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Impact of customization and innovation on hospitality firms’ performance

Ernest Yaw Tweneboah-Koduah*, Thomas Anning-Dorson* and Michael Boadi Nyamekye*

*Marketing and Entrepreneurship, University of Ghana Business School, Accra, Ghana; †Department of Marketing, University of Professional Studies, Accra, Ghana

ABSTRACT

This study examines how process innovation and customization, both individually and in combination, improve hospitality firms’ financial and non-financial performance. The paper investigates both process innovation and customization as important firm-level capabilities that have the capacity to improve the performance of hospitality firms due to the nature of their operations. This paper uses data from hospitality firms operating in Ghana. The study finds that hospitality firms’ customization capability allows hospitality firms to benefit from using the customer as a key resource and as a production partner to provide the desired value for customer satisfaction. This study further finds that process innovation and customization produce higher levels of firm performance when they are deployed together as they have complementary properties. This study, therefore, offers that customization capability should target at improving innovation capability in order to achieve higher overall firm performance for hospitality firms.

KEYWORDS

Customization; capabilities; customer involvement; innovation; hospitality; firm performance

Introduction

A service is the performance of a valuable action or an effort to create a valuable outcome that satisfies a need or fulfills a demand. Services represent deeds, processes, and performances provided by or coproduced by one entity or person for another entity or person (Zeithmal, Parasuraman & Malhotra, 2002). The successful management of the “servuction” (service production) process is the key performance indicator for service firms. This presupposes that what sets successful firms apart is their ability to develop, implement and
manage processes to create higher customer value, improve delivery period and enhance the output per cost ratio. Service firms perform key strategic activities in order to deliver improved value to their clientele. These key activities are geared towards enhancing the value in the (service) product, how the value is delivered and where the value is obtained. One of the key strategic activities available to service firms is innovation, which is the degree of newness a firm introduces into its business model to create new value for the market (Sawhney, Wolcott, & Arroniz, 2006). Innovation in service has been suggested to create a competitive advantage and improve the performance of firms (Anning-Dorson, 2016a; Ordanini, Parasuraman, & Rubera, 2014). Innovation provides new avenues through which service firms are able to create different experiences for their customers and thus it can create new value streams. Process innovation is a type of service innovation that provides an immense advantage in creating new value streams for improved customer experiences thereby enhancing a firm’s competitiveness and overall firm performance (Anning-Dorson, 2016b).

Generally, the value creation activities of an organization can be viewed as a set of processes (a series of actions or steps taken in order to achieve a particular end) that are structured to satisfy customers’ needs and wants (Galbraith, 1992; Harper, 2015). The inference is that the customers’ level of satisfaction is dependent on how well the series of actions (processes) are managed to create value. In the innovation literature, process innovation has been advanced as a key value creation avenue that brings about improvement in the firm’s value delivery systems. A firm’s value creation systems explain the various ways through which that firm creates valuable experiences for its customers. The hospitality industry is one of the process-dominant sectors that can benefit immensely from process innovation (Shoemaker & Lewis, 1999). Shoemaker and Lewis (1999), in explaining the process dominant nature of hospitality, indicate that both guest and company indulge in several activities and process. “For the guest, the process includes everything that happens from the time they begin buying the service (e.g., calling to make a reservation) to the time that they leave the property (e.g., picking up their car from a valet)...[and] all interactions with employees are part of this service process” (p. 353). On the other hand, the company process “includes the design of the service operations, the hiring and training of service personnel, and the collection of information to understand customers’ needs, wants, and expectations” (p. 354).

Relying on the works of Anning-Dorson (2017), in the hospitality industry, process innovation would mean implementing a new or significantly improved production or delivery method, making changes to an existing operation to create significant value for the firm, and/or significantly improving the method of doing things to increase productivity levels and customer satisfaction. At the core of developing and implementing process innovation in hospitality firms is the creation and improvement of quality service delivery that brings valuable experiences to the customer (Gomezelj, 2016; Grobelna & Marciszewska, 2013). Studies on process improvement such as those of Harrington, Chathoth, Ottenbacher, and Altinay (2014) and Gomezelj (2016) have attested to its contribution to overall firm performance improvement. Considering the fact that value is ultimately created for the customer and that his/her judgment of the value is critical (Parasuraman, 1997), it is important to always involve the customer in the value production process (Vargo, 2008). In the hospitality industry, it is argued that firms should ensure that the customer participates and contributes to
process development and improvement for successful service customization (see Kuo & Cranage, 2010). This paper argues that hospitality firms with higher levels of customization capability are able to effectively bring the customer into the value creation process to facilitate the positive effect that process innovation will have on firm performance.

Although studies have been devoted to customer participation/involvement (see Auh, Bell, McLeod, & Shih, 2007; Payne, Storbacka, Frow, & Knox, 2009; Prahalad & Ramaswamy, 2004), an important area that has not received sufficient attention is how firms’ customization capabilities are exercised in the value creation process. More recently, Romero (2017) indicates that research into customer involvement and engagement has received little attention in hospitality research. Anning-Dorson (2016a) emphasizes that customization capability facilitates the alignment of service systems to suit a particular customer within a specific use-situation and to create a unique value for that customer. Customization as an involvement capability also helps to exact the double role of the customer as described by Gronroos and Voima (2013) as a “co-producer of resources and processes with the firm; and value creator jointly with the firm” (p. 140). The customer then becomes a proactive co-creator rather than a passive receiver of value. Hence, we argue that a hospitality firm’s ability to develop customization capability will enhance its use of customers as a key resource to improve the firm’s performance, since it is the customer that is seen as an important resource (Srivastava, Shervani, & Fahey, 1998). Additionally, since customization has the ability to govern the effectiveness of other capabilities, such as innovation, this study argues that when hospitality firms align their process improvement (process innovation) with customization, they create a higher competitive advantage (Prahalad & Ramaswamy, 2004), and this will improve the firms’ overall performance. We, therefore, argue that customization capabilities will enhance hospitality firms’ process innovations to create a competitive advantage.

This study makes key contributions to the literature in two ways. First, in the organizational capability literature, there is a surprising absence of the simultaneous examination of the performance implications of innovation and customization capabilities (Ngo & O’Cass, 2013). Given the importance of both innovation and customization in creating a superior advantage for enhanced performance, it is important to address such incongruence in the literature. Second, while some studies (e.g. Sharma, Conduit, & Hill, 2014; Ordanini et al., 2014) have been done on organizational level capabilities in terms of the customization of service operations and its impact on firm performance in the general service management literature, little is known regarding its effects on the hospitality service industry. In the hospitality management literature, Romero (2017) shows that little attention has been paid to this area despite its potential to improve firm performance. In this light, this paper makes a contribution to the literature by examining the effect of customization capabilities in hospitality service operations to boost the innovations-firm performance relationship. Firms need strategic thrusts/drivers to remain competitive in the marketplace. This study defines customization capability as an operational capability that enhances customer participation and collaboration for effective value delivery. Turkoz and Akyol (2008) note that collaboration in the hospitality industry is indispensable and admonishes readers that collaboration in various types of clustering and networks tends to increase innovation capacity. Gu (2003) also asserts that because of the close interaction
between supplier and customer, the hospitality product and process cannot be separated since an important role is played by human resources (i.e., employees and customers).

This study seeks to assess how customization capability of hospitality firms increases the effect of their process innovation on firm performance. This has not received adequate attention in the literature despite the crucial role of customization and innovation in improving hospitality firms’ performance.

**Theoretical background and hypotheses**

This study takes its theoretical inspiration from the organizational capability perspective, which explains the performance differences among firms (Augier & Teece, 2009). The capability perspective explains that firms that are able to incorporate sets of specific, identifiable processes, or commonly accepted best practices, in their value delivery process perform better over time (Eisenhardt & Martin, 2000). Firms with the necessary capabilities are able to purposely extend, create or modify their resource base in order to improve upon their performance. With regard to hospitality firms, the customer provides production resources in the form of information or effort in the service production and delivery process (Hsieh, Yen, & Chin, 2004). The ability of firms to learn from, utilize and collaborate with their customers (an important operational capability) to create the required value is dependent on the level of their external dynamic fitness (Augier & Teece, 2009). External fitness explains how firms are able to tap into external resources through their internal capabilities. Customers are seen as an external resource (operant resource) available to all firms, and the capacity to exploit this external resource will determine how successful a firm will be. Firms can achieve external dynamic fitness if they are able to develop their customization capacity through the use of customer information and the alignment of their service systems. Although customers as a resource may be available to all firms, the capacity to customize a firm’s service delivery process will determine the benefits received from such a resource (the customer as a resource perspective). Its customization capability enables hospitality service firms to create unique service delivery processes and values that create competitive advantages. Customization capabilities are, therefore, peculiar to each firm, and the firms that are able to intentionally and purposefully develop such capabilities are able to enhance the utilization of the firm’s other capabilities, such as innovation, to improve the firm’s performance. Consequently, hospitality firms that can effectively customize their services would enhance the effectiveness of other strategic actions (innovation) and their performance in both financial and non-financial terms. This study, therefore, proposes the framework below for testing:

The framework above also depicts that hospitality firms with high levels of customization capability and process innovation would perform well regarding both their financial and non-financial performance. The rationale for this assertion is that customization capability allows hospitality firms to fully benefit from the customer as a key resource in creating the desired service and quality required by the customer. This is possible since customization promotes the involvement of the customer in the value creation process thereby allowing him/her to influence what s/he desires (Duray, Ward, Milligan, & Berry, 2000; Sandrin, Trentin, & Forza, 2018). Additionally, process innovation is seen as critical to hospitality management as it brings about improved productivity, creates significant value for both customer and the firm, and also improves the output per cost ratio...
The third and final argument states that since customization has the capacity to bring the customer into the value creation process, it would shape and improve the value creation processes thereby improving firm performance (Lee, Lin, Lee, Yeh, & Lee, 2015; Migas, Anastasiadou, & Stirling, 2008). Customization capability is seen as a lower level of capability which has the capacity to improve the effectiveness of a higher capability, that is, a process innovation, in bringing about overall improved firm performance. Hence, their interaction is expected to yield higher firm performance than when customization capability and process innovation stand alone (Figure 1).

**Hypotheses**

An extensive review by Crossan and Apaydin (2010) shows that the effect of innovation strategy on firm performance has been found to be mainly positive. Over the years, innovation activities and outputs have been identified as important correlates or determinants of firm performance (Anning-Dorson, Hinson, & Amidu, 2015; Baldwin & Gellatly, 2003; Gopalakrishnan, 2000; Mansury & Love, 2008; Prajogo, 2006). Love, Roper and Du (2009) have also demonstrated that innovators are consistently more profitable than non-innovators. In terms of service operations, studies such as Ngo and O’Cass (2013) and Anning-Dorson et al. (2015) have found a positive relationship between innovation and firm performance. Innovation connotes the newness a service firm brings into the marketplace, to the customers it serves, or to its internal production process to influence its service outcomes. This positive effect can be attributed to the fact that firms learn to adapt to their changing business environment, and they tend to implement novel strategies to improve upon their performance (Zollo & Winter, 2002). Earlier studies on innovation in service firms have found process innovation to have a positive relationship with firm performance (see Anning-Dorson, 2016b; Lusch & Nambisan, 2015; Visnjic, Wiengarten, & Neely, 2016). Innovation in hospitality firms has also been found to increase firm performance (see Randhawa, Kim, & Cichy, 2017; Chen, 2017). This study argues that process innovation, which has been explained as an improvement in the experience creation of a hospitality firm, would enhance both the firm’s financial (profit, sales cash

![Figure 1. Conceptual framework](image-url)
flow, ROI and market share) and non-financial (employee satisfaction, customer satisfaction and service quality in relation to the competition) performance. This study therefore, hypothesizes that:

H1: Process innovation is positively related to a hospitality firm’s (a) financial performance and (b) non-financial performance.

Prahalad and Ramaswamy (2000) note that customers are fundamentally changing the dynamics of today’s marketplace; and therefore, customers can alter the linear relationship between a firm’s strategic efforts and the firm’s performance. The customer offers two value streams to the production process: a resource base (as an operant resource), and a partnership (as a co-creator) (Gronroos & Voima, 2013). The onus is on the firm to successfully and effectively deploy the customer (as a resource) to create the needed value for both the customer and the firm. The capacity of the firm, therefore, becomes important in the effective deployment of the customer.

This paper argues that firms with both high levels of operational flexibility and a high customization capability will profit more from the service production and delivery process. Such firms have the capacity to guide the customer to direct the value creation process, which improves customer experiences, satisfaction and value, which in turn increases firm performance.

Proponents of the dynamic capability theory suggest that capabilities are routines through which firms alter their resource base; firms acquire and shed resources, integrate them, and recombine them (Eisenhardt & Martin, 2000). Customization capability is seen to be rooted in the routines, practices and operations of hospitality firms and therefore, pose barriers to competitors wishing to imitate their successes (Ngo & O’Cass, 2013). Developing the appropriate capabilities consequently helps hospitality firms to establish a sustainable competitive advantage and maximize their growth and performance (DeSarbo, Di Benedetto, & Song, 2007).

The thrust of the argument in this paper is that hospitality firms that are able to develop the appropriate operational capabilities for customization will enjoy strategic success. This study, therefore, hypothesizes that:

H2: High levels of customization capability will positively influence the hospitality firm’s (a) financial performance and (b) non-financial performance.

Hult, Hurley, and Knight (2004) assert that firms that stay close to their customers are likely to benefit from innovation activity more than firms that do not. Having the ability to stay close to customers helps to generate and respond to information about customers’ present and future needs (Jaworski & Kohli, 1993). Story, Boso and Cadogan (2015) emphasize that such capabilities help firms to develop innovative products and processes tailored to their customers’ preferences and in turn, this improves their sales and overall performance. Ngo and O’Cass (2013) note that innovation is closely related to customer involvement, as firms that encourage customer participation and customization are able to create a fit between their innovation activities and their customers’ demands. The degree of the fit between process innovation and customer demands determines the firm’s success rate in terms of financial and non-financial performance.

This study argues along the lines of Blazevic and Lievens (2008) that firms with higher levels of customer involvement capabilities can capitalize on the competencies of customers
to improve the success rate of their innovation efforts. Certain key customers (potential and current) may exhibit special needs that may require a service configuration change by firms to meet these needs. Customization capability allows firms to alter their service products, process and personnel structure to meet special needs in specific use-situations (Anning-Dorson, 2016a). This comes as a result of the service firm aligning its service systems to suit a particular customer within a specific use-situation and to create a unique experience for those customers. Customization capability, therefore, serves as a moderating factor in the relationship between innovation and firm performance. Customization allows the hospitality firm to create a special kind of experience according to the individual's preferences (Migas et al., 2008). Customization capability, therefore, would enable hospitality firms to produce novel experiences for their clientele and also facilitate the development and implementation of innovative offerings. Customization capability enables hospitality firms to explore new value streams and enhances the effective and efficiencies of process innovation that increases customer value (Lee, Bai, & Murphy, 2012).

We argue that the customization capability of a hospitality firm will positively moderate the process innovation-performance relationship of such a firm both in the short- and the long-term. Hence, the position of this paper is that the interaction of customization capability and innovation activities will enhance a hospitality firm’s performance. A hypothesis is made that:

H3: Over and above the direct positive effect of innovation and customization on firm performance, their interaction will yield a higher performance effect.

Methodology

The data used for this study were obtained from a larger study of service firms operating in Ghana, collected in the later part of 2016. The previous and broader study specifically collected data on different strategic issues that largely centered on innovation, strategic orientation and performance across service firms. In specific terms, the direct questions were on issues such as firm innovation activities, customer collaborations/involvement, customer orientation, market and industrial conditions, competitiveness, and performance among other things. In that broader study, over 2,500 firms were involved and covered service sectors including banking, insurance, hospitality, retailing, communications, consulting, information technology (IT) and Internet service providers, and other service firms. The study relied on the Ghana Business Directorate (GBD) (ghanaweb.com) as the main source of listings of firms that served as the sampling frame. The choice of this database was based on the fact that detailed information about all the listed firms, in terms of contacts and physical offices, were easily accessible. In comparison with other databases provided by government-mandated institutions in charge of service firms, the GBD proved to be more reliable. Also, other studies such as those by Acquaah (2007) and Anning-Dorson (2016a) have used the GBD database to collect data from firms.

To select the appropriate firms for this study, the researchers developed selection criteria that allowed for the easy identification and contacting of firms. Hence, the survey only selected service firms that have at least an office location in the three major metropolises in Ghana, namely Accra, Kumasi and Sekondi-Takoradi. In the case of firms with multiple offices, the initial contact was made with the head office. Initial emails
were sent to over 7,000 service firms that satisfied the initial office location requirement to seek their consent to participate in this study. The firms that responded and indicated they were willing to participate in this study were later sent the survey questionnaire and asked to complete it. The cover letter accompanying the survey specifically instructed that the questionnaire be filled by people in management positions who were responsible for the area corresponding to the appropriate sections of the survey. Regarding the firm performance assessment, the cover letter requested that finance managers/accountants complete that section of the survey; that part of the survey was separate from the main survey document. As a mopping-up strategy, research assistants were assigned to groups of firms in the various cities and asked to do a physical follow-up in order to get substantial number of responses. When companies requested physical questionnaires instead of answering an email survey, the assistants provided paper copies of the survey and followed-up to collect them after two weeks.

Regarding this current study, the survey shows that a total of 372 hotels, guesthouses and lodges were contacted to partake in the survey. The study later received 267 more replies (71.77% of the responses) from firms who subsequently received questionnaires after they agreed to take part in the study. As indicated above, chief executive officers, managing directors, marketing managers, operations managers, financial managers/officers/accountants, and business development managers served as the respondents to the survey.

In this study, we utilized constructs and items from the broader study that centered on the firm performance, customization, and process innovation of hospitality firms. In all cases the constructs used for this paper were measured using a seven-point Likert scale (1 = strongly disagree; 7 = strongly agree). Although the total number of valid responses in the hospitality category of the broader survey was 57.5% (214 out of 372), 184 (or 49.5%) were found to be appropriate for use in this paper; the other surveys did not include responses in areas that were considered critical for our analysis. The 184 firms were, therefore, deemed valid for the purpose of this paper and were subsequently used for analysis.

Analysis

This study first assessed the model through a confirmatory factor analysis (CFA) prior to hypotheses testing via structural equation modeling (SEM) carried out using the IBM SPSS Amos 23 software. The CFA was used to test the reliability and validity of the measures used. The CFA produced a suitable model with good indices: the chi-square divided by the degrees of freedom ($\chi^2$/d.f) = 1.84 goodness-of-fit index (GFI) = .98; the normed fit index (NFI) = .95; the Tucker–Lewis index (TLI) = .95; the comparative fit index (CFI) = .96; the root mean square error of approximation (RMSEA) = .062; and the standardized root mean residual (SRMR) = .042. These indices meet the accepted criteria for the overall model fit of the sample group suggested by both Hair et al. (2006) and Kline (2015). All items had significant standardized loadings (see Table 1) of p-value ≤ 0.05, and therefore they meet the requirement set by Anderson and Gerbing (1988). The constructs were all reliable regarding the composite reliability scores, as shown in Table 1. To further investigate the multicollinearity of the constructs, the assessment of discriminant validity was tested. Discriminant validity compares the variance-extracted estimates of the measurements with the square of the parameter estimate between the measurements. If the variance-extracted estimates of the constructs are greater than the square of the
correlation between two constructs, evidence of discriminant validity exists (Fornell & Larcker, 1981). On the basis of this test, this study found that the correlation between any pair of the main constructs was not larger than the respective square root of the average variance extracted and therefore the constructs were discriminately valid.

This study included an initial measure to avoid common method bias as different respondents were required to answer the dependent and the independent variables respectively. However, because the respondents were in the same company and there were no objective measures for their performance, a test for common method variance (CMV) was conducted. This was done to eliminate any possibility of common method variance that could cast doubt on the integrity of the findings of this study. The researchers tested for common method bias using Lindell and Whitney’s (2001) test for CMV and found that CMV is not a problem in this study. A Harman’s one-factor test of CFA also showed that common method bias is not a problem.

To assess the hypotheses, the researchers used structural equation modeling (SEM) in the second stage of the analysis. The structural model yielded good fit indices ($\chi^2$/DF = 16.127/12; TLI = 0.985; CFI = 0.996; GFI = 0.994 RMSEA = 0.026; SRMR = 0.0221) and thus paved the way for the hypotheses to be assessed. In the analysis, the study partial out the effect of certain firm level characteristics that had the potential to obfuscate the outcome of the analysis. The researchers, therefore, controlled for firm size, age, foreignness and ownership structure (single or multiple owners), as these characteristics may confound the effect of the independent variables on the dependent variables. The results confirmed the hypothesis that process

<table>
<thead>
<tr>
<th>Table 1. Model measurement.</th>
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<tbody>
<tr>
<td>Constructs/Measurement Items</td>
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<tr>
<td>Process Innovation (Anning-Dorson, Nyamekye, &amp; Odoom, 2017) CR = 0.92 AVE = 0.75</td>
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<tr>
<td>We adapt to different service processes to meet customer needs.</td>
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<tr>
<td>During the past five years, our company has developed many new management approaches to help serve customers faster and better.</td>
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<tr>
<td>Our future investments in new service process are significant compared with our annual turnover.</td>
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<tr>
<td>Our company changes service processes at a great speed as compared to our competitors.</td>
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<tr>
<td>Customization Capability (Anning-Dorson, 2016a; Anning-Dorson et al., 2015) CR = 0.93 AVE = 0.74</td>
</tr>
<tr>
<td>Regularly, our company is able to alter our products, processes and personnel structure to meet special needs,</td>
</tr>
<tr>
<td>We constantly realign our service systems to suit particular customers within a specific use-situation.</td>
</tr>
<tr>
<td>We continually create special kinds of service experiences based on customer preferences.</td>
</tr>
<tr>
<td>Our customers prefer to deal with us because we consistently attend to their individual needs.</td>
</tr>
<tr>
<td>Based on previous interactions with clients, we are always able to customize a solution for subsequent transactions.</td>
</tr>
<tr>
<td>Financial Performance (Jaworski &amp; Kohli, 1993) CR = 0.92 AVE = 0.71</td>
</tr>
<tr>
<td>Better cash flow</td>
</tr>
<tr>
<td>Better return on investment</td>
</tr>
<tr>
<td>Better market share</td>
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<tr>
<td>Better sales volume</td>
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<tr>
<td>Better profit</td>
</tr>
<tr>
<td>Non-Financial Performance (Anning-Dorson et al., 2017) CR = 0.86 AVE = 0.66</td>
</tr>
<tr>
<td>Employee satisfaction</td>
</tr>
<tr>
<td>Customer satisfaction</td>
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<td>Service quality</td>
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*** = p < 0.000
innovation is positively related to both the financial and non-financial performance of hospitality firms. The beta coefficients were found to be significant and positive for the effect of process innovation on performance ($\beta = .319$, $p < 0.001$ for financial performance and $\beta = .147$, $p < 0.001$ for non-financial performance). H1 was, therefore, supported. H2 was also confirmed; thus, the higher the customization capability of a hospitality firm, the higher the hospitality firm’s financial and non-financial performance. A positive and significant coefficient was found for financial performance ($\beta = .279$, $p < 0.001$) and $\beta = .122$, $p < 0.001$ for non-financial performance respectively.

To assess the interaction effect, the study followed Little, Card, Bovaird, Preacher, and Crandall (2007) to create a single indicant variable through a multiplicative approach to reduce the model’s complexity. To reduce the possibility of multicollinearity problems due to the usage of interactive term, process innovation and customization variables were mean-centered prior to the creation of the interactive term. The results showed support for the hypothesis that customization capability will enhance the positive relationship between process innovation and hospitality firm performance for both a firm’s financial and non-financial performance. The coefficients were also found to be significant and positive for financial performance ($\beta = .120$, $p < 0.001$) and non-financial performance ($\beta = .210$, $p < 0.001$).

To better understand the nature of the fit between process innovations and customization capability, the study followed Aiken and West’s (1991) example by plotting the interaction effect using sub-group analyses. Process innovation was plotted against financial and non-financial performance outcomes for high and low values of customization capabilities. As Figure 2 indicates, higher financial performance is associated with high values of process innovation and customization as opposed to smaller values. Figure 3 also shows that superior non-financial performance is associated with high values of process innovation and customization as opposed to smaller values. These two findings suggest that financial and non-financial performance outcomes are greater when hospitality firms develop high levels of customization capabilities to improve the effectiveness of their process innovation.

Figure 2. Interaction effect of customization and process innovation on financial performance
Discussion and conclusion

This study sought to analyze the influences of innovation and customization capability and the moderating effect of hospitality firms’ customization capabilities on the innovation-firm performance relationship. Additionally, this study sought to assess the interaction effects of customization and innovation capabilities on firm performance. The results supported the three sets of hypotheses stated and offer significant theoretical and practical implications.

This study shows that customer involvement through customization complements the effect of innovation strategy on firm performance. This study also shows that there are levels of capabilities and some capabilities have the potential of governing the effectiveness of others as expressed by Helfat (2007). The supposition is that in the hospitality sector, firms are likely to benefit from customization capabilities if they able to exploit such capabilities to create innovative processes and products for customers. Such an attempt creates the most valuable innovations as customers are directly linked to the new processes and products.

This study, by way of its theoretical contribution, suggests that customer involvement capabilities are second order capabilities that facilitate the effectiveness of first order capabilities such as innovation. It is shown in this study that when innovation as a first order capability is aligned with a related second order capability such as customization from the customer involvement perspective (Ngo & O’Cass, 2013), higher levels of performance are achieved.

This study also concludes that firms that stay close to their customers are likely to benefit from innovation activity more than firms that do not. Such firms are able to collect information and respond to complaints better and are also better able to alter their service systems to meet the special needs of customers in specific use-situations (Anning-Dorson, 2016). What customization does is to afford customers an opportunity to directly feed into the innovation of services by hospitality firms. This results in the production and delivery of the desired/expected service for the customers. This allows hospitality firms to create loyal customers.

The findings of this study support arguments from the organizational capability perspective as espoused by Augier and Teece (2009). This study offers that capabilities such as the customization of services serves as the differentiating factors in terms of firms’ level of competitiveness and performance. This study also explains that the development of second order capabilities such as customization enables the firm to exploit its internal...
resources and other capabilities. Beyond that, a hospitality firm with a high level of customization capability is able to effectively utilize external resources such as customers. Hospitality clients are resources not owned by a single firm but available to all firms. However, their exploitation as resource is dependent on relational capabilities such as the customization possessed by a firm. Customization as a form of relational capability explains the capacity of a hospitality firm to incorporate customers into the firm’s value co-creation process. In the hospitality sector, the co-creation of service experiences serves as a critical success factor, so having the capacity to co-create with customers and customize the firm’s services is essential. Customization as per this study is shown to be a key to achieving dynamic fitness for firms. It has been shown in this study as an important internal capability that offers a firm the ability to tap into external resources (customers) for the firm’s financial and non-financial benefit. Beyond that, it also facilitates the conversion of such resources into a avenue to create a competitive advantage, as the development and effective use of a firm’s customization capability will be difficult for competitors to copy as such capabilities are embedded in the routines of each firm.

The study demonstrates that process dominant firms such as hospitality firms stand to benefit in both financial and non-financial ways if they implement process innovations successfully. Developing and implementing process innovation in hospitality firms can create and improve quality service delivery that is of value to customers. However, the effect of process innovation increases when the development and implementation is done along with improvement of the firm’s customization capabilities. Improving the customization capabilities of hospitality firms allow hospitality firms to benefit from the two value streams offered by customers, that is, customers as a resource base and as a partnership. Customization capabilities are a result of operational flexibility that allows hospitality firms to exploit the resource base offered by their customers and integrate their customers into the value co-creation process. Hospitality firms are, therefore, encouraged to develop customer involvement capabilities such as the customization of services in order to for firms to fully benefit from the value streams offered by customers.

This study also contributes to the literature regarding the organizational capability perspective by offering that while some capabilities are important in improving firms’ performance, it is important to understand that some lower level capabilities shape the firms’ effectiveness. This current study has clearly shown that while innovation capability is critical to firm performance enhancement, it still needs lower level capabilities to provide the necessary inputs. This means that capability development should not be achieved in isolation but must be tiered for maximum impact. While first order capabilities may be prominent and more directly related to strategy achievement, second order capabilities are important facilitating tools that sharpen the effectiveness of first order tools. As seen in this study, higher levels of performance are associated with higher levels of both customization (second order) and process innovation (first order) capabilities.

This study calls for further testing of the current model in other sectors and economies in order to make comparisons and determine whether generalizability exists. The current study has been conducted in a single sector and country with specific characteristics that may differ from other sectors and countries. Therefore, a further testing of the stated relationships in other sectors and economies will enrich our understanding and advance
the theory. Future studies may also examine different business/industrial sectors in Ghana and other emerging economies.

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