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Effect of customer orientation and entrepreneurial orientation on innovativeness: Evidence from the hotel industry in Switzerland

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ABSTRACT

While researchers have explored the relationship between customer orientation, entrepreneurship and innovativeness with business performance in different organizations, few such studies exist on the hotel industry. This current work investigates the potential influences of these variables on hotel industry performance. Data for this study was collected through personal questionnaires collected from 156 hotel managers and owners from German and French speaking cantons located in Switzerland in order to examine the interrelation between innovativeness, customer orientation, entrepreneurship and service business performance dimensions (i.e., profit goal achievement, sales goal achievement and ROI achievement). The findings support aspects of prior research, but also provide some new insights by exploring customer orientation and innovativeness simultaneously and revealing how these factors impact upon the performance of the Swiss hotel industry. In the light of existing literature, limitations and future research directions are subsequently addressed.

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1. Introduction

Due to fierce competition in the marketplace, globalization and an explosion of technology in recent years, innovation and differentiation are considered as a necessity for every company (Tajeddini & Trueman, 2008a). At the same time, to achieve market success and sustain a competitive advantage, businesses need to exploit new opportunities, develop new products and/or services and markets (Berthon, McHulbert, & Pitt, 2004) as well as place customer orientation at the heart of the firm's competitiveness (Deshpandé, Farley, & Webster, 1993). Consequently, the past few years have witnessed great interest in the constructs of customer orientation, innovativeness and entrepreneurial organization by scholars across disciplines (e.g., Hult, Hurley, & Knight, 2004; Liu, Luo, & Shi, 2002). A wealth of thought over the years has developed evidence of our pursuit of innovativeness and the customer orientation imperative aimed at successfully enhancing business performance (Tajeddini & Trueman, 2008). Despite the fact that the service sector has become an extremely large part of the modern economy (Lee, Pitt, Berthon, & Prendergast, 1996; Oldenboom & Abratt, 2000) and there are a large number of studies which have paid attention to service organizations (e.g., de Brentani & Cooper, 1992; Jones, 1995; Stevens & Dimitriadis, 2005), empirical work related to services is still quite scarce in empirical economics generally and particularly in innovation research (Hollenstein, 2000). Over the past few years, different scholars have tended to focus primarily on certain research streams concerning this issue. For example, Han, Kim, and Srivastava (1998) in the bank industry, Maydeu-Olivares and Lado (2003) in the insurance industry, Sandvik and Sandvik (2003) and Agarwal, Erramilli, and Dev (2003) in hospitality and others. However, there is a lack of innovation research about the hospitality sector (Orfila-Sintes & Mattsson, 2009; Ottenbacher & Gnoth, 2005) and, more specifically, little knowledge exists regarding the effect of innovativeness, customer orientation, and entrepreneurial orientation on the performance of the companies that provide services to the consumer, such as hotels and leisure facilities. The existing literature is based on knowledge gained from the manufacturing sector. Nevertheless, "applying innovation theory to service sectors, we must take into account the inter sector heterogeneity which makes it important to study innovation in one specific sector at a time" (Orfila-Sintes & Mattsson, 2009, p. 380). Due to the constant change and increasing competitive pressures on today's hotel industry, hoteliers strive to maximize business results through growth and increasing profit margins. Hence, they face more demanding customers, new regulations, globalization, and the destabilizing effects of technological advancement. All of these critical factors change the hotel landscape significantly and are introducing new challenges and generating new requirements for hoteliers. Therefore, they have to be innovative (Giri & Tse, 2006), exploit marketplace opportunities

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(Ireland, Hitt, Camp, & Sexton, 2001) and, similar to other service organizations, develop long-term relationships with their customers (Grönroos, 1991; Levitt, 1983). In view of the nature of the hotel industry, a more customer-oriented approach might be especially required of them for improved performance.

Moreover, conventional wisdom holds that caution must be used in generalizing the results developed from manufacturing into the service sector. This issue should be taken into account in the hotel industry because it is a homogeneous industry that provides an important part of tourism services (Borooah, 1999) and it is also generic in the sense that different levels of hotel quality have little impact on hotel operations as such (Orfila-Sintes & Mattsson, 2009).

The objective of this study, therefore, is to examine the impact of customer orientation, entrepreneurial orientation and innovativeness upon hoteliers' performance in Switzerland. The current study's emphasis is designed to provide hotel managers with more understandable guidelines on specific customer-oriented activities, identify opportunities and create a set of resources through which prospects can be exploited along with openness to new ideas and their consequences. We begin by examining the plausibility of innovativeness, entrepreneurial orientation and customer orientation as antecedents to hotel performance and offer a collection of associated hypotheses. In the methods section, the study sample of 156 Swiss hotels is discussed and the construct measures are evaluated. Next, the relationships among these constructs are assessed and discussed.

2. Background and hypotheses

2.1. Customer orientation

It has been argued that the role of marketing is central to the successful implementation of business strategies because the current competitive business environment calls for a continuous emphasis on delivering superior quality products and services to customers (Day & Wensley, 1988). The traditional emphasis of marketing orientation is customer oriented, focusing on consumer needs and making profits by creating customer satisfaction (Kotler & Armstrong, 1994). Similarly, Ruekert (1992, p. 228) defines market/customer orientation as the "degree to which the business unit obtains and uses information from customers, develops a strategy which will meet customer needs, and implements that strategy by being responsive to customers' needs and wants". According to this definition, "the customer" is the most critical external environmental factor in developing a market orientation, and organizations should develop a customer-focused strategy. More specifically, interest about market orientation in the service sector appeared, mainly in the 1990s. A consequence of this has been the publication of a volume on the topic (Esteban, Millán, Molina, & Martín-Consuegra, 2002). Interestingly, a large number of these articles provided evidence that being market-oriented improves the results of service enterprises. Due to the unique characteristics of services, the satisfaction of customer needs is more critical for service businesses than other sectors. As a result, a large number of prior studies have focused on employees who are in the front line of organizations. For example, Bowen and Schneider (1985, p. 129) note, "Employees not only deliver and create the service, but are actually a part of the service in the customer's view". That is, the service provider and the services are often seen as synonymous in the eyes of the customer (Bowen & Schneider, 1985; Daniel & Darby, 1997). Hence, it is not surprising that in most of the service literature scholars place emphasis on the interaction of service personnel with customers as "customer service" (cf. Albrecht & Zemke, 1985). Thus, the employee's level of customer orientation is considered an important leverage for the service firm's economic success (Hennig-Thurau, 2004; Sergeant & Frenkel, 2000), and customer contact personnel have a major influence on the formation of expectations, managing and controlling customer experiences and in shaping the overall evaluation of the service received by clients (Bateson, 1992; Daniel & Darby, 1997; Lovelock, 1981). Hennig-Thurau (2004) notes that, due to the inherent intangibility and heterogeneity characteristics of service industries, customers often rely on the behavior of service employees when judging the quality of a service. An enhanced sense of customer-orientation within the firm is a key element leading to successful external marketing, enhanced customer satisfaction, and increased overall performance of the firm and the organization (Dowling, 1993). On the basis of the assertions of the marketing concept, customer orientation should have a favourable impact on business performance (Deshpandé et al., 1993), and presumably, this should be true regardless of whether customer orientation is viewed from the perspective of product or service provision as in the hotel industry. Hence:

H1: *The magnitude of customer orientation in the hotel industry is positively associated with the magnitude of performance measured by: (a) profit goal achievement; (b) sales goal achievement;(c) ROI achievement.*

2.2. Entrepreneurial orientation

Many scholars have recognized the importance of entrepreneurial activities within existing organizations (Burgelman, 1983; Dess et al., 2003; Drucker, 1985; Hult, Snow, & Kandemir, 2003; Kanter, 1983; Miller & Friesen, 1982; Pinchot, 1985; Zahra, 1986). Entrepreneurship refers to the ability of the firm to continually renew, innovate, and constructively take risks in its markets and areas of operation (Miller, 1983; Naman & Slevin, 1993) and to channel creative innovations into ventures that have value (Wood, Gadd, & Falkenburg, 2004). Entrepreneurial orientation is regarded as a critical organizational process that contributes to firm survival and performance (e.g., Barringer & Bluedorn, 1999; Dimitratos & Plakoyiannaki, 2003; Hitt, Ireland, Camp, & Sexton, 2001; McDougall & Oviatt, 2000; Miller, 1983). It also can be seen as involving aspects of new entry, especially how new entry is undertaken (Lumpkin & Dess, 1996), and combining existing resources in new ways to develop and commercialize new products, move into new markets, and/or service new customers (Hitt et al., 2001). The traditional concept of entrepreneurship - entrepreneurial activity - has been conceived as *a one-time act* that creates a new product or service or even an entirely new business - an act that challenges or "creatively destructs" existing products, services, and market relationships (Bygrave & Hofer, 1991; Schumpeter, 1934). Today, however, entrepreneurship is more likely to be viewed as *a process*, rooted in an organization's culture, rather than as an event (Hult et al., 2003) to create value by bringing together a unique package of resources to exploit an opportunity (Stevenson, Roberts, & Grousbeck, 1989). This process itself includes the set of activities necessary to identify an opportunity, define a business concept, assess the needed resources, acquire those resources, and manage and harvest the venture (Morris, Schindehutte, & LaForge, 2001). Based on this discussion, we test the following hypothesis:

H2: *The magnitude of entrepreneurial orientation in the hotel industry is associated with the magnitude of performance measured by: (a) profit goal achievement; (b) sales goal achievement; (c) ROI achievement.*

2.3. Innovativeness

Innovativeness is conceived as one of the avenues to gain a competitive advantage (Hult et al., 2003; Hurley & Hult, 1998;

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