

Impact of Innovations on Business Performances in the Hospitality Industry of Sri Lanka

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ABSTRACT

Innovation has been identified as the main object of the new business schedule. However, even though being, one of the most innovative sectors of the economy of Sri Lanka, the attention paid for innovations in the hotel industry of Sri Lanka is not yet at satisfactory level. Therefore, the purpose of this study was to identify and to emphasize the impact of product and service innovations on business performance in hotel industry of Sri Lanka. Data were collected from fifty hotels in Colombo, Kandy and Galle areas using a questionnaire. Chi-square test was conducted to find the relationship between team approach, turnover, employee contribution and innovation. Results revealed that team approach, turnover, and employee contribution have significant impact on innovations. Significantly higher percentage (36%) of the hotels representing Colombo, Kandy and Galle areas engage with innovative practices related to dining system. The study also identified obstacles that hinder innovation such as lack of information and technologies, resistance to change and lack of finance etc.

KEYWORDS: Business performance, Employee contribution, Innovation, Team approach

INTRODUCTION

Blessed with seven world heritages declared by UNESCO, Sri Lanka is considered to be one of the highest ranked spot rich with high cultural and biodiversity values and immense possibilities and potentials for transforming her to attract more and more tourists. Within the travel and tourism sector, the Sri Lankan hospitality industry is one of the fastest growing and most important segment, revenue-wise as well as employment-wise.

Hospitality is a long running tradition in Sri Lanka. However the 30 years long internal conflict and terrorism had a negative impact of tourism and the growth of the industry got stagnated. However after the end of the conflict in 2009 the country's tourism prospects look promising. In 2010 immediately after the end of the war Sri Lanka had a growth of 46% in tourism arrivals. From 2009 to 2011 the tourism arrivals doubled with the number of arrivals reaching 855,975 as at end 2011 contributing Rs. 44,254 million to the Gross Domestic Product (GDP) (Anon, 2013a). Compared to other tourism markets in nearby Asian countries, this is still a little success. With the competitive advantage in the world economy, every firms need to be perceived most possible ways to enter in to global value chain and to extend global market through international quality and standards.

Therefore, mobilization of knowledge, ideas, technology and experience to create new products, processes and services and accelerates "time to innovation" has become a main task in a hospitality industry. It is

essential to meet the needs of customers and to achieve a better position in the market and business performance. The global hospitality industry is adjusting accordingly in order to satisfy complex demands. According to Dobni (2008), innovation is often expressed through behaviors or activities that are ultimately linked to the tangible action or outcome.

The hospitality industry is no stranger to innovation and their innovations are differed from country to country and region to region. New customers, new social and economic environment, new destinations, new channels for information and distribution have led for many product innovations. The factors such as growing number of splitting couples, the increasing role of women, the ageing populations, the strong interweaving between work time and leisure activities, both transformations of values and consumption behavior, the internationalization of markets, a better knowledge of new technologies, the progress of urbanization and mobility, the development of various means of transportation have strongly led for coming up the tourism related ventures with more product/ service innovations (Jayawardhana *et al.*, 2011).

The main tourism innovations in the current world are mainly arisen due to a greater sensibility for environment and health, preference for sustainable products, dislike for mass products and looking for more individualized services, growing interest for safety during trips, increasing use of internet

and new fixed and mobile technologies (Anon, 2013b).

Key Performance Indicators (KPI) predicts the degree of efficiency that the business firms maintain in reaching their desired goals and business objectives. Business firms use indicators such as gross margin, return on investment, return on equity, net sales growth and net profit growth as common indicators to assess whether the firms have been able to reach the desired level of performances during defined time period. Business performances can be influenced by both industry environment and the organizational environment (Jayawardhana *et al.*, 2011).

Innovativeness is a main dimension that differentiates entrepreneurial business firm from a normal business venture. However, business objectives need to be driven by the customer satisfaction whilst concentrating on the competitors and all efforts need to be taken to serve customer needs. These emphasize need of reinforcing the diffusion of innovations by industry itself. Without innovation, hospitality service providers face the threats ultimately driving them out of business.

The management challenge is how to go about building the kind of organization in which such innovative behavior can flourish (Tidd *et al.*, 2001). Past studies revealed that having innovativeness as a core parts of the strategies of ventures as strategic orientation increase all market orientation, innovations and business performances. However, even though being, one of the most innovative sectors of the economy of Sri Lanka, the attention paid for innovations in the hotel industry of Sri Lanka is not yet at satisfactory level.

This study was undertaken to perceive whether product/service innovations lead on superior business performance in hospitality industry. Further, it attempts to show broad overview on innovations taking place in the industry according to various categories of hotels, making a brief outlook on future directions these innovations might take.

METHODOLOGY

Data Collection

Fifty hotels from Colombo, Kandy and Galle Districts which were approved by Tourism Development Authority in Sri Lanka (SLTDA) were selected as the sample and both classified and unclassified hotels were taken for the study to acquire an overall idea of the industry. Before conducting the real survey, a pilot survey was carried out in order to validate

the questionnaire (n = 5). The real survey was conducted among 50 hotels from February to March 2013. The questionnaire was constructed to measure that how innovations affect on business performance directly as well as indirectly. Five point Likert scale ranging from “very high” to “very low” was used to gather data about employee contribution on innovation.

Data Analysis

Both descriptive and inferential statistics were used to analyze data. Chi-Square test of independence was used to measure impact of annual turnover, team approach and employee contribution on innovations using Minitab 15.0 statistical software package.

A descriptive analysis was carried out to realize the most commonly practiced product/service innovations in hospitality industry among the identified strategies of dining system innovations, tourisms, behavioral innovations, medicine, cultural innovations, etc.

RESULTS AND DISCUSSION

Eighty percent of the classified and twenty percent of the unclassified hotels were taken representing Colombo, Galle and Kandy for the study. The annual turnover was very high in classified hotels ranging from 5 million to 50 million compared to unclassified hotel. The average number of rooms occupied per day was very high in five star hotels with respect to other classified hotels and unclassified hotels (Figure 1).

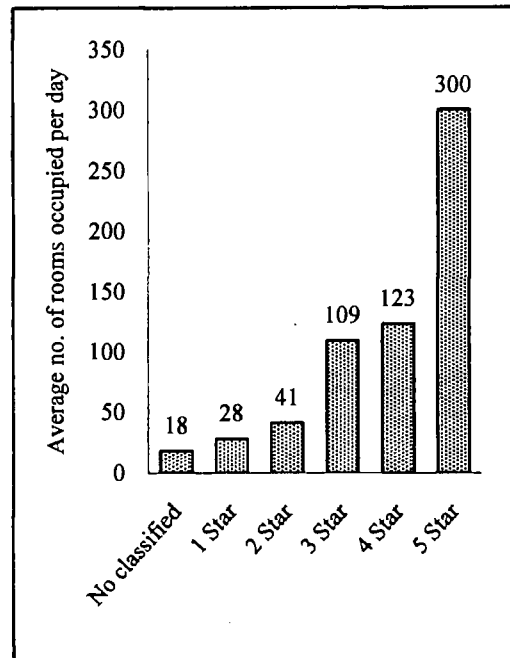


Figure 1. The average number of rooms occupied per day

Results of Chi Square Analysis

The Pearson Chi-square values indicate relationship between team approach, turn over, employee contribution and innovation. The results of Chi-square test revealed that there were significant impact of annual turnover and team approach on innovation in the hospitality industry at 95% confidence level and employee contribution had significant impact on innovation at 90% confidence level (Table1).

Table1. Relationship between innovation and the business performance factors

Variables	p value	Chi-Square value
Annual turnover	0.002 *	12.062
Team Approach	0.005 *	7.927
Employee contribution	0.062**	3.4888

*- significant at 0.05 level

** - significant at 0.1 level

Team Approach

Many organizations have turned to team-based work systems to increase their responsiveness and their ability to foster innovation. The characteristics of the work environment in an organization that impact on individual creativity via the three intra-individual components such as organizational motivation to innovation, resources and management practices (Andrew, 2004). Most of the hotels revealed that all departments do their works in a collaborative manner as a minor change within a single department will affect for the overall performance in a hotel. Further holding regular meetings with particular persons, carrying out workshops describing theoretical and empirical workplace creativity and making small management teams with assigning special targets were found to be functions carried out to build team climate for innovation.

Employee Contribution

The challenge is to set innovation goals that will stretch employees' ingenuity, without causing it to break. The goal should give a good, hard push to one's innovation capacity (Carpenter, 2010). Employees have plenty of innovation energy and it is essential to build

common innovation platform among all. Hotels were always concerned about getting employees contribution when planning innovative activities as most employees won't have a propensity to submit creative ideas directly. Stretching individual development programmes to develop employee creative climate is essential for initiation of innovation in the hotel.

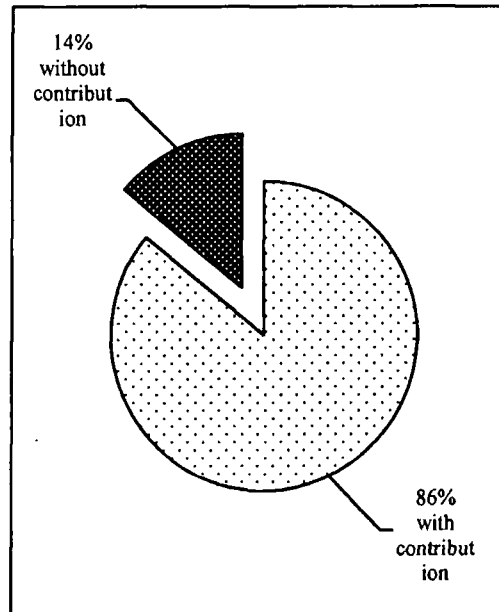


Figure 2. The employee contribution on the innovation

Turnover

Innovation is a key means to operational efficiency, organizational renewal, long-term growth, and strategic advantage in dynamic and highly competitive environments (Anon., 2013c). Based on the study, there was a positive correlation between the degree of innovativeness and business performances such as sales, customer satisfaction, profit competition, etc. Most of the hotels verify that the firms have been able to reach the desired level of performances during defined time period due to the innovative practices.

Product Innovations of Hotel Industry

Hotels offer unique new product and services for customer preference. Most of the hotels (36%) representing Colombo, Kandy and Galle areas engage with innovative practices under dining system and it was significantly higher than other categories. Some hotels use mat pots and raw leaves like banana to arrange the food items. Tourism (30%) and new packages (30%) found to be the next most functional categories used as innovative manner in the hotels.

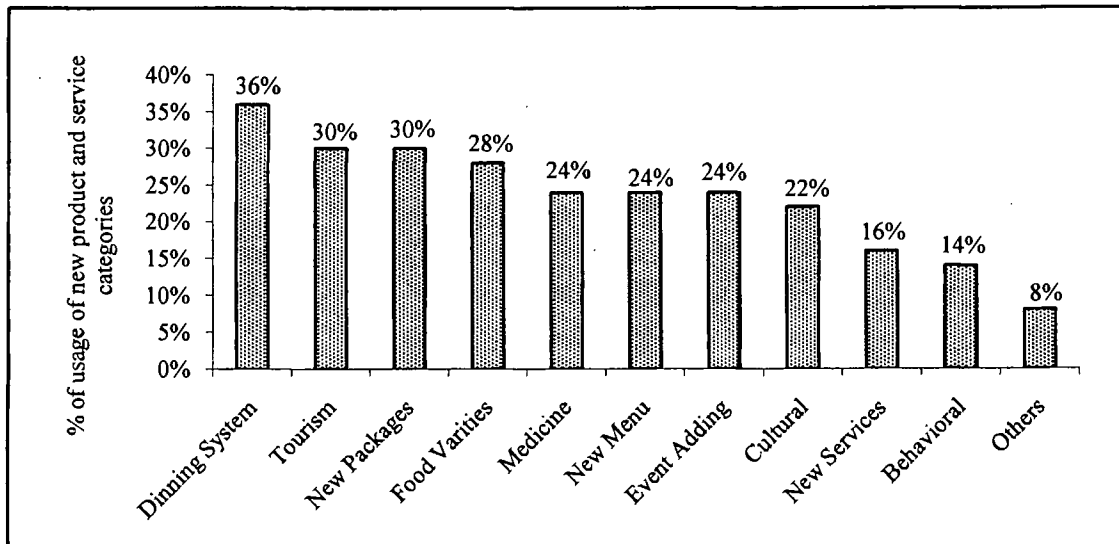


Figure 3. Percentage of product and service categories

Some hotels take their customers for the villages nearby allowing them to mix with local people and arrange adventure activities like hiking and eco activities like camping, wild life safaris, and birds watching.

Hotels were also concerned about preparing up the best foods which are new for tourists. Twenty eight percent (28%) of hotels were used new food varieties as an innovative practice. Spa, ayurveda massages were also seen in hotels under medicinal category (24%). Moreover, the study observed that hotels in Kandy had distinct culture offering first-hand experience for tourists by arranging various events such as elephant golf and exposing them to traditional villagers and to observe their activities such as handicraft, spice garden.

Event adding (24%), new menu (24%) and cultural (22%) were also observed as new activities and least amount of hotels (16%) were paying attention through behavioral category (Figure 3). events such as elephant golf and exposing them to traditional villagers and to observe their activities such as handicraft, spice garden.

The study explored the barriers that prevent the industry from innovations. Resistance to change, company regulations, lack of knowledge, lack of finance and lack of technology were most common barriers in the industry. Hotels have to aware of those barriers As the hospitality business requires entrepreneurs to continuously come up with new services, new ways to present existing services and new ways of enhancing the experience.

CONCLUSIONS AND POLICY IMPLICATIONS

The results of the study shows team approach, turnover and employee contribution

are the factors that affect on innovation and these factors also positively relate for business performance in the hospitality industry. Most of the hotels (36%) in Colombo, Kandy and Galle areas tend to use dining systems as an innovative way than other categories.

A comprehensive review of literature has found that innovation research within the industry is inadequate and that innovative practice lags behind many other industries. Therefore, recent challenges within the hospitality industry highlight a critical need for research and innovation to inform management practice.

Business firms in hospitality industry should aware of developing creative climate within a firm while competing with global market. Regular experiments in various categories such as food and beverage, dining systems, tourism, etc may helpful to develop effective innovations.

The study strongly suggests that the business firms in hospitality industry of Sri Lanka should increase more service or product innovations considering local perspectives and business performances to ensure long term sustainability. It is an essential fact that the government support should be provided to promote tourism industry in Sri Lanka. The responsibility of the authorities should be to support for all classified and non classified hotels by giving finance, new knowledge, technologies and finding accessibility to new trends.

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