

## **STRATEGIC FEATURES OF THE SMES' INNOVATION PROCESS: THE CASE OF FOOD SERVICES FROM THE CLUJ-NAPOCA MARKET**

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**ABSTRACT.** The innovation process for small and medium-sized enterprises (SMEs) continues to play a critical role in their development. Due to their ability to provide differentiated products and services, SMEs which innovate are more successful than their non-innovative competitors. The hospitality industry is considered a highly competitive sector therefore enterprises acting in this field should develop new innovative offers. Research in the field of innovation behavior in the hospitality industry has not been systematically investigated, and especially regarding the food services sector from Romania. Thus, this paper aims at covering this gap. The purpose of this paper is to analyze the strategic features of the innovation process applied by food service SMEs from Cluj-Napoca, based on their behavior towards innovation and on its impact upon their business activity. A qualitative study has been developed, based on personal interviews with entrepreneurs of food-services SMEs. The research results present the types of innovations most frequently implemented, the resulted benefits and the future expected goals based on these innovations, and the entrepreneurs' features which support the innovation process. This is the first study, which provides an investigation regarding the innovation behavior of the food service enterprises from Cluj-Napoca and contributes to the existing literature on innovation, presenting a practical approach on the strategic behavior of the SMEs from this sector.

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## 1. Introduction

For the hospitality industry, innovation is the oxygen (Anderson et al., 2008). Service innovation provides the link between all the actors involved; starting with guests, operation employees and managerial positions, moving further to suppliers and intermediaries, all the shareholders and the stakeholders are committed to innovation.

In 2008, at a roundtable on innovation, professionals in the hospitality industry have identified three key elements of service innovation: customer-focused, process-focused and continuous improvement (Verma et al., 2008). The first element implies that successful businesses involved in the hospitality industry have as main objective a customer-centric approach and their focus is on exceeding customer's expectations. In comparison with the manufacturing view on innovation, services have to meet or exceed expectations and any new technology, procedure or method introduced in the business should have this purpose. After all, any new improvement or investment in a business is defined as an added-value element towards an increase in customer satisfaction, and, in the long-term, in the business itself.

The challenges which come along with service innovation include the measurement of it, the effects it has upon profits, the understanding of the customers, the prediction of the impact and the acceptance of a certain technological innovation, the implementation of a reward system for the employees, and the idea that innovation itself is easy to be duplicated. This idea of imitation, which is more easily performed in comparison with product innovation, has consequences on the relationship with the customer. Due to the fact that the customer is more and more educated and experienced, is getting fast accustomed with novelty. This way he/she expects something different every time and this places a lot of pressure on the hospitality unit.

However, being the first mover or the follower is not so important (Fultz et al., 2016). What counts is proving agility and a strong capacity to adapt to the new industry's challenges and to the consumers' needs. Once a CEO of a brand restaurant concluded that the main challenge in an unsettling world is to be courageous (KPMG Report, 2016) and this is easier for small companies.

## **2. Theoretical basis**

The concept of innovation was approached for the first time at the beginning of the 20<sup>th</sup> Century by the Austrian economist and Professor Joseph A. Schumpeter. He shaped the idea that the key role of an entrepreneur is to carry out new combinations, through discontinuous and revolutionary changes, which disrupt the static mode of the economic development towards a more fluctuating and dynamic environment (Schumpeter, 2012). The volatility, uncertainty, complexity and ambiguity of today's world demand a high degree of adaptability from the market and, most of the times, this adaptability translates into the capacity of an organization to innovate, as Schumpeter said, "carrying out innovations is the only function which is fundamental in history" (Sledzick, 2013).

Innovation is by far a source of value creation where new combinations of resources, methods, market sources are retransforming old concepts into something which is perceived as new by the consumer. According to Schumpeter's theory, entrepreneurs have five areas to innovate: development of new products, new processes, new markets, new suppliers and changing organization (Schumpeter, 2012).

Hall and Williams (2008) define innovation as the process of bringing any new problem solving idea into use. In this context, innovations are any idea for reorganizing, cutting cost, putting in a new budgetary system, improving communication, processes, products and services. On the other hand, Fagerberg (2005) argues that imitators are much more likely to succeed in achieving their aims if they improve the original innovation and become innovators themselves. Generally, one innovation tends to enable another innovation in the same or in related fields. Therefore, innovation becomes a creative process in which one important innovation initiates a series of subsequent innovations.

Gallouj & Weinstein (1997) have identified two factors that challenge the innovation in the services' industries. Firstly, the innovation theory was developed mainly from a technological perspective, and secondly, unlike tangible products, services have differentiated features that give them a more intangible dimension, therefore, it is more difficult to quantify them. In essence, in any foodservice business experimentation and competition are always present, looking at each other and trying to provide an offering and an experience to the customer (Klass, 2017). Unlike products, services are simultaneously produced and consumed. Service innovation involves changes in many areas and, sometimes, process innovation and product innovation cannot be separated. Hence, service innovation is produced and consumed at the same time. Adding this aspect to the hospitality industry, determines the fact that the decision to purchase versus the decision to consume are no longer separated.

If Schumpeter has divided innovation into five categories, when it comes to service innovation, this categorization has been reduced to four main divisions (Oslo Manual, 2005):

- Product innovations: products, services, and their attributes;
- Processes innovations: operational processes;
- Knowledge of the market innovations: distribution channels, web-based communication, customer loyalty, information sharing, and marketing innovations;
- Management/Organizational innovations: changes in organizational structures, policies, non-operational processes, and the informal culture.

In 1999, Sundbo and Gallouj, described organizational innovations as “new general forms of organization or management such as introduction of TQM” (Carvalho et al., 2011). Process innovations are defined as renewals of all the perspective procedures for producing a service and further deliver it. In the case of the hospitality industry, this division can be further split into two categories: innovations in production processes, which are back office procedures, and in delivery processes, which are front office. Market innovations are new market behaviors, such as a new market segments or the entry of another industry into this market.

With a perspective less oriented towards production and manufacturing, fifty years later, Peter Drucker identified another dimension of innovation and entrepreneurship, which is focusing more on the knowledge-based and customer-centered perspectives. In his view, “innovation is the work of knowing rather than doing” and “innovation is the change that creates a new dimension of performance” (Drucker, 2002). Thus, innovation in the hospitality industry became a common action and now can be seen as a key factor in the business strategy. Even more, Sundbo (2002) proposes the new concept of strategic innovation theory, which regards strategy as both an interpretation of environmental developments and a tool for managing the innovation process. In order to

maintain competitive advantages, the hospitality industry has to undertake continuous innovation. Accordingly, the innovation process can be seen as a system or collaborative process, designed of the total activities and interactions that implement the development strategy (Edquist, 2005). Thus, Kavoura & Katsoni (2013) argue that the incorporation of information and communication technologies into the tourism marketing strategy will play a significant role in strengthening networks and alliances for the implementation of successful tourism development.

Hospitality enterprises are among the first adopters of innovations, hence, innovations have become a strategic tool for both successful chains and independent hospitality enterprises alike (Ottenbacher, et al., 2006). Indeed, innovative practices in the lodging industry are not only important for competitive success, but also to ensure that intrinsic motivated employees long to work in the industry (Enz & Siguaw, 2003). Peters & Pikkemaat (2006), and Ottenbacher & Gnoth (2005) emphasize as potential drivers of the innovation process: employee training, employee commitment, employee expertise, employee involvement in the innovation process, human resource strategy, and innovative network.

Regarding the innovation sources in the food sector, a new idea was presented that foodservice is the ecosystem where new concepts and trends are tested and that these new products are usually 100% incremental, in comparison, for example, with the retail sector where as high as 85% is cannibalization (Klass, 2017). The same study exacerbates the focus on the consumer, by stating that the consumer should be placed first in innovation. Companies should not mix research and development between channels and, instead, they should focus on innovating with the customer in mind and understanding and analyzing the way he/she reacts.

Food specialists, trend setters in the restaurant business brought up the idea that the creative energy has moved its focus from what was once the following hot dish, the aristocratic molecular cuisine, to young, daring entrepreneurs who experiment and play with pulses and innovative brews, fermented products and bake insect bars and cook algae noodles.

### 3. A brief overview of the food services market from Cluj-Napoca

Cluj-Napoca is a complex environment and a future hub of innovation in the Hospitality Industry and the mix of concepts. The new trend is all about niches, creating something specific and valuable, highly qualitative and powerfully sustained by a brand, by a concept, by experiences and by involving the clients not only as pure consumers, but giving them the role of brand ambassadors of the concept itself.

One category regards the *coffee sector*, which has developed significantly in Cluj-Napoca during the last five years, and the quality of the coffee beans, the blends and the equipment used, are redefining the café's industry, raising the standards for the new entries while educating the clients and increasing their expectations. *European Coffee Trips*, a magazine specialized in presenting the best cafés and roasters in Europe, lists Cluj-Napoca with seven cafés: *Bujole*, *Victor Fresh to Go*, *Olivo Café*, *Roots*, *Let's Coffee*, *Yume Coffee Roasters* and *Coffee Addicts*, which have been tasted and accredited by the publishing magazine. The focus is on high quality coffee, blends, brewing methods such as *Chemex*, *Syphon Coffee*, *V60*, *Cold Brew* and *AeroPress*, all these elements putting Cluj-Napoca on the map as a representative for the 3<sup>rd</sup> wave of coffee. In an article on *start-up.ro* (Suciu) one of the owners of the newest cafés in town, *Narcoffee Roasters* (see Figure 1), which has as vision to be a future chain of specialized cafés, has mentioned the 3<sup>rd</sup> wave coffee movement. This trend is seen as a reaction against bad coffee and an interest from the barista, the café's owner and the customer towards the origins of the coffee beans, the process itself and the final product they will experience. Coffee is served at daytime but as the sun goes down, many of the places retransform into small wine-bars.



**Figure 1. Coffee Degustation at Narcoffee Roasters in Cluj-Napoca**

(Source: Google Images)

The wine-bar is another popular concept which is blooming in Cluj-Napoca. Places like *Crush Wine Bar*, *Bruno Wine Bar*, *The Office Wine Bar* or *Wine o Clock*, not to add the wine cellars which are directly open by the providers, are starting to cover a niche specialized in providing and promoting not only quality wines but also a lifestyle which targets a more exquisite and initiated customer. The demand and the awareness towards wineries is growing and wine-bars have a strong focus on educating the clients, by organizing different events of wine tasting, courses on the subject or simply by providing customers with the advice needed for/when choosing the best wine on the evening when they enter the location. Moreover, Romanian wines are winning a great share of the market, and wine-bars in Cluj-Napoca have as objective to promote this legacy. Brands such as *Recas*, *Corcova*, *Lacerta*, *Stirbey*, *Domeniile Sahateni* have great appealing to the local market, slowly gaining the same reputation as international wines.



#### **4. Research method**

The main purpose of this study was, on one hand, to investigate what changes and innovations were brought by the small companies active in food services over the last years and their impact on the business activity, and, on the other hand, to identify strategic features for the innovation process. Accordingly, a qualitative study was developed and run on entrepreneurs who activate in the hospitality industry, whose business units operate on the market from Cluj-Napoca, and which, have brought a new concept on the market, or, have had some initiatives that make them relevant examples for this industry. A number of 27 small businesses from the field of food services were selected and a personal interview was designed to get a deeper understanding, behind the story of a participant's experience.

The entire process was carried out in a planned and structured manner, following an interview guide which included two parts. The first part focused on the entrepreneur's motives to start the business, on identifying the opportunities taken into account in this initiative, and on discovering the core elements of the business concept. The second part of the interview followed the topic of the innovation process. Innovation activities and innovation behavior were measured following the innovation theory and literature review (Oslo Manual, 2005), focusing on the changes made in the company, on a brief analysis concerning the future objectives of the respondents and on the overview of Cluj-Napoca and its future in the hospitality industry. Data have been collected from a number of 11 entrepreneurs interviewed during 3 weeks and a qualitative analysis has been done based on the theoretical aspects identified in the specific literature.

## 5. Results and discussions

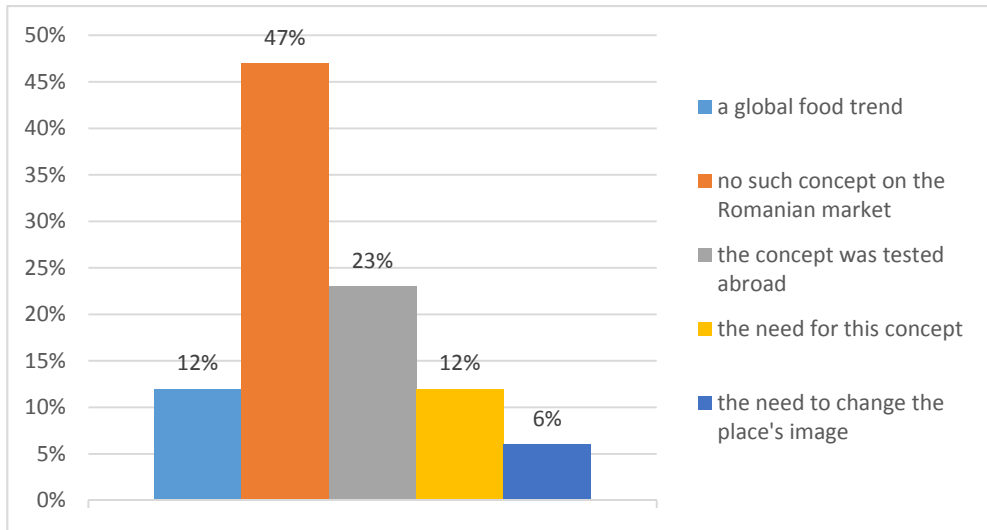
Motivation initiates the decision process at individual level. It is 'the internal, psychological influence affecting the individuals' choice(s) (Middleton, 1994). Therefore, understanding the entrepreneur's motives to start the business activity is a key element for understanding their behavior during the business development. For the majority of the interview respondents, the idea to start a business within the hospitality sector came from their own need to change something in their life. For example, after working for an important period of time, like 7 or 10 years in different domains, some owners felt that it was time to change something in their lives, and that is why they decided to follow an old dream:

*"It is said that after 10 years one needs to change something. I decided to say stop to my 10 years career in the corporate environment, in marketing, to open this business, which I have been dreaming about since I was a student, and to try my luck in entrepreneurship."* (Source: interview)

Another considerable influence comes from abroad, through travelling, studying or working. Some of the owners are foreign, namely Japanese and Canadian, and their love for Romania triggered them to start here. Moreover, travelling, studying or working abroad is another important area in the decision process. Entrepreneurs got inspired by seeing; thus, a specific concept was developed abroad, or seeing some elements which greatly have influenced their business.

Therefore, in terms of push-pull theory regarding motivation, one may conclude that for an important part of the entrepreneurs from the food services market, the main determinants of their behavior are related to push factors, those internal forces, that are psychological in nature and which create the desire to start a business activity.

When it comes to business motivation, the business opportunity represents the entrepreneurs' reason for entering the Romanian market, focusing on the way they managed to bring a concept here and trying to validate it.



**Figure 2. Factors relevant for the Business Opportunity**

(Source: authors' data processing)

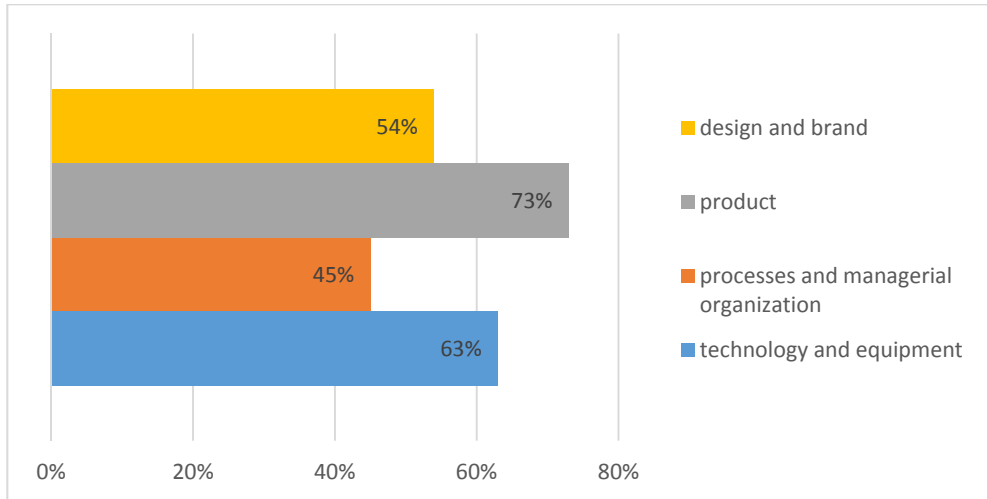
The answers show (Figure 2) that a considerable number of entrepreneurs considered the lack of the concept on the local market to be the main opportunity for developing their business activity. Due to this result, regarding the novelty of the concept, mentioned in different ways by the owners, one may conclude that the hospitality Romanian market is more in a growing stage and therefore attractive to new investors. The idea to offer something new, to innovate in some way the service or the product is enough to attract a market segment.

As it results from Figure 2, the "need for this concept" was barely mentioned by the respondents. Very few of them, 12% of the entrepreneurs, stated that the opportunity came because there was a need for that specific

food service concept, or because they identified a trend in that direction. This emphasizes even more the idea of an increasing demand for food services and a low intensity of the competition on the local market. Also, there is a strong international influence, thus concepts that proved to be working abroad were considered a strong opportunity and therefore were implemented on the local market. Generally, these are examples for specialized restaurant, that focus on a specific type of food (vegan) or product (salad, tarts) or restaurant with specific kitchen, like Mexican, Italian, etc.

Regarding the area of innovation, presented in Figure 3, the majority of the entrepreneurs made changes and implemented something new in the products' concept(s). One type of change is the idea of mixing elements or trends of the worldwide cuisine. For example, a bistro has implemented a concept which is called *Treat of the Week*, when the so-called "bistro train" travels each week to another part of the world and brings something new to the customers. This way the bistro's offer was diversified and it was able to bring novelty in a current way. There are examples of units which mixed two national cuisines through their dishes in an endeavor to adapt their offer to the market's needs and, at the same time, to educate the customer's(s') taste. As it resulted, the respondents are in line with global trends. Due to a more cost-conscious, well informed and experience-focused type of customer, nowadays the units on food services market have to apply changes to meet these expectances. Even if the business units decide to use a focus strategy and became well-known on a niche market segment, in time they still remained to oscillate among different types of products and the idea of implementing a diversification strategy.

The next factor on which the respondents focused is the investment in technology and the equipment used. Some places needed some special pieces of kitchen equipment, as the interviewees said rice, pasta or the patties for the tarts need some special processes to have the quality desired, even though the product itself may seem simple and easy to cook.



**Figure 3. The areas of innovations**

(Source: authors' data processing)

Along with the improvements brought in the area of technology, come also the investment in processes and managerial organization. One restaurant's manager stated that in Romania it is difficult to run the business based on certain processes, because, especially within this industry, there are aspects which change regularly. However, some of the interviewed units' representatives are initiating the Romanian franchise system. The entrepreneurs mentioned that they have begun to take collaboration into consideration when they understood the complexity and dimension/extension of the business. The franchise system was built rigorously, the owners even developing their own software in this respect. They recognized that at times it can be difficult to work with Romanian franchisees, however, they facilitate the entire franchising process by offering their know-how, support, constant auditing to ensure the proper development of the branch. Another example of process innovation regards the development of an excellent network of delivery for many of the business units.

A significant area for innovations and improvements concerns design and branding. One of the most impressive achievements for this trend goes to *Joben Bistro*, which, in less than a year after opening, was ranked among the top 10 bars and restaurants' designs worldwide. It was featured in an article on *Daily Mail* (2014) which stated: "Faithful to *Steampunk's* pseudo-Victorian style, *Joben Bistro's* three rooms take visitors to a world of fantasy and science-fiction. Designed by a Romanian studio, *Joben Bistro* counts dozens of quirky objects on the walls and hanging from the ceiling, including a mounted deer head fitted with a monocle and other mechanical objects." The steampunk elements of the place were and still are a source of inspiration for businesses both in Romania and abroad.

Another trend which is growing more and more popular in the area of process innovation is the communication with the clients, both online and offline. Nowadays, digitalization is a global trend, and the hospitality industry needs to keep pace with it. All the respondents have a *Facebook* page and most of them have a website. Also, a significant percentage use *Instagram*. Moreover, one of them stated that they hired a Marketing company to manage their online strategy. This is accordance with the conclusion of Toader & Gica (2014) concerning the innovation activity of the accommodation units from Cluj-Napoca: social media representing a key tool for marketing activities.

On the other hand, word-of-mouth and organic growth are still the best tools for making renown a place that operates in the services' industry/for creating the reputation of a place operating in services' industry. The interview respondents mentioned that they are not too intrusive on the online platforms and that they try to create a natural flow of posts and give customers relevant content, pleasant and interesting information. For example, *ZAMA* said that they did not use advertising for the opening, they just waited to see how the people will respond. *A la Tarte* had a pleasant surprise to learn/discover that the concept of the place attracted the national news. An important national television presented the

location in a documentary. When it comes to online promotion, the question and main challenge is how companies can still differentiate, now, when online marketing is available to anyone. For certain, innovation itself does not consist anymore in simply having a *Facebook* page, a website, an *Instagram* channel or any other platform. The innovation nowadays is related to using the platform in such a way that will enrich the experience of the clients, will bring them some added-value and will also let them freely express their views about the place. Moreover, the real target is to convert those likes into actual orders and clients.

That is why another way to attract a certain segment of clients is through Social Responsibility and active involvement in the community. For example, *Chios* has among its values Social Involvement, promoting talents from Cluj and buying raw material from poor villages in Romania. *Off The Wall* offers discounts to people who come at their place with tickets from festivals like *TIFF* or *UNTOLD*, and they have decided to act this way even though they do not have an official agreement with the festivals' organizers. Moreover, they receive tourists from *Transylvania Hostel* and offer them a dinner within the budget of the hostel, this way helping both the tourists to have a more multicultural experience but also the hostel to attract more international tourists. *Off the Wall* promotes local producers and places a great emphasize on buying genuine ingredients. *Pokka* and *Tokyo* get involved into the community by participating at different public and private festivals, like the days of the city (*Zilele Clujului*) or *Street Food Festival*. Moreover, *Tokyo* has an agreement with a children shelter/home and helps them regularly. These small initiatives, being gathered, are an important element, building a strong community, both in the industry itself but also by creating awareness and engaging customers in the local area. The entrepreneurs of these business concepts are trying to attract a certain niche of clients, those clients who are loyal to the brand because the business does something extra and meaningful. Such clients, educated, initiated, are more and more inclined to choose those places where food is green, where some of the revenues

go towards a cause, where food is not wasted, where artistic manifestations are promoted, where exhibitions, creative workshops are organized and held.

## **6. Conclusions**

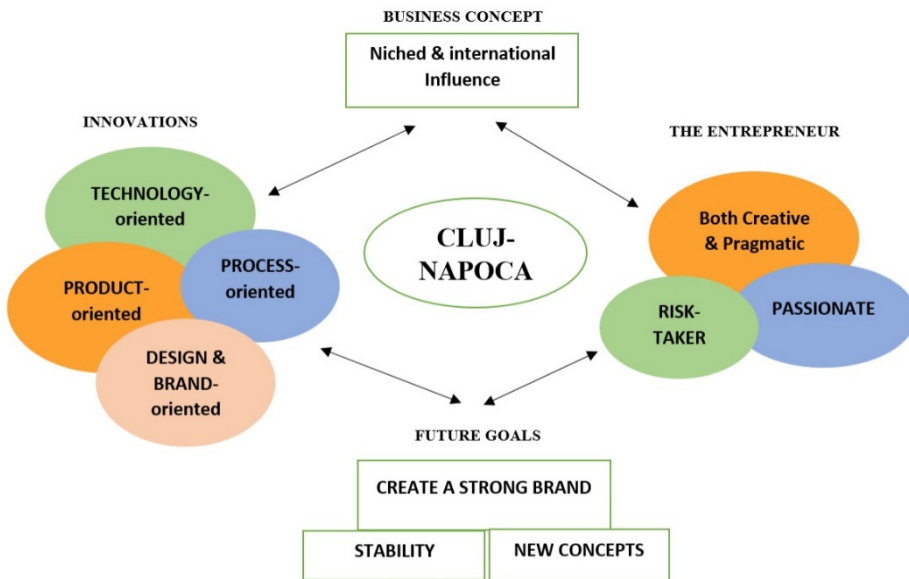
According to Griffin & Page (1996), hospitality units have different objectives when it comes to introducing new services, on one side there are the financial reasons, and, on the other side, there are the performance goals, which are oriented more towards relational marketing, towards guests, improving experience, towards the employees and the community. Of course, it cannot be denied that all these performance objectives would, at some point, increase the financial objectives, as well. However, when a company decides to buy only local ingredients to improve the quality of the dish their decision is not so cost efficient in comparison with buying the same ingredients from a big supermarket chain. Thus, this objective is still about performance, about creating the reputation of the place, about differentiating on the market, about building a competitive advantage, which, on the long run, would become more difficult to imitate. If Griffin (1997) considers that 4 of 10 innovations fail on the market, and there are no factual numbers for the hospitality industry, however, other researchers suggest that the failure number is even higher and many restaurant concepts do not resist much on the market (Ottenbacher et al., 2005). Many hospitality units face the challenge of developing a new service with little knowledge of the market as a whole, consequently the risk associated to success or failure is present at equal rates. Most of the time, managers have to trust their instinct, their feeling and to act accordingly, even though they do not have a guarantee of their new idea.

Based on the data collected through this study we identified four performance dimensions on which innovations and changes have been brought, and these (see Figure 4) not entirely directed towards financial goals.



Most of the respondents have focused on technology and product innovation, and through these they aim at maintaining a focus strategy for the business development. All of the entrepreneurs described their business concepts as being niched and having up to some point international influences. The target market seems to be represented by the young mature generation, with a high level of education and with enough experience in order to seek a different type of service.

These clients represent a niche which will grow in the near future, because people nowadays want more than a simple dinning out, they want an experience, and, if this experience will fulfil more than psychological needs and will go towards the self-acquisition ones, than the customer will become a promoter of the place. Therefore, even though the results are not immediate, companies which are active, have by far identified a way of putting themselves ahead and of building a strong competitive advantage.



**Figure 4. Strategic features for the innovation process applied by SMEs from the food services market**

(Source: authors' compilation)

Looking at the right side of the chart, the main features of the business owners include a mix between creativity and pragmatism, a lot of passion for their work and also the fact that they are all risk-takers. When it comes to the future and what they would like to implement in Cluj-Napoca, the main strategic objectives focus on three dimensions: to create a strong brand, to develop and introduce new concepts, and to ensure the long-term stability of the brand itself.

Nowadays, within the food services market, the innovation's principle is that of renewing old concepts, which were once common in our grandmothers' kitchens. Covering everything with technology is just a way of bringing the concept to the newest generations and to make them aware of it.

The *Digital Era* is an open door towards the world, and globalization is the process of making things uniform and accessible to everyone no matter their geographical position. However, even though the hospitality industry is increasingly globalized due to international chains such as *McDonalds*, *Starbucks* or hotel chains like *Hilton*, *Four Seasons* or platforms like *Booking.com* and *Airbnb*, more and more businesses became oriented towards identifying the people and the cultures where they operate.

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