EXPLORING THE INNOVATION CAPABILITY, ENTREPRENEURIAL ORIENTATION, PERFORMANCE RELATIONSHIP IN SERVICES SECTOR FIRMS (SUMMARY)

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EXPLORING THE INNOVATION CAPABILITY, ENTREPRENEURIAL ORIENTATION, PERFORMANCE RELATIONSHIP IN SERVICES SECTOR FIRMS

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Principal Topic

Innovation capability, like entrepreneurial orientation, is a complex phenomenon that is associated with stronger performing firms. This research explores the three-way relationship between innovation capability, entrepreneurial orientation (EO), and performance in service sector firms. This research extends research in the manufacturing sector to service businesses, using a validated innovation capability scale designed specifically for measuring innovation capability in service based businesses.

Methods/Key Propositions

In this research, we focus on the hotel sector - excluding the larger four and five star chains. These businesses are characterized by being largely owner-operated with a small number of full-time employees (typically less than 10), and employ many hourly-paid staff. We use a validated innovation capability scale developed specifically for the hotel sector, and established measures of EO and firm performance. The underlying model hypothesizes relationships between innovation capability, EO, and firm performance with firm performance being the ultimate dependent variable. The research instrument was sent to 426 hotel managers in South Australia with support from the hotel industry association. 164 useable responses represented a 38.5% response rate. Structural equation modelling using AMOS identified the underlying factor structures and relationships. Reliabilities were greater than 0.70.

Results/Implications

We found a positive relationship between innovation capability and performance, and a weak positive relationship between entrepreneurial orientation and business performance. When the interaction between the three constructs was examined, the major significant relationship was between innovation capability and performance; the relationship between entrepreneurial orientation and performance was insignificant. These findings suggest that independent small businesses in established, competitive, and regulated service sector categories such as those that have high human interaction with the public (e.g., certain health service providers, hotels, etc.) have a focus on continuous improvement innovation to build existing revenue streams, and do not develop or maintain the orientation to engage in entrepreneurial activities to generate new income streams. This finding supports the first qualitative first stage of this study that identified a wide range of innovation activities of an incremental and improvement nature in these businesses, but found very few examples of entrepreneurial identification and implementation of activities to generate new income streams.

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