

ISSC 2016 : International Soft Science Conference

## A Preliminary Analysis on the Effects of Organisational Learning and Market Conditions on the Relationship between Entrepreneurial Orientation and Growth of Small and Medium Size Hotels in Peninsular Malaysia

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### Abstract

<http://dx.doi.org/10.15405/epsbs.2016.08.72>

This is a preliminary analysis on the influence of organisational learning and market conditions on the relationships between entrepreneurial orientation 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 indicate that organisational learning fully mediates the relationship between entrepreneurial orientation and SME growth. They also showed the moderating effect of market conditions in the relationship. Implications of the findings are discussed at the end of the paper.

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**Keywords:** Small and medium size hotels; firm growth; organisational learning; market conditions.

### 1. Introduction

There exist little knowledge on the strategic behavior-performance relationship in SMEs in small and dependent economies because past studies have largely focused on the interface between strategic behavior and performance of large firms in developed countries (Parnell, 2013). There has also been a research gap in strategic behavior-performance relationship in small and medium sized hotels in a developing country. This paper presents the results of a preliminary analysis that seeks answers to the following objectives:



- 1) To explore whether organisational learning (OL) mediates the relationships between Entrepreneurial Orientation (EO) and Growth of Malaysian SMEs;
- 2) To explore whether market conditions (MC) moderate the relationships between EO and Growth of Malaysian SMEs.

## 2. The Literature

Entrepreneurial Orientation (EO) contributes to organisational transformation and strategic renewal through creation and combination of organisational resources and competences (Zahra, Kuratko & Jennings, 1999). An entrepreneurially oriented firm engages in product innovation, undertakes risky ventures and possesses pro-activeness, being the first to come up with new products, technologies and administrative techniques (Lumpkin & Dess, 1996; Miller & Friesen, 1983). Entrepreneurship scholars have also attempted to explain the performance of SMEs by investigating their entrepreneurial orientations (Wiklund, Patzelt & Shepherd, 2009). Therefore the following hypothesis is proposed:

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

### 2.1 Organisational Learning (OL) as a Mediating Process

Fiol and Lyles (1985) suggested that learning organization should involve learning and adaptation. "Learning" classifies as knowledge and linked with the past actions and future actions and "adaptation" is the ability to make incremental adjustments as a result of environmental changes (Fiol & Lyles, 1985). Erikson (2003) proposed that there are three mainstream sources of learning i.e. mastery experiences, vicarious experience and social experience. Mastery experience refers to experiences gain through the past experiences and it may contribute positive estimation of future performance. Vicarious experience was referring observation and reflection learning. Social experience was classified as social persuasion to receive positive encouragement. Cope (2005) suggested entrepreneurial learning could divide into learning prior to start-up and learning during the entrepreneurial process. Entrepreneur preparedness was the first requirement for each prospective entrepreneur at the start-up of his or her business (Reuber & 1999). With the different experiences, skills, knowledge each prospective entrepreneur will shape the learning task once they enter into a new venture and creation (Cope, 2005).

Altinay and Altinay (2006) stated that learning skills might have positive effect toward organization sales, build effective teams and also improve the quality of the product and services to meet the current demand in the market. They believe it may create a new culture for an organization. However, the majority of past studies focused on large-scale enterprises such as manufacturing organization or high technology firms. Only a few researchers studied the entrepreneurial learning task in relation to the small business growth process (Basu & Goswami, 1999; Cope, 2005). In addition, the study on SMEs especially in hotel industry is limited. Thus, understanding the entrepreneurial orientation and learning organization is essential to focus on individual entrepreneurs' experiential learning as an evolving process (Wang, 2008). Therefore:

H2: Organisational learning mediates the relationships between entrepreneurial orientation and Small and Medium size Hotel growth

## *2.2 Market Conditions as a Moderating Process*

Wiklund, Patzelt and Shepherd (2009) and more recently Rosenbush, Rauch and Bausch (2013) have found the mediating role of EO in the environment – performance relationship. Rosenbush, Rauch and Bausch's (2013) results also provided empirical evidence that EO is moderated by four types of MCs i.e. 'munificence environment', 'hostility environment', 'dynamism environment' and 'complexity environment'. Munificence environment refers to favorable market conditions which make available more opportunities and resources to an organization. Hostility environment is the opposite of munificence environment. It refers to unfavorable environmental condition with intense competition for scarce resources and opportunities. Dynamism environment refers to uncertainty in the market and unpredictable market changes (Smilor, 1997). Complexity environment refers to a diversity of information on resources and capabilities that are needed to operate within the market conditions.

While the above studies are useful, there is still a need to study the issue within the context of the hotel industry. Hotels are service-oriented and have different business characteristics compared to manufacturing or hi-technology enterprises. Thus, the following hypothesis is proposed: -

H3: The relationship between Entrepreneurial Orientation and SMEs growth is moderated by Market Conditions

## **3. Methodology**

The study uses quantitative data collected through questionnaires. The instrument was designed in English but the survey was 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

Table 1 exhibits the results of regression analysis. Result indicated that entrepreneurial orientation failed to predict SME growth ( $B=0.104$ ,  $t=1.908$ ,  $p>0.05$ ).

**Table 1.** Effect of Entrepreneurial Orientation on SME Growth

	<b>B</b>	<b>t</b>	<b>Sig.</b>
Entrepreneurial Orientation	.104	1.908	.058
R <sup>2</sup>	0.512		
F	87.387		
Sig.	<b>0.000</b>		

Regression analysis results indicate that organisational learning highly explained SME Growth for 59.1 percent of ( $R^2=0.591$ ,  $F=89.862$ ,  $p<0.01$ ). Only three four dimensions successfully predicted SME Growth as follows; commitment towards learning ( $B=0.327$ ,  $t=9.245$ ,  $p<0.01$ ), shared vision ( $B=0.103$ ,  $t=2.576$ ,  $p<0.05$ ), and problem solving ( $B=0.157$ ,  $t=3.729$ ,  $p<0.01$ ). Meanwhile, Market condition explained 44.4 percent of SME Growth ( $R^2=0.444$ ,  $F=66.675$ ,  $p<0.01$ ). Only two dimensions were successfully predicted SME Growth. They were market uncertainty ( $B=0.344$ ,  $t=8.809$ ,  $p<0.01$ ) and technology turbulence ( $B=0.181$ ,  $t=4.866$ ,  $p<0.01$ ).

#### 4.2 Effect of Mediating Variable

Two steps hierarchical regression was carried out to examine the effect of organisational learning in the relationship between entrepreneurial orientation and SME growth. Result indicates that the present of organisational learning only increase the R2 to 57.80 percent ( $R^2=0.578$ ,  $F=85.247$ ,  $p<0.01$ ). The findings also revealed that there were no significant relationship between entrepreneurial orientation and SME Growth ( $B=0.034$ ,  $t=0.652$ ,  $p>0.05$ ). Mediating variables, organisational learning was also found to have significant prediction on small and medium hotel growth ( $B=0.437$ ,  $t=6.244$ ,  $p<0.01$ ).

**Table 2.** Mediating Effect of Organisational Learning on the Relationship between Entrepreneurial Orientation and SME Growth

	<b>B</b>	<b>t</b>	<b>Sig.</b>
<b>Model 1: IV to DV</b>			
Entrepreneurial Orientation	.104	1.908	.058
<i>R</i> <sup>2</sup>	0.512		
<i>F</i>	87.387		
<i>Sig.</i>	0.000		
<b>Model 2: IV + MV to DV</b>			
Entrepreneurial Orientation	.028	.530	.597
Organisational Learning	.437	6.244	.000
<i>R</i> <sup>2</sup>	0.578		
<i>F</i>	85.247		
<i>Sig.</i>	0.000		

An attempt to determine the effect of organisational learning on the relationship between entrepreneurial orientation and SME growth showed that the presence of organisational learning in the model had decrease the effect of entrepreneurial orientation (B=0.028, t=0.1.908, p>0.05) on SME growth. It can be concluded that organisational learning fully mediated the relationship between entrepreneurial orientation and SME growth.

**Table 3.** Summary of Mediating Effect of Organisational Learning on the Relationship between Entrepreneurial Orientation and SME Growth

	<b>Beta</b>		<b>Mediating Effect</b>
	<b>Direct Effect</b>	<b>Indirect Effect</b>	
Entrepreneurial Orientation	0.104	0.028	Fully

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

#### 4.3 The Moderating Effect of Market Conditions

To test the hypothesis that the market condition are the function of SME growth, and more specifically whether market condition moderate the relationship between entrepreneurial orientation and SME growth, a hierarchical multiple regression analysis was conducted (refer Table 4). Result shows that entrepreneurial orientation was not a significant predictor to SME growth.

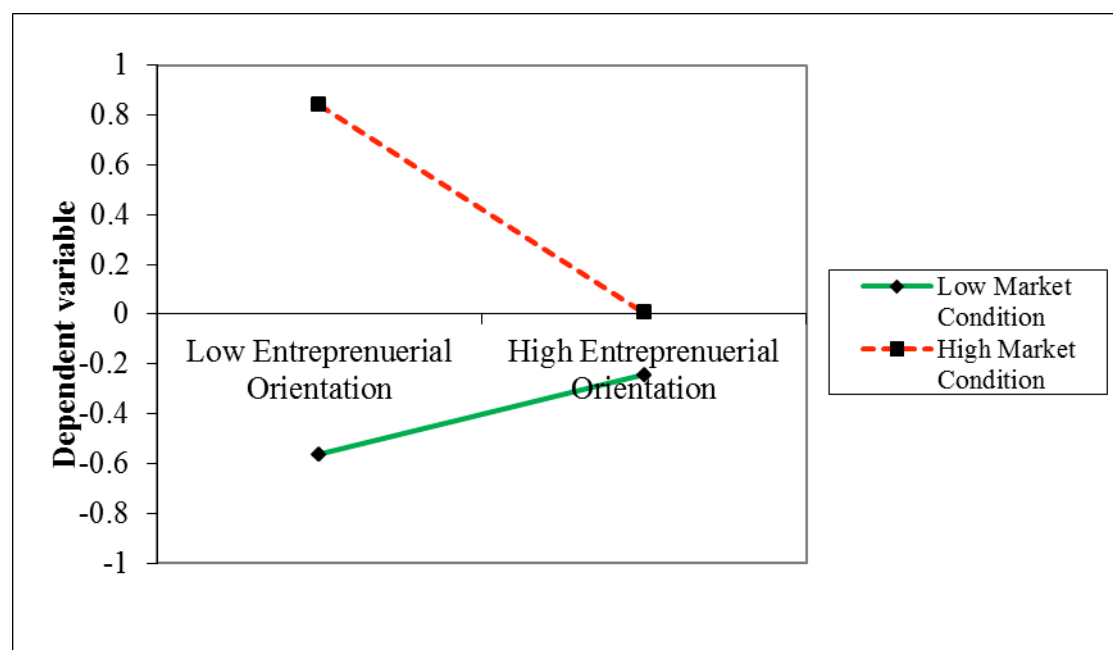
Next, the interaction term between entrepreneurial orientation and market condition was added to the regression model (Step 3), which accounted for significant proportion of the variance in SME growth (R2 change=0.020, F change=4.145, p<0.01). Examination of the interaction plot showed an enhancing effect that as entrepreneurial orientation (Figure 1) was larger, SME growth also increased. This finding indicated that moderation effect of market condition occurred in the relationship between entrepreneurial orientation and SME growth.

**Table 4.** Moderation Effect of in the Relationship between Entrepreneurial Orientation and SME Growth

<b>Variable</b>	<b>B (model 1)</b>	<b>B (model 2)</b>	<b>B (model 3)</b>
<b>Dependent variable</b>			
Entrepreneurial Orientation	.125	-.079	-.129

<b>Moderating Variable</b>			
Market Condition		.407**	.413**
<b>Interaction Term</b>			
MOxMC			.169*
EOxMC			-.289**
$R^2$	0.512	0.578	0.598
$F$	87.387	85.270	52.354
$Sig.$	0.000	0.000	0.000
$R^2$ change	0.512	0.066	0.020
$F$ change	87.387	39.036	4.150
$Sig.$ $F$ Change	0.000	0.000	0.007

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



**Figure 1.** Moderating Effect of Market Condition on the Relationship between Entrepreneurial Orientation and SME Growth

## 5. Discussions

The findings indicate that organisational learning fully mediates the relationship between entrepreneurial orientation and SME hotels growth. This gives empirical support to earlier contention on the mediating effect of OL on the relationship (Cope, 2005; Altinay & Altinay, 2006). In other words, SME hotels that engage in learning and adaptation if they want to sustain their growth. Each hotel firm's ability to attain knowledge and make incremental adjustments to changes will fare better compared to those that do not. In addition, learning skills can have positive influence on sales, help build effective teams and improve the quality of the product and services to meet market demand (Altinay & Altinay, 2006). Therefore having a learning culture in SME hotels would help the sector's growth in the long run.

The findings also showed the moderating effect of market conditions in the relationship, thereby again providing empirical support for past literature that made this proposition [15] Wiklund, Patzelt, & Shepherd, 2009). This implies that even for the service industry, business environment may affect SME hotels' willingness to engage in innovative, proactive and risky activities. The implication of this may be most relevant to governing bodies that exist to support the growth of SME hotels. They need to ensure that market conditions are conducive for success and growth of SME hotels.

One possible managerial implication of the findings is that perhaps SME still needs guidance in terms of entrepreneurial skills and strategies. Since OL mediates the effect of entrepreneurial orientation on firm growth/performance, we could infer that SMEs need to be educated with learning skills that could have positive effect toward organization sales, improve quality of products and services and be able to compete effectively. Policies such as free training and skill enhancement programs by the government could help SME to grow more strategically. Future research could focus on widening the sampling area beyond the three cities that this study focused on so that a better and more representative picture could be obtained on the influence of organisational learning and market conditions on the relationships between entrepreneurial orientation and growth of small and medium size hotels in Malaysia.

## 6. Conclusion

In conclusion, both Organisational Learning and Market Conditions play a role in the growth of SME hotels within the study context. Future studies can attempt to have a deeper study on this issue through mix method approach to understand how both these variables affect SME hotels' growth. Such understanding can shed more light on how SME hotels can be assisted in relation to attaining organisational learning and navigating hostile market conditions so that their business growth can sustain.

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