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The Impact of Entrepreneurial Orientation on Business Performance in Star Class Hotels of Sri Lanka

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Abstract- **The article studies the relationship between the Entrepreneurial Orientation and Business Performance in star class hotels of Sri Lanka. The study has utilized data collected from 215 senior managers employed in the star class hotel sector. CFA SEM analysis was performed using AMOS 21 to identify the relationship. The quantitative data analysis revealed there is a significant relationship between Entrepreneurial Orientation, and Business performance. Further, it was found Proactiveness, Risk Taking, Innovativeness, Autonomy and Competitor Aggressiveness are dimensions of Entrepreneurial Orientation.**

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I. Introduction

The effort of business firms to improve their Business Performance through Entrepreneurial Orientation has drawn the attention of academic scholars and business practitioners. It seems to be a novel approach for business firms to measure Business Performance using Entrepreneurial Orientation (Kraus, Burtscher, Vallaster & Angerer, 2018, Kraus, Burtscher, Vallaster & Angerer, 2018). The global business arena has become a fiercely competitive place due to the heavy internationalization of markets supported by rapid technological advancements (Tajeddini and Trueman, 2008). For companies to survive in today's competitive markets, the growth has become a challenging task (Davidson et al. 2005). Such companies will resort into Entrepreneurial Orientation to ensure the required output increase and growth in size (Pratano et al. 2012). Adequate empirical evidence is available on the relationship between Entrepreneurial Orientation and growth (Zhang & Zhang, 2012, Li et al. 2009; Mahmood & Fanafi, 2013).

This paper explores the link between Entrepreneurial Orientation and Business Performance by defining entrepreneurial firms as firms that engage in innovation, proactive, risk-taking, autonomy, and competitor aggressive (Lumpkin and Dess, 2011). In this study, Entrepreneurial Orientation is a concept with five key dimensions that are independent of each other. These dimensions are combined and will act together to form an environment where the firm who are more entrepreneurial to exploit the opportunities: I) to sustain the current markets while generating new markets, II) to grab a sizable market slice from rivals who are less aggressive and innovative, and III) to acquire the clients, assets and also the employees of demure present businesses (Hamel, 2000; Lackeus, 2018). The literature contains numerous recent studies on entrepreneurial orientation and its potential effect on business performance. However, researches on particular industrial sector hospitality are scarce (Tajeddini, 2010). Here it is defined in such a way that has an effect on the Business Performance and a dimension with a substantial contribution to the business accomplishments of the venture (Mahmood & Hanafi, 2013).

The contemporary researchers are taking a view on Entrepreneurial Orientation can be regarded as the strategic processes accountable for decision making and as a method of entrepreneurial actions associated with a business (Omisakin, Nakhid, Littrell, & Verbitsky, 2016). To embrace entrepreneurial behaviors and practices, Entrepreneurial Orientation is viewed as a strategic tool to perform both in a creative and competitive manner (Beliaeva, 2014). Further, it is defined as a comprehensive concept that has an effect on the Business Performance and a philosophy with a considerable contribution to the success of the venture (Mahmood & Hanafi, 2013).

II. Problem Statement

According to the figures of SLTDA, the annual average occupancy rates of four-star and five-star hotels seldom exceed the level of 70% (SLTDA Statistical Report). Even some decent profits could be achieved. A substantial opportunity cost also will incur at this level of occupancy. Since selling room nights is regarded as a service, every unoccupied room only carries the cost and subsequently will erode the profitability. The hotel firms are now turning themselves towards Entrepreneurial Orientation to enhance the profits. It is worthy of examining the degree of Entrepreneurial Orientation that is practiced among four-star and five-

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the relationship between Entrepreneurial Orientation and Business performance is studied, Entrepreneurial Orientation is measured using only three dimensions. In this research, all five dimensions proposed by Lumpkin and Dess (1996), namely innovativeness, proactiveness, risk-taking, autonomy and competitor aggressiveness, are considered as components of Entrepreneurial Orientation.

III. Objectives of the Study

There are five main objectives of the study

1. To investigate whether there is a relationship between Entrepreneurial Orientation and Business Performance.
2. To study whether Innovativeness, Pro activeness, Risk Taking, Autonomy, and Competitor Aggressiveness are sub-dimensions of Entrepreneurial Orientation.

IV. Research Method

The study was based on primary data. The primary data was collected from a likert scale questionnaire using 215 senior managers from the hospitality industry representing four star and five-star hotels. The Simple random technique was adapted to collect data from respondents covering the whole island. Collected data were analyzed using CFA-SEM techniques to identify the relationship between Entrepreneurial Orientation and Business performance. The deployed software for the analysis was AMOS 21.

V. Conceptual Framework

The conceptual frame work was developed to identify the relationship between Entrepreneurial Orientation and Business Performance in four-stars and five-star hotels. Previous empirical and theoretical were used to determine the variables of the study. It consisted of five first-order independent variables innovativeness, proactiveness, risk-taking, autonomy, and competitor aggressiveness, and one second order-independent variable Entrepreneurial Orientation and one dependant variable Business Performance. Being a constituent of EO innovativeness is explained as an essential way through which businesses identify new opportunities and it is also known as a business tendency to get involved in new processes and actions to generate new solutions to problems in the business (Ofem, 2014). The proactiveness refers to the tendency of the firm to come up with new products and services ahead of the competition and act in anticipation of future demand (Wang and Altinay, 2010). Risk-taking refers to a firm's tendency to engage and the willingness to commit significant resources to opportunities with uncertain outcomes (Schillo 2011; Lumpkin and Dess 1996). Competitor aggression refers to the propensity of directly and intensely challenging its competitors to achieve entry of improving the position that is to outperform industry rivals in the market place (Lumpkin and Dess, 1996). Autonomy refers to the independent action of an individual or a team in bringing fourth an idea or a vision and carrying it through to completion (Lumpkin and Dess, 1996). Traditional financial indicators are used in the performance evaluation that are usually related to profitability. Profitability is measured by return on equity, return on assets, and return on investment. (Asheghian, 2012).

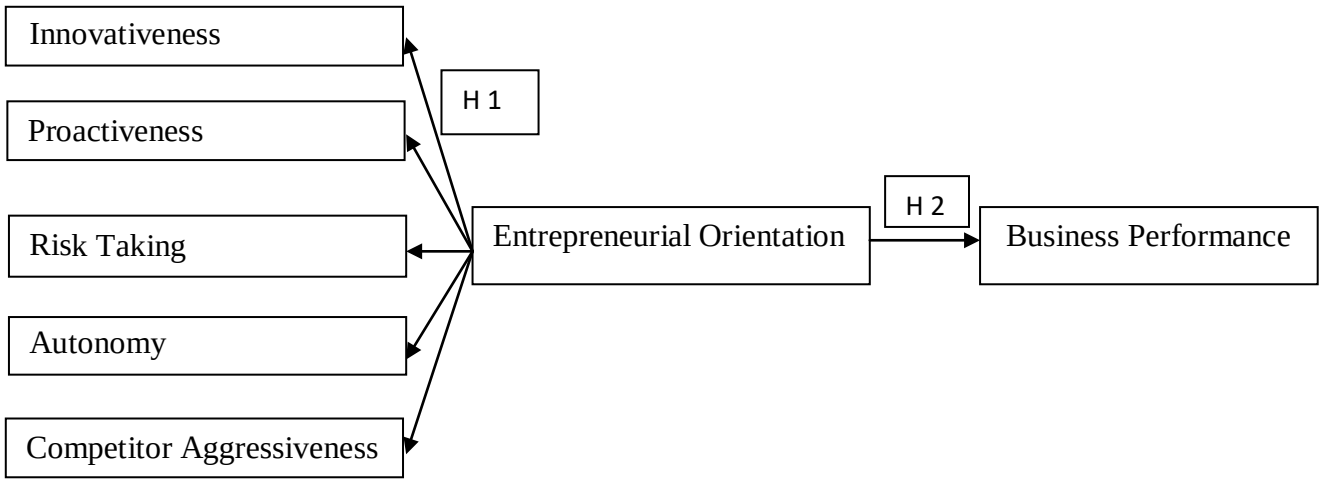


Figure 1

VI. Hypothesis of the Study

Following hypotheses were relevant to the study

1. There is a relationship between Entrepreneurial orientation and Business Performance.
2. Innovativeness, Pro activeness, Risk Taking, Autonomy and Competitor Aggressiveness are sub dimensions of Entrepreneurial Orientation.

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VII. CFA – SEM Analysis

CFA-SEM Analysis technique was used to measure the relationship between composite variables of second-order and the dependant variable. In this method firstly the individual models shall be tested for their suitability. The independent variables of first-order category namely, innovativeness, pro activeness, risk-taking, autonomy and competitor aggressiveness and the independent variable business performance were subjected to this analysis. As the second step, all six variables were combined to develop the structural model. In both, the individual model and the structural model, items were dropped during the analysis anticipating to meet the relevant values in indices required to ensure the model fit. Subsequently, the final model was developed and tested for the above-mentioned hypotheses.

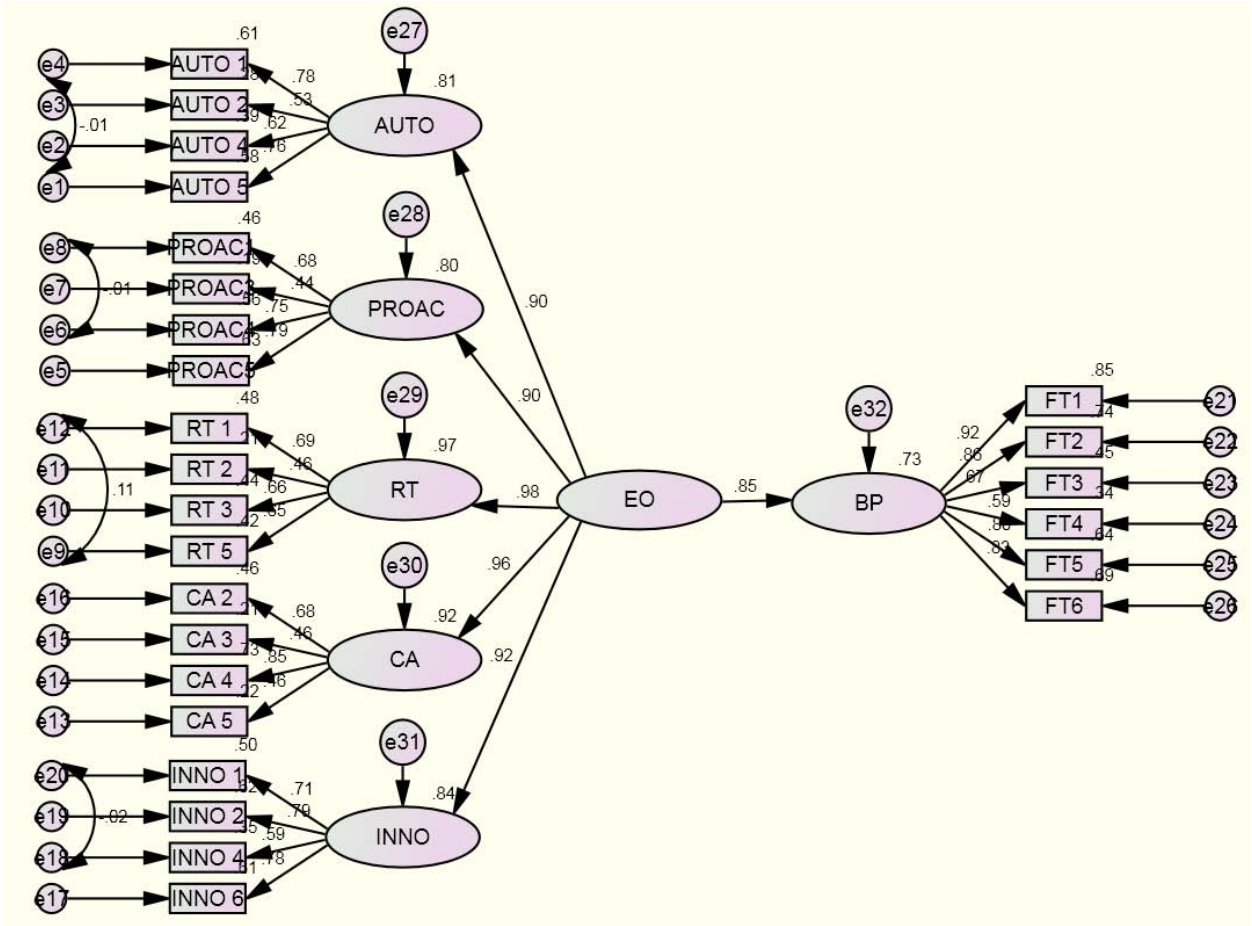


Figure 2: Final SEM Model

The individual models of dimensions Innovativeness, Pro activeness, Risk-taking, Autonomy and, Competitor Aggressiveness were developed and tested for their model fit. After treating the modification indices all dimensions reached the relevant values. The indices were selected in order to represent three important categories.

Table1: The Model fit indices of dependant and independent variables

Dimension	CMIN/DF	CFI	RMSREA	Comment
Threshold values	5	0.9	0.8	
Innovativeness	2.954	0.978	0.045	Required level is achieved
Pro activeness	2.967	0.985	0.032	
Risk taking	0.988	0.964	0.049	
Autonomy	2.943	0.988	0.053	
Competitor aggressiveness	3.948	0.991	0.061	
Business Performance	2.925	0.913	0.058	

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In the final Structural Equation Model (SEM) the five dimensions are showing a standard beta estimate value towards the Entrepreneurial Orientation with high figure. In the relationships P values are 0.000 which was less than the threshold values and were significant. The critical ratios also were above the 1.96 threshold value. Therefore hypothesis one is accepted, that depicts the Risk-taking, Competitor Aggressiveness, Innovativeness, Proactiveness and, Autonomy are measurements of Entrepreneurial Orientation.

Table 2: Results of Hypothesis 1 testing

Second order variable		First order variable	Standard Beta Estimate	Critical Ratio	P value
Entrepreneurial Orientation	<	Risk taking	0.983	9.095	0.000
Entrepreneurial Orientation	<	Competitor aggressiveness	0.959	6.406	0.000
Entrepreneurial Orientation	<	Innovativeness	0.918	Reference point	
Entrepreneurial Orientation	<	Pro activeness	0.897	10.179	0.000
Entrepreneurial Orientation	<	Autonomy	0.898	9.877	0.000

In the final Structural Equation Model (SEM), the P-value 0.000 was less than the threshold value of 0.05; the relationship was proved to be significant. The critical ratio value 11.384 was greater than the 1.96 threshold value, and there is a standard beta estimate value of 0.852 between Entrepreneurial orientation and Business performance. Therefore hypothesis two is accepted, that depicting there is a significant and sizable relationship between Entrepreneurial Orientation and Business Performance.

Table 2: Results of Hypothesis 2 testing

Second order variable		First order variable	Standard Beta Estimate	Critical Ratio	P value
Business Performance	<	Entrepreneurial Orientation	0.852	11.384	0.000

VIII. Conclusion

CFA SEM analysis demonstrates a significant and sizable relationship between Entrepreneurial Orientation and Business Performance in star class hotels of Sri Lanka. By adopting Entrepreneurial Orientation in a meaningful way, star class hotels in Sri Lanka could deliver a strong outcome. By becoming more entrepreneurial orientated, these firms could ensure their business survival and growth in a fiercely competitive tourism market. To practice Entrepreneurial Orientation, firms could rely on its dimensions Risk-Taking, Competitor Aggressiveness, Innovativeness, Proactiveness, and Autonomy. These dimensions are functioning individually from each other, where the firms could adopt different strategies according to their preference and availability of resources.

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