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**TOURISM
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**THEMATIC
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**UNIVERSITY OF KRAGUJEVAC
FACULTY OF HOTEL MANAGEMENT
AND TOURISM IN VRNJAČKA BANJA**



INNOVATIVE ACTIVITIES AS A FACTOR OF HOTEL BUSINESS COMPETITIVENESS

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Abstract

The company's ability to develop innovative activities directly influences gaining and maintaining its competitive advantage. This particularly holds for service industries that hotel industry belongs to. As a service industry, hospitality enriches its current offer by creating new hotel products and improving the existing ones, at the same time doing its best to make guests feel satisfied. The aim of the paper is to look into the influence of innovations on hotel competitiveness, having in mind the contemporary research. In so doing, the paper employs inductive, deductive and descriptive analysis. Gaining and maintaining the competitive advantage of hotels should be based on continual innovation of its activities which creates variety in hotel offer. In implementing innovative activities, human resources prove to be a key asset.

Key words: *competitiveness, hotels, innovations, human resources*

JEL classification: *L26, L83, M20*

Introduction

According to the Resource-based theory, a factor that helps companies build their competitive advantage (Prajogo & Oke, 2016: 975) includes resources, competencies and strategic assets which are scarce, valuable, and unsuitable for substitution or imitation (Barney, 1991). Gaining and maintaining a competitive advantage is the long-term goal of any company. In order to create a competitive advantage, company management has to work on finding ways to perform some activities in a better or different way from the competition or to be in possession of

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something that competitors do not have. This advantage could be gained through the development of R&D functions and innovative activities. Innovation of products/services, processes and activities is increasingly being regarded as a "competitive weapon" (Prajogo & Oke, 2016: 976) which is, at the same time, the focal point of acquiring companies' competitiveness (Denton, 1999). Creating innovative advantages requires the use of strategic resources that will help companies develop new processes, products and activities (Prajogo & Oke, 2016: 975). According to Kafetzopoulos et al. (2015: 1183), in order to gain and maintain competitive advantage, companies are forced by certain factors to grow the business through innovation. These factors include market stagnation, insufficient research of emerging markets, low trade barriers, and lower transaction costs.

Innovation is a key element in improving the productivity, profits and competitive position of companies (Campo et al., 2014: 1293). In order to acquire and maintain a competitive position, the management of a company should base its operations on development of and investment in innovative activities. The aim of the paper is to analyse the impact of innovation on the hotel competitiveness, on the bases of the contemporary research. The paper employs inductive, deductive and descriptive methods of analysis.

The first part of the paper describes the impact of innovation on gaining and maintaining competitive advantage of companies emphasising the importance of human capital in the process of creating competitiveness. The second and third parts of the paper provide an overview of research conducted so far on the subjects of competitiveness and innovation in the hotel industry, while the fourth section describes the development of innovative activities in the Republic of Serbia.

How do innovation activities affect competitiveness?

A proper challenge for companies operating in the knowledge-based economy is how to create a competitive advantage through the "art of innovation" (Brem et al., 2016: 139; Porter, 1990: 75). Innovative efforts are the result of the creativity of knowledge workers (Carneiro, 2000: 95), and they influence an increase in company competitiveness (Carneiro, 2000:92). Using innovative methods, companies can either create completely new products/services and processes or transform the existing

ones, increasing thus their value. In this way, different forms of innovation determine the level of created value which then generates the value for customers (2015: 36).

In order to create a competitive advantage, company resources are to be unique. Resources are unique only if they are sustainable in the long-term competitive struggle and if they do not have a strategic substitution at a market (Brem et al., 2016: 139). Some authors find intellectual capital and its components (human, structural and relational capital) to be key elements in creating innovation and developing competitive advantage. Thus, the success of a company is supported by the value of intangible assets, mainly the ability to create knowledge (Nieves & Diaz-Meneses, 2016: 1556; Dierickx & Cool, 1989). Chahal & Bakshi (2015) point out that intellectual capital directly and significantly affects the competitive advantage of companies. When innovation occurs as an intermediary between intellectual capital and competitive advantage, their relationship becomes additionally improved.

In addition to the intellectual capital that generates innovation, the competitive advantage of companies is also affected by other elements of business. Vadell & Orfila-Sintes (2007:70) and Camison (2000) point out that the competitiveness of companies is largely influenced by new CIT and the Internet, which makes it easier for managers but, on the other hand, hinders the implementation of competitive actions. Gibbs et al. (2015) look at social media as an example of discontinual innovation - a new product that defines new behavior patterns and influences the way HR are recruited, employed, trained and the way in which they terminate the employment. Based on the results of the study, Kafetzopoulos et al. (2015) point out that quality management contributes directly to innovation of products and processes which, improved, have a direct impact on the competitive advantage of a company. Quality management is a chance for a company to promote innovation, which would further improve its competitiveness.

Creating innovation leads to the creation of a superior value, which is, in the knowledge-based economy, the most critical factor of company differentiation and the creation of its competitive advantage. Innovative activities require the building of appropriate infrastructure and creating a proper environment that would support their realisation. A key role in the

implementation of innovative activities is given to an R&D function, i.e. HR that is the carrier of the function's overall activity.

Human capital and innovative activities

The holders of creating innovations are employees with their knowledge, experience and skills, i.e. human capital of a business. Human capital is the most important component of intellectual capital and has a special role in the process of services creation (Ognjanović, 2016: 442). Since management works for people and with the help of people, both the management of business activities and results of business operations are dependent upon HR. Human capital is a key tool for the creation of innovative services, and thereby a means for creating competitive advantage (Kearney et al., 2014). Employees' skills and the level of motivation provide various creative suggestions, ideas and research activities in order to build new and innovative solutions. The growth in knowledge workers motivation should be the focus of managers activities since it affects the growth of knowledge crucial to innovation, and further to the strengthening of competitiveness (Carneiro, 2000: 96). A company has to possess capabilities and resources to use and absorb knowledge as a core component of innovative capabilities (Cohen & Levinthal, 1990; Qin et al., 2015: 1860). Kearney et al. (2014: 100) point out HR development which affects the competitive advantage is influenced by managerial attitude and their ability. Company managers who have strong ability to take competitive actions, manage HR and create satisfied employees can be a powerful core of company competencies. The visible, tangible assets cannot provide competitive advantage that would be sustainable in a long run (Perez & Ordóñez de Pablos, 2003: 83).

Prajogo & Oke (2016) examine the impact of human capital on the advantages of innovative services and business performance of service companies. On the basis of the research results, they point out that the human capital is associated with value creation and innovative services. The level of impact of innovative services on the business performance of a company depends on the dynamic environment and competitiveness. Carneiro (2000) deals with the analysis of the links between innovation, competitiveness and knowledge management. He points to the importance of development in knowledge and knowledge management in order to ensure competitiveness. He points out that those organizations that encourage the development and improvement of employees' knowledge

are willing to face the rapid changes of the present day and successfully innovate in the field they choose to invest in.

Bayon et al. (2016) deal with the analysis of the impact of human capital input and output in the form of entrepreneurial self-confidence on the decision to exploit innovative opportunities. They conclude that human capital inputs and outputs in the form of entrepreneurial confidence are important factors that influence the decision to take advantage of innovative opportunities.

Beal (2016: 24) points out that overqualified job candidates provide opportunities for the company to increase the value of human capital, which will result in the creation of innovative products and services, better quality and improved customer service. Such actions lead to an increase in the efficiency of the organization and maintenance of competitive advantage (Beal, 2016: 24). Chahal & Bakshi (2015) examine the role of innovation and organizational learning as a mediating variable in the relationship between competitive advantage and intellectual capital, which includes human capital. They prove that intellectual capital has a direct impact on competitive advantage and that innovation fully mediates in the relationship between intellectual capital and competitive advantages.

Human capital affects the level of the achieved business results. In their research, Cheng et al. (2010) prove the relationship between intellectual capital and the performance of the observed companies. They emphasize that the added value of human capital can increase performance. Similar results are achieved by Kamukama et al. (2011), who confirm that the competitive advantage is a significant intermediary between intellectual capital and financial performance. Gamerschlag (2013) points out that the information on human capital is value relevant. The information about the expertise and qualifications of employees positively correlates with the degree of value.

HR plays a key role in the creation of both innovation and superior value. People with knowledge, experience, and skills take an active part in innovative activities and the development of new or the improvement of the existing products and processes. It can be said that the importance of human capital depends on the degree to which this capital contributes to creating competitive differentiation.

Hotel competitiveness

In the knowledge-based economy, particularly in service industries, the knowledge held by employees becomes a key factor in ensuring competitive advantage (Prajogo & Oke, 2016: 977). Hotel industry as a service industry is characterised by temporary employment, below-average wages, non-standard working hours, simple labour and limited promotion opportunities. These are the very features which act as a hindering factor in attracting and retaining superior employees (Barron, 2008: 731; Gibbs et al., 2015: 172). In the contemporary conditions, companies have a competitive advantage if they are able to achieve higher levels of performance than their competitors (Pereira-Moliner et al., 2015: 716; Potter, 1985). This fact and the complexity of the procedure for measuring competitiveness (Pereira-Moliner et al., 2015: 716) makes the definition of competitiveness a rather complex one.

Competitiveness means that companies compete with the global strategy at the world market (Pereira-Moliner et al., 2015: 716; Porter, 1998). One of the mechanisms which enables the world market competition is innovation management. Faced with the pressure imposed by competitors operating within the same business environment, company management explores different ways of services delivery, product design and organizational processes operation. Innovative activities should particularly be developed in service companies, such as hotels. Taking into account the heterogeneity of hotel demand and the variety of guest requirements, hotel management has to develop a wide range of hotel products by improving existing services and creating new ones.

Jonsson & Devonish (2009) point out that, in order to secure competitive advantage, hoteliers should focus upon the implementation of different strategies. According to Jonsson & Devonish (2009: 496), there are nine different areas that may act as a base of competitive strategies of a hotel - competitiveness costs; mobilising people and partners; construction of a services delivery system; differentiation of market services; across-culture service provision; defining service standards and performance; reliance on expatriate versus local staff; meeting customer expectations and leveraging IT to deliver value. Schuler & Jackson (1987) and Jonsson & Devonish (2009: 494) classify competitive strategies of a hotel into the categories of cost reduction, innovation and increase in quality and

emphasise that these three strategies can be used simultaneously in order to gain both domestic and international competitive advantage of a hotel.

In order to achieve defined objectives in terms of the increased range and quality of hotel services, business strategy implementation should be accompanied by employee training. Hotel business operations are faced with a number of changes, the advantage of which should be used by management. A change may act as a source of innovative activities. By changing demands of service consumers and the nature of competition, there arises a need for a change in the competitive strategy. In order to overcome the changes-driven barriers, management defines multiple strategies. Okumus & Hemmington (1998) point out that the main obstacles to the introduction of changes in hotel companies are the costs of change, financial problems and the pressure arising from other priorities.

Casanueva et al. (2015) point to the importance of the way of approaching the capacity for resource mobilisation in a situation where managers and employees have to adapt to a change. If hotels want to adapt to their environment and promote strategies that will provide them with a sustainable competitive advantage, then they should not restrict the use of the available resources. Instead, they should look for ways to find new opportunities and resources, to provide resources they do not have which could be reached with the help of other companies, people and organizations (Casanueva et al., 2015 1280; Nemeč Rudez & Mihalić, 2007; Ahmad, 2005). Results of the study conducted by Pereira-Moliner et al. (2016) suggest that QM practices influence both cost and differentiation competitive advantage in hotels. The QM operational system is the key in the relationship between QM and cost competitive advantage. The QM operational, information and strategic systems positively influence differentiation competitive advantage. Pereira-Moliner et al. (2015) prove that hotels with a proactive approach to environmental protection have a much better competitive position and better business performance. Hotels with above average performance are much more environmentally proactive. Lam et al. (2015: 834) point out that the scope and size of a hotel system affect the competitive position, distribution network, brand, strength, loyalty and the ability to retain customers.

The competitive advantage of a hotel company is based on the development and implementation of competitive strategies. In defining the approach to the market, numerous factors should be taken into account; these could be the factors from the environment - general and competitive and those within the company. In the process of gaining and maintaining competitive advantage, HR has the most important role since people are the ones who analyse all the changes in the environment, which makes the basis for defining, modifying and implementing competitive strategies.

Innovations in hotels

As a dynamic and fast sector, tourism is in a constant need for innovation in order to respond to changes in customer requirements (Kessler et al., 2015; Brooker et al., 2012; Ottenbacher, 2007). Innovation differentiates a company from its competitors, and provides competitive advantage and better performance (Hoonsopon & Ruenrom, 2012: 1183). Generally speaking, most innovations in tourism and hospitality refer to the gradual improvement of the existing offer (Kessler et al., 2015: 1710).

In creating innovations, researchers have to take into consideration both the characteristics of hotel services and those of hospitality as an industry. Thus, researchers find a way to create new ideas and improve the existing services. The basic features of hotel services are close interaction between production and consumption; highly informationally immaterial content of processes and products; the importance of the role of HR as a key factor of competitiveness and the importance of organizational factors as key factors that determine the value of business performance (Vadell & Orfila-Sintes, 2007: 71). Okumus & Hemmington (1998: 287) point out that hotel industry implies the presence of an autocratic management style, lack of unions, high labor turnover and low wages.

The competitiveness of a tourism destination depends on the innovative capacity of tourism companies (Vadell & Orfila-Sintes 2007: 70). Hotel management should always encourage its team to be more innovative. Service innovation, whose development can be complex, requires knowledge and ideas and, thereby, has the potential to become a source of differentiation in comparison to the competitors (Gopalakrishnan et al., 1999; Prajogo & Oke, 2016: 978).

Innovative activities in the organization of work are a prerequisite for successful implementation of process and product innovation, affecting thus the business success of a company (Auh & Menguc, 2005; Hult et al., 2004; Kessler et al., 2015: 1712). Innovations based on the philosophy of learning, enable companies not only to adapt to competitive change but also to develop new mental models of the business environment and thus proactively anticipate changes (Kearney et al., 2014: 100).

In order to successfully create and implement innovations, it is necessary to precisely define the meaning of innovation. Innovations represent the implementation of a new or considerably improved product, service, or process, marketing method or a new organizational method in business, organization of work, or the relations of a business entity with the environment (OECD 2005, Statistical Yearbook of Serbia 2016:370; Kessler et al., 2015:1708). Schumpeter (1934) defines innovation as a new way to get things done, i.e. a new and unique combination of production factors (Kessler et al., 2015: 1709). Nieves & Diaz-Meneses (2016: 1555) define innovation as a system of interactive learning. Campo et al. (2014: 1295) and Agarwal et al. (2003) define innovation in a hotel business as an orientation of business toward the incorporation of new products and new processes for its internal administration, whether marketing or organizational, in the competitive context of its market and it can be evaluated through the inputs invested in its generation from the perspective of hotel managers.

Researchers generally distinguish between a process innovation and a product innovation (Kessler et al., 2015; Kafetzopoulos et al., 2015: 1182; Kearney et al., 2014:98; Vadell & Orfila-Sintes, 2007). Product innovations are brand new goods/service or their improved characteristics, specifications, implemented software and other intangible components (Vadell & Orfila-Sintes, 2007:71). Process innovations include new and significantly improved production technology, new and significantly improved methods of service provision and product delivery (Vadell & Orfila-Sintes, 2007:71). Product innovation and process innovation are mutually referred to as technological innovation (Statistical Yearbook of the Republic of Serbia, 2016:370). Besides these two categories, there are innovations in the organization of a business entity and innovations in marketing. This type of innovation is defined as a new application or a substantial change in the structure or methods of management, with the intention to improve the use of knowledge, the

quality of products/services, or the efficiency of business flows (Statistical Yearbook of Serbia 2016:370). The innovation in marketing comprises applying a new marketing method, which involves significant changes in product design, packaging, labelling, placement and promotion, as well as the product charging (Statistical Yearbook of Serbia 2016:370). Certain authors (Kearney et al., 2014:98) enrich this classification with the concepts of externally determined innovations and incorporated innovation. Chahal & Bakshi (2015) distinguish between incremental and radical innovation. Incremental innovations are related to the improvement of existing products, services and technologies while radical ones refer to the launch of new products, services and technologies.

Basic hotel services are accommodation and food services. However, having only these services on offer, a hotel can neither differentiate its offer in relation to their competitors nor create a stable competitive position. Over time, hoteliers are trying to innovate their core services and offer guests some additional content in order to meet their satisfaction. In recent times especially popular have become innovations such as wellness and spa service, rent-a-car, the offer of additional entertainment activities, transfer and storage of personal belongings and the like. Hospitality is not an area that offers too many opportunities for innovation of hotel services, which makes it even more challenging for managers who see innovations as the possibility to differentiate and maintain competitive advantage. Monitoring the implementation achievement of innovative activities requires the definition of appropriate indicators. Kessler et al. (2015) point out three key indicators that measure the performance of implemented innovations in the hotel industry, those being market success, financial success and the employee-related success.

Since the hotel business has somewhat limited opportunities for the creation of new innovative services, innovative activities can be conducted in the field of the Internet use, marketing, or customer loyalty. Vadell & Orfila-Sintes (2007) point out that the hotel industry can innovate by using the Internet for developing external relations. Determinants of the Internet innovation are: hotel size, the number of operating months, business operations within a hotel chain or vertical integration, manager attitudes and their opinion on internet innovation (Vadell & Orfila-Sintes, 2007). Nieves & Diaz-Meneses (2016) point out that marketing innovation is critical for hotel industry. Based on the

study, they conclude that collective knowledge has a direct impact on marketing innovation in hotels. Loyalty programs are also an important category in the process of creating innovation. The use of new strategies for pricing services is another type of marketing innovation (Nieves & Diaz-Meneses, 2016: 1557).

Campo et al. (2014) analyse the development of innovation in hotel industry in the period of financial crisis. They conclude that short-term performance is not directly and positively affected by innovation whereas middle- and long-term performance is. In the conditions of financial crisis, investing in R&D is reduced, while an increased investment in innovation brings about the growth of both productivity and enterprise itself.

In hotel companies, innovating must become a part of daily activities. Not only do innovative hotel services differentiate a hotel or hotel chain, but they also affect the creation of loyal guests. Creating a brand new hotel product is not typical for this service industry, so innovation is mainly based on expanding and enriching the existing hotel products. Implementation achievement and innovation acceptance (by the consumer) will depend on the nature of the target group of guests and the fine-tuning of the offer to their wishes and requirements.

Innovation activity in Serbia

Innovation management in hospitality comprises a set of knowledge and skills, faster adaptation to changes, and the power of rating the importance of certain events, so that hotel staff would be able to promptly and appropriately respond to customer needs, which would directly influence their level of satisfaction. The development of innovation in the hotel industry depends on the level of economic development of the country. Serbia, as a developing economy, characterized structural problems, data unavailability, and high macroeconomic volatility (Pažun et al., 2016:48).

Table 1 shows the businesses operating in the Republic of Serbia that introduced some type of innovation in the reported period (2012-2014), those being a product or process innovations, innovation in the organization or marketing innovation. The share of businesses that introduced at least one of the given types of innovations is about 40% of the total number of business entities. 37% of small-sized enterprises,

52.7% of medium-sized ones and over 68% of large enterprises could be labelled as innovative. Innovative activities are equally represented at both production and service businesses, where the innovations are introduced by slightly more than 40% of businesses (The Statement of Statistical Office of the Republic of Serbia, 2015:1).

Table 1: *Business enterprises according to innovation activity, industry or size, 2012-2014*

	Total	Innovators	Enterprises with no innovating activity	Share of innovators, %
Σ	16,659	6,739	9,920	40.5%
Small-sized enterprise	13,863	5,182	8,681	37.4%
Medium-sized enterprise	2,253	1,187	1,066	52.7%
Large enterprise	543	370	173	68.1%
Production businesses	4,865	1,977	2,888	40.6%
Service businesses	11,794	4,762	7,032	40.4%

Source: *The Statement of Statistical Office of the Republic of Serbia (2015). Indicators of innovative activity in the Republic of Serbia. Statistical Office of the Republic of Serbia, br. 276., 22.10.2015. str. 1.*

Taking into account the size of business entities in the Republic of Serbia, Table 2 shows data on the type of innovation. Generally speaking, the largest number of innovations is introduced in organizations (24.9%). As far as the size of a business is concerned, innovations in the organisation of work are the predominant ones within all three types of businesses. The most numerous non-innovators persist in the category of small enterprises (62.8%).

Table 2: *Different types of innovations according to the size of business entity*

Business enterprise size	Business enterprises – Innovators					Non-Innovators
	Product/Service innovation	Production process innovation	Abandoned innovations or those in progress	Innovations in an organisation	Marketing innovations	
Total	20.4	20.2	10.9	24.9	23.8	59.5
Small	18.5	17.4	9.6	21.9	21.2	62.8
Medium	27.8	31.2	13.4	37.9	35.8	46.5
Large	39.4	43.1	32.6	47.1	37.9	31.8

Source: *The Statement of Statistical Office of the Republic of Serbia (2015). Indicators of innovative activity in the Republic of Serbia. Statistical Office of the Republic of Serbia, br. 276., 22.10.2015. str. 1.*

The data on innovative activities of business entities, classified according to the sections of activities, testify that in the sector of accommodation

and food services 46% of active companies are innovators while the remaining 54% are non-innovators. In the group of innovative enterprises, the sector of accommodation and food services is dominated by the innovators in the organization and marketing (41%) (The statement of Statistical Office of the Republic of Serbia, 2015:2).

Some kind of innovation is being introduced by about a half of all the business enterprises in the Republic of Serbia. Taking into account the business environment that our companies operate in, such a result is satisfactory. Further progress in innovation activities would depend on creating an adequate business climate and investment that would support the development of innovation within businesses.

Conclusion

Gaining and maintaining competitive advantage is the long-term goal of any company. The changeability of business operating conditions, more pressing competition and ever more demanding customers make company management create a "competitive weapon" that will help them in the business race. To create a competitive advantage, the company management has to work on finding ways to perform some activities in a better and different way from that of a competition or to possess something that competitors do not have. Innovation is a means by which companies can gain and maintain competitive advantage. There are four different forms of innovation: product/service innovation, process innovation, innovation in organization and innovation in marketing. Therefore, management, based on the analysis of business operations, recognises the type of innovation that can be developed in a hotel according to their line of business, the target group of guests and hotel infrastructure.

Hospitality is characterized by seasonal employment, below-average wages, irregular working hours, simple labor and limited promotion opportunities. These are the very characteristics which make it difficult for hotel managers to attract and retain talented employees who are the leaders of creating innovation. Skilled and motivated employees provide creative suggestions, ideas and research activities in order to come to new innovative solutions. Thus, in the process of acquiring and maintaining competitive advantage, the most critical role is played by HR. Creating a brand new hotel product is not typical for this service industry, so

innovation is mainly based on expanding and enriching the already existing hotel offer.

A little less than a half of businesses in the Republic of Serbia is carrying out some kind of innovation activities. They are equally represented at both production and service businesses, where innovations are introduced by slightly more than 40% of businesses. In the sector of accommodation and food services, 46% of active companies are innovators with most innovations in organisation and marketing (41%). Such a result is satisfactory. However, it would further imply creation of an appropriate business climate that would support the innovation development within business entities.

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