Hotel innovations, non-financial performance and sustainable human resource management

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ABSTRACT

The vast majority of research suggests that innovative organizations perform better. This study investigates the role of sustainable HRM practices in understanding this relationship. Specifically, it investigates if the relationship between innovation and customer satisfaction is moderated by practices that promote employee competence development, wellbeing and rewards. Using 149 hotel managers located in Sweden, the study shows a positive relationship between innovation and customer satisfaction in hotels that care about the wellbeing and development of the employees. A negative relationship is found in hotels that lack these two sustainable HRM practices. The study contributes to research on the role of HRM in helping organizations achieve sustainable competitive advantage.

Keywords

Innovation, sustainable HRM practices, non-financial organizational performance, moderator.

INTRODUCTION

Innovations are pointed out as an important engine for business survival, competitiveness, and growth in the tourism and hospitality literature (e.g., Binder, Kessler, Mair, & Stummer, 2013; Orfila-Sintes & Mattsson, 2009; Ottenbacher, 2007). The relationship between innovation and hotel performance has been explored in literature. Innovative hotels are reported to performance better in terms of occupancy rate (Mattsson & Orfila-Sintes, 2014) and customer loyalty (Tsai, 2015). Ottenbacher and Gnoth (2005) as well as Chadee and Mattsson (1996) showed that innovative new products and services increase the financial performance and reputation of a hotel. Storey and Easingwood (1998) and Ottenbacher, Gnoth, and Jones (2006) also identified a positive link between innovation behavior and reputation. Hjalager(2010) and Hall and Williams (2008) argue that innovations have positive impacts on customer preference, service quality, employee productivity, firms' market value and share, and customer retention. Despite its significance, innovation and its relationship with organizational performance is a major challenge facing the hospitality industry internationally (Hjalager, 2002; Miralles, 2010; Ottenbacher & Gnoth, 2005).

HRM functions are compelled to cope with the dual responsibilities of providing a firm with the best employees to deliver improved financial performance, and a moral duty to these employees to provide a working environment that is equitable and encourages personal development (Paauwe, 2004). The success of the service sector predominantly relies on innovative services. However, labor-intensive industries, like hospitality, are dependent on the performance of the employees (El Masry, Kattara, & El Demerdash, 2004; Mohamed, 2016). Thus, in this paper HRM practices are suggested to play a role in the innovation-performance relationship. Specifically, the purpose of this study is to explore how HRM practices moderate the relationship between innovation and performance in the Swedish hotel sector.

LITERATURE

Innovation

Innovation is a commonly used term, in various settings and with different meanings. It is often associated with aspects such as creativity, novelty, value creation and economic growth. Schumpeter described innovation as "the creation of new possibilities for additional valued added, taking into account not only the typical product/process innovation of manufacturing but also market, organizational, and resource input innovation" (MartÍnez-Ros & Orfila-Sintes, 2009, p. 633). For him, innovations are functions of 'creative destruction' (Schumpeter, 1934), which challenges market equilibriums and provide new opportunities for exploration and revitalization by existing and new firms.

An often used definition of innovation is stated in The Oslo Manual (Eurostat & OECD, 2005), as it specifies academic guidelines for collecting and interpreting innovation data. In order to generate comparable results, research studies increasingly lean on OECD's guidelines for conceptualizing and measuring innovations. The Oslo Manual definition describes innovation as "the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations" (Eurostat & OECD, 2005, p. 46). Hence, the definition points out four different forms of innovation; product, process, marketing and organizational. A *product innovation* is here seen as the "introduction of a good or service that is new or significantly improved in terms of its characteristics or intended uses." (p. 48). Examples include significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. A *process innovation* is "the implementation of a new or significantly improved production or delivery method" that "includes significant changes in techniques, equipment and/or software" (p. 49). A *marketing innovation* is "the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing" (p. 49). Finally, an *organizational innovation* is "the implementation of a new organizational method in the firm's business practices, workplace organization or external relations" (p. 51).

Besides classifying innovations into four categories, The Oslo Manual describes all innovations in terms of their degree of novelty. The innovation can be new to the world, new to the market, or only new to the firm. An innovation is new to the world when the firm is the first to introduce the innovation for all markets and industries, domestic and international. Innovations are new to the market when the firm is the first to introduce the innovation on its market (the ‘market’ is simply defined as the firm and its competitors and it can include a geographic region or product line). A product, process, marketing method or organizational method may already have been implemented by other firms, but if it is new to the firm (or ‘significantly improved’), then it is an innovation for that firm. The level of novelty is much related to the earlier distinction between radical and incremental innovation, where the former involves major changes, whereas the latter advance the process of change in cumulative small steps. As radical and disruptive innovations break with what existed previously and result in non-obvious paths or ideas, such processes involve greater challenges, opportunities, cost and risk compared to incremental innovation.

Sustainable HRM

Ehnert (2009) defined sustainable HRM as “the pattern of planned or emerging human resource strategies and practices intended to enable organizational goal achievement while simultaneously reproducing the HR base [inside and outside the organization] over a long-lasting calendar time and controlling for self- induced side and feedback effects of HR systems on the HR base and thus on the company itself” (p. 74). Ehnert, Harry, and Zink (2013) view sustainable HRM as a design option for the employment relationship and as a contribution to sustainable corporate development. They argue that sustainability goes beyond being economically and environmentally sustainable. Social and human sustainability is at least equally important.

Strategic HRM includes a set of activities developed by HRM in order to effectively manage people and to contribute to the organization’s effectiveness and goals. Referring to previous research, Hobelsberger (2014) maintains that when organizational effectiveness and goals comprise economic, social and environmental criteria, sustainable HRM’s tasks are twofold: 1) providing human resource strategies based on a systemic and long-term approach, in order to stimulate and support an organization’s sustainability strategy, and 2) contributing to the organization’s survival by attracting, retaining and developing employees in order to preserve a quality human resources base. Hobelsberger (2014) contents employers need to consider that for organization's creating and retaining a good reputation, it must show consistency in how it manages the employees. Consequently, sustainable HRM is about demonstrating sincerity towards the employees, including providing decent work environment and conditions, development opportunities and being attentive to employees' physical and psychosocial wellbeing at work.

Innovations and performance - the role of sustainable HRM practices

Organizations spend substantial financial and human resources innovating. Some innovations succeed in enhancing organizational performance; others fail and likely to affect firm's performance adversely at least in the short term. Empirically, the relationship between innovation and financial and non-financial performance has been the focus of various studies. Majority of studies in the hospitality research report a positive relationship (Chadee & Mattsson, 1996; Mattsson & Orfila-Sintes, 2014; Ottenbacher & Gnoth, 2005; Ottenbacher et al., 2006; Storey & Easingwood, 1998; Tsai, 2015). However, research in non- hospitality field suggests this relationship is moderated. For instance, De Clercq, Thongpapanl, and Dimov (2011) report a stronger positive relationship between innovation and firm performance for higher levels of reported decision autonomy, trust, and organizational commitment. This study proposes that the human capabilities of the organization influence this relationship. Specifically, in organizational environments where HRM practices nurture employee wellbeing, learning and development, employees will be more willing to embrace introduced innovations. They will feel prepared and supported in their work role. This readiness is likely to assist them perform their jobs better. In contrast, in organizational environments that lack HRM practices that promote employee-welling and employee development employees are likely to feel not prepared to carry out tasks associated with the introduced innovations. This reasoning builds on the resource-based view (RBV) and the dynamic capabilities theories. Drawing on the resource-based view (Barney, 2001), how employees are perceived is very crucial for understanding the link between innovation and organizational performance. This theory postulates that physical, human and organizational resources are connected to the organization. These resources are unique assets viewed simultaneously as valuable, rare, imperfectly imitable and non-substitutable differentiate organizations from each other. So when these resources are effectively utilized they result in competitive advantage and high and sustained levels of organizational performance. Linking this reasoning to dynamic capabilities, Teece, Pisano, and Shuen (1997) define the term as the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. Dynamic capability is the capability of an organization to purposefully adapt an organization’s resource base. It involves, among other things, learning. As Teece et al. (1997) explain, the term 'dynamic' refers to “the capacity to renew competences so as to achieve congruence with the changing business environment” and the term 'capabilities' underlines “the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment” (p. 515). Previous research investigated employee capabilities as determinants for innovations. In this study, the proposition is that employee capabilities are crucial also in the aftermath of innovation production.

METHOD

Participants. An online questionnaire was sent to a sample of hotels registered as members in Swedish hospitality industry organization. In total, 195 hotels participated in the survey. The average age of the respondents is 50 years, average industry tenure is 19 years, average organizational tenure is 10.3 years, while average position tenure is 9 years.

Measures. Respondents were asked if their hotel produced any type of innovation (service, marketing, organizational or process) in 2014. Answers were coded 1 (yes) and 0 (no). Clarifications for each type of innovation were provided in the survey. Performance was measured using average customer ratings from the online website www.hotels.com. The final matched sample consisted of 149 hotels. Sustainable HRM practices were assessed using three concepts comprising competence-directed practices, employee-related practices, and reward-directed practices. Competence measure included three items, employee-related scale consisted of five items, and reward measure had two items. All these measures were taken from Nasution and Mavondo (2008) and anchored from (1) strongly disagree to (5) strongly agree. Cronbach alpha for all the measures exceeded .70. Other measures were collected to be used as control variables (e.g., hotel size, stand alone or group affiliation). These measures were dropped from the analysis as they did not have significant relationship with the key variables in this study.

Translation. The questions were translated from English to Swedish. Back translation was conducted to secure the validity and the translated items. Some modifications were made to adapt the items to the hotel industry.

RESULTS

Table 1 shows the bivariate correlation between the concepts in the study. In order to test the moderation, hierarchical regression analysis was used (Table 2). In the first step (Model 1), whether or not the hotel produced innovations in 2014 and the three sustainable HRM practices were inserted. In the second step (Model 2), the interaction terms between innovation production in 2014 and the three HR practices were inserted.

Insert Table 1 about here

Insert Table 2 about here

Model 1 (Table 2) shows that, after controlling for HRM practices, the introduction of an innovation in 2014 is not related to performance. The same model shows that sustainable HRM practices that are employee-directed relate positively to performance measured in terms of customer satisfaction ($\beta = .25$, $p < .01$). After inserting the interaction terms in the regression equation (Model 2), those hotels that innovated in 2014 tend to have more satisfied customer. It is also noticed that two interaction terms have statistically significant coefficients. Table 2 shows that sustainable HR practices that are related to competence and those related to employees interact with innovation production. Adding these interaction terms to the regression equation explains additional 6% of the variance in hotel’s non-financial performance. Following the steps presented in Cohen, Cohen, West, and Aiken (2013), these interactions are illustrated in Figures 1 and 2.

Insert Figure 1 about here

Insert Figure 2 about here

Hotels that did not innovate in 2014 have almost the same level of performance, regardless of the level of their HRM practices. The differences are more obvious among hotels that actually responded positively to the question about whether or not they produced an innovation. For those organizations, sustainable HRM practices are central for realizing the outcomes of the produced innovations. In high competence- and employee-related practices, innovation production is positively related to performance whereas in low levels of these two HR practices, innovation related negatively with performance.

DISCUSSION

The purpose of this paper is to investigate the moderating role of sustainable HRM practices in explaining the relationship between innovation production in Swedish hotels and their performance. Using responses from 149 hotel managers from Sweden, the results support what the RBV and dynamic capabilities suggest. HRM practices that are long-term oriented and that promote the physical and psychosocial wellbeing of the employees at work (i.e., sustainable HRM practices) are fundamental if organizations want to realize the positive outcomes of innovations on one type of non-financial organizational performance (customer satisfaction).

Perceived as a unique resource, employees are the ‘doers’ in organizations, they are the ones carrying out stated strategies to achieve organizational goals. Boxall, Ang, and Bartram (2011) argue that critical human interactions inside organizations account for performance outcomes. The implemented HRM practices shape many of these interactions. Developing the competence of employees (providing training and education, job matching and rotation, and offering clear career opportunities) and caring about employees’ wellbeing (satisfaction, motivation, employment security, viewing them as a valuable resource) are just two examples that help us understand how innovations in hotels actually influence the performance of the organization measured in terms of customer satisfaction.

The vast majority of research on the relationship between innovation and organizational performance suggests that innovative organizations perform better. This study shows that, at least in the hotel industry, this relationship is not as simple. In line with Teece et al. (1997), the results of this study show that learning (described in this study as competence development at the individual level) is a process that improves performance. Teece et al. maintain that through repetition, experimentation and the identification of new opportunities, employees will be more able to do tasks better and quicker. Organizational knowledge will be translated into routines (i.e., patterns of interactions that proved successful). Also, consistent with the RBV, the findings show that employees are important resource for achieving organizational goals and gaining organizational success. What the study reveals, though, is the moderating role of HRM practices. By that, it contributes to research on the role of HRM in achieving organizational goals in practice. Additionally, it contributes to research investigating the link between innovation and various types of organizational performance.

The implications of this study are multifold. For academicians, obviously further research should be directed towards studying the innovation-performance relationship. Although support has been found for a direct link between the two, obviously this simple relationship does not account for all the variation in certain types of organizational performance. For hotel managers, the findings show that attention should be paid to sustainable HRM practices. If organizations are seeking sustainable competitive advantage, they should consider designing and implementing HRM practices that focus on employee competence and wellbeing.

As any research, this study has limitations. The sample consists of only 149 hotel managers from one national context (Sweden). It also uses ratings from the website hotels.com as a proxy for one form of non-financial organizational performance. Nonetheless, the results provide insights about the significant role employee-oriented and long-term HRM practices play in realizing the positive outcomes of introducing innovations that organizations usually seek (i.e., better organizational performance). Additionally, the fact that ratings for the dependent variable were obtained from an external source strengthen the findings as second-source data eliminates potential common method bias.

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Table 1: Descriptive Statistics

	M	SD	1	2	3	4
1. Performance (online ratings)	4.00	.51				
2. Innovated or not in 2014	.71	.45	.11†			
3. HR practices Competence-related	3.18	.86	.11†	.37**		
4. HR practices Employee-related	4.38	.56	.24*	.12†	.45**	
5. HR practices Rewards-related	2.81	1.30	.08	.16*	.37**	.27**

†$p < .01$; *$p < .05$; **$p < .01$

Table 2: Hierarchical regression analysis

	Model 1	Model 2
	β	β
Innovated or not in 2014 (A)	.10	1.54*
HR practices Competence-related (B)	-.05	.28
HR practices Employee-related (C)	.25**	.41**
HR practices Rewards-related (D)	.02	-.13
Interaction 1: A x B		-.83*
Interaction 2: A x C		-1.07†
Interaction 3: A x D		.32
F	2.56*	**3.00
R^2	.07	.13
ΔR^2		.06*

†$p < .01$; *$p < .05$; **$p < .01$

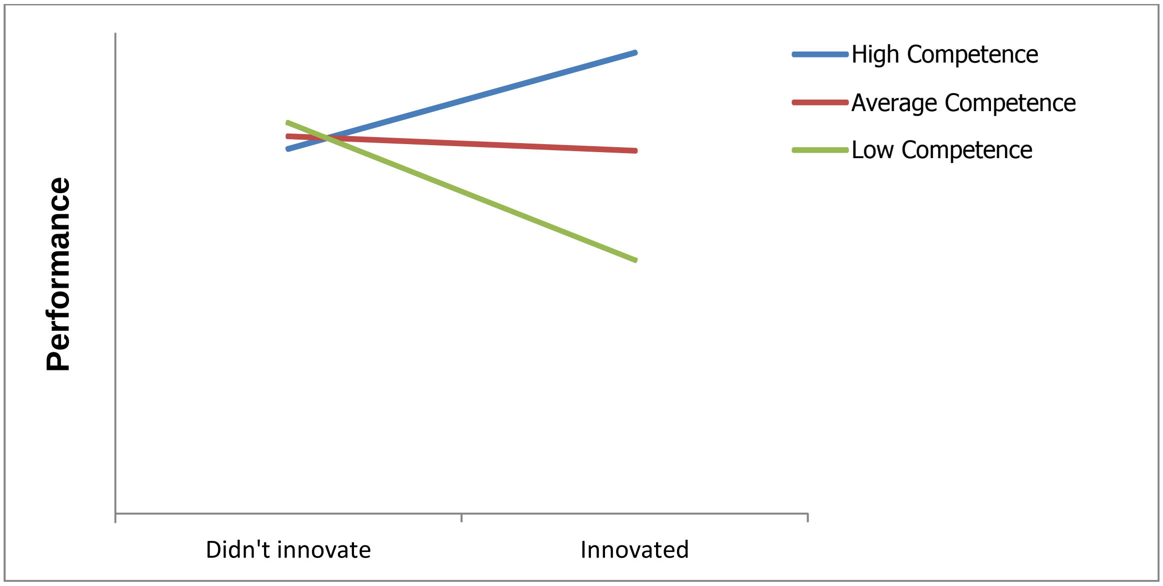

Figure 1: Competence-related HR practices as a moderator

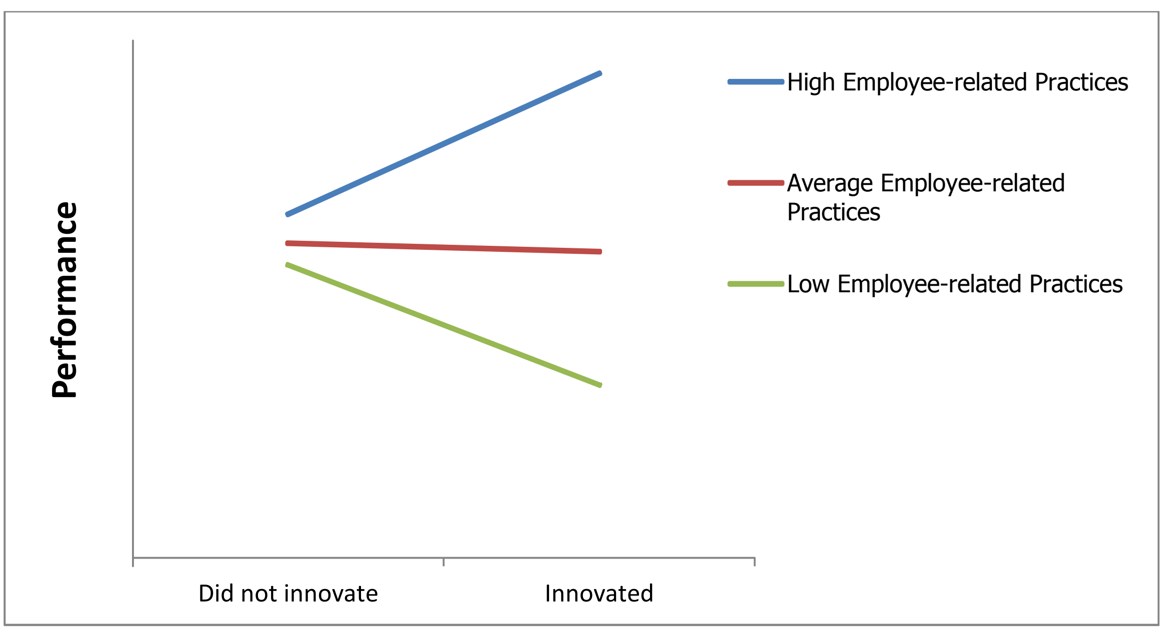

Figure 2: Employee-related HR practices as a moderator