

## LINKING ENTREPRENEURIAL AND MARKET ORIENTATION TO THE HOMESTAY PERFORMANCE: THE MODERATING ROLE OF ENVIRONMENTAL FACTORS

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**Abstract:** Previous studies have explored the relationship between entrepreneurial orientation (EO) and business performance in different organisations, however, few studies exist on the homestay industry. As such, this paper aims to show how environmental factors (EF), and market orientation (MO) within which firms operate interactively impact the EO-firm performance relationship. Data for this study were collected from 116 homestay operators in Selangor and Partial Least Square Structural Equation Modelling (PLS-SEM) approach was employed to evaluate the measurement model. The findings show that EO is positively associated with hospitality performance. However, the strength and direction of these relationships vary by configurations of the EF and MO variables. Firms achieve superior performance when considering EF and MO variables. A limitation of this study is that firms were not examined longitudinally, as this is a cross-sectional study. Future studies may include longitudinal research or focus on other regions.

**Keywords:** Environmental factors, Entrepreneurial orientation, Market orientation, Homestay performance.

### 1. Introduction

The tourism industry is the third-largest contributor after the manufacturing and commodities sectors to Malaysia's economy. In 2019, the country recorded 15.9 percent of the total GDP from the tourism sector with 26.10 million arrivals and tourism contributed RM 86.1 billion (USD 19.6 billion) in revenue (MOTAC, 2021). Malaysia was named the Best Muslim Travel Destination 2022 by Master Card-Crescent Rating Global Muslim Travel Index (GMTI) 2022 (Azuar, 2022). In response, the government published the National Tourism Policy (NTP) 2020-2030 on 23 December 2020 to maintain the continuation of the country's tourism industry and to position Malaysia as one of the world's top 10 tourism destinations in terms of both arrivals, and revenues (MIDA, 2022).

The homestay programme is a tourism product that has been given special emphasis by the government through the Ministry of Tourism. Realising the potential of the programme, the Malaysian Homestay Experience Programme (MHEP) was developed in 1995 by the Malaysian Ministry of Tourism, Arts, and Culture (MOTAC) as part of the Rural Tourism Master Plan 2002 and was made available to all rural communities in Peninsular Malaysia, and North Borneo. The Rural Tourism Master Plan 2002 was formulated to promote homestay programme as a catalyst for rural community development. In the 9th Malaysia Plan (2006-2010) one of the focuses of the government is on community development, and rural tourism is one of the mechanisms. Besides that, the Malaysia Homestay Programme was among the

tourism highlights discussed during the Global Tourism Economy Forum 2017 in Macau on 16 October 2017, attracting positive comments from all delegates. Nonetheless, the Malaysia Homestay Experience Programme has also been affected by COVID-19, like other tourism products. Since 2020, MOTAC has documented a decline in the number of tourists staying in homestays, resulting in a loss of income for the participating communities. Table 1 shows the percentage of international tourists who visited Malaysia in the year 2020. The total number of international tourists to Malaysia by the state in 2020 is indicated in Table 2.

Table 1. Percentage of International Tourists to Malaysia in 2020

No.	Nation of Origin	No of Travellers (People)	Percentages (%)
1	South Korea	8,539	44.1%
2	China	1,367	7.1%
3	Japan	448	2.3%
4	Indonesia	385	2.1%
5	Singapore	382	1.9%
6	Europe	322	1.7%
7	Australia	160	0.8%
8	U.S.A	87	0.4%
9	United Kingdom	72	0.3%
10	Brunei	44	0.2%
11	Others	7,572	39.1%
Total		19,378	100.0%

Source: Ministry of Tourism and Culture, Malaysia (2021)

Table 2. Total of International Tourists to Malaysia by State in 2020

No.	State	Total of International Tourists
1	Sabah	10,412
2	Sarawak	2,237
3	Perak	673
4	Melaka	280
5	Kedah	258

Source: Ministry of Tourism and Culture, Malaysia (2021)

A homestay programme allows tourists to stay with a chosen family, interact, with and experience the daily life of their homestay family and learn the culture and lifestyle of the rural community in Malaysia. In this case, a homestay programme cannot be classified as a lodging facility and It focuses more on lifestyle and experience, including cultural and economic activities. Each homestay programme offers different types of activities, depending on the culture, food, economic activity as well as location. Every state in Malaysia has its uniqueness in terms of culture, ranging from the *nasi dagang* in Kelantan to the *Sumazau* dance in Sabah, as well as the long houses in Sarawak. Examples of homestay activities include (i) Culture and Lifestyle – history; traditional dances, traditional songs, and traditional food;

traditional games and sports; culture: marriage, assembly of animal sacrifice and festivals; (ii) Economic Activity; rubber tapping; fish breeding; agriculture: paddy, cocoa, oil palm, fruit; (iii) Recreation – sightseeing; jungle trekking; white water rafting; visit nearby tourism products; (iv) Environmental Preservation - tree planting programme: tourists are encouraged to plant trees at their homestays to preserve the environment and further beautifying the landscape of the homestays.

Due to the potential of the homestay programme to provide additional income, and employment, the number of registered homestays in Malaysia has been increasing as stated in Table 3. The increasing demand may be explained by the recent global social, and cultural changes resulting in greater interest and appreciation in cultural heritage, lifestyles, and environmental concerns.

Table 3: Registered Homestay in 2020

No.	Particulars	Total
1	Total of Homestay Cluster	222
2	Total of Operators/House	4,289
3	Total of Rooms	6,088

Source: Ministry of Tourism and Culture, Malaysia (2021)

## 2. Literature Review, Research Model, and Hypothesis

According to Salleh et al. (2014), the homestay programme is still relatively new in Malaysia. The homestay programme started in a Cherating village, Pahang when a local resident, Mak Long, began providing breakfast, dinner, and accommodation in her house to a group of "drifter" tourists in the early 1970s (Salleh et al., 2014). Initially, the homestays began in settlements along the coastal area with a rural atmosphere, and background. The provision of homestays grew steadily until it was placed under the Ministry of Agriculture for monitoring and supervision. Officially, the homestay programme began in 1988 when the Ministry of Tourism implemented its tourism diversification policy by providing, among others, alternative tourism accommodation.

Tourism provides benefits in various forms including economic, social, cultural as well as environmental. Some tourism activities bring in economic effects in the form of employment, and business opportunities in accommodation, and food services (Regmi & Walter, 2016; Tavakoli et al., 2017). These businesses also provide supplemental income to the local communities (Kontogeorgopoulos et al., 2015; Tavakoli et al., 2017). Meanwhile, a study by Mbaiwa and Stronza (2011) in Setswana found that tourism activities have an impact on the environment. A sustainable environment is important in achieving the conservation goals of the tourism destination's environment. Conservation is an important asset to environmental-based tourism. Furthermore, a study conducted by Kim et al. (2012) in Virginia shows that local culture will be further strengthened with the existence of various cultural groups through the development of tourism and strengthening social relationships (Tavakoli et al., 2017).

In Malaysia, the number of homestay operators has been increasing as stated in Table 4. However, the homestay operators are lacking in innovativeness, risk-taking, pro-activeness, and market-oriented in their services. They are also not well aware of the environmental factors that may affect their business including the issues of market, and technology turbulence, and competitive intensity locally, and internationally. Therefore, it is the role of all parties involved in homestay services to be more aware of the influences of the market, and environmental factors on their service performance.

Table 4. Homestay Statistics from Year 2017 to 2020

No.	Year	2017		2018		2019		2020		
		State	Operator	Homestay	Operator	Homestay	Operator	Homestay	Operator	Homestay
1	Perlis		56	3	56	3	56	3	56	3
2	Kedah		345	16	345	16	356	17	356	17
3	Penang		234	11	234	11	234	11	243	11
4	Perak		305	11	305	11	305	11	305	11
5	Selangor		454	16	449	16	449	16	449	16
6	Melaka		137	9	137	9	137	9	137	9
7	Negeri Sembilan		288	13	288	13	288	13	300	13
8	Johor		497	24	522	26	556	27	557	27
9	Kelantan		152	8	152	8	152	8	152	8
10	Terengganu		185	10	185	10	216	11	223	11
11	Pahang		323	16	323	16	323	16	333	16
12	Sarawak		594	41	601	41	653	44	653	44
13	Sabah		345	25	394	29	406	30	406	30
14	Labuan		79	3	79	3	79	3	79	3
<b>Total</b>			<b>3,994</b>	<b>206</b>	<b>4,070</b>	<b>212</b>	<b>4,210</b>	<b>219</b>	<b>4,249</b>	<b>219</b>

Source: Ministry of Tourism and Culture, Malaysia (2021)

This study addresses the research gaps in the literature by examining the impact of entrepreneurial orientation (EO), market orientation (MO), and environmental factors (EF) on hospitality performance among homestay operators, especially in Selangor. Small homestay operators are a good target for the study as they have full responsibility for operating their homestay, and thus make the decisions related to the focus of this study. In addition, as Pelham and Wilson (1996) have stated, small firms have a unique opportunity to seek a competitive advantage through their efforts to instil a MO. Due to the small number of employees, small firms can enhance organisation-wide market-oriented norms and culture. They also have the opportunity to exploit a simple, and less-bureaucracy form of organisation that can reinforce MO (Pelham & Wilson, 1996). In addition, it has been argued that small homestay operators' closeness with their customer base supports their efforts to implement a market-oriented approach (Megicks & Warnaby, 2008). According to Megicks and Warnaby (2008), small-sized retailers' potential competitive advantage arises due to their close contact

with customers, and at the same time, they can act more quickly and flexibly compared with their larger rivals.

### *2.1 Hospitality Performance*

Market and financial criteria have been used to measure the organisational performance by several previous studies including return on investment (ROI), market share, the profit margin on sales, the growth of ROI, the growth of sales, the growth of market share, customer satisfaction, production cost, and the overall competitive position (Zehir et al., 2015). However, Aramyan et al. (2009) found that market indicators are not measured by most of the studies, although it is perceived to be important indicators, due to the difficulty of quantifying the measurement. Flynn et al. (2010) asserted that selecting the appropriate performance measures is challenging.

According to Baharudin (2016), performance is multidimensional and built to achieve the goals of the organisation and it has a strong connection with the strategic goals of the organisation. Several indicators are used to measure performance since 1900 (Chin, Lo, & Ramayah, 2013). Li et al. (2006) mention that performance can be measured in terms of market performance (MP), and financial performance (FP). Thus, this study utilises both MP and FP in investigating the hospitality performance in the homestay industry.

### *2.2 Entrepreneurial Orientation*

The literature shows that an entrepreneurial orientation (EO) is associated with business performance (Brettel et al., 2015; Migliori et al., 2019). EO refers to a firm's strategic orientation and its ability to capture specific entrepreneurial aspects of decision-making styles, methods, and practices (Baker & Sinkula, 2009). Entrepreneurial orientation is usually associated with three dimensions: innovativeness, proactiveness, and risk-taking (Shirokova et al., 2016). Wiklund and Shepherd (2005) argue that organisations that have an EO are more prone to focus attention and effort on opportunities.

Innovativeness refers to a firm's proclivity to support new ideas, experimentations, and creativity which lead to the modification, and development of new products, services, or technological processes (Lechner & Gudmundsson, 2014). Proactiveness is an opportunity-seeking, forward-looking perspective characterised by the introduction of new products and services ahead of the competition and acting in anticipation of future demand (Martin & Javalgi, 2016). Risk-taking involves taking bold actions by venturing into the unknown, borrowing heavily, and/or committing significant resources to ventures in uncertain environments, that is, those that have a reasonable chance of costly failures (Shan, Song, & Ju, 2016).

According to Kajalo and Lindblom (2015), and Migliori et al. (2019), researchers seem to agree that EO contributes to a firm's performance in entrepreneurship research. A firm needs to take appropriate strategic actions to capitalise on EO to gain a competitive advantage and obtain the desirable performance (Martin & Javalgi, 2016; Masa'deh et al., 2018). However, Wiklund and Shepherd (2005) argue that the effect of EO on performance

may be different in different types of environments. EO has an impact on firm performance and serves as an important driver in improving the business performance in emerging markets (Ahmad et al., 2019; Gruber-Muecka & Hofer, 2015; Kajalo & Lindblom, 2015). Therefore, entrepreneurial orientation plays an important role in the enhancement of a firm's competitive advantage, and performance. Based on the previous discussion that supports EO for opportunity recognition in new markets, the literature suggests a reason to suppose that EO has a positive effect on hospitality performance. Regarding the discussion, this research suggests that:

H1: Entrepreneurial orientation (EO) has a significant influence on hospitality performance.

### 2.3 Market Orientation

Previous studies suggest that market orientation (MO) is positively linked with business performance (Baker & Sinkula, 2009; Kajalo & Lindblom, 2015). Market orientation reflects the degree to which decision-making in firms is driven by the customer, and competitor intelligence (Jaworski & Kohli, 1993). Ngo and O'Cass (2012) argue that being market-oriented places the highest priority on staying close to the marketplace and creating superior customer value.

Weerawardena and O'Cass (2004) stated that despite the growth of literature on market-oriented firms, the understanding of the characteristics of such firms and their capabilities is still relatively limited. Furthermore, overall, there seems to be a lack of entrepreneurship literature focusing on the service sector (Kraus, 2013; Kajalo & Lindblom, 2015). Finally, research focusing on MO concepts relating to the service sector has remained sparse (Liao et al., 2011). Kara et al. (2005) argue that much of the research on MO in a small business context has focused on manufacturing rather than service organisations. In addition, it has been argued that small-sized service providers differ from manufacturing firms in terms of having greater firm-wide contact with the customers, and due to this the previous results might not be generalisable to small-sized service providers (Kara et al., 2005).

According to Amin et al. (2016) and Ahmad et al. (2019), MO may also play a significant role in enhancing firm performance. In this situation, entrepreneurship and MO are complementary orientations; therefore, entrepreneurship needs an MO to target its innovative actions effectively in the market, and MO needs entrepreneurship to achieve fast responses to market prospects (Amin et al., 2016). In addition, Baker and Sinkula (2009) and Migliori et al. (2019) report that there is a strong relationship between EO and MO, and the relationship between EO and performance mediated by MO. Therefore, the potential effects of MO on entrepreneurial orientation could emphasise better hospitality performance. As a result, MO can be beneficial (directly or indirectly) to business performance in the context of small businesses, especially the homestay industry. In other words, MO can serve as an important driver in improving the performance of the homestay industry. In response, and in light of this discussion, this research proposes:

H2a: Market Orientation (MO) has a significant influence on hospitality performance.



H2b: Market Orientation (MO) mediates the relationship between entrepreneurial orientation (EO) and hospitality performance.

#### 2.4 Environmental Factors

Several studies have demonstrated that the environment has a significant influence on the decisiveness, and effectiveness of the firm's performance (Covin & Slevin, 1991). Environmental factors (EF) are the volatility of the firm's market, the continuous changes that occur in technological conditions, and the unpredictable changes in customers, and competitors (Aloulou & Fayolle, 2005). An increase in environmental factors can push the firm to take more risks because it has to undertake actions that are more likely to fail (Zahra, 1991). However, EF has not been discussed as a moderating effect in the relationship between EO and MO in the homestay tourism industry.

The possibility of a moderating effect of competitive intensity is consistent with a long tradition of support for the theory indicating that environment moderates the effectiveness of organisational characteristics (Martin & Javalgi, 2016). According to Martin and Javalgi (2016), numerous studies have found that the effectiveness of a particular strategic orientation is contingent on the dynamics of the market. Scholars have argued that aspects of the environment may moderate the firms' performance antecedents (Cadogan et al., 2003). However, Martin and Javalgi (2016) found in their study that the path from EO and performance is not moderated by environmental factors. Thus, the following hypothesis is proposed:

H3: Environmental Factors (EF) moderates the relationship between EO and hospitality performance

### 3. Research Methodology

Four primary constructs are involved in this study namely Entrepreneurial Orientation (EO), Market Orientation (MO), Environmental Factors (EF), and Hospitality Performance (HosPer). This study employs the measurement items from the previously validated constructs and new measurement items developed based on the preliminary study. The questionnaire consists of two parts. The first part consists of 47 items of EO, MO, EF, and HosPer. The second part of the questionnaires includes the demographic section related to respondents' background of the company consisting of eight items.

Likert scales are used to measure a wide variety of latent constructs. A seven-point Likert scale was used to measure the four categories of structures, namely, EO, MO, EF and HosPer. The respondents were asked to indicate their level of perceptions on a 7-point Likert Scale ranging from 1 (strongly disagree) to 7 (strongly agree). The seven-point Likert scale is a valid and appropriate measurement, as many previous researchers have used the seven scales to measure the EO, MO, EF, and HosPer (Amin et al., 2016; Chin, Lo, & Ramayah, 2013; Gruber-Muecke & Hofer, 2013). In this study, the EO dimension (innovativeness, proactiveness, and risk-taking) was measured by adapting indicators suggested by Kropp, Lindsay, and Shoham (2008). Market Orientation dimensions (customer orientation,

competitor orientation, and inter-functional coordination) and hospitality performance were adapted from Narver and Slater (1990) while EF dimensions (market turbulence, technology turbulence, and competitive intensity) were adapted from Alanazi et al. (2015), Didonet et al. (2012) and Hamad (2016).

This study employs a survey method, using a questionnaire to test the conceptual model and developed hypotheses. A total of 8 district homestay operators that were involved in homestay tourism were drawn from the list of registered homestay tourism with the Ministry of Tourism and Culture Selangor. The sampling frame of this study consists of the owner and managing people who managed the homestay operation. These homestay coordinators were contacted for permission to conduct the survey at their premises. The prospective respondents were chosen randomly. The respondents completed the questionnaire and handed it to the coordinator of eight district homestay operators. A total of 150 were distributed with 116 being returned, expressing a return rate and the usable response rate was about 77.3%.

Male respondents comprised 60.3% of the sample and female respondents comprised 39.7%. A total of 49 respondents (42.2%) were between 41 and 50 years old, followed by 35 respondents (30.2%) who were between 31 and 40, 26 respondents (22.4%) above 51 years old, and 6 respondents (5.2%) less than 31 years old. With regards to the districts of their business, 31 respondents (26.7%) were from Sabak Bernam, 20 respondents (17.2%) were from Sepang, 15 respondents were from Kuala Langat (12.9%), 10 respondents from Klang, Hulu Langat, and Gombak (8.6% each), 9.5% were from Kuala Selangor, and 7.8% were from Hulu Selangor district.

#### 4. Analysis and Findings

A two-step approach was used in this study. Firstly, the measurement model analysis was estimated based on the confirmatory factor analysis. Secondly, the researchers analysed the structural model and estimated the path coefficients by applying a partial least square (PLS) method using SmartPLS. According to Anderson and Gerbing (1988), the source of a poor model fit was easily identified by employing this technique.

##### 4.1 Measurement Model Analysis

Validity and reliability tests were performed based on the full measurement model generated. Table 5 exhibits that all constructs had composite reliability (CR) values greater than the threshold point of 0.7 (Hair et al., 2017). The average variance extracted (AVE) of these constructs achieved the cut-off point, indicating a satisfactory degree of reliability. The discriminant validity was tested using the cross-loadings and Fornell and Larcker (1981) criterion. Table 6 displays the calculated square root of the AVE that exceeded the inter-correlations of the construct with the other constructs in the model indicating adequate discriminant validity.

##### 4.2 Structural Model Analysis



The coefficient of determination ( $R^2$ ) is to measure the model's predictive accuracy by calculating the squared correlation between a particular endogenous construct's actual and predicted values. It represents the endogenous latent variables' combined effects on the endogenous latent variables. There is no specific rule of thumb for the  $R^2$  value. The value of 0.75, 0.50, and 0.25 describe substantial, moderate, or weak levels of predictive accuracy respectively (Hair et al., 2017). Meanwhile, Chin (2010) considers the values of approximately 0.35 substantial, values around 0.333 moderate, and values of about 0.190 weak. All four variables together explained 61.6 percent of the variance as illustrated in Figure 1. Using a bootstrapping technique with a re-sampling of 500, the path estimates and t-statistics were calculated for the hypothesised relationships.

Table 5. Measurement model

Constructs	Cronbach's Alpha (CA)	Composite Reliability (CR)	Average Variance Extracted (AVE)
Hospitality Performance	0.776	0.857	0.602
Entrepreneurial Orientation	0.741	0.853	0.659
Market Orientation	0.799	0.881	0.713
Environmental Factors	0.495	0.789	0.655

Table 6. Discriminant validity

	HosPerf	EO	MO
Hospitality Performance (HosPer)	0.776		
Entrepreneurial Orientation (EO)	0.679	0.811	
Market Orientation (MO)	0.734	0.761	0.844

Note: Diagonals represent the square root of the AVE, while the off-diagonals represent the correlations



risk-taking and innovativeness, influenced significantly hospitality performance in the homestay industry. There are several reasons to explain the significant results of EO on hospitality performance. Firstly, the homestay operators should be proactive and innovative in providing their services that could attract more tourists to visit their place. The ability of risk-taking among the homestay operators is another factor that can attract more tourists to their places. This finding is consistent with the previous studies by Gruber-Muecka and Hofer (2015) as well as Kajalo and Lindblom (2015) that pro-activeness and innovativeness have a unique attraction in sustaining the homestay business among the tourists.

The study also found that the MO was positively related to hospitality performance ( $\beta = 0.444, t = 4.323, p < 0.05$ ). All items of MO, i.e. customer orientation, competitor orientation, and inter-functional coordination, influenced significantly hospitality performance in the homestay industry. In addition, MO was found to mediate the relationship between EO and hospitality performance ( $\beta = 0.392, t = 4.131, p < 0.05$ ). The result provides opportunities to understand further the importance of MO in enhancing the hospitality performance of the homestay industry. Market orientation in this study focuses on the market issues of the homestay operators in handling the services provided by them including issues related to consumers, competitors, and inter-functional coordination. This finding has been supported by Amin et al. (2016), Ahmad et al. (2019), and Migliori et al. (2019) that MO can enhance the performance of the homestay industry. Therefore, it can be indicated that MO is essential in determining the hospitality performance of the homestay industry.

The findings of the study indicate that EF has a moderating effect on the relationship between EO, and hospitality performance using the moderating procedure. There is a moderating effect ( $\beta = 0.132, t = 2.546, p < 0.05$ ) that indicates a significant value. It is confirmed that EF moderates EF, and hospitality performance. This finding has been supported by Martin and Javalgi (2016) that indicate EF moderates the relationship between EO, and hospitality performance. This robust finding provides additional support for the moderating role of EF in the proposed model.

## 6. Conclusion and Implications

There are emerging studies on EO, MO, and EF in the literature. However, the empirical findings are still lacking in linking those variables, especially in the homestay study. Thus, this study provides a significant theoretical contribution by looking into the influence of EO, MO, and EF statistically on the performance of homestay services provided. These findings support the integration of EO, MO, EF, and hospitality performance including the role of mediating and moderating effects.

The findings of the study provide guidance to the Malaysian homestay industry in developing a proper strategy to enhance their business performance and adopting effective operation practices in handling the needs of tourists effectively, and efficiently. This assistance includes identifying:

- i. the importance of pro-activeness, risk-taking, and innovativeness in enhancing the needs of the tourists among the homestay's operators;
- ii. the ability in handling the consumers, competitors, and inter-functional coordination issues effectively, and efficiently;
- iii. strategies to enhance the performance of homestay operators by looking at environmental issues including market turbulence, technology turbulence, and competitive intensity.

The study reveals the significance of EO, MO, and EF on hospitality performance, particularly in the homestay industry. Thus, they should enhance the elements of hospitality that will give positive implications for the business performance. The homestay operators, for example, should monitor and imply better services, and hospitality; consequently, increasing the business performance. Therefore, homestay operators should put on more effort into attracting more tourists to their places.

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