



Efforts to Enhance Service Quality: The Roles of Innovation Capability and Service Recovery

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ABSTRACT: This research aims to discuss the service quality issue at 4-star hotels in Medan. Next, build a model on how to enhance service quality. A sample of 560 guests was taken by random proportional from each hotel. Structural equation models with the lisrel software supported. Market orientation influences innovation capability and service quality. Value co-creation influences innovation capability, service recovery, and service quality. Innovation capability influences service recovery. Innovation capability mediation can increase the influence of market orientation on service recovery. Service recovery affects service quality. Integration between functions in hotels, especially information dissemination in formulating policies to increase innovation capabilities, is important to pay attention to. It is important to develop a risk-taking attitude to improve service recovery. Recovery strategies are important to pay attention to in efforts to improve service quality. The role of market orientation needs to be followed by innovation capability to improve service recovery.

KEYWORDS: Innovation Capability, Market Orientation, Service Quality, Service Recovery, Value Co-creation

INTRODUCTION

Among 2 to 5-star hotels in Medan in the period 2018 - 2021, 4-star hotels are the only ones that have decreased in number from 15 hotels to 13 hotels. This decreasing number is not due to an increase in ranking. This is proven by the number of 5-star hotels remaining at 5 units (Nasution, 2023). The service quality provided is undoubtedly critical to the success of a hotel (Suarka & Sulistyawati, 2023; Liat et al., 2017).

In this research, the authors view the above reduction from the service quality aspect because it has a direct impact on hotel performance (Goni, 2021; Shah et al., 2019; Nair & Choudhary, 2016; Mose & Kibera, 2015). From a preliminary survey with respondents of 260 guests at 13 four-star hotels in Medan, the following results were obtained: Fulfillment of expectations regarding employee service was at an average of 5 (scale 1-7) or somewhat met expectations; Fulfillment of expectations in physical facilities is on a scale of 6. The expectations of hotel guests have not been met optimally. Service quality can be improved through value co-creation (Syah & Olivia, 2022; Janjua & Ramay, 2020), market orientation (Pantouvakis & Karakasnaki, 2021; Amangala & Wali, 2020), innovation capability (Pradana & Safitri, 2023; Sasono & Novitasari, 2020), and service recovery (Komunda & Osarenkhoe, 2023; Gerber, 2020).

The causal relationship above is still doubtful because there are still propositions that are not in line. Therefore, it needs to be tested again by empirical research using structural equation models. Research conducted by Hasanah et al., (2023) and Keskin, (2006) found that there was no direct influence of market orientation on innovation capability (innovativeness). However, it has an indirect influence on learning orientation. So marketing orientation alone is not enough for an organization's innovativeness but must be supported by a learning orientation (i.e. trying new ideas, looking for new ways of doing things, developing and launching new products/services, and being creative). Research resulted by Janteng & Tan, (2017) shows that the influence of value co-creation on innovation capability must be encouraged (moderated) by knowledge sharing. The two constructs are not related so they need to be moderated by various knowledge. On the other hand, value co-creation includes information sharing between customers and service providers.

This research is intended to provide input to general managers of 4-star hotels in Medan so that the policies to improve service quality that will be decided can be more effective. Apart from having a direct effect on service quality, innovation capability, and



service recovery are expected to mediate the influence of these two exogenous constructs on service quality because they are within a communality.

LITERATURE REVIEW

A. Conceptual Synthesis

Researchers formulated conceptual definitions of the five constructs based on the previous research results. It includes five concepts, namely: Value co-creation, market orientation, innovation capability, service recovery, and service quality.

B. Hypotheses Development

In this research nine hypotheses are proposed which will be tested as described below.

The hospitality industry relies on innovation activities to meet customer demand. They strive to create value for their consumers as part of their innovation strategy (Taghzadeh et al., 2016). The co-creation existence as a method of collaboration between customers and companies has become a necessity in the business world. This is known as a new marketing strategy to build competitive advantage and is expected to become one of the long-term business strategies. The relationship between value co-creation and organizational innovation capabilities is an important aspect of customer-organization interactions (Petri & Jacob, 2016; Taghzadeh et al., 2016). A company's innovation capability can be improved if the company has good dialogue, interaction, and discussion with customers regarding new product and service designs (Janteng & Tan, 2017). The party's interaction, namely service providers and consumers, allows customers to simultaneously act as value creators and service users. Thus, the impact of value co-creation on an organization's innovation capabilities is demonstrated by active interactions such as sharing new ideas originating from customer experiences.

Several researchers have found that value co-creation affects innovation capability (Zhang et al., 2022; Farida & Listyorini, 2021; Hamidi & Gharneh, 2017; Farida et al., 2017). Referring to the description above, the authors propose hypothesis 1,

H1: There is an influence of value co-creation on innovation capability.

Value co-creation refers to the involvement of customers interacting with employees for service recovery (Roggeveen et al., 2012). Furthermore, because co-creation allows customers to help shape or personalize the content of their experience, it can influence customer satisfaction with recovery efforts, as well as offer more cost-effective compensation alternatives. Service recovery means the actions taken when a service fails. Co-creation of service providers with customers is recommended in service recovery.

Co-creation of service recovery generally improves customer evaluations of service recovery, particularly in cases of severe service failure, when employees initiate recovery, and if the level of co-creation during service recovery matches the level of co-creation during service recovery of the initial service encounter (Gilles & Armiroto, 2017). Research results from M. Zhang & Jin, (2020) reveal several relationships between value co-creation and post-recovery performance.

During the service recovery process, companies can encourage co-creation activities to prevent similar failures in the future (Vázquez et al., 2016). Customers are informed about implementing solutions to address the cause of the failure, thereby preventing the same problem from recurring. Past studies have proven the effectiveness of co-creating recovery strategies in driving customer outcomes and outlined when it is recommended to co-create service recovery (Hazée et al., 2017). Based on the description stated above, the authors propose hypothesis 2,

H2: There is an influence of value co-creation on service recovery.

In service-dominant logic (SDL), customers are the central concept as one of the value creators (Yi & Gong, 2013). In the SDL view, customers are those who integrate resources and are the value creators of each transaction (Lusch & Vargo, 2014). Gummesson, (2008) confirms that service providers and customers are not separate. They jointly create new value. Thus, any study of quality must focus on the concept of co-creators that generate value within a service-dominant logic approach. Co-creation of value cannot be separated from improving the quality of a service.

Ford et al., (2012) stated that one of the benefits for both customers and organizations in co-production in hospitality is the increased service quality. Agrawal & Rahman, (2015) found that co-creation can improve product quality, lower business risks, and encourage repeat purchases, and reduce costs. Furthermore, it is stated that by using the dimensions of the service quality model, it can be seen



that service quality increases along with customer participation in increasing responsiveness and physical evidence. Several researchers have proven that Value co-creation affects service quality (Syah & Olivia, 2022; IvyPanda, 2021; Janjua & Ramay, 2020). Referring to the description above, the authors propose hypothesis 3,

H3: There is an influence of value co-creation on service quality.

Service providers are always required to be responsive and quickly develop their services by implementing market-oriented policies to respond to information on changes in the business environment and adapt to market conditions. Increasingly intense competition and changes in the external environment can be responded to with innovation capabilities because they can increase the service providers' competitiveness by prioritizing service innovation that contributes to sales and organizational growth (Siahaan & Tan, 2020). Marketing orientation and innovation capabilities have become the keys to success for small and medium enterprises (SMEs) in Latin America (Kolbe, 2022).

In responding to dynamic market information, companies need to develop innovation capabilities that can translate their resources into useful new products, services, methods, or systems (Al-kalouti et al., 2020). The innovation capabilities presence is very important to develop innovation (Hogan et al., 2011), because according to Liu et al., (2018) providing flexibility for companies to develop their services by market expectations in maintaining growth. Research results have proven that market orientation produces superior innovation in Japanese companies (Deshpandé et al., 1993). Innovation produces successful new products. Several researchers have concluded that market orientation influences innovation capability (Pradana & Safitri, 2023; Heng et al., 2020; Setiawan et al., 2020; Alhakimi & Mahmoud, 2020; Joensuu-Salo et al., 2019). Referring to the description stated above by the authors can propose hypothesis 4,

H4: There is an influence of market orientation on innovation capability.

Market orientation concerns the acquisition of information from target markets, its dissemination, and application within the organization. These three elements are interconnected. So it is a sustainable response to consumer demand and needs (Aldas-Manzano et al., 2005). Market orientation is always placed to maintain and improve business performance, by tracking and responding to market needs and preferences. It is very important to understand who the customer is, especially from the racial aspect because it will affect service recovery (Atınc, 2016). Target market information is one of the main considerations in service recovery. when organizations use the right service recovery strategies, most customers whose problems are resolved will be rebought (Buttle & Burton, 2002). This can happen if the evaluation of the external environment, including information from the target market, is obtained accurately.

There were significant positive interaction effects between customer orientation and competitor orientation and between competitor orientation and cross-functional integration in predicting marketing program newness. Besides that, competitor orientation and cross-functional integration interact significantly and positively with each other in increasing the meaningfulness of marketing programs. Market orientation is related to various marketing programs including service recovery. Research conducted by H. Chang et al., (2016) also proves that market orientation affects service recovery. Referring to the description stated above by the authors, hypothesis 5 is proposed,

H5: There is an influence of market orientation on service recovery.

Service providers whose behavior is more oriented towards their target markets in supplying high-quality services are likely to create sustainable superior performance. The new services offered can meet or even exceed customer expectations (Zeithaml et al., 2013; Parasuraman et al., 1988). Thus, market orientation and service quality are related, including to the success of new services. The research results of T.-Z. Chang & Chen, (2008) show that market orientation and service quality have a positive relationship, but fail to support the curved and decreasing function proposition. An ad hoc investigation of the impact of each component revealed that, among the four components of market orientation, only customer orientation and profit expectations had a more consistent and significant influence on overall service quality and the five components of service quality. Other researchers have also proven that market orientation influences service quality (Xia & Ha, 2021; Pantouvakis & Karakasnakis, 2021; Amangala & Wali, 2020; Sukanthasirikul & Trongpanich, 2013; Subroto, 2013). Based on the description stated above, the authors propose hypothesis 6,

H6: There is an influence of market orientation on service quality.



The service sector is an important part of the economy in developed and developing countries because its growth is the fastest and largest (Song et al., 2022). Therefore, service innovation, whether new services or improvements to existing services, is a strategic imperative for most organizations because it is very important for their continued prosperity and survival (Perks & Riihela, 2004). Innovation in service companies can come from various sources such as operational experience, the external environment, and even from customers (Anning-Dorson, 2016). So organizations must utilize all external resources and opportunities to innovate. Companies with greater innovation capabilities will be more successful in responding to their environment and developing new skills that support sustainable excellence strategies (Rajapathirana & Hui, 2018).

Service recovery involves improving service attributes that do not match customer needs and desires. So this includes developing new products. In other words, it is a form of innovation performance. Research results of Hintama et al., (2021) show that innovation capability influences innovation performance. One of the innovation performances is service recovery. Ahmad et al., (2022) stated that innovation capability in a service influences value-based sales, sales that are adaptive to external factors, especially customers, and the service recovery performance carried out by an organization. Based on the description presented by the authors above, hypothesis 7 is proposed,

H7: There is an influence of innovation capability on service recovery.

Businesses must be innovative, especially in a rapidly changing environment. Service innovation is one of the keys to long-term success (Jiménez-Jiménez & Sanz-Valle, 2011; Calantone et al., 2002). Companies can respond to challenges more quickly compared to other companies that are less innovative. Innovation capabilities will be in line with the organization's ability to meet customer wants and needs obtained from service features. Furthermore, Han & Xie, (2017) said that innovation capabilities are very important for organizations to support competitive capabilities. This facilitates companies to introduce services or adopt new systems quickly.

The innovative service success depends on the manager's ability to match the benefits consumers seek with the benefits the organization receives from the innovation it offers (Foroudi et al., 2016). Fulfilling customer expectations regarding service specifications depends on the ability to innovate. The higher the ability to innovate in an organization, the more likely they are to meet customer wants and needs, and can even provide services above standard. Several researchers, among others Pradana & Safitri, (2023); Pranoto & Syahlani, (2021) ; Sasono & Novitasari, (2020); Ngo & O'Cass, (2013) has proven that innovation capability influences service quality. Referring to the description stated above, the authors propose hypothesis 8,

H8: There is an influence of innovation capability on service quality.

Service failures lead to customer disappointment which in turn can lead to loss of trust in the organization, customers moving to other organizations, and negative word-of-mouth communication. Therefore, service recovery programs must be carefully planned to address the various types of service failures that may occur (Liat et al., 2017). Research shows that dealing with problems effectively is the most important component of an excellent (or poor) service reputation for a variety of industries (Johnston, 2001). Any failure that occurs must be recovered immediately so that expectations in service specifications can still be met. Service recovery is integrated with excellent service (Gerber, 2020). Service recovery cannot be separated from service quality above standard. If a failure occurs the service must be recovered to not only meet expectations but exceed them.

Research conducted by Suk et al., (2013) on 265 restaurant customers as respondents, found that service recovery (distributive justice, procedural justice, and interactional justice) affected service quality (absolute quality, evaluation quality, and relative quality). Several studies that have been conducted also show that service recovery affects service quality (Komunda & Osarenkhoe, 2023; Suarka & Sulistyawati, 2023; Mwangangi, 2014). Referring to the description above, the authors propose hypothesis 9,

H9: There is an influence of service recovery on service quality.

METHOD

The target population in this research is 4-star hotel guests in Medan who are visiting from August – November 2023 (Lohr, 2022). Referring to the number of indicators for the complete research model covering 56 pathways, the sample size was set at 560 hotel guests (56 x 10) (Wang & Wang, 2020; Hasanah, 2020). The sample frame is determined evenly from all 13 hotels, then the questionnaire is distributed randomly until the specified number of respondents is obtained (Collis & Hussey, 2021).



Exploratory research design is used for identification, problem formulation, and research hypotheses development (Sallis et al., 2021; Hair et al., 2020). Causal design is applied to discuss the influence of exogenous toward endogenous constructs. Variables are measured on a 1-7 Likert scale (Hair et al., 2020; Budiaji, (2013). The structural equation model is used to process primary data, the estimation method applies weight least square with the lisrel 8.7 application program supported (Geiser, 2021; Tabachnick & Fidell, 2019). Functionally, the research structural equation model is:

$$\begin{aligned}\eta_1 &= \gamma_{11}\xi_1 + \gamma_{21}\xi_2 + \zeta_1 \dots\dots\dots 1 \\ \eta_2 &= \gamma_{12}\xi_1 + \gamma_{22}\xi_2 + \beta_{12}\eta_1 + \zeta_2 \dots\dots\dots 2 \\ \eta_3 &= \gamma_{13}\xi_1 + \gamma_{23}\xi_2 + \beta_{13}\eta_1 + \beta_{23}\eta_2 + \zeta_3 \dots\dots\dots 3\end{aligned}$$

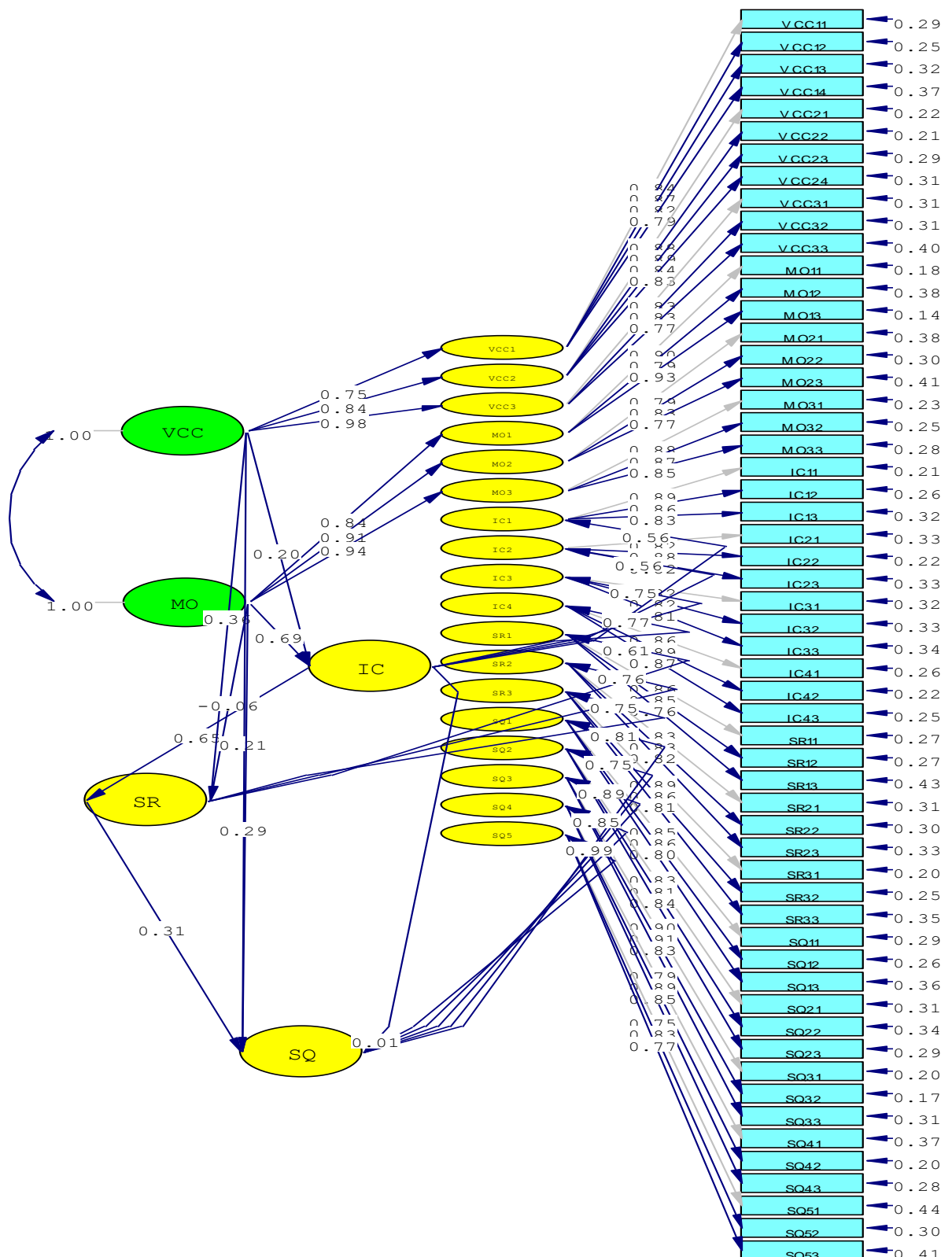
The hybrid research model was developed through three stages (Kline, 2023; Thakkar, 2020; Wang & Wang, 2020; Jöreskog et al., 2016). Initial testing, and examination of the first order confirmatory factor analysis measurement model. The second stage, testing the second-order confirmatory factor analysis measurement model. The third stage is testing the goodness of fit index, causal/reciprocal relationship weight, Rsquare, and z-value probability from the fit full model.

RESULTS AND DISCUSSION

The fit full research model can generally be seen from the formation of a path diagram where one of the two absolute goodness of fit indices, namely P-Value or RMSEA, meets the rule of thumb. The lisrel output in the path diagram form presented in Figure 1 shows $RMSEA = 0.068 < 0.080$ (good) (Hair et al., 2019).

A. Dominant standardized factor loading

The dominant indicator has the highest standardized loading factor (SLF) value compared to other indicators that reflect the same dimensions. The dominant dimension has the highest SLF value compared to other dimensions that reflect the same construct. Dominant parameters can represent a group of indicators or dimensions. The value co-creation construct is reflected predominantly by the new value dimension (VCC3) with $SLF = 0.98$. This dimension is dominantly reflected by the indicators of functional value (VCC31) and hedonic value (VCC32) with SLF each of 0.83. The market orientation construct is reflected predominantly by the functional integration dimension (MO3) with $SLF = 0.94$. This dimension is predominantly reflected by the information dissemination indicator (MO31) with $SLF = 0.88$. The innovation capability construct is reflected predominantly by the organizational culture dimension (IC4) with $SLF = 0.77$. This dimension is predominantly reflected by the risk-taking attitude



Chi-Square=5270.81, df=1457, P-value=0.00000, RMSEA=0.068

Figure 1. Path Diagram of Fit Full Research Model (Standardized Solution) (Source: Lisrel output, 2024)



Indicator (IC42) with SLF = 0.89. The service recovery construct is reflected predominantly by the Recovery Strategy dimension (SR2) with SLF = 0.76. This dimension is dominantly reflected by the quick response indicators (SR21) and relevant communication (SR22) with SLF each of 0.83. The service quality construct is reflected predominantly by the empathy dimension (SQ5) with SLF = 0.99. This dimension is predominantly reflected by the personal attention indicator (SQ52) with SLF = 0.83.

B. Structural equation modeling

Primary data processing with the lisrel supported produces three structural equations in addition to a path diagram which shows the direct influence of each exogenous construct on the endogenous construct. There are three equations (equations 4, 5, and 6).

IC = 0.20*VCC + 0.69*MO, Errorvar.= 0.28, R ² = 0.72.....	4
(0.070) (0.095)	
2.80 7.24	
SR = 0.65*IC + 0.36*VCC - 0.062*MO, Errorvar.= 0.21, R ² = 0.79.....	5
(0.15) (0.085) (0.12)	
4.21 4.19 -0.52	
SQ = 0.011*IC + 0.31*SR + 0.21*VCC + 0.29*MO, Errorvar.= 0.41, R ² = 0.59.....	6
(0.15) (0.13) (0.079) (0.099)	
0.075 2.35 2.72 2.97	

1. Structural Equation Model I (IC).

The weight of the direct influence (gamma) of value co-creation (VCC) on innovation capability (IC) is 0.20. Standard deviation = 0.070 with z-value = 2.80 > 2.58, meaning it is significant with a degree of confidence = 99% in the two-tailed test. Value co-creation has a significant and positive effect on the exogenous construct. This proposition is in line with hypothesis 1. The results of this research refute the opinion of Janteng & Tan, (2017) who concluded that the influence of value co-creation on innovation capability must be moderated by knowledge sharing. Changes in exogenous constructs are in the same direction as changes in endogenous constructs. An increase of 1 unit of value co-creation results in an increase of 0.20 units of innovation capability assuming that another exogenous construct (market orientation) in equation 4 does not change. On the other hand, a decrease of 1 unit of co-creation value results in a decrease of 0.20 units of innovation capability assuming the other exogenous constructs in equation 4 are constant.

The gamma of market orientation (MO) to innovation capability (IC) is 0.69. Standard deviation = 0.095 with z-value = 7.24 > 2.58, meaning it is significant with a degree of confidence = 99% in the two-tailed test. Market orientation has a significant and positive effect on the exogenous construct. This proposition is in line with hypothesis 4. The results of this study reject the opinion of Hasanah et al., (2023) and Keskin, (2006) who stated that there is no direct influence of market orientation on innovation capability. Changes in exogenous constructs are in the same direction as changes in endogenous constructs. An increase of 1 unit in market orientation increases 0.69 units in innovation capability assuming another exogenous construct (value co-creation) in equation 4 is constant. On the other hand, a decrease of 1 unit of market orientation results in a decrease of 0.69 units of innovation capability assuming the value co-creation construct in equation 4 is constant.

The weight of the direct influence of market orientation on innovation capability is greater than that of value co-creation. The influence of market orientation is stronger than other exogenous constructs in the model. The model residual (errovar) = 0.28 < 4.00 is acceptable, and Rsquare = 0.72 > 0.50 indicates that structural equation I or equation 4 is meaningful or can be used for further discussion (Hair et al., 2019). The covariance of the two exogenous constructs is found in the innovation capability construct at 72%. Thus, it is dominant compared to factors from outside the model (equation 4) which is only 28%.

2. Structural equation model II (SR).

The gamma of value co-creation on service recovery is 0.36. Standard deviation = 0.085 with z-value = 4.19 > 2.58, meaning it is significant with a degree of confidence = 99% in the two-tailed test. Value co-creation has a significant and positive effect on the exogenous construct. This proposition is in line with hypothesis 2. Changes in exogenous constructs are in the same direction as changes in endogenous constructs. An increase of 1 unit of value co-creation results in an increase of 0.36 units of service recovery



assuming that other exogenous constructs (market orientation and innovation capability) in equation 5 do not change. On the other hand, a decrease of 1 unit of value co-creation results in a decrease of 0.36 units of service recovery assuming the other exogenous constructs in equation 5 are constant.

The gamma of market orientation towards service recovery is - 0.062. Standard deviation = 0.12 with z-value = - 0.52 < - 2.58, meaning it is not significant with a degree of confidence = 99% in the two-tailed test. Market orientation does not affect service recovery. This proposition is not in line with Hypothesis 5. Evaluation of service recovery depends on various unforeseen or contingent situational factors (Hoffman & Kelley, 2000). In other words, marketing orientation does not always have a positive impact on service recovery.

The weight of the direct influence (beta) of innovation capability on service recovery is 0.65. Standard deviation = 0.15 with z-value = 4.21 > 2.58, meaning it is significant with $\alpha = 0.01$ in the two-tailed test. Innovation capability has a significant and positive effect on the exogenous construct. This proposition is in line with hypothesis 7. Changes in exogenous constructs are in the same direction as changes in endogenous constructs. An increase of 1 unit of innovation capability results in an increase of 0.65 units of service recovery assuming other exogenous constructs (market orientation and value co-creation) in equation 5 are constant. On the other hand, a decrease of 1 unit of innovation capability results in a decrease of 0.65 units of service recovery assuming the other exogenous constructs in equation 5 are constant.

In structural equation II or equation 5, the weight of the direct influence of innovation capability is the greatest compared to the other two exogenous constructs. The innovation capability construct has the strongest influence on service recovery compared to value co-creation and market orientation. Errorvar. = 0.21 < 4.00, acceptable. Rsquare = 0.79 > 0.50 structural equation II is meaningful. The covariance of the three exogenous constructs in the service recovery construct is 79%. Thus, it is dominant compared to factors from outside the model (equation 5) which is only 21%. For further discussion, we can use this model.

It can be added, from the two structural equations I and II or equations 4 and 5, that market orientation has a stronger influence on innovation capability than on service recovery; Value co-creation has a stronger influence on service recovery than on innovation capability.

3. Structural equation model III (SQ)

The weight of the direct influence (gamma) of value co-creation on service quality (SQ) is 0.21. Standard deviation = 0.079 with z-value = 2.72 > 2.58, meaning it is significant with a degree of confidence = 99% in the two-tailed test. Value co-creation has a significant and positive effect on the exogenous construct. This proposition is in line with hypothesis 3. Changes in exogenous constructs are in the same direction as changes in endogenous constructs. An increase of 1 unit of value co-creation results in an increase of 0.21 units of service quality assuming that other exogenous constructs (market orientation, service recovery, and innovation capability) in equation 6 are constant. On the other hand, a decrease of 1 unit of value co-creation results in a decrease of 0.21 units of service quality assuming that other exogenous constructs in equation 6 do not change.

The gamma of market orientation towards service quality (SQ) is 0.29. Standard deviation = 0.099 with z-value = 2.97 > 2.58, meaning it is significant with $\alpha = 0.01$ in the two-tailed test. Market orientation has a significant and positive effect on the exogenous construct. This proposition is in line with hypothesis 6. Changes in exogenous constructs are in the same direction as changes in endogenous constructs. An increase of 1 unit of market orientation increases 0.29 units of service quality assuming that other exogenous constructs (value co-creation, service recovery, and innovation capability) in equation 6 are constant. On the other hand, a decrease of 1 unit in market orientation results in a decrease of 0.29 units in service quality, assuming that other exogenous constructs in equation 6 do not change.

The weight of the direct influence (beta) of innovation capability on service quality is 0.011. Standard deviation = 0.15 with z-value = 0.075 < 2.58, meaning it is not significant with $\alpha = 0.01$ in the two-tailed test. Innovation capability does not affect the exogenous construct. This proposition is not in line with hypothesis 8. This fact can occur because an organization's innovation capability must first be realized in the form of innovation, then it will have a direct impact on fulfilling customer expectations or service quality (Rantianti & Halim, 2020; Arshad & Su, 2015).

The beta of service recovery on service quality is 0.31. Standard deviation = 0.13 with z-value = 2.35 > 1.96, meaning it is significant with $\alpha = 0.05$ in the two-tailed test. Service recovery has a significant and positive effect on the exogenous construct. This proposition is in line with hypothesis 9. Changes in exogenous constructs are in the same direction as changes in endogenous constructs. An increase of 1 unit of service recovery results in an increase of 0.31 units of service quality assuming other exogenous



constructs (market orientation, value co-creation, and innovation capability) in equation 6 are constant. On the other hand, a decrease of 1 unit of service recovery results in a decrease of 0.31 units of service quality assuming the other exogenous constructs in equation 6 are constant.

The highest direct influence weight among the four exogenous constructs in structural model III or equation 6 is the service recovery construct. In other words, the strongest influence on service quality is compared to market orientation, value co-creation, and innovation capability. Errorvar.= 0.41 < 4.00 acceptable; Rsquare = 0.59 > 0.50 shows this model is meaningful. The contribution of the four exogenous constructs is 59% to the dominant endogenous construct compared to factors from outside the model of 41%. The model can be used for further studies.

Among the three structural models, it can be said that the strength of confirmation and prediction is the best, namely the structural equation model II with Rsquare = 0.79, the highest among the three. The strength of the influence of the same construct on the endogenous constructs IC, SR, and SQ is not the same. VCC has a stronger influence on SR than on IC and SQ; MO has a stronger influence on IC than on SR and SQ; IC has a stronger influence on SR than on SQ.

4. Indirect Effect.

The five constructs in this research are in a communality which has a causal relationship. Therefore, four indirect influences are produced with the intermediate constructs (innovation capability and service recovery). The indirect influence parameter values are presented in the matrix. To obtain an easier and clearer understanding, the indirect effects contained in the matrix are presented in Table 1

Table 1. Indirect effect

Path	Weight	St. Dev	Z-value	Z-table	α	Remark
VCC → IC → SR	0.13	0.05	2.37	1.96	5%	Supported
MO → IC → SR	0.45	0.13	3.52	2.58	1%	Supported
VCC → IC → SR → SQ	0.15	0.05	2.87	2.58	1%	Supported
MO → IC → SR → SQ	0.13	0.07	1.79	1.64	10%	Supported

Source: Processed from primary data, 2024

The weight of the indirect influence of value co-creation on service recovery through innovation capability is 0.13. Standard deviation = 0.05 with z-value = 2.37 > 1.96, significant with a 95% confidence level of a two-tailed test. Innovation capability is a mediator of the two constructs (VCC toward SR). The weight of the indirect influence of market orientation on service recovery through innovation capability is 0.45. Standard deviation = 0.13 with z-value = 3.52 > 2.58, significant with a 99% confidence level of a two-tailed test. Innovation capability is a mediator of the two constructs (MO toward SR).

The indirect influence of VCC and MO on endogenous constructs is not only intervened by IC but also SR. The weight of the indirect influence of value co-creation on service quality through innovation capability and service recovery is 0.15. standard deviation = 0.05, with z-value = 2.87 > 2.58, significant with a 99% confidence level of a two-tailed test. IC and SR are mediators of the two constructs (VCC to SQ). The weight of the indirect influence of market orientation on service quality through innovation capability and service recovery is 0.13. standard deviation = 0.07, with z-value = 1.79 > 1.64, significant with a 90% confidence level of a two-tailed test. IC and SR are mediators of both constructs (MO to SQ). Is the direct influence stronger or weaker than the four indirect influences? This fact is more clearly presented in Table 2.

Table 2. Indirect effect and direct effect comparison

Indirect Effect (IE)		Direct Effect (DE)		Comparison	Nature
Path	Weight	Path	Weight		
VCC → IC → SR	0.13	VCC → SR	0.36	IE > DE	Partial
MO → IC → SR	0.45	MO → SR	- 0.062	IE > DE	Full
VCC → IC → SR → SQ	0.15	VCC → SQ	0.21	IE < DE	Partial
MO → IC → SR → SQ	0.13	MO → SQ	0.29	IE < DE	Partial

Source: Processed from table 1 and 2, 2024



Indirect influence weight (IE) of $VCC \rightarrow IC \rightarrow SR = 0.13$. Direct effect weight (DE) of $VCC \rightarrow SR = 0.36$. The direct influence is stronger than the indirect influence ($IE < DE$). This is partial mediation; The weight of the indirect effect $MO \rightarrow IC \rightarrow SR = 0.45$. Weight of direct influence $MO \rightarrow SR = -0.062$. The indirect effect is stronger than the direct effect ($IE > DE$). This is full mediation. Indirect influence weight of $VCC \rightarrow IC \rightarrow SR \rightarrow SQ = 0.15$. Direct influence weight of $VCC \rightarrow SQ = 0.21$. The direct influence is stronger than the indirect influence ($IE < DE$). This is partial mediation; The weight of the indirect effect $MO \rightarrow IC \rightarrow SR \rightarrow SQ = 0.13$. Direct influence weight $MO \rightarrow SQ = 0.29$. The direct influence is stronger than the indirect influence ($IE < DE$). This is partial mediation.

Innovation capability mediation can increase the direct influence of market orientation on service recovery, but cannot increase the direct influence of value co-creation on service recovery. The joint mediation weight of innovation capability and service recovery from value co-creation on service quality is greater than that from market orientation on service quality.

CONCLUSION AND RECOMMENDATION

A. Conclusion

Marketing orientation, especially functional integration, more specifically regarding the dissemination of information obtained from the target market plays a more important role than value co-creation in increasing innovation capability in the 4-star hotel in Medan. This role is direct so it refutes the results of previous research from Hasanah et al., (2023) and Keskin, (2006). Innovation capability, especially organizational culture, more specifically the existence of a risk-taking attitude in the organization plays a more important role than value co-creation and market orientation in improving service recovery. Market orientation alone cannot improve service recovery, but there must be innovation capability so that service recovery can be developed. Service recovery, especially recovery strategies that are formulated and implemented, more specifically fast responses and relevant communication play a more important role than value co-creation, market orientation, and innovation capability in improving service quality, especially empathy, more specifically regarding personal attention to hotel guests.

B. Recommendation

General managers at 4-star hotels in Medan should pay attention to integration between functions within the hotel, especially information dissemination in formulating policies to increase innovation capabilities. Organizational culture in the aspect of a risk-taking attitude is important to develop to improve service recovery. Recovery strategies, especially quick responses, and relevant communication, are important to pay attention to in efforts to improve service quality. The role of innovation capability is important to pay attention to because it can increase the influence of market orientation on service recovery.

Future researchers can explore the constructs that have been researched, especially the proposition of the influence of marketing orientation on service recovery and the influence of innovation capability on service quality. These two propositions are inconsistent with the author's hypothesis. Apart from using questionnaires in collecting data and information, interviews with hotel guests can be obtained to obtain broader and deeper information regarding their opinions in the context of the constructs being researched. Qualitative research is still needed to dissect this research results more deeply to improve the service quality at 4-star hotels in Medan.

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