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# Strategic orientation of hotels: Evidence from a contingent approach

## *Abstract*

Strategic orientation – a necessary condition to achieve and maintain competitive advantage – should be taken particularly into account in the tourism industry, which is characterised by strong competition and a rapidly changing environment. This paper investigates whether different dimensions of strategic orientation (entrepreneurial, learning and market orientations) have a direct effect on hotel performance and whether the relationship between strategic orientation and hotel performance is contingent on various hotel-specific characteristics. The hypotheses are tested against a sample of 120 small hotels operating in a mature Italian tourist destination. The results show that although entrepreneurial and market orientations are positive drivers of hotel performance, learning orientation is not important. Moreover, the intensity of the relationship between strategic orientation and performance is contingent on internal firm-related moderators (size and quality). Both the number of rooms and the star classification reinforce the performance achievement of innovative and customer-oriented hotels.

**Keywords:** strategic orientation, market orientation, entrepreneurial orientation, learning orientation, contingent approach, hotel performance

**JEL classification:** L83, Z3

## **Introduction**

Strategic orientation (SO), which is defined as the strategic direction implemented by a firm to produce behaviours conducive to the continuous superior performance of the business (Narver & Slater, 1990), is considered an important stimulus in terms of achieving and maintaining competitive advantage for all firms in manufacturing and service industries (Covin & Lumpkin, 2011). Although scholars have debated the relationship between SO and performance (Covin et al., 2006; Jantunen et al., 2005; Lumpkin & Dess, 2001), we know very little about how these factors are correlated because results are mixed depending on the dimensions of SO under consideration, the contextual effects and the strategic posture of the studied firms. Thus, further research must be conducted on the conditions under which SO is related to performance and how different SO dimensions influence performance (Dess et al., 1993; Thoumrungroje & Racela, 2013).

This gap is particularly critical in the current hotel industry, where constant changes and increasing competitive pressure prompt an in-depth analysis of SO adoption and its impact on hotel performance (Nieves & Diaz-Meneses, 2016; Orfila-Sintes & Mattsson, 2009; Stevens & Dimitriadis, 2005). The hotel industry is particularly committed to maintaining profitability despite a demand that is articulated, complex and difficult to satisfy in a rapidly changing technological and economic global scenario (Tajeddini, 2010; Wang et al., 2012). Hotel ecompete with each other, and the competition has become especiallyintense between new and consolidated tourist destinations (Tavitiyaman, Zhang, 2011). Tourism areas compete to adapt to tourists'needs, trying to provide a high level of quality, which leads to the growth and development of their destinations. The dynamism and high competitiveness of the market currently require hotel management strategies that focus on both

current success and investments in activities that promote a competitive advantage for future success. Therefore, hotels must redesign their strategies and their processes (Sin et al., 2005; Interestingly, despite the increasing contribution of the tourism industry to the economy of emergent and developed countries, limited attempts have been made to assess the impact of SO on hotel performance based on a multidimensional approach. Previous studies have employed only one dimension of SO, customer orientation, and have focused on a generic concept of entrepreneurship or addressed only developing countries (; Tajeddini, 2010).

Given these considerations, this paper aims to answer the following interrelated research questions:

- 1) Do different dimensions of SO have a direct effect on hotel performance?
- 2) Is the relationship between SO and hotel performance contingent on various hotel-specific characteristics, such as size (number of rooms) and rating (number of stars)?

The empirical validation is pursued through a sample of 120 small hotels operating in April 2014 in Rimini, a well-known mature Italian tourism destination that is characterised by a large number of small hotels. Inferential statistics based on probit regression models allow us to ascertain whether SO can be considered an important driver of hotel performance and how its effect may change when different contingent factors are included in the model.

This paper makes several important contributions to the strategic management and hospitality literature. First, this study represents the first quantitative empirical research focused on the relationship between hotels' SO and performance in a developed country. Second, adhering to a multidimensional approach (Gao et al., 2007; Lumpkin & Dess, 1996; Odorici & Presutti, 2013; Zahra, 2005), this study postulates that SO is composed of three independent dimensions:

entrepreneurial orientation (EO), learning orientation (LO) and market orientation (MO). In this way, it is possible to identify which strategic dimension a hotel must possess to achieve superior performance (Ho et al., 2016). Finally, the relationship between SO and performance is found to be contingent on certain internal firm-related moderators. Hotel-specific characteristics such as size (number of rooms) and rating (number of stars) alter the influence of SO on performance. Although these characteristics have attracted considerable attention in previous studies as independent elements that affect hotels' performance, this is the first paper to clearly show that they interact with SO in determining hotels' performance.

The paper is organised as follows. The next section develops the theoretical framework and defines the research hypotheses. Then, a description of the data and the methodology used for testing the hypotheses is provided, and details regarding the empirical results are offered. The final section discusses the research and managerial implications of the main findings, highlighting both the limitations of the analysis and possible areas for future research.

## **Theoretical framework and hypotheses**

SO has received considerable attention in the strategic management and entrepreneurship literature over the past two decades based on the idea that firm success is strongly related to the ability to adopt a clear strategy that best fits a rapidly changing external context (Goll & Sambharya, 1995; Herath & Mahmood, 2014; Ruokonen & Saarenketo, 2009). SO, which is defined as “the overall strategic direction of the company and the need to design new initiatives” (Okumus, 2001), is necessary to

achieve market success and to sustain a competitive advantage, particularly in a period characterised by diffuse innovation and increasing globalisation (Knight, 2000).

SO refers to the manner in which a firm adapts to its external industry/competitive environment (Thoumrungroje & Racela, 2013). It can also be defined as a cultural attribute that influences the ability of a firm to build or sustain superior firm performance (Gatignon & Xuereb, 1997). By adopting a strong SO, companies are more likely to implement effective processes, improve performance and achieve their goals. Interest in SO is growing (Harrison & Leitch, 2005; Thoumrungroje & Racela, 2013) in the organisational and managerial literature (Huber, 1991; Rebelo & Duarte Gomes, 2008; Vega-Vázquez et al., 2016) as well as in the strategic marketing literature (Covin & Miller, 2014; Day, 1994; Kandemir & Hult, 2005) because of its impact on firm performance.

The issue of SO also applies to the tourism industry, which is globally characterised by strong competition and a rapidly changing environment. Research in this area has highlighted that SO is an intangible valuable resource for the hotel industry that ensures organisational survival in the long run and facilitates the achievement of superior performance (Tajeddini, 2010; Wang et al., 2012). The common theoretical idea is that hotels that perceive their environment as hypercompetitive should focus on SO (Nieves & Diaz-Meneses, 2016). Successful SO requires hotels to foster commitment to learning to remain abreast of environmental changes (Calantone et al., 2002). Simultaneously, a hotel must develop service innovation to gain a competitive advantage and to survive and grow (Deshpande & Farley, 1999; Hernández-Perlines, 2016) in a volatile environment (Johnson et al., 1999). This pressure causes firms to differentiate in terms of market offerings and relationships and thus to create unique customer value. In summary, demanding customers generate a strong incentive for hoteliers

to be innovative (Barbini & Presutti, 2014; Nieves & Segarra-Ciprés, 2015), to constantly undertake business-accelerating learning activities (Jogarathnam, 2002) and to maintain strong relationships with customers (Tajeddini, 2010).

Although numerous scholars have suggested further research on the concept of SO to improve knowledge concerning hotel performance (Harrington & Kendall, 2007; Jogarathnam, 2002; Tajeddini, 2009), few empirical studies have been produced (Lee et al., 2015; Tajeddini, 2010), and they have yielded mixed results. These mixed results are due to different conceptualisations of SO, limited consideration of contingent effects and different measures of performance (Jogarathnam & Tse, 2006; Tajeddini & Trueman, 2014). Traditionally, the field of strategic management has produced a body of research that focuses on the identification and understanding of firm-level SO within and across industries (Dess & Davis, 1984; Moore, 2005; Porter, 1980) in an attempt to operationalise the concept of strategic posture.

The majority of studies investigating specific SO dimensions, mainly EO (Lumpkin & Dess, 2001; Rauch, Wiklund, Lumpkin, & Frese, 2009) and LO (Calantone, Cavusgil, & Zhao, 2002; Sexton, Bowman-Upton, Wacholtz, & McDougall, 1997), primarily aimed at determining which of the orientations was best (Hakala, 2011). Other researchers revealed that each orientation should not be viewed in isolation since organizations may employ multiple strategic orientations (Lumpkin & Dess, 2001; Wang, 2008).

We accord to several studies suggesting the importance to follow a multidimensional approach to SO topic (Lumpkin & Dess, 1996) based on three different dimensions: entrepreneurial orientation (EO), learning orientation (LO) and market orientation (MO) (Gao et al., 2007; Odorici & Presutti, 2013;



Zahra, 2005). SO, while the majority of prior literature focuses on a particular strategic orientation and its effect on firm performance (Gnizy et al., 2014), this study focuses on EO, MO, and LO as their complementary potential enables firms to increase performance (Hult et al., 2004).

EO is defined as “innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organizations” (McDougall & Oviatt, 2000, p. 903), a conceptualisation rooted in the work of Covin and Slevin (1989) and Miller (1983). Innovativeness reflects the entrepreneurial tendency to engage in and support new ideas, experimentation and creative processes that can lead to new products, services, or technological processes (Lumpkin & Dess, 1996). Proactive behaviours allow firms to anticipate the needs of customers who seek new business operations (Newbert, 2007). Although business management is naturally associated with the assumption of risk, entrepreneurs vary in their perception of the impact of risk on performance (Lumpkin & Dess, 1996; Miller, 1983; Pattitoni et al., 2013). On a general level, EO refers to the ability of a firm to continually renew, innovate and constructively take risks (Miller, 1983; Naman & Slevin, 1993). Several studies regard EO as a critical organisational process that contributes to firm performance (e.g., Barringer & Bluedorn, 1999; Dimitratosfitz & Plakoyiannaki, 2003; Hitt et al., 2001; McDougall & Oviatt, 2000). EO has often been shown to be the most important dimension of SO for firms in terms of achieving long-term success (Baum, 1995; Noble et al., 2002; Rauch & Frese, 2000; Utsch & Rauch, 2000). Because EO promotes the renewal of existing practices and the pursuit of new opportunities (Lumpkin & Dess, 1996), it has often been considered a key competitive element in competitive sectors such as the hotel industry, where constant changes and increasing pressure require capabilities to engage in profitable activities. Previous studies on hotel industry, from both emerging and developed economies, suggest that EO is especially helpful for providing resource

constrained hotels capabilities required to better utilize the limited resources it possesses and to efficiently operate in the international context. Based on this discussion and with a focus on the hotel industry, the first hypothesis is articulated:

H1           The magnitude of a hotel's EO is positively associated with its performance achievement.

In recent years, LO and MO have emerged as two important dimensions of SO. LO is based on market, technological and social aspects that constitute significant organisational values that explain hotel performance. The learning process occurs “within the firm, by which knowledge of action-outcome relationships and the effect of the environment on these relationships is developed” (Duncan & Weiss, 1979, p. 84). This process is able to influence the type of information gathered and how it is interpreted and shared. Thus, it can encourage the development of dynamic capabilities (Eisenhardt & Martin, 2000), including specific learning processes such as innovation, product development and strategic decision-making. The ability to learn by actively seeking knowledge on markets, customers and competitors may differentiate successful hotels (Thomas, 2012). Consequently, LO based on market, technological and social aspects (Yeoh, 2004) may explain performance differences among hotels (Calantone et al., 2002; Sinkula et al., 1997). The LO of small businesses such as the hotels in the sample depends on two main drivers: direct experience by leveraging learning-by-doing processes and indirect experience by exploiting external networks (Anderson & Boocock, 2002; Fletcher & Harris, 2012; Marco-Lajara et al., 2014; Taylor & Thorpe, 2004). This process is able to influence the type of information gathered and how it is interpreted and shared. Thus, it can encourage the development of capabilities, including specific learning processes, and the ability to foster innovation, product development and strategic decisions. Following the Calantone et al. (2002) work's, LO can

be considered as the organizational activities of creating and using knowledge to enhance competitive advantage. The ability to learn by actively seeking knowledge on markets, customers, providers of resources and competitors may differentiate successful from unsuccessful firms and may explain performance differences among them (Calantone et al., 2002). The LO of small businesses depends on two main drivers as follows: direct experience by leveraging learning-by-doing processes and indirect experience by exploiting external networks Based on this discussion and with a focus on the hotel industry, the second research hypothesis is proposed:

H2        The magnitude of a hotel's LO is positively associated with its performance achievement.

Market orientation is a central component of modern marketing concepts and has attracted attention from both marketing academicians and practitioners for the last three decades (Deshpande' and Farley, 1989;). MO is 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" (Raju et al., 2011; Ruekert, 1992).

Market orientation can be described as "the implementation of the marketing concept" (). Previous studies of market orientation can be classified into three groups. The first group is related to identifying factors affecting the adoption of market orientation (Lancaster and van der Velden, 2004; Nielsen et al., 2003).The second group includes attempts to examine the relationship and impact of market orientation on business performance (Cano et al., 2004). The third group includes those that focus on scale development of the market orientation construct (Shoham, Rose, 2001; Siguaw, Simpson, and Baker, 1998),

According to numerous empirical findings, the role of MO appears to be 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; Esteban et al., 2002). Interestingly, a large number of articles verify that being market-oriented significantly improves the results of service enterprises and that customer satisfaction is critical to service businesses (Dowling, 1993; Sandvik & Grønhaug, 2007).

In summary, MO has a favourable impact on business performance (Cano et al., 2004; Deshpande et al., 1993; Dowling, 1993). Based on this discussion and with a focus on the hotel industry, the following hypothesis is proposed:

H3            The magnitude of a hotel's MO is positively associated with its performance achievement.

The relationship between performance and SO is moderated by several variables, both internal, such as firm size and resource constraints (Jantunen et al., 2008; Zahra, 1991), and external, such as environment hostility (Zahra & Covin, 1995) and uncertainty in the domestic market (Dimitratos et al., 2004; Lee et al., 2015). In this paper, the focus is on internal rather than contextual variables because the hotels in the sample operate in the same location; consequently, they share the same environmental conditions. Numerous international studies (i.e., Baum & Mezias, 1992; Brown & Dev, 1999; Pine & Phillips, 2005) have verified how both a hotel's size and rating, usually treated as independent or control variables, positively influence its performance (Lee & Lim, 2009). In contrast, in this paper, hotel size (number of rooms) and hotel rating (number of stars) are factors that moderate the relationship between SO dimensions and hotel performance. Larger size may improve a hotel's financial performance due to the possibility of exploiting economies of scales and experience (Pine & Phillips, 2005). In addition, size may positively affect operational dimensions of performance, such as occupancy rate, because it increases commercial activities (Claver-Cortés et al., 2007). Hotels with

a large number of rooms may have a higher propensity to introduce innovation activity, to accelerate learning activity and to follow a customer-oriented approach because they usually possess a large amount of economic and financial resources. Hotel rating, which can be considered a proxy of the quality level of the supplied service, may increase hotel performance because of the possibility of attracting superior resources (Brown & Dev, 1999; Pine & Phillips, 2005), which are also useful for increasing learning activity, introducing innovation activity and following a customer-oriented approach (Claver-Cortés et al., 2007). Thus, the effects of hotel size and rating should affect the efficacy of hotel managers' strategic levers.

Previous empirical studies argue in favour of positive influences of size and rating. We believe that these influences can positively moderate the impact of SO on hotel performance. Thus, the two following research hypotheses are presented:

H4a        Larger hotel size reinforces the positive effects of the different dimensions of SO on a hotel's performance achievement.

H4b        Higher hotel rating reinforces the positive effects of the different dimensions of SO on a hotel's performance achievement.

## Methodology

### *Sample*

To test the hypotheses, a survey of 120 managers operating hotels in the municipality of Rimini,<sup>1</sup> Italy, was conducted in April 2014. Rimini, located on the Adriatic Coast with approximately 150,000 inhabitants, has been a leading tourism destination in Europe since July 1843, when the inauguration of the first privileged bath, called “bagno”, marked the beginning of the Italian tourism industry. Approximately 175 years later, Rimini is still the most famous beach in Europe, providing Italian and foreign tourists (in particular, Russian, German, Swiss and French) with everything they require and fulfilling their wishes. A culture of hospitality has been emphasised as a core value of this tourism destination.

Because it is a mature local tourism destination, Rimini is characterised by high level of competition. Accommodation prices are very low, occasionally even set below cost, to attract customers and profit from aftermarket sales (Savioli & Zirulia, 2015). This established competitive market is an ideal setting for studying the strategic performance of service firms that repeatedly engage in enhancing efficiency and quality and attracting and retaining new customers/tourists. It is important to stress that a sample focused on a specific geographic area has the advantage of greater homogeneity of observations and limits the unobserved variability that can produce biased estimations. Therefore, the

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<sup>1</sup> Several managers operate more than one hotel. When that was the case in this study, the most representative hotel from the hotel manager’s perspective was selected.

robust results of this paper are considered representative of mature local tourism destinations characterised by a large number of small hotels.

The investigation started in May 2013, and several steps were taken to ensure data validity and reliability. First, the investigators produced a first draft of a questionnaire about entrepreneurs, management and the organisational models of accommodation businesses in Rimini.<sup>2</sup> Potentially confusing items were then revised. Appropriate items were selected to measure the different dimensions of SO according to the specific requirements of the investigated sample. Then, in the fall of 2013, a focus group composed of professionals participated in the testing and reformulation of the pilot questionnaire. Subsequently, a random subset of 15 respondents verified whether there were any problems. Lastly, the final version of the questionnaire was presented at the general assembly of the Italian Hotel Association, Rimini section, and submitted to its 650 associates (this area hosts 991 hotels) in April 2014.<sup>3</sup> There were 139 responses, resulting in a full dataset composed of 120 observations after listwise deletion of missing values. The final sample respects the natural proportion of hotels with regard to star categories and geographical position in the destination. Rimini hotels are small and often family-run. As a result, the hotels in the sample have an average size of 39 rooms with a maximum of 95 rooms and an average category of less than 3 stars with a maximum of 4 stars (only two hotels have 5 stars in the entire municipality of Rimini).

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<sup>2</sup> The complete research project involved the Strategic Plan, the Chamber of Commerce and Fiera di Rimini and was launched by the Center for Advanced Studies on Tourism (CAST) at the University of Bologna and Uni.Rimini in collaboration with the Italian Hotel Association, section of Rimini.

<sup>3</sup> After the questionnaires were collected, semi-structured interviews were conducted with hotel managers over approximately a year to understand the history of their hotel and to allow them to tell the story of their careers. Although this last part of the project is not explicitly considered in the present work, it was helpful in guiding the reading and interpretation of the results.

Representativeness of the sample was also examined by computing the maximum error margin  $\theta$  when estimating a percentage  $P$ :

$$\theta = z_{\alpha/2} \sqrt{\frac{P(1-P)}{n} \frac{N-n}{N-1}}$$

where  $z_{\alpha/2}$  is the standard normal with significance  $\alpha = 5\%$  (1.96),  $N$  is the total number of hotels (991),  $n$  is the sample number of hotels (120) and  $P$  is the unobserved population parameter defined in the unit interval. For  $P = 0.5$ ,  $\theta$  reaches the maximum (prudential) value of 8%, meaning that the sample share of hotels achieving performance (dependent variable defined in the next subsection) is at most of 8% different from the population value.

Moreover, non-response bias was investigated by considering tests of proportions/t-tests of the differences between early and late respondents, assuming that non-respondents are similar to late respondents (interest hypothesis). In particular, dividing the dataset into two equal parts according to the time of response does not result in any significant difference: hotel performance is achieved by exactly the same proportion (35%) in the two subsamples (p-value = 1.00); the number of rooms differs only by 3 units (p-value = 0.31); the number of stars differs only by less than 0.1 (p-value = 0.53). Therefore, non-response bias does not seem to invalidate this study.

Finally, we conducted an exploratory factor analysis (EFA) with all items measuring the latent constructs EO, MO, and LO (or, more precisely, measuring the respective dimensions of each strategic orientation construct) to assess the underlying factor structure of the items. Consistent with prior research scales were purified by eliminating all items, which displayed low factor loadings on their theoretically assigned dimensions. SO, for EO the only significant factor is the innovativeness, for



LO only the learning with external networks is a significant factor and finally for MO the level of customisation and service differentiation result to be very significant dimensions.

## ***Measures***

### Independent variables

#### *Entrepreneurial orientation (EO)*

The steps explained in the previous section were followed to ensure data validity and reliability. Innovativeness was the most important dimension of EO for the sample of this paper, confirming previous theoretical studies (Hult et al., 2003; Hurley & Hult, 1998; Martins & Terblanche, 2003; Noble et al., 2002). Innovativeness in the hotel industry (Medina-Muñoz et al., 2013; Montresor, 2018) includes activities such as developing new technologies and new services and improving the interaction between information and communication technologies (Tajeddini, 2010, p. 223). Since innovation must be on-going and depreciates very rapidly, the EO of the hotels was measured by asking whether any innovative change was implemented within the past two years (Johannessen et al., 2001). To capture this dimension in the paper, the dummy variable (*Innovativeness*) indicates any kind of recent innovation.<sup>4</sup>

#### *Learning orientation (LO)*

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<sup>4</sup> Since any effort to differentiate among different types of innovation did not result in a meaningful reading of the results in the estimated models, a general indication of recent innovative changes was adopted as an indicator of innovation.

According to the literature review and as confirmed by the steps taken prior to final data collection, the learning process of the hotels in the sample (which are limited in terms of size) appears to be strongly network-based (Anderson & Boocock, 2002). Thus, the LO of the sample hotels was measured by asking whether any learning process to acquire new knowledge was introduced through acting external networks within the past two years (Tajeddini, 2010). Specifically, a unitary index variable was employed, with higher values corresponding to the extent of the use of external networks to acquire new knowledge (*Learning propensity*) in the areas of supply, customers, sales and marketing management.

#### *Market orientation (MO)*

Numerous studies consider customer orientation the core of market orientation because providing superior customer value is a main goal of companies (Squire et al., 2006; Yli-Renko et al., 2001).

In line with these studies, MO was investigated by considering customer-based approaches. In particular, two aspects of customer-based approaches adopted by hotels were captured. First, a hotel's flexibility in terms of adapting to customers' needs and preferences was measured. The index (*Hotel customisation*) includes employee discretion (discretion/needing approval from boss/no discretion) in customising the experience of tourists (by varying rooms and prices). In this case, hotel offerings are increasingly customer-based to enhance customer value (Griseemann et al., 2013). The second aspect of customer-based approaches that we attempted to capture is the amount of service differentiation pursued by a hotel. To measure this aspect, hotels were surveyed regarding services (babysitting, garage, hairdryer, heating, hydro massage, parking lot, pets welcome, reserved parking,

solarium, telephone and vegetable restaurant, among others) provided to customers (*Service differentiation*).

*Moderator variables: Hotel size and rating*

Hotel size and rating are two contingent factors that may profoundly influence the impact of different dimensions of SO on hotel performance achievement. *Number of rooms* is a direct measure of hotel size, and *Number of stars* is a proxy for the quality of services supplied. The latter was measured with five categories (star rating from 1 to 5).

*Dependent variable*

Performance was measured in terms of clientele growth, which is coherent with the small size of the hotels in the sample and is a condition for firm survival and long-term earnings. However, in spring 2014 when the data were collected, Italy experienced its third recession since 2008. This period was a period of crisis: only 9% of the sample demonstrated growth in clientele. Therefore, it was considered sufficient for respondents to declare that their number of customers had not declined (35% of the sample) for the hotel to achieve market success and sustain competitive advantage in a period of crisis (Hanafiah et al., 2016; Perles-Ribes et al., 2016).

Although an integrated analysis of the number of customers and revenues would have been preferable, only information on the number of customers was considered. This choice was motivated by the fact that a large majority of hotel managers in Rimini do not adopt revenue management systems and have no information about revenue per available room. The hotel managers who participated in the focus group by testing and reformulating the pilot questionnaire suggested adopting information on the number of customers as a measure of performance. Hotel managers in Rimini usually consider this

number and use it to make comparisons among themselves. Moreover, competition in mature tourism destinations such as Rimini is very high and margins are minimal, so profitability is in line with the number of customers. The reliability and consistency of the use of the number of customers is supported by the literature, which indicates a positive relationship between occupancy and profitability (Jeffrey & Barden, 2000).

Therefore, hotel performance was operationalised by means of a dummy variable with the value 1 if the hotel manager stated that her/his hotel had not experienced a decrease in customers in the last few years (*Performance achievement*).

Table 1 contains descriptive statistics of all the variables. The variables are numerical, except for the variables of type “D”, which are dummy variables.

< Insert Table 1 about here >

## **Empirical results**

To present the results of the empirical analysis, we present univariate and multivariate statistics followed by regression analysis and two figures showing the moderating effects on predicted performance.

Hotel distribution according to size, measured by the number of rooms, is shown in Figure 1. The majority of the distribution has only 20-50 rooms and a right tail indicates the presence of some hotels with 50-100 rooms. This confirms the widespread presence of small hotels in the highly competitive tourism city of Rimini.

< Insert Figure 1 about here >

Table 2 shows the distribution of hotels in terms of rating measured by number of stars. A large majority of the hotels in the destination are of medium quality (three stars).

< Insert Table 2 about here >

The services offered by hotels vary. Hotels with more stars usually offer more and higher-quality services. Table 3 shows that more highly rated hotels tend to be larger in size, innovate more by using the newest technologies (such as web marketing), have more customisation (for instance, a reception clerk with discretion over prices) and offer a larger number of valuable customer services. In contrast, lower-quality hotels learn more intensively.

< Insert Tables 3 and 4 about here >

Table 4 presents the characteristics of hotels that achieved the defined performance standard (their clientele has not diminished in years of crisis). Smaller hotels, which have lower fixed costs and are more flexible, appear to exhibit superior performance. Greater aggressiveness in introducing innovations appears to positively affect hotel performance achievement. Hotel customisation is another aspect that appears to positively affect hotel performance. Hotels with different ratings, learning propensities and numbers of customer services offered to the market do not appear to perform differently.

Although these results are striking and may provide guidance in terms of characterising successful strategic choices, spurious relationships may arise. Caution should be exercised when univariate and bivariate analyses are interpreted. Regression models, in contrast, can control for the effects of numerous variables simultaneously to obtain a “*ceteris paribus*” analysis. To test the hypotheses, the natural logarithm of the variable *Hotel size* is used to overcome the possible problem of

heteroskedasticity in estimating the model. Furthermore, to achieve a superior fit of the estimated model, the variable *Service differentiation* is translated into a battery of dummy variables, *D Service differentiation*, with one dummy variable for each customer-based service considered.

Table 5 reports the results of the probit estimations for the binary dependent variable *Hotel performance achievement*.<sup>5</sup> Rather than reporting the coefficients, the table reports marginal effects, which are the change in the probability of achieving performance at the mean of the independent variables for an infinitesimal change in continuous variables and for a unitary change in dummy variables. Below the marginal effects, there are robust standard errors that correct for residual heteroskedasticity (Huber/White/sandwich variance-covariance estimator, Greene, 2012). At the end of Table 5, diagnostic tests are shown. The high level of significance of the regression tests shows that these models explain the dependent variable, namely, the probability of achieving the defined performance standard, relatively well.

< Insert Table 5 about here >

As the regressions make clear, H1 and H3 are confirmed. EO (measured by *Innovativeness*) and MO (measured by *Hotel customisation* and *Service differentiation*) significantly and positively affect a hotel's market success. On the contrary, H2 is not validated by the model estimations. LO (measured by *Learning propensity*) does not significantly affect market success.

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<sup>5</sup> Several specifications were tested and are omitted here for space reasons. Only parsimonious specifications are presented in the article. The results presented in Table 5 are robust to numerous specifications (significant variables mostly continue to be significant and with the same sign through different and more complete specifications). The results of these various model specifications are available from the authors upon request.

A further result of the analysis is that hotel size negatively affects performance achievement, whereas hotel rating does not appear to predict significant differences in performance achievement. However, by looking at the last two of the three models (columns) presented, one can observe that the positive effect of both EO and MO is amplified (positively moderated) by the variables representing hotel size and rating (H4a and H4b are therefore supported by the data). On the contrary, LO does not significantly interact with the moderator variables. Therefore, these moderating terms were dropped from the model.

Regarding the magnitude of the results, the first model shows that hotels that implemented any innovative change within the past two years have a 37.3% higher probability of achieving the defined performance standard. A 10% increase in the unitary index *Hotel customisation* translates into a 2.55% increase in the probability of achieving performance. Finally, because *Number of rooms* is expressed as a natural logarithm, the marginal effect of this variable is a semielasticity: a 10% increase in hotel size induces a 3.67% decrease in the probability of achieving performance.

Figure 2 and Figure 3 relate, respectively, to the second and third model in Table 5 and present the predicted relationship of hotel size and hotel rating with performance achievement. These variables interact in the estimated (non-linear) models, and their predicted effect on hotel performance achievement changes with different values of the measures of EO and MO. The results indicate that the negative relationship of hotel size with performance appears to weaken as a hotel increasingly adapts to customers' needs and weakens even more when the hotel manager introduces new innovativeness strategies. Concerning the positive but not significant relationship of hotel rating with performance achievement in the first model in Table 5, Figure 3 shows that whenever a hotel manager introduces innovativeness strategies, higher levels of quality predict higher hotel performance

achievement. Hotel customisation also has a positive effect, but it is less significant.

< Insert Figures 2 and 3 about here >

## **Discussion**

Although recent progress in understanding SO and its effect on business performance confirms a positive relationship between these two variables (Covin & Miller, 2014; Covin & Wales, 2012), empirical studies based on the hotel sector have focused only on developing countries or have not featured a suitable multidimensional approach to SO (Tajeddini, 2010; Wang et al., 2012). An approach to SO that is overly straightforward and simple is unable to capture the conjunct effects of EO, MO and LO on hotels' performance. Based on an empirical analysis of small hotels in a well-known, mature Italian destination, this paper is able to provide some guidelines for how hotel managers can improve their performance by means of better-tailored SO, particularly by fine tuning its different dimensions – EO, MO and LO – and the relevant contingent factors. This study provides novel information to discern which of the identified dimensions of SO has a positive impact on the business performance of small hotels in mature local tourism destinations and how contingent factors moderate those impacts.

The results confirm that the current competitive business environment in which hotels must operate calls for a continuous emphasis on both customers' needs and innovativeness strategies that involve both the market and entrepreneurial dimensions of SO.

In particular, hotels must be able to strengthen their MO when interacting with customers by offering a wide range of personalised services and by adapting to the external needs of customers. Moreover, they must be innovative in following a proactive EO. By using the balanced establishment of



capabilities for developing new services and improving current service processes, a hotel that understands and commits to customer needs can optimise its performance (Alonso-Almeida et al., 2012).

In contrast to other studies (Anderson & Boocock, 2002) and to the hypothesis, the data show that LO does not have a significant effect on hotel performance achievement. Learning through a local business network does not produce a positive effect on performance. The insignificance of using external learning networks to acquire knowledge can be justified by a limited tradition of collaboration among hotels (Lemmetyinen & Go, 2009; Novelli et al., 2006; Ramayah et al., 2011; Shi & Liao, 2013), particularly in Italy. Moreover, the external network of the hotels in the sample consists mainly of other small local hotels that form a network that is limited both in participation, because it is circumscribed to industrial competitors, and in scope, because it is focused on local hotels (Macpherson & Holt, 2007). Thus, knowledge may become redundant, justifying the possibility that despite intense exchange and relevance, the network stops contributing to the success of hotels (Macpherson & Holt, 2007, p. 180; Yli-Renko et al., 2001).

Regarding the analysis of the effects of the contingent variables, this study has several noteworthy implications. First, hotel size has a significant negative influence on hotel performance achievement (Assaf & Cvelbar, 2015). This result is unexpected because it shows that small hotels exhibit superior performance in the context of Rimini. In contrast to mainstream theory suggesting the importance of growth in size (Falk & Hagsten, 2015), this paper's results stress the importance of being innovative and following a market approach instead of an internal growth approach (Presutti et al., 2015). Only hotels that can foster ongoing innovation and follow a customer approach are able to counter the negative impact of size on hotel performance achievement. Otherwise, large hotels face a competitive

disadvantage in terms of performance due to the inefficiency of complex (organisational) structures, higher fixed costs, lower flexibility and more impersonal and formal services.

Regarding the second contingent variable, hotel rating, the results confirm that this variable alone is unable to influence hotel performance achievement (Assaf & Cvelbar, 2015). These results may seem to contrast with other studies (Brown & Dev, 1999) in which upscale hotels largely overcome midmarket ones in sales per average room. However, in our study, hotel performance is measured in terms of clientele growth. Furthermore, hotel rating significantly reinforces performance when it is sustained by a strong interest in investing in EO and/or MO strategies, as previously found with respect to the size of hotels.

## **Conclusions, limitations and future directions of research**

This research yields several fundamental topics that merit further attention from strategic entrepreneurship scholars interested in tourism and the hotel industry in particular. First, the results show the importance of a multidimensional approach to SO when studying hotel performance, providing hotel managers with clearer guidelines regarding specific entrepreneurial, learning and market activities. To improve performance, managers and owners in the hotel industry should encourage EO and MO. This aspect is particularly important when hotels perceive innovativeness in terms of openness to new solutions as an integral part of their corporate strategy (Carvalho et al., 2016). Evidence from this study also suggests the importance of creating an internal business environment that is conducive to innovative activities focusing on the needs of the customer. Finally, this study confirms the importance for a hotel of satisfying the needs of its customers by adopting a flexible differentiation strategy (Alonso-Almeida et al., 2012).

The second important contribution of this research is related to the significant influence of contingent factors on the relationship between SO and hotel performance. In this direction, noteworthy and critical points are provided and should be analysed in future research. First, hotels of smaller size score higher in performance achievement (Ma'toufi & Tajeddini, 2015). This result is clearly relevant and conducive to a positive view of the Italian context, where small hotels represent the most prevalent example of entrepreneurship in the hotel industry. Variables other than mere dimensional aspects of growth can be considered important for increasing final performance. Second, to ensure continued success in investing in increased capacity and quality of services, simultaneously increasing EO and MO is paramount. Hotel managers should address customer loyalty by heavily investing in customer-oriented service innovations, such as websites, web marketing and the introduction of new services. Hotel managers should formulate an intense long-term strategy with high levels of both EO and MO to achieve performance in larger and higher-quality hotels. This result suggests the need to combine EO and MO with a qualification strategy aimed at obtaining higher levels of stars to increase performance.

The panorama of managerial implications is not complete without considering LO. The hypothesis concerning the positive influence of external networks to acquire knowledge on performance was not validated by the data of this paper. Two implications follow. First, in mature touristic contexts, knowledge is often redundant. In this case, relevant learning cannot be obtained by external networks. Second, the limited tradition of collaboration among Italian hotels (Buhalis & Molinaroli, 2002) must be overcome to have a positive impact on this industry. To envisage an effective industrial policy, a clearer understanding of the reasons for the lack of influence of external networks on hotel performance is needed. Simple incentives designed to establish collaboration among hotels in a highly

competitive area are likely to fail to improve the acquisition of new knowledge and performance. This result merits deeper analysis that also considers the internal learning mechanisms useful for acquiring knowledge.

The findings of this paper suggest that the distinction between EO, LO and MO should be further discussed. Other measures of SO should be tested to verify whether the results are robust to alternative specifications. In particular, developing different and improved measures of LO is necessary if future SO research in the hotel industry sector is to be pursued. Future research on LO should capture the interaction between internal and external learning sources for acquiring knowledge. Other measures of performance should also be examined, and the relationship between SO and performance should be investigated under different conditions. It seems important to investigate different hotel locations and/or stages in the hotel life cycle with a particular interest in the difference between hotel start-ups and established hotels (Presutti et al., 2013).

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## Tables

Table 1 – Descriptive statistics

	<i>N</i>	<i>Dummy</i>	<i>Mean</i>	<i>SD</i>	<i>Min</i>	<i>Max</i>
<b>Independent variables</b>						
<i>Entrepreneurial orientation</i>						
Innovativeness	120	D	0.65	0.48	0	1
<i>Learning orientation</i>						
Learning propensity	120		0.19	0.28	0	1
<i>Market orientation</i>						
Hotel customisation	120		0.65	0.43	0	1
Service differentiation	120		0.51	0.24	0	1
<i>Hotel size</i>						
Number of rooms	120		38.73	16.57	7	95
<i>Hotel rating</i>						
Number of stars	120		2.77	0.72	1	4
<b>Dependent variable</b>						
Performance achievement	120	D	0.35	0.48	0	1

Table 2 – Hotel distribution by hotel rating

<i>Hotel rating</i>	<i>Frequency</i>
1 star	7 **
2 stars	26 *****
3 stars	74 *****
4 stars	13 *****
Total	120

Table 3 – Average independent and control variables by hotel rating

<i>Hotel rating</i>	<i>Hotel size</i>	<i>Innovativeness (EO)</i>	<i>Learning propensity (LO)</i>	<i>Hotel customisation (MO)</i>	<i>Service differentiation (MO)</i>
1 star	24.00	0.43	0.26	0.43	0.18
2 stars	30.31	0.54	0.13	0.52	0.30
3 stars	40.38	0.70	0.22	0.68	0.58
4 stars	54.15	0.69	0.11	0.85	0.69

Table 4 – Average independent and control variables by hotel performance achievement

<i>Hotel performance achievement</i>	<i>Hotel size</i>	<i>Hotel rating</i>	<i>Innovativeness (EO)</i>	<i>Learning propensity (LO)</i>	<i>Hotel customisation (MO)</i>	<i>Service differentiation (MO)</i>
No	40.04	2.77	0.58	0.19	0.60	0.51
Yes	36.31	2.79	0.79	0.19	0.74	0.51

Table 5 – Hypothesis testing

<i>Hotel performance achievement</i>	Marginal effect (Robust st. errors)	Marginal effect (Robust st. errors)	Marginal effect (Robust st. errors)
<i>Innovativeness</i>	0.373*** (0.082)		
<i>Innovativeness</i> * <i>Log Number of rooms</i>		0.114*** (0.033)	
<i>Innovativeness</i> * <i>Number of stars</i>			0.118*** (0.042)
<i>Learning propensity</i>	-0.099 (0.155)	-0.093 (0.152)	-0.033 (0.156)
<i>Hotel customisation</i>	0.255** (0.112)		
<i>Hotel customisation</i> * <i>Log Number of rooms</i>		0.063** (0.032)	
<i>Hotel customisation</i> * <i>Number of stars</i>			0.079* (0.041)
D <i>Service differentiation</i>	$X^2(4)=18.48^{***}$		
D <i>Service differentiation</i> * <i>Log Number of rooms</i>		$X^2(4)=19.02^{***}$	
D <i>Service differentiation</i> * <i>Number of stars</i>			$X^2(4)=17.63^{***}$
<i>Log Number of rooms</i>	-0.367*** (0.134)	-0.367** (0.148)	-0.330** (0.129)
<i>Number of stars</i>	0.146 (0.101)	0.138 (0.099)	0.106 (0.132)
Number of observations	120	120	120
Coefficient of determination	Pseudo $R^2=0.217$	Pseudo $R^2=0.212$	Pseudo $R^2=0.183$
Regression test	$X^2(9)=29.90^{***}$	$X^2(9)=29.01^{***}$	$X^2(9)=28.44^{***}$

Probit estimations for the binary dependent variable *Hotel performance achievement*.

Marginal effects: change in the probability of achieving performance at the mean of the independent variables for an infinitesimal change in each independent continuous variable and for a unitary change in the dummy variable *Innovativeness*.

Robust standard errors correct for residual heteroskedasticity (Huber/White/sandwich variance-covariance estimator).

Significance levels: \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ ; the models include a constant.

Figures

Figure 1 – Hotel distribution by hotel size

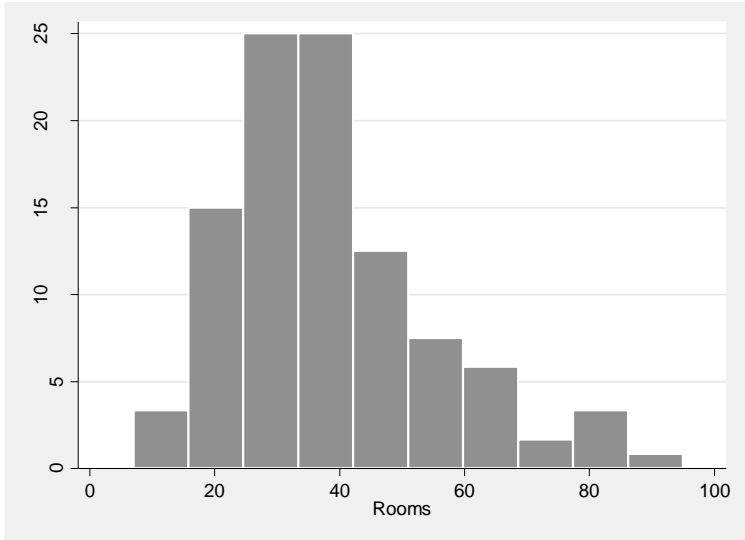


Figure 2 – Contingent factor: Hotel size

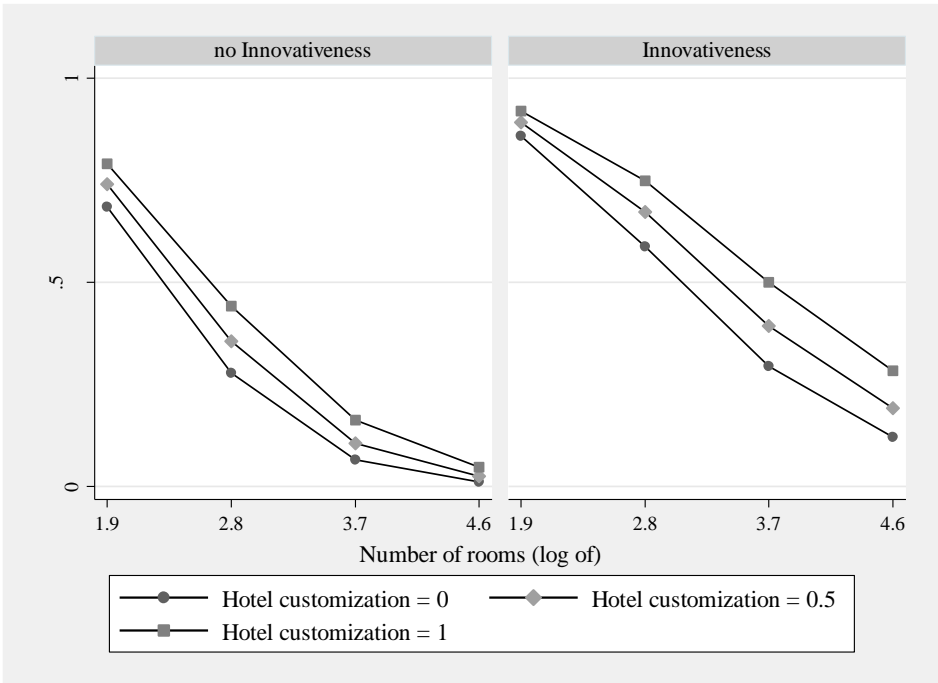




Figure 3 – Contingent factor: Hotel rating

