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Innovation Strategies in the Hotels Sector of Makkah, Saudi Arabia

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Abstract:

The city of Makkah has long had a thriving hospitality sector in Saudi Arabia, primarily due to the need for accommodating hajj and umrah pilgrims. In view of the kingdom's economic restructuring, global trends and the pandemic, this study examined existing innovation strategies in this sector in terms of how well they support economic sustainability. Structural equation modelling was used on a sample of 128 hotels to test for this role and relationship, as per the Schumpeterian approach. The results confirm an emphasis on service quality, standardized services, readiness for product introduction, and use of technology. Importantly, economic sustainability was found to be related positively with innovation strategy with respect to performance. It is concluded that existing innovation strategies are supportive of growth, profitability in long-term resource management, value chain management, and customer satisfaction. Implications are drawn for integrating sustainability with business strategies, and the need is highlighted for hotels to give greater prominence to strengthening innovation strategy for benefiting further from opportunities presented from sustainability. Particularly beneficial for longer-term sustainability would be improved understanding of customers' needs, and to focus on those innovative strategies which deal with socio-environmental issues.

Keywords: Innovation strategy, economic sustainability, hotel, Makkah

1. Introduction

Economic success is a foremost aim of all businesses irrespective of their size and sector (Galbreath, 2011). This study examines how innovation strategies in the hotel sector in Makkah, Saudi Arabia, relate to and support sustainability for economic success. According to Horng et al. (2016), the motivation for hotels innovating for sustainability is tied to other aims of gaining service orientation, customer satisfaction, market position, and also environmental thinking. All such initiatives for sustainability require resource investments, and notably, they are also subject to potential risk and uncertain outcomes (Mullens, 2018). For instance, hotels may innovate through the 4R measures for reducing, recycling, reusing, and reaching by improving water resource management (Kasim et al., 2014). However, whether a hotel can achieve long-term benefits economically through this kind of innovation alone is another matter.

This makes it important to examine innovation strategies from a wider entrepreneurial perspective in terms of long-term economic sustainability, which is the concern of this present study. Specifically, the study examines the role of innovation strategies in long-term economic sustainability in the Makkah hospitality sector at the corporate level. It aims to identify indicators of both constructs of innovation strategy and economic sustainability, and examines the relationship between the two. Theoretically, the study contributes to the literature on Schumpeterian service innovation, and its interlinkage with economic sustainability, while applying it to the context of the hospitality sector. It necessarily also covers managerial implications with respect to how sustainability may be ideally integrated with innovation strategies for businesses, and how innovation strategies may be applied by hoteliers for gaining long-term economic sustainability.

Gaining economic sustainability means to reach a position in which guests and other stakeholders are able to continually benefit from the hospitality services and other tourism experiences (Jones et al., 2016). This may seem straightforward, but customer needs in hospitality are always changing (Dzhandzhugazova et al., 2016), so hotels need to capitalise on service innovation strategies that lead to new and improved processes in line with current and foreseeable needs (Carlborg et al., 2014). Hotels can also exploit business opportunities this way by redesigning their hospitality products and services to meet not only customer needs, but also socio-environmental needs (Whelan & Fink, 2016). If done strategically, hotels can respond better to market dynamics (Carlborg et al., 2014).

Existing studies on innovation strategies and economic sustainability typically focus on issues of corporate social responsibility (CSR) (Bohdanowicz & Zientara, 2009), and on environmental management (Horng et al., 2017). It is generally assumed that hotels pursue and adopt innovative measures for obtaining commercial benefits through activities mostly geared toward conserving environmental resources (Kasim et al., 2014). However, some business prefers not to integrate sustainability in their core business strategies (Whelan & Fink, 2016). This includes the hospitality sector which is known to be slow in adopting sustainability initiatives (Jones et al., 2016). According to Whelan & Fink (2016), their reluctance or slow uptake is due to considering the benefits would be outweighed by the costs, especially in terms of immediate financial returns (Prud'homme & Raymond, 2016).

2. Review of the Literature

2.1. Innovation Strategies

The nature of innovation processes has been studied by several scholars (Carlborg et al., 2014; Whelan & Fink, 2016; Evans et al., 2017), particularly product innovation in manufacturing firms based on a review of 128 studies (Carlborg et al., 2014). These innovations may be categorised into product innovation, process innovation, and business model innovation (Amit & Zott, 2010), or into organisational innovation and technological innovation (Nidumolu et al., 2009). Notably, technological innovation is more common outside the hospitality sector (Hjalager, 2015), but when it has taken place within this sector, hotel operations have been transformed extensively (Bilgihan & Nejad, 2015).

For the process of innovation, two stages may be identified: an initial ex-ante stage, and an ex-post-secondary stage, the former referring to generating, screening and evaluating ideas and resource commitment, and the latter to existing innovations in the market (Dzallal & Blind, 2019). Carlborg et al. (2014) identified three stages for service innovation: a demarcation stage in which product innovation is distinguished from pure service innovation, a customer involvement stage for value creation, and a synthesis stage in which the two product and pure service innovations are integrated. A greater division has been made by Nidumolu et al. (2009) who identified five distinct stages in becoming sustainable: (1) viewing compliance as an opportunity, (2) making value chains sustainable, (3) designing sustainable products and services, (4) developing new business models, and (5) creating next practice platforms.

To become economically sustainable therefore, in an environment of competition and uncertainty, hotels would need to exercise creativity, which may mean departing from usual business practices, and reflect on the ever-changing customer demands and expectations (Dyllick & Hockerts, 2002). Importantly, the synthesis perspective, which is consistent with Schumpeterian innovation (Carlborg et al., 2014), is applicable to the hospitality industry (Bilgihan & Nejad, 2015). In view of this perspective, the present study views innovation strategies as means for hoteliers to meet the various stakeholder needs, particularly of their customers (Jones et al., 2016), and innovation strategy is thus conceptualised as actions of hoteliers aimed at supporting new ideas, creative processes and experimentation that result in new services, products and technological processes (Lumpkin & Dess, 1996).

2.2. Economic Sustainability

Businesses that are economically sustainable are typically those that are profitable and which have secure cash flows (Dyllick & Hockerts, 2002), and this situation is expected to be in line with what shareholders want. Economic sustainability is therefore indicative of a business functioning as a basic economic unit with its fundamental obligation of being productive and profitable (Carroll, 1979), and its ability to endure the prevailing conditions economically (Galbreath, 2011). This also means that engagement in sustainability initiatives is usually dependent on managerial understanding of expected economic benefits (Prud'homme & Raymond, 2016). Since investments in sustainability are subject to potential risk and uncertain outcomes (Mullens, 2018), remaining economically sustainable would require appropriate management of all tangible and intangible assets, financial capital, and resources, including inventions and reputation (Dyllick & Hockerts, 2002).

Considering the above, the present study regards economic sustainability as the responsibility of hoteliers to endure prevailing circumstances economically, as indicated by good resource management, long-term sustainable growth, and long-term profitability (Henry et al., 2019). It necessarily also examines hotelier strategies, practices, and their capacity to support such economic performance through dealing with its customers, other stakeholders including shareholders, as well as the socio-environmental context.

2.3. Effect of Innovation Strategies on Economic Sustainability

As per the Schumpeterian theory of innovation, firms that engage in 'creative destruction' and risk new combinations and more likely to outperform their counterparts (Choi & Williams, 2013). The ability of hoteliers to innovate is therefore expected to serve as an important tool for managing changes in the economic environment. Those business that are slow at innovating, for example, in being in line with changes in customers' demands, competition, products and services, technologies and regulations, put themselves at risk of being marginalised (Lozano, 2013). Innovation thus serves to improve business efficiency, profitability and competitive advantages (Gobble, 2012). This shows the importance of attitudes towards innovation behind the formed strategies, which can impact on the effectiveness of discovering new opportunities and exploiting niche markets considerably (Su & Sohn, 2015).

Being innovative, hotels would be expected to respond creatively and actively on a range of sustainability related areas, since it represents the willingness of hoteliers to depart from existing practices and technologies, and their determination to go beyond what present circumstances offer (Lumpkin & Dess, 1996). Therefore, for ensuring sustainability, it is necessary to adapt to changing and challenging economic environments (Carsrud & Brannback, 2010). For this to be realised, it may be necessary to properly utilise innovative strategies, by which is meant the degree to which those businesses are able to create new products, processes and services which can add value to influences in the marketplace, as this can impact on economic sustainability (Gundry et al., 2014).

Additionally, it may be necessary to deal with broader sustainability issues by capitalising on the understanding of stakeholders and their corporate interests (Jamali, 2008). However, this would require extensive information processing capability and thorough environmental scanning (Maignan & Ferrell, 2003), as are expected in innovative processes (Rogers & Bamford, 2002). Dynamic, innovative and entrepreneurial firms tend to be proficient in these activities, which can drive economic sustainability (Amiri et al., 2017). Firms that have strong innovative strategies usually scan and

monitor their business environments to identify opportunities for strengthening their competitive positions (Cheng & Huizing, 2014). In view of the aforementioned, the present study makes the following hypothesis:

- *Innovation strategies in the Makkah hotels positively influence economic sustainability at the corporate level.*

3. Methodology

The present study has the objective of examining the influence of innovation strategies on the economic sustainability of hotels in Makkah. Confirmatory factor analysis was conducted first to test how well the measurement model fits the data from this industry, and the structural equation model was then applied to achieve the aforementioned objective by testing the above hypothesis. The method used in the present study was in-depth interviews with managers of hotels in Makkah with a focus on obtaining clear impressions of their innovative strategies as per the Schumpeterian perspective of entrepreneurship (Covin & Slevin, 1989).

3.1. Scales and Indicators

Commonly used measures and scales for determining innovation strategies are those that were mostly developed for manufacturing firms and in the context of developed economies (Wiklund & Shepherd, 2003). Given the importance of contextual characteristics in entrepreneurial processes (Wales et al., 2019), it would not be appropriate to use these measures since they would not accurately reflect the hospitality industry in Makkah. It was therefore necessary to gain contextual insights in order to refine and adapt these measures to reflect the target context.

There is no universally accepted measure of economic sustainability (Fatma et al., 2016), which is considered as a sub-dimension of corporate sustainability (Jones et al., 2016). Several measures do exist though. For instance, economic sustainability may be treated as comprising efficient production, business-government relations, and production differentiation (Bansal, 2005). Alternatively, it has been associated with supplier reliability, monetary value for fines and sanctions, and for research and development (Docekalova & Kocmanova, 2016), and with improved economic performance and long-term survival (Fatma et al., 2016). Importantly, corporate sustainability is very much a context-specific issue, and socio-environmental business impacts may vary according to the industrial and wider socio-economic contexts (Ashrafi et al., 2019).

The present study made use of derived measures for capturing the construct of economic sustainability within the hospitality context as per Saudi culture. The scale developed for use in this study to measure innovation strategy and economic sustainability, is in line with that of Watson et al. (2018), and of Parasuraman et al. (1988) and Hinkin (1995) before them. The procedure began by conceptualising each concept prior to generating the actual items. The scale was then developed in three stages, as follows: (1) Item generation, (2) Scale development, and (3) Scale evaluation and validation.

Item generation was achieved based on the in-depth interviews with 24 hotels in Makkah. Other studies that made use of a similar qualitative strategy include those of Lankoski (2016) and Fatma et al. (2016). The contextual insights obtained from this approach were then synthesised with information from the literature to generate a list of items from which a number was selected with the assistance of two academic colleagues to check for suitability and relevance, and thereby ensure face and content validity. The items for innovation strategy were taken originally from the study of Covin & Slevin (1989), and adapted based on the contextual insights. Some items were rephrased, or reworded completely, or replaced entirely. The construct of economic sustainability was informed by literature on corporate responsibility (Carroll, 1979), and theories on sustainable development theory (WCED, 1987), and stakeholder theory (Freeman et al., 2004). Table 1 shows the final version of the scale measures from which the survey questionnaires were prepared for validating the scale, which was then pilot tested to help refine it further to enhance clarity and remove ambiguity (Saunders et al., 2012).

Innovation Strategy		Economic Sustainability	
Code	Variable	Code	Variable
INV1	Readiness of product introduction	CS1	Continuous training
INV2	Standardised services	CS2	Normal renovations
INV3	Service quality	CS3	Reliability of suppliers
INV4	Quickness to market	CS4	Customer satisfaction
INV5	Technology usage	CS5	Resource management
-		CS6	Sustainable growth
-		CS7	Long-term profitability

Table 1: Indicators of the Two Constructs

3.2. Data Collection

Data was collected from hotels located in Makkah, Saudi Arabia, which cater largely to the population of Muslim pilgrims from all over the world visiting the kingdom for performing either hajj or umrah. The hospitality sector in Makkah is dominated by hotels. It is the largest market for hotels in the whole Kingdom of Saudi Arabia. In Makkah, there were 127,209 hotel rooms available as of February 2019 of which 23% were five-star, 21% four-star, and 19% three-star (Shafeeq & Shamsudeen, 2019). Much of this is due to rapid expansion of the sector during 2013-2014 before which there were approximately 61,000 rooms across 450 classified hotels (Alotaibi, 2016). Table 2 presents the sample characteristics of hotels in Makkah by type and number.

The hotels surveyed ranged between 3-star and 5-star. Data was collected from 128 of them, which is 85.3% of the original sample of 150 to which questionnaires were given randomly. Data on the number of hotels of each type, and the number and average number of rooms, is given in Table 2 below. The sample for the in-depth interviews was obtained purposively with the aim to obtain as much relevant information as possible to help generate the items. The selection of hotels in this case was guided by a range of hotel attributes: type, location, rating, and organisational structure, and their number was terminated upon reaching a saturation point for gaining contextual insights. Field notes were taken during the interviews, and audio recordings were made.

Type of Hotel	Number of Hotels	Proportion of Sample	Number of Rooms	Average Rooms per Hotel
3-star	50	39.1	1,220	24.4
4-star	47	36.7	1,739	37
5-star	31	24.2	2,015	65
Total	128	100	4,974	-
Average	42.7	-	1,658	-

Table 2: Sample Characteristics

3.3. Scale Validation and Data Analysis

The survey data helped to purify and validate the scale prior to testing the hypothesis and generalising to the wider population. Tests were conducted for validity and reliability of the survey questionnaire before using latent constructs for the manifest variables (Hair et al., 2014). Reliability is an important precondition for validity (Saunders et al., 2012), and this was assessed for each construct by Cronbach's alpha and testing for composite reliability. Construct validity was assessed through convergent validity for innovation strategies and economic sustainability, which was essential for establishing the extent to which the measured variables represent the latent constructs (Hair et al., 2014). In order to confirm the goodness of fit of the models and generate model fit indices, confirmatory factor analysis was performed. This also allowed checking for theoretical consistency, and the measurement models were refined and validated by the estimated indices.

Subsequently, the structural equation model was applied for testing the structural relationship between the two constructs of innovation strategies and economic sustainability. The Cronbach alphas obtained for these constructs were 0.843 and 0.872 respectively. Both values are above the minimum 0.6 recommended by Fornell & Larcker (1981). Furthermore, it was not possible to improve these values by eliminating any measure, which shows the values are stable and that reliability of the scale is established.

Indicators Identified	Mean of Scale	Variance of Scale	Corrected Item-total	Squared Multiple	Cronbach's Alpha
	(in case of item deletion)		(correlation)		(if deleted)
Innovation Strategies					
INV1	16.5531	6.034	0.614	0.356	0.786
INV2	16.6127	6.127	0.629	0.479	0.745
INV3	16.7342	6.181	0.705	0.548	0.802
INV4	16.8419	5.836	0.685	0.546	0.737
INV5	16.6238	5.992	0.533	0.494	0.724
Economic Sustainability					
CS1	25.455	9.564	0.613	0.468	0.854
CS2	25.584	9.684	0.625	0.577	0.826
CS3	25.628	9.736	0.662	0.539	0.842
CS4	25.461	8.647	0.535	0.608	0.837
CS5	25.537	9.850	0.584	0.582	0.844
CS6	25.479	9.668	0.634	0.571	0.846
CS7	25.583	9.771	0.647	0.560	0.882

Table 3: Coefficients for Cronbach's alpha

4. Findings of the Study

The confirmatory factor analysis initially showed unsatisfactory fit of the model indices (CMIN/DF = 4.66, RMSEA = 0.112, CFI = 0.891, GFI = 0.902). Although the value for RMR (0.029) was within the acceptable range (Hair et al., 2014), it was still necessary to improve the model prior to hypothesis testing. This helped to eliminate the three indicators of CS1, CS2 and INV4 in steps, as per the criteria in Table 4 below.

Reasons for the Deletions				
Order of Deletion	Standardised Loadings under 0.5	Standardised Residuals above 4.0	Standardised Residuals between 2.5 and 4.0	High Modification Indices
CS1	X			X
INV4		X		X
CS2			X	X

Table 4: Order of Deletion for Model Refinement with Reasons

Additionally, refinement of the model involved theoretical rationale and model parsimony, for example, by retaining CS3 and CS4 while correlating their error terms despite the relatively high index of modification. This shows that CS3 (the emphasis by hotels on having reliable supplies) is related with CS4 (the need to provide quality services for satisfying visitors, and to endure it economically). The refined confirmatory model is presented in where the model fit indices are within acceptable ranges (Hair et al., 2014).

Figure 1: Confirmatory Measurement Model

The results for construct validity, which are based on the test for convergent validity show that the standardised factor loadings are all above 0.5, and are therefore statistically significant. As for composite reliability, these were found to be 0.78 and 0.82 for innovation strategies and economic sustainability respectively, which show evidence of convergence of the indicator variables to common points. The AVE (average variance extracted) value for innovation strategies was 0.47, which was below the level of 0.5, but it was higher at 0.58 for economic sustainability. Therefore, convergent validity was established which shows a high proportion of the variance is shared in common by the two constructs of innovation strategies and economic sustainability. (Hair et al., 2014).

4.1. Hypothesis Testing

below presents the structural model used in the hypothesis testing phase where INV and CS are indicator variables for innovation strategy and economic sustainability respectively. The values shown are: CMIN/DF = 1.587, RMR = 0.019, RMSEA = 0.048, CFI = 0.995, IFI = 0.979, GFI = 0.977. These indices are within the acceptable ranges (Hair et al., 2014). It can be seen from Figure 2: *Structural Model*

that the innovations by hotels do impact on economic sustainability both positively and significantly ($\beta = 0.53$, $p = 0.000$). This result confirms the hypothesis of this study since innovation strategies have been shown to affect economic sustainability directly, which is it does by around 53%. In addition, the R^2 value of 0.28 suggests their strategies can explain economic sustainability changes to around 26% (Kline, 2015).

Figure 2: Structural Model

Reasons for the Deletions				
Hypothesis	Unstd	Std	SE	CR
Economic sustainability ← Innovation strategies	0.65	0.53*	0.099	6.36

Table 5: Impacts of IV on ES

*The Standardised Effect Is Significantly Different from Zero at $P < 0.001$ (Two-Tailed)

5. Discussion

5.1. Implications of the Study

The results of this study suggest the innovation strategies by hotels comprise four strategic measures, namely INV1 –readiness of product introduction, INV2 – standardised services, INV3 – service quality, and INV5 – technology usage. The importance of each of the aforementioned measures and their relative strengths may be related with loading magnitudes as per the structural model. These innovation strategies place emphasis particularly on service quality (INV3) followed by standardised services (INV2).

Differentiation of products and services is a common way in which hotels attempt to maintain their market position. Standardised services are a way to attract hotel customers, and to satisfy and retain them, especially those that use recognised global chains. Such innovativeness depends on complementary and transformational resources that help to explore new opportunities (Su & Sohn, 2015).

Regarding readiness of product introduction, the result is in line with the study of Covin & Slevin (1989), which also points to the presence of traditional aspects of innovation. The result for technology usage (INV5) supports, for example, the study of Bilgihan & Nejad (2015), which also points to the slowness in the hospitality industry in adopting technology-based innovations. The failure of the INV4 measure (speed to market new products and services) to pass the confirmatory test indicates that hotels in Makkah are not so dynamic when it comes to marketing their new products and services. This is surprising given that these hotels do engage heavily in arranging hajj and umrah services both domestically, and especially abroad. It may be due to not making their new products and services well-known, or that they are not producing many new products and services.

Importantly, the overall influence of innovation strategies on the economic sustainability of hotels in Makkah has been shown in this study to be positive. This shows that innovative hotels can endure economically, as long as they ensure adequate supplier reliability (CS3), customer satisfaction (CS4), effective resource management and cost-saving initiatives (CS5), sustainable growth (CS6), and focus on long-term profitability (CS7). In addition, the study has shown evidence of an emphasis by Makkah hotels on sustainable growth over profit maximisation, which is consistent with the model of corporate performance where fulfilling an economic mission is viewed as the key responsibility of a business (Carroll, 1979). This traditional view is in contrast with the view that profitability is what an economic mission is predominantly directed at (Tuan, 2015). The present study has shown that innovation in the hospitality sector can thus lead to different outcomes, which is unlike the situation, for instance, in the manufacturing sector in which there is a much greater focus on product innovation (Carlborg et al., 2014).

The emphasis on the reliability of input suppliers further suggests some innovations arise as a response to particular needs or problems. This corroborates the study of Moscardo (2008) who also showed there is creative thinking behind innovations in the hospitality sector geared toward dealing with problems. As Carlborg et al. (2014) pointed out, innovation processes may be either intentional, unintentional, or planned, and they arise in response to both demand and supply pressures (D'Arcy & Omar, 2015). The present study has thus provided support for the sustainable business model

(Evans et al., 2017), incorporates the aspect of economic sustainability within environmental management frameworks (Hornig et al., 2017), and it also supports Schumpeterian innovation theory (Lumpkin & Dess, 1996).

6. Conclusion

Innovation strategies can strengthen the ability of hotels to survey and respond to customer demands and needs. They are vital, for instance, for ensuring quality services that at least match if not exceed these expectations. Customer satisfaction determines how hotels can create sustainable value necessary for their own economic growth, as well as to secure long-term profitability. The capability to innovate could be essential not only for bringing about major changes for long-term economic value, but also for small incremental changes along the way.

In this study, innovation strategies were examined in terms of their role in providing economic sustainability. The hotels examined place most emphasis on service quality followed by standardised services, then technology usage, and least emphasis on readiness of product introduction. The emphasis on service quality is a good sign that the hotels in Makkah are focusing on ensuring their services are of high quality. Although this factor tends to be more important for business travellers, it is also essential for pilgrims so that they can focus on the pilgrimage, and not have to worry about inconveniences or deficiencies related to their accommodation.

The emphasis on standardised services shows alignment with international standards, which is necessary for catering to diverse customers coming from all over the world, as well as to exploit opportunities within the local environment. It helps, for instance, to integrate these standards in the local context, and thereby deliver with high values. This approach can also trickle down to provide general social benefits in the local community, such as through creating employment and marketing opportunities for local products and services. Technology usage is not overlooked either by hotels in Makkah, which shows they are in line with service firms in general, and is promising for showing they strive to be up-to-date. This is beneficial for ensuring efficiency, and to create value for customers.

Theoretically, the study has contributed to research on sustainable business models in the hospitality sector, and practically, it has shown the need for greater acquaintance with and focus on innovation strategies for ensuring economic sustainability. The hotels in Makkah should continue giving priority to creating sustainable growth, conserve resources, secure long-term profitability, and develop sustainability focused on maintaining supplier reliability, effective value chain management, and particularly ensuring customer satisfaction.

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