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Enhancing Service Innovation Performance of Hotels: The Role of Organizational Learning Culture and Dynamic Capabilities

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Abstract

Organizations are beleaguered by stiff competition, a dynamic market environment, and rapid technological changes that threaten the survival of businesses rambling to gain a competitive advantage. Past studies bring forth the role of innovation in services, crucial in driving tremendous growth in terms of economic activity. However, what contributes to innovation in services remains a sparsely researched area. The present study proposes a research model to examine the impact of organizational learning culture on service innovation performance in hotels with dynamic capabilities as a mediating variable. Structural Equation Modeling (SEM) is used for assessing the relationship between variables and validates the research model. The unit of analysis comprises individual employees working in four-star and five-star rated hotels located in the tourist-bound cities of Lucknow, Agra, and Varanasi in Uttar Pradesh (India). Empirical evidence supports the positive role of dynamic capabilities in the relationship between organizational learning culture and service innovation performance thereby asserting the importance of developing distinctive capabilities for enhancing service innovation performance in hotels.

Keywords: Organizational learning culture, Service innovation performance, Dynamic capabilities, Hotel Industry, Tourism

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1. Introduction

The rapid pace of markets' evolution makes innovations crucial to organizations' long-term survival and growth (Santos-Vijande & Alvarez-Gonzalez, 2007). Recognizing the importance of innovation as one of the factors driving firm performance, organizations are constantly striving to understand the mechanisms for developing innovation capabilities. Over time, some researchers have studied innovation in the organization's cultural context to understand the impact on innovation capabilities (Bass, 1969; Damanpour, 1992, 1996; Damanpour and Gopalakrishnan, 1997; Rogers and Shoemaker, 1971).

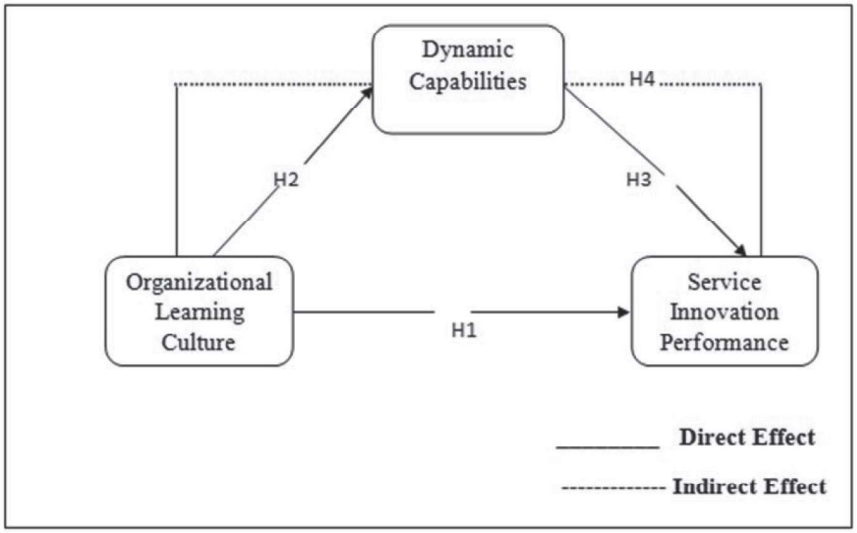
In recent years, tourism, among other service sectors, has emerged as one of the world's fastest-growing economic sectors of the global economy. The hospitality industry views the lodging sector as essential when travel to any country increases. The hotel's capacity for innovation is essential to maintain a competitive edge in the face of tightening traveler budgets, customers seeking out distinctive experiences, and escalating competition. This has forced the sector to come up with creative ideas for drawing clients and satisfying their demands for greater services and cutting-edge experiences.

Prior researchers have studied various factors impeding innovation, such as aversion-to-risk culture, little insight into customer behavior, poor innovative ideas, lack of knowledge and skills, or poor allocation of resources. Despite all these studies providing valuable insights into innovation problems, there is little attempt to address how the firm's capability to learn, manifested in its learning culture, can influence the innovation process. Organizations with a strong learning culture constantly seek to acquire new knowledge, share it with others, and modify behavior to reflect new knowledge and insights (Garvin, 1993 & Huber, 1991). Several studies show that employees are critical in generating innovation (Ordanini and Parasuraman, 2011; Walsh et al., 2008).

Hotels operate in dynamic environments, and the nature of the industry is such that innovations here cannot be patented, making imitation easier for others (Hjalager, 2002). In this context, persistent innovation is the only way to create barriers for competitors. The

emerging field of dynamic capability is particularly useful for service industries because the innovation process is a less concrete process here and more associated with the process and routine capabilities embedded throughout an organization. Dynamic capabilities reconfigure the firm's resource base to evolve to customer demands and market trends and shape the environment through innovation and collaboration with key actors (Teece, 2007). Zollo and Winter (2002) have postulated that a culture of continuous learning inside an organization is essential to develop dynamic capabilities. The crucial connection between service innovation performance and organizational learning culture, with dynamic capacities acting as a mediator within the hotel industry, has never been experimentally studied before. The present study is a unique attempt to study the cultural and capability development association that fits into the current context**.** The proposed model is presented in figure 1.

Figure 1: Conceptual Framework



Theoretical Framework

Drawing from extensive review of literature, the conceptual framework depicted in Figure 1 illustrates the interrelationship between variables. This framework posits that a learning culture fosters experimentation, encourages diverse opinions, and facilitates information seeking and sharing behaviors among individuals

within an organization. These behaviors, in turn, contribute to the development of dynamic capabilities and create an environment conducive to generating new and creative ideas. This perspective aligns with the principles emphasized by the Resource-Based View (RBV) and the Dynamic-Capability View (DCV), the two theoretical underpinnings that the study draws from.

Resource-Based View

The resource-based view (RBV) is rooted in the work of Penrose's (1959) theory of the firm. A basic assumption of the resource-based view is that each firm is a unique bundle of resources and capabilities that are the primary source of competitive advantage and long-term success of the firm (Nonaka and Takeuchi, 1995). The theory suggests that it is the firm's rare, valuable, inimitable and non-substitutable (VRIN) resources that are a source of sustainable competitive advantage for sustained superior performance (Barney, 1991), as these resources cannot be acquired or purchased easily by the competitors. Therefore, it is the role of management to maximize the deployment of these resources while developing the resource base for the future (Grant, 1996, pg110). Resources can include tangible assets like patents, supply chain networks, or designs, as well as intangible assets like brand reputation, organizational culture, or innovation capabilities. In view of this, Prahlad, C. K., and Hamel, G. (1990) describe how the core competencies of the firm, especially those involving collective learning, are resources that provide both basis and direction for the growth of the firm. Similarly, Brumagim (1994) presents organizational learning as one of the resources for a firm's long-term success.

But RBV is not without its detractors. According to some academics, the idea ignores how external market conditions and technological developments can make the resources obsolete with changing time, challenging to implement the VRIN criterion in real-world scenarios. This limitation is addressed from a dynamic capability perspective.

Dynamic-Capability View

Teece *et al. 's* (1990) working paper is probably the first contribution in developing explicitly the notion of dynamic capabilities, which

Teece *et al.* (1997) define as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. This perspective explains how firms achieve competitive advantage in constantly changing environments (Eisenhardt, K. and J. Martin, 2000; Teece D. J., Pisano G, Shuen A., 1997). Dynamic capabilities enable firms to innovate by avoiding core rigidities that generate inertia and stifle innovation (Leonard-Barton, 1992). Competitive advantage arises from routines and learning that are embedded in the firm's processes with assets like culture being particularly difficult to replicate (Teece and Pisano, 1994).

2. Literature Review

Organizational Learning Culture

An employees' behavior is strongly influenced by its organizational culture, beyond the formal control authority, systems, and procedures (O'Reilly, Caldwell and Chatman, 1991). It is therefore a powerful instrument for achieving intended organizational results. A company is said to have a learning culture if it gives its workers opportunities to learn from one another and shares what it has discovered for the growth and success of the company (Rebelo, 2006). According to Huber (1991), learning is the act of altering the range of possible behaviors for an object through information processing.

A learning culture is characterized by a number of characteristics, which have been defined by a number of authors (Ahmed, Loh, and Zairi, 1999; Hill, 1996; Marsick and Watkins, 2003; Bunderson and Sutcliffe, 2003; Edmondson, 1999). These characteristics include learning as one of the organization's core values, concern for people and stakeholders, encouraging diverse opinions of people, experimentation, risk-taking ability, open communication, tolerance for mistakes, information seeking and sharing behavior among people, error correction and detection, among others.

Dynamic Capabilities

The dynamic capability view is a key concept in strategic management over the past few decades, explaining how certain businesses maintain a competitive edge in ever-changing settings. (Eisenhardt, K. and J. Martin, 2000; Teece D. J., Pisano G, Shuen A., 1997).

Zollo and Winter, (2002) define them as 'a learned and stable pattern of collective activities through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness'. Wang and Ahmed, (2007) regard them as the "firm's behavioral orientation to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage".

The theory of dynamic capability suggests that knowledge is a fundamental resource for organizations to build sustainable competitive advantage. Following this line of thought, many researchers have endorsed knowledge as a building block to firm's dynamic capabilities.

Service Innovation Performance

The term 'innovation' has been characterized from several angles, and research on its function in the services sector has lately been widespread. Traditional studies are biased toward technical innovation in manufacturing and seem to be unable to fully capture the innovation activities in other industries, such as service firms, that are less technically-oriented (Hipp and Grupp, 2005)

Service innovation performance is rarely science. The dynamics here is more social as in the conceiving of those processes and service offerings that are new-to-the company and/or to market (customer), with the intention to create value for service stakeholders (Hipp, Tether, and Miles, 2000). Innovation management scholars have recently investigated service innovation performance in terms of innovative behavior defined as the deliberate introduction of new ideas, products and procedures by employees in the workplace or within the structure of the organization (Yuan and Woodman, 2010).

Scott and Bruce (1994) developed employee service innovation behavior (ESIB) scale to explore individual innovative behavior by interviewing high-level managers in firms. Jeong and Oh (1998) proposed the development of new services and modifying old services, keeping in view the needs of external customers and at the same time the requirements of internal service management.

3. Hypotheses Development

Organizational Learning Culture and Service Innovation Performance

Developing innovative services requires an environment that encourages 'beyond the norm' thinking and supports openness (Anderson and West, 1998; de Brentani, 2001). Firms with a learning mindset constantly strive to acquire, integrate and share knowledge, as well as reflect the newly acquired knowledge through modified behavior (Garvin, 1993; Huber, 1991). This in turn provides more significant competitive advantage by creating intangible knowledge which is unlikely to be easily accessed by competitors. As a consequence, a good organizational learning environment is critical to stimulating more innovation **(**Tran, 2008**).** Hence, it is hypothesized that:

H1. Organizational learning culture has a positive impact on service innovation performance of the hotel.

Organizational Learning Culture and Dynamic Capabilities

Research highlights how organizational learning contributes to the development of dynamic skills. According to Eisenhardt and Martin (2000) and Zollo and Winter (2002), intentional learning investments make it easier to build and alter dynamic capacities.

The learning culture model developed by Rebelo and Gomes (2011a), distinguishes between two interrelated aspects of a learning culture: internal structural alignment or internal integration and external adaptation which refers to the organization's orientation toward the environment. This bi-dimensional structure emphasizes that exclusively focusing on building the internal processes proves ineffective if they cannot adequately respond to changing environments. Learning processes play a central role in internal integration and external adaptation dynamics. Thus, a learning environment must exist in the organization to allow for the organizational members' assimilation of new information and use that for adequate internal reorganization (Rebelo, 2006). Hence, it is hypothesized:

H2. Organizational learning culture in the hotel industry is positively associated with dynamic capabilities.

Dynamic Capabilities and Service Innovation Performance

Given that innovation represents change and newness, firms require dynamic capabilities to combine and recombine resources to add novelty to the specific context (Eisenhardt and Martin, 2000). The dynamic-capability view states that the firm's ability to reconfigure and renew its resources and capabilities constantly is what lends a competitive advantage to a firm in changing environmental conditions. These capabilities seek to adapt the firm's resource base in response to the changing marketplace and enable it to modify its behavior and exploit new ideas (Zollo and Winter, 2002). Therefore, a framework for the strategic management of service innovation performance in hotels that is promising is provided by the dynamic capability perspective. Hence, it is hypothesized that:

H3. Dynamic capabilities in the hotel industry are positively associated with service innovation performance.

The Mediating Role of Dynamic Capabilities

According to many academics, the learning culture of an organization fosters the growth of dynamic capacities that improve performance in innovation (Baker and Sinkula, 1999, 2002; Han et al., 1998; Hurley and Hult, 1998). Furthermore, the present study makes the assumption that when a firm is full of a learning atmosphere, it acquires capabilities to sense and seize opportunity from the external environment and reconfigure it for the creation and realization of innovation. This is in line with Wu's (2007) suggestion that dynamic capabilities mediate the relationship between resources and performance. Thus, it is conjectured that:

H4. Dynamic capabilities mediate the relationship between organizational learning culture and service innovation performance within the hotel industry

4. Research Methodology

Sample and Data Collection Procedure

The questionnaire battery included items from organizational learning culture, dynamic capabilities, service innovation performance, and personal information items, all drawn after a comprehensive literature review. The language of all measures was in English as initially developed and used in the western context, but posed no barrier for the employees in comprehending it as the respondents had higher and secondary education.

The study followed Bourque and Fielder's (1995) two-stage data collection process. A pilot study was undertaken with 30 hotel managers to ensure the relevance of the questionnaire. After the necessary reduction of some items, the main questionnaire comprised 30 items.

Sixteen hotels were randomly selected from a list of all four star and five star hotels located in the tourist-bound cities of Lucknow, Agra, and Varanasi in the State of Uttar Pradesh, India. The sample is well representative of the population of interest. The unit of analysis was individual employees from different departments of the hotels. The HR managers of these hotels were contacted and the researcher ensured the questionnaire was administered to the respondents in different departments in time. Each respondent's profile was delineated along the lines of gender, age, education, position, current department, industry experience and hotel age. Out of 350 questionnaires distributed, 320 usable questionnaires were returned yielding a response rate of 91.4%. The sample size of 320 was considered adequate as the ratio of sample size to number of items (30 items used in study) should be at least 5:1 for use in Structural equation modeling (Hair, Anderson, Tatham & Black, 1998).

Higher-rating hotels were selected for the study as they adopt a more professional approach, staff qualified people (Camison, 2000), and are involved in innovation activities to maintain their quality ratings (Pikkemaat and Peters, 2005).

Structural Equation Modeling (SEM) technique is used to assess the relationship between variables and validate the research model. A

seven-point Likert-type scale, ranging from ―Strongly-disagree (1) to ―Strongly agree (7), was used to discourage respondents from choosing the midpoint, which is very obvious in a five-point Likert scale. Moreover, it is recommended for SEM (Schumacker and Lomax, 1996 as cited in Wong, 2002) as it offers a range of answer options to introduce variance. All variables (the model in SEM) in the study fulfill the ideal condition of having at least three items per construct, as suggested by Sanchez et al. (2005).

Sample Characteristics

The employee profile shows a predominance of males (67.5%) over females (32.5%), and 71.5% of the workforce is between the ages of 26 and 40. The majority of workers (75%) have a bachelor's degree, and 38.4% have four to seven years of experience in the hotel business. Of the workforce, managers make up about half (51.9%). The personnel are split up among several areas, with Front Office/ Reservations (15.3%) and Food and Beverage (14.7%) having the highest percentages.

Regarding the hotel profile, the majority of businesses have been in operation for more than ten years (45%). All hotels have more than 100 staff, and most are categorized as 5 Star (53.8%) or 5 Star Deluxe (39.4%). This profile emphasizes a knowledgeable and experienced workforce that works primarily in high-rating, well-known hotels.

Measures

Organizational Learning Culture: The construct is modeled as a two-dimensional construct consisting of internal integration and external adaptation, with seven and five items, respectively (Rebelo and Gomes, (2011 b). Items measuring internal integration relate to the coordinated structuring of internal processes in the organization. In contrast, external adaptation items indicate the organization's inclination to adapt to external changes in the environment. Several studies support the scale for its good psychometric qualities.

Dynamic Capabilities: The construct has three dimensions *viz* integration, reconfiguration, and learning capabilities having three items each respectively (Eisenhardt and Martin, 2000; Teece *et al*., 1997). Integration items denote the capacity of the firm to

effectively and efficiently integrate internal and external resources. Reconfiguration items indicate the firm's ability to re-assemble and transform the internal and external resources for timely responses to market changes. Learning items display the organization's capability to acquire, change and eliminate resources under environmental changes to make operations more effective and efficient.

Service Innovation Performance (SIP): Service Innovation Performance construct is modeled as a two-dimensional construct consisting of new service development (NSD) and employee service innovation behavior (ESIB) with five and four items, respectively (Matear *et al*., 2004 & Scott and Bruce, 1994). New service development items indicate the organization's orientation to provide a suitable environment and resources for the development of new services activities promptly. Items related to employee service innovation behavior (ESIB) show the orientation of the individual employee to direct behavior towards implementing change, generating new ideas, and exploring new opportunities for continuous innovation.

5. Empirical Results

Measurement model

The study conducted Confirmatory Factor Analysis (CFA) to validate the measurement model using AMOS 23. The initial measurement model comprised 30 items. Subsequently, after the iteration, one item (SIP 2c) that indicated the extent to which the respondent considered oneself a creative member of the team was dropped as it had a low factor loading of 0.63.

Table 1, reports the correlations between the variables. Results indicate that the highest correlation exists between service innovation performance (SIP) and dynamic capabilities (DC) (0.519). Further, results confirm the fitness of the measurement model as all the statistical values fulfill the acceptable standards as suggested by Bagozzi & Yi (1988); Hu & Bentler (1995). Table 2, provides the fit statistics for the measurement model comprising primary constructs. Table 3, reports the values for the main constructs, indicating satisfactory results as all statistical values meet the standards suggested by Bagozzi& Yi (1988).

Table 1: Correlation Matrix

Constructs	OLC	DC	SIP
OLC	1		
DC	0.396***	1	
SIP	0.237***	0.519***	1

Source: AMOS Output
Notes: OLC, Organizational Learning Culture; DC, Dynamic Capabilities; SIP, Service Innovation Performance, ***p< 0.001

Table 2: Evaluation of the Measurement Model

χ2	df	p	CMIN/df (χ2/df)	CFI	TLI	IFI	RMSEA	SRMR
961.5	362	0.00	2.656	0.921	0.912	0.922	0.072	0.063

Source: AMOS Output
Notes: χ2 chi square; df degree of freedom; p significance value; CFI comparative fit index; TLI Tucker Lewis index; IFI incremental fit index; RMSEA root mean square error of approximation; SRMR standardized root mean square residual

Reliability

The statistical reliability of the scale is measured in terms of Cronbach coefficient alpha (C-α ≥ 0.6) and Composite reliability (C.R.≥ 0.6) index (Fornell and Larcker, 1981; Hair et al., 1998). In the model understudy, each measure is above the acceptable value. In the case of the composite reliability, all measurements are above 0.8, and Cronbach's coefficient of all measures is greater than 0.9 thus strengthening the scale's reliability as shown in Table 3.

Validity

Further, the model's validity is determined in terms of content, convergent and discriminant validity. An extensive literature review formed the base for establishing content validity, further revised by industry experts.

Table 3: Reliability & Validity

Construct	CR	Range of FL	C- a	AVE	MSV	OLC	SIP	DC
OLC	0.858	0.72-0.90	0.947	0.751	0.157	0.867		
SIP	0.83	0.75-0.91	0.917	0.711	0.269	0.237***	0.843	
DC	0.921	0.77-0.96	0.929	0.796	0.269	0.396***	0.519***	0.892

Source: "Master Validity Tool", Gaskination's StatWiki.

Notes: CR composite reliability; FL Range of Factor loadings; C- a Cronbach's coefficient alpha; AVE average variance extracted; MSV maximum shared variance; OLC organizational learning culture; DC dynamic capabilities; SIP service innovation performance.

Different approaches are used to estimate convergent validity (Fornell & Larcker, 1981; Hair et al., 1998), such as testing Average Variance Extracted (AVE), Composite Reliability (C.R.), and Factor Loadings. High factor loadings, preferably .7 or higher, indicate that the items converge on the latent construct. AVE of .5 or higher suggests good convergence on the construct. C.R. is another indicator of convergent validity and is often used in conjunction with SEM models. An estimate of .7 or higher suggests good reliability. As specified in Table 3, all measures meet the three benchmarks for convergent validity.

High discriminant validity indicates the construct is unique and distinct from others. It is established when the square root value of the AVE of every construct is larger than the correlation value of other constructs, and the value of AVE for each construct should be at least 0.50 (Fornell& Larcker, 1981). The other approach for evaluating DV is when AVE value is greater than the construct's MSV value (Hair et al., 1998). The results of both the methods used in the study satisfy the acceptable criteria as shown in Table 3, upholding there are no validity concerns.

Structural Model and Testing of Hypotheses

In the second step, structural equation modeling using AMOS 23 is applied to test the related hypothesized relationships. The model is again tested for goodness-of-fit measures. The fit indices (CMIN/df 2.651, CFI 0.921, TLI 0.912, IFI 0.922, RMSEA 0.072, and SRMR 0.063) indicate that the model is satisfactory as shown in figure 2, at the

acceptable criteria (Bagozzi & Yi, 1988; Hu & Bentler, 1995). Thus, the overall validity of the model is supported, allowing for testing of the hypothesized relationships.

Figure 2: Testing Results

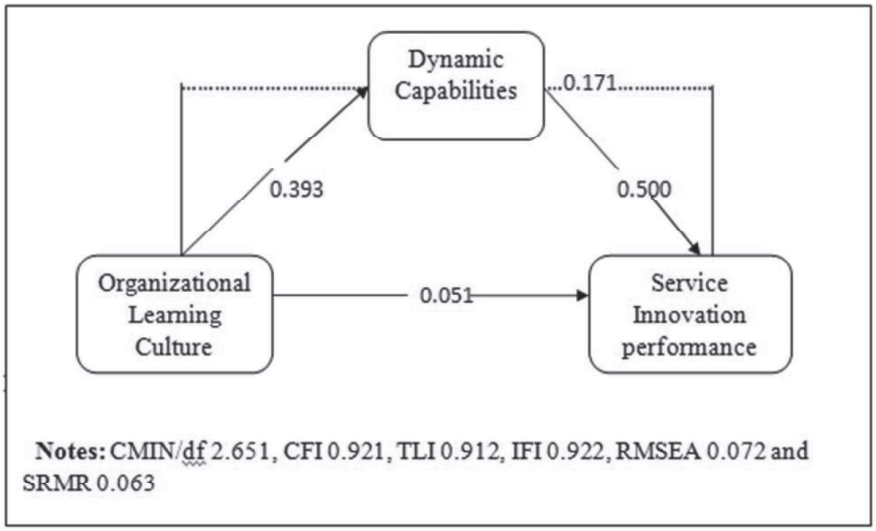


Table 4: Hypotheses Testing Results

Hypothesis	Estimates	*p*	Results
H1	0.051	0.614	Not Supported
H2	0.393	0.001	Supported
H3	0.500	0.001	Supported
H4	0.171	0.001	Supported

Source: AMOS Output
Notes: p= Significance Value

6. Discussion and Conclusion

The statistical analysis reveals several findings as reported in Table 4. *First*, the study indicates a positive impact of OLC on DC, (β = 0.393, p = 0.001), maintaining the argument that organizational learning culture can generate dynamic capabilities within the firm (Wilkens, Menzel, and Pawlowsky, 2004). *Second,* the results indicate a positive impact of DC on SIP (β = 0.500, p = 0.001). These findings

are in constant with empirical studies demonstrating a positive relationship between dynamic capabilities and organizational performance (Danneels, 2002; Zott, 2003; Luo, 2000). Finally, through bootstrap analysis, the mediating role of dynamic capabilities ($\beta = 0.171$, $p = .001$) in the relationship between OLC and SIP is well established in the study. The findings are in agreement with scholars who lately uphold the view of the indirect effect of organizational learning culture on performance (Wilderom, Glunk,and Maslowski, 2000). The works of Hung et al. (2010) also demonstrate that dynamic capabilities mediate the relationship between organizational learning culture and performance, thus asserting the importance of developing dynamic capabilities within the organization for gaining competitive advantages in dynamic environments.

7. Implications

The study has theoretical implications as it validates the research model and establishes the intervening role of dynamic capabilities in the relationship between OLC and SIP. It has managerial implications too. The results indicate that creating learning culture alone may not generate superior innovation performance at the organizational level. Managers should not limit their focus to just accumulating knowledge; instead, should apply and encourage employees to share their knowledge with others for enhancing capabilities of integrating and recombining resources in response to the changing environment to gain competitive advantages.

8. Limitations and Future Scope

Due to the lack of time, the cross-section nature of the study limits the examination of causal relationships into a broader time. Longitudinal research may be undertaken in future studies to investigate the fluctuations over time in the association of these constructs. The study is confined to high star-rated hotels located in a particular region, limiting the generalizability of findings. Future studies can extend the geographical coverage and test the model in a different cultural background or industry or hotels with low ratings. A direct link between organizational learning culture and service innovation performance is not established in the study. Therefore, further research is needed to understand the relationship better.

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