

Dynamic Service Innovation Strategy and Firm Profitability: Empirical Evidence from Hotel Businesses in Thailand

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Abstract

This research aimed to study the relationship between dynamic service innovation strategy and firm profitability of hotels businesses in Thailand. Data were collected from 289 hotel business in Thailand by using questionnaire mail survey. Hypothesized relationships among constructs were examined by regression analysis. The results indicate that customized service concentration is the most important dimension of dynamic service innovation strategy affecting all consequences. The hotels improve their management to cope with the concurrence because of the changing business environment. Hence, business operators must consider how to engage consumers in customized service concentration to be competitive in the industry. Furthermore, managerial and theoretical contributions, suggestions for further research, and a conclusion are provided in details.

Keywords: Dynamic Service Innovation Strategy, Service Excellence, Service Advantage, Customer Fulfillment, Service Performance, Firm Profitability

1. Introduction

In recent decades, the business is growing with continuous dynamism and high economic growth, which leads to change in the condition of market and economic environments more than ever before. Many service businesses are facing speedy with a dynamic environment characterized by working under changes in the customer need, demand uncertainty, complexity and high competition in both the manufacturing and service sectors. (Schmitt and Klärner, 2015). In addition, many leading firms have the necessity to adapt themselves for new rivals, the emerging of new technology in a variety in the customer requirements to ensure the survival, and success of the service in the future (Danneel, 2002). Likewise, firms need to apply competitive strategies to deal with the changing situations and develop their strategic alignment with the internal and external business environment. Dynamic service innovation strategy is a significant part of service innovation strategy and the ability of firm to innovate and gain the competitive advantage (Watson and Hewett, 2006). The concept of service innovation has been defined in similar ways. Service innovation is create value for customers through new process offerings, which leads to be practical and beneficial to the organization that has developed it; the benefits often come from renewable value added to customers (Toivonen and Tuominen, 2009). Service innovation is the introduction of new concepts that focus on new ideas, new service business models, and continuous improvement techniques to customer experience (Enz, 2012).

Therefore, service innovation strategy is to create a good or effective business opportunity with new service concepts that lead to new business services reforms. As to prior literature, this research defines dynamic service innovation strategy as the ability of firms to constantly evaluate the conditions and determine to introduce a new process, create new activities and adapt to the changing environment of the company to maintain competitive advantage and business success (Goldstein et al., 2002). They have strategically utilized dynamic service innovation strategy as a system comprising of methods and techniques that is used to gather and provide information for executive that is useful for service decision-making. Hence, this study aims to examine the relationship among dynamic service innovation strategy, service excellence, customer fulfillment, service advantage, service performance, and firm profitability in Thai hotel businesses. The questions is how dynamic service innovation strategy affects firm profitability.

2. Literature Review

The relationship model of dynamic service innovation strategy and its consequences is shown in Figure 1.

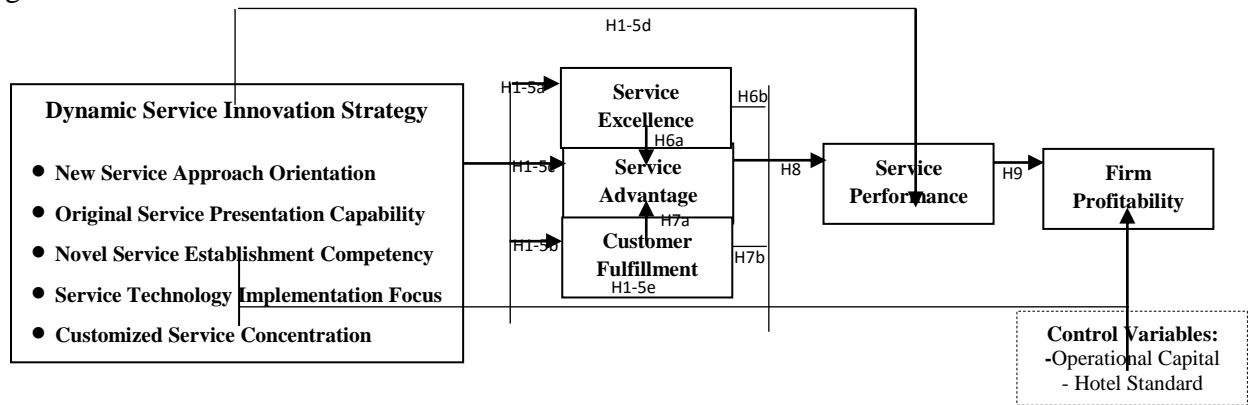


Figure 1: A Conceptual Framework

New Service Approach Orientation (NSAO)

New service approach orientation refers to firm's focus on using the new process, new designs, and modern operation management that can increase superior profitability and can help business grow in all situations (Goldstein et al., 2002). In this research, firms attempt to develop or generate new service for response to a customer's needs and wants (Johnson et al., 2002). New service is a resource in the pursuit of competitive advantage because using new service can help maximize benefits for those customers, increase customer loyalty, increase performance, and profitability (Nicolau and Santa-Maria 2013). Therefore, firms need to develop all new service processes and sustain themselves in the competitive markets. This position is reflected the hypothesis as below:

H1 a-e NSAO is positively associated with: (a) service excellence, (b) customer fulfillment, (c) service advantage, (d) service performance, and (e) firm profitability.

Original Service Presentation Capability (OSPC)

Original service presentation capability refers to the ability of the organization to offer new service experience, attempt to create different new service that can achieve the better service than competitors in the same industries (Venkatesh et al., 2012). Original service is a key strategy in making new products, methods, distribution, processes, providing concepts for gaining competitive advantage and performance (Wang and Ahmed, 2004). Moreover, the

company's willingness is to continuously explore and create differentiated services with the aim to provide a wide range of services to satisfy customer (Venkatesh et al., 2012). To overcome this, companies need to develop the ability to represent their services in the original way in order to achieve customer delight through service excellence and establish long-term relationships with customer (Gouthier et al., 2012). Hence, this research hypothesis that:

H2 a-e OSPC is positively associated with: (a) service excellence, (b) customer fulfillment, (c) service advantage, (d) service performance, and (e) firm profitability.

Novel Service Establishment Competency (NSEC)

Novel service establishment competency is defined as firms to establish the unique service that differentiates from others and responds to the change to customer wants and customer is satisfied for diversity of different new service concepts and competitive advantage (Hertog et al., 2010). Novel service plays an important role in the improvement of service and the success of service innovation (Froehle and Roth, 2007). Therefore, firms should offer unique service to customer satisfaction based on their feelings to achieve superior performance and gain competitive advantage (Randhawa and Scerri, 2015). Hence, this research hypothesis that:

H3 a-e NSEC is positively associated with: (a) service excellence, (b) customer fulfillment, (c) service advantage, (d) service performance, and (e) firm profitability.

Service Technology Implementation Focus (STIF)

Service technology implementation focus refers to firm's concentration that uses technology to develop new service continuously with more efficiency, which may lead to increase the productivity and respond to changing customer expectations and needs (Den Hertog, 2000). Technology becomes an integral part of service with organizations offering new ways of reaching out to the customer by adopting new technological channels and provides a range of service advantages for guests (Kolah, 2011). Therefore, technology is important for the service sector, increases the innovative ability of firms, whether production or service and to improve productivity (Tatiana, 2010). There is no doubt that technology is very useful in increasing the efficiency and service in any field, especially in hotels which would lead to customer satisfaction and result in maximizing the profitability (Chen, 2011). Hence, this research hypothesis that:

H4 a-e STIF is positively associated with: (a) service excellence, (b) customer fulfillment, (c) service advantage, (d) service performance, and (e) firm profitability.

Customized Service Concentration (CSC)

Customized service concentration refers to the organization that provides new service to meet the needs of customers. To create a specific of service, and activity that can bring firm to gain the competitive advantage than competitors (Spohrer and Maglio, 2008). More importantly, to achieve customized service that can enhance the value of their offerings, understanding of the customer needs and expectations (Wang et al., 2012). Thus, customized service concentration is the firm that looks for business activity that has a value added to respond to target market of customer needs, and creates a customer's satisfaction (Victorino et al., 2013). This result customize service not only customer fulfillment, but also customer happiness that can make the long-term profitability for company (Edvardsson and Enquist, 2011). Those services also enable companies to increase profitability (Hogan et al., 2011). Hence, this research hypothesis that:

H5 a-e CSC is positively associated with: (a) service excellence, (b) customer fulfillment, (c) service advantage, (d) service performance, and (e) firm profitability.

Service Excellence (SE)

Service excellence refers to the ability of firm's managing in looking for to introduce new service beyond customer expectation, customer satisfaction, customer relationships, and service quality before competitors (Johnston, 2004). Moreover, service excellence is the best practice to support the value of the organization, strategic, stakeholders' expectations, and maintains and exceeds competitive positions (Ritchie and Dale, 2000). Service excellence can be used to help an organization provide the level of service customer demand by achieving outrageous levels of customer satisfaction and delight (Bitner et al., 2010). Thus, organization can be used the service excellence to a quick response to customer need, the ability to complete an operation in the best way and survival with risk environment (Kumar and Gulati, 2010). Hence, this research hypothesis that:

H6 a-b SE is positively associated with: (a) service advantage, and (b) service performance.

Customer Fulfillment (CF)

Customer fulfillment refers to the ability of firms to meet the needs of customers, which are able to create the variety of services that exceed customer expectation (Jadesadalug and Ussahawanitchakit, 2009). Firms must adapt rapidly in order to respond to change whether in policies, plans, operation processes, business transactions or internal environment (Danneel, 2002). Therefore, if service provider can fulfill the needs of the customer better than its competitors, it is easier to create satisfaction and overall service performance. (Truch, 2006). Hence, this research hypothesis that:

H7 a-b CF is positively associated with: (a) service advantage, and (b) service performance.

Service Advantage (SA)

Service Advantage refers to the ability of firm to offer the different and higher benefits to consumer demand and satisfaction of consumer, which is better than competitors (Bendoly et al., 2009). The firm, can get the benefit from cost changes by making a new product or service at a lower price associated with superior competitive advantage. Moreover, in relation to innovation efforts, when advantages are created in the new product, the products should be better received in the marketplace (Nakata and others, 2006). Therefore, service advantage is a potential factor to enhance service performance. Hence, this research hypothesis that:

H8 SA is positively associated with service performance.

Service Performance (SP)

This research views service performance as focus on firm's reputation such as developing service, and attracting new customers. Service performance could be achieved with the organization and to create positive viewpoint in the workplace (Goldstein et al. 2002). Therefore, in this research, service performance refers to the result of a service activity as measured by customer demands, added value for customers, and overall performance related to non-financial procedures (Gao, 2010). In this regard, organizations are focused on increasing their service performance to harness the benefits that come with competitive advantages and profitability (Salifu, 2010). Hence, this research hypothesis that:

H9 SP is positively associated with firm profitability.

Firm Profitability (FP)

Firm profitability refers to the firm to achieve the objective and goal successfully in more profit, revenue, and market share increasing the sale of firms. It reflects the successful goal

integration of organization and the employees. Therefore, firm profitability can be indicated through income, sales, and increase profitability (Szekely and Knirsch, 2005).

3. Methodology

The population of this research was acquired from the list of sample from the database of Tourism Authority of Thailand. The population in the sampling frame was approximately 1,200 based on assumptions of business research, a 20% response rate for a mail survey is deemed sufficient (Aaker, Kumar and Day, 2001). Total returned questionnaires were 297, a response rate of 24.89 percent. Of 297 returned questionnaires, 8 questionnaires were deleted because respondents incompletely answered the questionnaire. After cleaning the data, the number of questionnaires used for the analysis was 289. Lastly, to test a non-response bias is followed the recommendation of Armstrong and Overton (1977) to ensure that no statistically significant different between early and late respondents. The variables used for non-response bias testing were business owner type, hotel standard, hotel location, firm capital, the period of time in business operation, number of room, and average sale revenues per year. The results indicated that a non-response bias is not a problem in this study.

Measurements

All constructs in the model are multiple-item scales. These variants are each measured from a five point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

Dependent Variable

Firm profitability is measured by using four-item scale to examining how firms make the overall of sales growth rate, profit, and high income.

Independent Variable

New service approach orientation is measured by using four-item scale to evaluating how firms emphasis on new offering methods that can achieve competitive advantage and effectiveness of organizations better than their competitors. Secondly, original service presentation capability is measured by using four-item scale to potential how firm offers the different newfangled service and develops new service in an organization. Thirdly, novel service establishment competency is measured by using four-item scale to assessing how firms organize, unique creativity and new techniques to respond to customers for competitive advantage. Fourthly, service technology implementation focus is measured by using four-item scale to investigate how firms use of new technology and developing of service technology for customer satisfaction. Lastly, customized service concentration is measured by using four-item scale to examining how firms can offer a specific service, and endeavoring to add superior value for customers.

Mediating Variables

Service excellence is measured by using four-item scale to investigate how firms can offer their highest service, beyond expectation to the customer's needs better than its competitors. Secondly, customer fulfillment is measured by using four-item scale to assessing how firms deliver service quickly and perfectly. Thirdly, service advantage is measured by using four-item scale to introducing how firm presents the different services, service accessibility, and service quality. Finally, service performance is measured by using four-item scale to examining how firms can evaluate reputation, market share, and overall performance.

Control Variables

Operating capital (OC) is defined as a large amount of money used to produce. Operating capital is measured by the capital or asset on investment in firms' operation. In this study, Operating capital is represented by a dummy variable as 60,000,000 baht or less =1 and more than 60,000,000 baht =2. Hotel standard (HS) is defined as the standard quality and

characteristics of the hotel by using stars as a rating symbol. In this study, Hotel standard is represented by a dummy variable as four-star hotels =1 and five-star hotels=2.

4. Results and Discussion

Table 1: Results of Measure Validation

Items	Factor Loadings	Cronbach's Alpha
New Service Approach Orientation	0.745 – 0.830	0.773
Original Service Presentation Capability	0.726 – 0.768	0.748
Novel Service Establishment Competency	0.639 – 0.823	0.704
Service Technology Implementation Focus	0.769 – 0.859	0.838
Customized Service Concentration	0.795 – 0.836	0.843
Service Excellence	0.730 – 0.862	0.824
Service Advantage	0.744 – 0.852	0.819
Customer Fulfillment	0.704 – 0.876	0.817
Service Performance	0.751 – 0.846	0.811
Firm Profitability	0.777 – 0.914	0.881

Table 1 presents the results of measure validation. Factor loading scores are between 0.639 and 0.914. All factor loadings are greater than the 0.40 cut-off (Nunnally and Berstein, 1994). Thus, the result indicates that there is the validity construct. Furthermore, the reliability of the measurements was assessed by Cronbach's alpha coefficients which are between 0.704 and 0.881, greater than 0.70 (Nunnally and Bernstein, 1994).

Thus, the scales of all measures appear to produce internally consistent results. In sum, the reliability and validity of all variables is acceptable.

Table 2: Descriptive Statistics and Correlation Matrix

Variables	NSAO	OSPC	NSEC	STIF	CSC	SE	SA	CF	SP	FP
Mean	4.349	4.312	4.358	4.377	4.312	4.116	4.127	4.187	4.119	4.303
SD	0.429	0.451	0.372	0.416	0.477	0.471	0.483	0.452	0.546	0.501
NSAO	1.00									
OSPC	0.657**	1.00								
NSEC	0.567**	0.495**	1.00							
STIF	0.449**	0.359**	0.701**	1.00						
CSC	0.639**	0.592**	0.681**	0.646**	1.00					
SE	0.439**	0.487**	0.375**	0.428**	0.601**	1.00				
SA	0.458**	0.409**	0.291**	0.376**	0.544**	0.750**	1.00			
CF	0.523**	0.455**	0.356**	0.402**	0.591**	0.669**	0.746**	1.00		
SP	0.462**	0.369**	0.451**	0.443**	0.587**	0.644**	0.534**	0.618**	1.00	
FP	0.478**	0.427**	0.398**	0.403**	0.517**	0.542**	0.481**	0.585**	0.720**	1.00

Correlation is significant at the 0.05 level (2-tailed)

Table 2 presents descriptive statistics and correlation matrix for all constructs. Correlation coefficients of each construct is ranging from 0.291 to 0.750, which is exceeding 0.80 (Hair et al., 2010).

Table 3: Results of Regression Analysis

Independent Variables	Dependents Variables				
	SE (a)	CF (b)	SA (c)	SP (d)	FP (e)
NASO (H1 a-e)	.007 (.072)	.243*** (.074)	.184** (.075)	.155** (.075)	.208*** (.078)
OSPC (H2 a-e)	.222*** (.069)	.091 (.070)	.100 (.072)	.052 (.071)	.088 (.074)
NSEC (H3 a-e)	.154** (.078)	.214*** (.080)	.262*** (.082)	.042 (.082)	.032 (.085)
STIF (H4 a-e)	.163** (.073)	.125* (.074)	.170** (.076)	.090 (.076)	.132* (.079)
CSC (H5 a-e)	.448*** (.080)	.443*** (.082)	.424*** (.084)	.412*** (.084)	.249*** (.087)
OC	-.177 (.105)	-.016 (.105)	-.172 (.109)	.073 (.109)	.140 (.112)
HS	-.089 (.099)	-.043 (.100)	-.176 (.103)	.018 (.103)	.069 (.167)
Adjusted R ²	.396	.391	.349	.346	.303
Maximum VIF	2.704	2.704	2.704	2.704	2.704

***p<.01, **p<.05, *p<.10 Beta coefficients with standard errors in parenthesis

Results and Discussion

In this study, the variance inflation factor (VIF) values are between 1.002 and 2.704, below the cut-off score of 10 (Hair et al., 2010), meaning that the independent variables are no multicollinearity problem in this research. Table 3 shows the result of regression analysis of the relationship between dynamic service innovation strategy and its consequences. New service approach orientation has a positive impact on customer fulfillment ($\beta = .243$, $p < 0.01$), service advantage ($\beta = .184$, $p < 0.05$), service performance ($\beta = .155$, $p < 0.05$), and firm profitability ($\beta = .208$, $p < 0.01$). Firm is necessary to the existence of sustaining competitive advantage because service innovation reflects that is the business's proclivity towards supporting new ideas, and creativity for the development and new creation (Shirokova et al., 2016). **Therefore, Hypotheses 1b, 1c, 1d and 1e are supported.** Original service presentation capability increases service excellence ($\beta = .222$, $p < 0.01$). Continue the discussion of these results, companies who want an idea of the original service to allow users to participate in a creative process in their service innovation process (Kristensson et al., 2008). **Therefore, Hypothesis 2a is supported.**

Novel service establishment competency has an important positive effect on service excellence ($\beta = .154$, $p < 0.05$), customer fulfillment ($\beta = .214$, $p < 0.01$), and service advantage ($\beta = .262$, $p < 0.01$). Alam& Perry (2002) further state that the continuum of service delivery is essential to success. Therefore, the user should be involved in the creative process as quickly as possible. **Therefore, Hypotheses 3a, 3b, and 3c are supported.** Service technology implementation focus has a significant effect on service excellence ($\beta = .163$, $p < 0.05$), customer fulfillment ($\beta = .125$, $p < 0.10$), service advantage ($\beta = .170$, $p < 0.05$), and firm profitability ($\beta = .132$, $p < 0.10$). Firm should focus on technology and use the specialists, in order for future opportunities (Lusch, Vargo and Tanniru, 2010). **Therefore, Hypotheses 4a, 4b, 4c and 4e are supported.** Customized service concentration has a positive impact on service excellence ($\beta = .448$, $p < 0.01$), customer fulfillment ($\beta = .443$, $p <$

0.01), service advantage ($\beta = .424$, $p < 0.01$), service performance ($\beta = .412$, $p < 0.01$), and firm profitability ($\beta = .249$, $p < 0.01$). Consistent with De Brantini (2001) who found that firm needs to understand and appreciate of the everyday customer life, in order to succeed in customized service. **Therefore, Hypotheses 5 (a-d) are fully supported.**

On the contrary, some hypotheses are not supported. New service approach orientation has no effects on service excellence ($\beta = .007$, $p > 0.10$). According to the results of previous studies indicated that the life cycle of new service will make it possible to improve a service excellence in the short term because of the service can be copied easily (Tidd and others, 2001). **Therefore, Hypothesis 1a is not supported.** Secondly, original service presentation capability has no effects on customer fulfillment ($\beta = .091$, $p > 0.10$), service advantage ($\beta = .100$, $p > 0.10$), service performance ($\beta = .052$, $p > 0.10$), and firm profitability ($\beta = .088$, $p > 0.10$). If the organizational structure changes in the service sector, therefore, firm needs to develop and create new services which are ideal for customers in industries (Alam, 2002). **Therefore, Hypotheses 2b, 2c, 2d, 2e are not supported.** Thirdly, novel service establishment competency has no effects on service performance ($\beta = .042$, $p > 0.10$), firm profitability ($\beta = .032$, $p > 0.10$). Customers do not perceive real value from the new service, their satisfaction toward it may not be achieved even the firms invest in strategies attempting to offer and pursue them to try out the new service (Docters et al., 2010). **Therefore, Hypotheses 3d, 3e are not supported.** Fourthly, service technology implementation focus has no effects on service performance ($\beta = .090$, $p > 0.10$). In fact, this type of business requires high capital investment in the same industry as skilled workers and modern technology (Kellogg and Nie, 1995). **Therefore, Hypothesis 4d, is not supported.**

Table 4: Results of Regression Analysis

Independent Variables	Dependents Variables		
	SA	SP	FP
SE	.443*** (.050)	.408*** (.063)	
SA		.524*** (.055)	
CF	.450*** (.049)	.336*** (.062)	
SP			.707** (.045)
OC	.095 (.077)	.138 (.098)	.089 (.093)
HS	.129 (.072)	.074 (.092)	.079 (.044)
Adjusted R ²	.671	.475	.519
Maximum VIF	1.822	3.097	1.002

*** $p < .01$, ** $p < .05$ Beta coefficients with standard errors in parenthesis

Table 4 also presents the results of the research relationships. Service excellence has a positive impact on service advantage ($\beta = .443$, $p < 0.01$), and service performance ($\beta = .408$, $p < 0.01$). It can be said that customers are more likely to perceive better service positions than those of other companies (Garrett et al., 2009). **Therefore, Hypotheses 6a and 6b are supported.** Moreover, customer fulfillment has a significant and positive effect on service advantage ($\beta = .450$, $p < 0.01$), and service performance ($\beta = .336$, $p < 0.01$). From this statement, when customers feel good about a company, they often find that the company is a better company than any other companies.

Therefore, the company is likely to benefit from its position in the service and leads to increased service efficiency (Lam et al., 2004). **Therefore, Hypotheses 7a and 7b are supported.** Next, service advantage increases service performance ($\beta = .524$, $p < 0.01$). When the company has the advantage of providing services in terms of providing superior services to customers, customers are willing to redeem products and pay premium price for superior value. This will lead to increase efficiency (Carbonell and Rodriguez, 2006). **Therefore, Hypothesis 8 is supported.** Finally, service performance is positively related to firm profitability ($\beta = .707$, $p < 0.05$). It shows that companies with the higher of performance appear to have profitability growth (Salifu, 2010). **Therefore, Hypothesis 9 is supported.**

Theoretical Contribution and Directions for Future Research

This research investigates the effect of dynamic service innovation strategy on firm outcomes of hotel businesses in Thailand. The results indicate that CSC has a strong positive influence on all the outcomes including SE, CF, SA, SP, and FP; NSEC and STIF are significantly affecting SE, CF, and SA; and NSAO has a positive significant effect on CF, SA, SP, and FP. Besides, OSPC has no significant influence on CF, SA, SP, and FP. Future research may need to do more literatures of OSPC in its characteristics, antecedents, consequences and re-conceptualize its relationships with valuable outcomes.

Managerial Contribution

This research has some limitations about which one should be concerned. The population of this research is scoped as only hotel industrial sectors. Thus, the generalizability of the findings is limited to only explain hotel sector. These findings may have been varied if a broader range of companies had been selected. The results of this research may be narrowed down as there are no general concepts of industry and other countries. Moreover, firm need to pay attention to how they manage all components of dynamic service innovation strategy effectively and utilize several supports to promote their implementations in order to achieve best organizational outcomes, including customer loyalty, corporate survival and firm performance.

5. Conclusion

This study investigates the impact of dynamic service innovation strategy in the context of hotels in Thailand. Certainly, those of the relations are positively significant and partially supported. The model testing collected data from a mailed survey of 289 hotel businesses in Thailand. Thus, future research may be separate the samples of this study to different business types or comparative population in order to verify the ability to generalize of the research and increase reliability.

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