

How do Organizational Learning and Market Conditions Affect the Relationship between Entrepreneurial Orientation and Firm Growth? A Preliminary Analysis on Small and Medium Size Hotels in Peninsular Malaysia

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ABSTRACT

This is a preliminary analysis on the influence of organizational learning and market conditions (MC) on the relationships between entrepreneurial orientation (EO) and growth of small and medium size hotels (SMHs) in Peninsular Malaysia. Responses from 254 hotel managers/owners were analyzed using regression analysis to test the hypotheses. The findings indicate that organisational learning fully mediates the relationship between EO and small and medium size enterprises growth. They also showed the moderating effect of MC in the relationship. Implications of the findings are discussed at the end of the paper.

Keywords: Organizational Learning, Market Conditions, Entrepreneurial Orientation, Firm Growth, Small and Medium Size Hotels

JEL Classifications: M10, M14

1. INTRODUCTION

Businesses have always had to survive a vibrant competitive environment by exploring new business opportunities to remain competitive (Hitt et al., 2001). They adopt principles that would help guide and control their business activities, also known as strategic orientation. These principles will also influence their business approach and create exploitive behaviors towards business opportunities that will help them gain and sustain competitive advantage (Hakala, 2011). A business's strategic orientation provides the business with a clear direction and help it 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., 2008).

Small and medium enterprises (SMEs) have been the backbone of the tourism industry in many countries. Approximately 70% of the hotels in developing countries are made of SME (Jaafar et al.,

2010). The number of SME hotels has grown in tandem with the national economic growth due to greater emphasis on tourism as an economic income generator and the increasing number of tourists to the country. This trend is set to continue due to the nation's aspiration to become a fully developed nation in the year 2020, which would require strong growth of its businesses especially SMEs because SMEs could help raise economic productivity, create employment, produce innovative products and serve markets not effectively served by large businesses.

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). In addition, not much is known on the issue of strategic behavior-performance relationship in small and medium sized hotels (SMHs) in a developing country. This paper presents the results of a preliminary analysis that seeks answers to the following objectives:

1. To explore whether organizational 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.

SMHs are chosen because the accommodation sector is an integral component of the travel and tourism industry. Within this component, 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. Evaluating the SME Hotels performance is also important because tourism is Malaysia's second foreign exchange earner and international tourism arrival is set to grow to 1.6 billion in 2020 with expected tourism receipts of USD2.0 trillion (UNWTO, 2013). Therefore 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.

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. THE LITERATURE

There is a general consensus that to enhance performance, an organization should adopt entrepreneurial orientation (EO) because it can motivate SMEs to achieve stronger growth in terms of business performance. EO refers to processes, practices, and decision-making activities that head towards a new market entry (Lumpkin and Dess, 1996). It involves multiple dimensions including competitive aggressiveness, proactive behaviours, risk taking tendencies, innovative tendencies and autonomy (Huang and Wang, 2011). Earlier, Miller (1983) and Covin and Slevin (1989; 1991) proposed that EO is can be exhibited in only three dimensions of business behaviours i.e. innovative, proactive, and risk-taking. 'Proactive' firms are those that predict a change in the business environment and respond by changing their business strategies; 'Risk-taking' businesses are firms that grab any opportunities that could lead towards success even if doing so pose danger towards them. 'Risk taking' refers to organizations' committing a certain percentage of their resources to new projects thereby incurring financial risks (Lumpkin and Dess, 1996; Miller, 1983); and 'innovative' are firms that engage in the pursuit of new concepts or ideas in product and services development (Huang and Wang, 2011). Innovativeness reflects organizations' support of novelty, experimentation, and creative processes that may results in new products or services, results in new ideas and adoption of new technology (Lumpkin and Dess, 1996; Deshpande, Farley and Webster, 1993; Pelham, 2000). The propensity of entrepreneurs to pursue new market opportunity and renew their area of operation is known as EO. EO contributes to organizational transformation and strategic renewal through creation and combination of

organizational resources and competences (Zahra et al., 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 and Dess, 1996; Miller and Friesen, 1983). In other words, firms with EO are aggressive in nature especially in exploring new opportunities and ventures. This unique characteristic has attracted many entrepreneurship scholars to try and explain the performance of SMEs by investigating their EOs (Wiklund et al., 2009) in their respective studies. Therefore we propose the following hypothesis:

H1: EO has a positive effect on Small and Medium size Hotel growth.

2.1. OL as a Mediating Process

Generally speaking, OL serves the purpose of enhancing firm performance through actions and future actions that allow for incremental adjustment to new changes or new business environment. Fiol and Lyles (1985) suggest that OL 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. Erikson (2003) propose 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 how it may contribute to positive estimation of future performance. Vicarious experience refers to observation and reflection learning of an experience. Meanwhile, social experience was classified as social persuasion to receive positive encouragement. All these experiences are crucial in providing valuable learning experience to a business firm. Huang and Wang (2011) suggest that 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 (Miller, 1983). With the different experiences, skills, knowledge each prospective entrepreneur will shape the learning task once they enter into a new venture and creation (Huang and Wang, 2011).

OL is not only important for large-scale enterprise but also essential for SMEs wishing to align with their environments to remain more competitive and innovative. Indeed, rapid change of the market has forced organization to learn new knowledge especially the updated technology that stay strong in the market. Altinay and Altinay (2006) state 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 studies on OL in organizations focus on large-scale enterprises such as the manufacturing organizations or high technology firms. Only a few researchers studied the entrepreneurial learning task in relation to the small business growth process (Basu and Goswami, 1999; Cope, 2005). The study on SMEs especially in the context of a hotel industry is even more limited. Therefore, understanding the entrepreneurial orientation and learning organization is essential

to focus on individual entrepreneurs' experiential learning as an evolving process in entrepreneurial (Wang, 2008).

Therefore:

H2: OL mediates the relationships between EO and SMHs growth.

2.2. MC as a Moderating Process

Due to the growing number of SMHs and the increased competition facing each firm, there is a need to understand the different kinds of MCs that could limit firm growth. A study by Rosenbush, Rauch and Bausch (2013) on mediating role of entrepreneurial orientation in the task environment – performance relationship found that there are four environments or condition may moderate entrepreneurship orientation. They are 'Munificence environment', hostility environment, dynamism environment and complexity environment. Munificence environment refers to favorable market conditions where there are more opportunities and resources available for businesses. Hostility environment is the opposite of munificence environment. It refers to unfavorable environmental condition where there are plenty of competitors and scarce resources and opportunities. Dynamism environment refers to uncertainty in the market due to unpredictable market changes (Smilor, 1997). Complexity refers to market condition where there is a diversity of information, resources and capabilities required to be able to operate. Rosenbush et al. (2013) results provided empirical evidence that entrepreneurial orientation is moderated by the market environment or conditions. However, their finding only focuses on hostility environment and is not related to entrepreneurial orientation.

Studies on SMEs hotel industry are still limited because most of these previous studies (Miller and Friesen, 1983; Wiklund, Patzelt and Shepherd, 2009) focused on on the effect of market orientation on business growth; the effect of entrepreneurial orientation that can influence SMEs growth; and how technology orientation will affect the organization performance towards SMEs growth within the context of non-service industry. As hotel firms belong to the service industry, their business characteristics are different compared to manufacturing or hi-technology enterprises. Thus, a study is needed to understand the entrepreneurial orientation of SMEs growth and the moderating effect of market conditions within this context. Therefore the hypothesis proposed is:

H3: The relationship between EO and SMEs growth is moderated by MC.

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. Language experts helped verify the 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 <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 SMHs, 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 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% of the hotels were managed by hotel management company.

Outliers detection using Mahalanobis Chi-square (D^2) 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 firm strategy ($\alpha = 0.857$).

4.1. Effect of EO on SME Hotel Growth

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

Regression analysis results indicate that organizational learning highly explained SME growth for 59.1% 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, MC explained 44.4% of SME Growth ($R^2 = 0.444$, $F = 66.675$, $P < 0.01$). Only two dimensions

Table 1: Effect of EO on SME growth

Variable and analysis	B	t	Significant
EO	0.104	1.908	0.058
R ²	0.512		
F0	87.387		
Significant 0	0.000		

EO: Entrepreneurial orientation, SME: Small and medium enterprises

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 organizational learning in the relationship between EO and SME growth. As can be seen in Table 2, result indicates that the present of organizational learning only increase the R^2 to 57.80% ($R^2 = 0.578$, $F = 85.247$, $P < 0.01$). The findings also revealed that there were no significant relationship between EO and SME Growth ($B = 0.034$, $t = 0.652$, $P > 0.05$). However, the mediating variable i.e. organizational learning was found to have significant prediction on SMHs growth ($B = 0.437$, $t = 6.244$, $P < 0.01$).

An attempt to determine the effect of organizational learning on the relationship between EO and SME growth showed that the presence of organizational learning in the model had decrease the effect of EO ($B = 0.028$, $t = 0.1908$, $P > 0.05$) on SME growth (Table 3). It can be concluded that organizational learning fully mediated the relationship between EO and SME growth.

4.3. The Moderating Effect of MC

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

Next, the interaction term between EO and MC was added to the regression model (Step 3), which accounted for significant proportion of the variance in SME growth (R^2 change = 0.020, F change = 4.145, $P < 0.01$). Examination of the interaction plot showed an enhancing effect that as EO (Figure 1) was larger, SME growth also increased. This finding indicated that moderation effect of MC occurred in the relationship between EO and SME growth.

5. DISCUSSIONS

The findings indicate that organizational learning fully mediates the relationship between EO and SMHs growth. This gives empirical support to earlier contention on the mediating effect of OL on the relationship (Cope, 2005; Altinay and Altinay, 2006). In other words, SMHs 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 and Altinay, 2006). Therefore having a learning culture in SMHs would help the sector's growth in the long run.

The findings also showed the moderating effect of MC in the relationship, thereby again providing empirical support for past literature that made this proposition (Miller and Friesen, 1983; Wiklund et al., 2009). This implies that even for the service industry, business environment may affect SMHs' willingness

Table 2: Mediating effect of organizational learning on the relationship between EO and SME growth

Variable and analysis	B	t	Significant
Model 1: IV to DV			
EO	0.104	1.908	0.058
R^2	0.512		
F	87.387		
Significance	0.000		
Model 2: IV+MV to DV			
EO	0.028	0.530	0.597
Organizational Learning	0.437	6.244	0.000
R^2	0.578		
F	85.247		
Significance	0.000		

EO: Entrepreneurial orientation, SME: Small and medium enterprises

Table 3: Summary of mediating effect of organizational learning on the relationship between EO and SME growth

Variable	Beta		Mediating Effect
	Direct effect	Indirect effect	
EO	0.104	0.028*	Fully

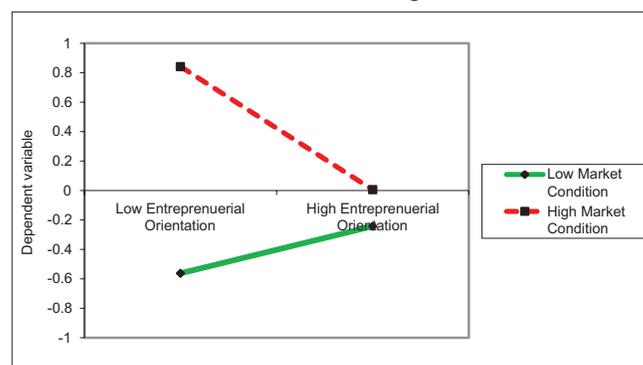
* $P < 0.05$. EO: Entrepreneurial orientation, SME: Small and medium enterprises

Table 4: Moderation effect of in the relationship between EO and SME growth

Variable	B (model 1)	B (model 2)	B (model 3)
Dependent variable			
EO	0.125	-0.079	-0.129
Moderating variable			
Market condition		0.407**	0.413**
Interaction term			
MOxMC			0.169*
EOxMC			-0.289**
R^2	0.512	0.578	0.598
F	87.387	85.270	52.354
Significant	0.000	0.000	0.000
R^2 change	0.512	0.066	0.020
F change	87.387	39.036	4.150
Significant F change	0.000	0.000	0.007

** $P < 0.01$, * $P < 0.05$. EO: Entrepreneurial orientation, SME: Small and medium enterprises

Figure 1: Moderating effect of market condition on the relationship between EO and SME growth



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 SMHs. They need to help by

ensuring that MC are conducive for success and growth of SMHs. Removal of unnecessary pressures and added costs will help give room for SMHs to focus more on improving their business strategy and continued growth. Therefore, regulatory agencies need to be more considerate of all the problems that SMHs face and avoid any policy that only adds to their problems.

One possible managerial implication of the findings is that there are indications that SME still needs guidance in terms of entrepreneurial skills and strategies. Since OL mediates the effect of EO 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. However, before this can be effectively implemented, there is also a need to identify ways to encourage more SMHs to consider learning as a worthwhile pursuit and not one that would only increase their costs and waste their staff's time. Since a learning culture in SMHs would help ensure their long term growth, they need to be made aware on the importance of continuous OL in order to better equip their hotels in today's highly competitive environment.

6. CONCLUSIONS

In conclusion, both OL and MCs play a role in the relationship between EO and growth of SMHs 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 SMHs' growth. Such understanding can shed more light on how SMHs can be assisted in relation to attaining OL and navigating hostile MC so that their business growth can sustain.

Future researchers are also recommended to use more rigorous method to get data using mixed method approach to understand not only the firms' predisposition towards OL, but also the type of MC that could help SMH growth. With mixed method approach, researchers could obtain qualitative data to help them understand a phenomenon better. Such understanding is crucial to enable better policy framework that could help more SMHs or any other firm within the same category to achieve sustained growth. Future research could also 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 OL and MC on the relationships between EO and growth of SMHs in Malaysia.

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