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Exploring the antecedents of effectiveness and efficiency

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ABSTRACT

Our knowledge of determinants of effectiveness and efficiency of firms continues to expand. However, this knowledge remains quite fragmented and non-cumulative in the service industry. Herein, this study explores the effect of entrepreneurial and financial orientations as two key contributors to performance in the service industry. Data for this study were collected from 182 hotels in Switzerland to examine the effect of a financial strategic orientation and an entrepreneurial strategic orientation on two widely-used standards of business performance—effectiveness and efficiency. We hypothesized that these effects would be more pronounced under certain dynamic environment conditions. Findings provide new insights about the merits of building bridges between the entrepreneurial orientation and financial orientation. Within the context of existing research on strategic management, we discuss the implications of our findings for hotel managers and address the study's limitations and future research directions.

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1. Introduction

Strategic management scholars have given intensive attention to exploring the sources of performance variations among organizations (O'Cass and Ngo, 2007). In the context of performance, within the strategic management domain, strategic planning has emphasized maximization of shareholder wealth with the goal of building effectiveness and efficiency (Soteriades, 2012; Tajeddini, 2011a). Since the role of strategic management is to protect and enhance shareholder wealth, strategic decision-making has centered around determining what courses of actions are best at achieving the primary strategic goal of financial return (Turner and Spencer, 1997). Management's plans, decisions, and actions are often aimed at benefiting other stakeholders, sometimes at the expenses of stockholders, to produce alternative forms of business success (e.g., customer loyalty, satisfaction, staff retention, market share). However, these other strategic goals tend to be secondary to financial performance goals given management's ultimate responsibility to increase stockholders' wealth (Turner and Spencer, 1997).

Financial orientation is a strategic management approach to decision-making with emphasis on financial performance measured in terms of profitability, and "bottom-line" performance in the short term. The basic thrust of a financially-oriented strategy is to focus on financial ratios and other measures (Masterson and Pickton, 2004) to reduce costs, and to provide an adequate return on the stockholders' equity (Beatty, 1988). Thus, firms are "seeking ways to minimize overhead costs, to eliminate intermediate production steps, to reduce transaction and other 'friction' costs, and to optimize business processes across functional and organizational boundaries" (Treacy and Wiersema, 1993, p. 85).

An alternative approach to strategic decision-making, referred to in the strategic management literature as entrepreneurial orientation, emphasizes goals and performance measures that are long-term and "strategically" driven rather than financially driven (Lumpkin and Dess, 1996; Dess et al., 1997). A firm with an entrepreneurial orientation (EO)"...engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch..." (Miller, 1983: 771). The ability to sustain competitive advantage in the long term depends upon whether competitors can emulate or overcome this advantage and deliver something of value to the marketplace (Ahmed and Rafiq, 1992).

Over the years a wealth of research suggests that various orientations imperative aimed at successfully enhancing business performance in the manufacturing industries (Tajeddini, 2010). However, in recent years, we witness the economies of developed countries substantially shifting from production to services dominated (Palmer, 2001). Despite the fact that services are among the fastest growing sector in emerging, transitional, and devel-

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oped countries (Tajeddini, 2011b), and service sector has become an extremely large part of the modern economy (Oldenboom and Abratt, 2000), empirical work related to service organizations is still quite scarce particularly in entrepreneurship research (Kraus, 2013; Rigtering et al., 2014). Building on previous strategic management studies, we propose that neither an entrepreneurial orientation nor a financial orientation alone is sufficient to achieve superior performance under varied market conditions. In this study, we examine the effect of strategic orientation (financial versus entrepreneurial) on hotel business performance in terms of "effectiveness" and "efficiency". To gain greater insights, we also investigate the role of environmental characteristics in moderating the relationship between strategic orientation and performance. We address specifically to what extent hotels are able to strike a balance between a financial orientation and an entrepreneurial orientation to achieve superior performance and what environmental factors moderate the effect of strategic orientation on performance. Using data from 182 hotels in Switzerland, we apply various statistical techniques to assess the impact of strategic orientation on effectiveness and efficiency.

2. Background

2.1. Entrepreneurial orientation

Entrepreneurship is regarded as a context-dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities. Lumpkin and Dess (1996) conceptualized "entrepreneurial strategy-making" as an entrepreneurial orientation which refers to an organizational decision-making proclivity supporting entrepreneurial activities. As distinctive type of strategic orientation, entrepreneurial orientation captures the organizational processes, methods, and styles that firms use to develop and implement their strategic decisions (Li and Li, 2009).

A number of management scholars have attempted to define the construct of entrepreneurial orientation and explore its application to strategy-making and business performance. In companies where an entrepreneurial orientation dominates, the strategic leaders and the culture together generate a strong impetus to innovate, take risks, and aggressively pursue new venture opportunities (Dess and Lumpkin, 2005). Risk-averse firms will follow a slow, incremental process, whereas risk-taking firms will move rapidly to acquire and assimilate as much new external knowledge as possible to exploit previously unnoticed opportunities (Sapienza et al., 2005). Such firms usually develop values and norms that favor innovation, proactiveness, and risk-taking (Tajeddini and Mueller, 2012; Sapienza et al., 2005).

In many high tech industries, competition is constant, fierce and characterized by only temporary advantage, fueled by the ease with which rivals can imitate and distribute new products and services (McAfee and Brynjolfsson, 2007). Such environmental conditions place intense demands on organizations to actively interpret opportunities and threats when making key strategic decisions (Dess et al., 1997). Previous studies have investigated antecedents affecting entrepreneurial orientation. The existing literature has examined determinants on such antecedents as top management team conflict, economic systems (Roberts and Zhou, 2000) and environmental factors (Dess et al., 1997)

2.2. Entrepreneurial orientation and business performance

Entrepreneurial orientation is regarded as a critical organizational process that contributes to firm survival and performance (e.g., Dimitratos and Plakoyiannaki, 2003; Hitt et al., 2001). It entails aspects of new entry and especially how new entry is undertaken (Lumpkin and Dess, 1996). A distinguishing feature of an entrepreneurial orientation is the combining of existing resources in new ways to develop and commercialize new products, move into new markets, and/or service new customers (Hitt et al., 2001).

High levels of performance achieved by firms with an entrepreneurial culture are the result of their ability to learn and to focus on markets (Hult et al., 2003) which at the same time possessing flexible, non-bureaucratic structural attributes (Jogaratnam and Ching-Yick Tse, 2006). When a firm decides to enter a market, beat the competition, and outperform its rivals, it formulates its strategy based on a strong offensive posture directed at overcoming competitor advantages (Tajeddini and Mueller, 2009, 2012).

Research shows that the firm's entrepreneurial orientation is positively related to performance (Zahra and Covin, 1995; Wiklund and Shepherd, 2005), although the findings are not direct (e.g., Slater and Narver, 2000). Some scholars suggest that the relationship between entrepreneurial orientation and performance is context-dependent (Dess et al., 1997; Lumpkin and Dess, 1996). Ireland et al. (2001) observe entrepreneurship as a context-dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities.

Since entrepreneurial orientation promotes the recognition of opportunities for innovations and encourages the search for new methods in innovative activities, we propose that entrepreneurial orientation contributes positively to the hotel's performance in terms of effectiveness and efficiency. Thus, we hypothesize:

H1. An entrepreneurial orientation leads to higher levels of effectiveness and efficiency.

2.3. Financial orientation and business performance

Many companies today are neither product- nor customer-oriented, but instead rely on management of their financial assets (Doyle and Stern, 2006). They see the task of management as generating the amount of cash that can be produced from a given base (Doyle and Stern, 2006). In normative management, the basic values and attitudes ascribed to a financial orientation are monetary performance and pay-off thinking. In this regard, at the business unit level, goals are liquidity, profit, return on investment, and financial independence. At the corporate level, financial orientation is exemplified by investment and disinvestment strategies in managing a portfolio of business units (Fritz, 1996).

Fritz (1996) notes financial orientation seems closely related to production and cost orientation, thus resulting in one common leadership dimension. However, such an orientation may cause firms to encounter special problems in the formulation of their strategies to improve overall business performance. For example, Rust et al. (2002) find that an attentional emphasis on external constituents, such as customers (which they refer to as "revenue emphasis") leads to superior performance. However, attentional emphasis on efficiency considerations of internal operations (which they refer to as "cost emphasis") is associated with less favorable performance. Also, Peters and Waterman (1982) suggest that poorer performing companies seem to live by the numbers (sales, profits, or costs). But increasingly, firms are recognizing the benefits of moving away from short-term, narrow objectives toward a more strategic, integrated and holistic management approach (Welford and Gouldson, 1993).

In almost all industries, an entrepreneurial approach to strategy making faces a combination of temporal, technical, and market uncertainty and will not necessary end up with a desirable or successful result. It is necessary and prudent to emphasize financial aspects (i.e., a value priority for achieving profit, increasing sales,

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