

# LEARNING ORIENTATION, ENTREPRENEURIAL ORIENTATION, INNOVATION AND THEIR IMPACTS ON NEW HOTEL PERFORMANCE: EVIDENCE FROM SURABAYA

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**Abstract:** Based on investor perspective, Surabaya city is still recognized as a promising investment land especially in the tourism industry. As can be seen based on recent last three years, whereas a lot of new hotel establishment is introduced. The presence of these new hotel establishments could be the indicator of tourism and economic growth in Surabaya city. However, growth may also lead to tighter competition. Therefore, to competitively compete during its early years, new hotel establishment should have a strategic orientation within its business operations with additional innovation breakthrough to create value or a competitive advantage. New hotel establishment also should maintain its good performance. This research is conducted to observe the implementation of Strategic Orientation, especially related with Learning Orientation and Entrepreneurial Orientation which is conducted by the establishment to achieve a better performance, which is also supported by the predesigned innovative programs. The empirical result based on 49 new hotel establishment in Surabaya city as the research sample, indicated indirect relationship between Learning Orientation and Entrepreneurial Orientation to performance with innovation as the mediator. It is suggested to add Market Orientation as the intervening variables for the future research especially regarding the role of Strategic Orientation and Innovation in new hotel establishments due to their infancy stage.



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Based on recent last three years, the growth of the hotel industry in Surabaya rapidly increased, whereas a lot of new hotel establishment is

introduced. According to BPS (2018), the amount of new starred hotel establishment from 2015 to 2017 is increasing up to 65 hotels in Surabaya. The growth of the new hotel establishment will also lead to tighter competition.

In general, a new business establishment including new hotel establishments face major difficulties during their early years of operation (Spencer & Zyl, 2015 and Watson, Hogarth-Scott, & Wilson, 1998), whereas most of them are prone to failure and finally disappeared from the competition (Enz, Peiró-Signes, & Segarra-Oña, 2014 and Osborne, 1993). Therefore, it is urgently required a research concept model that contributes significantly to increase the success rate for the new hotel establishments. It is necessary to remind that financial, economic, and social loss will be incurred due to operational termination (Laitinen, 1992). Many prior types of research are conducted to investigate and to identify the success factors for the new business establishments. However, most of those are partially focused on the early stage during the life cycle, and it is still few focused on the growth stage especially during the early years (Song, Podoyntsina, Bij, & Halman, 2008).

Gatignon & Xuereb (1997) and Jassmy & Bhaya (2016), suggested that a new establishment during its early operating years should have a strategic orientation as a basic philosophy adopted by the establishment. The strategic orientation is considered as one of the most prominent resources (Ogbari, Ibidunni, Ogunnaike, Olokundun, & Amaihian, 2018 and Zhou, Yim, & Tse, 2005). Strategic orientation is a set of values and beliefs regarding how the business is managed by the management to achieve a better outcome (Espino-Rodríguez & Ramírez-Fierro, 2018 and Gatignon & Xuereb, 1997).

Despite its prominence, strategic orientation is needed to be supported by innovation which is also second in prominent to compete with competitors (Hitt, Ireland, Camp, & Sexton, 2001). Innovation is very prominent as a strategic choice to ensure the sustainability of the business in the competitive business environment (Rosenbusch, Brinckmann, & Bausch, 2011).

Prior research suggested that there is a significant relationship between strategic orientation and performance based on the size of the establishment (Keskin, 2006) and the age of the establishment (Brettel, Engelen, & Heinemann, 2009 and Kakati,

2003), other research suggested that product innovation or process innovation have specific characteristic differentiation especially for small and medium establishments (Porter, 2008), particularly a new business establishment (Rosenbusch, et al., 2011).

Based on the argument above, it is necessary to investigate the relationship between the strategic orientation and the new hotel establishment's performance direct and indirect through innovation as the mediator. Regarding the strategic orientation, this research will be focused on Learning Orientation (LO) and Entrepreneurial Orientation (EO), and regarding the innovation will be focused on product and service innovation as the basic foundation of success in the hotel industry (Dzhandzhugazova, Blinova, Orlova, & Romanova, 2016 and Ottenbacher, 2007).

## **LITERATURE REVIEW**

The impact of the globalization era creates a complex business environment with uncertainty and rapid change (Prajogo & Ahmed, 2006). Business people are required to develop a new product or service to meet market needs. Thus, an establishment is forced to innovate its business activities to enhance its competitive advantage continuously and able to compete (Chapman & Hyland, 2004).

According to Barney (1991), based on Theory of Resources and Capabilities (TRC), the theory emphasizes on the creation of value focused on heterogeneity and immobility resources as a competitive advantage to gain a better result. The assumption of this theory refers to any establishment which could compete as efficient as possible will lead to a better internal capability compared by their rival (Collis & Montgomery, 1995, Foss, 2015, and Grant, 1991). An establishment's resources can be classified into assets and capabilities (Day, 1995, Hunt & Morgan, 1996, and Newbert, 2008). The asset is an establishment's resource that accumulated from time to time (e.g. economic scale, reputation or brand image), and capability is an establishment's resource which is more difficult to measure financially (e.g. knowledge and skill) (Zhou, et al., 2005). Barney (2001), added that an

establishment's resources as a potential competitive advantage should be rare, valuable, and inimitable. Strategic Orientation is an example of a rare, valuable, and unique resource (Bhuian, Menguc, & Bell, 2005).

According to the previous literature, Strategic Orientation has two dimensions namely Learning Orientation and Entrepreneurial Orientation (Calantone, Cavusgil, & Zhao, 2002, Kirca, Jayachandran, & Bearden, 2005, and Swann, 2016). Learning Orientation is an establishment routinely that could produce knowledge to utilize market opportunity (Sinkula, 1994 and Slater & Narver, 1995) to proactively measure to what extent an establishment member's belief as it provides benefits in achieving maximum performance (Baker & Sinkula, 2002). The utility is a series of processes ranging from acquiring, distributing, integrating, and creating information and knowledge among an establishment's members (Dixon, 1992). Learning Orientation involves a combination of three different attitudes, namely commitment to learning, the openness of mind and a shared vision (Sinkula, Baker, & Noordewier, 1997). Farrell, Oczkowski, & Kharabsheh (2008) and López, Peón, & Ordás (2005), made arguments stating that Learning Orientation is one of the most important resources. It means that Learning Orientation has been recognized as a key process that contributes significantly to the success of an establishment. Therefore, an establishment should require competent members and learning effort to assess market information, technology changes and many others from an external resource (Birdthistle & Fleming, 2005). Moreover, an establishment member should have the capability to create new knowledge which is faster than its competitors (López, et al., 2005).

Entrepreneurial Orientation defined as a capability to resolve the possibility arising risks due to external environment changes, to identify technology development opportunities and to receive necessary resource to enhance the establishment growth (Lumpkin & Dess, 2001). Entrepreneurial Orientation is considered as a priority for an establishment to identify and exploit the market opportunities (Baker & Sinkula, 2009). Many studies assume that

Entrepreneurial Orientation is a higher level of entrepreneurship (Bhuian et al., 2005, Runyan, Droge, & Swinney, 2008, and Zhou et al., 2005). Entrepreneurial Orientation is also understood in various dimensions as innovation, proactivity, and risk taking (Lumpkin & Dess, 2001). Innovation is considered as an establishment's willingness to create ideas and new concepts in processes, product and service development. Proactivity is referred to as an establishment's characteristic to search the future and be responsive in a dynamic business environment. Risk taking is considered as the condition whereas an establishment's effort to thrive the opportunity without considering its resource capacity. Prior research considered Entrepreneurial Orientation as a strategic approach in decision making and as a tool to explain an establishment's performance (Green, Covin, & Slevin, 2008). Thus, an establishment with a higher strategic reactivity tends to create a new opportunity to conduct strategic renewal to maintain its competitive advantages.

The creation of a new opportunity by an establishment is considered as a part of innovation efforts. Innovation is defined as the capability to create new ideas related to process, product, and service or ideas within the establishment). An establishment that can innovate is considered as an establishment that also has a culture which encourages the openness for new ideas toward its members (Hult & Ketchen, 2001 and Verhees & Meulenbergh, 2004). Innovation reflects the establishment's position before the innovation process takes place, and also reflects the output from its process (Baker & Sinkula, 2009). Some innovation is administration process innovation which does not directly affect the market. However, it affects the improvement of the internal business process (Han, Kim, & Srivastava, 1998). One of the important stages of the innovation process is the initiation that contains openness cultural element toward innovation itself (Hage, 1999 and Zaltman, Duncan, & Holbek, 1973). An example of such openness is the willingness of the establishment's member to implement innovation and be able to adapt to changes as a result of the application of these innovations (Ven, 1986).

### Model Development and Formulation of Hypotheses

Prior research, eg. Hult, Hurley & Knight (2004) and Keskin (2006), have been investigated how strategic orientation and innovation affect an establishment's performance, however previous research with the same topics has never been conducted in a hotel industry context. Therefore, this research tried to analyze the consequences of the strategic orientation implementation and innovation towards the sustainability level for a new hotel establishment. These are caused by the higher potential failure risk (Runyan et al., 2008), and innovation is considered as the quick remedy to reduce the failure risk (Rosenbusch et al., 2011). Thus, it is important to investigate the relation between Strategic Orientation, Innovation and Performance. These factors generally are expected to contribute an obvious and significant result towards performance enhancement or general effectivity (Damanpour, 1991 and Espino-Rodríguez & Ramírez-Fierro, 2018). Performance is defined as the achievement of the establishment goal including profitability, revenue enhancement, market growth, and general strategic goal's achievement (Potocki & Brocato, 1995). According to Wernerfelt (1984), strategic orientation can help an establishment to achieve its competitive advantage through the resources distribution towards new product development, process, and service. Innovation is an establishment change media, as a response regarding the changes internally and externally as an early attempt to affect the business environment (Hult, et al., 2004). With the improvement of the hotel establishment's ability to learn something new to help to adjust the changing environment, it would also increase the level of the ability to creating new and

innovative ideas. Meanwhile, the ability to create new ideas also increases as the level of the ability to identify new opportunities arise. Thus, Learning Orientation and Entrepreneurial Orientation affect positively and significantly towards Innovation.

H<sub>1</sub>: Learning Orientation affects positively and significantly towards Innovation.

H<sub>2</sub>: Entrepreneurial Orientation affects positively and significantly towards Innovation.

Hotel establishments could create differentiation among their competitors through creative ideas as a result of its ability to create new and different ideas to compete. Moreover, Innovation is considered as the most important factor to create a better performance.

H<sub>3</sub>: Innovation affects positively and significantly towards Performance.

Hotel establishments with a better learning ability would not become a collection of the knowledgeable entity. However, it would create a core competency to adjust and continuously learning the process, hence as the learning ability gradually increases and so would reflect on the increment of performance. While the learning process commences, like the ability to identify opportunity increases and reduces the risk potential, hotel establishments would identify a great opportunity to explore and exploit compared than its competitors, these conditions would give benefit to its performance, since it would outperform its competitors, Hence,

H<sub>4</sub>: Learning Orientation affects positively and significantly towards Performance.

H<sub>5</sub>: Entrepreneurial Orientation affects positively and significantly towards Performance.

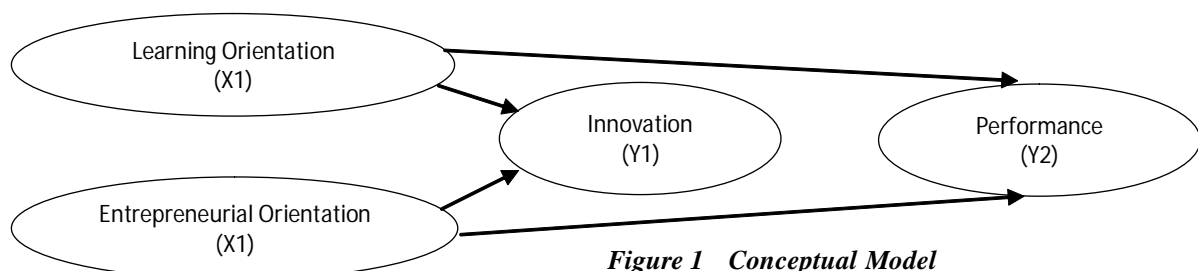


Figure 1 Conceptual Model

## METHOD

This quantitative explanation research is designed to identify the causal effect between two variables whereas the research problem has been clearly defined (Zikmund, Carr, Griffi, & Babin, 2013). The sample is taken from the new hotel establishment and concluded as a starred hotel in Surabaya city that already operated during the recent 3 years. These hotels are considered as an integral part of the tourism industry which is required to grow and survive. Both the hotel industry and tourism industry are two sides of the same coin (Attila, 2016, Budowski, 1976, and Tsai, Song, &

Wong, 2009). Furthermore, due to the lack of prior research with similar topics which is applied in the hotel industry, this research is dedicated to filling the gap especially to provide empirical evidence in the hotel industry.

The sampling method is purposive sampling, and from the total 65 new hotel establishments in Surabaya city during 2015-2017 period, the researchers took 49 new hotel establishments (75%) as the research sample based on the vast area of distribution consideration (hotel location) and the willingness from the hotel management to be part of the respondent as shown in Table 1.

**Table 1 Sampling Distribution**

Classification of Hotel	Number of New Hotels		The proportion of Number of Hotels as Samples
	Total	%	
B	C	D	E
2 Starred	13	20%	10
3 Starred	32	49.2%	24
4 Starred	14	21.5%	11
5 Starred	6	9.2%	4
<b>Total</b>	<b>65</b>	<b>100</b>	<b>49</b>

Source: Author's Data

Based on table 1, it is shown that the most of sample has been taken from 3 starred hotel (49.2%), and followed by 4 starred hotel (21.5%) and 2 starred hotel (20%) respectively and 5 starred hotel (9.2%). Therefore, this research could be concluded as proportionally dispersed with the amount of 10 hotels (2 starred), 24 hotels (3 starred), 11 hotels (4 starred), 4 hotels (5 starred) and in total sum 49 hotels.

This research utilizes a questionnaire and interview as the data collection method during 4 months collection period (February – May, 2018). The researchers visited all of each 49 hotels as the analysis unit which represented by a managerial level leader. Each of the hotels was represented by 1 manager as the respondent. The questionnaire used a Likert scale from 1 to 5 interval scale. Scale 1 represented as “totally disagree” while scale 5 rep-

resented “totally agree”. Furthermore, the researchers interviewed with 4 informants to gather additional information regarding the real condition of the hotel related to the research's variables.

Collected questionnaires were directly selected and analyzed using Structural Equation Modeling (SEM) analysis method based with General Structured Component Analysis (GSCA) as the statistical tool software, which its outputs were concluded as fit measurement model including validity and reliability, structural model, and overall model (Hwang & Takane, 2004).

Learning Orientation (X1) and Entrepreneurial Orientation (X2) were defined as the exogenous variables, and Innovation (Y1) was defined as an endogenous intervening variable, and Performance (Y2) was defined as an endogenous variable. The measurement indicators for Learning Orientation

were adapted from Baker & Sinkula (1999b), and Entrepreneurial Orientation was adapted from Naman & Slevin (1993). Moreover, the measurement indicators for Innovation were adapted from Baker & Sinkula (1999a), and lastly for Performance were adapted from Maltz, Shenhar, & Reilly (2003).

## RESULTS

### Validity

Based on the data process from Table 2, it is considered as valid since the estimation loading factor value for each indicator are more than 0.7 (Hwang & Takane, 2015).

**Table 2 Convergent Validity**

Variable	Factor Loading
Learning Orientation ( $X_1$ )	AVE = 0.69; Alpha = 0.781
$X_{1.1}$	0.753
$X_{1.2}$	0.833
$X_{1.3}$	0.817
$X_{1.4}$	0.715
$X_{1.5}$	0.736
$X_{1.6}$	0.746
$X_{1.7}$	0.823
$X_{1.8}$	0.814
$X_{1.9}$	0.838
$X_{1.10}$	0.744
$X_{1.11}$	0.781
$X_{1.12}$	0.840
$X_{1.13}$	0.839
Entrepreneurial Orientation ( $X_2$ )	AVE = 0.53; Alpha = 0.833
$X_{2.1}$	0.771
$X_{2.2}$	0.863
$X_{2.3}$	0.736
$X_{2.4}$	0.758
Innovation ( $Y_1$ )	AVE = 0.67, Alpha = 0.857
$Y_{1.1}$	0.742
$Y_{1.2}$	0.869
$Y_{1.3}$	0.785
Performance ( $Y_2$ )	AVE = 0.801, Alpha = 0.752
$Y_{2.1}$	0.772
$Y_{2.2}$	0.736
$Y_{2.3}$	0.741
$Y_{2.4}$	0.813

### Reliability

According to Table 2, it is considered that all of the indicators in this research were reliable, with the value of internal consistency reliability (alpha value) more than 0.6.

### Structural Model

**Table 3 Fit Model Test**

Fit Model	Note
FIT	0.794
AFIT	0.761

The model development from this research was considered as fit, as the value of the FIT was shown as 0.794 (Table 3.) which is referred as the variance between variables could be explained as 79.4% while the remaining 20.6% could be explained by the other variables that were not included within this research.

### The goodness of Fit Overall Model

The goodness of fit model test indicated from Table 4, showed that the GFI (Unweighted Least-Squares) value nearly to 1 and the SRMR (Standardized Root Mean-Square Residual) value nearly to 0 which is interpreted as fit.

**Table 4 The goodness of Fit Overall Model**

Goodness of Fit	Note
GFI	0.862
SRMR	0.077

### Hypothesis Testing

From the five hypotheses proposed in this study, only three hypotheses were accepted (see Table 5), namely Learning Orientation had a positive and significant effect on Innovation (H1); Entrepreneurial Orientation has a positive and significant effect on Innovation (H2); and Innovation has a positive and significant effect on Performance (H3).

Table 5 Estimated Path Coefficient

Hypothesis	Path Coefficients			
	Estimate	SE	CR	Expectation
Learning Orientation → Innovation	0.704	0.079	9.11*	Significant
Entrepreneurial Orientation → Innovation	0.585	0.136	4.23*	Significant
Innovation → Performance	0.724	0.142	5.02*	Significant
Learning Orientation → Performance	0.122	0.129	0.94	Not Significant
Entrepreneurial Orientation → Performance	0.218	0.154	1.42	Not Significant

CR\* = significant at .05 level

## DISCUSSION

### Learning Orientation has a positive and significant effect on Innovation

This research supported the result from prior research such as Calantone, et al. (2002), Serna, Martínez, & Martínez (2016), and Eshlaghy, Maatofi, & Branch (2011), which stated that Learning Orientation is closely related to any innovation aspect (product, service, and process) whether it is small, medium, or big establishment. It is still a few research which focused on a newly operated establishment. According to the interview with some new hotel establishment's managers, it is found that most of the new hotel establishment realize that Learning Orientation which led to innovation action is a "must have" condition due to its lack of competitive experience to maintain its existence. In other words, with Learning Orientation a new hotel establishment has its direct mechanism to influence the management to against all odd and old assumption regarding market and also lead the establishment to create new innovated programs with the easier way (Baker & Sinkula, 2002). Learning orientation helps the establishment to enter the next stage which is the competition occurred, with the commitment to create new knowledge and skill for innovation development. Thus, Learning Orientation and innovation are found as the resources to create competitive advantages (Baker & Sinkula, 1999a and Hurley & Hult, 1998).

### Entrepreneurial Orientation has a positive and significant effect on Innovation

The result of this research is aligned with the result from the prior research Lumpkin & Dess (2001), Wales, Monsen, & McKelvie (2011), Alegre & Chiva (2013), Ramirez, Guzman, Del, & Serna (2014), and Usman & Mat (2017). Lumpkin & Dess (2001), emphasizes that the concept of Entrepreneurial Orientation is focused on entrepreneurial activities. Moreover, Wales, et al., (2011), added that attitudes and behaviours from the establishment's member are closely related with Entrepreneurial Orientation which also encourage the development of entrepreneurial culture within an establishment. It can be concluded that Entrepreneurial Orientation referred on process, action, method, policy, practice, and decision making style (Lumpkin & Dess, 1996 and Mintzberg, Raisinghani, & Theoret, 1976), that enabling an establishment to act innovatively (Wiklund & Shepherd, 2005). In a newly hotel establishment, it is suggested that Entrepreneurial Orientation could contribute directly toward innovation because of its strong Entrepreneurial Orientation key dimensions towards product and service innovation (Lumpkin & Dess, 2001) and also encourage a new product and service development or even a new business (Naman & Slevin, 1993). A newly hotel establishment that has a higher Entrepreneurial Orientation and tends to adopt an innovative attitude (Kakati, 2003).

**Innovation has a positive and significant effect on performance**

This research supported the previous research by Bowen, Rostami, & Steel (2010), Jiménez-Jiménez & Sanz-Valle (2011), Rosenbusch et al. (2011), and Verhees & Meulenbergh (2004). Innovation is considered as an important element for establishments including those in the hotel industry. Moreover, if the establishment is a new hotel establishment, it is required a lot of breakthroughs to boost the performance and also maintain its existence at the same time (Bowen, et al., 2010). It means that hotel establishment that ability to innovate will lead to a greater chance of surviving against the competitive environment and will also produce a significant profit (Lin & Chen, 2007). According to Gray, Matear, & Matheson (2000), hotel establishment's innovation ability will guarantee the ability to compete, and considered as a catalyst the hotel growth, and leads to the future achievement especially against the global economic condition whereas the business environment is very dynamic and rapid change. As a normative perspective, the relationship between innovation and performance could be described as a one way relation or the higher innovation efforts will lead to better performance (Lee & Tsai, 2005).

**Learning Orientation does not affect Performance**

The result of this study did not support the most prior research' result such as Baker & Sinkula (1999b), Farrell, et al. (2008), and López et al. (2005), that suggested Learning Orientation directly affected towards performance. Regarding the insignificant of the direct result between Learning Orientation and performance within new hotel establishment context, it is concluded that the condition was caused by the learning effort process that should lead to a concise output result. According to Wang (2008), the output should be including the method or action plan as an effective channel to achieve the establishment's goal. Therefore, in a new hotel establishment case, innovation is suggested as an output and so will be considered as a common goal to achieve, in order to connect the learning effort for a

better performance as innovation is considered as the contributor for the hotel growth and for the future achievement (Brettel et al., 2009, Lee & Tsai, 2005, and Rosenbusch et al., 2011).

**Entrepreneurial Orientation does not affect Performance**

The result of the research was in contrary with the most prior research' result in Wiklund & Shepherd (2005), Otache & Mahmood (2015), and Omar, Aris, & Nazri (2016), which suggested that Entrepreneurial Orientation directly affected towards performance. In contrary, some other research supported the result regarding the insignificant result towards both variables. Thus, it is concluded that the relationship is still inconclusive. The insignificant result is caused by the failure by the new hotel establishment to interpret Entrepreneurial Orientation towards higher performance achievement which is caused by the lack of strategic resources background by the members and also the support from the management (Stam & Elfring, 2008).

**CONCLUSIONS AND RECOMMENDATIONS****Conclusion**

The result of this study have implications for the management of the new hotel establishments to be aware of the importance of innovation to achieve better performance. New hotel establishment must able to develop innovated product and service demand to produce excellent performance while ensuring the survival of the business within the intense competition. Most likely, these innovative actions must be supported by attitudes and behaviours which are always oriented to learn and entrepreneurship through all the members.

**Recommendation**

In the other side, this research also could not be considered for the next research agenda. This research was only focused on one industry which may vary from the other industries. Therefore, it is suggested to focus on many industries in many cities or countries at a time. The selection of the re-



spondent also should be taken more than one as the representation of the establishment and also be interviewed at the same time to create a clear and objective judgement. It is suggested for the future research to emphasize on Market Orientation as the intervening or moderating variable as the implication of strategic orientation and innovation toward performance, and also focused on new hotel establishments due to their survival phase during their infancy stage.

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