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A Preliminary Analysis on the Connections between Entrepreneurial Strategic Orientation on The Growth of Small and Medium Size Hotels in Peninsular Malaysia and the Moderating Effect of Firm Strategy

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Abstract

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This paper provides a preliminary result of an analysis on the interface between Entrepreneurial strategic orientation, Firm Strategy and Growth of small and medium size hotels in Peninsular Malaysia. To test the hypotheses, 254 completed questionnaires from hotel representatives at managerial level were analyzed using regression analysis. The findings could not empirically support the hypothesized effect of Entrepreneurial Orientation on the growth of small and medium size hotels. However, they confirmed the moderating effect of Firm strategy on the relationship between Entrepreneurial Orientation and small and medium size hotels' growth. This endorses previous literatures that suggest the notion that firms with strong EO would need to have strong FS to achieve growth. Implications of the findings are discussed at the end of the paper.

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Keywords: Small and medium size hotels; firm growth; entrepreneurial orientation; firm strategy.

1. Introduction

This paper looks at the interface between Entrepreneurial Orientation (EO) and firm performance within the context of SME Hotels (Small and Medium sized Hotels) within the context of a developing economy. It introduces 'firm strategy' as an additional variable to the existing model to test the effect of the variable on the relationship between Entrepreneurial Orientation and firm performance.



SME hotels are an important business segment to study because they represent a significant segment in the tourism industry (Komppula, 2009). Their economic power lies in their ability to their productivity through ownership, employment creation, innovative product commercialization and new market. Yet they are still poorly studied (Aziz, Yuhani Abdul, Khairil, Whaidin Awan & Zaiton, 2012) resulting in little knowledge about the performance and required benchmark for this business segment. This paper presents the preliminary results to the following research objectives:

- 1) To investigate the influences of Entrepreneurial Orientations on growth of Malaysian SME Hotels;
- 2) To explore whether Firm Strategy mediates the relationship between Entrepreneurial Orientation and Growth of Malaysian SME Hotels;

2. The Literature

EO is defined as SMEs's propensity to engage in the "pursuit of new market opportunities and the renewal of existing areas of operation" (Hult & Ketchen Jr. 2001: p. 901). EO has emerged as a multidimensional construct consisting of three factors, namely innovativeness, proactiveness and risk taking (Lumpkin & Dess, 1996; Miller & Friesen, 1983). Innovativeness is connected with seeking creative solutions to problems and needs. Proactiveness involves shaping the environment by introducing new products, technologies, and administrative techniques rather than merely reacting to market change. Risk taking refers to the willingness to commit significant resources to opportunities, which have a reasonable chance of costly failure.

Meanwhile, Miles and Snow (1978) categorized Firm Strategy into four categories namely prospectors, analysers, defenders, and reactors. A prospector is more proactive and adaptive to uncertain environmental conditions. It will scan the environment (Daft & Weick, 1984), and develop new product and market opportunities (Miles & Snow, 1978). A defender will try to protect their product-market and leverage on stability, reliability, and efficiency for growth (Slater & Narver, 1995). An analyser is more innovative than a defender in its product-market initiatives, but more cautious and selective than a prospector (Hambrick, 1982). Finally, a reactor will only react to its environmental conditions, and is said to be a response that a firm will adopt only after it is unable to pursue one of the first three strategies (Doty, Glick & Huber, 1993).

2.1 Hypothesis Development

2.1.1 Effects of Entrepreneurial Orientation (EO) on Small and Medium size Hotel Growth

An EO creates a positive impact on economic growth by providing market opportunity and creating job opportunities (Smilor, 1997; Lumpkin & Dess, 1996). Anderson (2013) stated that those organizations that behave entrepreneurially would perform better compared to organizations that practice conservative approach. They also contended that organization behaving entrepreneurially is more innovative, proactive, and is a risk taker. This makes EO a significant driver for business growth and is crucial in improving a business's competitive advantage and performance. Empirical studies have largely found that firms with more EO perform better (Wiklund, 1999; Baker & Sinkula, 2009).

EO drives decision-making and behaviours of SMEs toward creating new goods, new methods of production, new markets, or diversification of the business into a new industry that leads to growth. Clearly, EO is no longer only relevant for global enterprises but can be also be adopted on SMEs (Wiklund, Patzelt & Shepherd, 2009; Anderson, 2013) including those in the service sectors. However, study on Entrepreneurial Orientation in SME Hotels and its relation to growth is still limited (Altinay & Altinay, 2006). Therefore the following hypothesis is proposed:

H1: Entrepreneurial orientation has a positive effect on Small and Medium size Hotel growth

2.1.2 Firm Strategy as a Moderating Process

A prominent form of firm strategy is differentiation strategy. Budayan, Dikmen and Birgonul, (2013) study on differentiation strategy on construction industry found that differentiation strategy was effective for organization performance. Moreover, their study also highlighted 'resource' as important for differentiation strategy, which was in tandem with Porter's theory on differentiation strategy. Lechner & Gudmundsson's (2014) study showed positive influences of both generic strategies to the organization performance and confirmed that Entrepreneurial Orientation encourages the development of competitive strategy. Furthermore, a study conducted by Asdemir, Fernando, & Tripathy, (2013) which analysed the effectiveness of both cost leadership strategies and differentiation strategy on firms and their results, showed that the market are keen to pursue differentiation strategy compared to cost leadership strategy. However, the relevance of those conclusions was unclear because they were not focusing on small, medium market but more to large-scale organizations. Therefore small firms must carefully develop their firm behavior to enhance competitive strategy. Therefore, hypothesis that can be proposed is:-

H2: Firm strategy is positively moderating the effect of Entrepreneurial Orientation on SME hotel's growth

3. Methodology

The study uses quantitative data collected through questionnaires. The instrument was designed in English but conducted in either Bahasa Malaysia, English and Mandarin or mixed. Translated version was verified by language experts to ensure accuracy of content. The target population of the study sample consists of SME Hotels operating in three of the most famous tourism destinations in Peninsular Malaysia i.e. Penang, Langkawi and Kuala Lumpur. Using cluster technique sample was proportionately drawn using information from business directories, the Department of Statistics Malaysia and any other relevant documentation. Exploratory interviews were conducted to test the face validity of the conceptual model and help design the research instrument. Using expert opinions from both the academic and the industry sides, and pilot testing the instrument on a small group of target respondents also helped determine the validity of the instrument. The instrument was later revised and finalized based on the pilot results. The study used personally assisted questionnaires to collect data from managers and owners of SME hotels in the three selected destinations.

4. Findings

From the 254 useable questionnaires returned and analysed, 31.9 percent of the hotels were rated as no star, while 39.4 percent were rated as 2 stars, 3 stars (15.0%), 4 stars (3.9%) and others (9.8%). Majority of the hotels were medium hotels in city area (45.7%) and small hotels in city area (33.9%). More than half of the hotels indicated that they have less than 50 rooms (70.1%). Only small number of them has 50 to 100 rooms (20.5%), 101 to 150 rooms (6.3%), 151 to 200 rooms (0.8%) and more than 200 rooms (2.4%), indicating that there were the SME hotels. As the study only considered the small and medium hotels, all of the hotels employed less than 50 employees. 49.6 percent of the hotels were sole proprietorship hotels, while 10.8 percent were General Partnership, Limited Partnership (6.0%), Private Limited (28.8%) and others (4.8%). 88.1 percent of the hotels were independent hotels. 82.1 percent of the hotels were operated less than 10 years. Majority of the hotels did not offer meeting space (75.8%) and considered as family business (60.4%). Only 28.7 percent of the hotels were managed by hotel management company.

Outliers detection using Mahalanobis Chi-square (D2) method found no outliers. Skewness and kurtosis values for each variable shows the variables were normally distributed. Internal consistency confirmation was checked using Cronbach's alpha coefficient. Results were as follows: SME Hotel Growth ($\alpha = 0.753$), Entrepreneurial Orientation ($\alpha = 0.864$), and firm strategy ($\alpha = 0.857$).

4.1 Effect of Entrepreneurial Orientation on SME Hotel Growth

Regression analysis to establish linear relationships between the variables to predict values of dependent variable from values of the independent variables showed the following results: 1) Entrepreneurial Orientation failed to predict SME growth ($B=0.104$, $t=1.908$, $p>0.05$). In other word, for the study context, the relationship between EO and firm growth cannot be firmly established.

Table 1. Effect of Entrepreneurial Strategic Orientation on SME Hotel Growth

	B	t	Sig.
Entrepreneurial Orientation	.104	1.908	.058
R ²	0.512		
F	87.387		
Sig.	0.000		

4.2 Effect of Firm Strategy as the Moderating Variable

To test the hypothesis that firm strategy is the function of SME Hotels Growth, and more specifically whether firm strategy moderate the relationship between entrepreneurial orientation and SME Hotels Growth, a hierarchical multiple regression analysis was conducted (refer Table 2). In the first step, the results indicated that entrepreneurial orientation accounted for 33.9 percent of SME Hotels Growth ($R^2=0.339$, $F=129.348$, $p<0.01$). In the second step, two variables were included; entrepreneurial orientation and firm strategy. These variables accounted for 50.1 percent of the variance in SME Hotels Growth ($R^2=0.501$, $F=125.768$, $p<0.01$). Next, the interaction term between

entrepreneurial orientation and firm strategy were added to the regression model (Step 3), which accounted for significant proportion of the variance in SME Hotels Growth (R^2 change=0.094, F change=57.620, $p < 0.01$). Examination of the interaction plot showed an enhancing effect that as entrepreneurial orientation and firm strategy was larger, SME Hotels Growth increase (Figure 1). This finding indicated that moderation effect of firm strategy occurred in the relationship between entrepreneurial orientation and SME Hotels Growth.

Table 2. Moderation Effect of Firm Strategy in the Relationship between Entrepreneurial Orientation and SME Hotels Growth

Variable	B (model 1)	B (model 2)	B (model 3)
Dependent variable			
Entrepreneurial Orientation	1.399**	.777**	.111
Moderating Variable			
Firm Strategy		.473**	.252**
Interaction Term			
EOxFS			.533**
R^2	0.339	0.501	0.594
F	129.384	125.768	121.965
Sig.	0.000	0.000	0.000
R^2 change	0.339	0.161	0.094
F change	129.384	81.051	57.620
Sig. F Change	0.000	0.000	0.007

Notes: ** $p < 0.01$; * $p < 0.05$

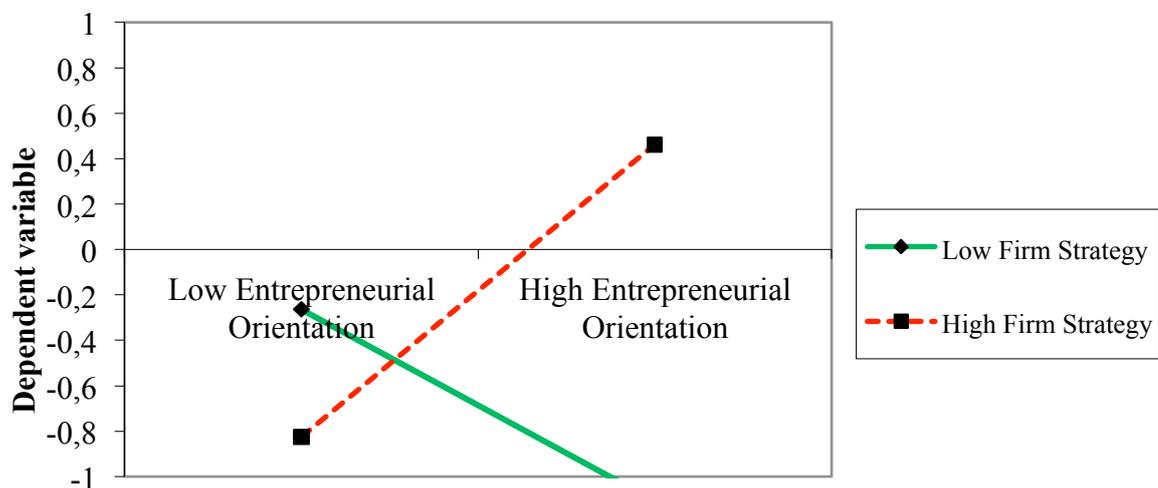


Fig. 1. Moderating Effect of Firm Strategy on the Relationship between Entrepreneurial Orientation and SME Hotels Growth

5. Discussions

The findings failed to support the effect of Entrepreneurial Orientation on SME Hotels Growth within the study context. Therefore there is not enough evidence in this study to accept the notion that

Entrepreneurial Orientation has an influence on firm growth (Smilor, 1997; Lumpkin & Dess, 1996; Wiklund, 1999; Baker & Sinkula, 2009). On the other hand, it confirmed the moderating effect of Firm strategy (FS) on the relationship between entrepreneurial orientation (EO) and SME Hotels Growth. This supports the findings of Wang, (2008) and Lechner and Gudmundsson, (2014) that Firm strategy has an influence on the relationship between entrepreneurial orientation and SME Hotels Growth. In other words, firms with strong EO would need to have strong FS to achieve growth. It provides empirical evidence on the contention that differentiation strategy can contribute towards firm performance (Budayan, Dikmen & Birgonul, 2013; Asdemir, Fernando & Tripathy, 2013). This proves that differentiation strategy is a good strategy for firm performance within the context of SME hotels in a developing country as well. The finding also supports the contention Lechner and Gudmundsson, (2014) that smaller firms must develop competitive behaviour through appropriate strategies to ensure growth.

One possible managerial implication of the findings is that perhaps it is more effective for SME hotels to focus less on innovativeness, proactiveness and risk taking and more on trying to grow their business in other strategic ways. For example, they could continue to be cost competitive whilst providing good, memorable service to the customers.

From policy perspective, relevant government agencies could do more to assist and support SME hotels growth through policies that could support them. For example, providing marketing assistance, assisting them with technology adoption and educating them on how to stay competitive may help the growth of their business. Future research could focus on using qualitative approach to further understand why Entrepreneurial Orientation has little influence on SME Hotel growth. This understanding is crucial to enable real and meaningful help for hotel managers that could drive forward the SME hotel business in Malaysia.

6. Conclusion

In conclusion, the preliminary analysis has shown that innovativeness, proactiveness and risk taking behaviors do not contribute towards growth of SME hotels within the study context. On the other hand, differentiation strategy does. Therefore SME hotels should invest less in becoming entrepreneurial in their orientation but engage more in firm strategies that goes beyond cost leadership. Instead, they must have differentiation strategies that could help make their hotels stand out amongst the competition. Engaging in such strategy will help SME hotels' growth in the long run.

Future research on this topic could try to address the limitations of this study. For example, their study could cover areas that have different business context (for example, Sabah and Serawak). They could also provide more meanings to their findings by conducting a mix-method study. Qualitative findings can provide depth to quantitative findings and make the research findings stronger.

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