



# How Does Firm Strategy Affect the Relationship between Entrepreneurial Strategic Orientation and Firm Growth? A Preliminary Analysis on Small and Medium Size Hotels in Peninsular Malaysia

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## ABSTRACT

This paper presents a preliminary analysis on how firm strategy (FS) affects the relationship between entrepreneurial strategic orientation and firm growth within the context of small and medium size hotels in Peninsular Malaysia. The hypotheses were tested using 254 completed questionnaires from hotel representatives at managerial level. Regression analysis results showed that the hypothesis on positive effect of entrepreneurial orientation (EO) on growth of small and medium size hotels could not be accepted. On the other hand, the hypothesis on the moderating effect of FS on the relationship between EO and growth of small and medium size hotels was confirmed. Based on the findings, several implications are proposed.

**Keywords:** Firm Strategy, Entrepreneurial Orientation, Firm Growth

**JEL Classifications:** M10, M14

## 1. INTRODUCTION

The business environment is inconsistent and keeps on changing especially since the beginning of the globalization era. The more competition there is in the market place, the more challenging it is for organization to acquire new knowledge or to design new product that could satisfy the customers. There is a general consensus that to enhance performance, an organization should adopt entrepreneurial orientation (EO) because it can motivate small and medium enterprises (SMEs) to achieve stronger growth in terms of business performance. Relevant to this issue, this paper looks at the interface between EO and firm growth within the context of and small and medium sized hotels (SMHs) within the context of a developing economy. It addresses the research gap in strategic behaviour-performance relationship of small and medium size firms (FS). In doing so, it takes into account and additional factor i.e., "firm strategy (FS)" as an additional variable to the existing model to test the effect of the variable on the relationship between EO and performance/growth.

SMHs are an important business segment to study because they represent a significant segment in the tourism industry (Kompula, 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 et al., 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:

- i. To investigate the influences of EO on growth of Malaysian SMHs;
- ii. To explore whether FS mediates the relationship between EO and growth of Malaysian SMHs.

SMHs represent the biggest segment of the accommodation sector. Therefore it is safe to assume that they play a significant role in the economic sustainability of any given destination. Therefore understanding SMHs' 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.

There have been a number of studies on small and medium size accommodations in Malaysia. However, none of these studies have the same focus as this study. Instead, they focused on key management challenges facing small and medium size accommodation (Chan and Wei, 2008; Jaafar et al., 2011), key success factors of budget hotels (Munikrishnan and Veerakumaran, 2012), or focus more on the personal factors of managers (Jaafar et al., 2010) or strategic practices (Yaacob and Wong, 2013). Few if any, focused on the influence of strategic orientations on firm growth or the effect of FS and learning organization on the success of tourism business.

In the following sections, the review of the literature is presented, where the key concepts involved are discussed. This is followed by presentation on the methodology involved in the study. Then, the findings are detailed out to show how much of the research objectives are answered. Lastly, the discussion of findings and conclusion are provided to show the implications of the findings to the real world.

## 2. THEORETICAL BACKGROUND

The small and medium size firms including hotels often face many challenges in surviving their business environment. It is therefore imperative that factors driving their growth be understood. Strategic orientations consisting of market orientation, EO and technology orientation are some important factors to consider. The scope of this paper focuses on one strategic orientation i.e., EO. EO has been defined as SMEs propensity to engage in the “pursuit of new market opportunities and the renewal of existing areas of operation” (Hult and Ketchen Jr., 2001). p. 901). EO has emerged as a multidimensional construct consisting of three factors, namely innovativeness, proactiveness and risk taking (Lumpkin and Dess, 1996; Miller and 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. “Proactive” firms are those that predict a change in the business environment and respond by changing their business strategies. Risk taking refers to the willingness to commit significant resources to opportunities, which have a reasonable chance of costly failure. Risk-taking firms grab any opportunities that could lead towards success even if doing so pose danger towards them.

Meanwhile, Miles and Snow, (1978) categorized FS as prospectors, analysers, defenders, and reactors. A prospector is more proactive and adaptive to uncertain environmental conditions. It will scan the environment (Daf and Weick, 1984), and develop new product and market opportunities (Miles and Snow, 1978). A defender will try to protect their product-market and leverage on stability, reliability, and efficiency for growth (Slater and 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 et al., 1993), firms that are prospectors, analysers, and defenders are often pioneers in terms of innovations. Firms that are followers and late adopters will be slower at adopting innovations. Prospector firms will exhibit a higher level of EO compared with analyser and defender firms, a character that can positively impact their business performance.

### 2.1. Hypothesis Development

#### 2.1.1. Effects of EO on small and medium size hotel growth

Bygrave (1993) described entrepreneurship as any individual who sees opportunities in something and decides to pursue it. However, as Gilmore et al. (2004) emphasized, small firm owners and managers are generally unwilling to engage in higher risk situations once their businesses have reached desired level in terms of cash flows, company size, new market uncertainties, and staff capacity to handle assigned responsibilities. Hollick and Braun (2005) as well as Reijonen (2008) reasoned their reluctance to be owing to the inability to view growth as one of their target goals because they generally prefer to stay as they are.

According to Morgan and Strong (2003), firms with strong entrepreneurialism have analytical capabilities, defensive skills and future-oriented management skills. That is why they are more proactive, have higher riskiness and aggressiveness and better performance. The study of Wiklund et al., (2009) also found similar findings that organizations practicing EO are more innovative to meet the market demands; more proactive than competitors and more willing to take risks and explore a new market.

EO refers to a multidimensional construct involving autonomy, innovativeness, risk taking, proactiveness and distinguishing (Lumpkin and Dess, 1996) that defines processes, practices, and decision making activities that could lead to new market entry. EO eliminates the competitors by promptly reacting to market changes (Miller, 1983). Huang and Wang (2011) mention that EO can act as a part of an organization’s culture, which emphasize on proactive approach towards entrepreneurial opportunities and innovations. Characteristics of EO can be linked to a firm’s ability to acquire knowledge via activities that explore, make new assumptions, and generate learning and new behaviour that leverage on new knowledge (Slater and Narver, 1995). As Sinkula et al., (1997) proposed, firms that adopt a learning culture are more explorative of new knowledge and more willing to share information with the market.

An EO creates a positive impact on economic growth; market opportunity and creates job opportunities (Lumpkin and Dess, 1996). Anderson and Eshima (2013) stated that those organizations that behave entrepreneurially would perform better compared to organizations that practice conservative approach. They also contend 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 and 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 et al., 2009; Anderson and Eshima, 2013) including those in the service sectors. However, study on EO in SMHs and its relation to growth is still limited (Altinay and Altinay, 2006). Therefore we propose the following hypothesis:

H<sub>1</sub>: EO has a positive effect on small and medium size hotel growth

### 2.1.2. FS as a moderating process

In today's competitive environment, a firm needs to be competitive to survive. Therefore, a firm needs to have good strategies, preferably ones that enhances the value of its product in the eye of consumers, and reduces its operational costs. Budayan et al., (2013) study on differentiation strategy on construction industry and found differentiation strategy were effective for organization performance. Moreover, they also highlighted "resource" were important for differentiation strategy and their finding was matches to Porter's theory on differentiation strategy. Furthermore, a study conducted by Asdemir et al. (2013) analyses effectiveness of both cost leadership strategies and differentiation strategy on firms and their results showed that the market are more pursuing to differentiation strategy compared to cost leadership.

However, most of the results were unclear because they are not focusing on small, medium market but more to large-scale organization. Lechner and Gudmundsson (2014) study showed positive influences of both generic strategies to the organization performance and confirmed that EO acts through the development of competitive strategy. They suggested that small firms must carefully develop their firm behavior to enhance competitive strategy. Therefore, hypothesis drawn from the statements is:

H<sub>2</sub>: FS is positively moderating the effect of EO on SME hotel's growth.

## 3. METHODOLOGY

The study uses quantitative data collected through questionnaires. The instrument was designed in English but conducted in Bahasa Malaysia, English and Mandarin or mixed. Language experts' help was sought to verify the content accuracy of the translated version. The target population of the study sample consists of SMHs 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 SMHs in the three selected destinations.

## 4. FINDINGS

From the 254 useable questionnaires returned and analysed, 31.9% of the hotels were rated as no star, while 39.4% 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 50-100 rooms (20.5%), 101-150 rooms (6.3%), 151-200 rooms (0.8%) and more than 200 rooms (2.4%), indicating that there were the SMHs. As the study only considered the small and medium hotels, all of the hotels employed <50 employees. 49.6% of the hotels were sole proprietorship hotels, while 10.8% were General Partnership, Limited Partnership (6.0%), Private Limited (28.8%) and others (4.8%). 88.1% of the hotels were independent hotels. 82.1% of the hotels were operated <10 years. Majority of the hotels did not offer meeting space (75.8%) and considered as family business (60.4%). Only 28.7% of the hotels were managed by hotel management company.

Outlier's 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 ( $\alpha = 0.753$ , EO ( $\alpha = 0.864$ ), and FS ( $\alpha = 0.857$ ).

### 4.1. Effect of EO on SME Hotel Growth

As shown in Table 1, the 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) EO failed to predict SME growth ( $B = 0.104$ ,  $t = 1.908$ ,  $P > 0.05$ ).

### 4.2. Effect of FS as the Moderating Variable

To test the hypothesis that the FS are the function of SMHs Growth, and more specifically whether FS moderate the relationship between EO and SMHs Growth, a hierarchical multiple regression analysis was conducted (Table 2). In the first step, the results indicated that EO accounted for 33.9% of SMHs Growth ( $R^2 = 0.339$ ,  $F = 129.348$ ,  $P < 0.01$ ). In the second step, two variables were included; EO and FS. These variables accounted for 50.1% of the variance in SMHs growth ( $R^2 = 0.501$ ,  $F = 125.768$ ,  $P < 0.01$ ). Next, the interaction term between EO and FS were added to the regression model (Step 3), which accounted for significant proportion of the variance in SMHs growth ( $R^2$  change = 0.094,  $F$  change = 57.620,  $P < 0.01$ ). Examination of the interaction plot showed an enhancing effect that as EO and FS was larger, SMHs growth increase (Figure 1). This finding indicated that moderation effect of FS occurred in the relationship between EO and SMHs growth.

## 5. DISCUSSION AND CONCLUSION

Since the hypothesis tested could not be accepted, thus the findings failed to support the contention that EO has a positive effect on the growth of SMHs. In other words, there is not enough evidence in this study to accept the notion that EO has an influence on firm



**Table 1: Effect of entrepreneurial strategic orientation on SME hotel growth**

Variable	B	t	Significant
Entrepreneurial orientation	0.104	1.908	0.058
R <sup>2</sup>	0.512		
F	87.387		
Significant	0.000		

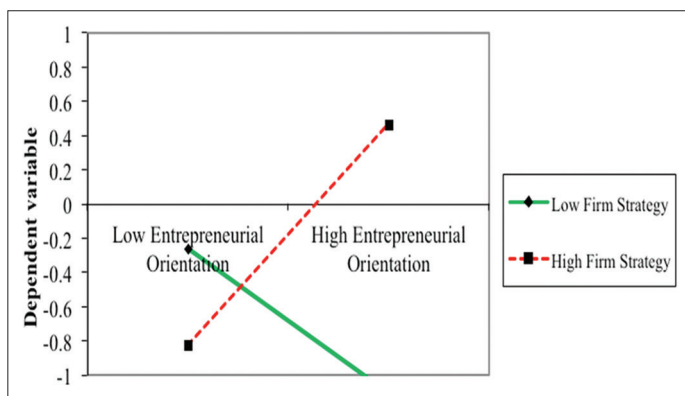
SME: Small and medium enterprises

**Table 2: Moderation effect of FS in the relationship between EO and SMEs hotel growth**

Variable	B (model 1)	B (model 2)	B (model 3)
Dependent variable			
Entrepreneurial orientation	1.399**	0.777**	0.111
Moderating variable			
Firm strategy		0.473**	0.252**
Interaction term			
EOxFS			0.533**
R <sup>2</sup>	0.339	0.501	0.594
F	129.384	125.768	121.965
Significant	0.000	0.000	0.000
R <sup>2</sup> change	0.339	0.161	0.094
F change	129.384	81.051	57.620
Significant F change	0.000	0.000	0.007

\*\*P<0.01; SMEs: Small and medium enterprises

**Figure 1:** Moderating effect of firm strategy on the relationship between entrepreneurial orientation and small and medium enterprises hotels growth



growth (Smilor., 2007; Lumpkin and Dess, 1996; Wiklund, 1999) within the context of SMHs in a developing economy. The reason could be that SMHs in Peninsular Malaysia are not inherently innovative, risk taking, proactive and distinguishing or do not consider these attributes as important in ensuring firm growth.

On the other hand, it confirmed the moderating effect of FS on the relationship between EO and SMHs growth. This supports the findings of (Wang, 2008) and (Lechner and Gudmundsson, 2014) that FS has an influence on the relationship between EO and SMHs growth. Simply put, firms that adopt EO would need to have strong FS to ensure the attainment of firm growth. It provides empirical evidence on the contention that differentiation strategy can contribute towards firm performance (Budayan et al., 2013; Asdemir et al., 2013) applies within the context of SMHs

in a developing country as well. It 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 since EO does not contribute to firm growth, then perhaps SMHs in Peninsular Malaysia should be assisted to focus their resources towards growing their business in other strategic ways. For example, it could focus on developing good firm strategies that draw from three means i.e. cost leadership, differentiation, and focus. Cost leadership is defined as the initiative to produce product or services at the lowest possible cost. This initiative is divided into two different strategies - low-cost strategies and value-best strategies. Low-cost strategies refer to organization offering lowest cost of product or services in the mass market. The other type i.e. value-best strategy refers to organization emphasis on the best value of product or services in the mass market. Wang (2008) suggests that a successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts.

From policy perspective, relevant government agencies could do more to assist and support SMHs growth through policies that could support them. For example, relevant government agencies could focus on providing marketing assistance, assisting SMHs with technology adoption and educating them on how to stay competitive may help the growth of their business. These type of supports are crucial to enable SMHs become more able to ride out the competitive business environment facing them.

Meanwhile, future researchers should further improve studies in this area by trying to access more data that could help us better understand the situation. For example, they could focus on using qualitative approach to further understand why EO 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.

In conclusion, the preliminary analysis has shown that innovativeness, proactiveness and risk taking behaviours do not contribute towards growth of SMHs within the study context. On the other hand, differentiation strategy does. Therefore it can be inferred that continued growth of SMHs requires less dependence of entrepreneurial strategies but more on 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 SMHs' 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 Sarawak). Different business contexts may pose different form of challenges and business market conditions that could affect SMHs growth

differently. Therefore, those businesses would need to react differently via adoption of suitable strategic orientations to help their growth. 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. Therefore, complimenting quantitative data with qualitative findings can help provide a more comprehensive outlook on the topic.

## 6. ACKNOWLEDGMENTS

This research is funded by Universiti Utara Malaysia under the High Impact Group Project scheme with S/O Code 12878.

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