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Chapter

Expectancy Models and Work Related Service Innovation and Service Quality Orientation as a Business Strategic Tool in the Tourism Sector

Abigail Chivandi, Michael Olorunjuwon Samuel and Mammo Muchie

Abstract

Service innovation and service quality have become important aspects as business strategic tools and for leveraging economies of scale in emerging countries in the Southern African Development Community (SADC). They have become pivotal drivers of the global economic increase in the hospitality and tourism service sector and in shaping the industries towards successful business strategic tools. In the SADC countries, such as South Africa, Zimbabwe, Zambia, Namibia and Lesotho, service innovation and business performances in the tourism/hospitality sector contribute immensely to the economies and make a significant contribution to the increase in gross domestic product (GDP) of the countries. Additionally these concepts also provide the necessary integration of the service sector, economic theories of the industry as well as quality service innovations that adhere to quality standards in the tourism and hospitality sector. The tourism/hospitality sector forms the basis for tourist satisfaction which is a key driver in profit making, financial performances, tourist retention and tourism destination reputation regionally, and internationally.

Keywords: service innovation, service quality, strategic tool, orientation, business performances, tourism sector, hospitality sector

1. Introduction

In today's world, the service industry has become an important player in the economies of countries in the Southern African Development Community (SADC) [1]. The service industry has become a critical driver of growth in the tourism/hospitality service business [2–5]. The study gives an insight for determining the influence of service innovation orientation on alignment with business performances and strategic tools in the tourism/hotel sector. Provision is made for channelling and providing an in-depth knowledge in the service innovation orientation that would enhance the tourism/hospitality industry in addressing downturn specific

opportunities that enable companies to flourish in downturns/turnaround strategies frequently and by also leveraging crises to reinvent themselves, proactively exploring new avenues for growth and new innovative ideas. The tourism and hospitality industry falls under the service industry and has been reviewed as a critical driver of growth in the SADC region [2–5]. The sector, through the medium of the tourism and hospitality sector provides services, including among others, food and beverage, tourism attractions, events tourism, sports tourism, medicinal tourism innovations, entertainment and accommodation to both local and international tourists. While it is critical to ensure quality service delivery in all services provided by the tourism/hospitality sector, tourists to the holiday resorts need to be assured and have the right to expect the services they are provided with to be of high quality and increase business performance and also contribute to the enhancement of GDP [6]. Globally, tourism and hospitality service industries consistently and constantly review their operations in order to create service innovation, provide quality service and value creation by using models such as the Service business model and Business model Innovation [7]. While at regional level, SADC member states that are affiliated, based in the tourism and hospitality sector, pursue service business innovation and business model innovation, the literature provided in the manufacturing sector cannot help us understand the service business innovation orientation, strategic management and service quality processes in the tourism and hospitality service industry because of the tourism/hospitality service characteristics that are unique and complex. There is a lack of systematic research on the topic of the SBIO [8] at regional level within the tourism industry yet the tourism/hospitality business service contributes significantly to global economic growth [7]. The creation of value, redefining the products can be easily done and has been done using the service innovation and strategies in emerged and emerging countries by the manufacturing industry [9]. In the service industry, the service is characterised by services that are intangible and invisible; this is also evident in the separation of consumption of tourism/hospitality services *vis a vis* to its premises. The nature of the tourism/hospitality service offering is composed of high fixed cost, intangibility, perishability, heterogeneity, inseparability, simultaneous production, and high consumer involvement in co-production [10]. There is intense competition at international level under which tourism services and processes are conveyed and technological shifts that demand new competitive approaches. There is a dearth of information and knowledge on the innovation orientation, service quality, business establishment of service innovation in the tourism/hospitality services in SADC region.

In the SADC countries, service business innovation in the tourism/hospitality sector is crucial to the economy [2]. Service business innovation makes the strongest contribution to the rise and integration of the service sector through economic theories of the industry. Lovelock and Gummesson [11] argue that the characteristics of services are unique and require new managerial approaches. The importance of service today contributes the highest share of the gross domestic product (GDP) in emerging economies [8]. Due to the fast potential growth in tourism/hospitality, companies have to make a paradigm shift on their service offering from just "mere" service offering to innovation orientation whilst producing quality services [12]. Unlike in the manufacturing industries where the focus is on producing tangible products with little or no emphasis on innovation, trends have shown that there is a dire need for tourism/hospitality service providers to shift focus from producing services that are merely marketing oriented to services that are innovation (recreating and redesigning) oriented [12].

At both the regional and international level, service innovation in the tourism/hospitality industry sector has become the key driver in profit making, financial performances, customer retention, hotel reputation and the basis for customer

satisfaction [8, 12]. However, the global services are not only composed of the competitive market, but by the rapid change in destination marketing strategies [13, 14]. Thus, amid global competition, service marketing organisations are looking at innovative ways to put their market in the best business strategic position in the tourism/hospitality sector [12]. Shifting tourism segments and the response to changes in preferences has led the tourism/hospitality sector to refocus on the changes in innovation in which the business operates as well as the socio-political and economic environment. There is a need for service business players in the tourism/hospitality sector to appreciate innovation, not only in the service commodities and its processes, but to realise the new changes in service and business performances as key drivers to achieving competitive advantage, market share and business opportunities arising from service innovation orientation [15]. Service business innovation (SBI) has many dimensions and many stages, inclusive of changes in business preferences and market/business strategies that improve the current business system and at the same time recreate new ways of doing business [16] (**Figure 1**).

Most of the research that has been done on business innovation has focused on manufacturing industries [17]. Manufacturing industries are characterised by the production of tangible commodities whose production is driven by the commercialisation of technologies [17]. Thus research findings on the impact of business innovation in the manufacturing sector cannot be applied directly to the hospitality/hotel service sector due to the differences in the characteristics of the two businesses. The tourism/hospitality service sector is characterised by the simultaneous production and consumption of services and products which are typified by their intangibility, heterogeneity, inseparability and perishability [7, 11]. Additionally, the consumption of tourism/hospitality services and products is typified by a high degree of the consumer's involvement in co-production [7, 11]. Literature on the service business has gaps on the concept of service business innovation in the tourism/hospitality sector despite innovation being seen as one of the strategic instruments through which the intangible could be made "tangible" [18]. Compared to manufacturing industries, most of the service sector performance is based on high fixed costs, perishable inventory, and variability of customer price sensitivity. Most of the research on business innovation orientation focuses on the manufacturing sector, although the research shows service business innovation orientation could potentially affect the new business in tourism/hospitality in a positive manner [6]. Wisniewski and Lovelock and Gummesson [7, 11] point out that although existing



Figure 1.
Map of the SADC member states that contribute to the tourism/hospitality industry regionally (source: sadcreview.com).

business model innovation studies represent a useful framework for studying services innovation, more systematic research is required to integrate the service business model innovation in the tourism/hospitality industry in emerging countries [18]. There are few, if any, industries that could make a positive contribution to the economy if they were not highly innovative [19]. In the tourism/hospitality industry, innovation comes in various forms: thus:

- Product and service innovation
- Process innovation
- Logistics innovation
- Market innovation or institutional innovation

The study by Chivandi [6] interrogated the existing theoretical and empirical business innovation orientation literature and developed a sound theoretical framework for examining the influence of innovation orientation on service impact and business performance in the hotel sector, specifically to the unique and complex features of the tourism/hospitality service products. "The research constructs such as the learning philosophy, transfunctional acclimation, strategic direction, service innovation and customer retention, hotel reputation and financial performances were deemed the main players in the study". The study focused and conducted its empirical and theoretical investigation into the tourism/hospitality industry in one of the SADC member states, as an emerging country in the SADC region, with the aim of providing an appealing context in exploring the study's research problem and at filling the research gap in the service sector.

"It has been noted that for the period 2008–2009, globally the Tourism/Hospitality industry's contribution to the global economy was negatively affected by the global credit crisis" [6, 20]. The crisis resulted in a marked decrease in disposal incomes, consequently causing potential consumers of the industry's services to cut on travelling and this impacted heavily towards tourism destinations in SADC member states. "According to the World Travel and Tourism Council (WTTC, 2010), the negative developmental trend was reversed by 2010 as witnessed by the industry's estimated GDP of US$2 billion, a 0.7% increase compared to the preceding period". "At the onset of the recovery, the tourism/hospitality industry's revenue grew by 0.5% to US$5.8 billion [6, 12]." From 2010, it has been projected that the recovery of the industry will be sustained on the backdrop of improved disposable incomes by both corporations and households, resulting in increased demand of the tourism/hospitality services [8]. Coupled to the increased service demand is the positive service innovation by the industry that is envisaged to have a pull factor on consumers of the tourism/hospitality services [8]. "The contribution of the global industry to employment creation is seen to be having an upward trend, with global trends forecasting an increase from 8 to 18.6 million jobs for the industry" [6].

The WTTC forecasts that the hospitality/hotel industry's growth will lead it to be a global priority sector and that will contribute to employment creation [21]. "It is estimated that by 2020 industry's contribution to GDP will amount to US$3.7 billion which represents a 4% increase in terms of annualised growth rate but with an overall Tourism/Hospitality GDP expected to be at US$104.7 billion by 2020" [21]. While recovery of the tourism/hospitality services sector commenced in 2010 post the global credit crisis, it has been forecast that the rate of recovery would be faster in the emerging countries in the SADC member states when compared to emerged countries [21], thus emerging countries, the Southern African region

included, are forecast to become the major tourist destinations. "Despite the assertion that growth of the Tourism/Hospitality services in developed countries post 2009 is slower to that in emerging countries, the Imara report further contends that the increased focus by the developed countries on Tourism/Hospitality, service innovation will stimulate increased consumption of the industry's services" [20]. Furthermore, the study is expected to improve the tourism/hospitality service offering as a whole using the best innovative strategic tools that are available during the times of economic hardship as well as competing and meeting standards at a global level. Finally, this study serves as a baseline for future innovation in the hospitality sector and knowledge in service innovation and business performances in emerging countries (SADC). Deducing from the above information, the study is grounded on the following research constructs and theories.

2. Literature review and theoretical grounding of the constructs

Tourism/hospitality theories can be stated as the following: social exchange theory, an expectancy theory of motivation, the Otus theory of demand and supply, rational exchange theory, practical theory of motivation, management theory, service marketing theory, and theory of innovation, learning theory and Marlow's hierarchy of hotel expectations.

2.1 Service innovation orientation in tourism/hospitality

"Innovation orientation is viewed as a strategic orientation that influences organisational innovation in the hospitality/hotel sector and it has a diversity knowledge structure." Hurley and Hult [22] describe innovation as the firm's willingness to learn new ideas and capacity to change managerial systems. Innovation in the service concept is driven by the 6Vs: value service creation, value service manoeuvring, value service capture, value service quality, value service delivery and economic value [11]. Innovation in service provides an understanding of strategy execution, revenue and profit sources, and financial implications in the service industry [11]. "Innovation implies the new creation in service business that results in the improvement of commodities in favour of the customer and impacting positively on business performances".

"Service innovation describes a unique way of presenting services in an ordinary manner, or the unique or better combination of the service production elements so as to attract customers and grow business in terms of profits and other benefits such as the customer value and customer attraction" [18]. "Tourism/Hospitality services are characterised by intangibility, inseparability, heterogeneity and perishability" [13]. "Service also involves processes and resources to benefit the customer and entails a co-creation model of value creation that represents an interaction between providers and customer". The intangibility aspect of the service is that it cannot be physically touched, but can be felt and experienced. For instance, in a "hotel, a customer can experience a meal". So there is a dire need for the service offering to have a different strategic tool and the business model innovation must be able to address the service characteristic using re-creation delivery and capturing according to Gordon [23]. "According to Gummerson (2007), perishability in service innovation means that services cannot be stored for later use, resold or returned." "When customers are few, time can be spent on the maintenance of facilities and systems administration" as suggested by Bettencourt [24]. "Brinkley [25] contends that recreation, prepositioning and redeveloping and reading up of new developments relate to business

model innovation processes and thus reinvention processes in relation to fixed cost." Namasivayam et al. [26] alluded that in tourism/hospitality, guest rooms and tourism destination centres can be redesigned in such a manner that they stand out among the basics and overcome the challenges of perishability in the service industry. "Manufacturing has smaller perishability problems compared to the Tourism/Hospitality, for example, fresh products have a limited life span [27]. Chittium [28] describes heterogeneity as the standardisation of commodities that service quality can tightly control so that the consumer can derive all the benefits before purchase occurs. Karmarkar [29] contends that the standardisation of commodities, while it is a feature of service quality, it also true in manufacturing commodities. "Using the SBMI, services can be standardised depending on the service offering [30]. Kim and Mauborgne [31] state that even though it takes the firms to divert from their ways of service offering, a service innovation attribute goes beyond that. The service innovation encounter and interactivity is not limited to services. The generality of the inseparability property for services is limited [32]. Tourism/hospitality firms like the hotels, are ideal examples of a market which could benefit from the implementation of service innovation. Service innovation is the most crucial aspect since the service lacks a sense of ownership and business model innovation comes in to address this challenge [11, 33] since the service encounter is characterised by the interaction between providers and customers. However, there are also the cases of no encounter and numerous variations and degrees of intensity in between the close encounter and the no encounter. To explain interactivity in the service encounter, the model by Gummerson [34] which portrays different roles and interactions that are critical in marketing but focusing on the customer is cited. The service encounter is not only about marketing. It is also about production, delivery, complaints, innovation and administration and the same employee often fulfils several of these functions (**Figure 2**).

Service innovation in the service industry becomes a crucial point because the hotel service offerings are the major contributors to the growth in the service sector and of the entire economy [2]. The capacity to innovate implies that there is potential in adoption and the use of innovation in the service sector is increasingly seen as a factor in determining competitiveness [35]. This capacity in the hospitality/hotel sector produces a positive relationship in alignment to the business model

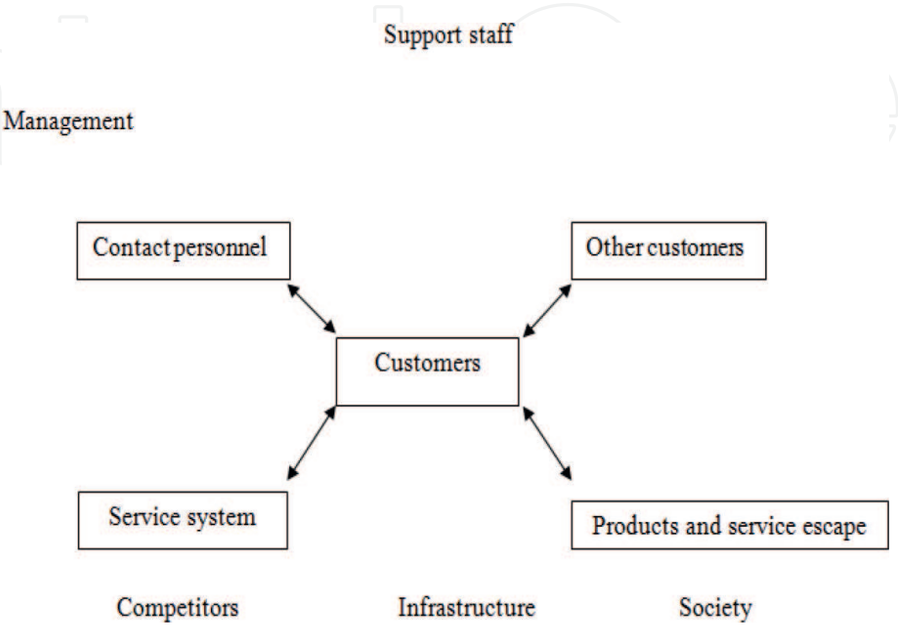


Figure 2.
Illustration of interactivity in service encounter (source: Gummerson [34]).

innovation concept in the service industry. However, there are factors that affect business model innovation in the tourism/hospitality industry. These are market factors and competition, firm (hotel) size, supplier driven logistics innovation, service innovation, and service delivery.

Durst et al. [36] argue that despite the increasing amount of literature on service innovation, there is a paucity of empirical research that interrogates the measurement of the impact of service innovation at firm level. The development of the capacity to monitor service innovation processes and the ability to evaluate the impact of service innovation is necessary prior to the implementation of service innovation strategies [36]. According to Pigner [37], a service innovation describes the value in what the firm gives to different consumers and it also portrays the capabilities needed in re-creating the service offering. It also aims at generating profitable and sustainable revenue and value. The service innovation gives a broad spectrum of the total benefits to a consumer. Chesbrough and Rosenbloom [38] posit that some of the service innovation elements are value proposition, value chain structure, revenue generation and profit margins and competitive strategy. The innovation orientation implies that service offering involves a turnaround strategy leading to service innovation [38–41]. The implementation of service innovation is used as an effective strategic tool to generate competitive advantage for the firm or to regenerate growth in saturated markets [42] since service innovation allows for creating excellence in the service offering and the development of more efficient cost structures, as well as delivery and technology systems [10].

2.2 Business model concept

The process of business model construction is a part of business strategy. The creation, delivery and capture of value by an organisation is indicative of the organisation's business model innovation orientation [43]. Literature is loaded with diverse definitions and interpretations of a business model. Some define business models as "the design of organisational structures to enact a commercial opportunity" [44]. Others extend the "design logic" by emphasising mechanisms by which entrepreneurs create and sustain successful growth of firms [45]. The establishment of any business is premised on a particular business model that fits into its business units and gives a description of the architecture and capture mechanisms employed by the business enterprise [46]. Importantly, the business model describes the manner by which the business enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit [46]. Furthermore, the business model is utilised by management to hypothesise on customer wants, and how an enterprise can organise to best meet customer needs [46]. Chen [47] asserts that business models operate as recipes for strategic tools and creativity.

2.2.1 Business model components

The business model innovation (BMI) model is composed of six critical elements as depicted in **Figure 3**. The BMI model is largely used by the manufacturing industry rather than the service industry.

2.2.2 Business model innovation occurrence

The business model design incorporating themes of the design perspective and design content give rise to business model occurrence [14]. While design themes focus on the business' principal value creation drivers; the design content interrogates the planned activities providing scaffolding and sequencing of the activities [14].



Figure 3.
BMI model (source: Teece [45]).

2.3 Tourism/hospitality theories

Hospitality is having a core which addresses the management of food, beverages, accommodation and entertainment [48]. It is also an act of welcoming kindness or offering towards a stranger in the form of food and entertainment [49]. Hospitality theories can be stated as the following: social exchange theory, an expectancy theory of motivation, the Otus theory of demand and supply, rational exchange theory, practical theory of motivation, management theory, service marketing theory, theory of innovation, learning theory and Marlow's hierarchy of hotel expectations.

2.3.1 Social exchange theory

The theory is premised on the social behaviour through an exchange process and the exchange entails maximisation of benefits and minimisation of costs [50]. The theory states that an individual can predict the potential advantages and disadvantages of social relationships and when the disadvantages are more than the advantages, it becomes costly and portrays negatively in monetary value and time [50]. A benefit from the relationship comes in the form of fun, friendship, companionship and social support. However, Cook and Rice [51] contend that the theory hinges on the realisation that any form of interaction that elicits disapproval can be proven by computing the level of reward or punishment emanating from interaction. This observation is in agreement with Crossman's [52] formula on the prediction of individual responses from given interactions. In the hospitality/hotel context, management can interact with potential customers as a way of building social relationships and at the end, gain profits and realise repeat purchases of the hotel services and products. Through social exchange theory, management of the hotels is also able to position services using possible strategies that can help in the financial performances and the hotel reputation.

2.3.2 Expectancy theory

Osteraker [53] argues that, in the tourism and hospitality industry, the theory focuses on processes that target employee motivation and the achievement thereof. Fundamentally, the theory facilitates, via a framework, the assessment and evaluation of employee knowledge, skills and attitudes [54]. Van Eerde [55] contend that the expectancy theory enables management to assess accrual of internal and external rewards to individual employees in alignment with performance. It is argued that more attitudinal as opposed to behavioural preferences have a stronger link with the expectancy theory due to biases associated with self-report measures [56, 57].

In agreement with Van Eerde [55], Tien [58] points out that the expectancy theory facilitates the measurement of employee motivation. Sansone and Harackiewicz [59] contend that the expectancy theory is fundamentally a "process theory" as it deals with decision-making processes in the determination of the level of employee motivation and its (motivation) relationship with set productivity goals. Hotel employees need to have job knowledge, learning philosophy, time management and intelligence in executing their jobs and to possess certain skills that help during the processes in delivering the services. The theory applies specifically to the hotel employees rather than the hotel management. Without motivation, the hotel employees will not succeed in their career endeavours and this will also reflect on poor performance and the hotels' reputation and financial performances.

2.3.3 The Otus theory

The Otus theory of hotel demand and supply is premised on the size and structure of the hotel in a specific period [60]. It stipulates that there is a positive relationship between the contribution of service business to GDP and the demand of domestic leisure for hotels [12, 60]. Additionally, the theory states that the greater the hotel supply in terms of size and structure, the greater the concentration of hotel in brands [60]. Due to the changing environment and trends in the hospitality industry, the Otus theory, is helpful in that, in order for the hotels to operate and contribute to the GDP, there is a need to come up with a strategic direction that can address the changes. Service innovation can come into play as a solution. Knowles [61] states that the macro- and micro-environments of the tourism and hospitality industry experience tremendous changes that affect business performance and bring about challenges. In tandem with the observations of Knowles [61], Nicola [62] reports that the tourism and hospitality industry is experiencing transformation which has made life more globally oriented, uncertain and dynamic. The emergence of new markets, the interaction between emerging and emerged economies and the resultant extension and intensification of globalisation and market changes in business have increased competition at a global level [63]. The climatic changes and sustainability in the tourism and hospitality industry whereby "green argument" is introduced, forces new consumer behaviours that impact more on perspectives [64], thus impacting on consumer decisions on spending on hospitality/hotel industry services.

2.3.4 Management theory

Mahmood et al. [65] contend that management theories come in a variety of forms: classical, humanistic and situational management theories. The classical management theories are characterised by salient features that include chain of command [64], division of labour [66], unidirectional downward influence [66], autocratic leadership [66] and predictable behaviours [67]. Atkinson and Stiglitz [68] contend that the need to focus on authority and structure for employees gave rise to the management theory. The hierarchies in the theory are targeted to instill discipline, control planning, organising within the workplace [69]. The business purpose of the management theory is to measure work performance and acknowledge corporate culture [70]. Management theories in the tourism/hospitality sector are derived from the classical management theories and translate into service marketing theories which inform tourism/hospitality management practices [18, 71–76]. With regard to planning, the theory advocates that management executes a consumer needs analysis for the purposes of satisfying the observed consumer needs. Management is tasked

to ensure that their subordinates are customer service oriented and deliver quality service [77, 78]. In a tourism/hospitality set up, labour is organised into specialised service units, for example, restaurant services, tourist attractions, housekeeping and accommodation and entertainment.

2.3.5 Maslow hierarchy of hotel expectations theory

Maslow hierarchy of hotel expectations theory expectancy theory is founded on Abraham Maslow's 1943 ground-breaking research paper into his hierarchy of hotel expectation. According to Mogelonsky [79] the hotel expectancy theory describes consumer expectations, perceptions and reactions when not satisfied with the service provided. Beginning from the bottom to the top of Maslow's hierarchy, the theory seeks to satisfy guests' needs in accordance with the pyramid. At the base is the expectation to fulfil physiological needs exampled by availability of bedding and breakfast. This is followed by safety needs, which in a hotel set up, could be the expectation for the provision of healthy food, shelter and security. The next level of expectation would be the need to satisfy social needs, for example, respect of guests' privacy. Following the satisfaction of social needs, in the hospitality/hotel set up, the next level would be to meet self-esteem needs, such as the building of reputation and importance. The last level would to be to meet the self-actualisation needs. According to Siguaw et al. [80], in tourism/hospitality, a learning philosophy denotes the acquisition and transfer of knowledge, skills and attitudes that facilitate the tourist destinations/hospitality to innovate. Practically, learning philosophies in tourist destinations/hospitality are concerned with judicious implementation and maintenance of operational standards that become embedded in all the employees of the tourism/hospitality [81]. Thus, a learning philosophy is reflective of the managerial behaviour and its genuine belief in the contribution of employees.

2.3.6 Theory of reasoned action

According to Buttle [82], the theory of reasoned action (TORA) is anchored on the understanding that humans make rational decisions based on the factual information available to them. The theory posits that human decision making is informed by the possible implications stemming from the execution of the decision. In tourism/hospitality, TORA could be used as a business/marketing strategic tool [83] as it could be used to assess the variance in the intention to consume tourism/hospitality services on the next business trip. Cedicci and Trehan [83] further assert that of the two predictors in the TORA, attitudes towards the act are the most significant contributor, thus it could be inferred that attitude rotates around service quality expectations and reflects the implications for business/marketing strategy [84].

2.4 Strategic direction in tourism/hospitality

Strategic direction can be defined as the extent to which innovation orientation takes up a turnaround strategy towards achieving service innovation in an organisational set up [21]. It also gives organisational direction in alignment with factors like planning and designing and recreating so that innovation takes place [85]. Strategies are directional vessels that reflect the existence of the hotel on a long and short term basis. They are more numerate and plans can also be viewed as an expression of strategic direction of the hotel to meet the needs in a particular market. Strategies may be made on how to compete and choose markets and decisions on advertising and people to employ in tourism/hospitality. Hurley and Hult [21] denote that service innovation entails redesigning and recreating strategies

that provide for the best solution, especially in difficulty economic situations such as those of emerging countries. In order for tourism/hospitality to achieve service innovation, there is a dire need for innovation orientation strategies to be in alignment with the planning, designing and recreating and responding to all the service innovation factors [85], if planning, designing and recreating are considered in tourism/hospitality as measurements in attaining the service innovation and the output performance. Superior service may discourage, but not prevent, customer defections to competitors, hence the requirement for businesses to have an effective customer retention programme [86]. In tourism/hospitality retention: (T/HR) is a perpetual non-financial measure of the business' (hotel's) capability to maintain consumers of its products [86]. The goal of T/HR is to help companies retain as many TOURISTS as possible through customer loyalty and brand initiatives [42]. T/HR retention begins with the first contact a TOURIST has with a company and continues through the lifetime of the relationship [42]. T/HR involves processes and activities undertaken by the company to prevent the TOURIST defecting to competitors. When effectively practiced, TOURIST retention creates competitive advantage for the business by: increasing revenue inflows towards the service offering, lowering customer acquisition cost and increasing referrals to the business [87]. TOURIST retention builds on the percentage of customer relationships which, once established, are maintained on a long term basis in alignment with the service offering and tourism/hospitality reputation that stimulates RE-PURCHASE INTENTION rates that are important in volatile industries characterised by fluctuating prices and product values. These positive attributes of an effective CR scheme on business performance are especially true to the tourism/hospitality industry as proven by previous studies that have established a positive link in customer retention, BUSINESS performance and market performance [88] (**Figure 4**).

2.4.1 Occupancy rate

Occupancy rate has a bearing on tourism/hospitality business performance. According to Fitzsimmons and Fitzsimmons [89], occupancy rate is the number of hotel rooms taken out in comparison to the total number of hotel rooms. For example, a hotel with a capacity of 100 rooms occupied would have an estimated 75% occupancy rate. **Table 1** shows the global hotel occupancy rates in 2012 [90].

2.5 Reputation in tourism/hospitality

Literature on corporate reputation centres on reputation as a construct [91]. Although there are several definitions of reputation [91–94], the common features

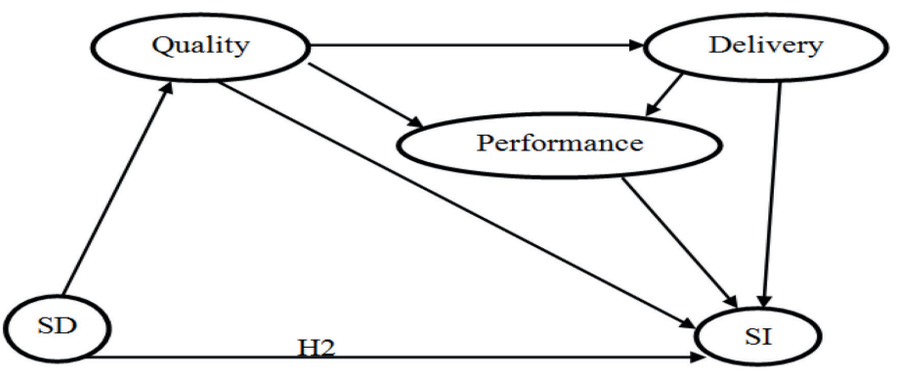


Figure 4.
Illustration of strategic direction and service innovation relationships in tourism and hospitality (source: Chivandi [6]).

	Asia Pacific	Americas	Europe	Middle East and Africa
Jan 12	60.5%	49.7%	51%	55.3%
Feb 12	68%	57.7%	57.7%	62.4%
Mar 12	70.7%	63.5%	63.4%	64.7%
Apr 12	68.9%	61.7%	65.5%	63.5%
May 12	66.7%	63.3%	70.2%	60.2%
Jun 12	67.3%	69.8%	73.1%	58.3%
Jul 12	69.4%	69.8%	71.8%	56.6%
Aug 12	69.8%	67.8%	71.1%	54.1%
Sep 12	68%	63.3%	76.3%	60.7%
Oct 12	70.3%	64.1%	71.1%	65.4%
Nov 12	71.6	56.9	64.8	65.7
Dec 12	66.3	49.2	54.5	57.7

Source: Statistica USA [90].

Table 1.
Global hotel monthly occupancy rates in 2012.

of reputation as a concept revolve around the perception consumers have of the company, based on the company's past performance in service delivery [95–97]. There is a perception that the company's past performance in service delivery influences its future prospects, thus reputation impacts on the stakeholder and customer's view of the company [94–96]. Fombrun [98] contends that reputation hinges on perception and trust about the company's ability to maintain a currently acceptable service offering in the future. This ability is argued to influence the level of trust and appeal that the company has in comparison to its competitors. Reputation has a bearing on service quality, corporate image and governance, labour relations and business performances [99, 100]. As an important aspect of organisational set up, reputation creates an environment that allows the organisation to establish a competitive advantage and lasting relationships with stakeholders [101]. Although deemed an intangible resource, a good reputation over and above enabling an organisation to maintain competitive advantage [99, 100], capacitates the organisation to enjoy higher customer retention rates and an increase in sales [102]. A good reputation is a vital resource that provides the organisation with a basis for sustaining competitive advantage, given its (good reputation) valuable and hard to imitate characteristics [99, 100]. In a hotel set up, a good reputation and an attractive environment are among the key drivers of repeat purchases and improved business performance. From a business perspective, reputation impacts on customers, investors, employees, business partners and the media. The impact that reputation has on business performance is central to the genesis of a positive corporate image, as illustrated in the schematic diagram below.

The empirical evidence is shown in the theory of hotel management where managers employ different strategies within an organisation in order to gain profits and rewards (**Figure 5**).

Reputation refers to a matter of perception and trust about the company's past actions and future prospect's value that describe the firm's overall appeal to all its key constituents when compared to leading rivals [98]. As an important aspect of organisational set up, reputation creates an environment that allows the organisation to establish a competitive advantage and lasting relationships with stakeholders [101] by positively impacting on service quality, corporate governance, employee

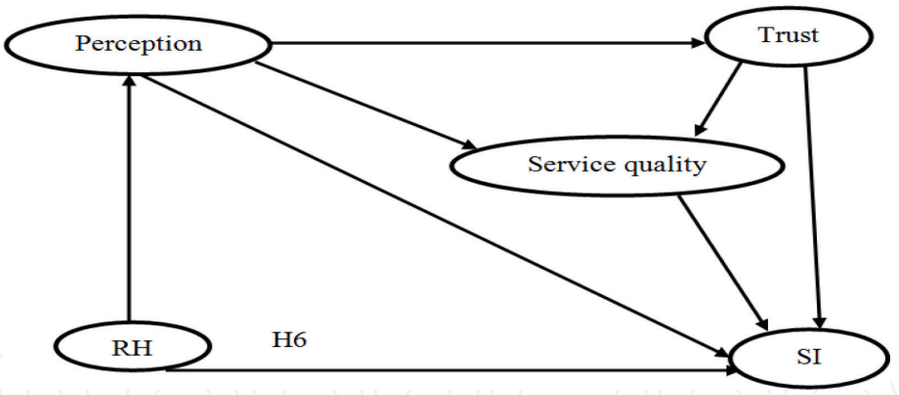


Figure 5.
Illustration of reputation and service innovation relationships in tourism and hospitality (source: Chivandi [6]).

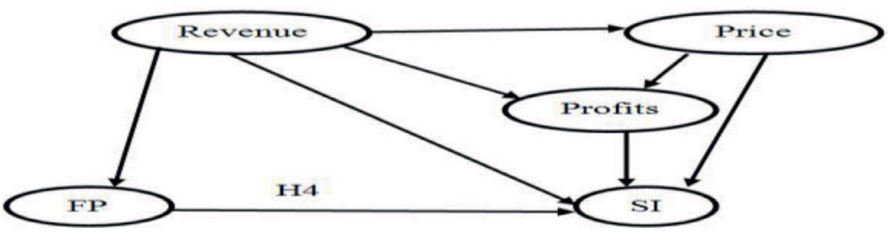


Figure 6.
Illustration of financial performances and service innovation relationships in tourism and hospitality (source: Chivandi [6]).

relations, customer service, intellectual capital and financial performance [99, 100]. In service innovation, a good reputation is identified as an intangible resource which may provide the organisation with a basis for sustaining competitive advantage, given its valuable and hard to imitate characteristics [99, 100]. The benefits of a good reputation include higher customer retention rates and associated increased sales and product selling prices [102] (**Figure 6**).

Gupta and Zeitham [103] assert that measures into financial performance, inclusive of factors such as revenue, profit, stock prices, reputation, customer loyalty and satisfaction, constitute business performance. The financial measures can be further broken down into average occupancy rate, lodgings index, and market share index in hospitality/hotels [104].Customer retention and hotel reputation refer to perceptional measures [9]. Ottenbacher and Gnoth [105] contend that in the hospitality/hotel sector, financial performance strongly impacts on service innovation.

3. Conclusions

Technological superiority by itself is no longer a panacea for firms to sustain a leading edge in the marketplace. The development of service marketing as a service strategic tool in tandem with service innovation is critical to the development and sustenance of competitive advantage, although competitive advantage on profitability is also affected by the number of service divisions which are representatives of individual profit centres [105]. According to Davis [95], service can be expressed in qualities: search qualities, experience qualities and credence qualities. According to Schwaiger [91] suggested a pyramid model of service quality and delivery that includes the internal service marketing and interactive service marketing. Internal service marketing entails marketing efforts aimed at service firms in order to empower them to produce a better service offering [91]. The interactive service

marketing describes the interrelations between the employee and the customer. Service innovation entails a better way of executing a service that (better way) hinges on the utilisation of unique and better combinations of the service production elements. Overall, this translates to increased customer attraction and retention thus contributing to business growth [18]. Innovation in services springs from managerial techniques and the introduction of innovation and service innovation. A workforce empowered with a set of creative and knowledge skills is a key element in service innovation. In terms of the additional workforce's skills, many service firms depend on external expertise for innovation. Pigner [37] notes that the service business model depicts the value in hotel services that gives and portrays the capabilities needed in creating marketing innovation. The model also aims at generating profitable and sustainable revenue and value propositions. Over and above delivering improved service to the consumer, service business innovation improves business performance [38]. Value chain structure, revenue generation, market segments, value network, value proposition and competitive strategy constitutes business model innovation that has been used in the manufacturing sector as opposed to the services sector [38]. Service innovation and service quality orientation as a business strategic tool in the tourism/hospitality sector brings a positive relationship. The research constructs such as the strategic direction and service innovation relationships are positively significant and other factors such as quality performance and delivery also contribute towards service innovation in tourism and the hospitality industry, thus affecting the business strategic direction positively [6] and furthermore, the discussions in this study imply that players in the tourism and hospitality industry in emerging countries must take into consideration important decisions concerning certain practices and policies. Contribution to practice - another important expectancy is that a research must contribute to practice a relevant research quality measure, particularly if the investigation is mostly in the domain of applied research. This type of contribution acknowledges the need to provide relevant information to practitioners or policy makers, so that the research implications and inferences can assist them in decision making that relates to business or societal issues. As marketing management is applied research, applicability to practice necessitates a context-specific and robust classification during the theory building phase. In addition, application of service marketing to practice has been a common topic in marketing management research. Hence, recently it has become essential to connect theory with practice. Accordingly, this study contributes to practice by helping marketers and policy makers to devise appropriate service innovation marketing strategies and policies respectively. Due to the fact that this study provides fresh and contemporary evidence, service marketing practitioners and policy marketers in the tourism/hospitality industry are bound to make informed decisions, supported by reliable information. Managerial implications in this study imply that a good research project often helps in guiding important decisions on certain practices and policies and that also helps management and all the top team involved in making the best decisions, strategies, policies and planning. In a nutshell, the awareness of the harmful effects of the PESTEL environment and natural climate changes has created new opportunities and challenges for both policy makers and players in the tourism and hospitality sector regionally. These also help management and all the team members involved in making the best informed decisions, strategies, policies and plans.

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Author details

Abigail Chivandi[1*], Michael Olorunjuwon Samuel[1] and Mammo Muchie[2]

1 University of the Witwatersrand, Johannesburg, South Africa

2 Tshwane University of Technology, South Africa

*Address all correspondence to: abigail.chivandi@wits.ac.za

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