Exploring the Effects of Macro-Environment on the Predisposition to Adopt Strategic Orientation among Small Medium Size Hotel Entrepreneurs

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ABSTRACT

This paper looks at the effect of macro-environment context on small and medium size hotels' predisposition to adopt strategic orientation using a qualitative approach in its research methodology. Specifically it is based on in-depth interviews of 15 informants representing the hospitality industry. Analysis from the themes surfaced suggests SME Hotels are operating within a political and financial business environment, which is found to be relatively unfriendly. However, the social and economic conditions for small and medium size hotels were encouraging. Against this background, SME hotels operate by adopting some degree of entrepreneurial and/or market orientation. This paper offers meaningful findings to the study research questions which other methodology may not be able to provide.

Keywords: Small and Medium Size Hotels, Macroenvironment, Strategic Orientations
JEL Classifications: M10, M14

1. INTRODUCTION

Today's business environment is robust and competitive. That is why businesses have to explore new business opportunities to remain competitive (Hitt et al., 2001). They need to adopt principles or strategic orientations that could help them guide and control their business activities. These principles could influence their business approach and create exploitive behaviours that help them grab business opportunities and sustain their competitive advantage (Hakala, 2011). A business's strategic orientation provides the business with a clear direction and help to recognize the needs and wants of its customers in proactive manner by going ahead of the competitors in providing new products and services and in establishing new standards for the industry (Escriba-Esteve et al., 2009). However, a business's predisposition to adopt strategic orientations depends on the macro environment within which it operates. Therefore understanding the macro context of a business is crucial. This is particularly so for the hospitality business because of the dynamic and competitive nature of the

hospitality industry which requires business firm to develop strategically in order to survive.

This paper aims to present the SME hotels' macro-environmental context and how much it affects the hotels' predisposition to adopt strategic orientations. Understanding SME hotels' growth factors can lead to better policies that could help ensure the segment's own economic sustainability and ability to reap benefit from the growth of the global tourism industry.

2. LITERATURE REVIEW

In the tourism industry, SMEs forms a predominant segment of the supply side (Komppula, 2009). Entrepreneurs in the service industry raises productivity and creates economic power base through ownership, employment creation, innovative product commercialization and new market creation (Aziz et al., 2012). The authors also contended that compared to small enterprises in the manufacturing industry which are extensively studied, not much

research has focused on the small and medium size lodgings. They found that small and medium size lodgings need to be trained on the importance of marketing strategies to help them sustain and grow. Businesses are also often reluctant to learn and adopt new technology. The authors suggest that future study focus on business performance of small and medium sized lodgings to see how they are performing and provide a benchmark to the business.

This study attempts to reduce the gap of knowledge explained above by looking at the effect of a business's macro context on predisposition to adopt strategic approach within a developing economy. Such understanding is crucial in finding ways to motivate SMEs to be more strategically oriented to attain and exploit information about market opportunities and employ product-market innovations that will bring growth (Aragon-Sanchez and Sanchez-Marin, 2005).

3. METHODOLOGY

The study used qualitative approach to understand the influence of cultural values of business as well as the macro environments (economic, political, socio-cultural) in which the business operate. Conducting qualitative research has its own challenges and problems. Therefore, having a clear methodological framework and strategies in conducting the research is essential. A clear framework helps make the right research decisions, and applies effective strategies to ensure that the research objectives are met. However, as Merriam (1998) have warned researchers, particularly qualitative researchers: "… Throughout the research process i.e., from designing the study, to data collection, to data analysis, there are no set procedures or protocols that can be followed step by step." The guidelines and the experiences of others can help, but the researcher must be able to recognize that the best way to proceed will not always be obvious (p. 20), therefore we bore in mind that a qualitative study deals with dynamic human behaviour, which is basically different from the world investigated by the physical sciences research.

Due to the complex nature of the subject of inquiry, this study employed interviewing as the primary research tool to attain the qualitative data in this research. Interviewing is a research technique well adapted to, and often used in interpretative research. Interviews are able to provide a better understanding of the interactive process essential for a qualitative research inquiry based on construction of knowledge expressed through language. Kvale posits that (1996. p. 7) "…an interview is a conversation that has a structure and a purpose." Adopting a metaphoric comparison, Kvale regards the interviewer as a "traveller" on a journey that leads to a tale. In his approach, the interview was considered an opportunity to construct knowledge of what the domestic tourist's experiences and perceptions on tourism, the services rendered and improvements in the future. In addition, interviews, according to Merriam (1998. p. 72), are a better instrument when we are interested in past events that are impossible to replicate. And last but not least, interviewing was chosen because of its adaptability. It was this leverage that made the interview superior to other research instruments. As Bell (1999) says: "A skilful interviewer can follow-up ideas, probe responses and investigate motives and feelings, which the questionnaire can never do. The

way in which response is made … can provide information that a written response would conceal. "Questionnaire responses have to be taken at face value, but a response in an interview can be developed and clarified" (p. 135). In addition, Rubin and Rubin (1995) state that qualitative interviewing is a way of uncovering and exploring the meaning that underpins people's life, routines, behaviours, feelings, etc. In that sense, this research purpose in interviewing was to find out what was in the domestic tourists mind and to access their perspectives, to find out from them about the things that could not be easily or directly observed from the survey that was used.

In sum, the interview method was chosen because this research believes that it was a sound research instrument for qualitative research that revolves around human interactions. As Kvale (1996) states: "With the object of the interview understood as existing in a linguistically constituted and interpersonally negotiated social world, the qualitative research interview as a linguistic, interpersonal and interpreting method becomes a more objective method in the social sciences than the methods of the natural sciences which were developed in a nonhuman domain" (p. 65-66).

However, having decided that interviews would be the main method to be used, deciding what kind of interviews this research should use in this study was another consideration that needed some reflection. Interviews are generally differentiated in relation to the degree of the structure imposed on their formats. The standardised or structured interview aims to standardise the stimulus and fixes questions to be sequentially followed. In the semi-standardized or in depth interview the researcher has more flexibility in relation to the sequence of open-ended questions and the interviewer can add or probe for more information and adapt this instrument to the level of understanding of the respondent. The non-standardised or unstructured interview is basically a "guided conversation," using a list of topics to be freely covered in any order or way (Fielding, 1993. p. 136). The unstructured interview is widely used for exploratory purposes, whereas semi-structured interviews aim to obtain more detailed information, understanding motivations and behaviours.

This study opted for semi structured interviews formed one of the main modes for data collection. May (1993. p. 93) says of semi structured interviews that they are the "… type of interviews that allow people to answer more on their own terms … but still provide a greater structure for comparability over the focused interview." In addition, Guba and Lincoln (1981) believe that the non-standardised interview best supports the purpose of naturalistic research like this one. They say that semi structured interviews are most appropriate when:… The issue is complex, the relevant dimensions are unknown, or the interest of the research lies in the description of a phenomenon, the exploration of a process, or the individual's formulation of an issue (Guba and Lincoln, 1981. p. 177-178).

It was estimated that between 15-20 semi-structured interviews may be required to provide a holistic outlook on the various issues being studied. However, after much effort, only 15 interviews were secured as many respondents cited lack of time as the reason

for refusing participation. The data obtained managed to give researchers data saturation as answers to each questions seemed to be repetitive after several points of the qualitative fieldwork. This we believe provides deeper understanding of the phenomenon in question. The semi-structured interviews were conducted with selected interviewees in Langkawi, Penang and Kuala Lumpur to allow researchers better understanding about SME hotels' customers, competitors, economic, political and socio-cultural circumstances and how the SMEs respond to the changes in the dynamic environment in which they operate (Altinay and Altinay, 2006).

Interviewing generated an enormous amount of data. The vast array of words, sentences, paragraphs had to be reduced to what was of most importance and interest (McCracken, 1988; Miles and Huberman, 1984). The analysis of data began during data collection, to allow the research to cycle back and forth, thinking and reflecting on the existing data and generating strategies for collecting new - often better data (Miles and Huberman, 1984. p. 49) and triangulating it with the survey findings. Field notes served as the backbone for analysis in the field because they contained both the straightforward **"objective"** accounting of what occurred and the reflective comments. Throughout the period of the fieldwork the researchers wrote regular analytic memos to ensure that some serious analysis was going on in conjunction with the data collection. In addition, analytic memos were used to flesh out ideas and tie them together, specifically as they pertained to emerging theories and patterns (Miles and Huberman, 1984). Information generated by the open-ended questions is broken down into easily managed blocks that enable classification and grouping based on themes.

4. FINDINGS

As emphasized earlier, the main objective of conducting interviews for this study is to understand the background information relating to small and medium sized hotels' business environment. With this understanding, coupled with review of the literature, a good instrument can be developed to answer the research objectives. The qualitative interviews were accomplished with the assistance from representatives from different chapters of agencies such as Budget Hotel Association, Ministry of Tourism and Cultural, and Malaysia Association of hotels. The interview protocol consists of the following questions:

a. Do you believe that small and medium hotels in Langkawi/ Penang/Kuala Lumpur are entrepreneurial in their business orientation or technologically oriented or market oriented?
b. Do you believe that small and medium hotels in Langkawi/ Penang/Kuala Lumpur invest in education and learning?
c. Do you believe that small and medium hotels in Langkawi/ Penang/Kuala Lumpur have good business strategy?

From a thematic analysis of the 15 interviews, several crucial observations can be made. They are explained under each subsection below:

Do you believe that small and medium hotels in \Langkawi/ Penang/Kuala Lumpur are entrepreneurial in their business orientation or technologically oriented or market oriented?

Thematic analysis on the data showed that the informants generally agreed that the majority small and medium size hotels adopt either or both the entrepreneurial and market orientation approach in their business. They perceived that small and medium size hotel owners are becoming more and more risk taking and innovative in their business decisions. Almost half of the informants opined that the sector is becoming more market oriented by focusing focus on customer needs. The other half however, disagreed that Small and medium size hotels are more market oriented. They still see that small and medium size hotels have no marketing strategy, no marketing team, and offer just basic services to their customer. They contended that small and medium size hotels have no tendency to advertise their hotel. Instead they simply depend on words of mouth marketing.

The informants perceived that local small and medium size hotels have some degree of technology orientation because they rely on establish internet booking services such as Agoda. com for their booking needs. This means that they must have had some degree of investment in education and learning about internet usage as well. Some small and medium size hotels create Apps for mobile booking and utilize web-based booking such as Agoda.com. However they observed that small and medium size hotels generally do not invest in developing their own booking system despite the fact that proper reservation will make the operations more efficient. Instead, most still use traditional booking methods. Even though certain hotels have their own websites, most of this websites only provide information and are non-interactive. The third informant contended that budget hotels now come into different concepts and offer new product and services to the public by investing millions in renovation. In other words, the small and medium size hotels are now more innovative and risk taking, were investing millions for renovation. In conclusion, small and medium size hotels are observed to be market oriented and entrepreneurial. However, they are still not too technology oriented. Some samples of excerpt are as the following:

"I think (small and medium size hotels) are quite entrepreneurial. Many of them are willing to take risk and invest in boutique style hotel now."

(Informant A)

"They are starting to understand the importance of (understanding) the customers. But then again the customers tend to choose them mainly for the pricing so their expectations may not be so high to begin with."

(Informant B)

"Now is the age of the internet. I think many of (the small and medium size hotels) realize this and make use of the (available) internet facilities such as booking.com, Agoda etc."

(Informant C)

"I don't believe they would go as far as setting up their own booking site or anything like that. Its too costly for them."

(Informant C)

Do you believe that small and medium hotels in Langkawi/Penang/ Kuala Lumpur invest in education and learning?

The negative attitude of small and medium hotels is seen as prohibiting their growth. All informants believe that small and medium size hotels do not tend to invest in education and learning. They believe that most SME hotels owners and managers are quite happy with their existing level of knowledge and do not believe in the need for further training. One of the informants mentioned that even free training sometimes provided by some government agencies may fail to generate interest as "time is money" and attending such program would make them unable to attend their business as normal. Besides time, cost can also be an issue. Prohibitive factors from learning to be more technology oriented for example could be attributed to the high cost of sending staff for training and the lack of human resource capability to give in-house training on IT. In addition, SME hotels owners and managers are wary of the high turnover of staff. As workers tend to hop from one job to another, therefore any staff that is already trained well could easily be lost to another employer. This will cause loss of investment that most SME hotels could not afford to have. Some excerpts are as the following:

> *"I think most of them are quite complacent. They think they are ok already. No need to learn anything new"*
>
> *(Informant A)*

> *"Many think that if they send people (to learn or train), it would set their hotel back in terms of time (productivity). They can't afford (to do so)"*
>
> *(Informant B)*

Do you believe that small and medium hotels in Langkawi/Penang/ Kuala Lumpur have good business strategy?

All informants agreed that small and medium size hotels lack proper marketing strategy. They also do not prioritize the value of learning particularly in IT to improve their ability in relevant technologies. Cost leadership strategy is still the main strategy that they adopt to minimize cost so that they could continue to offer cheap prices to customers. Although trade organizations such as Malaysia Budget Hotel Association do offer help to do marketing and staff training for their members hotels, this offer are rarely taken up due to cost sensitivity among small and medium size hotel operators. Sample excerpts are as the following:

> *"Cost is always their bottom line. Any activity that could incur money, they have to think twice lah including adopting anything new (learning)"*
>
> *(Informant B)*

> *"We tried to help them. We offer a lot of (training) programs for them. But only a few would take up"*
>
> *(Informant C)*

From the above it can be deduced that SME hotels within the study context operate within a political and financial business environment that could be considered quite unfriendly. However, social and economic conditions for small and medium size hotels were more encouraging. Against this background, SME hotels operate by adopting some degree of entrepreneurial and/or market orientation. They adopt existing technology to assist bookings, but do not invest in higher level technology such as developing their own website. SME hotels within the study context do not invest in learning and education or invest in information technology. Cost maximization is still the primary strategy for this type of business as they begin to grow within the context of Malaysian tourism industry.

5. CONCLUSION

From the data, we could conclude that the observations exhibited what has been found in the literature. For example, they are observed as being unwilling to adopt a technology orientation culture in doing business. In other words, they have low tendency to update or upgrade their technology in keeping with the latest trend. The small and medium size hotels in Malaysia seem to face challenges due to limited financial resource to obtain better technology. This complied with past observations by Aragon-Sanchez and Sanchez-Marin (2005), Chatzoglou et al., (2011) and Tuanmat and Smith (2011) that although technology upgrade may be beneficial to business, it is uncertain if SMEs will use it as their strategic orientation. Similarly, they are also just beginning to adopt MO due to the nature of tourists that they attract (price-conscious travellers). In other words, they are only beginning to exhibit tendency to exploit a flexible organizational structure and closeness to customers (Pelham, 2000) in business conduct. On the other hand, in terms of entrepreneurial orientation, SME hotels seem to exhibit willingness to engage in higher risk situations (Gilmore et al. 2004) and generally do not prefer to stay as they are (Hollick and Braun, 2005; Reijonen, 2008). This means that they fit into criteria as being innovative in meeting market demands (Wiklund et al., 2009), proactive in competition and willing to take risk. This is good because firms with more entrepreneurial characteristics would perform better compared to those conservative ones (Anderson and Eshima, 2013).

In sum, it has been demonstrated that despite using a different methodology than previous study on the topic, this study managed to show that the service firms within the context of a developing economy face similar challenges and barriers in attaining growth as with other types of firms in other economic contexts. From managerial and policy perspective, the implication is that we could further refer to the strategies and policies adopted by businesses, trade associations and local government to overcome the said barriers and challenges. Future researchers could try to engage in focus group techniques to get better insights from trade associations and governing agencies on their roles and strategies to assist small and medium size hotels adopt suitable strategic orientations to attain future growth.

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