

The Role of Multi Dimensional EO in the Competitive Strategy - Performance Link

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Abstract

Despite the increase market in catering industry by 37% per year, the number of SME-catering service firms is only 30,000, or only 5% from the total number of SME in 2016. From 30,000 registered catering service company, only 10% is an active business with annual growth rate (3%). In order to achieve competitive advantage and growth, firms will develop appropriate competitive strategy, strategy which directly relate to firm performance. The purpose of this paper is to develop a better understanding of the relationship between competitive strategy and firm performance in a different entrepreneurial orientation (EO) dimension. The statistical results revealed a) innovativeness, risk taking and proactiveness were found to have a significant and positive moderating effect on the relationship between differentiation strategy and firm performance b) innovativeness, risk taking and proactiveness were found to have a significant and positive moderating effect on the relationship between CL strategy and firm performance.

Keywords: multi dimensional, competitive strategy, performance link

1. Introduction

The market for SMEs catering service sector continues to experience a growth rate of 37% per year (Morisseau & Kunni, 2014), which has great potential to develop further. However from the preliminary survey it was found that the number of SME-catering service firms is 30,000, or only 5% from the total number of SMEs in 2016, and among them the number of active or survived catering services is only 10%, with low sales growth rate (3%). In order to be able to seize the opportunities and improving the business performance, SMEs need particular strategy that fit the resources they have and high level of EO that enable the competitive strategy to strengthen their business performance. The study has two objectives, firstly is to examine the relationship between competitive strategies: Differentiation (Diff) and Cost Leadership (CL) strategy and firm performance. Secondly, to investigate the moderating effect of innovativeness in the relationship between Diff and CL and SMEs Catering firms' performance. The study contributes to the emerging fields of strategic entrepreneurship by integrating two core concepts: EO and Competitive Strategy, it views EO as a construct that has an impact on the relationship between competitive strategy and performance. The multidimensional approach concept of EO was used to analyze the moderating effect on competitive strategy to performance link.

2. Literature Review

It is widely assumed that there is a clear link between strategy, and firm performance to generate above-average returns (Porter, 1980). While various frameworks are available to classify firm strategies (e.g value discipline and value innovation), the Porter model is widely accepted (Allen, Helms, Takeda, White, & White, 2006; Sabir & Khan 2018). Differentiation (Porter, 1980) is about creating products and services that are perceived as unique by customers; this strategy is based strongly on product innovation and marketing activities (Miller, 1988). CL requires substantial financial resources (partially needed to invest in fixed assets); it is based on learning curve benefits, economies of scale and design for manufacturing (Allen et al., 2006). Prior research also has shown for both strategy Diff and CL they are positively associated with small firm performance (Lechner & Gudmundsson, 2014).

The three dimensions of EO within a firm was described by (Rauch et al., 2009) as the following: 1) Innovativeness involves the tendency 'to engage in creativity and support new ideas, experimentation, novelty and creative

processes that may result in new product services as well as technological leadership via R&D in new processes. 2) Proactiveness focuses on the ‘opportunity-seeking, forward –looking perspective characterized by the introduction of new products and services in advance of the competition and action in anticipation of future demand (Lumpkin & Dess, 2001). 3) Risk taking describes the ability of a firm to take bold actions through ‘venturing into the unknown, borrowing heavily, and/or committing significant resources to undertaking in uncertain environments. Innovativeness is characterized by a strong R&D emphasis, technological leadership, the introduction of new products and the degree of changes in product or service lines (Covin & Wales, 2012; Seddighi & Yoon 2018). It is argued that greater innovativeness will be detrimental to the CL in small firms. If we assume that small businesses have a lower inclination for innovation (Runyan, Droge, & Swinney, 2008), then comparatively, more innovativeness will enhance the Diff of small firms. In this sense, then we posit that high level of innovativeness, will negatively impact the relationship between CL and firm performance. On the other hand, we believe that the Diff and performance will be positively influenced in firms with high innovative orientations. Firm proactiveness requires a firm to make quick decisions and aggressively compete in the face of uncertainty. Thus, we expect that proactiveness will positively moderate the relationship between Diff and firm performance, and the relationship between CL and firm performance. Risk-taking is a firm’s propensity to take business-related chances with regard to strategic actions in the face of uncertainty (Senam, Akpan & Mboho 2017; Setiyawati, Iskandar & Basar 2018). Thus, we expect that risk taking will positively moderate the relationship between Diff and firm performance, and the relationship between CL and firm performance. Based on the explanation we posit that:

- H1: *Diff is positively associated with firm performance.*
- H2: *CL is positively associated with firm performance.*
- H3 *Firm innovativeness will moderate the relationship between CL and firm performance in such a way that high levels of firm innovativeness will negatively relate to performance.*
- H4 *Firm innovativeness will moderate the relationship between Diff and firm performance in such a way that high levels of firm innovativeness will positively relate to performance.*
- H5 *Firm proactiveness will moderate the relationship between CL and performance in such a way that high, levels of firm proactiveness will positively relate to performance.*
- H6 *Firm proactiveness will moderate the relationship between Diff and performance in such a way that high, levels of firm proactiveness will positively relate to performance.*
- H7 *Firm risk taking will moderate the relationship between CL and firm performance in such a way that high, levels of firm risk taking will positively relate to performance.*
- H8 *Firm risk taking will moderate the relationship between Diff strategy strategy and performance in such a way that high levels of firm risk taking will positively relate to performance.*

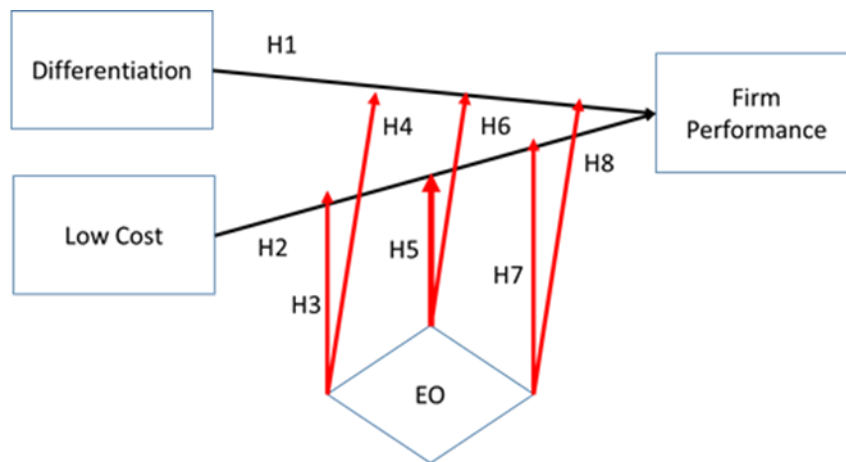


Figure 1. Research framework

3. Methodology

The study utilized a cross sectional mail survey to SMEs firms in Jakarta. The sample was drawn randomly from the Jakarta association of catering firms consisted of 77 firms which had operated for at least three years and were still active. To test the theoretical model, PLS-SEM was employed for theory development and explanation of prediction of the construct (Hair Jr, Hult, Ringle, & Sarstedt, 2014).

4. Findings and Analysis

The relationship between CL and Firm Performance has a weak path coefficient (0.254), and not significantly relates (p values = 0.070, and t stats < 1.96.) Whereas the relationship Differentiation to Firm Performance is moderate (path coefficient 0.454), and significant (t value 3.479 and p value 0.001). This is to confirm that for small firm choosing CL strategy to be less appropriate.

The moderating effect can be analyzed from simple slope plot generated by SmartPLS3, and showed that the higher the Innovativeness and Proactiveness the weaker the relationship between CL and Firm Performance. On the other hand, the higher the Risk Taking, the stronger the relationship between CL and Firm Performance. In the relationship between Differentiation and Firm Performance, the higher Innovativeness level entail a weaker relationship between, whilst lower innovativeness exhibit a stronger relationship. Overall these results provide clear support that Innovativeness, Proactiveness, and Risk Taking exerts a not significant and negative effect on Differentiation -Firm Performance relationship.

5. Summary of Hypothesis Testing

Table 1 below summarized the hypothesis test using SMART-PLS3.

Table 1. Result of hypothesis testing

Relationship	Path Coefficient	t-value	P value	Finding
CL → Firm Performance	0.241	2.809	0.005	H1 Supported
Differentiation → Firm Performance	0.480	5.342	0.000	H1 Supported
Higher level of Innovativeness → weaker relationship CL - Firm Performance	-0.089	0.745	0.457	H3 Supported
Higher level of Innovativeness → stronger relationship Differentiation - Firm Performance	-0.163	1.165	0.244	H4 not Supported
Higher level of Proactiveness → stronger relationship CL - Firm Performance	-0.108	0.914	0.361	H5 not Supported
Higher level of Proactiveness → stronger relationship Differentiation - Firm Performance	-0.118	1.039	0.299	H6 not Supported
Higher level of Risk Taking → stronger relationship CL - Firm Performance	0.041	0.244	0.807	H7 Supported
Higher level of Risk Taking → stronger relationship Differentiation - Firm Performance	-0.010	0.067	0.946	H8 not Supported

Note: *Significant at 0.05(1-tailed)

6. Discussion and Conclusion

CL and Differentiation strategy is significantly related to Firm Performance. These findings consistent with (Lechner & Gudmundsson, 2014) previous study. Secondly, the results revealed that Innovativeness mediate the relationship between CL strategy and firm performance. In higher innovativeness level it entails a weaker relationship between CL and Firm Performance. This finding support (O'Brien et al., 2003; Shukla, Sivasankaran & Dasgupta 2018) that small firms with a local CL tend to be at the lower end of the innovativeness scale. Surprisingly, innovativeness was not moderate the relationship between differentiation strategy and firm performance. A further possible explanation

for this could be that small business has a resource constrained and incompatibility. Proactiveness negatively moderate for both relationship between CL and firm performance and Diff and firm performance, because small catering firm are not in the state of aggressively compete with other firms due to resource-matching constraint that resulted to low competitive advantage and lack of matching strategy to available resource. Higher Risk Taking level entail a stronger relationship between CL and Firm Performance. The findings support (Allen et al., 2006; Sijabat, 2018) and suggest that CL requires higher upfront investment in order to achieve economic scale. In the relationship between Diff and firm performance, higher Risk Taking level entail a weaker relationship, and lower risk taking level entail a stronger relationship. This suggests that it will need low levels of risk-taking to grab business-related chances with regard to strategic actions in the face of uncertainty.

The practical significance of these findings suggests that the owner and managers and decision makers within SMEs catering firm aiming to improve financial and non-financial should use competitive strategy differentiation. The findings also suggest that SMEs should focus their energies on creating resource-matching strategy and the adoption of CL strategy with higher level of risk taking.

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