

# *The Impact of Entrepreneurial Characteristics and Organisational Culture on Innovativeness in Tourism Firms*

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Entrepreneurial characteristics and organisational culture have an impact on the innovative capability of a company. Therefore, our research tries to examine the influence of different individual entrepreneurial characteristics and organisational culture dimensions on corporate innovativeness and any direct subsequent company growth. This paper proposes the classification and measurement of five dimensions of entrepreneurial orientation; risk taking, proactiveness, competitive aggressiveness, autonomy and customer orientation and 3 dimensions of organisational culture; power distance, uncertainty/avoidance and individualism/collectivism with the objective of explaining service innovation performance. Specifically, we try to show the differences between the importance of different entrepreneurial characteristic and each organisational culture dimension on a product/service innovation. To this end, a survey was performed on a sample of tourism companies in Slovenia. The data was analysed by employing univariate and multivariate data analyses techniques. Data gathered from the survey suggests that entrepreneurial orientation and organisational culture dimensions positively influence innovativeness in tourism companies. Empirical evidence supports the view that a company with more developed entrepreneurial characteristics and organisational culture will be more innovative. This paper is one of the first to find empirical support for the role of entrepreneurial characteristics and organisational culture in tourism companies in Slovenia. Despite a number of limitations, it offers a picture of how these dimensions should be developed in order to enhance innovation. It also presents managerial implications, as managers are responsible for the forming of these dimensions.

*Key Words:* tourism, innovativeness, organisational culture, entrepreneurial orientation

*JEL Classification:* M14, L80, Z32

## **Introduction**

The innovation capabilities of a company can reasonably be considered a key factor of company performance. This paper seeks to focus on two

determinants of tourism companies' innovativeness: entrepreneurial orientation and organisational culture dimensions. It highlights the importance of these determinants in the tourism sector. The role of the entrepreneurial orientation of the firm and the correlation with innovation capacities is the research topic of several authors (Avlonitis and Salavou 2007; Ahlin, Drnovšek, and Hisrich 2014). From the most commonly used dimensions of entrepreneurial orientation, we decided to focus on (1) proactiveness, (2) risk-taking, (3) competitive aggressiveness, (4) autonomy and (5) customer orientation. In studies dealing with the topic of organisational culture and its associated factors, the researchers took into account different typologies. For the aim of our research, the Hofstede (2001) typology was employed, addressing three dimensions of organisational culture, namely (1) power distance, (2) uncertainty/avoidance, and (3) individualism/collectivism. The main purpose of our paper is to identify the key dimensions of entrepreneurial orientation and of organisational culture that have a greater influence on innovativeness and thus to offer a better understanding of how to foster the innovation process. This paper begins with the review of previous studies in the area of innovativeness in tourism moreover different constructs and measures of entrepreneurial orientation and organisational culture are compared. More empirical studies are needed in exploring this relationship

## **Theoretical Framework**

### ENTREPRENEURIAL ORIENTATION OF THE FIRM

There is a large volume of published studies describing the role of entrepreneurs. In 1755, a seminal work in the field of entrepreneurship was published by Richard Cantillon (1959), which tried to explain the differences between landowner, entrepreneur and employees. Cantillon defined the entrepreneur as an individual engaged in making profit; however in doing this he faces uncertainty. Schumpeter (1934) provided new insights about the entrepreneur and the entrepreneurial process with economic theory. He linked entrepreneurship with the innovation process as the key factor for the development of enterprises and the national economy. Schumpeter was interested in the entrepreneur phenomena primarily in terms of economic development. He defined the entrepreneur as a key figure in the development of entrepreneurship – the hero who has a vision. Later Kirchoff (1994) emphasises the role of small business in developing economies, and particularly in new job creation. He defined en-

entrepreneurship as the process of creating new value for the national economy mainly due to the emergence of new businesses and their growth.

Entrepreneurship is not only the creation of an organisation, it embraces the recognition of an opportunity (Kirzner 1999), risk taking (Stevenson and Jarillo 1990) and other processes including innovation. Innovation is an essential element of entrepreneurship (Hornaday 1992). Nasution et al. (2011) defined entrepreneurship as a process of growth through being creative and innovative in the identification and exploitations of opportunities. This process demands such entrepreneurial characteristics as risk taking, autonomy and proactiveness.

Entrepreneurial orientation was measured by Aktan and Bulut (2008). They focused on risk taking (what is the tendency to take risks when confronting competitors, how willing are employees to take risks, the support of the organisation of small and experimental projects although they may fail, how do managers favour aggressive posture aiming to maximise the exploitation of the company potential, is the term 'risk taker' seen positively, are employees encouraged to take risks and test new ideas), proactiveness (does the organisation initiate actions before competitors, does the company have a tendency to introduce novel ideas and products before competitors, is the company shaping the environment by introducing new products, technologies and processes or does the company merely react to competitors actions), competitive aggressiveness (the organisation makes use of bold, varying actions to achieve good performance, the company adopts very competitive behaviour, the firm has a strong will to increase the market share, also by reducing the competitors), and innovation (the organisation is creative and often tries new ideas, it frequently seeks out new ways to perform, employees are developing new products, the organisation is investing in new product development and in proprietary technologies). Proactiveness and risk taking were also studied by Avlonitis and Salavou (2007). In their study Kyrgidou and Spyropoulou (2013) analysed entrepreneurial skills, i.e. entrepreneurial capabilities (seeking new market opportunities, identifying goods and services that people want, exploiting high quality market opportunities, having special sensitivity toward market opportunities, identifying market opportunities that are better than others) and managerial capabilities (achieving results by organising and motivating people, organising resources and coordinating tasks, being able to delegate effectively, being able to supervise, influencing and leading people). In his study Littunen (2000) measured the need for achievement (work ethic,

pursuit of excellence, mastery, dominance) and locus of control (chance, internal, powerful others). A lot of authors (Bucik, Boben, and Hruševar-Bobek 1995; John, Naumann, and Soto 2008) focused on the big five personality traits; agreeableness (good rapport with peers, harmonious relationships with peers, believing in a trusting working relationship, the importance of agreement with peers), extroversion (aiming to attain the highest position in an organisation someday, looking for opportunities to start new projects, setting challenging goals, wishing to win, even if the activity is not very important, having the energy to keep going, finding change exciting), neuroticism (being confident, optimistic and able to make decisions wisely), openness (working best in an environment that allows for creativity, being innovative, open minded and always trying to complete tasks) and conscientiousness (being a responsible person, motivated to meet targets in jobs, working effectively so the most important things get done first and conducting business according to a strict set of ethical principles). Tajeddini (2010) analysed entrepreneurial orientation (relative to the competitors, the company has a higher propensity to take risks, a higher tendency to engage in strategic planning activities, a higher ability to identify customer needs and wants, a higher level of innovation, a higher ability to persevere in making our vision of the business a reality and a higher ability to identify new opportunities) and customer orientation (having regular measures of customer service, all the development is based on good market and customer information, knowing the competitors well, having a good sense of how customers value products and services, being more customer focused than the competitors, putting the customer's interest first and believing that their business exists primarily to serve customers). Chen (2011) examined the importance of a proactive personality (always looking for new ways to improve life, being excited when seeing the ideas turn into reality, wishing to be a champion for the ideas, even against others' opposition, being able to identify opportunities, always looking for better ways to do things, believing that no obstacle can prevent something from happening) in the hotel industry. Chang and Hughes (2012) investigated the leadership adaptability and risk-taking tolerance (willing to take financial risks and encourage the development of innovative marketing strategies, the employees are told that the company survival depends on it adapting to market trends, to be sensitive to the activities of the competitors and to meet customers' needs).

Having reviewed the literature, we decided to include the five charac-

teristics associated with a company's entrepreneurial orientation in our research, namely risk taking, proactiveness, competitive aggressiveness, autonomy and customer orientation. This selection of variables was also discussed with the focus group (10 participants), performed after the first draft of the questionnaire and the participant argued, that this was an appropriate set of variables for our study.

#### ORGANISATIONAL CULTURE

Although the concept of culture refers mainly to the ideas, customs, skills, and arts of an individual, many scholars have realised that this concept can also be applied to organisations – organisational culture. Aiming to foster the organisation development and efficiency, managers are making attempts to earn employee loyalty. They want employees to grasp the norms, values and objectives of the company, as these are important factors influencing their understanding of the organisational culture. Managers are responsible for introducing the organisational culture to employees and should always try to keep a learning environment in their organisation. If employees understand the importance and power of the organisational culture, this should lead to their increased loyalty towards the organisation and subsequently towards their performance improvement (Shahzad et al. 2012). Companies have recognised that in order to achieve a long-term performance, they have to develop an appropriate organisational culture. This task should be one of the strategically relevant and employees should be aware of what is important. Organisational culture influences many dimensions of company life. It is a key factor for how decisions are made, who takes them, who is promoted and rewarded, how employees feel, how they are treated, how the company collaborates with the environment, and so on. Employee attitudes and how they perform at work are influenced by organisational culture. Moreover, as in many studies the relationship between an organisation's culture and its performance has been proved, the survival and success of any company is indeed leaning on its culture (Ng'ang'a and Nyongesa 2012). We found it interesting to verify the applicability of Hofstede's measures of culture in tourism companies. We did so by following the Pratt, Mohrweis, and Beaulieu (1993) suggestions that future research should be performed using the measure of organisational culture developed by Hofstede et al. (1990). In their study Kim, Lee, and Yu (2004) mentioned the problems with inconsistent results regarding the link between organisational culture and company performance.

In the relevant literature different models of organisational culture can be found. Schein (1992) divided the dimensions of culture into three levels, namely (a) the most visible level, including artefacts and creations, (b) the next level down, including values that drive behaviours, and (c) the third level, including basic assumptions, which help us with the solutions to problems. Similarly in their study Kotter and Heskett (1992) determined two levels of culture. The first level is the deeper and embraces the values that are shared by the people in a group and persist as characteristics of the group (also if members of the group are changing). The second level is more visible and refers to the behaviour customs of an organisation (new employees are expected to follow these customs). Hofstede et al. (1990) classified four categories, namely symbols (are words, gestures, pictures or objects) heroes (persons with highly prized characteristics), rituals (collective activities) and values (the core of culture). Cameron and Quinn (1999) developed a famous organisational culture framework, based on four (clan, adhocracy, market, and hierarchy) culture types. We are concluding this review with Hofstede (1980; 1991), who related culture first to nations, but later also to organisations. Hofstede identified four dimensions of culture, namely (1) *power distance* (the power inside the organisation can be divided in unequal mode. Managers may try to maintain the power distance or even enlarge it. a low score of power distance means that employees have equal rights. Power distance measures how the relationships between superior and subordinate are distant), (2) *uncertainty avoidance* (it is about how employees attempt to deal with uncertainty and ambiguity), (3) *individualism vs. collectivism* (this dimension measures the disharmony between employees orientation towards self-interest and orientation towards the interests of a group) and (4) *masculinity vs. femininity* (reflects the extent to which success is defined in terms of whether a certain organisation is predominantly male or female in terms of cultural values). Later, the fifth dimension, i.e. *long- versus short-term orientation* was added.

Denison (1990) linked the organisational culture, management practices, performance and effectiveness. He defined four cultural traits, namely involvement (both, managers and employees are committed to their work and feel that their work is important for the achievement of the company goals), consistency (all the activities are well coordinated, and managers as also all the employees are willing to reach agreements even when they share different opinions), adaptability (managers and employees are flexible and skilled at changing the system when adapting

to their customers' needs), and mission (a clear sense of how the organisation will look in the future should define organisational goals).

Schwartz (1994) developed a model with two dimensions, namely conservatism versus autonomy (affective and intellectual) and self-enhancement (hierarchy and mastery) versus self-transcendence (egalitarian commitment and harmony). Trompenaars' (1993) model included seven dimensions. Five of them refer to the relationships with people (universalism versus particularism, individualism versus communitarians, neutral versus emotional, specific versus diffuse and achievement versus ascription). The sixth dimension is about attitudes to time and the seventh dimension is about attitudes to the environment. In more contemporary research performed by Kumar (2001) and Robbins (2006), seven characteristics are suggested to determine organisational culture. These are (1) innovation and risk taking, (2) attention to detail, (3) outcome orientation, (4) people orientation, (5) team orientation, (6) aggressiveness and (7) stability.

According to Charles Handy's (1976) model, four types of organisational culture exist. These are (1) power culture (only few people are in possession of power, they take decisions, enjoy special privileges at the workplace, and delegate responsibilities to other employees; other employees are not authorised to express their ideas; in organisations with this culture, power is concentrated among only a few employees, this type of culture need few rules), (2) task culture (teams are formed, aiming to solve problems and all team members contribute in accomplishing tasks), (3) person culture (individuals feel that they are more important than the organisation, they just come to work to earn their salary and are not attached to the organisation, they are not loyal towards their leaders), and (4) role culture (each employee has his own roles and responsibilities, usually according to their knowledge, skills, and educational qualifications, such employees do their work to the best of their abilities and are willing to accept new projects).

Deal and Kennedy (1982) defined 4 types of culture, namely (1) macho culture (marked by individualists who are willing to risk, also called entrepreneurs, it lacks cooperation among employees), (2) play hard culture (employees are encouraged to perform low risk activities, it is associated with good team workers), (3) bet-your-company culture (employees have to be patient, in the company years may pass before employees realise the results of their decisions), and (4) process culture (it is important what is done and not how it is done, it is a bureaucratic culture).

Parry and Proctor-Thomson (2003) based their typology on change. They defined transformational culture (supporting innovation and open discussion of ideas), and transactional culture (focusing on explicit and implicit relationships, strong individualism and low commitment).

A lot of authors followed the Hofstede typology in their studies. Su, Xie, and Li (2011) measured organisational culture with two dimensions (power distance and individualism/collectivism). Çakar and Ertürk (2010) employed four dimensions (power distance, uncertainty avoidance, individualism/collectivism and masculinity/femininity). They also included the dimension empowerment, i.e. the measure about the level of the authority of individuals, their initiative and ability to manage their own work. Likewise, Tajeddini and Trueman (2012) focused on individualism, power distance and long term orientation.

Having reviewed the literature, we decided to include three dimensions of organisational culture in our research, namely power distance, uncertainty avoidance and individualism/collectivism. This selection of variables was also discussed with the focus group (10 participants), performed after the first draft of the questionnaire and the participant argued, that this was an appropriate set of variables for our study.

### **Entrepreneurial Orientation, Organisational Culture and Innovativeness**

The work of Koellinger (2008) begins with the question of why some entrepreneurs are more innovative than others. He assumed that it is because entrepreneurs differ in terms of their characteristics and in terms of the level of novelty they are able to introduce to the economy. Also a lot of other researchers focused on the impact of entrepreneurial traits on innovativeness (Baron 2006; Khan and Sokoloff 1993; Marcati, Guido, and Peluso 2008). Beside the entrepreneurial orientation of the company, organisational culture is without a doubt one of the critical factors in the performance of any organisation. A positive organisational culture may foster the capacity to absorb innovation (Tushman and O'Reilly 1997) and influence the extent of encouragement, support and implementation of innovative solutions. Only organisations with a developed organisational culture can find creative and innovative solutions (Lock and Kirkpatrick 1995). Researchers have argued that organisational culture supports innovation. Moreover, a supportive culture may motivate and help the complex process of social networks necessary for successful innovation. As not all organisational cultures facilitate the innovation process, managers

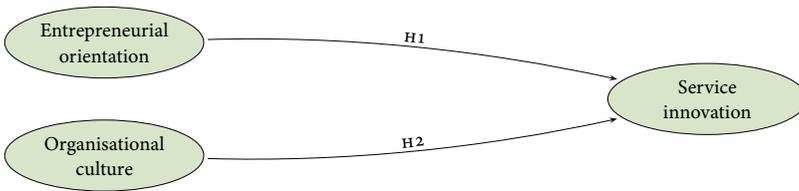


FIGURE 1 The Schematic Presentation of the Model

are advised to be careful in keeping the right mix of cultural traits (Olori and John Mark 2013). A lot of studies were conducted, aiming to analyse the impact of organisational culture on innovativeness (Kenny and Reedy 2006; Martins and Terblanche 2003; Roberts, Watson, and Oliver 1989; Russell 1989).

According to the literature we propose a research model which is depicted in figure 1 and the two hypotheses.

H1 *Entrepreneurial orientation is positively related to service innovation.*

H2 *Organisational culture is positively related to service innovation.*

### Methodology

The questionnaire was developed following previous studies. All constructs were measured using existing scales, and all items were measured on a five-point Likert-type scale (1 = strongly disagree; 5 = strongly agree).

Entrepreneurial orientation dimensions were measured with 20 items (risk taking = four items; proactiveness = five items; competitive aggressiveness = three items; autonomy = three items and customer orientation = five items)

Organisational culture was measured with 14 items (power distance = six items; individualism/collectivism = four items; uncertainty avoidance = four items). Hereinafter, the empirical part of the study, including data collection and analysis, is presented. A conceptual model was developed and empirically tested based on Slovenian tourism SMES. Data was collected using an email survey sent to CEOs representing SMES in the tourism sector. Exploratory FA was performed; afterwards, hypotheses were tested using structural equation modelling.

The structured questionnaire in the form of an anonymous e-mail survey was sent to 2,800 companies in the tourism sector. A cover letter was added aiming to explain the purpose of the survey. Anonymity was as-

sured. Of 2,800 emails sent, 220 returned questionnaires were considered for further research (7.85% response rate).

#### SAMPLE DESCRIPTION

In Slovenia the majority of companies, 80 or 36.9%, operated in the restaurant industry, followed by companies in the accommodation sector with 57 or 26.5% respondents, 31 of them (15.1%) were tourist agencies or tour operators, 18 (8.2%) were from the transport sector, 14 (6.4%) of them from amusement activities, and 17 of them (7.8%) performed other activities in the area of tourism. The majority (71 or 32.7%) were more than 20 years old, followed by those from 10 to 20 years old (63 or 29.0%) and by those from 5 to 10 years old (37 or 17.1%). Other companies were younger than 5 years. The majority (158 or 71.8%) of companies have less than 10 employees, 46 (21.2%) of them between 11 and 50 employees, others have more than 51 employees. The majority of the companies (75 or 34.1%) signed that their total amount of sales in the last year was between 200,000 and 1 mil EUR, 63 or 29% of them earned less than 50,000 Euros, 46 of them (20.9%) earned between 50,000 and 200,000 euro, other companies earned more.

#### RESULTS

First, the mean was calculated for all the variables. Next, with the aim of composing new variables, a factor analysis was performed. As our measures were selected based on existing theory and all of them were already tested in previous studies, we employed the principal component technique. This technique was used for each dimension separately (based on one factor). All the communalities were adequate, and all the factor loadings were high enough as well. Thus, we decided to retain all the variables for the continuation of the analysis. Bartlett's test, which checks the statistical correlations between variables, showed that the correlation matrix was appropriate (sig. = 0.000 for all variables).

In table 1 the results for the entrepreneurial orientation are presented. KMO measures were relevant as well. Also, Cronbach's coefficient  $\alpha$  is sufficiently high in all cases. It is also true that each dimension is adequately clarified by one factor. The factor loadings are relatively high. They are between 0.732 and 0.821 for risk taking variables, from 0.677 to 0.820 for Proactiveness, from 0.703 to 0.854 for competitive aggressiveness, from 0.660 to 0.830 for autonomy and from 0.605 to 0.800 for customer orientation variables. The KMO value for each dimension is between 0.60 and

TABLE 1 Entrepreneurial Orientation, Results for Five Dimensions

Variable	(1)	(2)	(3)	(4)	(5)
Risk Taking 1	2.91	0.733	57.11	0.75	0.75
Risk Taking 2	2.97	0.734			
Risk Taking 3	2.81	0.821			
Risk Taking 4	3.52	0.732			
Proactiveness 1	3.67	0.677	59.31	0.82	0.72
Proactiveness 2	3.34	0.784			
Proactiveness 3	4.33	0.820			
Proactiveness 4	4.22	0.771			
Proactiveness 5	3.27	0.790			
Competitive aggressiveness 1	3.66	0.703	59.64	0.65	0.60
Competitive aggressiveness 2	3.17	0.854			
Competitive aggressiveness 3	2.21	0.752			
Autonomy 1	3.73	0.803	58.99	0.64	0.60*
Autonomy 2	3.88	0.660			
Autonomy 3	4.03	0.830			
Customer orientation 1	3.76	0.605	52.34	0.77	0.74
Customer orientation 2	3.84	0.735			
Customer orientation 3	4.42	0.800			
Customer orientation 4	4.01	0.709			
Customer orientation 5	4.22	0.754			

NOTES Column headings are as follows: (1) mean, (2) factor loadings, (3) total variance explained (%), (4) Cronbach alpha coefficient, (5) KMO and Bartlett's test (sig. = 0.000).

0.75; therefore, all values are above the acceptable minimum level. The results of Bartlett's test for each dimension are 0.000 ( $p < 0.001$ ). The reliability of the constructs is measured with the Cronbach Alpha coefficient, where values range from 0.64 to 0.82. Therefore, all dimensions have good reliability. The total variance explained by one singular factor for each dimension is satisfactory (between 52.34% and 58.99%).

In table 2 the results for the organisational culture orientation are presented. The organisational culture variables factor loadings are also relatively high. They are between 0.454 and 0.759 for power distance variables, between 0.491 and 0.855 for uncertainty avoidance, and from 0.724 to 0.874 for customer individualism/collectivism variables. The KMO value for each dimension is between 0.70 and 0.75; therefore, all

TABLE 2 Organisational Culture, Results for Three Dimensions

Variable	(1)	(2)	(3)	(4)	(5)
Power distance 1	2.42	0.697	41.83	0.71	0.70
Power distance 2	2.69	0.724			
Power distance 3	2.00	0.759			
Power distance 4	1.72	0.547			
Power distance 5	2.80	0.647			
Power distance 6	2.91	0.454			
Uncertainty avoidance 1	3.68	0.761	55.97	0.72	0.70
Uncertainty avoidance 2	3.73	0.855			
Uncertainty avoidance 3	3.53	0.828			
Uncertainty avoidance 4	2.51	0.491			
Individualism collectivism 1	3.59	0.793	66.90	0.83	0.75
Individualism collectivism 2	3.76	0.871			
Individualism collectivism 3	3.89	0.874			
Individualism collectivism 4	3.64	0.724			

NOTES Column headings are as follows: (1) mean, (2) factor loadings, (3) total variance explained (%), (4) Cronbach alpha coefficient, (5)  $\kappa$ MO and Bartlett's test (sig. = 0.000).

TABLE 3 Service Innovation, Results for One Dimension

Variable	(1)	(2)	(3)	(4)	(5)
Service innovation 1	2.91	0.834	68.93	0.89	0.84
Service innovation 2	3.38	0.832			
Service innovation 3	3.62	0.842			
Service innovation 4	3.25	0.864			
Service innovation 5	2.89	0.777			

NOTES Column headings are as follows: (1) mean, (2) factor loadings, (3) total variance explained (%), (4) Cronbach alpha coefficient, (5)  $\kappa$ MO and Bartlett's test (sig. = 0.000).

values are above the acceptable minimum level. The results of Bartlett's test for each dimension are 0.000 ( $p < 0.001$ ). The reliability of the constructs is measured with the Cronbach Alpha coefficient, where values range from 0.71 to 0.83. Therefore, all dimensions have good reliability. The total variance explained by one singular factor for each dimension is satisfactory (between 41.83% and 66.90%).

In table 3 the results for the service innovations are presented. The factor loadings are very high; they are between 0.777 and 0.864. The  $\kappa$ MO

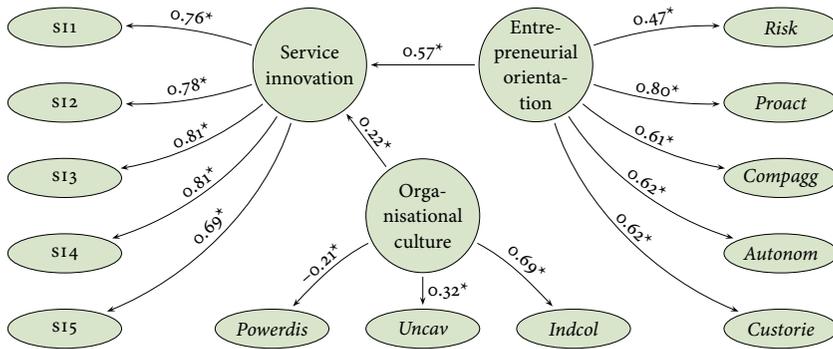


FIGURE 2 The Model, Linking Entrepreneurial Orientation, Organisational Culture and Service Innovation (CFI = 0.92, NNFI = 0.90, RMSEA = 0.10, RMR = 0.11)

value is 0.84; therefore, it is above the acceptable minimum level. The results of Bartlett’s test is 0.000 ( $p < 0.001$ ). The reliability of the construct is measured with the Cronbach Alpha coefficient, with a value of 0.89. Therefore, this dimension has good reliability. The total variance explained by one singular factor is satisfactory (68.93%).

Finally, EQS Multivariate Software version 6.1 was utilized for confirmatory factor analysis and for testing the proposed model. No non-normality was found for our data, thus the ERLS (Elliptical Reweighted Least Square) estimation method was used. The fit of the model was assessed with multiple indices: NNFI (the non-normed fit index), CFI (the comparative fit index), RMR (root mean-square residual), and RMSEA (the root mean square error of approximation).

The analysis of the data gathered from the survey, shows that entrepreneurial orientation and organisational culture dimensions positively influence service innovation in tourism companies. A company with more developed entrepreneurial characteristics and organisational culture will be more innovative. Thus, aiming to increase innovativeness, tourism companies should be encouraged to introduce more entrepreneurial activities and develop organisational culture. On this basis, greater innovativeness and subsequently greater competitiveness can be reached.

The results of our analysis demonstrate that both, organisational culture and entrepreneurial orientation positively affect service innovation. Entrepreneurial orientation is found to be positively related to service in-

novation; moreover all the five entrepreneurial orientation dimensions, namely risk taking, proactiveness, competitive aggressiveness, autonomy and customer orientation are positively related to service innovation.

Two dimensions of organisational culture, namely uncertainty avoidance and individualism/collectivism are positively related to organisational culture, while power distance is negatively related. This implies that the more employees tend to avoid uncertainty and the more they are oriented toward collectivism the more creative and able they are to develop new ideas. Collectivism and team work amongst employees increases innovation capability. In contrast, the relationship between power distance and service innovation is negative; therefore we can conclude that power distance does not help employees to innovate effectively.

### **Conclusion**

This paper is one of the first to find empirical support for the role of entrepreneurial characteristics and organisational culture in tourism companies in Slovenia. Despite a number of limitations, the work offers a picture of how these dimensions should be developed in order to enhance innovation.

The primary objective of this study was to identify entrepreneurial orientation and organisational culture effects on service innovation in companies. To achieve this objective, SEM analysis was applied to a sample of Slovenian tourism companies in order to empirically test and analyse the effects. The findings of this study provide information about how to enhance service innovation.

Regarding to the literature review there are many dimensions that influence service innovation in tourism firms. The existing studies in the field of innovation suggest that entrepreneurial orientation and organizational culture affect the willing and the possibilities of an organization to be innovative. Both, entrepreneurial characteristics and organizational culture stimulate creativity and affects the extent to which innovative ideas are developed and implemented. Different researchers also argued that entrepreneurial characteristics and organizational culture are key organization's resources needed in the process of adopting innovations. Not all types of entrepreneurial characteristics and organizational cultures facilitate the innovation process, Therefore management is responsible for the development of these two dimensions. Managers should be extremely able to keep the right culture in the organization as also to develop appropriate entrepreneurial traits.

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