SERVICE INNOVATION AND CUSTOMER CHOICES IN THE HOTEL INDUSTRY NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Services have transformed into economies’ driving forces, which has led to focus on new services innovation so as to enhance customer satisfaction. The purpose of this study is to undertake an examination of service innovation’s influence on customer choices in Nairobi City, Kenya’s hotel sector. The specific objectives of the study were: to analyze the influence of product innovation on customer choices in the hotel industry; to explore the influence of technical innovation on customer choices in the hotel industry; to investigate the influence of process innovation on customer choices in the hotel industry; and to evaluate the influence of institutional innovation on customer choices in the hotel industry. For purposes of conducting the study, descriptive research design was used as it is best suited considering the fact that it results in data description, whether in tables, words, or charts. The study focused on hotels 65 out of 129 hotels (refer to appendix II). Four respondents were selected from each of the 65 hotels: The General Manager, the Foods and Beverages manager, Reservations manager and the marketing manager. Collection of field data was aided by semi-structured questionnaires. Data related to the study objectives was analyzed using descriptive statistics, which included measures of variability measures, measures frequency and central tendencies among others. In addition, regression analysis was undertaken to establish the relationships between the independent and dependent variables. The research findings validated all the four service innovation factors examined as being key in influencing customer choices of hotels in Nairobi City County, Kenya. Process innovation however has the most significant influence, followed by institutional innovation. Whereas product innovation is ranked third, the least ranked are technical innovation. The key institutional innovations attributes that influence are customer choices are: when the hotel embraces knowledge sharing capabilities; when the hotel’s organization structure is supportive of new ideas; and when the hotel has unique human resource management styles. Research findings show that the main service innovations implemented in the hotels under study, which influenced customer choices were: hotel location; personal preferences; hotel reputation; characteristics/quality of the hotel products/services; and product offers and services.

Key Words: customer choices, institutional innovation, process innovation, product innovation, technical innovation, hotel industry

INTRODUCTION

Frequent changes are being witnessed in customers, tastes and preferences, resulting in many challenges for the businesses in the modern economy (Chen, Hung Tai & Huang, 2009). Technological advancements make service innovations possible, since they bring on board business players with competence and ability to respond to customers’ tastes and preferences by providing them with innovative products and services, aimed at pursuing customer relationships in the long term, besides differentiating themselves from their competitors (Yeh
Competition within the hospitality industry is worldwide is increasingly becoming fierce due to globalization. However, since many hotels aim at achieving competitive advantage over the rest in the short-term, their competitive strategies mainly focus around price wars, which not only lead to lose-lose results, but also cause disturbance to the market order. It is as a result of this that some local and world class hotel chains resort to service innovation as the key competitive strategy coincidently (Xu & Zhou, 2010).

According to Perugini and Bagozzi (2001), studies on customer choices have often focused on emotions and motivations to predict customer behaviors and intentions with a high degree of precision. Nonetheless, according to Swarbrooke and Horner (1999), the most frequently researched on customer characteristics are geographical and socio-demographic patterns, including life cycles of families and age, which have the potential to influence the decisions to purchase. For instance, while segmenting markets for hotels Lepisto and McCleary (1992) used age of the customers, while gender was used as the base of segmentation among business travellers by McClear et al. (1994).

However, Kotler et al. (1998) recommended the use of a combination of multiple variables in segmentation of markets in the hospitality industry, in which other variables such as customers’ involvement in the services offering, activities involved, values attached by customers and psychographic factors would be put into consideration. Foxall et al. (2005) argued that various consumer researchers, over several generations, have utilized the techniques and theories of social sciences with a view to understanding the way consumers behave before, during and after purchase. Customer behavior in hotel choices involve the process of decision-making the consist of a host of different but inter-linked choice criteria and stages that are central to the entire process.

While Wuest et al. (1996) refer to “hotel attributes perceptions” as to the degree to which customers perceive hotel services and products to be satisfying, Alpert (1971) referred to hotel services as bundles of elements that have a positive significant influence on choice and have likelihood of arousing purchase intentions amongst customers and differentiate themselves from their competitors’ offers. Among the key attributes that customers look for, and which create competitive advantage in hotels are the product reputation, product prices, product quality, hotel location and product offers and services.

Muchiri (2005) posit that the product/service quality of hotels in Kenya has not received adequate attention from the management, hence the need to borrow a leaf from Egypt’s book, where there are considerable developments being registered in the hotel sector and which is believed to be impacting positively on the number of tourist arrivals. Ministry of tourism report (2013) reveal that the hospitality industry in Kenya made a contribution of (10%) of the country’s Gross Domestic Product and make a contribution of (9%) to the total wage workforce. However, in the recent past, the sector has faced numerous challenges, among them, rapid technological chances, economic challenges, and socio-cultural changes, which have posed a threat to their growth (Kamau, 2008).
PROBLEM STATEMENT

Innovation is critical in any nation’s economic growth since it provides firms within the various sectors of the economies with abilities to gain and maintain competitive advantage. Customer service offerings expansions to attract new ones and retention of the same highly depend on ability to avail innovative services in a more effective and efficient way in relation to competitors (Barr & McNeilly, 2014). However, organizations in the services sector are faced with a challenge in offering improved and new services. Review of literature reveal that most of the theories as well as researches on innovations have focused on products, with very little attention paid to services, which was expected since most emphasis in the earlier decades were placed on product development, which impacted significantly on economies of nations worldwide. That notwithstanding, uncertainty is a key issue affecting customer choices, which has not been conclusively addressed in the various studies so far conducted. Given the importance attached to the hotel industry, this study therefore, seeks to bridge the knowledge gap as pertains to customer choices, an area that had received little focus to date.

RESEARCH OBJECTIVES

1. To analyze the how product innovation influence customer choices in the hotel industry in Nairobi City County, Kenya
2. To examine the extent to which technical innovation influence customer choices in the hotel industry in Nairobi City County, Kenya.
3. To assess the scope to which process innovation influence customer choices in the hotel industry in Nairobi City County, Kenya
4. To evaluate the degree to which institutional innovation influence customer choices in the hotel industry in Nairobi City County, Kenya.

THEORETICAL REVIEW

Resource Based View Theory

Resource-Based View theory explores effects of capabilities and resources on a firms’ competitiveness, which enhance their overall performance. Resource management and capacity, which are defined by Baltacioglu et al. (2007) as service resources and management capacity that are effectively organized and efficiently operated, is one of the dimensions that form the basis for this study. Therefore, integration of the RBV theory into the current research framework, which forms the independent variables of the research, should positively influence customer choices if capabilities and resources are geared towards sustaining practices within the hotel industry context.

Customer relationship and demand management are two key components studied in this research. According to Porter (1985), effective application of the organization’s strengths leads to differentiation, focus and cost leadership. The argument is of relevance to service innovation and customer choices within the hotel industry. Baltacioglu et al. (2007) presented five key components of supplier relationship management, namely information sharing, commitment, cooperation, coordination, and feedback, which are linked to performance.
Various studies have revealed that innovations in services are critical in influencing customer choices in hotel industry; hence a conceptual framework has been formulated to depict the relationships among and between the research variables. The various researches that have applied RBV theory support the argument that in uncertain environments, effective relationships among supply chain stakeholders enable organizations to work harmoniously towards a common goal (Fynes et al., 2005).

**Consumer Behavior Models**

Since the 1940s, models of buying behavior have been developed with the purpose of making descriptions and predictions on consumer behavior, so as to a better understanding of both prospective and future customers is achieved (Chisnall 1995). According to Schiffman and Kanuk (1994), of the many models of buyer behavior developed so far, the multivariate models are the most appropriate since they are comprehensive enough to capture the consumer decision-making dynamics. Within the multivariate models, it is emphasized that many decisions involved in the buying process, even if based on economic considerations, are subjected to non-rational factors. Customers’ tastes and preferences are complex and as such, at economic level, they are likely to seek satisfaction, and at deeper levels, they are likely to involve emotions, values, group affiliations and cultural norms. (Chisnall 1995). The model is depicted in figure 1.

**Figure 1: The Engel-Blackwell-Miniard Model**

*Source: (Engel et al., 1995).*
As argued by Engel et al. (1995), the model comprises all the types of need satisfying behaviors, including processes for problem-solving and various influencing factors. According to Chisnall (1995), this model has a shortcoming in that it falls short of specifying the preconditions under which certain outcomes will emerge.

**Service Quality Model**

SERVQUAL model, which is premised on customers’ evaluation of service quality by making comparisons between the expected and actual value received, as well as considerations for gaps between the two, is considered the most popular model for measuring customer satisfaction in almost all service sectors. The model provides specifications for the key requirements for delivering high service quality. (Zeithaml, Berry & Parasuraman, 1996). Figure 2 below depicts the model.

![Conceptual Model of Service Quality](source.png)

**Figure 2: Conceptual Model of Service Quality**

*Source:* (PZB, 1985)

**GAP 1:** The first gap depicts the variance between expectations from customers and perception of the management on service delivery, which scenario arises when the management falls short of accurately perceiving customer needs and wants. The main causes of this gap include inability of the management to focus research on demand quality, poor interpretation of information related to customers’ expectations, inadequate market
researches, and too many levels of staff between the actual service providers (front office staff who actually interact with the customers) and the top level management.

**GAP 2:** The second gap depicts the variance between the perception of management and service quality specification, which arises when the management accurately perceives customers’ needs and wants but fail to set standards of performance. This type of gap occurs as a result of various reasons, among them, the lack of commitment on the part of the management, planning procedures that are not sufficient, new service development processes that are not systematic, and service designs that are ambiguous or unclear.

**GAP 3:** The third gap depicts the variance between service quality specifications and service delivery, which may be caused by the frontline staff offering the service. The gap may arise from a number of causes, including reluctance; unwillingness or incapability of the employees to meet the service standards that have been set, poor training and poor training; inadequacies in human resource policies such as recruitment exercises that are ineffective; ambiguity and conflicts in roles amongst the employees; ineffectiveness of internal marketing strategies; inability to match demand and supply; and lack of focused training on customers’ relations.

**GAP 4:** The fourth gap depicts a variance between service delivery and communication to the external audience, which occur when customers’ expectations are highly influenced by messages from communicated by the firms’ representatives, including advertisements, yet the firms fail to fulfill the promises made in the messages at the time of service delivery. These variances between actual service delivery and the promised services may arise as a result of the following reasons: failure of the firms to perform in accordance with the specifications; failure in management of the customer expectations; and promising more than can be practically offered in the external communication campaigns.

**GAP 5:** The fifth and final gap is a variance between the customers’ service expectations and the service they actually experienced, which occur when customers misinterpret the quality of service. For instance, in a bid to seek feedback, the management may keep asking the customers about the services, which the customers may interpret as an indication that there is something wrong about the service.

**EMPIRICAL REVIEW**

Product innovation is referred to as adoption of a significantly improved service or good in relation to intended uses. The improvements include incorporated components, materials, software, functional characteristics, user friendliness and software (Gunday et al., 2011). On the other hand, Ladany (1996) refer to product innovations as encompassing significant transformations in product designs or packaging, promotion, pricing, placement or promotion, all aimed at enhancing customer satisfaction, and increasing penetration into new markets with a view to ensuring increased revenues for the firms. Such innovations entail action that include adoption of new methods of pricing, redesigned promotional messages, and identifying new market segments.
Siguaw and Enz (1999) posit that firms that make effective use of new technologies will reap the highest benefits from customer satisfaction. Govers, et al. (2000) noted that there has been growing interest in incorporating innovations and new technologies for purposes of enhancing economic growth. Adoption of improved technologies can enhance ability of hotels to make identification of potential franchisees, identify new markets, identify and target new market locations, develop new product concepts, and undertake customer satisfaction tracking (Jin-Zhao & Jing, 2009).

Process innovation is the adoption of production or delivery methods that show significant transformations, which include improvements in equipment, software, or technology transformation, and whose intention is to enhance quality, or reduce production costs, or deliver improved or new products. Considering that process innovations are linked to developments in new technologies, investments in the same have cost implications. However, research shows that implementation of the innovations has resulted in significant improvements if service delivery methods (GrÖnroos, 2000).

According to Sigala (2011), hotels have had to increasingly adopt innovation through employment of new processes in response to the competitive environment in the recent past. For instance, the emergence of call centers for handling inquiries from customers in hotels has not only enabled them concentrate on relationship development with customers, but also have been a significant costs reduction measure since they have released employees form the routine roles, and given more time to concentrate on the hotels’ core businesses. The call centers have also enhanced the collection of customer information of purposes of establishing data bases (Peelen et al. 2009).

The studies reviewed also provide evidence that process innovation continues to play a leading strategic role in expansion of the hospitality sector. According to Griffin (1998), the hospitality industry has witnessed rapid growth due to infusing new processes, which have resulted to reduction in operational costs, hence aiding the hotels in attaining their ultimate goals, satisfaction of customers and ensuring repeat buying. Researches undertaken by Jin-Zhao and Jing (2009) and Garver (2002) revealed that firms strive to make improvements in quality and service delivery to their customers by incorporating improved processes in their operations, with the sole purpose of gaining competitive advantage.

López-Fernández, et al. (2011), examined factors that influence hospitality industry institutional innovations in Spain. The study variables were membership in business groups, hotel size, willingness to undertake organizational transformations, and the management styles. The study established that the key factors influencing institutional innovations were the willingness to embrace transformations and participative management styles that not only embrace changes, but also institutionalize the transformations. The hotel industry could derive benefits from implementation of service innovation. From the customers’ perspectives, the hotel sector is characterized by similar services offerings, which can be easily substituted. This results into difficulties for the hotel management to differentiate one hotel from the competitor (Reid & Sandler, 2012). New and innovation features of the services thus comes
in handy. In addition, the hotel sector is transforming rapidly as a result of information technology accelerations (Olsen & Connolly, 2010).

RESEARCH METHODOLOGY

Descriptive research design was used as it is best suited considering the fact that it results in data description, whether in tables, words, or charts. The study focused on hotels, whose total number stood at 14 as at 30th December 2018. Three respondents were selected from each of the 14 hotels: General Manager, the Foods and Beverages manager and the marketing manager. Collection of field data was aided by semi-structured questionnaires. Data related to the study objectives was analyzed using descriptive statistics, which included measures of variability measures, measures frequency and central tendencies among others. In addition, regression analysis was undertaken to establish the relationships between the independent and dependent variables.

RESEARCH RESULTS

Innovation is critical in any nation’s economic growth since it provides firms within the various sectors of the economies with abilities to gain and maintain competitive advantage. Customer service offerings expansions to attract new ones and retention of the same highly depend on ability to avail innovative services in a more effective and efficient way in relation to competitors. However, organizations in the services sector are faced with a challenge in offering improved and new services. Review of literature reveals that most of the theories as well as researches on innovations have focused on products, with very little attention paid to services, which was expected since most emphasis in the earlier decades were placed on product development, which impacted significantly on economies of nations worldwide. Given the importance attached to the hotel industry, this study therefore, seeks to bridge the knowledge gap as pertains to customer choices, an area that had received little focus to date.

This research sought to examine the influence of service innovation and customer choices in the hotel industry in Nairobi City County, Kenya. The specific objectives of the study were: (i) to analyze the how product innovation influence customer choices in the hotel industry in Nairobi City County, Kenya; (ii) to examine the extent to which technical innovation influence customer choices in the hotel industry in Nairobi City County, Kenya; (iii) to assess the scope to which process innovation influence customer choices in the hotel industry in Nairobi City County, Kenya; and (iv) to evaluate the degree to which institutional innovation influence customer choices in the hotel industry in Nairobi City County, Kenya.

Research findings indicate that the main product innovations attributes that influence are: “the hotel has a customer retention strategy in place for attracting new customers”, “the hotel develops new services that create value and solutions for competitiveness”, and “the hotel’s flexibility to customer needs gives the hotel a competitive advantage”.

The key technical related innovations attributes that influence are: “the hotel has installed of CCTV cameras in the hotel premises as a security measure”, “the hotel has free wireless internet connection (WI-FI) in the hotel premises”, “the hotel has installed electronic in-room
safes”, “the hotel has installed multiple phone lines in guest rooms”, and “the hotel has installed wake-up systems in the hotel rooms”.

The key process innovations attributes that influence are customer choices are: “the hotel embraces proactive customer and market orientation which aid in identification of prioritized customer needs and preferences”, “the hotels gathers relevant market intelligent on customer preferences and utilizing the information for improvement of processes”, and “the hotel has the ability to cater for individual needs of our customers”.

The key institutional innovations attributes that influence are customer choices are: “the hotel embraces knowledge sharing capabilities”, “the hotel’s organization structure is supportive of new ideas”, and “the hotel has unique human resource management styles”.

Research findings show that the main service innovations implemented in the hotels under study, which influenced customer choices were: “hotel location”, “personal preferences”, “hotel reputation”, “characteristics/quality of the hotel products/services”, and “product offers and services”.

**INFERENTIAL STATISTICS**

Table 1: Coefficients table

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>.339</td>
<td>.449</td>
<td>0.933</td>
<td>.535</td>
</tr>
<tr>
<td>Product innovation</td>
<td>.141</td>
<td>.166</td>
<td>.196</td>
<td>1.555</td>
</tr>
<tr>
<td>Technical innovation</td>
<td>.181</td>
<td>.156</td>
<td>.136</td>
<td>1.437</td>
</tr>
<tr>
<td>Process innovation</td>
<td>.324</td>
<td>.239</td>
<td>.235</td>
<td>1.827</td>
</tr>
<tr>
<td>Institutional innovation</td>
<td>.392</td>
<td>.254</td>
<td>.205</td>
<td>1.933</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Customer choices

The B values and the p-value to check for significance are depicted in table 4.7 above. We reject Ho if p < .05, indicating that the relationship is reliable and can be used to make predictions. The resultant regression equation becomes:

\[ Y = 0.339 + (0.141 X_1) + (0.181 X_2) + (0.324 X_3) + (0.392 X_4) \]

This means that even without the four variables under study, customer choices would be (0.339). Regression results also reveal that a unit change in product innovation would result in (0.141) change in customer choices; a unit change in technical innovation would result in (0.181) change in customer choices; a unit change in process innovation would result in (0.324) change in customer choices; and a unit change in institutional innovation would result in (0.392) change in customer choices. In addition, the factors that attributed to institutional innovation (p=0.027) and process innovation (p=0.008) were statistically significant. The error term (0.02) means that the model will not be completely accurate, and will result in differing results during real world applications. Overall, the order of ranking in terms of
relative influence is as follows: (1) process innovation = (0.008); (2) institutional innovation = (0.027); product innovation = (0.052); and technical innovation = (0.061). Table 2 below depicts the regression model for the research (values of R and R Square).

Table 2: Regression Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.280a</td>
<td>.784</td>
<td>.689</td>
<td>0.02</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Service innovation
b. Dependent Variable: Customer choices

Multiple correlation coefficients between all the independent and the dependent variables is depicted by R (0.280), which is a show of variance shared by the independent and the dependent variables. The statistic is used to describe the amount of variance/goodness-of-fit explained by a given set of independent variables. The value of 0.784 indicates shows that (78.4%) of the variance in the dependent variable is explained by the independent variables in the model. Table 3 below depicts the results of ANOVA.

Table 3: F-test on ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>2.687</td>
<td>5</td>
<td>.537</td>
<td>22.63</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>10.410</td>
<td>25</td>
<td>.416</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>13.097</td>
<td>30</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (constant), Product; technical; process; and institutional innovations
b. Dependent variable: Customer choices

Considering the ANOVA, the research arrives at a conclusion at 5 % significance level, it is evident enough that the regression line slope is not zero; thus, the service innovation factors in the model are useful predictors of customer choices, considering that the p value is 0.000 (less than 0.05). Sig = 0.000 suggests that the model adopted for the research is significant for predicting customer choices.

CONCLUSIONS

The research findings validated all the four service innovation factors examined as being key in influencing customer choices of hotels in Nairobi City County, Kenya. Process innovation however has the most significant influence, followed by institutional innovation. Whereas product innovation is ranked third, the least ranked are technical innovation. The main product innovation attributes that influence customer choices in the hotels are: customer retention strategy that is used to attract customers; development of new services that create value and solutions for competitiveness; and the hotels’ level of flexibility to customer needs, which give the hotels a competitive advantage.

The key technical related innovations attributes that influence customer choices in the hotels include installation of CCTV cameras in the hotel premises; provision of WI-FI in the hotel premises; installation of electronic in-room safes; installation of multiple phone lines in guest
rooms; and installation of wake-up systems in the hotel rooms. The key process innovations attributes that influence are customer choices include proactive customer and market orientation which aid in identification of prioritized customer needs and preferences, the gathering of market intelligence information and utilization of the same to gain a competitive edge and the ability to satisfy individual customer needs. The key institutional innovations attributes that influence are customer choices include knowledge sharing capabilities, a supportive organizational structure, and a unique human resource management style.

RECOMMENDATIONS

When implementing product innovations as to influence customer choice, the following attributes are recommended: the hotels should have a customer retention strategy in place for attracting new customers, develop services that create value and provide solutions, thus enhancing competitiveness of the hotels, and the hotels’ flexibility to customer needs should be focused on in order to gain competitive advantage. When a hotel decides to implement technical innovations, emphasis should be placed on the following attributes: installation of CCTV cameras in the hotel premises as a security measure; investment in WI-FI in the hotel premises, and installation of electronic in-room safes.

Should hotels decide to implement process innovation strategies so as to influence customer choices, the hotels should embrace proactive market and customer orientation which assist out business to identify customer tastes and preferences, gather relevant market intelligent on customer preferences and utilizing the information for improvement of processes, and have the ability to cater for individual needs of our customers. Should a hotel decide to invest in institutional innovations so as to influence customer choices in the hotel industry, the hotels should embrace knowledge sharing capabilities; the hotels’ organizational structures should be supportive of new ideas; and the hotels should have unique human resource management styles.

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