

## **ENTREPRENEURIAL ORIENTATION OF HOTELS AS A FACTOR OF FUTURE DEVELOPMENT**

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### **Abstract**

*Entrepreneurship has been attracting special attention of researchers in recent decades, as it has positively contributed to the development of the economy and enterprises. The result of entrepreneurial activities are innovations, which, in the conditions of unstable and changing environment, have a key role of changes' stabilizer. The paper aims to assess the development and contribution of entrepreneurial activities and innovations to the business of companies, with special emphasis on their importance for the hotel industry. The methods of analysis and synthesis and the methods of induction and deduction are applied in the paper in order to summarize the presented previous theoretical and practical knowledge. It can be concluded that entrepreneurial and innovative activities in hotels can make a great contribution to the perception and exploitation of changes caused by the Covid-19 pandemic.*

**Key Words:** *entrepreneurship, innovation, hotel management, competitiveness*

**JEL classification:** *L26, O31*

### **Introduction**

In recent decades, the sector of small and medium enterprises (SMEs) and entrepreneurs has occupied the special attention of researchers and entrepreneurs. This is due to research showing that higher levels of entrepreneurial activity contribute positively to employment growth,

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economic growth, poverty reduction and innovation development (Lafuente & Vaillant, 2013; Lita et al., 2020). The economic environment of economically developed countries provides support for the development of entrepreneurship and innovative activities that encourage competition and productivity growth (Lita et al., 2020), high performance and satisfied customers.

The literature suggests that an entrepreneurial company is one that is committed to creativity that is a pioneer in incorporating innovation, willing to take risks and going ahead of its competitors in the market (Jalilvand et al., 2018). By developing entrepreneurial activities, companies create new knowledge needed to build new and improve existing skills, thus encouraging an innovative way of thinking of employees within the company (Jalilvand et al., 2018). Further, the literature suggests that entrepreneurship is still not sufficiently researched in emerging economies (Marcotte, 2014), so it would be important to investigate what contribution of entrepreneurship would be in the process of stimulating economic activities of these economies.

Entrepreneurship is closely related to innovation, thus many viewpoints can be viewed by interpreting the relationship between entrepreneurship and innovation (Dinesh & Sushil, 2021). Innovation represents the company's tendency to realize new ideas (Boonchoo et al., 2013) in order to improve business efficiency (Lekić et al., 2018), competitive advantage and profitability of the company (Njoroge et al., 2019). Entrepreneurship and innovation frameworks have always been useful for small companies in identifying, understanding and managing innovation processes (Dinesh & Sushil, 2021). The hotel's ability to innovate is an important tool for managing change in a dynamic hotel business environment (Rodríguez-Victoria et al., 2017; Njoroge et al., 2019). However, the literature still does not provide an answer to the question of how hotels can achieve long-term economic benefits by implementing an innovation strategy (Njoroge et al., 2019).

The paper aims to assess the development and contribution of entrepreneurial activities and innovations to the business of companies, with special emphasis on their importance for the hotel industry. The methods of analysis and synthesis and the methods of induction and deduction are applied in the paper in order to sublimate the presented previous theoretical and practical knowledge. In addition to the introduction and conclusion, the paper contains four more parts. The first

part describes entrepreneurial activities, with special reference to the positioning of Serbia as an emerging economy. The second part of the paper describes the importance of developing entrepreneurial orientation in hotels. The third and fourth parts of the paper deal with innovations, as a result of entrepreneurial actions, with a special emphasis on the importance of innovations in the hotel industry.

### **Entrepreneurial activities in emerging economies**

Entrepreneurial activities are characterized by innovation, creativity, risk-taking, flexibility and growth (Lita et al., 2020). These characteristics lead to rapid adaptation to market changes and the creation of a competitive advantage. Entrepreneurs are at the centre of entrepreneurial activities. Entrepreneurs have a significant role to play in discovering good opportunities and generating entrepreneurial ideas (Lafuente & Vaillant, 2013) that usually result in new or improved products. Entrepreneurial behaviour focuses on the aspect of organizational creation and generation and aims to protect the company from uncertainty (Hossain et al., 2022).

To take advantage of business opportunities, entrepreneurs use their skills to define solutions to problems and challenges in the business environment, resulting in the introduction of new products/services (Ngoma et al., 2021). Activities that help entrepreneurs adapt to changes in the environment are activities of creation and innovation. Creativity is an activity that precedes innovation. It is a key factor in entrepreneurship because “it encourages organizations to seek new opportunities or solutions that require continuous learning, experimentation and innovation in finding new products and services or improving certain technical aspects of existing products/services” (Ngoma et al., 2021, p.604). Hossain et al. (2022) believe that the essential element of a company's business is the process of creative behaviour. Creativity leads to the definition of ideas, which, with the support of resources, can be transformed into innovations. Knowledge and the learning process play a particularly important role in the process of generation and creation (Masango & Lassalle, 2020). Entrepreneurial learning is a dynamic process in which technology-based ventures expand employee skills for innovation, creating their desired behaviors in company (El-Awad et al., 2017).

Entrepreneurship in Serbia, after several years of stagnation, is on the rise. Based on the data of the World Bank (2022), shown in Table 1, entrepreneurship in Serbia in 2020 in terms of the number of new limited

liability companies, shows better results compared to the results of the previous 8 years. When it comes to new business density, Serbia has recorded a slight growth trend since 2014 (Table 1). The number of closed entrepreneur companies is 7.790 in 2020 (World Bank, 2022). According to the data of the Statistical Office of the Republic of Serbia, in 2018, the entrepreneurs employed 271.721 employees, which is 10% more than in 2016 (Burzanović, 2020). The same source shows that entrepreneurs in the Accommodation and Food Services sector employ 36.341 people, which is 13% of the total number of employees in the entrepreneurship sector in RS. Based on the value of the Global Entrepreneurship and Development Institute (2021), the Global Entrepreneurship Index of Serbia is 26.4, which ranks it 74th.

Table 1: *New entrepreneurs*

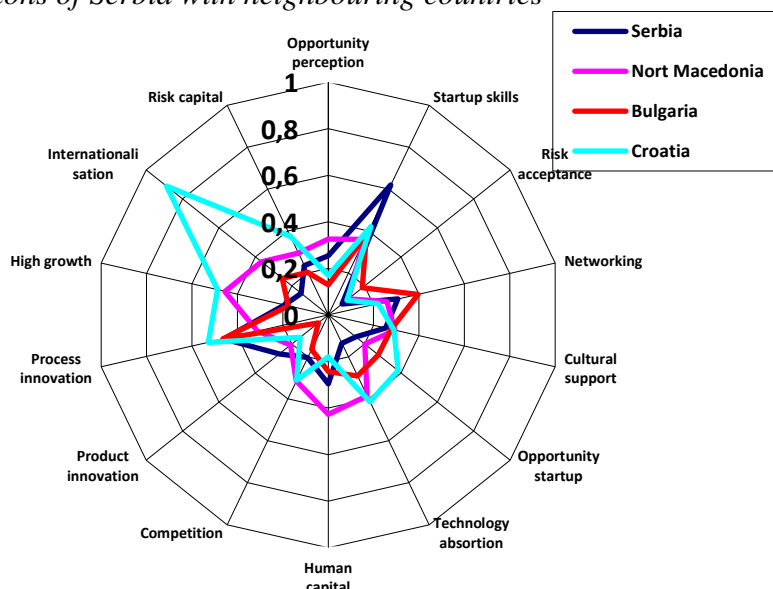
<b>Year</b>	<b>Number of new limited liability companies</b>	<b>New business density</b>
2006	11.021	2.22
2007	11.337	2.28
2008	10.958	2.20
2009	9.814	1.98
2010	9.333	1.88
2011	9.319	1.69
2012	8.505	1.74
2013	8.558	1.77
2014	8.081	1.69
2015	7.929	1.67
2016	8.288	1.76
2017	8.671	1.86
2018	8.671	1.88
2019	9.034	1.98
2020	9.030	1.99

Source: *World Bank. Entrepreneurship database, (January 15, 2022)*  
<https://www.worldbank.org/en/programs/entrepreneurship>

Based on the data of the Global entrepreneurship and development institute (2021), a matrix of entrepreneurship components was made: entrepreneurial attitudes (opportunity perception, start-up skills, risk acceptance, networking, and cultural support), entrepreneurial abilities (Opportunity start-up, technology absorption, human capital, competition)

and entrepreneurial aspirations (product innovation, process innovation, high growth, internationalisation, risk capital). Countries in an environment with similar GDP per capita (Northern Macedonia, Bulgaria, Croatia) were taken as comparison countries.

Figure 1: *Benchmarking analysis of the development of components of entrepreneurial attitudes, entrepreneurial abilities and entrepreneurial aspirations of Serbia with neighbouring countries*



Source: *Compiled on the basis of data of Global Entrepreneurship and Development Institute, <https://thegedi.org/tool/>, (January 4, 2022)*

Based on the data shown in Figure 1, it can be concluded that Serbia is competitive in relation to other compared countries in the field of Start-up skills ( $i = 0.62$ ). Serbia achieves the worst results in the area of Risk acceptance ( $i = 0.076$ ). North Macedonia is the most competitive in the areas of High growth ( $i = 0.455$ ) and Human capital ( $i = 0.427$ ); Bulgaria is competitive in the field of Process innovation ( $i = 0.464$ ), while Croatia is the most competitive in the field of Internationalization ( $i = 0.888$ ). What is worrying is that Serbia has the lowest value of the index in the area of Opportunity start-up, Technology absorption and Internationalization in relation to the analysed countries. Based on the average values of the index for the observed components, Serbia achieves the best results in the field of entrepreneurial abilities.

### **Entrepreneurial orientation in hospitality industry**

In order to achieve sustainability and competitiveness in a dynamic and competitive environment, hotel management must understand the characteristics of the hotel. This primarily refers to the service and labor-intensive nature of activities, sensuality and high dependence on the engagement of human resources. Slavković & Ognjanović (2018) cite the knowledge of employees as a significant factor in the success of the hotel, since employees are directly involved in the process of producing services. The Global Entrepreneurship Monitor (2021) reports that the pandemic has had a rather adverse effect on the hotel industry as it has led to mass layoffs and closures. Practice shows that entrepreneurs have the power to see the opportunity and the chance, as well as to find a solution in crisis situations. In the 43 economies analysed, it was observed that there are nine economies in which more than half of the respondents who start or run a new business believe that the pandemic has led to new business opportunities (Global Entrepreneurship Monitor, 2021). Having in mind the current situation in the hotel industry as well as the characteristics of this economic branch, there is a need for the development of entrepreneurial activities in order to positively take advantage of the changes.

At the hotel level, we can talk about entrepreneurial orientation. Entrepreneurial orientation encompasses the hotel's overall propensity for entrepreneurial activity (Boonchoo et al., 2013). Njoroge et al. (2020) also talk about the entrepreneurial orientation of the hotels. Entrepreneurial orientation is reflected through the processes, practices, and culture of the company (Boonchoo et al., 2013). An entrepreneurially oriented organization "is one that includes engages in product-market innovation, undertakes somewhat risky ventures, and makes 'proactive' innovations" (Boonchoo et al., 2013, p. 66). The authors Lita et al. (2020) link entrepreneurial orientation to proactive behaviour - how we look for and get opportunities in some future situations. Entrepreneurial orientation directs hotel management towards the creation of quality hotel services and permanent work on their improvement. This approach can be an important strategic tool for hotels that want to maintain market share, improve performance and guarantee market survival (Njoroge et al., 2020).

Previously conducted research also speaks about the importance of the topic of entrepreneurial orientation of hotels. The authors Njoroge et al. (2020) recommend that hotel management opt for one of the following

dimensions of entrepreneurial orientation: innovativeness, competition approach and proactive-risk taking as a combination of pro-activeness and risk-taking attributes in order to better implement entrepreneurial activities. On the other hand, Ahmad (2015) recommends different entrepreneurial strategies of hotels in order to ensure survival and prosperity in the market: “competitive pricing, improving the marketing and channels of promotion, enhancing the quality of service and providing superior customer service” (p. 328). Boonchoo et al. (2013) discuss the importance of entrepreneurial marketing, both for young hotels and large hotels. The entrepreneurial orientation of hotel management encourages the process of hotel internationalization (J.C. de Correia et al., 2019); contributes to the strategic flexibility and sustainable competitive advantage of hotels (Hossain et al., 2022).

### **Innovation as a product of entrepreneurial activities**

Innovation is a significant factor shaping entrepreneurship in the digital age (Dinesh & Sushil, 2021). Innovativeness can be defined as “the extent to which an individual adopts innovation relatively earlier than others, where “relevantly earlier” means the real, not perceived, time of adoption” (Hossain et al., 2022, p. 6). Innovation is a multi-stage process that begins with creativity in which inventors use their knowledge in order to create an inventions (Qandah et al., 2021). According to the Global Innovation Index (Dutta, 2012), innovation is the result of several inputs that institutions combine: human capital and research, infrastructure and market and business sophistication (Arabiyat et al., 2019). It should also be emphasized that entrepreneurs have a key role to play in driving innovation culture in a company (Dinesh & Sushil, 2021).

In order to create the conditions for creating innovation, it is necessary for entrepreneurs to provide resources and introduce their employees to the culture of innovation. Lita et al. (2020) believe that entrepreneurial orientation drives the innovation process. In order to create effective innovations, it is necessary for the company to understand the needs and desires of the market in terms of acquiring up-to-date knowledge (Qandah et al., 2021). Schumpeter’s theory towards product innovation involves the development of new products that meet customer needs (Schumpeter, 1934; Dinesh & Sushil, 2021). The development of knowledge for the purpose of creating innovations is conditioned by the availability of resources in the company (Kessler et al., 2015). Here, it is primarily thought that the availability and quality of human resources, i.e., the amount of

knowledge that employees have and can use to create innovations. Kessler et al. (2015) believe that the possibility of innovation in the organization is largely determined by the freedom given to actors and subunits for the development and implementation of innovative solutions.

In addition to sustainability in a competitive environment, innovation also contributes to the overall performance of companies. Certain authors (Dinesh & Sushil, 2021) state that a company's performance depends on dynamic capabilities aimed at developing innovation. Lita et al. (2020) believe that companies need to enhance organizational innovation in order to boost organizational performance. The same authors state that strategies and processes combined with innovation are key to achieving high performance. By investing in innovative activities, in order to meet the different needs of customers, companies build a stable market position and competitive advantage, which also affects the overall performance of companies.

The literature provides an answer to the question of what factors can contribute to the development of innovation. Innovative entrepreneurship is conditioned by: “interaction between individuals and the national institutional context in which companies are formed” (Arabiyat et al., 2019, p. 368); “individual attributes, such as risk tolerance, entrepreneurial alertness, education and former entrepreneurial knowledge” (Fuentelsaz et al., 2018; Fuentelsaz et al. 2019; Arabiyat et al., 2019, p. 370) entrepreneurial orientation and organizational culture (Lita et al, 2020) and the ability to combine knowledge (Qandah et al., 2021). Anthonisz (2014) states that the success of innovation development should be considered through two key issues. The first refers to resources (human capital, tangible, intangible resources, financial resources). The second is that the organization manages them. Marcotte (2014) suggests that innovation can be assessed using patents and factor productivity indicators. The development of innovation implies that the company continuously invests in the development of research and development functions, market analysis and knowledge and skills of human resources. These activities can sometimes put a heavy strain on a company's finances, but the benefits of successful innovation are great. These benefits can be reflected in financial benefits, competitive advantage, stable market position and building loyal relationships with customers. The latter benefit is especially significant for service companies, such as hotels.



### **Innovation in hospitality industry**

With the advent of the information age, innovation has found a key role in the evolution of social and economic structures, which can be equated with the economy based on innovation (Allameh, 2018). In service industries, such as tourism and hospitality, innovation can be defined as a process that contributes to the interactive development of hotel companies within the destination, through the offer and development of new or improved processes to meet tourism needs (Rodríguez-Victoria et al., 2017). This thinking states that the need to develop innovations in the hotel industry is growing and equalizing with other sectors (Kessler et al., 2015).

By basing hotel business on innovation development, it promotes hotels' "sustainable growth, resource management long-term profitability, customer satisfaction and value chain management" (Njoroge et al., 2019). However, it should be mentioned that due to the nature of the business, most innovations in tourism and hospitality are incremental improvements of existing offerings (Kessler et al., 2015). The Covid 19 pandemic crisis (Marković et al., 2020) negatively affected the entire hotel industry and led to a redistribution of value in this industry. The basic meaning of entrepreneurial view is that changes, favourable or unfavourable for the company, can represent a new opportunity that can be used by innovative activities and services.

Innovations in the hotel industry are based on what is value-oriented for customers (Anthonisz, 2014), i.e., on their wishes and needs, the successful fulfilment of which leads to a base of loyal customers (Sarmah & Rahman, 2018; Ziyae et al., 2022). It can be assumed that customers who have positive experiences with the values provided by innovation will continue to use the services and thus contribute to the growth of the company (Anthonisz, 2014).

Ratna et al. (2018) believe that differentiation and innovation are key things in providing a customer experience. In order to better provide customer experience, Sarmah & Rahman (2018) propose the use of service systems, which affects the way available resources are used to create value. In the whole process of innovation and creating a satisfied guest, hotel management must manage the infrastructure. The infrastructure needed to innovate in hotel services is related to technology, human infrastructure, capital and appropriate space and place (Ziyae et al., 2022). In support of the necessary resources to support the development of service innovation,

appropriate theories have been developed to encourage innovative hotel behaviour. Ziyae et al. (2022) believe that the dynamic capabilities view is related to service innovation. Dynamic capacities represent significant internal resources that have the ability to create superior value for customers.

Successful implementation of the innovation strategy in the hotel industry aims to create standardized services; service quality improvement; preparation for the introduction of innovation and lastly creating support for the use of technology (Njoroge et al., 2019). The key innovations recognized in the hotel literature as important are: “fully integrated management systems; electronic check-ins; radio-frequency identification tags used in laundries and automated uniform dispensing; hotel lobbies as fully integrated social media centres with access to tablets, headphones, touch screens; and iPads in hotel rooms that provide the consumer with the option to alter the lighting, heating, order room service at the touch of a button” (Anthonisz, 2014, p. 357). Kessler et al. (2015, p.1707) define five factors of organizational innovation of hotels: “cooperation as trigger for change; acceptance of change; resource based scope for change; pluralism as a trigger for change; and loose coupling and error-tolerance”.

Choosing a hotel to improve and innovate its services is not an easy step and carries with it certain risks. The focus must always be on hotel guests and their needs. Sarmah & Rahman (2018) recommends that users directly and indirectly participate in innovation, which depends primarily on psychological factors. Rodríguez-Victoria et al. (2017) believe that hotels must turn to better business organization, as they prove that clustering has a positive impact on hotel innovation and thus on hotel competitiveness. Allameh (2018) recommends managing the dimensions of intellectual capital to encourage innovation in the hotel industry. As the development of hotel business is based on different types of knowledge (Ognjanović, 2017), the authors Ziyae et al. (2022) warn that inadequate management and lack of knowledge are critical factors leading to the failure of hotel service innovation.

Investing in service innovation for hotels means not only a good market position and competitive advantage, but also satisfactory performance. Njoroge et al. (2019) conclude that innovation strategies are positively related to economic sustainability performance. To assess the success of innovation in hotels, Ottenbacher (2007) suggests three key indicators: market success, financial success and employee-related success. Perhaps it

is especially important now in the period of crisis in the hotel business to work on innovations, so that the effects of the crisis are less reflected in the profitability of the hotel. Innovation activities imply a proactive approach and looking to the future so that management is ready to enter the fight against the crisis.

### **Conclusion**

Based on a review of previous research, two conclusions can be drawn. First, in relation to the compared countries in terms of the development of entrepreneurial activities (entrepreneurial attitudes, entrepreneurial abilities and entrepreneurial aspirations), Serbia is competitive in the field of Start-up skills, while it achieved the worst results in terms of Risk acceptance. North Macedonia is the most competitive in the field of High growth and Human capital, Bulgaria is competitive in the field of Process innovation, while Croatia is the most competitive in the field of Internationalization. What is worrying is that Serbia has the lowest value of the index in the area of Opportunity start-up, Technology absorption and Internationalization in relation to the analysed countries.

Secondly, hotels have shown in the previous period that they are continuously working on the development of innovations and entrepreneurial orientation. Entrepreneurial orientation in the hotel industry means that hotel management has a developed entrepreneurial spirit that will stimulate employees to think and build a culture of behaviour and actions of entrepreneurs. This is not an easy task. Employees should first be introduced to the benefits of entrepreneurial behaviour and then focus on gathering and disseminating the knowledge necessary for such action and behaviour.

The result of the expansion of the entrepreneurial orientation of the hotel leads to the creation of innovations. The original goal of the hotel was to provide accommodation and food services. The impression is that there were no opportunities here to create innovations and improve existing services. However, this was denied by good hotel practice. The offer of hotels through the organization of various events, wellness and spa program, offering different cuisines, respecting the approach of "green hotels", showed that the hotel industry has many opportunities to improve business and create innovations.

The pandemic caused by the Covid-19 virus only further encouraged the development of the hotel's entrepreneurial orientation. As entrepreneurs of the initiative are characterized by flexibility and the ability to adapt to change, it is believed that good hotel management that is entrepreneurially oriented can find new opportunities in the new situation and use the current crisis in the hotel industry as a chance to create something new and innovative.

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