

The Effect of Corporate Entrepreneurship on Firm Performance

An Investigation in Turkish Hotel Industry

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Abstract

This study investigates the impact of corporate entrepreneurship (CE) on firm performance in Turkish Hotel Industry. Within this purpose, 216 firms that are four and five star hotels have been surveyed by using questionnaire forms. Corporate entrepreneurship has been conceptualized to include dimensions of innovativeness, risk-taking, proactiveness and competitive aggressiveness; while performance has included financial and non-financial aspects of firm performance. Structural Equation Modeling (SEM) has been conducted to identify the effects of independent variables on financial and non-financial performance. The results of this study prove that three dimensions of CE – proactiveness, innovativeness, and competitive aggressiveness – have positive effects on both financial and non-financial performance

Introduction

Today's global competitive environment and economic system arisen out of this competitive environment have made the environmental variables highly dynamic and complex [e.g. 1, 2]. In this system, firms have to give more quick responses to the changes emerged by using different ways compared to the past in order to achieve success [e.g. 3, 4, 5]. Corporate entrepreneurship is an important tool for companies in responding to this rapid environmental change emerged and increasing competition. In addition, being able to continue its life for a company [e.g. 6, 7] is also seen as an important tool for profitability and growth (e.g. 8, 9). Corporate entrepreneurship, in the most general sense, is defined as “all the events related to the entrepreneurial activities joined within the organization” [10, 11]. These activities include formal and informal activities regarding a new product, process, creating new markets and new business areas [12].

Corporate entrepreneurship provides significant benefits in different industries where a strong competition occurs and where the firms create value for themselves through this competition. Corporate entrepreneurship help firms improve their performance and create competitive advantage as a result of this increasing performance and more importantly, corporate entrepreneurship helps firms make this advantage sustainable [e.g. 13, 14]. Numerous studies in the literature indicate that CE helps firms improve their performance and provides them a competitive advantage in the industry [e.g. 14, 15, 16, 17, 18, 19]. The literature review also proves that the majority of the studies about CE and firm performance have been implemented on the industrial enterprises in USA and Western European

countries. On the other hand, the number of studies carried out in tourism industry is limited [20]. The reason for the lack of studies in the context of tourism is that the competition in tourism industry has increased in the last ten years and moreover, the competitiveness in this industry has finally become global after the foreign investments. In this study, the relationship between CE and firm performance was investigated because of its importance as emphasized above. With respect to this purpose, the relationship between CE and firm performance has been analyzed by collecting the data from four and five star hotels.

Literature Review and Hypotheses

Corporate Entrepreneurship

Corporate entrepreneurship is defined as entrepreneurship “activities within an existing organization” [21] and CE consists of formal and informal operations regarding new business creation as well as development of new products, processes and markets [12]. Corporate entrepreneurship appears when a firm focuses on growth through the active search for and exploitation of opportunities [22]. In fact, corporate entrepreneurship is seen as the sum of a company’s innovation, renewal and venturing efforts [23]. Zahra [24] indicates that corporate entrepreneurship involves the three main aspects as innovation, renewal, and venturing. Guth and Ginsberg [25] define CE as all the organizational activities related to innovativeness, strategic renewal, and new business venturing. Covin and Slevin[26] define corporate entrepreneurship as the basic strategic situation of a firm to engage in entrepreneurial behavior. Chung and Gibbons [27] define CE as an organizational process for transforming individual ideas into collective actions through the management of uncertainties. However, Hayton[28] indicates that CE is related to the knowledge management process and defines CE as to develop the knowledge creation capacity for the adaptation to uncertain environment.

The dimensions of corporate entrepreneurship

Miller [29], Covin and Slevin[30] stated that corporate entrepreneurship consists of three dimensions of innovation, risk taking and pro-activity. Unlike, Guth and Ginsberg [25] have been discussed in three dimensions as innovation, new business and strategic renewal. In this study, corporate entrepreneurship was examined in four dimensions (innovation, risk taking, proactivity, competitive aggressiveness) according to the model by Lumpkin and Dess[31].

Innovation is expressed by Covin and Miles [13] as a basic dimension of or even the sine qua non of corporate entrepreneurship. Innovation refers to effort of searching creative and original solutions in order to provide a competitive advantage to businesses and enhancing the new ideas, products and technologies [32]. Although it is not certain in advance, risk taking, is a set of attitudes and norms of the organization that support innovative projects [5]. The risk for an organization is the sum of the resources with prospect of losing as a result of desire to evaluate opportunities in order to achieve competitive advantage [18]. Proactivity refers to being a pioneer. Corporate entrepreneurship on the axis of proactivity is regarded for organizations to initiate and execute new product or service development and application of new technologies and techniques ahead of competitors rather than follow them [33]. Competitive aggressiveness overall means a firm's trend of challenging its rivals [16]. Such businesses exhibits aggressive behavior against competitors in order to achieve competitive advantage in the current market, to strengthen its market position and to maintain or increase its market share [31].

Corporate entrepreneurship and firm performance

Since 1990, the number of studies on CE has grown rapidly and previous studies have emphasized the definition of CE. These studies have been followed by the new ones aiming to display the effect of CE on economic growth and firm performance. The previous studies show that both academicians and practitioners have argued that firm performance is positively related to CE. As seen both in Turkey [e.g. 20, 34] and other countries [e.g. 11, 15, 17] lots of studies have been carried out in order to prove the positive relationship between CE and firm performance. Majority of the studies conducted in different industries have demonstrated that CE improves firm performance [e.g. 18, 34]. In this context, the following hypotheses have been tested and the relationship between CE and firm performance has been identified in this study:

H1a: Innovativeness is positively associated with a firm's financial performance.

H1b: Innovativeness is positively associated with a firm's non-financial performance.

H2a: Proactivity is positively associated with a firm's financial performance.

H2b: Proactivity is positively associated with a firm's non-financial performance.

H3a: Risk-taking is positively associated with a firm's financial performance.

H3b: Risk-taking is positively associated with a firm's non-financial performance.

H4a: Competitive aggressiveness is positively associated with a firm's financial performance.

H4b: Competitive aggressiveness is positively associated with a firm's non-financial performance.

Method of this Study

Research Model

The research model (see Fig 1) explores the relationship between CE and firm performance in Turkish Hotel Industry. In this paper, CE has been measured on the basis of four dimensions including innovation, risk taking, proactiveness and competitive aggressiveness, which adds up to a total of 17 items. Five of these statements are about innovation, four of them about risk taking, four of them about proactivity and four of them about competitive aggressiveness. These statements were compiled from the studies by Khandwalla[35] Lumpkin and Dess[31], Covin and Slevin[30], Guth and Ginsberg [25], Antoncic and Hisrich [21].

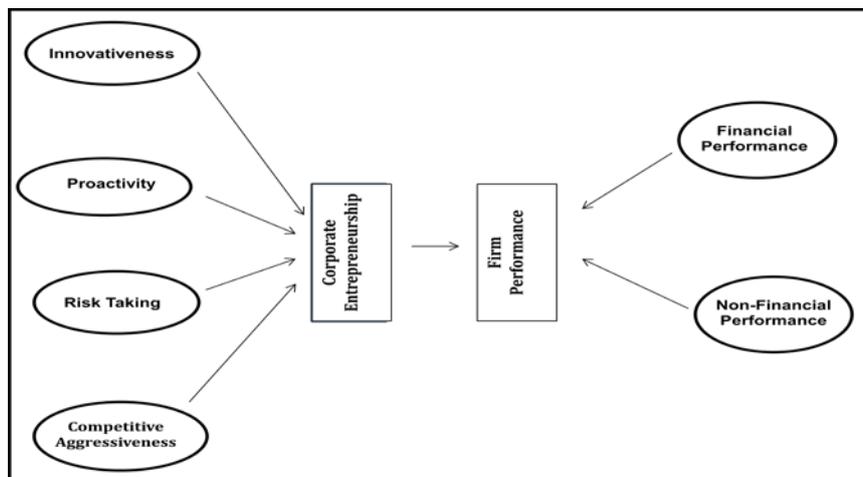


Figure 1: Research model proposed

Financial and non-financial performance indicators of the firms have been taken into consideration so as to measure firm performance. The reason why both financial and non-financial indicators have been used together is the idea that firm performance can't be measured by only financial indicators [36]. For performance measurement, the expressions in the study of Avcı, Madanoğlu and Okumus [37] are used. In this study, expression of both financial and non-financial performance was measured by five grades. A five-point Likert scale ranging from 1 definitely agree to 7 definitely disagree was employed in this study.

Sample and Data Collection

The research sample in Turkey is composed of senior executives of four and five star hotels that are active for at least three years. The reason of data collection from senior executives is the idea that corporate entrepreneurship covers the activities of innovation and entrepreneurship carried out at the organizational level in general [6]. And the data has been gathered in the time period of 1 February, 2010 and 1 November, 2010 with face to face implementation, sending e-mails and posts by the researchers (academicians) themselves.

Table 1: Characteristics of the sample (hotels)

Star ranking	Frequency	Percentage
Four stars	88	40.7
Five stars	128	59.3
Age of hotels		
Between 3–10 years	82	38
Between 11–15 years	72	33.3
Between 16–20 years	38	17.6
More than 21	24	11.1
Membership to a chain		
Yes	80	37
No	136	63
Number of employees		
Between 80-100	71	32.8
Between 101-130	33	15.3
Between 131-180	25	11.6
Between 181-200	22	10.2
More than 200	65	30.1

59.3% of the hotels that make up the sample are five-star hotels and the majority is older than 10 years. The rate of hotels who are members of a domestic or a foreign chain is 37%. However, 32.8% of hotels have a staff of 80 to 100, 30.1% have a staff of more than 200 in and the rest of the hotels have a staff between 100 to 200.

Table 2: Characteristics of the sample (respondents)

Sex	Frequency	Percentage
Female	54	25
Male	162	75
Age		
Less than 30	48	22.2
Between 31–40	106	49.1
Between 41–50	52	24.1
More than 51	10	4.6
Education		
High school	32	14.8
Two-year degree	41	19
Bachelor's degree	126	58.3
Post graduate	17	7.9
Functional background		
General coordinator	9	4.2
General manager	63	29.2
General manager assistant	54	25
Department manager	90	41.6

Data Analysis

After research data were collected, certain statements contained in the questionnaire were reverse coded at the first stage. In the second stage, exploratory factor analysis was performed separately to the statements forming corporate entrepreneurship and performance. As a result of the exploratory factor analysis, one expression associated with risk-taking is excluded from the study due to low factor loadings. After exploratory factor analysis, confirmatory factor analysis was conducted on the same expression. As a result of the confirmatory factor analysis, the factor loadings were calculated .67 as the lowest for innovation, .62 as the lowest for proactivity, .71 as the lowest for risk-taking and .78 as the lowest for competitive aggressiveness. Similarly, the factor loadings were calculated .66 as the lowest for the financial performance and .68 as the lowest for non-financial performance as a result of confirmatory factor analysis. The SEM was made to determine the impact of corporate entrepreneurship on financial and non-financial performance. SPSS and AMOS were used in the analysis of research data.

Findings of the study

In Table 3, there are the correlation coefficients between the variables, the variables mean and standard deviations, and reliability coefficients.

Table 3. Means, standard deviations and correlations of the study variables

	No. of Items	Mean	SD	1	2	3	4	5	6
1. Innovativeness	5	2.61	1.12	(.84)					
2. Risk taking	3	3.06	1.67	.018	(.82)				
3. Proactiveness	4	2.52	1.19	.597**	.057	(.87)			
4. Competitive aggressiveness	4	4.31	1.45	.293**	.158*	.324**	(.74)		
5. Financial performance	5	2.46	0.98	.446**	.022	.493**	.355**	(.76)	
6. Non-Financial performance	5	2.10	0.94	.502**	.102	.632**	.313**	.559**	(.83)

*p< .05 ** p< .01

As seen in Table 3, the dimensions of corporate entrepreneurship other than risk taking are positively and significantly effective with financial and non-financial performance. In this context, there is a positive and significant relationship between innovation and financial performance ($r = 0.446$, $p < 0.01$), between innovation and non-financial performance ($r = 0.502$, $p < 0.001$). There is a positive and significant relationship between proactivity and financial performance ($r = 0.493$, $p < 0.01$) and between proactivity and non-financial performance ($r = 0.632$, $p < 0.01$). There is a significant relationship between competitive aggressiveness and financial performance ($r = 0.355$, $p < 0.01$) and between competitive aggressiveness and non-financial performance ($r = 0.313$, $p < 0.01$).

Research hypothesis was tested by SEM. Hypothesis testing results are presented in Figure 2. Accordingly, it has been found that innovation, proactivity and competitive aggressiveness have a positive and significant effect on the financial and non-financial performance. However, the range of risk taking has no significant and positive effects on both financial and non-financial performance.

Discussion and conclusions

Today's fast changing environmental conditions force businesses to be more dynamic than before and to respond more quickly to environmental changes. Responses to environmental change is important in every industry, but it is more important in sectors such as the tourism industry that is directly connected to the external dynamics. In this sector, the answer not given to the change will quickly cause to lose the competitiveness of enterprises. Because the competition is not only at national level in this sector. There is serious

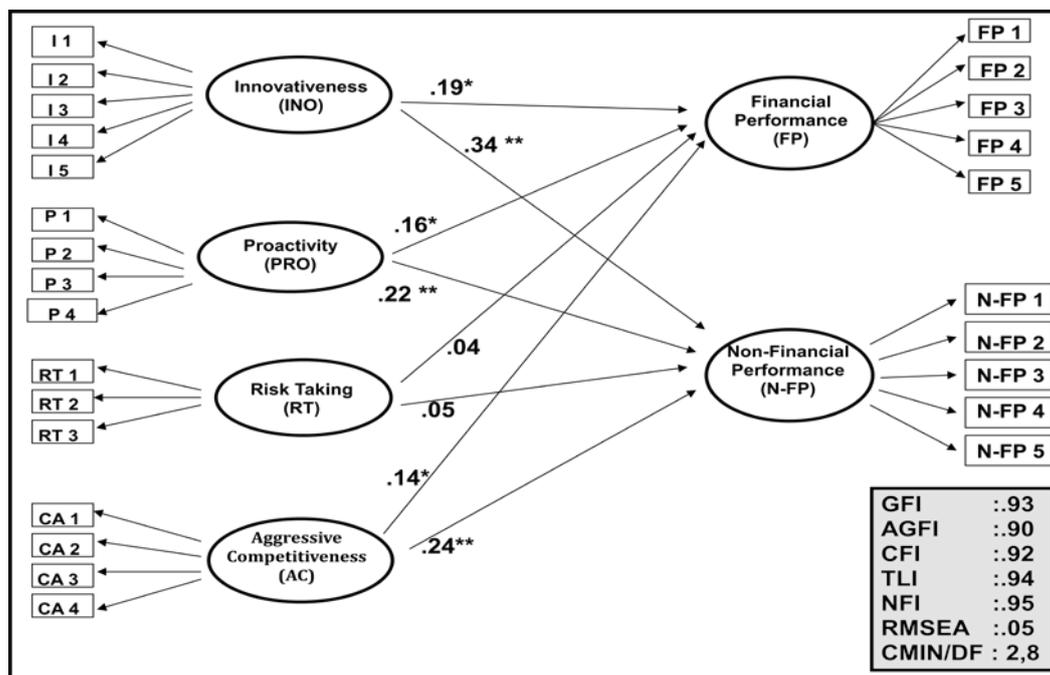


Figure 2: Outline of results from the proposed research model

competition among international destinations. Corporate entrepreneurship is an important tool for businesses to give response to rapid environmental change. Due to this importance, in this study, the impact of corporate entrepreneurship on firm performance was investigated. The research data were collected from 216 Turkish four and five star business hotels. As a result of the research, it was detected that innovation, proactivity and competitive aggressiveness dimensions of hotels have a positive and significant effect on both financial and non-financial performance. When viewed from the road coefficients, it is seen that the impact of all three variables on non-financial performance appears to be higher than the financial performance

Table 4. Results of the hypothesized relationships

	Hypothesized relationships	Standardized coefficients	Results
H1a	INO → FP	.19**	Supported
H1b	INO → N-FP	.34**	Supported
H2a	PRO → FP	.16*	Supported
H2b	PRO → N-FP	.22**	Supported
H3a	RT → FP	.04	Not supported
H3b	RT → N-FP	.05	Not supported
H4a	AC → FP	.14*	Supported
H4b	AC → N-FP	.24**	Supported

*p< .05 ** p< .01

(See Figure 2). When viewed from the correlation coefficients between the variables, it is observed that there is a positive relationship between three independent variables (innovation, proactivity and competitive aggressiveness) and the dependent variables as expected. In this study, the lack of relationship between risk-taking and financial and non-financial performance is another interesting result of the study. In this context, it was determined that there was no relationship between risk-taking and financial performance in the study by Altuntas and Donmez[20] on the Turkish hotel businesses. Furthermore, Alpkın et al. Furthermore, it has been identified in a study by Alpkın et al. [18] on the Turkish SMEs that the effects of risk-taking on performance is at a lower level than the other variables. In a study by Avcı and Asunakutlu[38] on the Turkish textile sector, it has been found that the risk-taking of the firms is quite low.

Limitations and future work

This study examining the relationship between CE and firm performance has some limitations. The first of these is the lack of analysis of the control variables in the research. Second, the survey data were collected from only 216 hotels in Turkey. In 2010 in which research data were collected, there were 813 four and five star hotels in Turkey. The third limitation is the measurement of performance of hotel companies by the information received from the managers only.

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