## **INNOVATION IN SPECIAL HOTELS – AS A KEY TO SUCCESS**

Petra Gyurácz-Németh University of Pannonia, Hungary nemeth@turizmus.uni-pannon.hu

Nóra Friedrich University of Pannonia, Hungary fnori89@gmail.com

Alan Clarke University of Pannonia, Hungary alanhungary@hotmail.com

#### Abstract:

The hotel industry is considered to be the most important branch of tourism and the most significant type of accommodation because of its ability to provide revenue and satisfy the needs of the guests. There is huge competition in the hotel industry so in order to be able to maintain or improve their market positions and reputations; they need to develop innovations. Because it is not difficult to copy the innovation ideas from each other, they have to think about building very special hotels for special target groups. Innovation raises attention, helps positioning, brand recognition and differentiation.

The first aim of the study is to explore the definition of innovation within service innovation and innovation in tourism. It presents the characteristics and the factors of innovation which determine the success of the novelty. The innovation forms are presented with the assistance of examples.

In the research one innovative Hungarian hotel was chosen as a case study and the innovation processes of this hotel were classified into groups determined by the other authors mentioned in the literature review. The innovations of the hotel were grouped according to the innovation activity and the source of innovation.

In the last section the results of the research are summarized. The research showed that the innovation of the selected hotel is service development and style changes, the innovation activity emphasizes organizational factors, and the sources of the innovations appear to be non-management sources.

Keywords: innovation, special hotel, service development

## 1. INTRODUCTION

Innovation is essential for all kinds of companies. It is getting harder and harder to preserve for them to defend their position in the market. The best and necessary way to be able to do this is innovation. The concept of innovation was originally developed from the manufacturing industry but has become essential for companies dealing with services. Thanks to a lot of innovators/researchers the service industry has a great literature which cannot be said about innovation in tourism services. This paper reviews the innovation literature and the application of these theories in the specific case of a Hungarian hotel called the Hotel Bonvino Wine and Spa.

# 2. THE DEFINITION OF THE INNOVATION AND THE INTERPRETATION OF THE VARIOUS INDUSTRIES

## 1.1. The definition

A lot of people are confused, when they hear the word: innovation. They do not know what exactly the word means and what the main characteristics of it are. The two words invention and innovation often get mixed up; sometimes they are even used as synonyms. The beginning of the process of transformation is called invention. It is used as an effective idea. "Invention is part of innovation or the innovation process." (Otterbacher, 2008, p. 342)

Tidd (1997) had an idea that innovation came from the word 'innovare'. It is a latin word, and the meaning is to create or make a something new.( Otterbacher, 2008)

Schumpeter (1934) was one of the first researchers who developed the theory of innovation. He said that innovation was a new way of doing things or better/ unique combinations of production factors (Otterbacher, 2008). As he wrote, innovation is making new opportunities for additional valued added, it does not involve just the typical product/process innovation of manufacturing but also the market, organisational and resource input innovations, too. (Martínez-Ros & Orfila –Sintes, 2009)

According to Schumpeter, companies can introduce the innovation process in five areas. These are the following (Otterbacher, 2008, p. 342):

- generation of new or improved product
- introduction of new production processes
- development of new sales markets
- development of new supply markets
- reorganization or restructuring of the company

As Drucker (1985) said, innovation should be looked at as an opportunity. The result of these opportunities is the creation of a new product or service or changing a previous one. Innovation cannot only be an idea/philosophy, but innovation can be thought about as a practice, a process or a product. The point is that the individual perceives the thing as something new. The individuals are very important in innovation, because they transform 'a new problem-solving idea into an application.' (Otterbacher, 2008, p. 343)

## **1.2.** Innovation in the service industry

The definitions mentioned above are not essentially from service studies. Sundbo (1997) deals with innovation in the service sector. He distinguished innovation and learning. He thought that innovation is not only an action, which is strategically re-created, but also a factor, that is identified by a greater jump in turn over or profit. (Martínez-Ros & Orfila –Sintes, 2009)

"The service industry is highly heterogeneous and includes a great variety of interesting, complex and often highly innovative activities." (Martínez-Ros & Orfila –Sintes, 2009, p. 634) Miles (2000) said that this is the reason why it is impossible to give a general account of services innovation. (Martínez-Ros & Orfila –Sintes, 2009)

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#### Service innovation vs. manufacturing innovation

Gallouj & Weinstein (1997) argue that the analysis of innovation in the service sector is difficult, because the reality of innovation theory is based on industrial processes. A number of researchers, like Easingwood (1986), Brentani (1989), Martin & Horne (1993), Gallouj (2002) and Vermeluen (2002) discussed whether the innovation theory, which was developed in connection with the manufacturing sector, can be applied to the service sector, which actually includes tourism. (Mattson & Sundbo & Fussing – Jensen, 2005) There are pro and contra arguments as well. However, there are some general features of innovation within services that we can be distinguished. According to Boden and Miles (2000) the difference between service and manufacturing innovation is the forms of the innovation. Thether's (2005) idea was that service innovation can be considered as a "softer" kind of innovation, with "aspects based in skills and inter-organizational cooperation practices." (Mattson & Sundbo & Fussing –Jensen, 2005, p. 358)

Last but not least, Gallouj (2002) thought that the nature of service innovation is more social and organizational than in case of the manufacturing sector. Manufacturing innovation focuses on the technology. It is not typical in the service sector, which is based on R&D, because it is driven by practical experience, according to Sundbo (1998). In addition Sundbo (et al. 2001) also mentioned during his research that innovation activities are less structured than industrial innovation, and employees become more involved in the process. (Mattson & Sundbo & Fussing –Jensen, 2005)

#### **1.3.** Innovation in the tourism industry

The tourism industry belongs to the service sector, so the theories of service innovation can be applied for this sector as well. Researchers can also help to 'dig' deeper insight into tourism's innovation. Innovation theories in tourism have their limits. "Hjalager (1997, 2002) has analysed the use of the term innovation in tourism research, and concluded that innovation policies should emphasize sustainability and initiatives coming from other sectors." (Mattson & Sundbo & Fussing–Jensen, 2005, p. 359)

Poon (1990, 1993) analysed technological innovation and its effects to the tourism industry. One of the most important questions about the topic is how technological innovation can help grow the small flexible tourism businesses. Several researchers have suggested that small tourist companies are less likely renewed than other small firms in other sectors. (Mattson & Sundbo & Fussing–Jensen, 2005) One of the authors in their research concluded that innovation also appears in the tourism industry in various forms. Therefore, the method of classifying should be applied in case of dealing with different forms of innovation. (Gyurácz-Németh & Raffay & Kovács, 2010)

In May 2007, 'Innovation in tourism - adapting to change, an international conference' was held in Bled, Slovenia - which was organized by the UN World Tourism Organization (UNWTO). This conference highlighted the role of innovation in the adaptation of continuous change in the sector (Gyurácz-Németh & Raffay & Kovács, 2010, p.131)

These three main groups which were emphasized are:

- Innovation of the information and communication technologies
- Innovation of tourism products
- Innovative solutions and recommendations to the challenges

The main points of innovation in information technologies are mobile technology development, the emergence of smart phones, and online hotel booking due to achieving more guest satisfaction. (Gyurácz-Németh & Raffay & Kovács, 2010)

The innovation of tourism products is receiving greater emphasis, as all tourism related products are being renewed. The cause is the increased needs for satisfaction. These products are medical tourism, ecotourism and cultural tourism. (Gyurácz-Németh & Raffay & Kovács, 2010)

The innovative solution for the challenges of climate change, sustainability and seasonality has been in the spotlight and discussed. (Gyurácz-Németh & Raffay & Kovács, 2010)

The tourism sector is not only the part of the service industry, but it is the part of the experience sector, which has recently been more emphasised. Pine and Gilmore (1999) introduced this sector. Previously, this sector was included in the service industry; however there are differences between these sectors. The aim of the service industry's companies is to solve the customers' problems, while the experience industry offers a mental journey. The experience economy includes entertainment, art, culture (theatre, film, music, and television), museums, gastronomy, computer games and of course, last but not least, the study's main theme tourism industry. (Sundbo, 2009)

### 1.4. Innovation in the hotel industry

This study analyses the innovation of chosen special hotels, so it is essential to determine the importance of innovation in the hotel industry. The innovation is not so popular in this industry because the 'conservative and capital intensive nature of the structure, which promises a return of more than 25 years, is not conducive to innovation.' (Gyurácz-Németh & Raffay & Kovács, 2010, p.135). Allegro and de Graaf (2008) have found that in the hotel industry's most innovative ideas come from those, who have an outsider's perspective looking at the operation and they do not impede the existing paradigms. (Gyurácz-Németh & Raffay & Kovács, 2010, p. 135)

# 1.5. The advantages and disadvantages of innovation in the hospitality industry

According to Otterbacher & Gnoth (2005) there are several advantages to the use of innovation. 'In the context of business and hospitality, the major benefit of successful innovation is to be or become, more competitive.' (Otterbacher, 2008, p. 340) Each product or service goes through a life cycle: from birth, it goes through several stages, eventually dies, and is replaced by newer and better products or services. Every product or service declines once. This is the reason why companies have to develop new products and services. (Otterbacher, 2008)

The next advantage to be considered is competitiveness. Innovation helps to keep the portfolio of the service and product competitive and 'thereby achieve a long-term competitive advantages.' 'The less quantifiable benefits of successful innovations include enhancement of a business's reputation and increased loyalty of existing customers.' (Otterbacher, 2008, p. 340)

As Otterbacher (2008) said there were some challenging characteristics of innovation for example 'growing social and governmental constraints, downsizing, restructuring, technological change and changing customer demands'. Because of these features, hospitality companies do not afford to rely on past successes. This is precisely the reason why they are building new services, and are able to work in an innovative environment. (Otterbacher, 2008)

Cooper & Edgett (1999) argue that innovation is becoming more 'vehement'. It was argued that hospitality organizations have two choices: either renew successfully, or fail. (Otterbacher, 2008)

For hospitality organizations, the dilemma is not only that the company's long-or short-term success is critical, but also that 'the failure rate of new products and services is high.' (Otterbacher, 2008, p. 341) Cooper (2001) has examined the failure rate of product innovation. This rate was between 25% and 45%. (The exact rate depends on the industry.) Griffin's (1997) research showed that the average success rate of a new service project was 58%. That result pointed out that four out of ten new services fail in the market. 'The high failure rate of innovations results in wasted time, money and human resources.' (Otterbacher, 2008, p. 341)

Apart from the high failure rate, innovation has other disadvantages for example it is expensive and risky. Not only small businesses are problematic in innovation management, but the large and successful companies too. It is not impossible that these successful organizations also fail with the introduction of new services. It happens in the hospitality sector as well, for example with McDonald's new menus where some failed. It is important that companies pay attention to the failures, because these do not entail only high costs and wasted resources, but can even destroy the image of the company as well. (Otterbacher, 2008)

## 1.6. The steps of the successful innovation

Otterbacher (2008) asked the question: what is the secret of successful innovation? It needs a combination of a high degree of professional management and the use of creativity. Creativity is an ability to develop new and useful ideas; it can open new ways to find out problems and opportunities at the exact company. "The innovation management is the ability to implement creative ideas to those problems and opportunities." (Otterbacher, 2008, p. 341)

#### Innovation management

To run a formal well-planned process and to be successful in hospitality innovation, leadership style and know-how need to be the focus. The successful process is created from a clean, wellcommunicated strategy and vision, by managers who support the project strongly. (Otterbacher, 2008) It is essential to involve the employees, because they have the ability to repair the quality of the service and they always are aware of customers' needs. Johne & Storey (1998) argued that the most likely pitfall with innovation is not enough employee energy invested; despite that they have the necessary knowledge and experience to develop the new service. As Schneider & Bowen (1995) said employees can analyse the customers' demands, and they know how it should be fulfilled. 'Furthermore, employee involvement in the process helps the organization to focus more strongly on the customer instead of focusing on process efficiencies.' (Otterbacher, 2008, p. 355)

Of course, an innovative idea is not enough. The critical part occurs when the idea is being converted into a product or a service. Many hospitality firms recognise the importance of innovation, but it is not clear how to prepare for developing and introducing the new services. (Otterbacher, 2008)

## 2. INNOVATION IN THE SPECIAL HOTELS

In this section the research findings will be introduced. As a case study a new hotel has been analysed in the perspective of service innovation.

## 2.1. Hotel Bonvino Wine Spa

This hotel is located in an extraordinary location. The surroundings of the hotel is not only a special feature, but also it has a special style. The founders of the hotel had the aim that every little detail should reflect on the characteristics of the wine-growing region of the Badacsony.

Approximately 70% of the hotel investment has been funded by European Regional Development Fund of the European Union. This investment targeted a niche market as there has not been any high quality hotel operating in the Badacsony and the surroundings, but the existence and the turnover of Bonvino proves that there is large demand for this kind of service. At first it had to be decided if this new hotel was going to be open all year round or whether it was going to be a seasonal hotel, which is typical in this area. To be able to work the hotel successfully and let it open all year the owners needed to use innovative ways and techniques. (Interview, 2011.09.20)

Their philosophy is that when guests arrive, they will not receive a usual standard room. This is the reason why every room has different characteristics. In the passage various drawings can be found, which are all related to wine making and wine. The double rooms are not the same either. Two different styles can be found: the wooden barrel-aging and the reductive wine production styles. The reductive style is rather typical of the modern rooms, where the shiny, metallic surfaces can be recognised. The feature of the rustic rooms is the wooden-barrel-aged, which is a more natural design. The hotel offers plenty of common hotel services, such as: restaurant, wine bar, spa, conference room. A great emphasis has been given to the design of the wellness department which reflects also the style of grape growing and the wonderful features of Badacsony volcanic mountain. The special design of the Bonvino is not only the appearance and the style, but the local wellness treatments are also unique. (www.hotelbonvino.hu, 2011.09.04)

## 2.2. The Innovation Groups

As previously mentioned, because of the diversity of the service sector it is easier to use groups, when innovation is being analysed. According to the literature there are many kinds of innovation, including

technological innovation (Nelson & Winter, 1982), organizational innovation (Caves, 1980) or creation of new sources (Penrose, 1959). All studies define with different basis of various innovative ways. As Tseng, Kuo and Chou said the innovation capacity is determined by organizational and procedural conditions, and this is the proviso of the innovation process. (Tseng & Kuo & Chou, 2008)

#### The radical and incremental innovation

The first group of Dewar & Button (1986), and Ettlie (1984) has two categories to analyse the intensity of innovation. The two categories are radical innovation and incremental innovation. Dewar & Button (1986) distinguished innovation on the basis of the extent they include new knowledge, taking the risk rate into account. They identify radical innovation as fundamental and revolutionary changes in the technology including new knowledge, which breaks up with the current practice and positively related to the risk that is associated with an attempted innovation. The incremental changes include all the innovation and those current applied technologies, which are not that costly but easier to predict. (Martínze-Ros & Orfila-Sintes, 2009)

Damanpour (1996) identified radical innovation, which causes fundamental changes in the structure, the organization's process and activities. It shows a more clearly break up with the current existing practice. (Martínze-Ros & Orfila-Sintes, 2009)

Sundbo (1997) also dealt with the measurement of radical innovation. He said this kind of innovation is a clear break from current practice / technology, which is more likely to include new knowledge, than incremental innovation. A radical method is more risky and costly, and can cause major changes; the former is referring to Damanpour organization's activities, processes, organization and products. (Martínze-Ros & Orfila-Sintes, 2009)

As a conclusion according to these researches / studies, radical innovation is more risky and more costly, but it includes several new types of knowledge, because it breaks with the old traditions. In the contrary incremental innovation is a little bit more restrained and a less costly process. It is less risky, because it is a continuous development. Hotel Bonvino uses incremental innovation mostly.

#### Lovelock's classification

Every researcher has a different conclusion. Lovelock (1984) also worked with innovation. The main points of Lovelock's classifications are: (Gyurácz-Németh & Raffay & Kovács, 2010)

- Major innovations (new services in the market)
- New business (new service in the market, which already provides an existing service, which meets the general requirements)
- A new service has been served market (new services that are offered to the company's current customers)
- Service line extension (increase in the existing service line or in a different way of service)
- Service Development (an existing service change at certain properties, which is currently offered in the market)
- Style changes (Highly visible changes to existing services) (Otterbacher, 2008, p. 344)

Of course not every group can be used in case of Hotel Bonvino, they mostly concentrate on service development and style changes.

#### Service development

In Hungary Hotel Bonvino's aim is to provide services which are new in the region. The emphasis has been placed on creating an active house. This activity can be recognised in all areas of the hotel, where they are dealing with their guests. First of all they continuously provide various in-house programmes that primarily focus on the wine culture of the Badacsony Wine Region. For example, right next to the entrance there is a Wine Bar. They organise wine tastings, conversation about wine, and wine cellar exhibitions. The guests have the opportunity to have a conversation with wine-growers about various topics. In the wellness area also different activity programmes can be found. Of course the employees of Bonvino offer not only in-house programmes, but also they try to guarantee active programmes outside as well. Guests have the opportunity for Nordic Walking, hiking, and attending walking-biking tours. The offer includes cellar tours and wine tours, too. Innovations provide common cooking for example where they can barbecue, and the guests can do harvest together during September. From October they provide guests with autumn-winter themed packages such as: detoxification weeks, and weeks for pregnant women. They have developed some special tours for

example various trips by electric (environment friendly) cars. These are still only plans, because the hotel is new and major investment was made to be able to build the hotel, and they cannot deal with such further developments, yet. (Interview, 2011.09.20)

#### Style changes

The Lake Balaton region is famous for various wines, which is followed by the way that many hotels offer accommodation in wine-growing regions, but Bonvino is different. The hotel operates not only in one of the most important wine regions of Hungary, but also the design and the services reflect on the history of Wine-making. The hotel's design is a talking-design, because not only the programmes but also the elements of the design refer to wine. When the owners and investors worked up the design, it was an important aim, that if the guest arrives, they do not get a usual standard room, but they stay at a hotel like Bonvino, which is all about Badacsony and the surrounding area, wine and wine culture. This idea's main point was their own, but they thank the designer's team, who were unique and relatively new but already famous team in the market. The team already participated in the creation of ice hotels. According to the team's ideas the raw concrete of the ceiling was made, which is not an important characteristic of wine cellars, but it is a so-called breathing concrete, which can make it easier for the hotel to 'breath'. Their idea was the 'wine storage' at the reception desk, the wine cloud and the two types of rooms. (Interview, 2011.09.20)

Wine bottles show the room numbers and the corridor is full of pictures about wine-making. These features represent the unique look. The wine design appears not only in the corridor and rooms, but also in the wellness area and all other guest areas and places. (www.hotelbonvino.hu, 2011.09.04.)

## 2.3. The innovation activities

Researchers deal with different innovation groups and innovation activities as well. In order to measure innovation activities three main categories can be identified: (Tseng & Kuo & Chou, 2008, p. 1019)

- Technological innovation
- Organisational innovation
- Human capital innovation

#### Technological innovation

According to Sheldon (1983) this kind of innovative methods is capable to provide equipment and technologies (Tseng & Kuo & Chou, 2008, p. 1018) which offer new and improved tools/machines that are suitable for the production and enhance the effectiveness of management. This is very important for the hotel industry's profitability. The technological innovation is shown primarily in the improving of the communication and computer networks. This kind of change is the strongest modifying and reshaping force in the market, so hotel CEOs know how important the innovation is, especially how important the innovation in the communication and how essential information technology's potential benefits can be, which are deeply influenced by the relationship between the customer and the service. (Tseng & Kuo & Chou, 2008)

#### Organizational innovation

The organizational innovation shows the organizational capital changes. This kind of innovation refers to the efficiency and effectiveness of the innovation, and how to manage and develop the knowledge of the hotels' CEOs, when they confront a competitive environment. This mode includes the organizational processes and the organizational culture as well. (Tseng &Kuo & Chou, 2008)

#### Human capital innovation

According to Orfila-Sintesa et al. (2005), the human capital innovation advocates that the adjustment of human capital skills is mostly equal to efforts in successful innovation implementation. (Tseng & Kuo & Chou, 2008)

Updating these skills/capabilities emphasize the changing in training, in investment, and in the case of human resources (Griliches, 1990; Pine, 1992; Van de Wiele, 2007) .This updating plays an important role also in the success of the innovation. (Olsen & Conolly, 1999; Sirilli & Evangelista, 1998) The human capital innovation includes the collective hotel capability to bring out the right solution to the

knowledge of the employees and the employees skills such as a wide-ranging customer relationship or the experience. (Tseng & Kuo & Chou, 2008)

The organizational and the human capital innovation can be seen at the Bonvino Hotel. Their innovation is process tendency. They do not focus on technological innovation, although they use the latest software and equipments. The organizational innovation is displayed strongly, because within the hotel a creative organization operates. Everyone has a right to make suggestion in all areas and topics, but these suggestions should be constructive. They held meetings weekly, where they have the chance to exchange their ideas. In these meetings all department members can take part. They discuss, what they think for example about the new packages. Each department is going to work on these ideas. (Interview, 2011.09.20)

## 2.4. The source of innovation

The study showed that the innovation's classification and the innovation activities are very important. But it is also an interesting question to think about the sources of innovation. And why is it important? Because the innovation in the hotel industry is not so common, so their innovative ideas mostly come from other sectors. There are two main groups which can be identified: management sources and not management sources.

#### Management source

Within management service process and physical production processes can be distinguished. (Gyurácz-Németh & Raffay & Kovács, 2010). The construction industry is an example of the physical production process. Innovations coming from the construction industry get great emphasis. These include new/different materials that are not actually developed for the hotel industry, but are now also used in this sector. It is important to emphasize the development of the background infrastructure in case of the hotel industry as well. (Gyurácz-Németh & Raffay & Kovács, 2010)

#### Not management source

Psychology

Psychology is one of the innovative sources which can be classified as a not management source. This topic has a great significance in the hotel industry, because the aim of the hotel is to satisfy its guests with quality service. They can reach this satisfaction with for example adjustable lights by their own taste. (Gyurácz-Németh & Raffay & Kovács, 2010)

#### Design

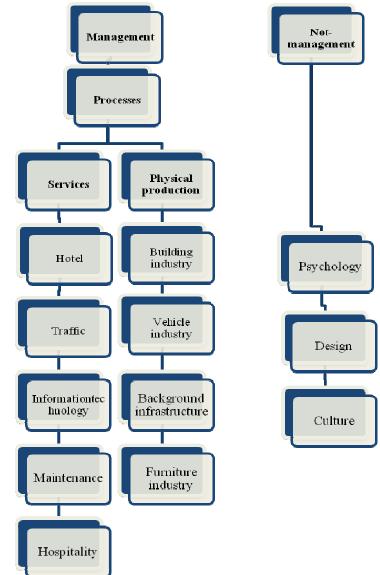
The inevitable source is the design. (Gyurácz-Németh & Raffay & Kovács, 2010) Hotel Bonvino is 'equipped' with unique. As it is mentioned above the wine-making style is unique in the market. This wine-growing design covers throughout the hotel. (<u>www.hotelbonvino.hu</u>, 2011.09.04.) Culture

Culture is the part of the non-management innovation sources, too. (Gyurácz-Németh & Raffay & Kovács, 2010) This type of source is not important for every hotel, but in this case it also plays a very big role for example the wine-growing, the culture of harvest conservation and the presentation by the Hotel Bonvino. The following chart shows the sources of innovation.

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Picture 1: Innovation sources



Source: Gyurácz-Németh & Raffay & Kovács, 2010

## 3. CONCLUSION

Innovation has an important role in today's economies. There is no company which can survive in this changing environment without being able to innovate from time to time. In the paper first the innovation theories were introduced and reviewed including the success factors, the advantages, disadvantages and the pitfalls of innovation. Then the case hotel was presented and analysed in the perspective of innovation types, styles and sources as well. It can be stated as the result of the paper that in the hotel signs of incremental innovations can be found instead of radical ones. According to Lovelock's classification service development and style changes are significant in the researched hotel. The hotel concentrates on organisational and human capital innovation according to other grouping, but they are rarely applying technological innovation. As sources of innovation non-management innovations (psychology, design and culture) were shown to be the most important ones.

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