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Introduction to the Cornell Hospitality Research Summit Special Issue: The New Science of Service Innovation in a Multipartner World

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Introduction

In this special issue we have assembled 10 papers that examine service innovation in the hospitality context. These papers were originally presented at the Cornell Hospitality Research Summit (CHRS) held in October 2014, and were subsequently refined for inclusion in this special issue. They reflect the new science of service innovation by relying on a research-based, scientific, and disciplined approach to hospitality; with an explicit desire to find solutions to real-world problems. The summit theme of the “New Science of Service Innovation,” was driven by a desire to use research as a catalyst for conversation about innovation between industry and academe in hospitality. The papers that follow highlight the thinking and scientific findings of select participants at the summit. The appendix provides some background information about the conference and how the papers were selected for this special issue.

Before we turn to these interesting papers, we wish to take this opportunity to reflect on a few questions that puzzle us and others who focus on service innovation. We wonder, what is innovation in hospitality? Where is innovation taking place? What are the types of innovations we are seeing and not seeing? Who are the innovators? Finally, we wonder, what is the future of innovation?

Key Questions for Those Interested in the Hospitality Industry

- What is innovation in hospitality?
- Where is innovation taking place?
- What types of innovations are we seeing and not seeing?
- Who are the innovators?
- What is the future of innovation?

What Is Innovation in Hospitality? Generally speaking innovation is the successful creation and delivery of a new or improved product, service, process, organization, supply chain, or business model (Enz and Harrison 2008, Villa et al. 2012). Simply put, it is the knowledge that turns an idea into value for the customer or cost reduction for the firm, and results in sustainable profit for the enterprise. From this broad definition comes the question of whether innovation is the search for new knowledge or is the refinement and exploitation of existing ideas.

Is refinement of current knowledge innovation? While many discuss invention and innovation interchangeably, systematically refining and carefully repurposing ideas may be more common within the hospitality industry. Some may argue that the industry is not innovative at all because it simply repurposes ideas created and defined in other industries. We, however, think this is far too simplistic a view. Many researchers acknowledge that the technological trajectories that drive innovation in manufacturing contexts are not at play in service sector firms, and thus, innovation in services and service innovation are fundamentally different (Barras 1990, Gallouj and Weinstein 1997, Miles 2001, Damanpour et al. 2009). Beyond noting that service innovation is not the same as other forms and service firms have unique characteristics, is a body of literature focused on the cocreation process and an acknowledgment of service innovation in a networked and information-centric world (Lusch and Nambisan 2015). This evolving view extends the research that has argued that competitive advantage exists when firms use knowledge-based resources to establish within-firm distinctiveness (Barney 1991) to appreciate and

consider that ideas can also be acquired, transferred, and absorbed through multifirm relationships and contracts. Do we need to invent something to be innovative? We think not, particularly in an industry such as hospitality that is driven by both a franchise model, and a complex web of alliances and joint ventures. The first paper in this special issue (Enz and Way 2016) discusses implementation of service innovation within the European hotels and explores some of the questions discussed above.

Where Is Innovation Taking Place? Where do we get knowledge in the changing industry landscape and what does that mean for where innovation surfaces? During the CHRS event, we posed several questions to attendees about where innovation is taking place. We found that many in attendance felt that vendors, suppliers, and most notably, outside technology companies were the sources of new ideas, new products, and new processes; many powered by the use of information technologies and data analytics. Insiders—defined as hotel owners—operators, and stay brands were less often considered to be innovators. We were struck by these perceptions. Is most innovation happening outside of the core brands and operating enterprises? Industry professionals have suggested that innovation and change is happening downstream or closer to the consumer end of the value system, as booking brands (e.g., Priceline and Expedia) grow in size and the distribution landscape continues to evolve. As Lee Pillsbury, CEO of Thayer Lodging Group, noted below,

In the second half of the 20th century, the disruptions occurred in the balance sheets, separating ownership and management, the financial engineering, and real estate investment trusts. In '96, Expedia arrived and launched a whole other set of disruptions that have taken place down towards the consumer. Disruptions have moved over a hundred years closer and closer to the consumer. (Shankman 2013)

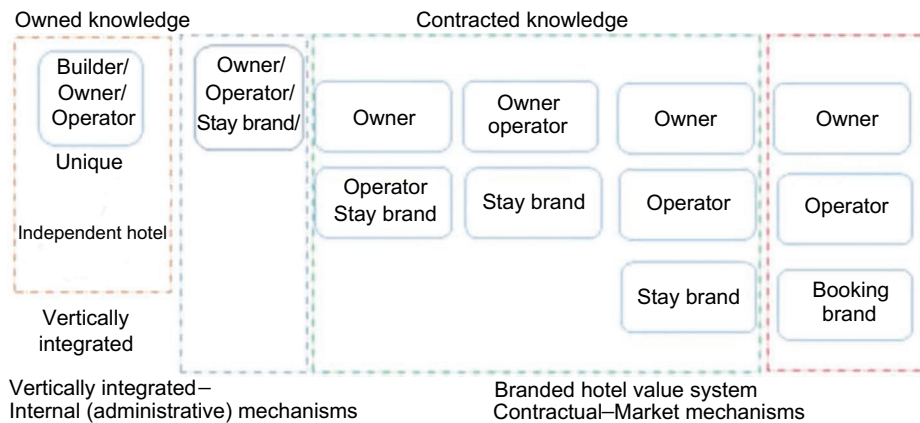
While the industry has always been filled with cooperative as well as competitive inter-organizational relationships, we suggest that a new ecosystem has emerged based on modular innovations. Because many ideas for innovations come from the customers, it may be worthwhile to explore new approaches for collecting information from the marketplace, such as social media. This issue was explored by Colicev et al. (2016) in a paper in this special issue.

Henderson and Clark (1990) introduced the notion that innovations could be both modular and architectural. Modular innovations were those that replaced a core design concept (competency destroying technological change) without changing the architectural knowledge of the whole system. While their typology was focused on products and intrafirm innovation, the typology they introduced has been more broadly applied to the question of what innovations fall within a firm's boundaries versus held in upstream or downstream partners in the ecosystem (Wolter and Veloso 2008, Lahiri and Narayanan 2013). This work has explored the performance of firms based on their level of vertical integration (*scope*) and alliance relationships in manufacturing contexts, suggesting that firms that increase their portfolio of alliance partners and are also less vertically integrated (more specialized) are able to enhance financial performance (Lahiri and Narayanan 2013).

The new hospitality ecosystem we suggest reflects less vertical integration and an even more complex environment of smaller alliance partners (*suppliers* and *complementors*) in which more firms are loosely connected. Alliance partners allow access to needed capabilities and complementary technologies often governed by franchise arrangements, joint ventures, distribution agreements, or technology-sharing contracts. In the past, organizational players were vertically integrated, built their own capabilities, and were internally managed. In the new hospitality ecosystem firms are smaller, vertically disaggregated, and managed by contracts as opposed to hierarchies and within-firm, complex, multidivisional administrative bureaucracies (Handy 1995).

Figure 1 provides an example of the shift from vertical integration to modularity. The new multipartner landscape suggests that as more players offer special services in the marketplace, innovations become more modular, which allows for greater variety and diversity of new ideas to flourish. As the figure illustrates, a hotel owner might have historically built the hotels they owned, and managed them as well. In the new ecosystem, more supplier and complementor organizations are at play, offering various services and assistance so that multiple enterprises are tied together via contractual market mechanism. It is not new that hospitality has relied on separate arrangements within the franchising model, but now, additional players downstream and data-focused vendors offer innovations that facilitate access to contracted knowledge. In short, exploiting or using other's innovations may replace the need to establish innovation within a firm.

What Types of Innovations Are We Seeing and Not Seeing? The evolving service innovation literature has not just observed that service innovation is distinct from the product and technology-centric types of innovation researched in manufacturing contexts, but further notes that service innovation relies on adopted technologies to enhance service efficiency, effectiveness, and to create new services (Barras 1986, Barrett et al. 2015). In a related paper in this special issue, Victorino and Dixon (2016) summarize some of the video-experimental

Figure 1. Shifting from Vertical Integration to Modularity

approaches that have been used in studying service innovation. Noone and Robson (2016) deploy an innovative eye-tracking technology to explore the impact of nonprice information on hotel choice decisions. In yet another paper, Chun and Hiang (2016) explore the differences between experiential and material gifts from customers' perspectives. They conclude that firms should take into account the consumption occasions to effectively design and bundle services.

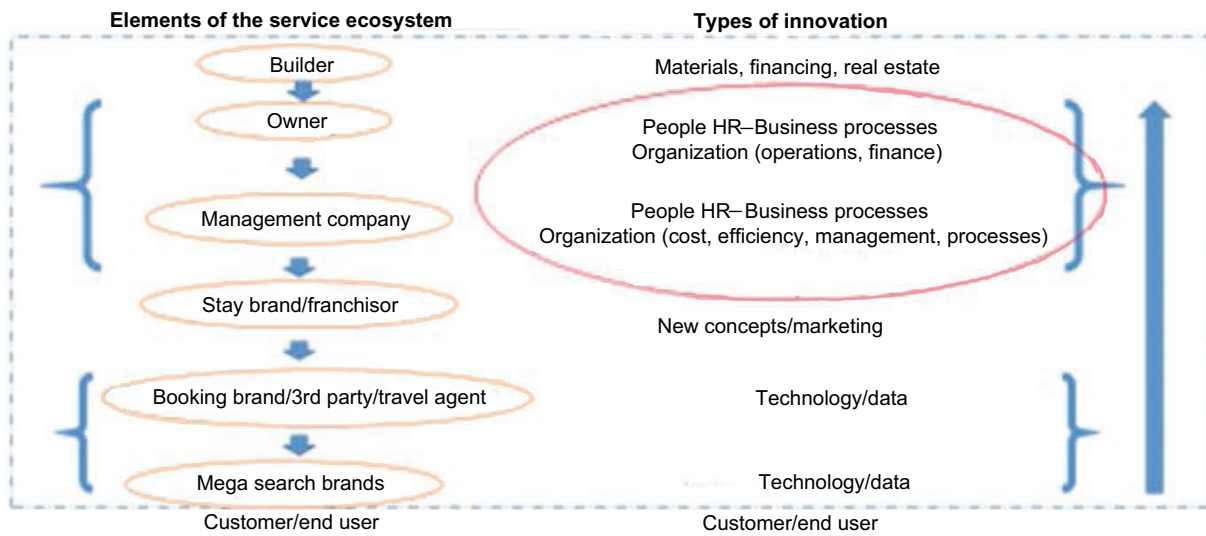
In spite of the unique methodologies and topics presented in the papers of this special issue, much of the literature has not shifted to discussions of modularity and interfirm relationships, but remains focused on “high-tech” industries that build innovation platforms and technology trajectories with many complementary products (Hertog et al. 2011). New service sector theories of modularity are needed to more deeply understand complementary enterprises and “low-tech” platforms.

Building on the growing service innovation literature that considers how multipartner ecosystems can change customer service interfaces and service delivery systems, we wish to suggest that the type of service innovations we see in the hospitality industry depend on which firms we look at. Throughout the summit we found agreement from many practitioners that along with the rapid increase in big data to facilitate the optimization of revenue, shifts in technology, continuous operational improvements, investments in employee performance, and management of the customer experience are key to the delivery of service innovation. As many of the papers in this special issue suggest, the evolution of online customer behavior and guest intelligence is affecting hospitality distribution and customer service in new and rapidly evolving ways. Booking brands, third parties, travel intermediaries, meta-search brands, and many other downstream vendors are fueled by technology and data-centric innovations. Upstream real estate, financing, and material/construction innovations help inform investors and builders.

Figure 2 offers an example of different types of innovation based on where a firm operates in the value system. As the figure suggests, stay brands and franchisors are busy introducing new concepts, and hence, focus on product and marketing innovations. At the heart of hotel operations and management are opportunities for business process and human-resource-based innovations, including the possibility for automated, robotic, and self-service forms of service delivery.

Who Are the Innovators? In the new hospitality ecosystem we suggest different players will focus on different types of innovation in keeping with their value propositions, and their roles in the broader value system. We can expect suppliers and vendors, for example, to fuel technological innovations, while brands focus on new concepts and marketing. We argue that hotel operators will need to innovate in how they manage labor costs and develop individuals. However, firms may increasingly look to vendors for business-process innovations in areas such as payroll or benefits management (Davenport 2005). Prior research has shown that attraction, retention, training, career development, and skill building are perennial problems for the industry Enz (2009). We believe that now is the time for operators to focus even more attention on innovation in this domain. While the future may lead to new processes to automate service delivery, innovation may also return to the fundamentals of service delivery through new organizational designs and creative work redesign. Outsourcing information technology management and human resource administrative processes, along with select accounting and financial functions, may allow hospitality firms to focus more resources on service innovation.

Figure 2. Types of Innovation



What Is the Future of Innovation? The innovators of the future will continue to create new knowledge and find ways to exploit existing ideas. We would argue that hotel owners build their adaptive capacity, that is, their ability to adjust to a changing ecosystem, and rethink the value provided by all of their multifirm players. Building strong partnerships will be the key to their success. Brands are likely to continue to consolidate to give them inter-firm bargaining power, develop new concepts and deliver management expertise to their partners. Operators will need to invest in the service delivery process and guest interfaces through HR practices, in their efforts to create experiences and personalize. For example, Zhang and Joglekar (2016) illustrate that by focusing on service coproduction by customers and operations, firms can enhance learning by doing and therefore be more innovative. Automating and outsourcing some processes may be desirable, while enhancing team skills and building new organizational structures. Across the board skill at multifirm linkages is the future of innovation, in our opinion.

The cooperative future of the changing hospitality landscape will mean that innovation will be fragmented. Data and technology innovations will be downstream, and firms may not need to own their own core competencies as they can exploit the innovations of their partners. For example, in this special issue Mankad et al. (2016) describe how using text-analytics and automated data-mining approaches, hotels can analyze guest comments and identify many opportunities for improvement and innovation. Anderson et al. (2016) explain how data contained within guest reviews can be used to create a more appropriate hotel classification system. In another paper, van der Rest et al. (2016) demonstrate the use of conjoint analysis and two data-driven analytical techniques (search marketing & revenue management) to address a specific problem. Finally, Susskind and Curry (2016) examine the impact of tabletop technologies within the restaurant context.

The firms of the future will need to build healthy cooperative partnerships so that they can extract knowledge from others. As Ogilvie (2015) notes, firms will need skill in determining what to own, what to buy, what to share, and how to share it. He suggests that collaborative problem solving and design thinking will be key. We believe cooperative partnerships will also require skill at managing non-hierarchical relationships, working on HR practices for non-employees, and adapting organizational designs with new forms of lateral linkages (less hierarchical). Finally, investing in adaptive implementation or knowing how to spread and share innovations, is the key. In the end, the new science of innovation will rest on knowing how to change, when to change, and who to partner with to make change happen.

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Appendix. About Cornell Hospitality Research Summit 2014

The theme of the Cornell Hospitality Research Summit (CHRS) 2014 was “The Future of Service Innovation: The New Science of People, Organizations, Data, and Technology.” As a forum for direct, research-based dialog between industry and academe, CHRS 2014 was organized to enhance the understanding of service innovation, broadly defined. The conference theme “new science” of service innovation was a desire to apply new knowledge based on systematic analysis or data collection to address problems faced in hospitality and related service organizations. The subdomains of people, organization, data, and technology were selected for emphasis because producing solutions to complex problems in these domains are where much of the action is within innovation.

The conference received over 150 submissions, approximately equally from academic and industry scholars. After a review process by the conference advisory board, the conference cochairs selected about half of the papers for presentation during the conference. Unlike a typical academic conference where speakers present papers using slides, CHRS 2014 sessions themselves were organized innovatively. The speakers were encouraged to use one of the following four types of presentation formats: (1) “big question” sessions, where the moderator facilitated the discussion about the main theme of the papers included within the session; (2) “show and tell” sessions encouraged the presenters to demonstrate a practice, idea, process, program, etc. to encourage engagement and interaction between the presenters and attendees; (3) “point-counterpoint” sessions encouraged the speakers and attendees to take positions and debate on the key ideas included within the papers; (4) presenters were also encouraged to use innovative presentation techniques such as flipping the presentation (e.g., submitting a video presentation of slides ahead of time and using the allotted time in the session to discuss the paper). Social media and audience polling were also extensively used throughout the conference—both by presenters and the conference organizers.

The innovative approaches described above created a very engaged environment for both presenters and attendees. The conference was attended by approximately 275 attendees from 22 countries representing both industry and academia in equivalent numbers. After the conference, the cochairs invited the presenters of 24 highly rated submissions to develop full academic papers for consideration for publication in the special issue of *Service Science*. The submitted papers went through two to three rounds of double-blind reviews resulting in 10 papers selected for publication in this special issue.

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