

ORIENTATION TOWARDS INNOVATION, PARTICIPATIVE DECISION-MAKING AND PERFORMANCE IN ROMANIAN HOTELS

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Abstract

The aim of this paper is to analyze the relationships between orientation towards innovation, participative decision-making and hotel performance in Romanian hotels. In order to accomplish our research objective, we reviewed the literature on orientation towards innovation, decision-making and performance, focusing mainly on the hospitality industry. Based on the theoretical findings, we developed a questionnaire that was applied both by interviewers and online. Also, we formulated 3 main research hypotheses and 4 secondary ones. We received 135 valid responses from employees working in 3 and 4-star hotels and statistically analyzed the data. All our research hypotheses were tested using linear regression, 6 of them being supported.

Key words: *orientation towards innovation, participative decision-making, firm performance, hotels, Romania.*

JEL Classification: *D70, L25, L83, O30.*

I. INTRODUCTION

At organizational level, the orientation towards innovation is a less studied topic in the international field literature. According to Siguaw, Simpson and Enz (2006), there are only a few studies that acknowledge the orientation towards innovation as an independent or distinctive concept, which is often analyzed from the marketing, but not from the organizational perspective.

Orientation towards innovation is defined by Berthon, Hulbert and Pitt (1999) as the firms' actions to channel their efforts into inventing and perfecting superior products, whereas Homburg, Hoyer and Fassnacht (2002) define it as a function that takes into account the number of innovations offered by a company, the number of consumers to whom the innovations are addressed and the intensity of these innovations. Siguaw, Simpson and Enz (2006) define orientation towards innovation as "a learning philosophy in which firms have common standards and beliefs about learning and knowledge that pervade and guide all functional areas toward innovation". According to Hurley and Hult (1998), the orientation towards innovation can be assimilated with innovativeness and the capacity to innovate, innovativeness being defined as "the notion of openness to new ideas as an aspect of a firm's culture".

Also, in their study, Hurley and Hult (1998) analyzed the relationship between innovativeness and participative decision-making, which they define as "the degree of openness and involvement in decision-making". Sparrowe and Liden (1997, in Carmeli et al., 2009), stated that participative decision-making is often

regarded as a manifestation of group cohesion, cohesion that Whitney (1994, in Carmeli et al, 2009) associated with the amplitude of the interaction between group members.

Another concept we intend to analyze in our study regards hotel performance. At global level, the widely spread hotel performance indicators are RevPAR (Revenue Per Available Room), ADR (Average Daily Rate) and Occupancy (Bardi, 2007; Enz, Canina and Walsh, 2000; Enz and Canina, 2002; Claver-Cortés et al., 2008; Sainaghi, 2010).

The relationship between orientation towards innovation and firm performance was investigated by authors such as Hurley and Hult (1998), Hult, Hurley and Knight (2004), Zhou et al. (2005), Tajeddini (2011), Zehir, Altindag and Acar (2011), Engelen et al. (2014) or Pesämaa et al. (2013). In the study that Zhou et al. (2005) developed in order to analyze the relationship between orientation towards innovation and performance, they concluded that the firms which are more oriented towards innovation have a high level of confidence in being performant in the future. Also, a positive relationship between orientation towards innovation and firm performance was identified by Pesämaa et al. (2013). In the hotel industry we identified only a few studies analyzing this aspect, belonging to Grisseemann, Plank and Brunner-Sperdin (2013) or Tajeddini and Trueman (2012).

Tajeddini and Trueman (2012) have proven that there is a positive relationship between the orientation towards innovation and performance in the hospitality industry. In order to assess performance, the authors have taken into account the return on investments, sales and profit margin and for the orientation towards

innovation they focused on innovation acceptance inside the organization, innovation acceptance by the organization's management or the seeking for innovative ideas. Also, Grisseman, Plank and Brunner-Sperdin (2013) established that there is a positive relationship between the two concepts, by taking into account the mediating effect of the firm's innovative behavior.

Until now, in the case of the Romanian hotel industry, only our recent studies have provided empirical evidence on the orientation towards innovation (Author 1, 2014; Author 1 and Author 2, 2016), and, as we have shown, none on the relationship between orientation towards innovation and hotel performance or participative decision-making. Therefore, we consider that our study can be groundbreaking for the investigation of these relationships in the context of the Romanian hospitality research.

II. RESEARCH METHODOLOGY

As mentioned above, we base our research on three variables or constructs: orientation towards innovation, participative decision-making and hotel performance.

Although orientation towards innovation, our first construct, is often assimilated to innovativeness – which reflects an organization's openness to new ideas or its innovative potential –, in our research, we consider it as a multi-dimensional construct, formed by the management's openness towards innovation and the employees' involvement in the innovation process. We took into account this approach because the openness towards innovation is often understood as simply as receptivity to innovation, and not truly as the management's intention and involvement in creating a favorable climate to innovate. The openness towards innovation, as a dimension of the orientation towards innovation was also encountered in Zhou et al. (2005) and Siguaw, Simpson and Enz's (2006) studies.

The second dimension of our first construct, the employees' involvement in the innovation process was analyzed by Amabile (1997), who stated that the orientation towards innovation should not come only from the organization's management, but it must also be shared by the employees. Also, Andries and Czarnitzki (2012), analyzed innovation from the perspective of top-management's and employees' involvement, in accordance to Mintzberg and Waters (1985), Burgelman (1983) and Stopford and Baden-Fuller's (1994) statements, according to which the firms' strategies are not always top-management driven. Thereby, a trend was started which highlights the essential role of the employees in the innovation process, being expected that they will recognize the opportunities that will appear.

Our second construct, participative decision-making, is mainly based on the idea that managers should involve employees in the decision-making

process. This is a key topic, especially in the hospitality industry, because employees are directly interacting with the customers (guests), therefore they are more familiar with their problems. Due to the fact that it is the result of a group interaction, participative decision-making can support a firm's innovation activity especially because by requesting the employees' opinion, the manager allows himself opportunities to hear several new ideas that can ease problem solving in the organization and also, because it can awake the employees' feelings of belonging to a group or to the organization's culture, which can also enhance job satisfaction and the will of taking part to the organization's welfare.

The third variable taken into account in our study is hotel performance. According to Saunila and Ukko (2012), there are several ways to measure performance: directly or indirectly, objectively or subjectively, financially or non-financially. In our research we assessed performance objectively, which means that we choose different quantitative measurable performance indicators. Even if there is a vast variety of performance indicators, based on the access we had to this kind of data and on our findings in the hotel performance literature, we selected six of them: three indicators that are specific to hotel industry (*occupancy* – see Enz, Canina and Walsh, 2001; Pine and Phillips, 2005; Orfila-Sintes, Crespi-Cladera and Martinez-Ros, 2005; Bardi, 2007; Claver-Cortés et al., 2008; Chen T-H., 2009 and 2011; Orfila-Sintes and Mattsson, 2009; Chen M-H., 2010 and 2011; Sainaghi, 2010 and 2011; Assaf and Barros, 2011 –, *gross profit per room* – see Claver-Cortés et al., 2008 – and *income per room* – see Claver-Cortés et al., 2008 and Chen T-H., 2009) and three general performance measurement indicators (*profit margin*, *return on assets (ROA)* and *total assets rotation*).

Profit margin, which indicates the business efficiency, was used as a hotel performance indicator by Sin et al. (2005) and Tajeddini and Trueman (2012). Our second performance indicator, return on assets (ROA) – that shows the business effectiveness – was used by Chen M-H. (2010 and 2011) and Sainaghi (2010 and 2011). The total assets rotation – that shows the value of sales generated by one monetary unit of assets – is a performance indicator we decided to include mainly because hospitality mobilizes high-value assets.

In our study we want to analyze whether there exists a relationship between the three variables presented above. Accordingly, we propose the following research model:

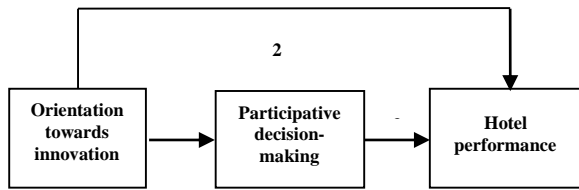


Figure 1 – Research model

Source: authors' own suggestion

In order to investigate the relationships between our variables, we will phrase three main research hypotheses.

The first hypothesis we will analyze refers to the relationship between orientation towards innovation and participative decision-making. Similar studies were undertaken by Hurley and Hult (1998), Mudrak, van Wagenberg and Wubben (2004), Webster (2004), Lim and Ofori (2007), Martinez-Ros and Orfila-Sintes (2009), Orfila-Sintes and Mattsson (2009). The most representative study for our approach is the one of Hurley and Hult (1998), who proved that there is a relationship between participative decision-making and innovativeness. Accordingly, we propose the following hypothesis:

H1: There is a positive relationship between management's orientation towards innovation and participative decision-making.

Because we had a dual approach to orientation towards innovation, we will also investigate the relationship between the two dimensions of orientation towards innovation and participative decision-making:

H1a: Management's openness towards innovation has a positive effect on participative decision-making.

H1b: Employees' involvement in the innovation process has a positive effect on participative decision-making.

Our second research hypothesis investigates the relationship between orientation towards innovation and hotel performance. Several studies have analyzed the relationship between performance and various aspects regarding innovation, innovativeness or orientation towards innovation (Hurley and Hult, 1998; Hult, Hurley and Knight, 2004; Zhou et al., 2005; Tajeddini, 2011; Zehir, Altinfag and Acar, 2011; Engelen et al., 2014; Pesäma et al., 2013). A positive relationship between the two variables has been identified by Pesäma et al. (2013) and Zehir, Altinfag and Acar (2011). For the hospitality industry, positive relationships between orientation towards innovation and hotel performance have been identified by Tajeddini and Trueman (2012) and Grisseman, Plank and Brunner-Sperdin (2013). Consequently, we formulate our second hypothesis:

H2: There is a positive relationship between management's orientation towards innovation and hotel performance.

Due to our bi-dimensional approach of orientation towards innovation, we propose to investigate the relationships between its dimensions and hotel performance as well:

H2a: Management's openness towards innovation has a positive effect on hotel performance.

H2b: Employees' involvement in the innovation process has a positive effect on hotel performance.

The third hypothesis focuses on analyzing the relationship between participative decision-making and hotel performance. The influences of decision types or decision-making processes on the firms' performance have been analyzed by Goll and Rasheed (2005), Zehir and Özşahin (2008), Carmeli et al. (2009) and Elbanna and Naguib (2009), a positive relationship between participative decision-making and firms' performance being identified by Carmeli et al. (2009). Accordingly, we propose the following research hypothesis:

H3: Participative decision-making has a positive effect on hotel performance.

To collect data on orientation towards innovation and participative decision-making, a questionnaire was developed. The questions regarding the above mentioned constructs were developed using 5 point Likert scales. For the orientation towards innovation (with its two dimensions), we developed a 13 items scale that included 6 items for the management's openness towards innovation and 7 items for the employee involvement in the innovation process. The scale regarding the management's openness towards innovation, containing 5 items developed by Zhou et al. (2005), was adapted to the hospitality industry, adjusted and improved with another item after receiving the respondents' feedback when pre-testing our questionnaire. The scale regarding the employees' involvement in the innovation process had 4 items belonging to Hurley and Hult (1998), Grisseman, Plank and Brunner-Sperdin (2013) and Zhou et al. (2005) and 3 others that we added. The scale for participative decision-making was developed by Hurley and Hult (1998) and slightly adapted for the hospitality industry.

We applied the questionnaire to 3, 4 and 5-star Romanian hotels, but received responses only from 3 and 4-star establishments. Our target sample included only hotel employees, and we received 135 valid responses.

Data regarding hotel performance were determined based on the firms' financial reporting available on the websites of the Ministry of Public Finances and of the National Authority for Tourism.

In order to analyze our data, we used SPSS (Statistical Package for the Social Sciences) for testing the scales' reliability, factor analysis and for testing our research hypotheses. Scale reliability was tested for two of our variables: orientation towards innovation and participative decision-making. The research hypotheses were tested using linear regression.

III. RESULTS AND DISCUSSIONS

Respondents' profile

In order to build the respondents' profile, data regarding education, seniority, gender and age have been requested in our questionnaire.

We considered that *education* is a good indicator of a firm's human resource capability to support the innovation process. Data regarding the hotel employees' level of education are presented below.

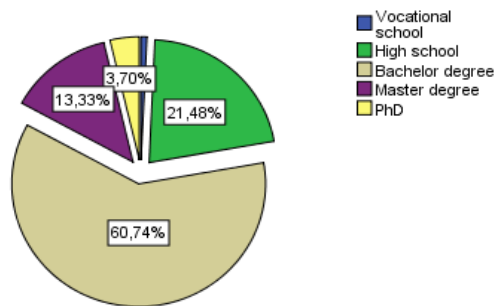


Figure 2 – Level of education

Source: authors' own analysis

From Figure 2 it can be noticed that the majority of Romanian hotel employees (77,77%) have a university degree (60,74% have a bachelor degree, 13,33% a master degree and 3,70% of them have even a PhD.). Most of them were receptionists or front-desk managers. Based on the elevated percentages for high-education, we can conclude that, theoretically, the hotels we investigated have the potential to innovate.

Another aspect we took into consideration, based on the assumption that it can also be a factor that fosters the innovation process in a hotel, was *seniority* (the time since the employee started to work in the hotel we investigated). 42,96% of the employees we questioned had been working in the same hotel between 1-5 years. Also, a very close percentage of employees stated that they had been working in the hotel for less than 1 year (41,48%), fact that is not necessarily a positive one with regard to the innovation activity of a hotel because recently employed individuals don't have a high level of organizational commitment and they might not be sharing the firm's values. However, as shown in Figure 3, the majority of employees (58,51%) have more than 1 year of seniority, therefore, the hotels have the necessary human resources to foster the innovation process.

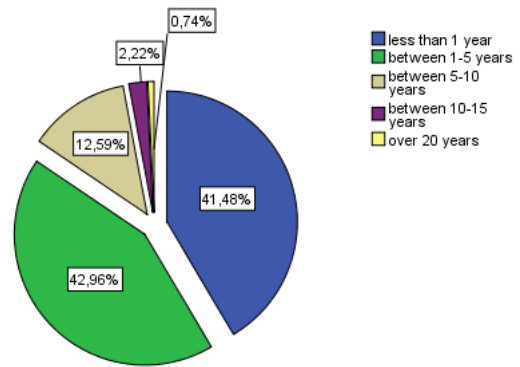


Figure 3 – Seniority

Source: authors' own analysis

The employees' *gender* was another aspect we analyzed. Our results, presented in the figure below, have shown that in the Romanian hotel industry, most employees are women (60,74%).

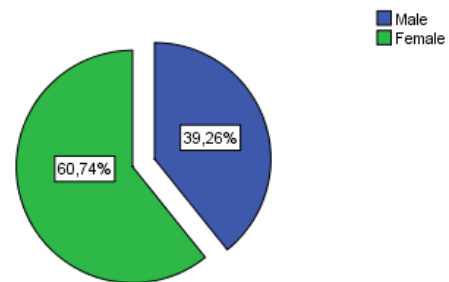


Figure 4 – Gender

Source: authors' own analysis

Also, we took into consideration the *age* of the employees, mainly because we consider that young employees are more innovative and open to new ideas. The majority of the employees are under 25 (48,89%) or between 26 and 35 (42,22%). Elderly employees represent less than 10% of our respondents (8,89%). The results are presented in Figure 5.

Based on the aspects presented above, the Romanian hotel employees are mostly women, aged under 25, having a seniority of 1 to 5 years in the hotel we investigated and a bachelor degree. Regarding the hotels' innovative capacity, based on their employees' profile, we can conclude that Romanian hotels have an elevated potential to innovate.

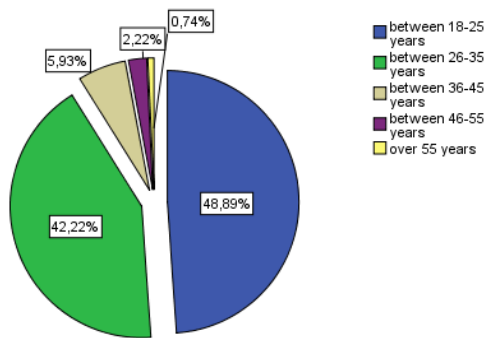


Figure 5 – Age

Source: authors' own analysis

Hypotheses testing

To check if the scales we used to measure management's orientation towards innovation and participative decision-making are reliable, we conducted the reliability analysis, using the alpha-Cronbach's coefficient. According to Pallant (2011, apud Nunnally, 1978 and DeVellis, 2003), in order for the scale to be reliable, the value of alpha-Cronbach's coefficient must be higher than 0,7. For both orientation towards innovation and participative decision-making, a factor analysis was undertaken only if the following two prerequisites were accomplished: a 0,05 significance of Bartlett's Test of Sphericity and a higher than 0,5 value of Kaiser-Meyer-Olkin's statistic (Colman and Pulford, 2006). We retained only factors that had an Eigenvalue higher than 1 and a factor loading cut-off of 0,5. After conducting a Principal Component Analysis, no item was excluded.

For the management's orientation towards innovation, reliability analysis revealed a 0,876 level of alpha-Cronbach's coefficient in the case of the management's openness towards innovation and a 0,906 level of alpha-Cronbach's coefficient in the case of employees' involvement in the innovation process. Both the values we obtained indicate that our scales' reliability is optimal or excellent. The value of alpha-Cronbach's coefficient in the case of orientation towards innovation is 0,853, which indicates an optimal scale reliability.

In the case of participative decision-making, the reliability analysis revealed a 0,771 level of alpha-Cronbach's coefficient, slightly lower than the one obtained by the developers of this scale, Hurley and Hult (1998) – 0,80 – but close enough to this value. A value of 0,709 of the KMO's statistic and a significance level of 0,01 of Bartlett's Test of Sphericity, allowed us to undertake the factor analysis. We extracted one factor that explains 52,99% of the total variance of the five items of the scale. With factor loadings ranging between 0,525 and 0,830, we did not consider it was necessary to exclude any items.

In order to test our hypothesis, we used linear regression. We accepted the hypothesis only if the

significance level was less than 0,05 ($\alpha < 0,05$) and assessed the intensity of the relationship between the analyzed variables by taking into account the standardized coefficient β . The sign of β (+ or -) is indicating the direction of the correlated variables. Hence, if $\beta < 0$, the relationship is negative, if $\beta = 0$ there is no relationship and if $\beta > 0$ it means that the relationship is positive.

The first hypothesis (H1) investigates the relationship between orientation towards innovation and participative decision-making. The results support our hypothesis, therefore we can say that the management's orientation towards innovation, with both its dimensions (management's openness towards innovation – H1a, and employees' involvement in the innovation process – H1b) has a strong and positive effect on participative decision-making (Table 1). In other words, we can say that the improvement of management's orientation towards innovation will also improve the decision-making in hotels.

Table 1. Results for testing H1, H1a and H1b

Independent variable	Dependent variable	Standardized Coefficients β	t	Sig.
Management's orientation towards innovation	Participative decision-making	0,688	10,948	0,000
Management's openness towards innovation	Participative decision-making	0,296	3,149	0,002
Employee involvement in the innovation process	Participative decision-making	0,441	4,686	0,000

Source: authors' own analysis

Our second hypothesis (H2) analyzed the relationship between management's orientation towards innovation (with the two dimensions) and the six selected hotel performance indicators. The results of our analysis are presented in the Table 2.

From Table 2 it can be noticed that management's orientation towards innovation has a positive effect only on two out of six performance indicators: occupancy and total assets rotation. Accordingly, the improvement of the management's orientation towards innovation will generate a moderate increase of hotel occupancy ($\beta = 0,363$) and a slight increase of total assets rotation ($\beta = 0,240$).

On what concerns the influence of the two dimensions of management's orientation towards innovation on hotel performance, we have found a positive effect of management's openness towards innovation on hotel occupancy ($\beta = 0,279$) and total assets rotation ($\beta = 0,314$). For the second dimension, the employees' involvement in the innovation process, we have not identified any effect on the hotel performance indicators, therefore this hypothesis was not supported.

Table 2. Results for testing H2, H2a and H2b

Independent variable	Dependent variable	Standardized Coefficients β	t	Sig.
Management's orientation towards innovation	Occupancy	0,363	4,492	0,000
Management's orientation towards innovation	Profit margin	0,139	1,612	0,109
Management's orientation towards innovation	Return on assets (ROA)	0,138	1,605	0,111
Management's orientation towards innovation	Total assets rotation	0,240	2,837	0,005
Management's orientation towards innovation	Gross profit per room	0,001	0,012	0,990
Management's orientation towards innovation	Income per room	-0,113	-1,308	0,193

Source: authors' own analysis

The third hypothesis we investigate, regarded the effect of participative decision-making on hotel performance. Running a linear regression, we have identified a positive effect of participative decision-making on three out of six hotel performance indicators: occupancy ($\beta = 0,215$), profit margin ($\beta = 0,232$) and total assets rotation ($\beta = 0,223$) (Table 3).

Table 3. Results for testing H3

Independent variable	Dependent variable	Standardized Coefficients β	t	Sig.
Participative decision-making	Occupancy	0,215	2,541	0,012
Participative decision-making	Profit margin	0,232	2,739	0,007
Participative decision-making	Return on assets (ROA)	0,164	1,905	0,059
Participative decision-making	Total assets rotation	0,223	2,626	0,010
Participative decision-making	Gross profit per room	0,010	0,116	0,908
Participative decision-making	Income per room	-0,126	-1,459	0,147

Source: authors' own analysis

Consequently, we are admitting that participative decision-making has a positive effect on

hotel performance, reflected by the following indicators: hotel occupancy, profit margin and total assets rotation.

IV. CONCLUSIONS

The main objective of our research was to analyze the relationships between the management's orientation towards innovation, participative decision-making and hotel performance. In order to accomplish this, we formulated 3 main research hypotheses and 4 secondary ones, totally investigating 27 connections between our variables.

First of all, we investigated the relationship between the management's orientation towards innovation (with its two dimensions – management's openness towards innovation and employees' involvement in the innovation process) and participative decision-making. All three research hypotheses were supported; hence we can conclude that management's orientation towards innovation has a positive and significant effect on participative decision-making. Accordingly, managers who are orientated towards innovation tend to adopt decision in a participative manner.

The second relationship we analyzed regarded the effects of management's orientation towards innovation on hotel performance. From the six performance indicators taken into account, we established a positive effect of the management's orientation towards innovation on hotel occupancy and total assets rotation. These are two essential hotel performance indicators that also reflect the presence of a performant management in the hospitality industry. A higher influence is exerted on occupancy, which could indicate that the management's orientation towards innovation is correlated with occupancy. From the two dimensions of the management's orientation towards innovation, only the management's openness towards innovation has a positive effect on two of our hotel performance indicators: occupancy and total assets rotation. Also, it is noticeable that the management's orientation towards innovation does not influence any of the performance indicators that take into account the profit.

The third relationship we investigated regarded the effects of participative decision-making on hotel performance. Three out of six performance indicators are influenced by the participative decision-making: occupancy, profit margin and total assets rotation, the highest effect being exerted on profit margin. This finding suggests that when taking decisions in a participative manner, a manager contributes to the increase of the company's efficiency.

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