Innovations in Hospitality and Tourism Industry: A Systematic Review

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Abstract

Tourism is a vital industry in many economies round-the-world. Being one of the world’s largest business sectors, tourism industry employs people, boosts trade, and brings forth well-being all over the globe. By the end of 2029, tourism sector is predicted to employ 420 million people (11.7% of total employment), growth of 2.5% per annum over the time. The industry should rise at an annual rate of 6.5% for the coming decade to 4,337.8 billion in 2025 or 6.9% of the total. Although growth continues, hotel companies know that they must continue to think and work strategically to stay ahead of their competitors. As in any industry, competition in the international hospitality industry is intense and to stay ahead, hoteliers have to strive ahead by means of differentiated products and services to attract and retain their customers. Given the increasing supply, hotels need to make deliberate and consistent efforts to innovate so as to sharpen their competitive edge. It is no surprise that now and then hotels are able to offer something unique—something different to excite both current and prospective customers. As innovation has become so important to renewing and revitalizing service products, it is important to explore the recent innovative that have taken place in the hospitality industry in a number of functional areas in recent years.

Keywords: Hospitality, Tourism, Innovation, Technology, Industry.

Introduction

In contemporary economies and during the current period of structural changes, the service sector has been gaining recognition, as it offers opportunities for growth and job creation. A strong dynamism in terms of innovation and employment growth can be seen in service businesses (Bogliacino et al., 2013). Consequently, the creation of new ideas and innovation should be properly stimulated and managed to address the success of the service sector. Many authors agree that innovation is a critical source of competitive advantage and consequently of performance in the current continuously changing environment (Dess and Picken, 2000; Jimenez-Jimenez and Sanz-Valle, 2011; Kyrgidou and Spyropoulou, 2013; Ngo and O’Cass, 2013; Tushman and O’Reilly, 1996). According to studies in the area of management, innovation
capability is one of the most significant factors of a firm’s performance (Cillo et al., 2010, Garcia-Morales et al., 2012; Kafourosa et al., 2008; Mone et al., 1998; Trunk Širca et al., 2013). Some authors (Anderson et al., 2014; Bogers et al., 2010; Keupp et al., 2012; Peres et al., 2010; Prajogo and Sohal, 2001; Tang, 1998) mainly addressed innovation in manufacturing, while Carlborg et al. (2014) focused on innovation in the service industry.

Considering the insufficient literature on innovation in tourism, this study was conducted in an effort to fill this gap. The phenomenon of innovation has received attention from both practitioners and researchers, but their efforts remain disconnected from each other. The traditional narrative literature reviews have been frequently criticized for their lack of relevance, as they have typically employed a personal and usually subjective methodology (Fink, 1998; Hart, 1998). The aim of this paper is to present the state of academic research in the area of innovation in hospitality and tourism. To achieve this goal, an interdisciplinary, systematic review of key journal articles in the Web of Knowledge database up to 2018 was conducted. Thus, this paper seeks to fill the need for a comprehensive review of papers dealing with innovation in hospitality and tourism, most of which have been published only recently. The paper concludes with a synthesis of findings, a discussion and suggestions for future research.

**Objectives of the Study**

The study has been conducted to achieve the following objectives:

- To analyze the innovations and changing trends in the hospitality industry.
- To highlight the challenges faced by the hospitality in bringing the innovations in the industry.

**Research Methodology**

The research was limited to the papers published in peer-reviewed journals included in the three databases of the Web of Knowledge: The Science Citation Index Expanded (SCI), the Social Sciences Citation Index (SSCI), and the Arts & Humanities Citation Index (A&HCI). All papers available in the SSCI database as of the date of the search (December 19th, 2019) were taken into consideration. The keywords selected for the search were “innovations” and “tourism”. When searching for “innovations” in the title and “tourism” in the topic (title, abstract, and keywords), the search generated 85 results; when searching for “innovations” in the topic and “tourism” in the title, the search generated 159 results. Finally, when searching for both “innovations” and “tourism” in the topic, 315 articles were found.

**Review of Literature**

Tourism has some key characteristics for developing new definitions and other typologies of innovation. The importance of innovation for tourism is multidimensional, as is the phenomenon of tourism itself. Innovative tourist products bring a high degree of added value. By increasing
the capacity for innovation, a tourism supplier can become increasingly exclusive. Tourism destinations are forced to plan and implement innovative approaches in order to attract potential customers (Santos, 2014). In this way, a destination begins to offer experiences that have not previously been made available. This helps the providers to gain a unique advantage in order to clearly differentiate themselves from the competition.

What is the primary generator of innovation in hospitality and tourism? Today’s tourists are more experienced and flexible than tourists in the past. Their life styles and holiday patterns support the need for innovation, and responding efficiently to increased tourism demand is an opportunity for tourism companies (Crnogaj et al., 2014). This demand is a powerful generator of growing competition in the global tourism market; therefore, innovation is a key factor in tourism development and success. Customers (i.e., tourists) are fundamentally necessary for tourism sector innovation. To be successful, tourism firms have to continuously adapt to demand-side changes (Weiermair, 2006). Mature tourism firms and destinations are obliged to innovate and to offer new or renewed products/services in order to remain competitive (Sheidegger, 2006). Research on innovation in the hospitality and tourism industry is rapidly extending into new areas, and the existing literature has identified various areas of innovation in tourism (Hjalager, 2002). Innovation has been examined by Stamboulis and Skayannis (2003) and Volo (2005) at the destination level, by Orfila-Sintes et al. (2005) and Weiermair et al. (2005) within the hotel industry, and by Pikkemaat and Peters (2005) and Pikkemaat and Weiermair (2007) within other small and medium-sized tourism enterprises. The authors agree that innovation in tourism is particularly beneficial in creating an advantage for tourism destinations in competition with other destinations (Hjalager, 2002; Ritchie and Crouch, 2000; Volo, 2005).

Tourism firms are forced to innovate continually because of the speed and ease with which their competitors can copy successful ideas. It is therefore essential to identify innovations that are difficult for competitors to copy (Vila et al., 2012). Within the literature on innovation, much has been written about product innovations (new products or improved existing ones) and process innovations (business models, including external processes and service enlargement). In the area of tourism, other types of innovation have been suggested.

An intriguing approach was presented by Abernathy and Clark (1985), who developed a model identifying four types of innovations in tourism: (1) regular (investing to foster productivity, to train and enable staff to be more efficient and to raise quality and standards); (2) niche (attracting entrepreneurs to exploit business opportunities and encouraging firms to network on the market and develop new products by combining existing ones); (3) revolutionary (employing and diffusing new technologies to implement new methods on the market); and (4) architectural (developing new events and attractions introducing there definition of infrastructure and the efficient transfer and use of new research-based knowledge, with all processes performed in the most optimal way). The implementation of new products in tourist firms is also connected with achieved performance. For example, hotels with greater numbers of new products are the most successful in terms of net sales revenues per room (Ivanković et al., 2010). Hjalager (1997),
in addition to product/service and process innovations, identified management, institutional, and information-handling innovations. Later, Hjalager (2010) proposed five different types of innovations in tourism: (1) product or service innovations (changes that can be directly observed by the tourist and other customers, with “new” meaning either never-before-seen or simply new to the particular enterprise or destination; these products and services are beneficial for tourists to such an extent that they may decide to purchase them solely based on their newness); (2) process innovations (typically backstage initiatives aimed at improving efficiency and productivity; technology investments are the key factors of such innovations); (3) managerial innovations (new ways of organizing business processes, empowering staff, compensating exemplary work with financial or nonfinancial benefits and improving workplace satisfaction; methods to retain employees are extremely valuable in the tourism sector, as it is highly labour sensitive); (4) marketing innovations (including new marketing concepts, such as loyalty programs and co-production of brands); and (5) institutional innovations (new forms of collaborative/organizational structure, such as clusters, networks, and alliances).

Essentially, these are the innovation dimensions that have been adopted or rearranged in other studies. Hjalager’s (1997) framework was used by Novelli et al. (2006), while Vila et al.’s (2012) study employed four types of tourism innovation (product innovations; processes innovations; knowledge of the market, including customer loyalty and marketing innovations; and management innovations, including changes in organizational policies and culture). However, it is difficult to clearly distinguish among the five categories of innovation (product, process, management, marketing and institutional innovations), as there is a close interplay among them. It is, for example, impossible to develop changes in marketing without technology investments, which are treated as process innovations. This confusion results in the breakdown of borders between categories (Mattsson et al., 2005; Novelli et al., 2006; Stamboulis and Skayannis, 2003). Nonetheless, these borders were respected as much as possible when grouping the papers in regard to types of innovation.

Innovations and Recent Trends

There are a number of functional areas with obvious scope for innovation in various spheres of the hospitality industry, in particular: Financial Management, Human Resource Management, Revenue Management, Technology Management, Strategic Management, Customer Relationship management, Sustainable accommodation facilities, process innovations and logistics innovations. From guest entry at the hotel to the point of exit, innovation in every segment can help to improve the guest experience and the case for investing in innovation can be summarized as follows: A happy guest leads to higher customer retention and revenue growth in the longer term. Present study focuses on a number of areas where innovations are occurring and further advances can be made. These areas are discussed below:
Culinary Innovation: “Slow Food” as a new frontier

Indian cuisine is enriched by a wide spectrum of flavors encompassing traditional cuisine and mouth-watering street food from the north-west to the coastline regions of India. To enhance the gastronomy effect, a number of Indian hotels already provide memorable dining experiences. Restaurant operations around the world provide examples of innovative operations. With rising inflation and volatility in the market, yield management systems are evolving to help chefs make best use of fresh ingredients. For example, to avoid food wastage on buffets, food replenishment can be done in tandem with live kitchens and counters. Second by switching to piped natural gas from liquefied natural gas, energy costs can be reduced. Agreements made with local suppliers and vendors also help in the management of costs (Kumar, 2012). Thus, we find that a lot has been done but more can be achieved.

Munjal, Sharma & Menon (2016) explored the advantages of introducing “Slow Food” in hotels, as one such culinary innovation. Slow Food is prepared using a recipe (documented or otherwise) that is authentic, representative of the cultural tradition of the place of origin and its people and where the method of cooking and the utensils (equipment) used are also based on traditional practices (Munjal, Sharma & Menon 2016).

Chefs also have a role to play in promoting the positive impact on health of slow food and its contribution to the sustainability agenda. In terms of logistics, managers will need to develop new supply chains and purchasing protocols to allow local vendors to fully participate in the provision of perishable goods. The new model would be to seek fresh produce on a daily basis and with minimal storage. Exploring ‘terrace farming’ initiatives may also be helpful to city hotels and managers could choose between ‘landscaping’ and ‘farming’ available green spaces, while both come at a cost, on-site farming offers an array of possibilities and benefits.

Technology Management

Today it is almost impossible to imagine one’s life without technology and the Indian hospitality industry is no exception. Several important technological innovations have changed the landscape of operations in the hospitality industry. Whether it is hassle free check-in via a lobby ambassador holding a special iPad or with the new iConcierge app on Android and iOS or handing iPads to guests that are preloaded with the iKnow Concierge software in six different languages to help guests to access a wide variety of services. An interesting example is that of The Hotel 1000 in Seattle that has introduced Hotspot rooms with heat-detecting body sensors that act as occupancy detectors. New innovations and progress in the current technological era help to ensure that the guest’s stay is easy and convenient (Social Hospitality, 2014). Some recent service innovations utilize a smartphone app in place of a conventional hotel key card and the app also facilitates easy guest check-in. Starwood Hotels & Resorts have implemented this innovation. Use of a mobile phone to replace key cards, manual check-in procedures add to the growing list of existing mobile functions like bookings made via a mobile app, self-service
kiosks, smartphone boarding passes, touch screens that may be used by the housekeeping staff to put orders, tablet menus and tablet reservations etc.

Sharma (2016) conducted research to explore how technological innovations can enhance customer experience. The findings suggest that technological innovation can help to improve competitiveness and differentiation. He also made an effort to understand deterrents to the implementation of technological innovations in hotels.

**Cost Competitiveness, Competitiveness and Sustainability**

The cost management concept as it relates to hospitality management first came to prominence in the 1990s. Precise cost management practices aid in developing strategies to prevent wastage, planning and controlling and in so doing, provide accurate, reliable and timely information to management. The hospitality industry generally utilizes activity based cost systems, activity based budgeting systems, life cycle costing, target costing and kaizen costing. Studies in this context concluded that appropriate cost management systems provide management with benefits in relation to profitability, productivity, budgeting, pricing, sustainability, performance evaluation and competitiveness (Sevim and Korkmaz, 2015). This prompts several questions: Can cost optimization be done by simply realigning processes or cost? Can costs be reapportioned and reallocated to calculate costs accurately? Can simple cost effective substitutes impact the overall cost competitiveness? Sanjeev, Gupta and Bandyopadhyay (2012) found that certain financial aspects, especially high operating costs and difficulty in raising finance, are key issues that need to be addressed by the hospitality industry. Innovations in these areas will certainly be helpful.

Vij (2016) conducted research to investigate the importance of innovative strategies to competitive advantage and found that Indian hoteliers agree that it has become imperative to control costs. Cost competitiveness is related to controlling fixed costs, variable costs and total costs. Added to this, service quality is an important factor in staying competitive in the market. As the hotel industry is susceptible to the changing preferences of customers, the best service quality initiatives lead to the creation of a new customer base and better customer retention. Most of the respondents recognized the importance of services, as happy customers are loyal customers. As customers now tend to leave reviews about their experiences on different social media platforms, a negative review is invariably damaging for the hotel (Vij, 2016).

**Customer Service Innovations**

Hospitality firms provide a good example of a market that can gain advantage from the implementation of service innovation. Managers need to be pro-active to make changes that focus on customer preferences, quality, and technological interfaces in more depth in order to stay competitive in what is a dynamic environment (Victorino; Verma and Dev, 2005). There are several obvious areas where service innovations can be implemented. However, will these innovations help to ensure that customers feel more special? Can customer service techniques
capture issues that are not tangible yet highly sensitive? Would greeting a customer in some special way make a difference? Would surprise celebrations for customers’ special events at their workplace be effective? Would a complimentary gift as the guest checks-out leave a lasting impression and build goodwill? Are there ways to make the processing of customer data more effective? Simple things can make a difference and there is much more than can be done.

Bharwani and Mathews (2016) reported on a study that sought to develop a typology to help better understand functional and experiential innovations that have and continue to be adopted by the Indian hospitality industry in recent years.

**Revenue Management**

The revenue management process relates to the sequential actions taken by revenue managers at a strategic, tactical and operational level to manage revenues. Revenue management is a particularly important area for innovative thinking and development because of the complexity of managing hotel operation issues like risk management, cost management and land management (Sanjeev and Jauhari, 2012). Hotel revenue management encompasses various metrics that help to reveal the possibilities and options for improvement in revenues. If the process is well managed and based on a comprehensive data set drawn from the hotel’s internal (operations), micro- (customers, competitors, distributors) and micro-environment it will support productive decision-making (Ivanov, 2014). Early adopters of sophisticated approaches to revenue management in the hotel industry include Hilton, InterContinental, Marriott, Sheraton, and Starwood (Jiang, 2014)

Implementing best practice revenue management strategy is clearly important to the general management of hotel operations. However, there is room for further development: What are the best innovative approaches to leveraging revenue optimization? How might an innovative price promotion make an impact on the customer? How does innovation in energy saving products leads to profit optimization? How does the hotelier focus on revenue per available room (RevPAR)? Is it through managing the cost of customer acquisition or leveraging inventory control techniques?

Guha (2016), a practitioner himself, examines some of the key trends related to revenue management and he draws out some of the managerial implications.

**Challenges Confronted by the Hospitality Industry in Implementing Innovations**

**Escalating Operating Costs**

The operating expenses are on rise because of the advent and sophisticated path industry is leading to. The costs for labor, maintenance and construction, renovation, innovative ideas, etc. are classified as major expenses for the smooth and effective running of the hospitality industry.
Various national and international hotel chains are changing their standards and lifting the bar of their hotels by offering enhanced guest services and amenities in order to gain the competitive edge in the market over their competitors which results in high operating costs. At times it is challenging for hoteliers to bring changes and innovations due to hike in implementing costs.

**Ever-changing Customer Expectations**

The topmost priority of any hotel chain is to anticipate and satisfy the customer needs. The behavior and to understand what rightly satisfy the customer is never any easy task. The customer nowadays is more sophisticated users of technology and also believes in self research while buying the hospitality product or services. The customers are no more blindly following the chain mindset and this gives rise in creating the customized and unique experiences while maintaining the bottom line. This results in adaptation of more sophisticated market approach in order to reach customer more effectively and efficiently. The true form of differentiation is quite challenging to achieve in hospitality as the luxury market is becoming more mainstream because of increasing competition.

**Natural Disasters**

The confrontation of natural disasters is major challenge to industry across the world and studies have highlighted that majority of the tourist attractions/sites are in disaster prone areas. The travelers are seen preferring the destinations that have less perceived level of risk. The post disaster situation and consequences put the destinations in a challenging position to come back or revive. The resources and reserves are utilized in renovation of local infrastructure drain out the funds that could have been used in enhancing the industry or that could have led to innovations and economic development.

**Conclusions and Managerial Implications**

This paper offers a review of the “state of the issue” regarding the existing studies about innovation in the tourism sector. This paper contributes, first, to the understanding of innovativeness in the field of hospitality and tourism. The interest in this subject is and will continue to be extensive. This review was, therefore, intended to ease this process by presenting theories and results of existing studies. The importance of innovativeness for business and regional competitiveness and success has been recognized by both researchers and practitioners. In the process of reviewing the literature, it was noted that topics in this area are significantly diverse. In the papers included in this sample, it was perceived that much remains to be done in the development of the theory of innovation in hospitality and tourism.

The hospitality and tourism sector has specific characteristics; consequently, it should not be dealt with innovativeness in this sector in the same way as in other sectors or industries. The structure of the tourism industry is unique, and its products are particular. Tourism experience depends of a series of products and services that are created by a variety of businesses.
Moreover, tourism products are of an intangible and perishable nature (Hjalager, 2002), the contemporaneousness of service and consumption is present, the tourism industry is marked by information intensity, and the human factor is of great importance (Camison and Monfort-Mir, 2012). For these reasons, tourism innovation is very different from innovation in manufacturing (Miles, 2005). Innovative activities in tourism industries are still quite limited.

According to Ronningen (2010), this can be explained by the size of the firms (mainly micro and small enterprises are operating in the tourism industry; since innovation capacity is positively influenced by firm size, small firms’ managerial systems are not adequate to support innovations; and employees in small firms have low competencies). Moreover, small and medium-size enterprises lack resources to maintain a dynamic capability on their own; thus, they depend on external resources and support (Erkus-Ozturk, 2010). Although smaller firms can be highly innovative, their small size may present an obstacle to reaching an optimum rate of innovation, and this can negatively affect the profitability of investments in R&D, market research, and new product and skills development (Pikkemaat and Peters, 2005). Small companies are also often characterized by a change-resistant staff and a conservative organizational culture. This fact can explain the wide differences between tourism companies with internal or external R&D in relation to services in general. This is why collaboration in the tourism sector is indispensable (Plaza et al., 2011). Collaboration in various types of clustering and networks tends to increase innovation capacity. Through collaborative relations, tourism firms can meet knowledge, and through knowledge transfer the innovative capacity may increase. However, innovations in the tourism sector are difficult to implement. One reason for this is that the processes are highly visible and difficult to protect; thus, competitors can quickly copy new ideas (Weidenfeld, 2013). Moreover, the hospitality and tourism industry is a labor-intensive industry where only employees who are qualified and trained are able to provide knowledge and ideas that can increase the probability to introduce innovations. Because of the close interaction between supplier and customer, the tourism product and process cannot be separated; thus, an important role is played by human resources (GarauVadell et al., 2008).

The “human touch” has to be added to tourism performance, as only highly qualified employees are able to recognize and make good use of the opportunities (Nicolau et al., 2013). The tourism industry traditionally involves low productivity and thus low wages. This is probably the reason that investments to change the production structure and to substitute labor for capital are discouraged. Hospitality and tourism firms lack skilled human capital, and this continues to impede the innovative potential in non-technological innovations; moreover, the process of attracting highly qualified and motivated personnel seems to be hindered (Hjalager, 2002).

References


