Exploring Service Innovation through Customer's Demand and Competitiveness: The Role of Service Marketing Capability for Brand Management

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Abstract

Purpose – The purpose of this study is to investigate the impact of customer demand and competitiveness on propensity for innovation in hospitality sector. Further, study tends to explore the outcomes of propensity for innovation and the role of service marketing capability as a moderating variable in competitiveness and propensity for innovation relationship to promote brand awareness, resulting in enhanced customer's perception toward brand.

Design/methodology/approach – Data were collected from 209 managers working in 2-Star, 3-Star and 4-Star hotels of Katra city in Jammu region (Northern India) on the bases of census sampling. Statistical techniques like CFA, SEM and hierarchical regression were used to analyse the data. Further, reliability and validity tests were also performed.

Findings – The study finds that customer demand and competitiveness has direct and positive impact on propensity for innovation. It is also verified that service marketing capability act as a moderating variable in the relationship between competitiveness and propensity for innovation. Further, the outcomes of propensity for innovation were also confirmed and it was found that propensity for innovation has highest impact on exploratory service innovation.

Research limitations/implications – The study is limited to hospitality sector of Jammu city only. It is one of the limited numbers of studies that has empirically addressed the service innovation in hospitality sector. This study will be helpful for managers in recognising the increasing emphasis on customer-specific elements, behavioural, customer-focused attitudes and creating an innovation culture that encourages openness and value co-creation for the service brand.

Keywords - Competitiveness, Propensity for Innovation, service marketing capability.

Paper type – Empirical paper

Introduction

Service innovation plays a key intermediary role in the hospitality industry in respect to new services, ideas and concepts that enables the consumers to interact and accommodate the new changes more easily. As said that, in the contemporary era, service innovation are likely to contribute in sustaining superior position. Traditionally, the hotel

industry is considered to have limited innovation orientation but now the entire scenario has changed as service innovation has become the core concept for providing an effective way to create sustained competitive advantage for the industry by assuming that innovative service strategies may help in ensuring long term success (Salunke, Weerawardena & Kennedy (2013). The mechanism like branding can assure consumers to avail superior value from the firms continuously and act as pointers to quality standards. The primary pursuit of any service organisation is to understand what value customers are looking for and what newness they require in the service industry (Berry et al., 2006; O'Cass and Ngo, 2010) and accordingly create, offer and sustain that value for the customers through the mode of service innovation (Ottenbacher & Gnoth, 2005; Shekhar & Gupta, 2008). Hence, service innovation has been identified a key research issue in the marketing research and considered as a priority in the science of service and are needed to fuel economic growth. Today, as the stage set for growing competition and uncertainty, the issue of exploring service innovation through customer's demand and competitiveness with the role of service marketing capability can't be neglected for the hospitality sector. Besides studying the effect of service innovation on hotel performance, from an academic point of view, it is also important to examine the moderating role of the service marketing capability that leads to propensity for innovation (Aas & Pedersen, 2011) as this aspect has received only limited attention.

While reviewing the literature on service innovation, the present study has identified significant research gaps that need to be bridged up. For instance, researchers such as Edvardsson, (2012) opined the need for increasing importance of customer collaboration for service provision and innovation in the hotels industry and there is a call for the companies to coproduce knowledge with customers for innovation tasks. Recently (Ros, Cruz & Cabanero, 2010) have identified the role of service innovation and learning in their study and suggested that the survival of an organisation depends on its capability for propensity to innovate and learn. Further, Cadwallader et al. (2010) has identified that frontline manager participation is critical to successful innovation implementation, especially in service contexts. Likewise, (Blazevic & Lievens, 2008) examined that service innovation transforms the state of customers and results in customer satisfaction and loyalty, rather than short term financial performance. They suggested that different degrees or types of service innovations may attract different levels of consumer attention and responses. Therefore, it calls for replication of this research to other types of service innovation. The scanned literature reveals various conceptualisations of service innovation and its impact on the competitive advantage and the performance. Further, in the literature, service innovation is seen primarily as a concept to explain the role of innovation in facing challenges in the country's tourism industry as it provides valuable information on the concept of sustainable development and outlines key sustainability issues and trends in the tourism industry (Heikkinen & Still (2008). However, relative significance of its components is found to be different in different contexts.

Further, previous literature has identified the relationship between service innovation and performance (Ottenbacher, & Harrington (2009); Grawe, Chen, & Daugherty, 2009) in the manufacturing firms, networks, project-oriented firms and electronic firms, but at the same time, scholars have paid little attention to service marketing capabilities that directly promotes new and creative ideas and processes for service innovation in the hotels. Further, Cass and Sok, (2013) service marketing capability serve the service firms to enjoy superiority in the market place, by updating and renewing their market offers to stay ahead of their competitors (Comlek, 2012) especially by creating superior customer value that promotes loyal customer patronage and positive word-of-mouth (Chen, 2011). Thus, we can say that those hotel industries who possess service marketing capabilities and continuously offer superior service innovation (Vence & Trigo (2009) have the capacity to continuously develop leading edge positions to satisfy their current customer's needs. Thus, it is assured that marketing capabilities helps the service firms to coordinate all the skills and new developments and hence provides superior market sensing, customer linking and bonding capabilities which acts as a key to success in the competitive markets (Ratten, 2012).

To fill this research gap, this study extends the service innovation literature by recognising an overlooked scenario: the impact of customer's demand and competitiveness on propensity for innovation that further leads to interactive, supportive, exploratory and exploitative innovation. In addition, this study also examines the moderating effects of service marketing capability in the relationship between customers demand and competitiveness on propensity for innovation (Salunke, Weerawardena and Kennedy, (2013), to understand the role of service brand marketing capability based on brand equity (Umashankar, Srinivasan & Hindman, 2011). Thus, customers' favourable associations with a high-equity brand could remain satisfactory after experiencing positive service innovation. The study contributes to the existing literature in different ways; (i) it analyses the individual impact of customer's demand and competitiveness on propensity for innovation (ii) examines the impact of propensity for innovation on service innovation viz., interactive, supportive, exploratory and exploitative innovation (iii) compute the moderating effect of service marketing capability in the relationship between customer's demand and competitiveness on propensity for innovation link.

Our three specific research questions are as follows:

(i) Whether customer's demand has a greater impact on firm's propensity for innovation or competitiveness?

(ii) Is propensity for innovation has significant impact on service innovation?

(iii) Does service marketing capability moderates the relationship between customers demand, competitiveness and propensity for innovation link?

The paper is structured as follows: First, the paper presents the conceptual model and formulated the hypotheses. Next, the methodology section describes the sample, measures and methods used for data analysis. Finally results, theoretical and managerial implications are presented. The paper ends up with the limitations and suggests avenues for future research. The present research work will provide useful insights pertaining to Service Innovation, Service Marketing Capability, Customer's Demand, Competitiveness and Propensity for Innovation to the academicians, researchers and practitioners.

Hypotheses Formulation

Customer demand and propensity for innovation

In order to remain competitive in today's marketplace, service firms need to frequently innovate and come up with new and creative service offerings and service processes for the satisfaction of the customer's demand (Thakur & Hale, 2013). The demand of the customers plays a major role in the generation of innovation in various industries (Ostrom et al., 2010). Propensity for service innovation shapes value creation as per the rising desires of the customers (Moller, Rajala, & Westerlund, 2008) and is a stimuli for increasing the market performance, efficiency and customer value (Chapman, Soosay, & Kandampully, 2003) that drive the behaviour of the service firms. The service industries has to recognise the need to develop new services, systems and processes to satisfy customer demands in a timely and responsive manner (Kindstrom, Kowalkowski & Sandberg, 2013). Moreover, all the successful service firms should pay attention to the customers' demands while initiating innovation that drive the marketplace and provides superior value to the customers (Nijssen, 2006). Therefore, we expect a stronger relationship between the customer's demand and the propensity for innovation in the service industries which is more critical for developing radical new services than new products (Spohrer & Maglio, 2008) and helps in delivering a comprehensive customer experience that is relevant for service industries (Michel, Brown & Gallan (2008). Thus, it is hypothesized that:

H1: Customer's demand has a significant impact on propensity to innovate.

Competitiveness and propensity for innovation

Consistent with past research, Berry et al. (2006) argue that service firm's which understands firm's competitiveness as a thrust factor for propensity to innovate involves managers in innovation activities due to the problem of imitation by competitors. Globalization of the economy increases the intensity of competition for all the service industries (Ostrom et al., 2010) that impels service firms to seek innovation and accordingly formulates firm's strategic framework (Miles, 2005) which act as a stimulus to service innovation development. Lyons, Chatman & Joyce (2007) posited that stronger competitiveness indicates more propensities to innovate for higher efficiency and performance in competitive environments (Ordanini & Parasuraman, 2011). Thus, propensity for innovation pursue better catering to existing customers and build customer loyalty without substantial costs associated with it. Moreover, competition strengthens the relationship between propensity for innovation and service marketing capabilities (Nijssen et al., 2006). Hence, we posit that:

H2: Competitiveness is positively related to propensity for innovation.

Propensity for innovation and service innovation

Service innovation promotes different consequences like experimentation, creativity, novelty and this leads to the generation of new ideas and processes that supports competitiveness in a dynamic business environment (Augusto & Coelho, 2009). The concept of propensity for innovation focuses on adoption of a new idea or behaviour by the service organisations for assisting the degree of innovativeness (Berry, 2000). This helps to introduce new services that can make existing skills, organisational routines and financial investments more productive that generate value creation and development of new services which correlates positively with the service innovation i.e. interactive, supportive, exploratory and exploitative innovation (Jaw & Lin, 2010; de Brentani, 2001). Previous research has suggested that provisioning resources through interactive and supportive innovation helps in creating new value for the customers and act as the inherent component of the service innovation process (Hana, 2013) Baker and Nelson, 2005). When the service firms focuses on bricolage then it is likely to influence innovation in general, and it makes the use of resources in a balanced manner at the front-end (interactive) and back-end (supportive) for determining the ideal configuration of service offerings. The focus on target markets helps in accelerating internal innovation and expanding the markets for external use of exploitative and exploratory innovation (Grawe, Chen &Daugherty, 2009; Jansen et al., 2006), it generates radical innovations to engage in innovative behaviour for meeting the desires of emerging customers or markets (Jimenez-Jimenez & Sanz-Valle, 2011). Benner and Tushman 2003; Danneels, 2002). Service organisations with a higher propensity for

innovation pursue strong exploratory and exploitative innovation and gain competitive advantage by placing the highest priority on the creation and maintenance of customer value for longer period of time (Salunke, Weerawardena & Kennedy, 2013). In particular, propensity for innovation drive value created changes through service innovation which are more customer-focused and depend on customer input to influence the firm towards exploratory and exploitative innovation resulting in generation of more new concepts and innovations in the form of new "services" from existing resources (Gremyr et al., 2014), Ordanini & Parasuraman, 2011). Thus, we hypothesise that:

H3: Propensity for innovation leads to service innovation i.e. interactive, supportive, exploratory and exploitative innovation.

Customer demand and propensity for innovation: Moderating role of service marketing capability

The service organisations have to continuously innovate and renew their market offerings to remain a step ahead (Kastalli & Looy, 2013; Lightfoot & Gebauer, 2011). in creating superior customer values. In this context, service marketing capability strengthens and provides the platform for creating the provision of new servicescape for innovation that meets customer demands better than existing service organisations (Ngo& O'Cass, 2009). Hence, the role of service marketing capabilities plays a vital role for creating and delivering expectations for the service firms to offer service innovation (Nijssen et al., 2006) in order to gain the value creation and trust of the customer. Further, service marketing capabilities play a unique role in determining the needs of customers, distribution channels and competing products and thus act as a driving force that allows the company to achieve a high level of adaptation to the existing markets by the introduction of new concepts and ideas (Kindstrom & Kowalkowski, 2014). It improves business performance (Koskull & Strandvik, 2014) by fulfilling the customer's demand that contributes to sustainable competitive advantage (Mustak, 2014). Hence, the following hypothesis is proposed:

H4: Service marketing capability moderates the relationship between customer's demand and propensity for innovation link.

Competitiveness and propensity for innovation: Moderating role of service marketing capability

The firms who focus on competition gain competitive advantage and make the effective use of their marketing capabilities, it helps them to enhance their propensity for innovation and add values to the organisation (Grawe, Chen & Daugherty, 2009). Service industries must establish cutting-edge services and move ahead by making optimum usage of service marketing capabilities with customer expectations to set the pace in the market (Kandampully, 2002) that facilitates service innovations in the service organisations (Edvardsson & Olsson, 1996). It has been revealed in the literature that service marketing capabilities have positive impact on the firm's performance through competition and this induces them to innovate with new concepts and ideas (Abdi & Ali, 2013). Service marketing capabilities strengthens the relationship between competitiveness and propensity for innovation relationship (Storey & Kelley, 2001). Coutelle-Brillet, Riviere & Garets (2014) study also signifies that businesses in India must focus on rising competition and make use of service marketing capabilities that will automatically stimulate their propensity toward innovations (Ostrom et al., 2010). Therefore, we can say that service marketing capabilities has a strong moderating impact on competition and propensity to innovate relationship for generating new services in the markets (Thakur and Hale, 2013). Thus, we propose the following hypothesis:

H5: Service marketing capability moderates the relationship between competitiveness and propensity for innovation link.

Research Methodology

Data Collection

Primary source was found relevant for gathering requisite information pertaining to the research problem and it is used in the present study as well. Primary data based on the first hand information have been collected from the managers working in 2-Star, 3- Star and 4-Star hotels of Katra city in Jammu region through self-modified and well structured questionnaire. Managers were holding positions as General Manager, Marketing Manager, Human Resource Manager, and Maintenance Manager. In order to evaluate the clarity and appropriateness of the items in the questionnaire and to finalise the initial instrument, a pilot survey was conducted on a sample of 30 respondents. For pilot testing, respondents were the managers of hotels of Jammu region only who were contacted on convenience basis. 4 hotels were contacted for pilot survey namely Hotel Asia, Hotel Fortune Inn Riveria, Hotel Ashoka and Hotel KC Residency.

During pilot survey, the required information was collected from managers working in these 3-Star hotels and after analysing the data we found that working conditions are good enough to lure the managers to come up with creativity in the work culture in the form of innovations in the hotel services. We also observed that innovations appear to be the only means for the hotels to convert changes into opportunities and thus, achieve success among the competitors.

After analysing the data collected during pilot survey all the items were found relevant and therefore, these items were

considered for final survey as well. The final questionnaire was circulated among 209 managers of sampled hotels.

Sample Design

The study is confined to Katra town of Jammu region and the respondents were the managers of 2-Star, 3-Star and 4-Star hotels in Katra. We found only one 5-Star hotel in Katra namely Hotel White Orchid. List of hotels was obtained from Internet and then all the managers were approached for generating the requisite information. As per the list, the total number of 2-Star, 3-Star, 4-Star and 5-Star hotel was 45. The hotels of Katra provide better working conditions, which motivate the managers to think about new concepts, ideas and creativity in the process, systems and procedures. We found one 5-Star hotel, sixteen 4-Star hotels, sixteen 3-Star hotels and twelve 2-Star hotels in Katra city. Efforts were made to contact every manager working as a General Manager, Marketing Manager, Human Resource Manager, and Maintenance Manager employed in these hotels. The final sample arrived at 192. After obtaining descriptive statistics, we applied the formula given by Malhotra, (2007, p. 364) and determined the sample size. Considering 5% level of confidence, the sample size arrived at 209. We employed census sampling technique to contact the respondents. (Table 1).

Generation of Items

The items under different dimensions covering almost all the aspects of service marketing capability, customer's demand, competitiveness, propensity for innovation and service innovation i.e. interactive, supportive, exploratory and exploitative innovation alleged by the managers working in the hotels of Katra were generated from discussions with experts in the area of marketing and a review of relevant literature. To understand the measurement of service marketing capability, 6 items were generated from Vorhies et al., (2009) work. Customer's demand comprising 3 items taken from Kandampully (2002) studies. Likewise, for competitiveness, 4 items were borrowed from (Edwards & Croker, 2001; Jaworski and Kohli 1993) study. All the 10 items of propensity for innovation were generated from (Klein, 2002; Klein, Ettenson, & Morris, 1998). Further, service innovation dimension includes: interactive innovation that incorporates 7 items borrowed from Halliday and Trott (2010) and 6 items of supportive innovation are generated from (Song & Thieme, 2009) and similarly all items of exploratory and exploitative innovation are taken from the work of Jansen, (2006).

Data analysis

Descriptive statistics

Ahead of proceeding for analysis, negative responses assigned to some items are reversed. Consequently, few outlier responses were identified for deletion and normality of data was then examined (Table I). The mean of the items lied within range of 2.79 - 4.29 on five-point Likert scale while standard deviation of the mean ranged from 0.490 to 1.571. Additionally, skewness and kurtosis of all the items were also examined which fall in the range of 0.065 to - 1.359 and - 0.051 to 6.082, respectively. Hence, all the scale items were retained as these were falling within the liberal threshold criteria of skewness (- 3 to +3) and kurtosis (- 8 to +8) given by Kline (1998). In addition to this, scale reliability was also assessed to check the consistency of the data, using Cronbach's α, which is the most common tool used in the literature. Further, Cronbach α values of all the constructs – service marketing capability, customer's demand, competitiveness, propensity for innovation and service innovation i.e. interactive, supportive, exploratory and exploitative innovation were in the range of 0.781-0.942 (i.e. above the threshold criterion of 0.7, see Table 2) as suggested by Hair et al. (2008), hence the data were consistent and reliable for further analysis.

Confirmatory factor analysis (CFA)

CFA is used to confirm the measurement of the constructs. The measurement models were tested using maximum likelihood estimation. Throughout the process items with low standard factor loadings were dropped and the model was re-run till all the standardised factor loadings were significant and above 0.50. At the same time safety measure was taken not to delete any theoretically important item even when its required value is less than the criterion value. The various fit indices that include absolute fit indices such as $\chi 2$/degree of freedom, root mean square error of approximation (RMSEA) and incremental fit indices like normed fit index (NFI), relative fit index (RFI), incremental fit index (IFI), Tucker Lewis index (TLI) and comparative fit index (CFI) were used to assess model fitness. The construct wise analysis is discussed as under.

Service marketing capability

Based on the threshold criteria for model fit, the service marketing capability model comprising six items is found to be best fit as the model fit indices such as $\chi 2$/df, RMSEA, NFI, RFI, IFI, TLI, CFI are recorded as 3.231, 0.92, 0.94, 0.86, 0.90, 0.92, 0.93, respectively. All these values are within the acceptable criteria.

Customer's demand

The model for customer's demand comprising three items that found to be satisfactorily fit as all fit indices are above the suggested cut off values with $\chi 2$/df = 3.532, RMSEA = 0.058, NFI = 0.949, RFI = 0.912, IFI = 0.967, TLI = 0.935 and CFI = 0.932.

Competitiveness

Similarly, the measurement model for competitiveness is also found to be robust fit as all model fit indices are as per the threshold criteria. The values are arrived at $\chi 2/df = 2.45$, RMSEA = 0.056, NFI = 0.90, RFI = 0.90, IFI = 0.940, TLI = 0.924 and CFI = 0.93 which depict that model is best fit.

Propensity for innovation

The goodness of fit indices of the measurement model for propensity for innovation is within the threshold criteria. All the values – $\chi 2/df = 3.712$, RMSEA = 0.069, NFI = 0.951, RFI = 0.900, IFI = 0.933, TLI = 0.923, CFI = 0.994 depict that the model is satisfactorily fit.

Service innovation

Moreover, the measurement model for service innovation is also found to be fit as all model fit indices are as per the threshold criteria. The values are arrived at $\chi 2/df = 3.54$, RMSEA = 0.046, NFI = 0.99, RFI = 0.91, IFI = 0.934, TLI = 0.912 and CFI = 0.923 which depict that model is best fit.

Psychometric properties of the measured scales

The results of the psychometric characteristics of the measured scales are given in Table IV.

Composite reliability (CR)

The CR of all scales that include service marketing capability, customer's demand, competitiveness, propensity for innovation and service innovation i.e. interactive, supportive, exploratory and exploitative innovation are recorded as 0.99, 0.98, 0.98, 0.88, 0.99, respectively. Hence, all these CR values are above the threshold value of 0.7 (Malhotra and Dash, 2010), the scales are reliable and consistent, stating that the items consistently represent the same latent construct.

Convergent validity

To assess the convergent validity, average variance extracted (AVE) of service marketing capability, customer's demand, competitiveness, propensity for innovation and service innovation i.e. interactive, supportive, exploratory and exploitative innovation are recorded (above 0.5) as 0.621, 0.543, 0.769, 0.823 and 0.756 respectively, that established validity of all the scales.

Discriminant validity

Discriminant validity analysis was estimated to examine the degree to which a construct is distinct from other constructs (Hair et al. 2009). Each explained variance estimate on the diagonal is greater than the corresponding inter-factor squared correlation estimates below the diagonal (Malhotra, 2007). Thus, discriminant validity gets established, thereby implying that major constructs are unique.

Common method variance

Moreover, assessing reliability and validity of the scales, the problem of common method variance is also investigated. It is observed that common method variance is considered as a major issue and threat to validity in social research. Podsakoff et al. (2003) stated that common method variance introduces systematic bias in the study by inflating or deflating correlations and thus proves to be a difficulty in assessing the validity of the study. The study has used two methods – Harmon's single factor test, one of the most extensively known approaches for analysing common method variance and latent variable approach, to look at the extent of common method variance threat. Primarily, Harmon's single factor test is applied on all the scales (Podsakoff et al., 2003). In this method, all the items were subjected to EFA without any rotation and the variance explained by all the items of single factor are identified. Thus the variance extracted values from the scales – service marketing capability, customer's demand, competitiveness, propensity for innovation and service innovation i.e. interactive, supportive, exploratory and exploitative innovation were identified as 39.2, 32.8, 40.4, 30.8 and 45.7 per cent, respectively. The values advocate that the variance present in the scales is not any threat as the total variance extracted from single factor of all scales did not account for majority of variance. Second, the latent variable approach was also used by adding a first order latent factor with all the scales of service marketing capability, customer's demand, competitiveness, propensity for innovation and service innovation i.e. interactive, supportive, exploratory and exploitative innovation as observed indicators. In this method, the latent factor when added should not be correlated with other observed variables and common variance explained should be less than 50 per cent (Lages and Piercy, 2012). The common variance of service marketing capability, customer's demand, competitiveness, propensity for innovation and service innovation were recorded as 9.3, 2.6, 9.8, 12 and 27 per cent, respectively, that indicated that biasness is not an major hurdle in this study.

Hypothesis testing results

We used structural equation modelling (SEM) to assess the hypotheses of the study, as it is

considered to be one of the most significant techniques to understand multiple relationships.

The SEM model fitness (Figure 4) indices $\chi 2$ /df=1.836, NFI=0.931, TLI=0.927, GFI= 0.951, AGFI = 0.967 and RMSEA = 0.062 reflect good model fit. Further, it becomes evident from the SEM results that direct impact of customer demand (β=.455, p=.000) and competitiveness (β= .356, p=.001) on propensity for innovation is positive and

significant, which leads to the acceptance of both the first and second hypotheses (H1 and H2). It is also confirmed that propensity for innovation leads to service innovation as a whole (β= .677, p=.000), whereas, it was also found that propensity for innovation has highest impact on explorative innovation (β= .712, p=.000), followed by interactive (β= .653, p=.000), supportive (β= .544, p=.000) and then exploitative innovation (β= .490, p=.000), which leads to the acceptance of H3.

A hierarchical regression analysis was conducted to test H4 and H5. The independent variable (i.e. customer demand, competitiveness) and the moderating variable (i.e. service marketing capabilities) were first standardised. The product-term was calculated using the standardised scores in order to reduce the collinearity between the product-term and its elements (Cohen et al., 2003). A moderation effect is a causal model that postulates when or for whom an independent variable most strongly or weakly causes a dependent variable (Baron and Kenny 1986; Frazier, Tix, and Barron 2004). A moderator may increase the strength of a relationship, decrease the strength of a relationship or change the direction of a relationship. To test the H4 and H5, i.e., service marketing capabilities moderates the relationship between customer demand, competiveness and propensity for innovation, present study incorporates hierarchical regression analysis by assessing the R-square change in each model. The block-wise procedure resulted in four Models that are shown in Table 4. On the basis of Aiken and West (1991), the independent variable and moderator were mean-centered as they constitute an interaction term to mitigate the potential threat of multi-collinearity. Model 1 consists of only control variables; Model 2 comprises of control variables and the mean centric independent variable; Model 3 includes mean centric moderator as well and lastly, Model 4 shows the interaction between independent variable and the moderator. The full model (Model 4) reveals that service marketing capabilities moderates the relationship between customer demand, competitiveness and propensity for innovation because the interaction between both independent and moderator stands significant (p=.000). Therefore, H4 and H5 got accepted.

Discussion

The study sought to investigate the moderating role of service marketing capability in customer's demand and propensity for innovation relationship. As it is notable that service marketing capabilities, acts as one of the strategic resources, that helps the service organisations to identify customer's needs and understand the factors that influence customer choice behaviour (Rogers, 2003) which compels the hospitality industry to come up with the idea of service innovation. This, in turn, enhances the organisation's capacity to meet changing customer's expectations and pave way to accomplish the overall customer's satisfaction and loyalty. Prajogo (2006) also demonstrates that service marketing capabilities improves the performance of the service firms through more effective targeting and engagement strategies by keeping in mind the customer's demand that helps to assess, develop and improve the marketing solutions capabilities by the way of propensity for innovation. Secondly, service marketing capabilities have a strong significant and positive relationship between the competitiveness and propensity for innovation link (Kandampully (2002). In that way, the service firms must comprehend and exploit the competition prevailing in the market to drive growth by improving the customer experience and immediate customer satisfaction by the process of propensity for service innovation. Further, Kindstrom, Kowalkowski & Sandberg (2013) also suggests that customer demand and competition are two important enablers of service innovation by employing service marketing capabilities which are positively associated with the business performance. Furthermore, propensity for innovation indicates that service firms must engage customers in innovation activities due to the problem of imitation by competitors to increase the intensity of competition in the service industry. This intensity impels service firms to seek innovation for survival in both the developed (e.g., U.S.) and the emerging (e.g., India) economies to formulate strategic framework for service innovation. This suggests that propensity for service innovation has a positive effect on service innovation that brings interactive, supportive, exploratory and exploitative innovation. In regard to this (Paswan, D'Souza & Zolfagharian, 2009) indicates that without employing service marketing capabilities, a service firm is likely to become out of touch with its market. Therefore, a manager must take proper initiatives to implement the new and creative ideas to adapt or react immediately to changing market conditions and, thus, innovate new product/service that tends to satisfy customers. As indicated by previous studies such as (Salunke, Weerawardena and Kennedy, 2013) suggests that service firms that pursue exploitative and exploratory innovations in highly competitive environments improve their performance in highly competitive environments by expanding current products and services by adopting service innovation in their firms.

Implications

Theoritical Implications

Service management theory generally supports customer involvement as an important factor for service innovation (Salim & Sulaiman, 2011) that increases the intensity of competition in the service industry. This intensity impels service firms to seek service innovation for survival in both the developed and the emerging economies. It is justified

that those service firms which consider the competitive nature of the industry are more aware of the existing competitive threats, which may be the stimulus to service innovation development. Our findings provide significant implication to the marketing research literatures, especially in the context of the hotel industry that service marketing capabilities act as a moderating variable in the relationship between customers demand and propensity for innovation. Further, marketing capabilities assists the hotels industry to get superior information and understanding of current and future market, which could reduce uncertainty as well as enhance capability to respond to market changes appropriately through service innovation. Moreover, propensity for innovation significantly leads to service innovation for attracting more high-end customers. This study provides theoretical and empirical support and credibility to the service marketing research, which could be considered as valuable, rare, inimitable, and non-substitutable. Overall, this study enriches the application of service marketing capabilities by the managers working in the hotel industry.

Managerial Implications

The findings suggest that managers must contemplate specific service innovation strategies on timely basis and accordingly reframe the service marketing capabilities in the hospitality sector so that managers can build the tendency for propensity to innovate. The findings have important implications for managers of service firms. First, service firms seeking competitive advantage through the delivery of innovative services should adopt an entrepreneurial posture in their strategic decision-making that acts as an important ingredient in the behaviour of the managers, to display adaptiveness at the customer interface. Secondly, managers must build mechanisms that dynamically capture information pertaining to interaction aspects from customers/clients and frontline employees which will help them in the future period. Furthermore, the managers need to organise training of the staff employed on new and emerging marketing research skills that will enable them to identify, understand market trends and the need of new products and services in the hospitality industry. The government should also boast the creation and uptake of marketing research in the hotel sector so that managers can make better use of available opportunities that could be applied to boast performance. The study also demonstrates that it is important for the hotel managers to effectively manage their customers' knowledge so that they are provided with new systems and concepts.

Since, innovation is the lifeblood of all organisations; in service industries, service innovation not only sets a firm apart from its competitors but often creates new markets and opportunities that previously have not existed. Furthermore, when managers apply new innovative ideas, concepts and activities in the hotels proves to play a very pivotal role as this force service firms to innovate their services more rapidly and this recognises the increasing emphasis on customer-specific elements, behavioural and customer-focused attitudes. The hotel management must do well to ensure more favourable work environment in which managers are able to satisfy their all desires and needs and finally then they are completely satisfied with their life and automatically come up with new ideas and processes that directly brings success in the business. Sufficient flexibility should be given to the managers so that they can put more efforts and produce more for extra money. Opportunities and autonomy should be provided to the managers for decision making. Management must help the manager to exercise his talent and special skills and should also be routinely and periodically evaluated for possible promotions.

Possible Future Research Directions And Limitations

All the possible efforts have been made to maintain objectivity, validity and reliability of the study, yet certain limitations have emerged, which restrict its applicability. First, the study is confined to the hotels of Katra city of Jammu and Kashmir only. Second, due to hospitality sector-specific, it does not cover other sectors, which also play vital role in the development of innovations in the services sector. Third, the effect of service innovation on service quality, customer satisfaction, customer loyalty, etc have not been considered in the present study. Fourth, the study contacted only managers of the hotels located in Katra. Therefore, for future research the study needs to be replicated even for 5-Star hotels in other states of India. For future studies, we can contact the employees and customers visiting these hotels. The effect of service innovation on service quality, customer satisfaction, customer loyalty, etc can be investigated in the future. The same study can also be replicated in other services, namely banking, education, aviation etc.

There may be other success factors leading to supplementary insights into service innovation which can be explored for further studies. The study must explore the differences between service marketing capability and service innovation capability such as product innovation capability. Thus, future research should explore more specific aspects and determinants of service innovation in the detail in hotel industry so that it can generate more propensities for innovation that brings long-term success and stability in the emerging markets. Moreover, future research should investigate the implementation process by including additional constructs to this present study.

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Figure 1: Structural Model

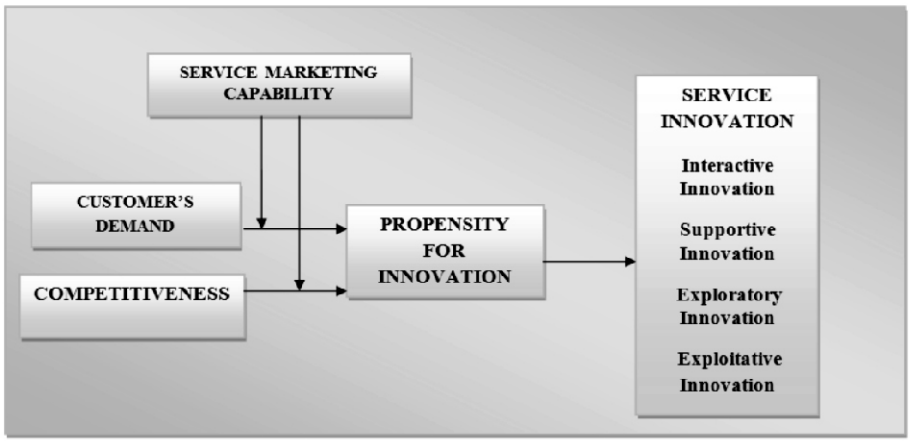

Table 1: Demographic Profile of the Respondents

S. No.	Variable	Variable Group	No. of Respondent	Percentage
1.	Age	Upto 30 years	44	22.50
		30-40 years	84	43.25
		40-50 years	60	31.50
		Above 50 years	4	2.75
2.	Marital Status	Married	130	66.75
		Unmarried	62	33.25
3.	Qualification	10^{th}	3	1.50
		12^{th}	10	5.25
		Graduate	39	20.50
		Post-Graduate	16	8
		Academic Specialisation	124	64.25
4.	Hotel Experience	Less than 2 years	28	14.50
		2-10 years	122	63.75
		11-20 years	31	16.25
		21-30 years	11	5.50
5.	Rating of the Hotel	2 star	27	14.50
		3 star	62	32.25
		4 star	93	47.75
		5 star	10	5.50
6.	Position in the Hotel	General Manager	39	20.50
		Marketing Manager	15	7.25
		Human Resource Manager	29	15.25
		Maintenance Manager	83	43.50
		Other Manager	26	13.50
7.	State	Local	114	59.4
		Non- Local	78	40.6

Table 2: Reliability and Validity of Latent Constructs

Constructs	AVE	Composite Reliability	Cronbach's Alpha
CD	0.74	0.99	0.91
C	0.83	0.98	0.84
PI	0.84	0.98	0.89
SI	0.78	0.88	0.87
SMC	0.77	0.99	0.92
Note: AVE= Average Variance Explained CD- Customer demand, C - competition, PI - Propensity for Innovation, SI - Service Innovation, SMC- Service Marketing Capabilities.			

Table 3 : Discriminant validity of latent constructs

	CD	C	PI	SI	SMC
CD	(0.74)				
C	0.337	(0.83)			
PI	0.419	0.381	(0.84)		
SI	0.295	0.17	0.20	(0.78)	
SMC	0.332	0.26	0.22	0.32	(0.77)
Diagonally we have taken AVE and square of correlation is shown bel ow AVE, which is lesser than AVE .					

Table 4(a): Moderation (Outcome Variable - Propensity for Innovation)

	Model 1	Model 2	Model 3	Model 4
Control variable				
Age	(β=.126, p=.354)	(β=.023, p=.845)	(β=.060, p=.602)	(β=.045, p=.695)
Marital status	(β=.022, p=.190)	(β=.003, p=.857)	(β=.003, p=.845)	(β=.000, p=.981)
qualification	(β=.071, p=.997)	(β=.218, p=.264)	(β=.067, p=.192)	(β=.029, p=.133)
state	(β=.018, p=.342)	(β=.005, p=.779)	(β=.004, p=.819)	(β=.000, p=.978)
gender	(β=.011,p=.857)	(β=.057, p=.293)	(β=.023, p=.674)	(β=.019, p=.719)
Independent variable Customer demand		(β=.455, p=.000)	(β=.467, p=.000)	(β=.510, p=.000)
Moderator Servive Marketing Capabilities			(β=.433, p=.000)	(β=.443, p=.000)
Interaction CD*SMC				(β=.531, p=.066)
(R)2	.009	.268	.303	.310
Change in (R)2	.009	.259	.035	.007
F value	.642	20.393	20.646	21.034

Table 4(b): Moderation (Outcome Variable - Propensity for Innovation)

	Model 1	Model 2	Model 3	Model 4
Control variable				
Age	(β=.126, p=.354)	(β=.023, p=.845)	(β=.060, p=.602)	(β=.045, p=.695)
Marital status	(β=.022, p=.190)	(β=.003, p=.857)	(β=.003, p=.845)	(β=.000, p=.981)
qualification	(β=.071, p=.997)	(β=.218, p=.264)	(β=.067, p=.192)	(β=.029, p=.133)
state	(β=.018, p=.342)	(β=.005, p=.779)	(β=.004, p=.819)	(β=.000, p=.978)
gender	(β=.011,p=.857)	(β=.057, p=.293)	(β=.023, p=.674)	(β=.019, p=.719)
Independent variable				
Competitiveness		(β=.356, p=.000)	(β=.386, p=.000)	(β=.414, p=.012)
Moderator				
Service Marketing capabilities			(β=.456, p=.000)	(β=.472, p=.001)
Interaction				
C*SMC				(β=.526, p=.000)
(R)2	.009	.268	.303	.310
Change in (R)2	.009	.259	.035	.007
F value	.642	20.393	20.646	21.034