

## **The Entrepreneurship - Innovation Linkage: Implications for Customer Value**

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### **Abstract**

Previous research on entrepreneurship and innovation mainly related it to business performance. This study aims to investigate the relationship between entrepreneurship and innovation, and its implications for customer value. Data for the study was collected from 231 hotel managers in Indonesia. The results indicate that entrepreneurship has a positive relationship with customer value; and that innovation mediates the relationship between entrepreneurship and customer value. This study contributes to filling the gap in the literature by examining the relationship among entrepreneurship, innovation, and customer value in the hotel industry.

**Keywords:** entrepreneurship; innovation; customer value; hotel industry

## **INTRODUCTION**

Entrepreneurship, innovation and new ventures provide energy for the organisation in facing turbulent environment (Herbig et al., 1994). It is suggested that firms require building a new set of imperatives, such as entrepreneurship in order to be successful in innovation (Hamel and Prahalad, 1994; Slater and Narver, 1995). Atuahene-Gima and Ko (2001) suggest that entrepreneurship is imperative for driving innovation in the firms. Entrepreneurship has been regarded as the key element in organisational success (Bhuian et al., 2005). Stevenson & Jarillo (1990) point out that the growing importance of entrepreneurship is imposed by an organisation's need to have flexible structure and growth so as to compete successfully in turbulent environments. This implies that organisations need to build the entrepreneurial spirit of a small organisation and blend it into the culture of a larger organisation (Cunningham & Lischeron 1991). Previous studies on entrepreneurship and innovation mainly related it to business performance (Matsuno et al., 2002); there is a lack of the studies that relate it to customer value. Customer value has become an increasing concern to consumers and marketers (Patterson and Spreng, 1997), and should be the focus of business activities as it is regarded as a significant source of competitive advantage (Woodruff, 1997; Walter et al., 2001). The paper aims to investigate the relationship among entrepreneurship, innovation, and customer value.

## **THEORY**

### **Entrepreneurship**

The concept of entrepreneurship was originally associated with innovation without related formal individual ownership (Schumpeter, 1934 in Carrier, 1996). The concept has changed considerably to include new aspects such as risk taking and the creation of venture (Carrier, 1996). An analysis of the literature on entrepreneurship highlights two main trends in the research (Carrier, 1996). The first trend is concerned mainly with the individual's characteristics, while the second trend is concerned with the entrepreneurial process. Entrepreneurship as the characterisation of individual is identified as a set of psychological characteristics and personal attributes (Luchsinger and Bagby, 1987; Pinchot, 1985), and also focuses on the roles and function of entrepreneurs (Pinchot, 1985). On the other hand, an entrepreneurial process describes intrapreneurship as an organisational mode, which is characterised by the factors of freedom and autonomy (Kuratko and Hodgetts, 2001; Stevenson and Jarillo, 1990). Entrepreneurship can also be viewed as managerial strategy that stimulates entrepreneurial behaviour among employees to become entrepreneurs with the support of the organisation (Carrier, 1996). Although entrepreneurship is perceived differently, the interest in the phenomenon indicates that it belongs within the general domain of entrepreneurship. This means that different perspectives of entrepreneurship are not contradictory because entrepreneurship can be considered as a multidimensional phenomenon which involves individuals, organisational, and environmental elements (Russell, 1999). For purpose of this study entrepreneurship is defined as a process of enhancement of wealth through innovation and exploitation of opportunities, which requires the entrepreneurial characteristics of risk taking propensity, autonomy, and proactiveness.

***Risk-taking***

Risk taking refers to the willingness of management to commit significant resources to pursue opportunities in the face of uncertainty (Chang, 1998). Similarly, Pitt et al., (1997) posit that risk taking involves a willingness to pursue opportunities that involve a calculated risk. Cunningham and Lischeron (1991) define risk-takers as entrepreneurs who prefer to take moderate risks in situation where they have some degree of control or skill in realising a profit. Venkatraman (1989) points out risk taking encompasses the extent of risk reflected in the various resource allocation decisions made, as well as the choice of products/services and markets. These interpretations of risk taking mean that risk taking involves the willingness to assume calculated risks (Cunningham and Lischeron, 1991; Pitt et al., 1997).

***Autonomy***

Autonomy refers to the extent that employees are able to make decisions concerning the effective performance of their own work (Hornsby et al., 1993). It can also be defined as “doing things without regard to what others may think” (Lee 1997, p.95). People with a high need for autonomy generally prefer self-directed work, care less about others’ opinions and rules, and prefer to make decisions alone (Lee, 1997). In a sense, organisations need to allow employees to make decisions about their work processes and avoid criticising employees for making mistakes when being innovative.

***Proactiveness***

Proactiveness is defined in terms of the firm’s propensity, aggressively and proactively to compete with its rivals (Yeoh and Jeong, 1995). Miller (1983) views proactiveness as a facet of assertiveness, which can be viewed as a dimension of strategy making. Proactiveness is basically concerned with implementation. It usually involves considerable perseverance, adaptability and a willingness to assume some responsibility for failure (Pitt et al., 1997). Morgan and Strong (1998) describe proactiveness from an organisational perspective. Their argument is in line with several authors who describe proactiveness as one aspect of organisational behaviour. Additionally, Slater and Narver (1994) assert that proactiveness is the initiative adopted by firms to continuously search for escalating opportunities, and experiment with responses to changing marketplace conditions (Morgan and Strong, 1998; Venkatraman, 1989).

***Innovation***

Definitions of innovation range from interpreting it as the creation and first successful application of a new product or process (Cumming, 1998); the creation of a new idea (McAdam et al., 1998; Urabe et al., 1988); a form of knowledge (Chaharbaghi and Newman, 1996); and a new way of delivering quality and better value (Knox, 2002). According to Cumming (1998) the interpretation of innovation can be classified as the introduction of a new idea, a new idea, the introduction of an invention, an idea different from existing ideas, the introduction of an idea disrupting prevailing behaviour, and an invention. Hurley and Hult (1998) put forward that innovativeness is the notion of openness to new ideas as an aspect of a firm’s culture. On the other hand, capacity to innovate refers to the ability of an organisation to adopt or implement new idea, processes, or products, successfully. Hurley and Hult (1998) adapt these two concepts in their model, and identify innovativeness as organisational culture, and capacity to innovate as organisational outcomes. Organisational innovativeness refers to the level of development and implementation of new ideas, and represents a latent capability of firms, which is composed of two critical parts: technological and behavioural (Avlonitis and Tzokas, 1994). Further, Damanpour (1991) defines organisational innovation as the adoption of an idea or behaviour new to the adopting organisation. The propensity for an organisation to adopt innovation is not constant across all innovations. Various characteristics of an organisation interact together with various dimensions of the organisation and innovation possession to determine the probability of innovation adoption (Cooper, 1998). Innovation in this study is defined as a process of generating new idea and their incorporation into new products, processes and administrative procedures in order to deliver superior customer value relative to competitors.

***Customer Value***

Holbrook (1999) defines customer value as “an interactive relativistic preference experiences” (p.5). The majority of past studies on perceived value have focused on the fourth definition of Zeithaml (1988), which is basically similar to the concept of value judgment proposed by Flint et al. (1997). Despite the concept of values varying contingent to the context, basically it encompasses the same meanings. There are two common themes that in most definitions are: the notion “trade-off” and “benefit-sacrifices”. For the purpose of the study, customer value is defined as a trade-off between total perceived benefits and total perceived sacrifices. The components of customer value in this study are reputation for quality, value for money, and prestige. Reputation for quality captures the

notion of quality and reputation and to some extent emotional value. Value for money can be viewed as comparing the benefits and sacrifices and represents monetary valuation. Prestige captures the social value of associating oneself with a product or a service (hotel) and represents what the “important others” think about the respondent for patronising a given hotel.

## **HYPOTHESES DEVELOPMENT**

### **Entrepreneurship and Innovation**

The relationship between innovation and entrepreneurship is described as entrepreneurs themselves who do not purposefully innovate; yet, who seek opportunities. This means that entrepreneurs do not always guarantee innovation, they are important in stimulating innovation through the start-up of new small venture firms. This implies that a correlation exists between innovation and entrepreneurship (Herbig et al., 1994). Despite the correlation that exists between entrepreneurship and innovation, these two terms appear to have some differences. In this context, entrepreneurship is considered as a new entry, i.e. entering a new or established market with new or existing products or services (Hurley and Hult, 1998; Lumpkin and Dess, 2001; Slater and Narver, 1995). On the other hand, innovation focuses on implementation of new ideas, products or process, and might not involve entering new markets (Hurley and Hult, 1998). The empirical study on the entrepreneurship and innovation linkage shows that entrepreneurial value coupled with market-oriented culture will make a significant contribution to successful innovation (Slater, 1997). In relation to organisational performance, the result of Deshpande's et al. (1993) study indicates that entrepreneurial-oriented culture influences organisational performance. For that reason, the studies on entrepreneurship and innovation need to be examined. There are, however, only a few studies that explore the relationship between entrepreneurship and innovation, and its impact on organisational performance as well as customer value. Based on the above discussion, the following proposition is postulated.

**H1:** The components of entrepreneurship (i.e.: autonomy - a, risk-taking - b, and proactiveness -c) are positively associated with innovation.

### **Mediating Role of Innovation**

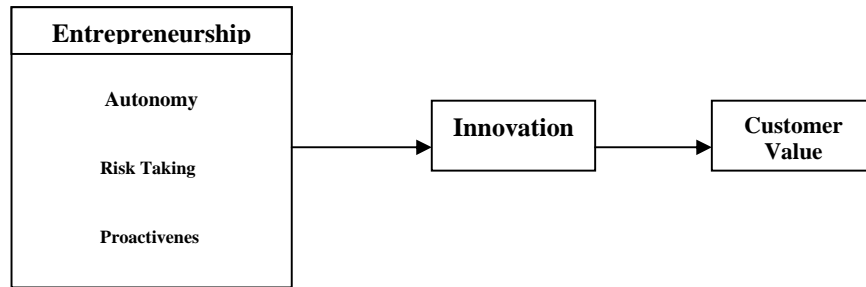
Innovation is considered a mediating variable of market orientation and organisational performance linkage (Baker and Sinkula, 1999; Han et al., 1998; Lado and Maydeu-Olivares, 2001). The Marinova's (2004) study indicates that innovation effort, by itself, does not affect firm performance; however, market knowledge supports smaller firms to achieve better performance for their innovation effort. Salavou (2002) notes that market orientation in terms of customer responsiveness and market-driven pricing policy, and product innovation interacts in affecting business profitability. According to Hult and Ketchen, (2000) entrepreneurship, market orientation, innovation, learning orientation, are identified as organisational capabilities that potentially contribute to creation of superior value. Based on the rationale of the market orientation – innovation – business performance linkage, this study proposes that innovation is considered as the mediating role on the relationship between entrepreneurship and customer value (see Figure 1). Thus the following hypotheses are postulated:

**H2:** Innovation mediates the relationship between the components of entrepreneurship (i.e.: autonomy - a, risk-taking - b, and proactiveness -c) and customer value.

The main objective of the innovation process is to provide and deliver better value to customers. According to Hine and Ryan's (1999) innovation is not simply the degree of creativity resident in organisations, but the outcome of that creativity and innovative process, and that it should also be visible in the market. The implication of innovation for business performance and customer value has been acknowledged in the literature (e.g.: Blazevic and Lievens, 2004; Mavondo and Farrell, 2003, Roper and Love, 2002) as innovation is considered a core competency for creating services that offer superior value to the customers (Kandampully, 2002), and is important for market effectiveness and subsequently for financial performance (Mavondo and Farrell, 2003). Further, Wind (2005) suggests that innovation is a strategy to create, deliver, sustain, and continuously enhance value. Innovation in this study is defined as a process of generating new idea and their incorporation into new products, processes and administrative procedures in order to deliver superior customer value relative to competitors. Therefore, the following hypothesis states

**H3:** Innovation is positively associated with customer value.

**Figure 1**  
**The Conceptual Model of Entrepreneurship, Innovation, and Customer Value**



## RESEARCH METHODOLOGY

### Data Collection

The samples in this study were hotel managers from classified hotels across Indonesia. Classified hotels constituted the sample of the research in which general managers were identified as key informants. The reason for using a key informant approach for collecting data is that general managers were presumed to have the best overall perspectives of the organisational aspects under examination. This research employed self-administered mail surveys. Questionnaires were mailed to 801 hotels through out Indonesia. The number of useable questionnaires was 231, which provided the final effective response rate of 29%. The responses covered almost all of the provinces in Indonesia. These facts seem to indicate that non-response error is not a major problem.

### Measurement

- **Entrepreneurship;** There were no existing measures for entrepreneurship; however, this study adopts a scale of climate for innovation developed by Dorabjee et al. (1998) that includes components of risk taking and freedom. The proactiveness scale of Venkatraman (1989) was adopted in this study. The entrepreneurship construct developed in this study consists of three components: autonomy (three items), risk taking (five items), and proactiveness (five items).
- **Innovation;** To assess innovation, this study adopts some of the innovation constructs developed by Hurley and Hult (1998), Song and Xie (2000), and Zahra (1996). The innovation construct, which represents process, product, and administrative innovation, contains 15 items. Some modifications were made in order to match the measurement items with the research context.
- **Customer Value;** The measure of customer value was developed based on the work of Petrick (2002) and the Sweeney and Soutar (2001). The components of customer value consists of reputation for quality (six items), value for money (three items), and prestige (three items).

The psychometric properties of the scales are presented in Table 1. All measures were shown to have acceptable psychometric properties.

**Table 1**  
**Summary Statistics of the Measurement Models Analysis**

Variable	Items	$\alpha$	$\chi^2$	df	$\chi^2 / df$	CFI	GFI	AGFI	RMSEA
Entrepreneurship	13	.8860	115.366	57	2.024	.957	.924	.878	.067
Innovation	15	.9534	203.139	84	2.418	.957	.895	.850	.079
Customer Value	12	.9136	160.965	44	3.658	.962	.937	.888	.083

## RESULTS AND DISCUSSION

As shown in Table 2, the components of entrepreneurship are significantly related to innovation. Specifically, autonomy, risk-taking, and proactiveness were found to have significant direct relationship with innovation. Thus Hypotheses: H1a, H1b, and H1c were supported. Proactiveness is more closely related to innovation. This can be explained in that the ability and willingness of the organisational members to become proactiveness will possibly support the organisation to introduce a new product and a new way of doing things. According to Slater and Narver (1995) successful innovations occur when entrepreneurs recognise a gap between the customers' needs and what is offered and delivered in order to meet those needs (Slater and Narver 1995). Specifically, the proactiveness of the entrepreneurship dimension promotes the identification and discovery of new market opportunities, which in turn, may increase the level of market-oriented behaviour (Matsuno et al. 2002). In this sense, entrepreneurial values support the creation of new venture (Slater and Narver 1995), which can be achieved through the development of new products, and the creation of new methods, or the discovering of new approaches to management (Stevenson and Jarillo 1990).

**Table 2**  
**Path Model of the Entrepreneurship-Innovation-Customer Value Linkage**

Variables	Direct Effects	t-value	Indirect Effects	t-value	Total Effects	t-value
Autonomy is associated with Innovation	0.10	1.9000*			0.10	1.9000*
Customer value			0.06	1.9091*	0.06	1.9091*
Risk taking is associated with Innovation	0.11	1.7500*			0.11	1.7500*
Customer value			0.08	1.7442*	0.08	1.7442*
Proactiveness is associated with Innovation	0.68	13.7755***			0.68	13.7755***
Customer value			0.45	9.5532***	0.45	9.5532***
Innovation is associated with Customer value	0.67	16.2439***			0.67	16.2439***

$\chi^2 = 9306$ ;  $df = 3$ ;  $\chi^2 / df = 3.102$ ; GFI=.984; AGFI=.922; NFI=.983; TLI=.961; CFI=.988; RMSEA=.080.

\* =  $p < 0.05$ , \*\* =  $p < 0.01$ , \*\*\* =  $p < 0.001$

Furthermore, innovation mediates the relationships between the components of entrepreneurship and customer value. Thus, Hypotheses: H2a, H2b, H2c were supported. The results are in line with the Matsuno et al. (2002) study demonstrating that entrepreneurial proclivity has a significant indirect effect on business performance through market orientation. These findings can be explained in that the development of entrepreneurial culture in organisations that supports the organisations' member to take calculated risk, and to become proactiveness, may continuously facilitate organisations to introduce innovative ways to provide superior customer value. Specifically, entrepreneurial culture may support organisations to deliver services of the highest quality, offer value for money, and provide a prestigious image, through the implementation of product, process, and administrative innovations. Similarly, the findings support the Liu et al. (2002) study which provides marginal evidence that corporate entrepreneurship is positively and directly related to organisational outcomes, and indirectly through learning orientation. In this instance, entrepreneurship may largely impact on organisational outcome, indirectly, through the construct of learning orientation.

The results further indicate that innovation is positively associated with customer value; therefore Hypothesis 3 was supported. The relatively strong connection between innovation and customer value can be explained in that innovation, such as the number of new services offered, the number of modifications to existing services, or new ways of doing things are considered the factor that relates directly to the customers. It allows customers to directly evaluate benefit of consuming the product/services. Specifically, in the context of the study, innovation may impact directly on the way that the hotel is considered prestigious, provide value for money, and also fits customers' social status.

Entrepreneurship is argued as imperative for organisational survival, profitability, growth, and renewal (Zahra 1996). External factors such as fast movement in customers' needs and hyper competition have compelled organisations to develop the entrepreneurial spirit in organisations. This view is supported by some authors such as Echols and Neck (1998) and Zahra (1996), who suggest that organisations need to employ corporate entrepreneurship in order to survive in a dynamic environment. This argument can be explained by the fact that organisations that encourage entrepreneurship are believed to be more innovative than traditional organisations. Consequently, organisations that innovate will be able to renew, and hence survive longer in a turbulent environment (Echols and Neck 1998). In this circumstance, entrepreneurship involves the development of independent units designed to create, market, and expand innovative services, technologies, or methods within the organisation (Cunningham and Lischeron 1991). Besides external factors, some internal factors can also be considered as necessary factors to build entrepreneurship. Organisations that adopt an entrepreneurial culture may encourage organisational members to be more proactive with respect to customer needs; exercise a propensity to take risks which enables them to deliver value to customers.

## **IMPLICATIONS AND FUTURE RESEARCH ISSUES**

### **Implications and Contributions**

The purpose of this study was to investigate the relationship among entrepreneurship, innovation, and customer value. The results suggest that entrepreneurship and innovation are imperative for business to deliver value to customers. The conclusion drawn from these results is that in order to deliver superior value to customers, organisations need to develop entrepreneurship that drives innovation in the organisations. Managers should build entrepreneurial orientation in organisation in order to encourage innovation which subsequently delivers value to customers. Having an entrepreneurial culture will promote organisations to introduce new product/services, and continuously find new ways of doing things.

This study makes several significant contributions to the literature. First, this study has challenged the investigation of the relationship between entrepreneurship, innovation and customer value. This study suggests that relating entrepreneurship and innovation to customer value is more important recently, because customer value has become a significant source of competitive advantage (Woodruff 1997, Walter et al. 2001), which consequently may facilitate organisations to enhance their business performance. Second, this study offers the conceptual model of the linkage between entrepreneurship, innovation and customer value. Third, this study makes a methodological contribution by empirically testing and validating the conceptualisation and operationalisation of entrepreneurship, which demonstrate that the measure has acceptable psychometric properties in the hotel industry in Indonesia.

### **Limitation and Suggestions for Future Research**

The cross-sectional nature of the research design of the study means that we can only infer associations and not causation. However, through effective use of extant literature, hypothesised relationships were tested. A longitudinal study would be desirable. It would be beneficial to conduct this study with a larger number of respondents from each organisation using a qualitative research. This would provide explanations for relationships between the capabilities and customer value. A qualitative research would also deepen the understanding of entrepreneurship and innovation across different levels in the organisation. This approach may provide more insight into the relationship among the variables in the conceptual model.

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