

# The Comparison of Service Innovation Between High Level Hotels and Budget Hotels in China

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**Abstract** Because of global competition, new products and services appear rapidly in hotel industry but customer-oriented research on hotel service innovation is rare. From customers' perspective, the authors find out innovative products and services in budget hotels and high level hotels by participant observation and informal personal interview. Then these items will be classified twice by Delphi Method. And based on the levels of products and services theory which has been widely used in researches on hotels and the types of service innovation, an in-depth analysis about the features and reasons has been given. The purposes of this research are firstly finding innovation emphasis and tendencies of different hotel ranks, and then supplying suggestions for forming advantages and diversification strategies in the fierce market competition according to the customers' cognition and preferences of service innovation.

**Keywords** Service innovation · High level hotels · Budget hotels · Levels of products and services · Types of service innovation

## 1 Introduction

Now a days, because of globalization, the competence of hospitality industry in China is increasingly becoming fierce. The market demand can be divided into high level and low level, and therefore two kinds of hotels prosper rapidly, which are high level hotels and budget hotels. There are many kinds of competition ways, but because every hotel hopes to achieve success as soon as possible, then the competition tactics are usually limited to price. Price war always leads to lose-lose results in service industry and even disturbs the market order. Consequently, some famous international hotel chains and local hotel chains choose service innovation

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as the crucial competitive strategy coincidentally. It is widely recognized that the high level hotels master much more powerful innovation ability than budget hotels, because of rich managerial experiences, abundant financial resources, and advanced skills. It is true that an individual budget hotel lacks of the ability to innovate products or services. But for a budget hotel chain, service innovation will not be inferior to high level hotels. The main reason for this is that the head office of budget hotel chain plays a vital role, and the innovation output pattern has been established. It is obvious that the target markets of high level and budget hotels are different, so that there will be distinction in service innovation of these two types hotels. Under the levels of products and services theory and the types of service innovation, for finding out their own features, this paper contrasts the differences between high level hotels and budget hotels based on participation investigation and in-depth analysis. At last, this paper summarizes the current situation and future trend of service innovation and gives some suggestion on the diversification strategies in hotel industry.

## 2 Service Innovation

At present, the economic environment has changed tremendously and the service industries contribute increasingly to the global economy. In order to cope with the more and more competitive environments, which are driven by the revolution in information and communication technologies and by the emergence of a knowledge-based economy (Camacho and Rodríguez 2005), the hotels have to develop their own core abilities in which innovation is a key element and will naturally help a hotel gain competitive advantage. Innovation is crucial in the contemporary economy, being far more important than land, capital, or labor (Drucker 1994). In the Oslo Manual, innovation is defined as a technological product: innovation is the implementation/commercialization of a product with improved performance characteristics such as to deliver objectively new or improved services to the consumer (OECD 1997). Rogers' diffusion of innovations theory defines an innovation as an "idea, practice, or object that is perceived as new by an individual or other unit of adoption" (Rogers 2003). Within the Consumer-Oriented Definition, Johns and Mattsson claim that in services the active participation of customers in the conception and realization of an innovation is a necessary condition for success (Johns and Mattsson 2003).

It is widely acknowledged that the value of any service to a customer is ultimately realized, created, and determined by the customer itself in the service use situation. Riepula and Kuusisto declare that this idea is often lacking in the current service innovation literature, and then they define service innovation as a change resulting in an increase in net customer value over time, such as a high-value adding innovation directly increasing the customer benefits or an innovation making it easier for the customer to adopt a new service (Riepula and Kuusisto 2011). In fact, most of the relevant literature and the empirical studies on innovation in

the service sector reveal that, except for certain sectors such as information and telecommunications, innovation comes into the operations of a service firm primarily through the acquisition of equipment, material, and components from suppliers in other sectors (Orfila-Sintes and Mattsson 2009), especially in some nonintensive knowledge businesses, such as accommodation sector.

The value of innovation has been clearly analyzed but researches on lodging sector are sparse, especially from consumer perspective. Typical studies are involved in the innovation process, innovation elements, innovation types, influence factors, and performance appraisal. Almost all these researches are oriented by the service provider perspective. M. Shahadat et al. review the existing New Service Development models and investigate if they explain the innovation process in hotels both in Canada and the US, then propose an activity-based innovation process model for hotels (Hossain et al. 2010). Tseng et al. gather data from the 863 hotels and attempt to state some facts about the importance of innovation in the hotel industry by classifying the configurations of innovation in Taiwanese hotels (Tseng et al. 2008). López-Fernández et al. analyze data from 443 Spanish hospitality firms and highlighted four factors that encourage innovation, which are large firm size, membership in a business group (that is, a franchise, management contract, or membership association), willingness to change, and a sufficiently strong bureaucratic framework to manage and institutionalize any innovations (López-Fernández et al. 2011). Fernández et al. make a continuous study on innovation activities in the hotel industry and fulfill the lack of analysis in the field of tourism, including the function of innovation (Orfila-Sintes et al. 2005), positive factors affecting internet innovation (Vadell and Orfila-Sintes 2007), innovation decisions, determinants, and performances (Orfila-Sintes and Mattsson 2009). Ottenbacher obtained data on 185 hospitality innovations and identified three performance dimensions: market performance, financial performance, employee and customer relationship enhancement (Ottenbacher 2007). These findings are usually obtained by deep investigation in hotels, such as interviews and questionnaires, which are conducted among managers and employees but not guests in hotels. Victorino et al. survey approximately 1,000 travelers in the United States to find the relationship between service innovation and customers' choices, and then provide an excellent tool for managers deciding on which innovations to implement (Victorino et al. 1991). It is very important to know how to develop new services that are responsive to customer need. It has been accepted that firms should be customer-oriented because these firms are more likely to deliver better service quality and enhance customer satisfaction (Hartline et al. 2000). But lack of empirical studies extends this notion to service innovation in hospitality sector.

In China, a large amount of studies describe the service innovation in hotels without empirical research. The topics concentrate on the importance and principles of service innovation and discuss the strategies and tactics for hotel management, which are also based on the service provider perspective. The quantitative studies are more concerned with the influence factors and performance of innovation in hotels. Based on survey of 149 employees in Fujian star hotel,

Yanning shows that the knowledge sharing, team culture, and service innovation have significant correlation, and team culture has a very significant role of regulation (Yan 2011). Also based on the survey of hotel employees, Xuchunxiao and Zoujian indicate that knowledge-sharing behavior has significantly positive impact on the improvement of innovative environment, employees' awareness for innovation, and their innovation performance (Xu and Zou 2010). Then Yangying drew the same conclusion from the survey of employees in hotels in Nanjing (Yang 2011). Lvyihua and Xuyangqian use the Multi-level Fuzzy Comprehensive Evaluation method to evaluate the service product innovation in hotels (Lv and Xu 2008).

Service is often relational in a more direct sense than production (GrÖnroos 2000) and personal interaction between the customer and the service provider is at the heart of many services (Czepiel et al. 1985); therefore, research on innovation from customer perspective has been stated as important, yet difficult. This research investigates service innovations in high level hotels and budget hotels based on customer observation. This is a very important action because service innovation in hotels should be perceived by their customer to gain successes. In order to gain insights into the innovation differences between high level hotels and budget hotels, a comparison is made after the observation.

### 3 Research Framework

#### 3.1 *Levels of Products and Services*

An axiom of new product development efforts is that to be successful a product must satisfy customers' needs (Voss and Voss 2000). Services are a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and that are usually considered as including four levels (Kotler et al. 2010). The levels of products and services theory, which are indicated by Philip Kotler, include the core product, the facilitating product, the supporting product, and the augmented product (Kotler et al. 2010). The core product is what the customer really need and which is present by the facilitating products for the guest to use. Supporting products are extra products offered to add value to the core product and help to differentiate it from the competition (Kotler et al. 2010). The augmented product refers to the delivery of the service, such as interaction between customers and producer.

For service innovation, these four levels of products and services should be involved because customers' needs diversify in different levels even for the same thing. For example, a guest room in a budget hotel is a service product, which is needed by customer on the market. In terms of guest room innovation, some person may need a more comfortable bed, which belongs to the facilitating product, while others may want free WiFi in guest room, which belongs to the supporting product. The augmented product plays a crucial role in new service development

since sourcing ideas for service innovation could be done through service encounters (Sundbo 2011).

The levels of products and services theory analyzes customers' need based on the process of use and emphasizes the determining effects of customer. This article tries to classify service innovations in both high level and budget hotels based on this theory after innovative item identification by Delphi Method. The purpose is to find the existing difference of service innovation in lodging sector and the trend of development.

### ***3.2 Types of Service Innovation***

Service innovation in lodging sector may be classified into different and relevant types. The most common distinction within the innovation literature is between product innovations, which create or improve on products, and process innovations, which address how an organization does its business, including external processes and service enhancements (Vila et al. 2012). Based on this, Vila et al. adopt Novelli, Schmitz, and Spencer's framework, which includes four types of tourism innovation as follows: product innovations, processes innovations, knowledge of the market and management innovations (Vila et al. 2012). Moreover, from the four clusters of concern mentioned in Ottenbacher and Gnoth (2005) and from the literature on hospitality innovation, Orfila-Sintes classifies service innovation into four types, which are management innovation, innovation in external communications, service scope innovation, and back-office innovation (Orfila-Sintes and Mattsson 2009). But from consumer perspective, there are some innovative actions that cannot be observed or discovered by buyers, such as management innovation. With reference to the customers, they only can find innovations, tangible or intangible, relative to the products or services they used or encountered. Taken in this sense, four types of innovation are adjusted as follows:

- Product innovation: new products and services developed by hotels themselves, especially fulfilling diversified customers' needs,
- Technical innovation: new products and services developed through the acquisition of new technologies from suppliers or other sectors,
- Process innovation: new services developed through the service encounter, the interaction between customers and servant or between customers and equipments,
- Institutional innovation: new institution or adjusted institution that should be followed in the transaction between an individual hotel and its customers.

In our exploratory study, types of innovation are used in the comparison of innovation between the budget hotel and high level hotel. Innovative items will be classified by types via Delphi Method and the emphasis of service innovation would be identified.

## 4 Methodology

This study reviewed theoretical discussions regarding the service innovation and in order to identify practical innovative items in hotels, the method of participant observation lasting 24 h has been used, where the researches were accompanied by other researches. During participant observation, the researchers were posing as guests following the whole process of living in a hotel in order to find tangible and intangible innovations as much as possible.

Sample selection is based on the market performance and the rank defined by the Tourism Administration. Eight famous budget hotel groups in China have been chose and thirteen brands have been investigated including: Yitel, Home Inn Express and Motel 168 of Homeinns Group, Hanting Season Hotel, Hanting Express and Hanting Hi Inn of Hanting Inns & Hotels Group, Orange Crystal Hotel and Orange Hotel of Orange Hotel (China) Co., Ltd (wholly foreign-owned enterprises), 7-Days Inn, Jinjiang Inn, Green Tree Inn, Super 8 Hotel of Wyndham Hotel Group and Pod Inn.<sup>1</sup> These 13 brands in the article not only include traditional budget hotels, but also contain some new types because of brand extension. Therefore, the research object in this study is limited service hotel, which is a broader concept than express hotel. One famous high level hotel group, which is Starwood Hotels & Resorts Worldwide and an independent hotel has been chose and the ST. Regis Tianjin, the Sheraton Tianjin Hotel, and the Tianjin Yilan International Hotel have been investigated. Another two hotels of different groups and one independent hotel have been observed without the check-in and check-out act, which include Renaissance Tianjin Downtown Hotel of Marriott International, Holiday Inn Tianjin Riverside of InterContinental Hotels Group, and Tianjin Wealthy Hotel.

As with all methods there are some limitations as well. In the investigation, only one hotel has been selected for each brand, which may lead to incomplete study. A great deal of second hand information relevant to service innovation in hotels has been collected to supplement. An at least 2 h discussion is made by investigators after each observation to form short kinds names to describe innovative products and services.

After the initial period of participant observation, the comparison between high level hotels and budget hotels has been made. Since the comparison between individual items is meaningless, all the identified service innovations firstly are classified by the levels of products and services, and then the types of service innovation via Delphi Method. The reason for using Delphi Method is to acquire the experts' initial contributions to the classification as no related studies has been done from customer perspective. Eight facilitators including researchers and managers in hotel industry who hold knowledge on hotel service innovation are invited to make their own judgments. They distinguish all the kinds of service innovation with the detailed information (description paragraphs and pictures of innovative things or activities) supplied by the research team. After four rounds, the final results are obtained and based on them, some analysis and discussions are given.

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<sup>1</sup> The hotel group name is not showed if it is the same to the brand name.

## 5 Results

### 5.1 Service Innovation Identification

After the observation, forty kinds of service innovation have been discovered in budget hotels, while forty-three kinds have been found in high level hotels, and the specific name of these innovations is showed in Tables 1 and 2. But this does not mean the true amount of innovative things and activities in hotel industry because usually several or a number of innovations are represented by the same name. For example, the category of guest room facilities of budget hotels represents existing innovative items of television, sound, door bell, closet, sofa, partition walls, windows, and curtains. In another example, the category of multifunctional facilities of high level hotels may include many different types of equipment, which are developed to finish diverse tasks, such as a safe deposit box also can be used to charge the laptop.

There are some same names of innovation category in both two kinds of hotels, and it is very important that the same name may describe totally different degree of innovation. For instance, the term accessibility facilities usually refer to facilities convenient for heavy luggage or wheel chair in budget hotels, but in high hotels, it actually means facilities for all kinds of disabled persons, such as packaging and printing material with Braille alphabet for the blind.

Another significant difference is the communication of service innovation. In the budget hotels, nearly all the innovations will be displayed in each individual hotel by pictures or texts on the wall and bulletins in the lobby, especially the Hanting Inns & Hotels Group. In high level hotels, these communications can never be found in the operating area, and then it is necessary for us to make some informal interviews with employees in each hotel. For individual guests,

**Table 1** Service innovation of budget hotels

| Name                              | Name                            | Name                      |
|-----------------------------------|---------------------------------|---------------------------|
| Accessibility facilities          | Environment protection measures | Payment methods           |
| Breakfast service                 | Exhibition system               | Quality evaluation system |
| Business service                  | Feedback service                | Reservation channel       |
| Check in process                  | Front office design             | Reservation process       |
| Check in time                     | Front office service            | Service facilities        |
| Check out process                 | Guest room air quality          | Service level             |
| Corporate identity                | Guest room design               | Sleeping system           |
| Cultural atmosphere               | Guest room facilities           | Sound insulation design   |
| Cultural environment              | Guest room network              | Space design              |
| Decoration and display            | Guest room service              | Space guide system        |
| Dinner service                    | Information service             | Special service           |
| Elevator and staircase            | Interaction activities          | Washing facilities        |
| Entrance guard system             | Location environment            |                           |
| Environment protection facilities | Membership privilege            |                           |

**Table 2** Service innovation of high hotels

| Name                          | Name                       | Name                            |
|-------------------------------|----------------------------|---------------------------------|
| Accessibility facilities      | Guest room recreation      | Products replacement regulation |
| Building design               | Gymnasium service          | Recreation facilities           |
| Charity activities            | Healthy food               | Reservation process             |
| Children privilege            | Hotel atmosphere           | Safety and security service     |
| Concierge service             | Individuation promotion    | Secrecy design                  |
| Corporate identity            | Information reminding      | Service type augment            |
| Customer preference extension | Interaction activities     | Sleeping system                 |
| Customize service             | Limited edition products   | Smart navigation                |
| Entertainment performance     | Lobby design               | Space design                    |
| Entrance guard system         | Local design               | Special local food supply       |
| Exclusive service             | Membership privilege       | Theme activities                |
| Food and beverage performance | Multifunctional facilities | Washing room design             |
| Food and beverage service     | Package service            | Washing room facilities         |
| Free service                  | Perfume                    |                                 |
| Guest room facilities         | Personal guidance          |                                 |

innovations would be a surprise for them and used by high level hotels to exceed the expectation of a guest to achieve customers’ satisfaction.

**5.2 Service Innovation Classification**

With Delphi Method, all kinds of service innovation are classified. Tables 3 and 4 show the quantity of innovative kinds in the levels of products and services and the types of service innovation. Tables 5 and 6 show the cross-over condition of

**Table 3** Quantity difference in levels of products and services

|                      | High level hotel | Budget hotel |
|----------------------|------------------|--------------|
| Core product         | 1                | 2            |
| Facilitating product | 9                | 15           |
| Supporting product   | 21               | 16           |
| Augmented product    | 12               | 7            |

**Table 4** Quantity difference in levels of service innovation

|                          | High level hotel | Budget hotel |
|--------------------------|------------------|--------------|
| Product innovation       | 18               | 17           |
| Technical innovation     | 4                | 7            |
| Process innovation       | 10               | 8            |
| Institutional innovation | 11               | 8            |



**Table 5** Budget hotel innovation

|                      | Product innovation | Technical innovation | Process innovation | Institutional innovation |
|----------------------|--------------------|----------------------|--------------------|--------------------------|
| Core product         | 2                  | 0                    | 0                  | 0                        |
| Facilitating product | 5                  | 4                    | 3                  | 3                        |
| Supporting product   | 9                  | 3                    | 2                  | 2                        |
| Augmented product    | 1                  | 0                    | 3                  | 3                        |

**Table 6** High level hotel innovation

|                      | Product innovation | Technical innovation | Process innovation | Institutional innovation |
|----------------------|--------------------|----------------------|--------------------|--------------------------|
| Core product         | 1                  | 0                    | 0                  | 0                        |
| Facilitating product | 4                  | 2                    | 3                  | 0                        |
| Supporting product   | 12                 | 1                    | 2                  | 6                        |
| Augmented product    | 0                  | 1                    | 6                  | 5                        |

service innovation in high level hotels and budget hotels. Then relevant analysis is given to reveal the differences and to explore the reasons.

### 5.2.1 Quantity Difference in Levels of Products and Service

From Table 3, there is rare service innovation that has been found in the core product level. This may because all the hotels that are observed only concentrate on the traditional hospitality service, which is accommodation, and even never try to investigate whether the existing core products would fulfill the variable needs or not. At other levels, this is not the case at all. The budget hotels pay much attention on the facilitating product innovation since these should be present for the guest to gain the core product. The high level hotels usually devote on the supporting product innovation to pursue customer satisfaction and to help draw and retain customers, and some budget hotels begin to notice this. Service innovation requires an understanding of the target markets and both budget hotels and high level hotels are able to accomplish. With reference to the augmented product, both kinds of hotels do not concern about service delivery innovation as much as the two levels mentioned above. In fact, how the customers receive the service affects the customers' perception and satisfaction. Some high level hotels make an effort on this, but with the restriction of fund and human resource, the budget hotels seldom develop new things at this level.

### 5.2.2 Quantity Difference in Types of Service Innovation

For both kinds of hotels, it is showed in Table 4 that product innovation is considered as the key element of service innovation, which means that every brand pays close attention to the changes of customers needs. The disadvantage is that product innovation is the easiest one to be imitated, especially in lodging industry. And because there is no regulation to protect the innovator, such as patent system, the imitator can pirate whatever product innovations as soon as possible without any punishment. On the contrary, the process innovation and the institutional innovation are relatively difficult to follow and are key elements to form the core competence. And these innovations are difficult to develop for much more resources, such as human, are needed. Therefore, the high level hotels take these more seriously than the budget hotels, but less important than the product innovation.

Although some researchers emphasize the acquisition of technology in other sectors for innovation in lodging industry, this phenomenon is not common in China. The budget hotels show a greater interest on the technical innovation than the high level hotels. Due to the traditional service concept in China, the high level hotels excessively concern the personnel service, which would give their customers luxurious feeling.

### 5.2.3 Cross-Over Analysis of Service Innovation

At the core product level, nontechnical process or institutional innovation has been found in both two kinds of hotels, which can be found in Tables 5 and 6. The core product is what the customer really wants, but neither the high level hotels nor the budget hotels realize the significance of innovation in this level, and it can be innovate by different ways. At other levels, the budget hotels emphasize the perceptible innovation, whereas the high level hotels put a higher value on participating innovation. The technical and product innovation are easier to perceive than the process and institutional innovation, especially at the facilitating and supporting product level, which are adopted frequently by the budget hotels. Obviously, the high level hotels try to involve customer participation in the new service development particularly at the augmented product level. It is a very good attempt in service innovation since process innovation is often based on the service encounter and is unique. As a result, innovation through service interaction can become a kind of inimitable resource to build sustainable competitiveness for an individual brand.

## 6 Discussion

Nowadays, the budget hotels try to differentiate their products by service innovation in the market competition. Usually, they concentrate on the innovative items, which can be easily noticed by customer, especially guest supplies. The question

is that these kinds of service innovation are quickly copied by rivals and then the budget hotels often go back into price war again. Some budget hotel groups realize this problem and begin to use diversification strategies, such as the Home inns Group and the Hanting Inns & Hotels Group. It is very interesting that these groups introduce some products and service, which are already supplied in high level hotels as service innovation when they develop some new brands for high-grade market segments rather than the regular ones, such as the Yitel and Hanting Season Hotel. Moreover, this situation, which means an effortless way to conduct service innovation, can be found widely in budget hotels. The imitation produces a desired short-term result, but in the long run this cannot be sustainable. Only very few budget hotel brands, which include the Hanting Hi Inn and the Orange Hotel, investigate niche market needs and develop new services from customer perspective. This action help the two brands dominate market promptly and will be the trend of service innovation, which can give rise to continuable competitive advantages.

As the one which has been imitated by the budget hotels in the market, the high level hotels perform superior service innovation, which involves guest participation. This method helps to personalize services in hotels and is hardly copied by rivals. It has been found that service innovation in high level hotels is usually followed to enhance customer satisfaction, but not to expand brand distinguishing, for it seldom makes comparison during market communication. Less communication, not enough initiative, or even intentionally hiding of service innovation by some untrained employees, especially process ones, all make only a portion of customers experience them. The key point of brand diversification strategy is to help their customers discover and enjoy service innovation of each brand timely, which would contribute to brand identification, forming brand preference among consumers, and encouraging repeated purchase.

## 7 Conclusion

This paper analyzes the differences of service innovation in hotel industry and indicate the relationship of new service development between high level hotels and budget hotels. Based on the current situation research, some problems of service innovation have been discovered and investigated, and then the authors give some suggestion with reference to the hotel industry development. Customer-oriented approach is adopted in this paper, but results are limited to the observation of several researches. In order to gain sustainable competitiveness in the market, a broader survey should be conducted among real customers of hotel industry to find out their perception and expectation of service innovation. Moreover, some relationships, such as the correlativity between service innovation and customer satisfaction or repurchase rate, would be confirmed by empirical researches. These questions will be the topic of further investigation in later studies.

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