journal of Service Industry Management*, **17**(4), 344-363.
- Ottbacher, M. & Harrington, R.J. 2010. Strategies for achieving success for innovative versus incremental new services. *Journal of Services Marketing*, **24**(1), 3-15.
- Ottbacher, M. & Harrington, R.J. & Parsa, H.G. 2009. Defining the hospitality discipline: A discussion of pedagogical and research implications. *Journal of Hospitality and Tourism Research*, **33**(3), 263-283.
- Ottbacher, M., Shaw, V. & Lockwood, A. 2005. An investigation of the factors affecting innovation performance in chain and independent hotels. *Journal of Quality Assurance in Hospitality & Tourism*, **6**(3/4), 113-128.
- Palmer, A. 2001. *Principles of Services Marketing*. London: McGraw-Hill.
- Papastathopoulou, P.G., Gounaris, S.P. & Avlonitis, G.J. 2006. Successful new-to-the-market versus "me-too" retail financial services: the influential role of marketing, sales EDP/systems and operations. *International Journal of Bank Marketing*, **24**(1), 53-70.
- Pearce, J.A. & Robinson, R.B. 2000. *Strategic management: Formulation, implementation and control*. 7th ed. Boston: McGraw-Hill.

- Petersen, K.J., Handfield, R.B. & Ragatz, G.L. 2005. Supplier integration into new product development: Coordinating product, process and supply chain design. *Journal of Operations Management*, **23**(3/4), 371-388.
- Phillips, P.A. 1999. Hotel performance and competitive advantage: A contingency approach. *International Journal of Contemporary Hospitality Management*, **11**(7), 359-365.
- Pitta, D. & Franzak, F. 1996. Boundary spanning product development in consumer markets: Learning organization insights. *Journal of Consumer Marketing*, **13**(5), 66-81.
- Polonsky, M., & Waller, D. 2005. *Designing and managing a Research project: A Business student's Guide*. Thousand Oaks: Sage Publications, Inc.
- Poolton, J. & Ismail, H. 2000. New developments in innovation. *Journal of Managerial Psychology*, **15**(8), 795-811.
- Porter, M.E. 2008. The five competitive forces that shape strategy. *Harvard Business Review*, **86**(1), 78-93.
- Porter, M.E. 1991. Towards a dynamic theory of strategy. *Strategic Management Journal*, **12**, special issue, 95-117.
- Porter, M.E. 1985. *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Free Press.
- Powell, T.C. 2001. Competitive advantage: Logical and philosophical considerations. *Strategic Management Journal*, **22**(9), 875-888.
- Prahalad, C.K. & Hamel, G, 1990. The core competence of the corporation. *Harvard Business Review*, **68**(3), 79-91.
- Prahalad, C. & Lieberthal, K. 2003. The end of corporate imperialism. *Harvard Business Review*, **81**(8), 109-117.
- Prahalad, C.K. & Ramaswamy, V. 2000. Co-opting customer competence. *Harvard Business Review*, **78**(1), 79-87.
- Rafiq, M. & Ahmed, P.K. 1995. Using the 7Ps as a generic marketing mix: an exploratory survey of UK and European marketing academics. *Marketing Intelligence and Planning*, **13**(9), 4-15.
- Rajatanavin, R. & Speece, M. 2004. The sales force as information transfer mechanism for new service development in the Thai insurance industry. *Journal of Financial Services Marketing*, **8**(3), 244-258.
- Ramanathan, R. 2012. An exploratory study of marketing, physical and people related performance criteria in hotels. *International Journal of contemporary Hospitality Management*, **24**(1), 44-61.
- Randa, J & Gubbins, P. 2013. *Time to Shift Gears: Accelerating Growth and Poverty Reduction in the New Kenya*. Washington, D.C.: World Bank Group.

- Read, A. 2000. Determinants of successful organisational innovation: a review of current research. *Journal of Management Practice*, **3**(1), 95-119.
- Reid, R.D. & Bojanic D.C. 2006. *Hospitality marketing management*. 4th ed. New Jersey: Wiley.
- Reid, R.D. & Sandler, M. 1992. The use of technology to improve service quality. *Cornell Hotel and Restaurant Administration Quarterly*, **33**(3), 68-73.
- Reidenbach, R.E. & Moak, D.L. 1986. Exploring retail bank performance and new product development: A profile of industry practice. *Journal of Product Innovation Management*, **3**(3), 187-194.
- Renaghan, L.M. 1981. A new marketing mix for the hospitality industry. *Cornell Hotel and Restaurant Administration Quarterly*, **22**(2), 30-35.
- Republic of Kenya. 2003. Ministry of Tourism. *National tourism policy for Kenya*. Nairobi: Government Printers.
- Roberts, P.W. & Amit, R. 2003. The dynamics of innovative activity and competitive advantage: The case of Australia retail banking, 1981 to 1995. *Organization Science*, **14**(2), 107-22.
- Robinson, A.G. & Stern, S. 1997. *Corporate Creativity*. Warriewood, N.S.W.: Business & Professional Publishing.
- Rochford, L. & Rudelius, W. 1997. New product development process, stages and successes in the medical products industry. *Industrial Marketing Management*, **26**, 67-84.
- Rodriguez-Diaz, M. & Espino-Rodriguez, T.F. 2006. Developing relational capabilities in hotels. *International Journal of Contemporary Hospitality Management*, **18**(1), 25-40.
- Rodgers, S. 2008. Technological innovation supporting different food production philosophies in the food service sectors. *International Journal of Contemporary Hospitality Management*, **20**(1), 19-34.
- Rossman, G. & Wilson, B. 1991. Number and words revisited: Being "Shamelessly Eclectic." *Evaluation Review*, **9**(5), 627-643.
- Rugman, A.M. & Collinson, S. 2006. *International Business*. 4th ed. London: Prentice Hall.
- Sanchez, R. 1995. Strategic flexibility in product competition. *Long Range Planning*, **28**(6), 124-148.
- Sanderson, S. & Uzumeri, M. 1995. Managing product families: The case of the Sony Walkman. *Research Policy*, **24**(5), 761-782.
- Scheuing, E.E. & Johnson, E.M. 1989a. New product development and management in financial institutions. *International Journal of Bank Marketing*, **7**(2), 17-21.
- Scheuing, E.E. & Johnson, E.M. 1989b. A proposed model for new service development. *Journal of Services Marketing*, **3**(2), 25-34.
- Schumpeter, J.A. 1950. *Capitalism, Socialism and Democracy*. New York: Harvard University Press.

- Senge, P.M. 1990. *The Fifth Discipline*. Sydney: Random House.
- Shapiro, S. M. 2002. *24/7 Innovation: A Blueprint for Surviving and Thriving in an Age of Change*. New York: McGraw-Hill.
- Shin, N. & Jemella, D. 2002. Business process reengineering and performance improvement: the case of Chase Manhattan Bank. *Business Process Management Journal*, **8**(4), 351-363.
- Shostack, L. 1984. Designing services that deliver. *Harvard Business Review*, **62**(1), 133-139.
- Shoemaker, S., Lewis, R.C. & Yesawich, P.C, 2007. *Marketing leadership in hospitality and tourism: Strategies and tactics for competitive advantage*. 4th ed. Upper Saddle River, N.J.: Pearson Prentice Hall.
- Sigala, M. 2012. Social networks and customer involvement in new service development: The case of mystarbucksidea.com. *International Journal of Contemporary Hospitality Management*, **24**(7), 966-990.
- Sigala, M. & Chalkiti, K. 2007. New service development: Preliminary findings on process development and assessment from the Greek hotels. *Advances in Hospitality and Leisure*, **3**(1), 131-153.
- Sirilli, G. & Evangelista, R. 1998. Technological innovation in services and manufacturing: results from Italian surveys. *Research policy*, **27**(9), 881-899.
- Smith, A.M. & Fischbacher, M. 2005. New service development: A stakeholder perspective. *European Journal of Marketing*, **39**(9/10), 1025-1048.
- Smith, A.N., Fischbacher, M. & Wilson, F.A. 2007. New service development: From panoramas to precision. *European Management Journal*, **25**(5), 370-383.
- Smith, S.M. & Albaum, G.S. 2010. *An introduction to marketing research*. Santa Fe, N.M.: Qualtrics
- Squeir, M.M. & Snyman, R. 2004. Knowledge management in three financial organizations: A case study. *Aslib Proceedings: New Information Perspectives*, **56**(4), 234-242.
- Stacey, R.D. 1995. The science of complexity: An alternative perspective for strategic change processes. *The Strategic Management Journal*, **16**(6), 477-496.
- Stevens, E. & Dimitriadis, S. 2005. Managing the new service development process: Towards a systematic model. *European Journal of Marketing*, **39**(1/2), 175-198.
- Stevens, R.E., Wrenn, B., Sherwood, P.K. & Ruddick, M.E. 2008. *The Marketing Research Guide*. 2nd ed. New York: Routledge.
- Stewart, D.M. & Chase, R.B. 1999. The impact of human error on delivering service quality. *Production and Operations Management Journal*, **8**(3), 240-263.
- Storey, C. & Easingwood, C.J. 1999. Types of new product performance: Evidence from the consumer financial services sector. *Journal of Business Research*, **46**(2), 193-203.

- Storey, C. & Hull, F.M. 2010. Service development success: A contingent approach by knowledge strategy. *Journal of Service Management*, **21**(1), 140-161.
- Storey, C. & Kelly, D. 2002. Innovation in services: The need for knowledge management. *Australasian Marketing Journal*, **10**(2), 59-70.
- Storey, C. & Kelly, D. 2001. Measuring the performance of new service development activities. *Services Industries Journal*, **21**(2), 71-90.
- Sundaram, D.S. & Webster, C. 2000. The role of non-verbal communication in service encounters. *Journal of Services Marketing*, **14**(5), 378-391.
- Syson, F. & Perks, H. 2004. New service development: A network perspective. *Journal of Services Marketing*, **18**(4), 255-66.
- Takeuchi, H. & Nonaka, I. 1986. The new product development game. *Harvard Business Review*, **64**(1), 137-146.
- Tan, J.J. 2001. Innovation and risk taking in a taking in a transitional economy: a comparative study of Chinese managers and entrepreneurs. *Journal of Business Venturing*, **16**(4), 359-376.
- Teece, D.J., Pisano, G. & Shuen, A. 1997. Dynamic capabilities and strategic management. *Strategic Management Journal*, **18**, 509-533.
- Terrell, S.R. 2012. *Statistics Translated: A Step-by-step Guide to Analysing and Interpreting Data*. New York: The Guilford Press.
- Thwaites, D. 1992. Organizational Influences on the New Product Development Process in Financial Services. *Journal of Product Innovation Management*, **9**(4), 303-313.
- Tidd, J. & Bodley, K. 2002. The influence of project novelty on the new product development process. *R&D Management*, **32**(2), 127-138.
- Tidd, J., Bessant, J. & Pavitt, K. 2000. *Managing Innovation: Integrating technological, market and organizational change*. Chichester: Wiley.
- Tourism Grading Council of South Africa. 2005. *The Accommodation Guide: 2005/2006*. 2nd ed. Rivonia: Tourism Grading Council of South Africa.
- Tushman, M. & Anderson, P. 1990. Technological discontinuities and dominant designs: A cyclical model of technological change. *Administrative Science Quarterly*, **35**(4), 604-633.
- Tushman, M. & Anderson, P. 1986. Technological discontinuities and organizational Environment. *Administrative Science Quarterly*, **31**(3), 439-465.
- Varela, J. & Benito, L, 2005. New product development process in Spanish firms: Typology, antecedents and technical/marketing activities. *Technovation*, **25**(4), 395-405.
- Verganti, R. & Buganza, T. 2005. Design Inertia: Designing for life-cycle flexibility in internet-based services. *Journal of Product Innovation Management*, **22**(3), 223-237.

- Veryzer, R.W. 1998. Discontinuous innovation and the new product development process. *Journal of Product Innovation Management*, **15**(4), 304-321.
- Victorino, L., Verma, R., Plaschka, G. & Dev, C. 2005. Service innovation and customer choices in the hospitality industry. *Managing Service Quality*, **15**(6), 555-576.
- Voss, C., Johnston, R., Silvestro, R., Fitzgerald, L. & Brignall, T. 1992. Measurement of innovation and design performance in services. *Design Management Journal*, Winter, 40-46.
- Walker, O.C., Boyd, H.W. & Larreche, J. 1999. *Marketing Strategy*. 4th ed. New York: McGraw-Hill.
- Walker, J.R. 2007. *Introduction to Hospitality Management*. 2nd ed. New Jersey: Pearson Prentice-Hall.
- Wathen, S. & Anderson, J.C. (1995). Designing services: an information-processing approach. *International Journal of Service Industry Management*, **6** (1), 64-76.
- Weerawardena, J, 2003. Exploring the role of market learning capability in competitive strategy. *European Journal of Marketing*, **37**(3/4), 407-429.
- Wegner, T. 2000. *Quantitative Methods for Marketing Decisions*. Cape Town: Juta & Company.
- Whitla, P., Walters, P.G. & Davies, H, 2006. Global strategies in the international hotel industry. *International Journal of Hospitality Management*, **26**(4), 777-792.
- Williamson, O.E. 1991. Strategizing, economizing, and economic organization. *Strategic Management Journal*, **12**(2), 75-94.
- Wilson, M.S. & Gilligan, C. 2005. *Strategic Marketing Management*. 3rd ed. Burlington: Elsevier Butterworth-Heinemann.
- Woodman, R.W., Sawyer, J.E. & Griffin, R.W. 1993. Toward a theory of organizational creativity. *Academy of Management Review*, **18**(2), 293-321.
- World Bank. 2016. Kenya country economic memorandum: From economic growth to jobs and shared prosperity. [Online] Available: <http://documents.worldbank.org> [Accessed: 20 November 2016].
- World Bank. 2014. Kenya Overview: Economy. [Online] Available: <http://www.worldbank.org/en/country/kenya/overview> [Accessed: 4 October 2014].
- World Bank. 2010. Kenya's Tourism: Polishing the Jewel. [Online] Available: <http://siteresources.worldbank.org> [Accessed: 12 November 2016].
- World Economic Forum (WEF). 2013. *The Travel and Tourism Competitiveness Report 2013: Managing in a Time of Turbulence*. [Online] Available: www.weforum.org/pdf [Accessed: 10 April 2014].
- World Travel & Tourism Council. 2015a. *Travel and Tourism: Economic Impact 2015 Kenya*. London: WTTC.

- World Travel & Tourism Council. 2015b. *Travel and Tourism: Economic Impact 2015 Singapore*. London: WTTC.
- Yasin, M. & Yavas, U. 2001. Improving service quality in the hospitality industry: A framework. *Journal of Hospitality and Leisure Marketing*, 7(4), 33-43.
- Yin, R.K, 2009. *Case Study Research: Design and Methods*. 4th ed. London: Sage.
- Young, L. 2005. *Marketing the Professional Services Firm: Applying the Principles and the Science of Marketing to the Professions*. Chichester: Wiley.
- Zeithaml, V.A. & Bitner, M.J. 2000. *Services Marketing*. Boston: Irwin.
- Zeithaml, V.A, Bitner, M.J. & Gremler, D.D. 2006. *Services Marketing, Integrating Customer Focus Across the Firm*. 4th ed. Boston: McGraw-Hill.
- Zeithaml, V.A., Parasuraman, A. & Berry, L.L. 1985. Problems and strategies in services marketing. *Journal of Marketing*, 49(2), 33-46.
- Zikmund, W.G. 2003. *Business Research Methods*. 7th ed. Cincinnati, Ohio: Thomson/South-Western.

APPENDIX A:
INTERVIEW GUIDE
KEY INFORMANT INTERVIEW GUIDE

Interview instruction

Phone the number indicated on the list provided and ask the following

Good morning/afternoon. My name is Fredrick N. Oduori, a doctoral student at the University of Stellenbosch Business School, South Africa and currently collecting data for my thesis. Can you please tell me who in your property the hotel manager is?

Interviewer instruction

Ask to speak to this person, INTRODUCE MYSELF, and ask the following question to her/him.

Screening question

Are you familiar with new service development (NSD) concept and does your hotel apply this concept?

| | | |
|--|---|---|
| Yes, I am familiar with the NSD concept <u>and</u> my hotel does apply the NSD concept | Yes, I am familiar with the NSD concept <u>and</u> my hotel does not apply the NSD concept | No, I am not familiar with the NSD concept |
| <u>Interviewer instruction</u> Make an appointment with the Hotel Manager | <u>Interviewer instruction</u> Terminate the interview and thank the respondent for his/her time | <u>Interviewer instruction</u> Terminate the interview and thank the respondent for his/her time |

Date of the interview: _____

Time of the interview: _____

Physical address: _____

INTRODUCTION AT THE START OF THE INTERVIEW

Good morning/afternoon. My name is Fredrick N. Oduori, a doctoral student at the University of Stellenbosch Business School, South Africa and currently collecting data for my thesis. The topic of the thesis is “New service development strategy and process in the hospitality industry in Kenya”.

May I please use a few minutes of your time to ask you some questions? The interview should take about 30 minutes. I want to assure you that the interview will be treated in the strictest confidence and that all information given to me will be used for research purposes only.

SECTION A

Q 1: Location of the establishment

- Nairobi Mombasa

Q 2: Type of establishment

- Town hotel Vacation hotel Lodge Tented camp

Q 3: What star classification is your establishment?

- Three star Four star Five star

Q 4: Are majority of your guests local or foreign?

- Local Foreign

Q 5. Is the hotel a subsidiary or member in a hotel chain?

- Yes No

Q 6. What is your main customer market?

- Customer Business to business Both

Q 7. What is the process and sequence of NSD activities in the establishment?

Q 8. What is the importance of various NSD stages?

Q 9. What strategies have been adopted by your hotel in developing new services over the last 3 years?

Q 10. What benefits has the establishment experienced as a result of developing new services?

APPENDIX B:
PRE-TESTING QUESTIONNAIRE
KEY INFORMANT INTERVIEW PROTOCOL

Interview instruction

Phone the number indicated on the list provided and ask the following

Good morning/afternoon. My name is Fredrick N. Oduori, a doctoral student at the University of Stellenbosch Business School, South Africa and currently collecting data for my thesis. Can you please tell me who in your property the hotel manager is?

Interviewer instruction

Ask to speak to this person, INTRODUCE MYSELF, and ask the following question to her/him.

Screening question

Are you familiar with new service development (NSD) concept and does your hotel apply this concept?

| | | |
|--|--|--|
| Yes, I am familiar with the NSD concept <u>and</u> my hotel does apply the NSD concept | Yes, I am familiar with the NSD concept <u>and</u> my hotel does not apply the NSD concept | No, I am not familiar with the NSD concept |
| <u>Interviewer instruction</u> | <u>Interviewer instruction</u> | <u>Interviewer instruction</u> |
| Make an appointment with the Hotel Manager | Terminate the interview and thank the respondent for his/her time | Terminate the interview and thank the respondent for his/her time |

Date of the interview: _____

Time of the interview: _____

Physical address: _____

INTRODUCTION AT THE START OF THE INTERVIEW

Good morning/afternoon. My name is Fredrick N. Oduori, a Kenyan citizen and doctoral student at the University of Stellenbosch Business School, South Africa and currently collecting data for my thesis. The topic of the thesis is "New service development strategy and process in the hospitality industry in Kenya".

May I please use a few minutes of your time to ask you some questions? The interview should take about 25 minutes. I want to assure you that the interview will be treated in the strictest confidence and that all information given to me will be used for research purposes only.

SECTION A

Q 1: Location of the establishment

- Nairobi Mombasa Malindi Kisumu Other (Specify) _____

Q 2: Type of establishment

- Town hotel Vacation hotel Lodge Others

Q 3: What star classification is your establishment?

- One star Two star Three star Four star Five star

Q 4: Are majority of your guests local or foreign?

- Local Foreign

Q 5. Name all the departments or functions in your hotel

Interviewer instruction:

Please do not read the list to the respondent.
Mark the verbatim answer in the appropriate block.

| | |
|--|--|
| Finance | |
| Food and beverage service | |
| Food production | |
| Front office | |
| Housekeeping/laundry | |
| Human Resources | |
| Information Communication & Technology | |
| Purchasing & supply | |
| Sales and marketing | |
| Technical support | |
| Other (specify) | |

Q 6. How many employees are working in your hotel?

| | | | | | |
|--------------|--------|---------|---------|---------|---------------|
| Less than 50 | 51-100 | 101-150 | 151-200 | 201-250 | More than 250 |
|--------------|--------|---------|---------|---------|---------------|

SECTION B

Q7. How does your establishment develop new services?

Q8. Why does your establishment develop new services?

Q9. What role, if any, do guests and stakeholders play in the new service development processes in your establishment?

Q10. Please indicate *the number* that best describes the execution of new service development strategy in your hotel. Use the scale in such a way that “1” would indicate that you strongly disagree with statement and that “5” would indicate a positive response (i.e. strongly agree). A midpoint score (e.g. 3) would represent neutrality in the response).

| | Strongly disagree | | Strongly agree | | | Don't know |
|---|-------------------|---|----------------|---|---|------------|
| | 1 | 2 | 3 | 4 | 5 | |
| The service allowed the hotel to enter a new market | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was totally new for the world | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service offered completely new features versus competitive services | 1 | 2 | 3 | 4 | 5 | Don't know |
| The new service created new services line for the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was totally new for the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was totally new for the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required the installation of new software and/or hardware | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required a change in customers' buying behaviour | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was a modification of an existing service of the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was a revision of an existing service | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required similar NSD and marketing efforts compared to hotel's current services | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was a repositioning of an existing service of the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required a change in customers' buying behaviour | 1 | 2 | 3 | 4 | 5 | Don't know |

Q11. How important is the execution of the new service development stages in the hotel industry. *Use the scale in such a way that “1” would indicate that the aspect is not important at all and that “5” would indicate that the aspect is very important.*

| | Not important | | Very | | | Don't know |
|--|---------------|---|-----------|---|---|------------|
| | at all | | important | | | |
| Business strategy development or review | 1 | 2 | 3 | 4 | 5 | Don't know |
| New service strategy development | 1 | 2 | 3 | 4 | 5 | Don't know |
| Idea generation - screen ideas against new service strategy | 1 | 2 | 3 | 4 | 5 | Don't know |
| Concept development and evaluation – test concept with customers and employees | 1 | 2 | 3 | 4 | 5 | Don't know |
| Business analysis – test for profitability and feasibility | 1 | 2 | 3 | 4 | 5 | Don't know |
| Service development and testing – conduct service prototype test | 1 | 2 | 3 | 4 | 5 | Don't know |
| Process and systems design and testing | 1 | 2 | 3 | 4 | 5 | Don't know |
| Market testing – test service and other marketing mix elements | 1 | 2 | 3 | 4 | 5 | Don't know |
| Personnel training for the service delivery workforce | 1 | 2 | 3 | 4 | 5 | Don't know |
| Commercialization | 1 | 2 | 3 | 4 | 5 | Don't know |
| Post launch evaluation. | 1 | 2 | 3 | 4 | 5 | Don't know |

Q12. In general, how do you believe your hotel's innovation-related actions/decisions have affected its profitability? (Please choose one).

- They have added to profit
- They have subtracted from profit
- They have broken even – neither adding to nor subtracting from profit
- My hotel does not engage in innovation-related activities.
- Don't know

Appreciate the respondent:

On behalf of University of Stellenbosch and the Doctoral student

Thank You

APPENDIX C: KEY INFORMANT INTERVIEW GUIDE

Interview instruction

Phone the number indicated on the list provided and ask the following

Good morning/afternoon. My name is Fredrick N. Oduori, a doctoral student at the University of Stellenbosch Business School, South Africa and currently collecting data for my thesis. Can you please tell me who in your property the hotel manager is?

Interviewer instruction

Ask to speak to this person, INTRODUCE MYSELF, and ask the following question to her/him.

Screening question

Are you familiar with new service development (NSD) concept and does your hotel apply this concept?

| | | |
|--|--|---|
| Yes, I am familiar with the NSD concept <u>and</u> my hotel does apply the NSD concept | Yes, I am familiar with the NSD concept <u>and</u> my hotel does not apply the NSD concept | No, I am not familiar with the NSD concept |
| <u>Interviewer instruction</u> | <u>Interviewer instruction</u> | <u>Interviewer instruction</u> |
| Make an appointment with the Hotel Manager | Terminate the interview and thank the respondent for his/her time | Terminate the interview and thank the respondent for his/her time |

Date of the interview: _____

Time of the interview: _____

Physical address: _____

INTRODUCTION AT THE START OF THE INTERVIEW

Good morning/afternoon. My name is Fredrick N. Oduori, a doctoral student at the University of Stellenbosch Business School, South Africa and currently collecting data for my thesis. The topic of the thesis is “New service development strategy and process in the hospitality industry in Kenya”.

May I please use a few minutes of your time to ask you some questions? The interview should take about 25 minutes. I want to assure you that the interview will be treated in the strictest confidence and that all information given to me will be used for research purposes only.

SECTION A

Q 1: Location of the establishment

- Nairobi Mombasa

Q 2: Type of establishment

- Town hotel Vacation hotel Lodge Tented camp

Q 3: What star classification is your establishment?

- Three star Four star Five star

Q 4: Are majority of your guests local or foreign?

- Local Foreign

Q 5. Is the hotel a subsidiary or member in a hotel chain?

- Yes No

Q 6. What is your main customer market?

- Customer Business to business Both

Q 7. Name all the departments or functions in your hotel

Interviewer instruction:

Please do not read the list to the respondent.
Mark the verbatim answer in the appropriate block.

| | |
|--|--|
| Finance | |
| Food and beverage service | |
| Food production | |
| Front office | |
| Housekeeping/laundry | |
| Human Resources | |
| Information Communication & Technology | |
| Purchasing & supply | |
| Sales and marketing | |
| Technical support | |
| Other (specify) | |

Q 8. How many employees are working in your hotel?

| | | | | | |
|--------------|--------|---------|---------|---------|---------------|
| Less than 50 | 51-100 | 101-150 | 151-200 | 201-250 | More than 250 |
|--------------|--------|---------|---------|---------|---------------|

SECTION B

Q9. What primary business challenges have faced the hotel industry in Kenya over the last three years?

Q10. How does your establishment anticipate managing such primary business challenges over the next three years?

Q11. Has your establishment developed and offered new services to its customers over the last three years?
(Tick one)

- Yes No

If YES, indicate the nature of newness for services developed by your hotel.

| | | |
|------------------|-------------------|--------------------|
| New to the world | New to the market | New to the company |
|------------------|-------------------|--------------------|

Q12. How does your establishment develop new services?

Q13. What role, if any, do guests and stakeholders play in the new service development processes in your establishment?

Q14. Please indicate *the number* that best describes the execution of new service development strategy in your hotel. Use the scale in such a way that “1” would indicate that you strongly disagree with statement and that “5” would indicate a positive response (i.e. strongly agree). A midpoint score (e.g. 3) would represent neutrality in the response).

| | Strongly disagree | | Strongly agree | | | |
|---|-------------------|---|----------------|---|---|------------|
| | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service allowed the hotel to enter a new market | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was totally new for the world | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service offered completely new features versus competitive services | 1 | 2 | 3 | 4 | 5 | Don't know |
| The new service created new services line for the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was totally new for the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was totally new for the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required the installation of new software and/or hardware | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required a change in customers' buying behaviour | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was a modification of an existing service of the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was a revision of an existing service | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required similar NSD and marketing efforts compared to hotel's current services | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was a repositioning of an existing service of the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required a change in customers' buying behavior | 1 | 2 | 3 | 4 | 5 | Don't know |

Q15. Name three aspects that provide competitive advantage to your hotel?

15.1 _____

15.2 _____

15.3 _____

Q16. How important is the execution of the new service development stages in the hotel industry. *Use the scale in such a way that "1" would indicate that the aspect is not important at all and that "5" would indicate that the aspect is very important.*

| | Not important at all | | | | | Very important | Don't know |
|--|----------------------|---|---|---|---|----------------|------------|
| | 1 | 2 | 3 | 4 | 5 | | |
| Business strategy development or review | 1 | 2 | 3 | 4 | 5 | Don't know | |
| New service strategy development | 1 | 2 | 3 | 4 | 5 | Don't know | |
| Idea generation - screen ideas against new service strategy | 1 | 2 | 3 | 4 | 5 | Don't know | |
| Concept development and evaluation – test concept with customers and employees | 1 | 2 | 3 | 4 | 5 | Don't know | |
| Business analysis – test for profitability and feasibility | 1 | 2 | 3 | 4 | 5 | Don't know | |
| Service development and testing – conduct service prototype test | 1 | 2 | 3 | 4 | 5 | Don't know | |
| Process and systems design and testing | 1 | 2 | 3 | 4 | 5 | Don't know | |
| Market testing – test service and other marketing mix elements | 1 | 2 | 3 | 4 | 5 | Don't know | |
| Personnel training for the service delivery workforce | 1 | 2 | 3 | 4 | 5 | Don't know | |
| Commercialization | 1 | 2 | 3 | 4 | 5 | Don't know | |
| Post launch evaluation. | 1 | 2 | 3 | 4 | 5 | Don't know | |

Q17. Does your establishment emphasize some of the stages of the NSD process? If YES, which ones?

Q18. In general, how do you believe your hotel's innovation-related actions/decisions have affected its profitability? (Please choose one).

They have added to profit

They have subtracted from profit

They have broken even – neither adding to nor subtracting from profit

My hotel does not engage in innovation-related activities.

Don't know

Q19. How much does your hotel currently spend on innovation related activities? (Please choose one).

- Less than 1% of sales
- Between 1-2% of sales
- Between 2-5% of sales
- Greater than 5% of sales
- No spending on innovation initiatives
- Do not know

Q20. Overall, has your establishment developed a clear business case or proven value proposition for addressing new service development?

- Yes
- No
- Unsure
- Have tried but too difficult to develop

Appreciate the respondent:

On behalf of University of Stellenbosch and the Doctoral student

Thank You

APPENDIX D: SUMMARY OF INTERVIEW NOTES

The findings from the interviews are discussed along each of the propositions indicated in section 1.4.3 as follows:

- **Proposition 1:** There is a significant difference in the number of new services developed and offered by the hotels in various star categories in Kenya.
- **Proposition 2:** There is a significant difference between hotel categories when factoring innovation considerations into decision making in Kenya.

Most of the managers indicated that the star category of the hotel did not necessarily determine the number of services developed by a hotel, although there is a tendency of luxury hotels investing higher budgets for marketing purpose. The five and four star hotels emphasise more on service quality and show that most of their customers expect it. The following are excerpts from the interviews with the managers:

Manager #1 – “The service advantage derived from developing new services is usually short lived. Most hotel innovations are improvements of existing services or imitations from market leaders because of budgetary constraints”.

Manager #2 - “Chain hotels usually have a clear, well documented service strategy and vision. And the plan is clearly communicated and marketed to all employees, supported by the management team. The buy in by the employees makes implementation easier and more successful for the chain hotels. Independent hotels tend to focus more on training their employees for improved productivity and customer service while developing new products”.

Manager #3 - “We pay extra ordinary attention to our customers”.

Manager #4 – “The complements and complaints give us invaluable feedback to continuously improve our services”.

Manager #5 - “We know it is important to develop new services for our customers, and we normally do it. But the ease with which the services are copied by other competing establishment makes it uneconomical to invest heavily in new service development”.

Manager #6 - “We develop new service offerings for our guests’ sake. The hotel business is a people oriented business”.

Manager #7 - “The number of new services introduced in the hotel depends on the hotels’ service plan or strategy. As management we support innovative ideas that give a competitive advantage with having to be expensive”.

Manager #8 - “The type of services developed and introduced at the establishment heavily depends on the type of clientele, hotel star ranking and location of the establishment. Some service offerings are done in the hotel just to improve the customers comfort and experience, target new service lines and enter new markets and not to earn additional revenue”.

According to most respondents, it is important to keep introducing new offerings in the Kenyan market because of the changing guest profiles and preferences. The managers were asked explain the decision making process and strategy in their establishments. Some managers indicate that they indeed the NSD concepts and strategy in planning, managing and making decisions. Also, some hotels introduced new services to serve new customer segments, while others simply imitated their competitors for fear of being outmanoeuvred. Other hotels simply modified their offerings in order to increase their margins or market share, access to new markets, and/or simply improve perception of how well the hotel is managed. Therefore, hotels modify and develop services and products to for various reasons. Their responses are discussed with respect to the two propositions:

- **Proposition 3:** Hotel managers in Kenya use the NSD strategy to plan and manage their products and services.
- **Proposition 4:** Hotel managers in Kenya apply and use the NSD concept for marketing and strategy decision making purposes.

The managers made the following remarks:

Manager #1 - “We know it is important to develop new services for our customers, and we normally do it. But the ease with which the services are copied by other competing establishment makes it uneconomical to invest heavily in new service development”.

Manager #3 and #4 - “We pay extra ordinary attention to our customers. The complements and complaints give us invaluable feedback to continuously improve our services”.

Manager #5 – “We find all the new service development stages important, but we do not use all the stages all the time”.

Manager #6 -“The central goal of new developing services in the hospitality is to introduce services and products that provide benefits to the customers and to the business. The financial benefits from new service offerings are not very inspiring”.

Manager #7 - “Most hotels in this industry wait for the superior rivals or market leaders to introduce a new product and then play catch up to avoid being left behind”.

Manager #8 – “It does not really matter which process you follow in developing new services. What matters is the ultimate service quality and advantage created by the new services, because other hotels easily copy and implement them without incurring a lot of costs”.

The next propositions provide a background for discussion about the NSD strategy approaches as follows:

- **Proposition 5:** Hotels that substantially outperform their industry peers develop more types of services.
- **Proposition 6:** The NSD approaches of chain hotels and independent hotels are different.

The interviews show that although most establishments preferred to grow substantially, the hospitality sector developed moderately innovative products that provide improved performance or greater perceived value for their customers. Customer involvement in NSD process was also found to be relatively high. It was established from the interviews that there are differences in the implementation of the NSD strategy between chain and independent hotels. Also, the service encounter was dominated by more standardised rather than customised services. The following statements illustrate this point:

Manager #1 - “The independent hotels are usually more flexible in responding to customer needs and issues. It is easier for such hotels to adapt to the changing needs of the customer and offer tailor made services”.

Manager #2 – “Based on my experience, I have not observed any notable differences in management approach about new service development between chain and independent hotels”.

Manager #3 -“The chain hotels usually launch products that are expressively new and generate essential value for customers as well as improve their quality and reputation because they can afford it. Independent hotels introduce new products that lower costs, provide improved performance or greater perceived value”.

Manager #4 – “Independent hotels are more flexible and dynamic in decision making about anything that will add value to the customer, including introduction of new services”.

Manager #5 – “Of course the chain hotels have the financial muscle to develop and launch new services any time of the year. It just depends on the influence from the head office”.

Manager #6 – “There is no real difference between the two categories of hotels in developing new services”.

Manager #7 – “Most establishments in the hospitality sector prefer to develop moderately innovative products that provide improved performance or greater perceived value for their customers. Cost is a major constraint”

Manager #8 - “Different hotels derive their advantage over the competition from different sources. For instance, the central reservation system from their headquarter, unique location around a popular resort, game park or access road and so on. So developing more services to outperform their peers is one among the many options available to hotel property”.

APPENDIX E: COVER LETTER TO THE RESPONDENTS

April 15, 2011.

Dear Sir/Madam,

Re: Survey for PhD Dissertation Research

Project Title: Service innovation strategy and process in the hospitality industry in Kenya

Your establishment has been selected to be part of a doctoral study program at the University of Stellenbosch Business School (USB), South Africa. Your name has been picked as someone who could answer a few questions on service innovation in hospitality. I kindly request you to complete the attached questionnaire. It will only take about 25 minutes of your time.

The survey is designed to provide information on approaches used by hotels in Kenya to develop new services in order to assist them improve their innovative efforts in business. Although Kenya Economic Report 2009 proposes development of new products/services as a policy intervention for the tourism sector in Kenya, there is little research clearly outlining service innovation strategy and process in hospitality. Furthermore, there is a discrepancy between theory and evidence. By investigating this discrepancy researchers can develop a more refined new service development framework for the hospitality sector.

Your reply is very important to us and it will be treated as totally confidential. It will be analysed along with other responses and none of your views will be tied to your name and/or establishment. Therefore, your responses and all results will remain anonymous. The results will be published in my thesis and if possible an industry journal. If you wish to receive the results please email me.

Please do not hesitate to email me for any questions or further information.

Thank you for your time,



Fredrick N. Oduori

Doctoral Researcher

University of Stellenbosch Business School
P O Box 610, Bellville 7535, South Africa
Tel: +27(0) 21 918 4227
Fax: +27 (0)21 918 4468
Cell: + 254 722 481 780
Email: Foduori@yahoo.com
www.usb.ac.za

Prof Frikkie Herbst

Head: Doctoral Programme: Professor in Marketing Management

University of Stellenbosch Business School
P O Box 610, Bellville 7535, South Africa
Tel: +27(0) 21 918 4227
Fax: +27 (0)21 918 4468
Cell: -
Email: frikkie.herbst@usb.ac.za
www.usb.ac.za

APPENDIX F: QUESTIONNAIRE USED IN THE SURVEY

Survey on service innovation in the hospitality sector

This is a survey of services and their development within tourist hotels in Kenya. The aim is to gain a better understanding of the ways in which hospitality services compete and the stages they undergo, and use the information gathered to inform decision making aimed at supporting hospitality service enterprises.

The survey should take about **15 minutes** to complete. Your participation in the study though voluntary is important. The questionnaires, responses and all materials used in conjunction with the survey will be treated as totally confidential. It will be analysed along with other responses and none of your views will be tied to your name. Please note we will be referring to your “establishment”. This may be a hotel, lodge or a tented camp, but should be understood as any commercial hospitality service establishment that provides accommodation, food and drink in a warm friendly environment.

INTRODUCTION

Q 1.1 Location of the establishment

- Nairobi Mombasa Malindi

Q 1.2 Type of establishment

- Town hotel Vacation hotel Lodges Tented camps

Q 1.3 What **star classification** is your establishment?

- Three star Four star Five star

SECTION A: BUSINESS CHARACTERISTICS

Q 1.4 How many **rooms** do you have available for tourists in your establishment? _____ Rooms

Q 1.5 How many **beds** do you have available for tourists in your establishment? _____ Beds

Q 1.6 What is your establishment’s total number of employees? (Please choose one)

- Less than 50 employees
 Between 51 and 100 employees
 Between 101 and 150 employees
 Between 151 and 200 employees
 Between 201 and 250 employees
 Greater than 250 employees

Q 1.7 Which of the following best describes the type of management of your establishment? (Tick one).

| | | | |
|-----------------------------|---------------|---------------------|---------------------|
| Independently managed hotel | Chain managed | Management contract | Franchise operation |
| | | | |

Q 1.8 How long has your establishment been operating in Kenya? (Tick one).

| | | | | |
|-------------------|-------------|-------------|-------------|---------------|
| Less than 9 years | 10-19 years | 20-29 years | 30-40 years | Over 40 years |
| | | | | |

Q 1.9 Which of the following region(s) **best** describes where your customers **originate**? Tick (v) as appropriate.

- United Kingdom
- United States of America/Canada
- Australia/New Zealand
- Germany
- France
- Italy
- Switzerland
- China
- India
- East Africa
- Rest of Africa
- Other: _____

SECTION B: INNOVATION STRATEGY

Q 2. What is the number of service innovations introduced at your establishment in the **last three years**?

| | | | |
|--------------|-------|-------|---------|
| Less than 10 | 10-20 | 20-30 | Over 30 |
| | | | |

Q 3. Which of the following best describes the type of services your establishment provides to your customers?

Note: **Standardized services** are those that do not change between individual customers. **Customized services** are those that are changed for each individual customer.

| | | | | |
|----------------------------|------------------------------|-----------|----------------------------|--------------------------|
| Only standardized services | Mainly standardized services | A mixture | Mainly customized services | Only customized services |
| | | | | |

Q4. What statement **best** describes the growth objective of your establishment in the next three to five years?

| | | | |
|----------------|----------------------|-----------------|--------------------|
| Become smaller | Remain the same size | Grow moderately | Grow substantially |
| | | | |

Q5. What are the primary business challenges facing your establishment over the next three years? (**Please rate on a scale of 1 to 5, where 1= “not at all and 5= “to a great extent”**).

| | Not at all | | To a great extent | | | Don't know |
|--|------------|---|-------------------|---|---|------------|
| | 1 | 2 | 3 | 4 | 5 | |
| Innovating to achieve competitive differentiation | 1 | 2 | 3 | 4 | 5 | Don't know |
| Reducing costs and increasing efficiencies | 1 | 2 | 3 | 4 | 5 | Don't know |
| Profitably acquiring and retaining customers | 1 | 2 | 3 | 4 | 5 | Don't know |
| Responding effectively to disruption of our business model | 1 | 2 | 3 | 4 | 5 | Don't know |
| Growing revenue | 1 | 2 | 3 | 4 | 5 | Don't know |
| Attracting, retaining, and motivating talented people | 1 | 2 | 3 | 4 | 5 | Don't know |
| Responding effectively to threats and opportunities of globalization | 1 | 2 | 3 | 4 | 5 | Don't know |
| Increasing operating speed and adaptability | 1 | 2 | 3 | 4 | 5 | Don't know |

Q6. How has your establishment's commitment to innovation – in terms of management attention and investment – changed in the **past year**? (Please choose).

- Significantly increased innovation commitments
- Somewhat increased innovation commitments
- Business as usual-no changes to innovation commitments
- Somewhat decreased innovation commitments
- Significantly decreased innovation commitments
- Do not know

Q7. To what extent is your establishment engaged in each of the following activities? **(Please rate on a scale of 1 to 5, where 1= “not at all and 5= “to a large extent”).**

| | Not at all | | | | | To a large extent | | | | | Don't know |
|--|------------|---|---|---|---|-------------------|---|---|---|---|------------|
| | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | |
| Identifying potential new revenue stream through new products, services or business models | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Analysing investor and stakeholder expectations related to innovation | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Identifying opportunities to enhance or differentiate brand image through innovation strategies | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Benchmarking innovation practices of competitors and innovation leaders | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Highlighting innovation in the recruitment of employees | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Building awareness of innovation in the organization | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Identifying opportunities to build a culture of innovation by pursuing innovation strategies | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Including innovation in scenario planning or strategic analysis | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Improving efficiencies and reducing waste | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Analysing risks associated with not fully addressing innovation issues (e.g. environmental, legal, competitive, reputational or operational risks) | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Revising compensation approaches and management incentives to promote innovation-related strategies | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| Other (please specify) | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |
| | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | Don't know |

Q8. Does your establishment factor innovation consideration(s) into decision making?

Yes

No

Q9. If YES (above), who in your establishment typically factors innovation considerations into decision-making?

- Managers in certain non-marketing functions/units (e.g., supply chain functions, or units focused on particular offerings or customers)
- Top management, who determine strategy of organization as a whole
- Managers in marketing-dedicated roles (Marketing Manager or equivalent; managers in dedicated marketing units)
- Selected management committee from various departments
- Innovation is not typically considered anywhere, but it is factored into decision-making occasionally by managers
- Non-management staff

Q10. What have been the benefits to your establishment in developing new products/services?

(Please rate on a scale of 1 to 5, where 1= "not at all beneficial" and 5= "Highly beneficial").

| | Not at all beneficial | | | | | Highly beneficial | | | | | Don't know |
|--|-----------------------|---|---|---|---|-------------------|---|---|---|---|------------|
| | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | |
| Access to new markets | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Increased margins or market share due to new products/services | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Improved brand reputation | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Improved perception of how well the hotel is managed | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Improved regulatory compliance | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Reduced costs due to energy efficiency | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Increased competitive advantage | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Reduced risk | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Improved ability to attract and retain top talent | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Increased employee productivity | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Enhanced stakeholder/investor relations | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Better innovation of business models and processes | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Better innovation of product/service offerings | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Do not know | | | | | | | | | | | |
| Others (please specify): | | | | | | | | | | | |

Q11. How would you describe your establishment's competitive position?

- Substantially outperforming industry peers
- Slightly outperforming industry peers
- On par with industry peers

- Slightly underperforming industry peers
- Substantially underperforming industry peers
- Don't know

Q12. How do you rate the **contribution** of the following aspects to the success of your establishment?

Please use the scale in such a way that "1" would indicate that the aspect has no contribution at all and that "5" would indicate that the aspect has very significant contribution.

| | No contribution at all | | Very significant contribution | | | |
|---|---------------------------|---|----------------------------------|---|---|------------|
| | 1 | 2 | 3 | 4 | 5 | |
| Competing on price/providing relatively low cost services | 1 | 2 | 3 | 4 | 5 | Don't know |
| The rapid or timely delivery of services | 1 | 2 | 3 | 4 | 5 | Don't know |
| The quality of the services provided | 1 | 2 | 3 | 4 | 5 | Don't know |
| Having a variety of delivery channels | 1 | 2 | 3 | 4 | 5 | Don't know |
| Providing a full or broad range of services | 1 | 2 | 3 | 4 | 5 | Don't know |
| Creativity or flair in the services provided | 1 | 2 | 3 | 4 | 5 | Don't know |
| Having a specialist knowledge or abilities | 1 | 2 | 3 | 4 | 5 | Don't know |
| Paying attention to individual customer or client needs | 1 | 2 | 3 | 4 | 5 | Don't know |
| Having an established reputation | 1 | 2 | 3 | 4 | 5 | Don't know |
| Having marketing or promotional skills | 1 | 2 | 3 | 4 | 5 | Don't know |
| Maintaining organizational flexibility/our ability to adopt | 1 | 2 | 3 | 4 | 5 | Don't know |
| The skills of our management and workforce | 1 | 2 | 3 | 4 | 5 | Don't know |
| Using advanced or recently introduced technologies | 1 | 2 | 3 | 4 | 5 | Don't know |
| Fulfilling standards or regulations | 1 | 2 | 3 | 4 | 5 | Don't know |
| The organizational structure of the business (e.g. number or location of our sites of hotels) | 1 | 2 | 3 | 4 | 5 | Don't know |

SECTION C: NEW SERVICE DEVELOPMENT PROCESS

Q13. Considering your activities and compared with three years ago, to what **extent** have the following changed?

Please indicate **the number** that best describes the changes in your hotel. **Use the scale in such a way that “1” would indicate that the activity remains unchanged and that “5” would indicate a significant change (i.e. very large extent). A midpoint score (e.g. 3) would represent moderate range in the response.**

| | No Extent | | Very large extent | | | Don't know |
|--|-----------|---|-------------------|---|---|------------|
| | 1 | 2 | 3 | 4 | 5 | |
| The products or services that your hotel provides? | 1 | 2 | 3 | 4 | 5 | Don't know |
| The ways in which the services the hotel provides are produced? | 1 | 2 | 3 | 4 | 5 | Don't know |
| The ways in which the services the hotel provides are delivered? | 1 | 2 | 3 | 4 | 5 | Don't know |
| The technologies the hotel uses to produce or deliver services? | 1 | 2 | 3 | 4 | 5 | Don't know |
| The skills of the workforce used to produce or deliver services | 1 | 2 | 3 | 4 | 5 | Don't know |
| The organizational structure of your hotel? | 1 | 2 | 3 | 4 | 5 | Don't know |
| The way in which the hotel inter-relates with your customers? (e.g. through the formation of collaborative partnerships, etc.) | 1 | 2 | 3 | 4 | 5 | Don't know |
| The way in which the hotel inter-relates with other businesses? (e.g. through the formation of collaborative partnerships, etc.) | 1 | 2 | 3 | 4 | 5 | Don't know |

Q14. Which statement best describes your establishment's approach to innovation? (Please tick one)

| | |
|---|--|
| Locates and maintains a secure niche by protecting the hotel's position in a relatively stable product or service area. | |
| Responds to product and market changes only when forced by environmental pressures. | |
| Values being "first with new products, markets and technologies. | |
| Seldom first to market, but frequently a fast follower with a more cost-efficient or innovative product. | |

Q15. How would you describe the types of new services developed by the establishment over the last two years? **(Please tick one)**

| | |
|--|--|
| New services for markets as yet undefined | |
| New services for a market that is already served by existing products that meet the same generic needs | |
| New services that attempt to offer existing customers of the establishment a service not previously available from the hotel | |
| Services that represent extension of the existing service line | |
| Changes in certain features of existing services currently on offer to the currently served market | |
| Highly visible changes on service appearance that create excitement and may motivate employees | |

Q16. Please indicate **the number** that best describes the execution of new service development strategy in your establishment. **Use the scale in such a way that "1" would indicate that you strongly disagree with statement and that "5" would indicate a positive response (i.e. strongly agree). A midpoint score (e.g. 3) would represent neutrality in the response).**

| | Strongly disagree | | Strongly agree | | | |
|---|-------------------|---|----------------|---|---|------------|
| | 1 | 2 | 3 | 4 | 5 | |
| The service allowed the hotel to enter a new market | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was totally new for the world | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service offered completely new features versus competitive services | 1 | 2 | 3 | 4 | 5 | Don't know |
| The new service created new services line for the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was totally new for the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required the installation of new software and/or hardware | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required a change in customers' buying behaviour | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was a modification of an existing service of the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was a revision of an existing service | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service required similar NSD and marketing efforts compared to hotel's current services | 1 | 2 | 3 | 4 | 5 | Don't know |
| The service was a repositioning of an existing service of the hotel | 1 | 2 | 3 | 4 | 5 | Don't know |

Q17. Is pursuing innovation-related strategies necessary to be competitive? (Please choose one)

- Yes
 No, but will be in the future
 No
 Do not know

Q18. How influential is each of the following in driving your establishment's attention to innovation? (Please rate on a scale of 1 to 5, where 1= "not at all influential" and 5= "very influential").

| | Not influential at all | | | | | Very influential | | | | | Don't know |
|--|------------------------|---|---|---|---|------------------|---|---|---|---|------------|
| | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | |
| Sales/marketing function | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Rooms management function | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Hotel guests/customers | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Partners or businesses in the supply chain | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Senior leadership | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Employees not among top leadership | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Investors/shareholders/capital providers | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Food and beverage department | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Competitors | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Information communication and technology | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |
| Research publications | 1 | 2 | 3 | 4 | 5 | | | | | | Don't know |

SECTION D

Q20. How important is the execution of the new service development stages in your hotel.

Use the scale in such a way that “1” would indicate that the aspect is not important at all and that “5” would indicate that the aspect is very important.

| | Not important | | Very | | | Don't know |
|--|---------------|---|-----------|---|---|------------|
| | at all | | important | | | |
| Business strategy development or review | 1 | 2 | 3 | 4 | 5 | Don't know |
| New service strategy development | 1 | 2 | 3 | 4 | 5 | Don't know |
| Idea generation - screen ideas against new service strategy | 1 | 2 | 3 | 4 | 5 | Don't know |
| Concept development and evaluation – test concept with customers and employees | 1 | 2 | 3 | 4 | 5 | Don't know |
| Business analysis – test for profitability and feasibility | 1 | 2 | 3 | 4 | 5 | Don't know |
| Formation of cross functional teams | 1 | 2 | 3 | 4 | 5 | Don't know |
| Service development and testing – conduct service prototype test | 1 | 2 | 3 | 4 | 5 | Don't know |
| Process and systems design and testing | 1 | 2 | 3 | 4 | 5 | Don't know |
| Market testing – test service and other marketing mix elements | 1 | 2 | 3 | 4 | 5 | Don't know |
| Personnel training for the service delivery workforce | 1 | 2 | 3 | 4 | 5 | Don't know |
| Commercialization | 1 | 2 | 3 | 4 | 5 | Don't know |
| Post launch evaluation | 1 | 2 | 3 | 4 | 5 | Don't know |

Q21. How much does your hotel currently spend on innovation related activities? **(Please choose one)**.

- Less than 5% of sales
- Between 5-10% of sales
- Between 11-15% of sales
- Greater than 15% of sales
- No spending on innovation initiatives
- Do not know

Q22. In general, what is indicative of the effect of your hotel's innovation-related actions/decisions? (Please choose one).

- They have added to profit
- They have subtracted from profit
- They have broken even – neither adding to nor subtracting from profit
- My hotel does not engage in innovation-related activities.
- Don't know

Q23. Overall, has your establishment developed a clear business case or proven value proposition for addressing innovation?

- Yes
- No
- Unsure
- Have tried but too difficult to develop

Comments/Suggestions:.....
.....

Please include your email address below if you would like to receive **aggregated results** of the study.

Email: _____

THANK YOU