



Innovation, Opportunity and Protection

After working through this chapter you should be able to:

- Understand the role innovation plays in the entrepreneurial process
- Recognize the relationship between creativity and innovation
- Understand the processes behind spotting opportunities and developing a new idea
- Recognize the importance of protecting intellectual property in the hospitality industry

Bannatyne Concept Hotel Launch

Bannatyne Hotels Ltd. has unveiled plans for an innovative concept in Norwich (UK) where guests can book rooms online for as little as \$35 AUD a night.

The hotel, planned for the site adjacent to Bannatyne's Health Club in Thorpe St Andrews, will reverse the discount principle applied to late bookings.

Here, the earlier the booking, the cheaper the room will be.

The company opened its first early booking concept in Durham in early 2007, which is already proving a big hit with business travellers and tourists visiting the North East of England.

'Affordability is the key and there are not many hotels that offer guests modern and comfortable accommodation at such low prices,' says Nigel Armstrong, managing director of Bannatyne Hotels Ltd.

Questions

1. What underpinned this innovation?
2. What role did creativity play in identifying and establishing a new reservations system?
3. Is the new reservations system an incremental or radical innovation?
4. How easy do you think the Bannatyne concept will be to imitate?

Source: Hospitality (2007, p. 8), reproduced with permission

TOWARDS INNOVATION

Most writers in the field of entrepreneurship recognize the importance of innovation in the business cycle, ranging from Schumpeter's (1934) 'creative destruction' thesis (see Chapter 1) to more contemporary individuals like Handy (1990) and Shane (2003). However according to Davila, Epstein and Shelton (2006) authors often use the term innovative and creative interchangeably. This suggests that innovation and creativity are linked in some way. Kirby (2003) notes that innovation it is difficult to define because it is a process that could apply across a range of entrepreneurial activities. These may be based on product or process such as the use of high production technology or implementing and observing a process of change. He concludes that innovation is best understood as a series of principles or steps by which an end product or service is created. Amabile, Conti and Coon (1996) lend some support to this idea and consider that:

'All innovation begins with creative ideas. . . We define innovation as the successful implementation of creative ideas within an organization. In this view, creativity by individuals and teams is a starting point for innovation; the first is necessary but not sufficient condition for the second' (pp. 1154–1155).

By way of summary two notions of innovation are shown below:

- the successful exploitation of new ideas (*Department of Trade and Industry, UK*).
- A creative idea that is realized [(Frans Johansson)] (Harvard Business School Press, 2004) (<http://en.wikipedia.org/wiki/Innovation>, 2007)

Both the above suggest that innovation is a process by which creativity is harnessed and transformed. For an individual to be innovative they must first have creative insight and then the ability or tools to exploit the insight for profit. Thus, innovation is more rational than creativity or as Davila *et al.* (2006), write:

'Innovation, like many business functions, is a . . . process that requires specific tools, rules, and discipline' (p. xvii).

How important is innovation in the entrepreneurial process? Drucker (1985) leaves us in no doubt and states:

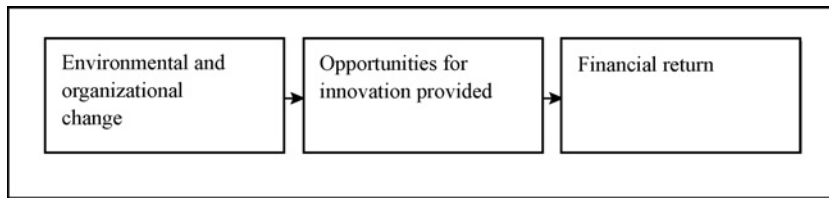


FIGURE 5.1 *The innovation process.*

‘Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned, capable of being practiced . . . And they need to know and to apply the principles of successful innovation’.

Although Drucker does not mention creativity above, in the present context innovation and creativity are inextricably linked in the entrepreneurial process with the aim of generating a profit. In short, contemporary innovation in organizations is about change. In such a fast-paced global trading environment, innovation is now a necessity rather than an optional extra and together with creativity is crucial elements of the entrepreneurial process. Thus, entrepreneurs should be both creative and innovative and have the ability to think laterally. Innovation is therefore the logical and systematic focus of the process because creative ideas do not automatically succeed nor do they take themselves to market. Drucker (1985) considers innovation as the process of ‘opportunity spotting’ and something that can be learned and practiced relatively easily because it is logical and systematic; no more, no less. Diagrammatically, it is shown in Figure 5.1.

Although the topic of creativity is dealt with elsewhere in this book, its relationship with innovation and entrepreneurship is worth revisiting.

Kirby (2003) considers that:

‘. . . creativity is the ability to think new things whilst innovation is the ability to do new things’ (p. 132).

CREATIVITY AND ENTREPRENEURSHIP

If individuals are to be successful entrepreneurs it seems clear that they need to be creative, innovative and entrepreneurial. This is a tall order because each of

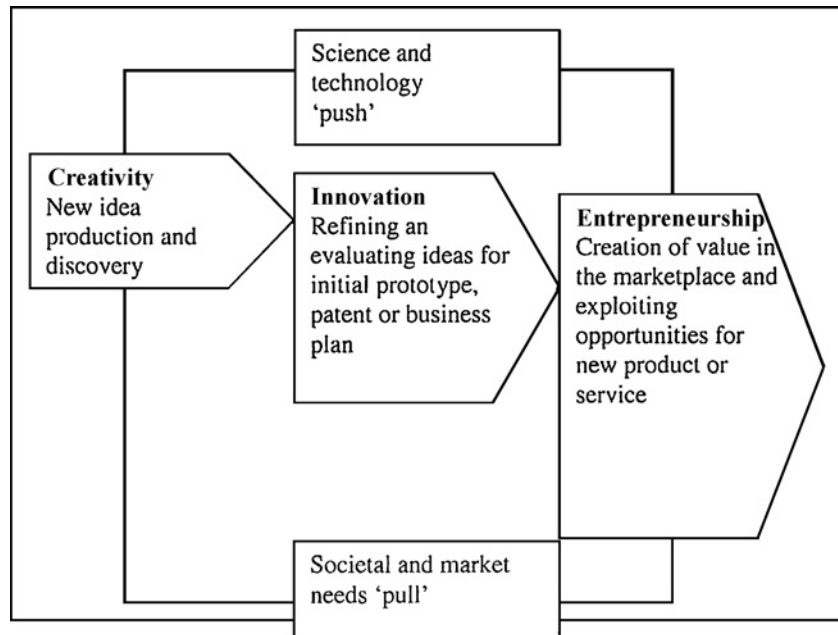


FIGURE 5.2 A process model of creativity, innovation and entrepreneurship.
Adapted from: Schaper and Volery (2004, p. 61).

these elements require different (but overlapping) abilities and skills. Often, convening groups of individuals with these attributes can improve the chances of fashioning a creative idea into an innovative marketable product. This is something that was recognized very earlier in the career of Bill Gates founder of Microsoft Corporation:

'We were young, but we had good advice and good ideas... Our success has really been based on partnerships from the very beginning.'

Source: <http://entrepreneurs.about.com/od/famousentrepreneurs/a/quotations.htm>, 2007.

However, whether team or individual-based, this does effect its relationship between with innovation and entrepreneurship. Several models are available and most view this association as a linear logical process as shown below in Figure 5.2.

In reality, the above is a simplified version of the complex interactions between and among the espoused three-stage process. Additionally, two environments areas of push and pull factors impact on creativity, innovation and

entrepreneurship. For example, the former might consist of advances in science and technology (drugs, information communications technology and other developments) and the latter a combination of new market needs and societal necessities. For example, the above model helps us map the Landmark Hotel's (Landmark Hotel Company Ltd. UK) adoption of a fully integrated 'chip and Pin' management information solution to improve guest service, time and cost saving.

Pilot Rollout Proves Valuable

The Landmark Hotel Company Ltd. along with the Royal Lancaster and K-West, is one of the capital's exceptional five-star hotels and has been billed as the UK's first major hotel to go live with a fully integrated 'chip and Pin' solution in the hospitality sector.

'When chip and Pin was introduced in the UK in 2003, the card processing industry was simply not ready for hospitality' explains Alastair Brown, systems manager at the Landmark. 'As a result there was a huge amount of planning and testing to be done on already integrated systems which now had to work with chip and Pin.'

'The Landmark is unique in the UK in as much as we are the only major hotel, as yet, to have a fully integrated chip and Pin system for your MICROS-Fidelio property management system' explains Kevin Byrnes, reception manager. 'It is this integrated model which makes it so interesting and different.'

The fully PCI integrated PC-EFT (chip and Pin) solution was installed at the Landmark in February 2007 to handle the entire hotel's card processing – with bars and restaurants to follow at a later date. It is linked to the FidelioV.6 property management system and the MICROS 3700 Point of Sale system is to follow. In turn PC-EFT drives four pin entry devices at the front desk, handling check in and check out.

The solution uses the PC-EFT supervisor model to report on all transactions madder in the hotel providing a complete management and reporting package for the finance and accounting functions.

But both Brown and Byrne acknowledge that this point of difference between the Landmark and other hotels will be short-lived as the companies that installed the system have very long waiting lists.

Questions

1. In terms of creativity, what is the relationship between the Landmark Hotel's management and the manufacturer's of the 'chip and Pin' system?
2. In light of the above, which group is the more creative?
3. How are creativity and innovation linked in this case?

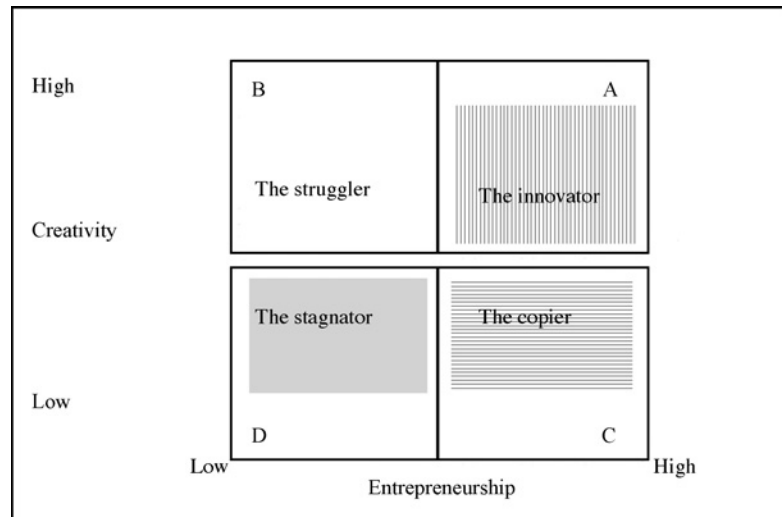


FIGURE 5.3 Creativity and entrepreneurship.
Adapted from: Burns (2001, p. 51).

Source: Hospitality (2007, pp. 12–14), Reproduced with permission

Bolton and Thompson (2000) tie creativity with entrepreneurship as the appropriate context for ideas to become reality. Figure 5.3 helps to clarify their position through a matrix arrangement proposing a relationship between creativity and entrepreneurship.

Here the relationship between creativity, innovation and entrepreneurship is explained in terms of four quadrants. Quadrant B shows the entrepreneur as a struggler. Ideas are rampant but many are ‘half-baked’ with the individual having little innovative and entrepreneurial ability to turn ideas into marketable commercially exploitable products and services. In quadrant D, the individual has no innate ability to be creative, innovative nor entrepreneurial. In quadrant C, things are a little different where the firm is not creative but has the ability to copy and perhaps be incrementally innovative to improve the product or service. Quadrant A is the only one of the four where creativity, innovation and entrepreneurship flourish.

Reflective practice

1. To which quadrant do you think most small and micro hospitality businesses belong? Explain your answer?

IDENTIFYING OPPORTUNITIES

Identifying opportunities for developing ideas is a key ability or skill which entrepreneurs must already have or acquire. Broad influences on opportunity identification include demographic changes, changes of public perceptions through shifting tastes, fashion and culture and new knowledge. Entrepreneurs must continually scan and observe environmental trends if they are to identify upcoming opportunities. Barringer and Ireland (2006) advocate the use of a PEST analysis shown in Figure 5.4 to help entrepreneurs in this quest.

This technique is incredibly powerful for environmental scanning. Obviously, a very detailed information requirement will need extra resources. However, this is a time consuming exercise and many entrepreneurs can instead use the services of dedicated research firms for their benefit. Services vary depending on which firms are used for this purpose but typically they should provide the entrepreneur with access to a wealth of information, opportunities to attend entrepreneurial conferences, lists of potential investors and so on. Rigorous application of such analyses has enabled certain entrepreneurs to flourish whilst others have failed.

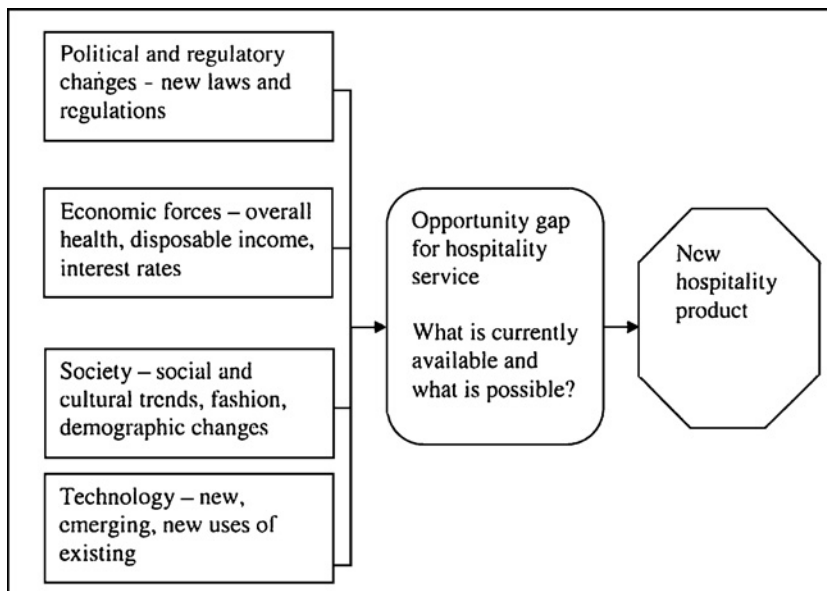


FIGURE 5.4 PEST analysis for identifying a new hospitality product.

Adapted from: Barringer and Ireland (2006, p. 31).

Hospitality Entrepreneur Leads the ‘inn’ Crowd

Years ago, Stephen Zimmerman discovered a formula for success in the volatile hotel business; think big, but stay small – six rooms small, to be exact. Add an exclusive French restaurant that caters to the romantic set, and the recipe is complete.

‘Even with the ups and downs of this business, romance never goes out of style,’ says Zimmerman, comfortably perched in the cozy library of his historic hotel, La Colombe d’Or. ‘It’s romance that sells.’ More than two decades later, the formula still seems to be working for Zimmerman, whose European-style chateau has remained one of the most sought-after restaurants and inns in the city.

Aside from servicing Houston’s economic elite, the hotel has played host to a parade of glitterati running the gamut from former President Bush to Madonna to Bishop Desmond Tutu. Since it opened in 1980, La Colombe d’Or has, for the most part, flourished – a major feat in an industry laden with ups and downs in a city that has seen scores of hotels and restaurants go belly up.

Through clever marketing campaigns, environmental scanning, consistent service and small, yet significant, improvements over the years, Zimmerman has accomplished what most all businesses look for – staying power. His friends chalk it up to foresight and vision.

‘He’s an up front guy who is mentally very agile,’ says Dr. Malcolm Gillis, president of Rice University and a longtime friend of Zimmerman’s. ‘He has interesting ideas all of the time.’

Source: Nancy Sarnoff, *Houston Business Journal*, May 23, 2003, <http://www.bizjournals.com/houston/stories/2003/05/26/story5.html>, 2007

Opportunities may also be viewed as symptoms of a problem emanating either from the hospitality firm or its industry. Typically these symptoms include the unexpected, incongruity, inadequacy of processes and changes in the industry or market. Vyakarnham and Leppard’s (1999) ‘Why Why?’ technique may be applied to any of these symptoms to reveal the true problem. Essentially, a symptom is identified, for example, diminishing productivity in the restaurant kitchen. The question is ‘why?’ The symptom is then broken down into a number of composite possibilities, for example, ‘untrained chefs,’ ‘untrained waiting staff,’ ‘poor quality raw materials’ and so on. Each of these area in turn is then subjected to another round of ‘why?’ questions. Eventually when all rounds are exhausted the real problem emerges.

Key point 5.1

Creativity and innovation are linked but different. Innovation is a systematic and logical process with the aim of developing a creative idea into a commercially robust product or service.

There are other ways of identifying opportunities, however, and many entrepreneurs go with their instincts especially if they have had a number of earlier successes. However, initial accomplishments often breed an inflated sense of confidence and business invulnerability. The business world is full of failed enterprises because the individual was overly confident having a false notion of their ability to spot and exploit an opportunity. The following case underscores this point when Clive Sinclair tried to move his idea of a small electrically powered passenger vehicle to market.

The C5

Sir Clive Sinclair a British entrepreneur enjoyed significant success as inventor of the world's first electronic pocket calculator in 1972 and the UK's first mass market ZX80 home computer in the 1970s and ZX Spectrum early 1980s changing the face of home-based computer gaming. Sinclair was fascinated by electronics and miniaturization and some time after his initial successes embarked on development of the ill-fated Sinclair C5. This was a one-person, three-wheeled vehicle using a small motor powered by rechargeable batteries promoted by Sinclair as a revolutionary advance in personal transport with the potential to replace the car. In fact, it was not a car at all but was instead a glorified electric tricycle, powered by an electric battery with a supplementary pedal drive. The C5 was fraught with design flaws not well received by the press or the public and was not nearly as successful as Clive's earlier products. Attracting controversy and derision in equal measure, the C5 fiasco ended up having a catastrophic effect on Sinclair's finances. Losses of up to £7 million eventually forced the company to sell its computer business to Amstrad.

Adapted from:

<http://www.thebubbleburst.co.uk/bb.php?entry=Clive%Sinclair>, 2007

<http://www.nvg.ntnu.no/sinclair/vehicles/c5.htm>, 2007

However, opportunities are identified, they must be further explored prior to engaging in a full blown feasibility study. An idea can be explored initially using a concept model. This is not usually as detailed as the fuller feasibility study but at the very least must include four essential items. A concept model for a new intranet system in a hotel group is shown in [Figure 5.5](#).

Once the idea has been expressed it may be tested or 'piloted' on people known to you such as family and friends. Issues which detract from the idea are every bit as important as those which appear to support it; therefore, both need careful consideration. How are you going to achieve this? At this stage, entrepreneurs also need to be totally honest with themselves asking critical questions such as:

- How interesting is this idea to me?
- How interesting is it likely to be to others such as investors?

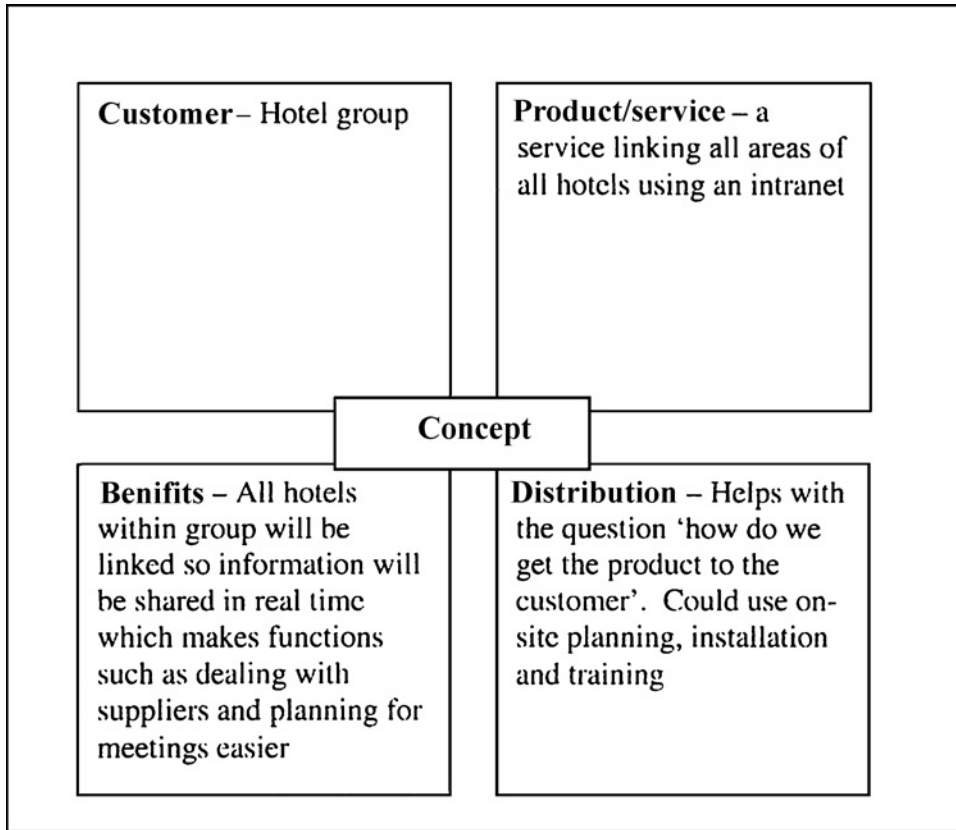


FIGURE 5.5 Concept model.

Adapted from: Allen (1999, p. 32).

Introspection at this stage is vital. Be honest, are you being overly subjective with this idea? A simple cautionary note here should not be underestimated and whilst you need to be motivated intrinsically:

do not fall in love with your own business idea.

There are many pet projects pursued by entrepreneurs against the advice of others. Whilst it cannot be denied some are successful they are significantly outweighed by those doomed to failure. Interestingly, these casualties are frequent in the resort sector of the UK hospitality industry and there are likely to be myriad of reasons for poor performance. UK seaside resorts are dominated by small hospitality businesses. The town of Blackpool is representative of this sector with a profile of micro firms managed by 'one-property' owners employing one or two family members. As such, their owners are not motivated by classical entrepreneurial ambitions of growth (Rowson and Lashley,

2007) but rather are happy for their hotels to simply support their lifestyle. With this kind of ‘lifestyle’ firm, entrepreneurs have little knowledge of even the basics of running a successful business and frequently succumb to the ‘deadly sins’ of entrepreneurship. Lashley and Rowson (2006) note that matters of basic service quality, marketing, business strategy are at worst, non-existent and at best ‘informal’ (p. 1) in these hospitality micro-firms. Business success in this sector is also hindered because setting up is straightforward and unencumbered relative to other business areas. For example, no qualifications are needed, there are no regulatory bodies or special legal requirements (except those which apply to all business sectors) and private dwellings are easy to convert into business premises.

Regional trading conditions notwithstanding, the failure rate of small UK hospitality firms is noteworthy because it appears to contradict some espoused wisdom. Overall, entrepreneurial behaviour is motivated by two dimensions. The first is ‘push’ or necessity-driven and the other is ‘pull’ or opportunity-driven (see Chapter 1). Relative to other nation states, the UK has a well developed system of alternative incomes and safety nets such as its welfare system and a diversified labour market. According to Minniti, Bygrave and Autio (2006), wherever such economic conditions exist, opportunity-driven entrepreneurship is more common than the alternative. Additionally, there is also a tendency for fewer entrepreneurial failures because business conditions are conducive and supportive of new ventures.

Key point 5.2

Before realizing a entrepreneurial idea undertake rigorous research; do not fall in love with your own business.

Why then are there so many failures? Clearly, a lack of business skills helps to explain the situation. It is also the case that many individuals expressing the desire to become hospitality entrepreneurs appears to be in search of an ‘ideal’ or dream of owning their own hotel or restaurant. Examples of this abound (see Getz, Carlsen and Morrison, 2004) and popular television programmes such as ‘No Going Back’ serve to illustrate the point. Typically, couples are featured who, for some reason best known to themselves, truly believe they can run a small hospitality firm easily with no prior qualifications, skills or related experience. In most cases, the programme is a sad but revealing insight into how not to run a business. However, this is only one explanation. There is also the restaurant

entrepreneur who has no idea of what customers require. Often this person is male, qualified as a chef with a notion that the market requires a ‘top quality’, high price, high ‘mark up’ *a la carte* or equivalent operation (consistent with his training). Often these craft individuals have been trained at the top level perhaps working for a number of years in leading metropolitan hotels and Michelin-rated restaurants. Many UK seaside resorts have witnessed multiple failures of this kind of restaurant entrepreneur.

Lifestyle Proprietorship and Seasonal Trading: Findings from Scotland

In much of Scotland, especially rural areas away from the urbanized Glasgow-Edinburgh Central Belt, seasonally operating accommodation businesses remain prevalent. This is despite advances in off-season trade through increasingly more creative destination marketing campaigns, investment in year round amenities and the gradual spread of low cost air routes, among other facilitating factors. Yet few direct empirical links have been established between lifestyle proprietorship and the seasonal operation of hospitality businesses. Indeed, there is a fundamental issue as to whether operating an accommodation establishment in a seasonal business environment is a ‘lifestyle choice’ or simply a pragmatic response to prevailing conditions.

A recent large scale survey of independent, seasonally run accommodation businesses in Scotland including bed and breakfast, guest house, small hotel, holiday park and self-catering operators aimed to explore associations between seasonal trading and lifestyle attributes. The study captured all known Scottish tourist establishments operating to a defined sub-annual ‘season’. Among the 700+ respondents, two-thirds of proprietors claimed to prefer to operate their business seasonally rather than be open year round, whilst half the proprietors claimed they choose the length of their operating season to fit in with their lifestyle (Goulding, 2006).

Of course ‘lifestyle proprietorship’ is a subjective and potentially vague notion. However, underlying the high incidence of seasonal trading preference and lifestyle choice expressed within the study is a range of intrinsic personal variables which fall into six distinct clusters. These include:

- ‘work-life balance’ factors, in which the need for rest, relaxation, ‘getting away’ and free time are paramount;
- social priorities, including family commitments and broader socialization activities;
- ‘internalized’ factors around the home environment, including privacy, self-occupancy, having space back;
- lifecycle, health and wellbeing, including both physical and mental health, energy and retirement;
- migration, in which operating a part-time business fits in with enjoyment of an idealized physical environment;
- altruism, including concern for the natural environment and local community impacts;

The study also observed that lifestyle proprietorship based on preference and choice, is an entrenched condition and mindset among Scotland’s small seasonal accommodation

operators. The great majority in the study claimed to have always operated seasonally from business start-up, many of whom were recent entrants into the industry. Neither revenue maximization nor significant market expansion beyond his/her temporal boundaries appear to be top priorities for the seasonally trading lifestyle proprietor.

Whilst many external factors are clearly influential in determining supply-side seasonality, the lifestyle-oriented, seasonally-predisposed small-scale accommodation operator is a fact of life in the make-up of Scotland's tourism sector.

Philip Goulding, June 2007

Reflective practice

Approach a small business owner in the small hospitality sector and enquire how they identified an opportunity for their successful enterprise.

INNOVATIONS BIG AND SMALL

Interestingly, there is a widely held notion that innovation concerns significant change or novel concepts; this is not necessarily so. In the majority of cases, innovations are little more than a repackaging or reconfiguration of elements into a new format giving rise to an amended process or product often through identifying problems and solving them. According to Kottler (2003) 'Every problem is a disguised opportunity' (p. 128).

The advantage of minor innovations is that they usually have a low risk factor, carry a degree of certainty and yield speedy results. They can be adopted and implemented at relatively little cost and disruption to foregoing technologies and processes. However, they often only provide small financial advantage for whoever adopts the idea. Volery and Schaper (2004) classify innovations as 'incremental' or 'radical'. Incremental innovation is not uncommon in hospitality organizations, for example, consider the efficiency differences between a full *a la carte* 'silver service' compared with the less labour intensive and relatively uncomplicated production and service style of a *table d'hôte* system. A similar benefit can be observed when comparing the table d'hôte service with fully 'plated' food service. Obviously, before the decision is taken to replace the full silver service with something less theatrical, the entrepreneur must be sure that the market will accept the innovation. Similarly, in the public and large-scale catering sectors innovations of cook-freeze and chill-freeze food service styles have become increasingly popular.

Not only are these systems more cost saving than a more traditional style of production and delivery but they are also alleged to preserve more nutrients in the food which has obvious benefits for recovering patients.

Another example of innovation linked to the hospitality sector is that of the 'laundry service'. In the hospitality industry firms often take advantage of an 'external' laundry service; especially in the small to medium-sized sector where staffing, wear and tear, machine maintenance and other associated costs are at best irksome, at worst prohibitive. Many enterprising individuals have seized the opportunity to provide a worthwhile laundry service by observing the above problems. Like other contract services which hotels do not consider worth investing their own time and energy on for example. Maintenance, cleaning, interior decorating and so on, a laundry service could not be considered a radical innovation but many 'service' firms of this nature have emerged because owners identified a timely market need or 'problem to be solved'.

However, the operation of these organizations is easy to copy and as regional markets mature, less opportunity exists for similar products unless they offer something over and above their nearest competitors. Firms like these are continually striving to differentiate themselves in the marketplace and there is a continual ebb and flow of failures and new entrants.

On the other hand and as the name suggests, radical innovations can be extremely disruptive, require much 'nursing' to get over teething problems but can potentially bestow significant advantages. According to Burns (2001) new knowledge is probably the least predictable source of innovation but it is the area which receives most entrepreneurial and media attention because it is incredibly glamorous. The obvious example here is McDonald's in the 1950s as creator and innovator of a new fast food industry having a product featuring unique systematized preparation and cooking procedures. Radical innovations represent real breakthroughs and have the potential to earn appreciable profits and establish strategic competitive advantage for individuals and firms. Quite how long these advantages can be maintained depends on whether the product or service can be easily copied by others; competitive advantage is notoriously difficult to sustain. For example, McDonald's now has many competitors, Burger King/Hungry Jack's, KFC, Red Rooster have all copied and amended the McDonald's system. Each uses similar 'formula' standardized production and delivery systems rooted in those devised by the pioneering McDonald's brothers and Ray Croc.

The McDonald's Story

The McDonald's story started in 1940 when two brothers, Dick and Mac McDonald opened a highly successful barbecue restaurant in California. After WWII, they noticed that families

were concerned about value for money and that the USA was investing in a more comprehensive road infrastructure system. They thought this would make future customers interested in speed of service and so temporarily closed their restaurant. The newly adapted one featured a simplified menu based around their most popular products with a more efficient interior. In short, they invented the self-service, drive-in concept that comprised a limited-menu, paper-service, hand-out operation, featuring cheap hamburgers, cheeseburgers, soft drinks and French fries. This new concept proved so successful that they quickly opened eight more restaurants.

In the mid 1950s, a food service equipment salesman named Ray Kroc became involved at first as someone who simply owned the national marketing rights to the five-spindle Multimixers the brothers used to make their milkshakes. His interest in the McDonald's business was kindled because they bought 10 of these machines to cater for their successful business. Ray was subsequently granted exclusive rights to develop and franchise McDonald's drive-ins for the United States and opened the 9th McDonald's restaurant in Illinois, 1955. Some 6 years later Ray bought the proprietary rights to the McDonald's system, including all rights to the rest of the world. The organization that Ray founded proceeded to add more than 23 000 McDonald's restaurants and 4500 franchisees across more than 111 countries around the world.

Questions

1. Who were the creators and who were the innovators in the McDonald's story?
2. Who were the entrepreneurs?
3. How important was the role of Ray Kroc in the success of the McDonald's Corporation?
4. Can you think of some hospitality examples of:

radical innovation and
incremental innovation?

In order to create a sustainable competitive advantage through innovation, entrepreneurs must utilize strategic resources, that is, those that form the basis of an entrepreneur's market position/advantage¹. By definition, strategic resources have four dimensions and allow the entrepreneur to implement strategy by:

- exploiting opportunities,

¹ Strategic resources differ from common resources in that the latter enable the firm's usual activities but provide no particular advantage against other organisations. Common resources include financial, physical, human, technological, reputation and organizational (structure, systems and procedures).

TABLE 5.1 Characteristics of innovation

Incremental innovation	Radical innovation
Uniform improvements	Novel improvements
Uses existing technologies and processes	Uses new technologies and processes
Quick to implement	Extended periods of piloting
Immediate gains	No short-term gains but long-term advantage
Strengthens customer loyalty	Also exploits new markets

Adapted from: Volery and Schaper (2004, p. 57).

- being non-substitutable,
- being rare, that is, not available to competitors, and
- being difficult to copy.

Controlling all of the above dimensions is very difficult to achieve. That is why ultimately most firms fail to hang on to any competitive advantage they might have enjoyed in the short-term.

The characteristics of incremental and radical innovations are summarized in [Table 5.1](#).

Key point 5.3

Most innovations are small using only amended processes and procedure. Whilst the economic returns are relatively small, they are more assured and cause less organizational disruption and carry less risk than large innovations.

THE INNOVATIVE SMALL HOSPITALITY BUSINESS

Whilst it can be agreed that innovations are the lifeblood of mature economies whether big or small, radical or incremental, just how easy is it for entrepreneurs to come up with ideas and innovations? According to Kirby (2003) and others, the odds are stacked against them when compared with the scope large organizations have for developing new and innovative ideas. In short, this is a resource-based perspective of entrepreneurship and it considers that creative and novel innovations, no matter how good, will fail unless adequate resources are applied. Moreover, large firms also enjoy economies of scale and are therefore likely to develop new ideas and innovations more cheaply than their small business entrepreneurial counterparts. Intuitively this seems to make sense as does its accompanying credo shown in [Figure 5.6](#).

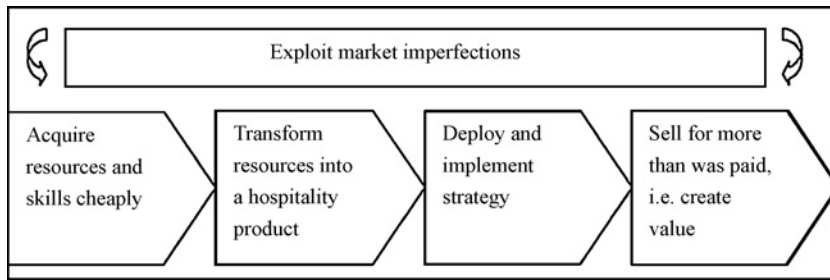


FIGURE 5.6 *The process of a resource-based perspective of entrepreneurship.*
Adapted from: Schaper and Volery (2004, p. 63).

The key issue for the entrepreneur is to take advantage of imperfect information about price whilst going through the process shown above and a tacit recognition that large firms have better access to most resources. These used to be expressed as the ‘Four Ms’, that is, men, machines, materials and money. Wickham (2001) prefers to group all into three categories of financial, human and operating. A more descriptive classification might further divide categories into:

- financial,
- physical,
- technological,
- human,
- reputation, and
- organizational.

However, for firms to establish and retain sustainable competitive advantage, their resources must not be available to others, non-substitutable. Company culture may be considered a unique resource in this case, for example, a team of hotel managers may have been trained and nurtured to perpetuate company values as they are highly complex, somewhat intangible and thus difficult to copy. However, the fact that top managers and executives can be attracted to other companies through better pay and working conditions cannot be ignored.

According to the resource-based perspective most significant innovations are more likely to originate with large companies who have abundant required inputs to take an idea, develop it, innovate and produce. But surely this is not how large companies work, is it? Derived wisdom suggests that large corporations are monolithic, lumbering organizations which are often slow on the uptake or rather inflexible and not particularly good at responding to an increasingly competitive and fast-paced trading environment. In a

contemporary environment, this is only partially true. Many large firms now recognize the inherent structural advantages of small organizational structures such as enhanced flexibility, less bureaucracy, fewer levels of management proximity to customers and so on. The 'small' firm model is also alleged to engender human resource development, creativity with customers and to hold innovation as the key to optimum entrepreneurial development of the organization (see Robbins, Barrett and Storey (2000) and one more. Thus, large companies now spin off much smaller, flexible and organic organizational structures within the overall design of the firm. An example of this is the rise in popularity of the intrapreneur (see Chapter 1). This is a person (or persons) charged with the responsibility of identifying opportunities and applying their creativity to innovate through developing new products and services. In other words, these individuals act as 'company entrepreneurs'. In some respects this has similarities with the more traditional Research and Development departments used by virtually all major corporations. However, a key difference with the intrapreneurial initiative is that it represents more than just another department. Of course, people are still charged with their entrepreneurial responsibilities much as the former R&D centres were but the real difference is the 'cultural shift' adopted. Rather than being seen as another separate company dimension of their operations, the intrapreneur initiative is viewed more strategically with appropriate support structures in place. Even as early as 1994, Naisbitt identifies a number of large companies who have 'deconstructed' in line with the above logic including ABB and Grand Metropolitan.

In his influential book *Thriving on Chaos*, Peters (1987) proposes the following support model shown in Figure 5.7.

Whilst independent small firms also take advantage of their structural advantages they do not have the physical and economic resources and capacity to create, innovate, produce and market a novel product or service. Kirby (2003) also adds this lack of capacity is a direct result of having no new available capital. He cites four main reasons for this and they include the unwillingness of bank lending, uncertainty of new products especially those with a significant technological orientation. Others are that traditionally lending institutions such as bank do not consider research and development as anything other than an intangible which may not be able to be protected through copyright and patenting. However some evidence suggests that despite the odds, small hospitality organizations survive because reinvention may not necessarily be overly costly (depending on the magnitude of the change) and is effective over short periods. Indeed, common themes of flexibility and short run planning (1 year) characterizes small hospitality firms which means they have an innate capability for innovation (Edgar and Nisbet,

Strategies			
Piloting should replace written proposals and ‘champions’ should test ideas away from company HQ	Use teams drawn from a diverse company background for all developmental activities also use suppliers, distributor and customers	Copy from international product leaders but adapt in novel ways	Promote the importance of word-of-mouth marketing
Tactics			
<ul style="list-style-type: none"> • Support those with passion for the new ideas and encourage ‘champions’ from all over organization • Managers must practice and encourage what they preach • Support the many failures that will occur as this will shorten organizational learning • Establish accurate and meaningful metrics 			

FIGURE 5.7 Corporate support for intrapreneurs.

Adapted from: Kirby (pp. 2003, pp. 135–136).

1996). In this sense they do so by providing a continually differentiated product (sometimes small, sometimes large) on a seasonal basis in many resort towns globally. According to Augustyn (2004) tourism firms succeed precisely because their resources are in short supply as this situation together with high entrepreneurial aspirations drives the firm innovatively and creatively. ‘Needs must when the devil drives’. Russell and Faulkener (2004) are of a similar opinion and consider that small hospitality operators thrive on conditions of uncertainty as they tend to have an ability to effectively identify opportunities amongst conditions of chaos.

Reflective practice

1. Identify a local entrepreneur or someone you know in the small hospitality sector. Ask them how innovative they had to be for their business to succeed and remain successful. Also, how did they deal with other hospitality organizations that may have imitated their product.

In a more general sense, the effectiveness and advantages of the small firm are clearly evident in the modern global economy where small businesses dominate in almost every nation whether they are part of a large company or a truly small firm owned and operated by a few individuals. Indeed, much evidence suggests that entrepreneurship and small firms are on the increase with their underpinning economic role being recognized as imperative for future growth by all major governments (see Chapter 1).

Seaside Tourism Planning Officer

You know, if I were to pick say, 20 member hotels and restaurants from our local hospitality and tourism employers association, most owners would be from away (other parts of the country). You asked me earlier why this is the case; I think there are several reasons but first you had need to understand a bit of the history about this seaside town – I'll give you a potted version.

This town once had enormous wealth from its fishing industry, Herrings to be precise. It began a couple of hundred years ago and lasted through probably until the early 1960s although most of the Herring grounds had been fished out by that time. With the development of the fishing industry came a supporting infrastructure that early tourists and providers could use. With the advent of the railway system in the 1800s, we had a perfect mode of transport which tourists used to literally flood into the town. In those days, the industrial heartlands of the UK provided almost all of the tourist market. Midland factories would shut down for two or three weeks at a time and all of their workers would jump on the train at their end and jump off at ours. You can actually see how the hotels, shops and other key enabling elements of infrastructure developed. Most were originally constructed near to the railway station with other buildings being added a little further away to take advantage of the town's major attraction, the esplanade. There is no real difference between most of the UK's seaside towns in terms of layout apart from the market they catered for. For example, Great Yarmouth, Blackpool and Margate tourists were mainly working class whereas tourists frequenting Brighton and Bournemouth tended to be from the middle classes. I do not believe there has been much significant change in markets for the last hundred years or so.

Of course things are different now as we do not have anywhere near the number of tourists we used to. It all started around the mid 1960s with the advent of the cheap 'continental' package tour to places like Benidorm and Majorca. Ever since then, towns like ours have had to fight tooth and nail to keep the tourists coming. Some have succeeded by differentiating their 'promise', others have not done so well; I had count ours in the latter category. You only have to walk around the town to see once profitable small hotels and guest houses boarded up, empty or given over for another use. Setting up rest homes for the elderly was a popular alternative use for these establishments. I remember in the early 1980s it seemed like everyone had either set one up or was giving it serious consideration. The local council soon got wise and put a stop to it though.

If I compare the town's current operating capacity with say 1970, we probably only have twenty percent of hotels and restaurants trading in the summer season. Of course the trouble is, tourism is the lifeblood of this region and without it, other businesses have gone under; everything from local retailers and DIY stores to garages and Taxi firms; we have all suffered.

In the very early days there were only a few hotels in the town; perhaps four or five. The oldest purpose built hotel was here long before the advent of the railway. In fact it was a 'coaching house' and used to take regular delivery of the mail and provided accommodation for the coachmen and passengers prior to the emergence of Post Offices in the region. Once the railways arrived, hotels popped up all over the place with most being converted from private dwellings. Interestingly, one of the largest hotels on the seafront with 150 rooms is a conversion of several Victorian Villas. You have never seen such a thing. It is a complete labyrinth of passageways and corridors.

Getting back to my earlier point, many hoteliers and restaurateurs were born outside the region. This is an interesting demographic and you will find similar in other seaside resorts, especially where local industry pay is low compared to elsewhere in the UK. Here for example, agriculture was the major employer and locals found it difficult to raise the initial capital to purchase even the smallest guesthouse. Wages of factory workers from the midlands were relatively handsome in comparison. So, surprise surprise, many erstwhile tourists saw the opportunities available to them whilst enjoying their holidays and snapped up the relatively low costs housing converting to small hospitality operations. This is something of a flashpoint with the local community even now. Incomers tend to view the locals as lazy and non-entrepreneurial; locals view incomers as having an unfair advantage.

Questions

1. Identify where entrepreneurial innovation occurs in this case
2. How would you classify the innovations shown in the case?
3. How easy was it for the innovations to be copied?
4. Discuss how this seaside resort could innovate as a collective tourist destination

PROTECTING YOUR INTELLECTUAL PROPERTY

Intellectual property may be defined as, '...any product of human intellect...that is through imagination, creativity and inventiveness, that is intangible but has value in the marketplace' (Barringer and Ireland (2006, p. 278). With the advent of information communication technology and *e-commerce*, intellectual property is probably more valuable than a firm's physical assets. This importance is compounded by the increasing use of the internet for a plethora of *e* transactions, reservation systems, website designs, domain names and the rise of *e-tourism*² and the companies that operate in this environment. Essentially there are four types of intellectual property:

² *e-Tourism* enables direct booking, easy payment for end-user, business-to-business trading for product providers, travel agents and resellers. With application of *e-tourism*, amongst other things, travellers are able to make online reservations, bookings and receive immediate confirmation.

- A patent – government confers the originator a right to exclude others from making, selling or using an invention for the term of the patent and allows them to make and sell the invention so long as no other patents are infringed. For example, a new beverage dispenser may require an element of an earlier (say) patented Hobart food processing machine. The inventor would need permission from the Hobart company to make and sell the new machine. They could refuse, agree or insist on a licensing fee for the use of its technology.
- Trademark – a word, name, symbol used to identify the origin of a service/product, for example, Travel Lodge, Ibis, Hyatt and so on.
- Copyright – protects the owner/author of a literary work, software, drama, music, lyrics, other works of art, sound recordings and architecture and affords them the legal right to determine how the work is used for economic benefit. Appropriate items include company specific training manuals and other media used exclusively by one company.
- Trade secret – essentially this is information that does not require the above types of protection (although this is not always the case) but is important if a small hospitality firm wishes to establish and maintain competitive advantage. For example, if a hotel wants to exploit the potential benefits of a customer loyalty scheme it will need to keep details of all customers in order to establish more intimate and frequent contact via online news letters and emails. This a powerful way for small hotels to compete directly and successfully with their larger counterparts. Not all information can be classified as a trade secret and if information is disclosed in error or overheard by a competitor it ceases to remain a trade secret. There is much confusion over this dimension of intellectual property but in general, the law will not protect a trade secret unless its owner first does so (Barringer and Ireland, 2006, pp. 282–295).

Innovations in the tourism and hospitality industry (as in others) have the potential to bestow significant benefits upon the entrepreneur in terms of economic returns. However, to create a real competitive advantage they must be difficult to replicate, copy or imitate. One way of sustaining competitive edge by minimizing the opportunity for replication by competitors is to ‘protect’ the innovation legally. Indeed, it may also be the case that an innovator/entrepreneur wishes to share their intellectual property for financial gain through franchising their innovation (examples include, McDonald’s, KFC, Domino’s Pizzas).

In the case of tangible manufactured products, intellectual property issues are relatively straightforward but for hospitality services this is not the case. This is why the most common forms of legal protection in the hospitality area are for products which are manufactured. For example, fast food restaurants are really nothing more than a production line operating according to strict guidelines. On the other hand many hotels and restaurants are commonly differentiated by their location and by the individuals who deliver the service. The much quoted ‘location, location, location’ byte springs to mind here as a region simply cannot be copyrighted. Effectively, all hospitality organizations near to a location of outstanding natural beauty will benefit as these natural assets will create a competitive advantage for the region but not between each hotel in the area. However, controllable aspects such as hotel design, service style, appearance and so on may well qualify as intellectual property and become appropriate for legal protection. Nonetheless, the very intangible nature of service and ‘atmosphere’ of some establishments is impossible to capture and replicate exactly. In part this helps explain why so many independent small hotels and restaurants remain popular with customers despite the ever increasing presence of hospitality brands like Hilton, Shangri-La and Hyatt.

There are a variety of ways to protect intellectual property but the laws surrounding the issue are in constant flux and differ between countries. The key consideration for entrepreneurs is to recognize the importance of legal protection for their innovations and pursue the matter sooner rather than later to avoid wasted time and missed registration deadlines. Some practical steps for protecting your hospitality firm are detailed at this site:

http://www.restaurant.org/legal/law_trademark.cfm

Before they can do this hospitality entrepreneurs must understand of what their intellectual property is comprised, its value and the role it plays in their potential business success. How can this be achieved when potentially all aspects of the business has intellectual property? This can be a tricky process but there are two questions entrepreneurs must ask themselves to determine which aspects of their business require legal protection (Barringer and Ireland, 2006):

- Is the intellectual property related directly to achieving and sustaining competitive advantage? For example, all major international hotel chains such as Hyatt, Hilton and Regal have their own logos which differentiate them from each other (at least in theory!) as they strive to convey recognizable and consistent global standards thus creating customer loyalty. This is also the case with groups of smaller

independent hotels and accommodation providers including Best Western, Golden Chain Motels, Preferred Hotels & Resorts Worldwide and Leading Small Hotels of the World.

- Is the item valuable in the marketplace? In other words, the hospitality entrepreneur should test their business idea before investing a considerable amount of time and effort developing and protecting it.

Figure 5.8 shows a summary of intellectual properties linked to the hospitality industry.

Conduct your Own Intellectual Property Audit

The hospitality industry is dynamic in terms of demand and supply, mergers, acquisitions and takeovers. Indeed, there are many examples of small firm takeovers by national and multinational companies. Amongst other things, the avaricious chains buy out their smaller counterparts because they are interested in their intellectual capital. They are only too aware that the small firms sector provides a much sought after, intimate service product that is often missing from the large and sometimes impersonal atmosphere found in large hotels. Entrepreneurs should therefore ensure they are fully aware of their intellectual property and its value when large companies come door-knocking. It is therefore a good idea to conduct an intellectual property audit. The audit *proforma* shown below details some key questions for the procedure, some of them are more appropriate for the hospitality industry than others

Patents

- Are services, products and packages under development that warrant protection?
- Do we have any day-to-day or strategic processes that should be protected?
- Are our current patent maintenance fees up to date?
- Has our business changed so much that we do not require any of our existing patents?
- Do we have accurate documentation about our patents?

Copyrights

- Do we comply with the copyright license agreements we have entered into, for example, do we have a music/Performing Rights Society license for our entertainers?
- Do we have a policy about when copyrightable material should be registered?
- Do we know where to obtain our licenses?
- Is there documentation in place protecting our rights to use material we create or pay to have created?

Trademarks

- Are we using any slogans, logos, signage that requires trademark protection?

	What is protected	How to protect	Who applies	Term of protection	Protection provided	Enforcement	Federal or state law	Example
Trade mark	Words, phrases and logos as a trademark (on tangible goods), service mark (with services), trade dress (visual appearance)	Apply for federal or state registration	User or licensor of user	Unlimited until abandoned, federal registration may vary but usually 10 years (renewable)	Right to exclude others whose use may cause confusion	Suit for infringement – federal court	Federal and state common law/statute	Sofitel, Novotel (Accor), Akzent Hotels (Germany), Amanresorts (small luxury international resorts, Johnny Rocket's (1950's themed restaurants), Red Rooster (Australian fast-food restaurants)
Trade secret	Secret technical or business information	Use reasonable measures to keep secret—no registration available information	No application process	Unlimited until no longer a secret	Right to prevent unlawful use or disclosure	State or federal court	State common law/statute	Radisson's "Look to Book" travel reservation marketing system.
Patent	A process, machine, a made item or an improvement	Apply for patent	First inventor or designate	20 years from filing of first application	Right to exclude other from making, using,	Suit for infringement – federal court	Federal	Geronimo Inns (high quality food public house - Uk) pioneer in the neighborhood pub concept, Sous Vide cook chill and other specific food production equipment manufacturers

³ In many instances methods of protection are numerous, for example, trademark, copyright, trade secret would all be appropriate for recruiting pamphlets, company-specific training literature and manuals, website design, slogans, customer lists, contractual forms etc.

FIGURE 5.8 Intellectual properties linked to the hospitality industry.³

Adapted from: Kaplan (2033, p. 226).

- Are we going to expand the use of our trademarks elsewhere?
- Do we need any more trademarks to cover new services?
- Do we know whether our trademarks are being infringed and, if so, by whom?

Trade secrets

- Is there leakage of our firms trade secrets by accident or by design?
- Do we have a policy governing nondisclosure
- How much information are our employees exposed to and could this be limited?
- Are our intellectual property security arrangements effective?

Adapted from: Barringer and Ireland (2006, p. 298).

SUMMARY

There is a common misunderstanding of the terms creativity and innovation not least because several writers and pundits use the terms to mean the same thing. Whilst they are similar they actually mean two different things. Creativity is the laterally-oriented antecedent of innovation; innovation is a systematic logical exercise designed to harness the creative idea and bring it to a successful entrepreneurial conclusion in the marketplace. This possible in two ways; the first is a sheer seat of the pants, intuitive and sometimes lucky hunch (not recommended); the second is a more methodical systematic process of environmental scanning and strategic and tactical planning. There are a number of approaches and techniques that can be used to help the entrepreneur through this process. It is also a good idea to use ‘concept’ models to pilot an idea prior to a full feasibility study.

Much of the hospitality sector is dominated by small and micro firms. These organizations are operated by entrepreneurs who often have no prior experience or skills in the hospitality area. Many of these operations fail for this reason together with unrealistic expectations of the owners. However, the structure of small hospitality firms has a number of advantages over the large organization including flexibility, proximity to the customer and adaptability to prevailing economic conditions. Some evidence suggests that despite limited resources available to small hospitality firms, they succeed because of these structurally inherent capabilities. Indeed, large organizations now recognize that ‘small is beautiful’ and many have created small more organic organizational structures within their superstructures giving rise to ‘intrapreneurs’.

Protecting intellectual property in the small firms sector of the hospitality industry is important as many customers value the personal intimate

experience. However, there are many intangibles that cannot be claimed and protected by any operator, as such the independent entrepreneur-run hotel is still very much in demand; so too are regions of outstanding natural beauty and their hotels. Nonetheless, large operators engaging in acquisitions of small firms will only do so because of the intellectual property the take over bestows. Entrepreneurs should therefore be familiar with their intellectual property and take steps to guard it through one or more of the four types of protection available - patent, copyright, trademark and or trade secret. Entrepreneurs should also be mindful that the laws governing intellectual property vary, to a lesser or greater extent, by country.