

# **The Dimensionality of Entrepreneurial Orientation in the Hospitality Industry**

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## **Abstract**

*A lot of debates exist on the dimensionality of firms' entrepreneurial orientation in various industries. Understanding the dimensionality of entrepreneurial orientation and the relationships among its dimensions in the hospitality industry is important both theoretically and practically. This study bridges the theoretical gap by examining the dimensionality of entrepreneurial orientation in the industry. The study is based on a survey of hotels (n=346) in the Coastal and Northern tourist circuits of Tanzania. In the hospitality context, this study adds to the research that hotels' EO is multidimensional in nature exhibiting low-to-moderate correlations with each other and with an acceptable level of discriminant validity. This finding enriches other hospitality studies that consider entrepreneurial orientation as a unidimensional concept. The study also presents vital practical implications.*

**Keywords:** Dimensionality, Entrepreneurial Orientation, Hospitality Industry, Tanzania

## **Introduction**

An often-asked question in entrepreneurial orientation (EO) research is whether the EO concept fits well in a unidimensional or multidimensional conceptualization. Unidimensional constructs are expected to have a single underlying dimension while multidimensional constructs consist of two or more underlying dimensions (Jiang, 2006). A correct specification of EO is essential to avoid misleading empirical results and conclusions. For instance, contrary to EO theory, some empirical findings confirm that EO and its dimensions tend to exhibit unexpected negative or insignificant effects on business performance (Krauss *et al.*, 2005; Kropp *et al.*, 2006; Lechner and Gudmundsson, 2014; Oktavio *et al.*, 2019). Such unexpected results are possibly due to the pre-assumption that EO is merely a unidimensional construct (Eijdenberg, 2015; Vega-Vázquez *et al.*, 2016). In fact, the unidimensional view can mask the true influence on outcome variables (Njoroge, 2019).

Although EO is a highly researched concept, there exists no concrete consensus on the nature of its dimensionality for empirical measurements (Rauch *et al.*, 2009; Vega-Vázquez *et al.*, 2016; Hernández-Perlines, 2016; Jogaratnam, 2017). While most hospitality studies (Jogaratnam and Tse, 2006; Seilov, 2015; Vega-Vázquez *et al.*, 2016; Hernández-Perlines, 2016; Jogaratnam,

2017) are based on a priori assumption that EO is a unidimensional construct, it remains unclear whether EO in the hospitality context can also exhibit multidimensional conception. Meta-analysis studies (Rauch *et al.*, 2009; Saeed *et al.*, 2014) also confirm such bias. Thus, this study addresses the research question on what constitutes the dimensionality of EO in the hospitality industry. Tanzania has been selected as the focus of the study. As for most tourist destinations, tourism in Tanzania is recognized as a vital sector in contributing to national investments, employment generation, foreign exchange generation, and sustainable developments. For the past ten years (2009-2019), the tourism sector in Tanzania grew at an average annual rate of 12 percent, and it contributes around 30 percent of export earnings while accounting for 10.9 percent of the total employment, and 9.5 percent of total investments in the country (Anderson, 2018; Njoroge, 2019).

In addressing the research question, the study a) examines EO factor structure using exploratory factor analysis; b) conducts reliability assessment of EO dimensions based on Cronbach alpha and composite reliability; c) examines the correlations among the EO dimensions based on confirmatory factor analysis and d) validates the dimensions of EO in the hospitality context based on convergent and discriminant validity tests. Clarifying on the dimensionality of EO and the relationships among its dimensions in the hospitality industry is important both theoretically and practically. Theoretically, conceptualizing EO as a single composite construct can largely mask individual impacts of specific dimensions of EO on business performance. Moreover, based on the true nature of EO dimensionality it becomes practical for hospitality firms to distribute business resources based on the contribution of each dimension while exploiting business opportunities.

## **Literature Review**

Although, entrepreneurial orientation (EO) signifies the extent to which a firm is entrepreneurial in exploring and exploiting business opportunities, there are different approaches to how it is conceptualized. EO concept has its origin in the strategic management domain (Mintzberg, 1973; Miller, 1983) originally construed as firms' strategic posture (Covin and Slevin, 1989). Miller (1983) asserted that such firm-level entrepreneurial processes embrace three dimensions: innovation, proactiveness, and risk-taking. To operationalize and measure firms' strategic posture, Covin and Slevin (1989) developed a nine-item scale based on Miller's three dimensions. Miller's/Covin and Slevin's scale has widely been used in EO research (Rauch *et al.*, 2009; Saeed *et al.*, 2014).

On the other hand, Lumpkin and Dess (1996) offered an alternative contention that firms' entrepreneurial processes are manifested by five dimensions: innovation, proactiveness, risk-taking, autonomy and competitive aggressiveness. In other words, Lumpkin and Dess (1996) contend that the three original dimensions do not sufficiently capture the domain of firm-level entrepreneurial processes, thus proposed the aggressiveness and autonomy. Such diverse conceptualizations imply that EO is a contextual specific phenomenon.

Studies such as Krauss *et al.* (2005) and Eijdenberg (2015) indicate that EO construed in western countries contexts is not necessarily relevant in promoting business performance in the informal environments, particularly in emerging economies like Tanzania. Such observations are also

consistent with the consensus that EO tends to manifest contextually (Lumpkin and Dess, 1996; Miller, 2011; Monsen and Boss, 2009; Wales *et al.*, 2019). Moreover, some studies based on factor analyses suggest that indicators of innovativeness, pro-activeness, and risk-taking tend to shift across different dimensions (Lumpkin and Dess, 2001; Monsen and Boss, 2009; Njoroge *et al.*, 2019; Njoroge *et al.*, 2020) depending on the context. For example, in the Southern Africa context, Matchaba-Hove *et al.* (2015) revealed that EO constitutes a composite EO dimension which they called 'proactive-innovativeness'. Moreover, some research conducted in Africa treats communication (Kropp *et al.*, 2006) as well as learning and achievement orientations and personal initiative (Krauss *et al.*, 2005) as dimensions of firms' EO.

The diversity of EO conception is not only limited to national contexts rather it extends to industry and sectoral domains. For instance, Tajeddini (2010) regarded innovativeness and EO as two separate aspects that can influence hotels' performance in Switzerland. It, therefore, remains unclear how EO scales based on the manufacturing industries (Miller, 1983; Covin and Slevin, 1989; Naman and Slevin, 1993) are reflective and applicable to other contexts like the hospitality industry. The one-size fits all approach has led to contradictory conclusions that EO is not an important aspect in improving hotels' performance (Oktavio *et al.*, 2019). Confirming that EO manifests differently in the hospitality contexts, recent studies such as Njoroge *et al.* (2020) reveal that EO in the hospitality industry consists of innovativeness, proactive-risk-taking and hotels' competition approach. Based on such an approach, proactive-risk-taking consists of firms' exploration intensity with wide-ranging acts; taking bold and risk decisions; favourability to risks in exploiting potential opportunities; proactive opportunities exploration and initiation speed towards changes and actions relative to competitors. Moreover, innovativeness embraces four issues: emphasis on quality services; standardization of services; product introduction; and technology usage. On the other hand, Njoroge *et al.* (2020) indicate that competition approach focuses on extensive marketing; customer relationship management and pricing flexibility based on the competition intensity. Since this present study examines the dimensionality of EO in the hospitality industry, it accordingly adopts EO conceptualization confirmed by Njoroge *et al.* (2020).

The dimensionality of a construct is an important issue in social science research; however, few studies have empirically tested the dimensionality of theoretical constructs (Stetz *et al.*, 2000; Kreiser *et al.*, 2002; Jiang, 2006). A possible explanation is the uncertainty of how best to proceed with such tests (Jiang, 2006). The EO concept is commonly classified as either unidimensional (Covin and Slevin, 1989) or multidimensional (Lumpkin and Dess, 1996) construct. Unidimensionality perspective regards EO as a composite measure which is the aggregation of EO dimensions or as a second-order construct with its dimensions treated as first-order factors (Jarvis *et al.*, 2003; Njoroge, 2019). Unidimensionally, EO may be claimed to exist if there is a strong co-variation among its dimensions. That is, if any of the dimensions is missing entirely, the process would be deemed less entrepreneurial (Miller, 2011). On the contrary, considering EO as a multidimensional construct implies that each dimension can independently influence business performance (Lumpkin and Dess, 1996). Treated as a multidimensional construct, the dimensions of EO need to either correlate or vary independently in influencing the outcome variable. That is, they need not strongly and positively covary for the EO dimensions to

be claimed to exist (Lumpkin and Dess, 1996). Whether EO in the hospitality context appropriately fits the unidimensional and multidimensional specification is an open question.

The unidimensional or multi-dimensional specification has different analytical and theoretical implications. Most studies in the hospitality context pre-suppose that EO is a unidimensional construct (Jogarathnam and Tse, 2006; Seilov, 2015; Vega-Vázquez *et al.*, 2016; Jogarathnam, 2017). However, such conception has not been entirely fruitful in understanding the role of EO on business performance. While Hernández-Perlines (2016) and Jogarathnam (2017) found that composite EO influences business performance positively, Eijdenberg (2015) revealed that competitive aggressiveness exhibits unfavourable influence on performance. On the other hand, Simmons (2010) reveals that risk-taking is an important EO dimension for business performance while innovativeness, proactiveness and competitive aggressiveness are not. Likewise, Jogarathnam and Tse (2006) and Vega-Vázquez *et al.* (2016) indicate that aggregate EO exhibits no effect on the performance of hospitality firms. Such contrasting conclusions suggest a need for examining the true nature of EO dimensionality in the hospitality industry.

Several approaches are often employed in testing whether a construct is unidimensional or multidimensional. They include maximum likelihood ratio test, confidence interval test or a vanishing tetrads test (Jiang, 2006). In principle, all these methods aim to test whether the correlation between two latent dimensions is equal to one or not (Stetz *et al.*, 2000; Jiang, 2006). In other words, the unidimensionality of a construct is confirmed when there is a perfect correlation among its dimensions (Joreskog, 1974; Bollen and Grandjean, 1981). Accordingly, based on EO studies such as Stetz *et al.* (2000), this present study examines the dimensionality of EO by examining three issues: First, are the dimensions (innovativeness, proactive-risk-taking, and competition approach) of EO in hospitality context separate, distinct and independent? Second, do the dimensions of EO covary (correlate) perfectly? and lastly, do EO dimensions converge towards a high order EO construct? Therefore, for conceptual and analytical purposes, the three aspects of EO dimensionality are conceptualized as illustrated in Figure 1.

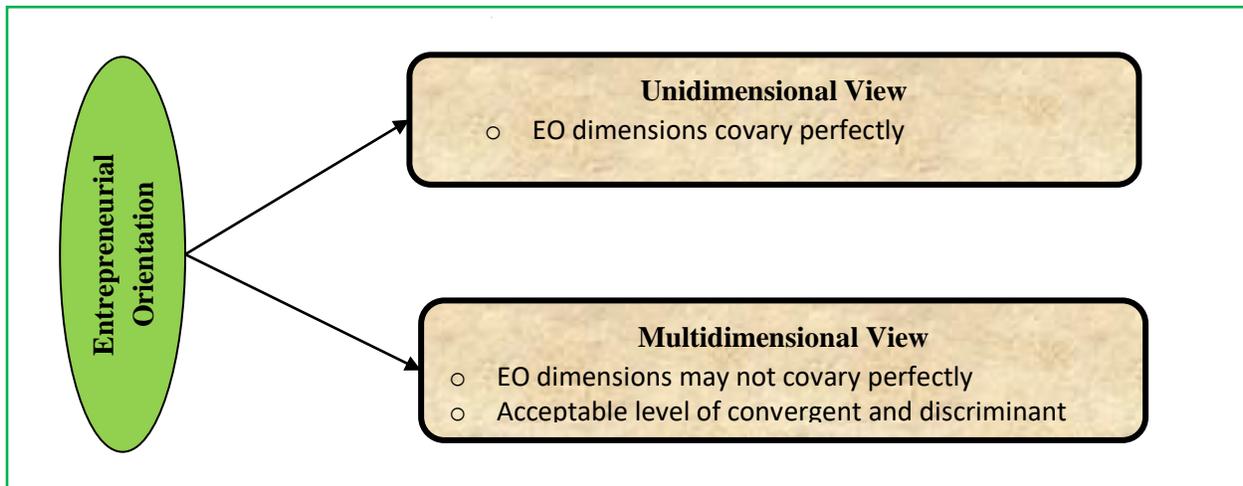


Figure 1. Conception of the dimensionality of entrepreneurial orientation

## Methods

This study examines the dimensionality of EO in the hospitality industry with evidence from Tanzania. Quantitative techniques (Saunders *et al.*, 2012) were utilized to collect data, analyze and report findings as described in the following sections.

### *Sample and Data Collection*

This study is based on a survey of tourist hotels in the Northern (Arusha and Kilimanjaro) and Coastal (Zanzibar and Dar es Salaam) Tourism Circuits of Tanzania. These regions are selected because they host a large number of tourist hotels in the country (MNRT, 2017; Zanzibar Commission for Tourism, 2015). The data used in this study were collected using directly administered questionnaires. Before that, questionnaires were first pilot-tested and refined accordingly to ensure understandability, remove ambiguities and improve clarity as recommended by Saunders *et al.* (2012). The questionnaires were administered to 400 randomly selected hotels in the four regions. Hotel managers were requested to respond to each of the 15 scale statements on EO (Appended). This validated EO scale in the hospitality context is based on Njoroge (2019) and Njoroge *et al.* (2020). In accordance to Njoroge *et al.* (2020) validated dimensions for EO in the hospitality industry used in this study are summarized in Table 1.

**Table 1. Indicators of EO in the context of Hospitality Industry**

Innovativeness
1:Technology Usage
2:Standardized Services
3:Quality Goods and Services
4:Product Introduction
Proactive- Risk-Taking
1:Opportunities Exploitation
2:Initiation Speed
3:Favourability to Risks
4:Exploration Intensity
5:Bold and Risk Decisions
Competition Approach
1:Pricing flexibility
2:Extensive marketing
3:Customer relationship management

Source: Njoroge *et al.* (2020)

A total of 348 hotels responded to the survey (a response rate of about 87 percent). Missing data analysis was performed and revealed that there were 63 cases with at least one data value missing, equivalent to a total of 18.1 percent. Therefore, on average missing data per case was around 0.3 percent (18.1/63). Only two cases (ID106 and ID277) exhibited missing data above

10 percent. The two cases were deleted and the mean substitution method was used to impute the remaining missing data in line with Hair *et al.* (2014). The characteristics of the usable sample (n=346) are summarized in Table 2.

**Table 2. The Characteristics of The Surveyed Hotels**

Hotel Attributes		Zbar	D'sm	Arush <sup>a</sup>	K'jro	Total	Total %
Hotel Type	Independent hotel	65	62	82	44	253	73
	Part of a hotel chain	44	19	18	12	93	27
Ownership structure	locals (Tanzanian) only	27	40	62	51	184	53
	both locals and foreigners	51	30	36	6	123	36
	foreigners only	25	10	3	1	39	11
Location	Beach	81	14	0	0	95	28
	Park	0	0	2	9	11	3
	Town	13	60	100	50	223	64
	Beach and Town	10	7	0	0	17	5
Hotel rating	3-Star	68	48	84	52	252	73
	4-Star	29	28	11	4	72	21
	5-Star	12	5	5	0	22	6
<i>Total</i>		109	81	100	56	346	100

### Data Analysis

First, exploratory factor analysis (EFA) was used to establish the nature of the EO factor structure in the studied context utilizing principle component analysis with Oblique (Promax) rotation. The assumption is that EO factors are related to each other (Hair *et al.*, 2014; Field, 2018). SPSS 23 software was utilized to conduct the EFA to identify the latent dimensions of EO inherent in the data. On the other hand, construct reliability was assessed using Cronbach's alpha and composite reliability (Fatma *et al.*, 2016). The recommended alpha threshold of 0.7 for Cronbach's alpha and composite reliability was adhered to (Hair *et al.*, 2014).

Next, the validity of the EO dimensions was assessed based on confirmatory factor analysis (CFA) (Hair *et al.*, 2014). Based on Hair *et al.* (2014), model diagnostics were undertaken by examining standardized residuals; path estimates; and modifications indices to refine and

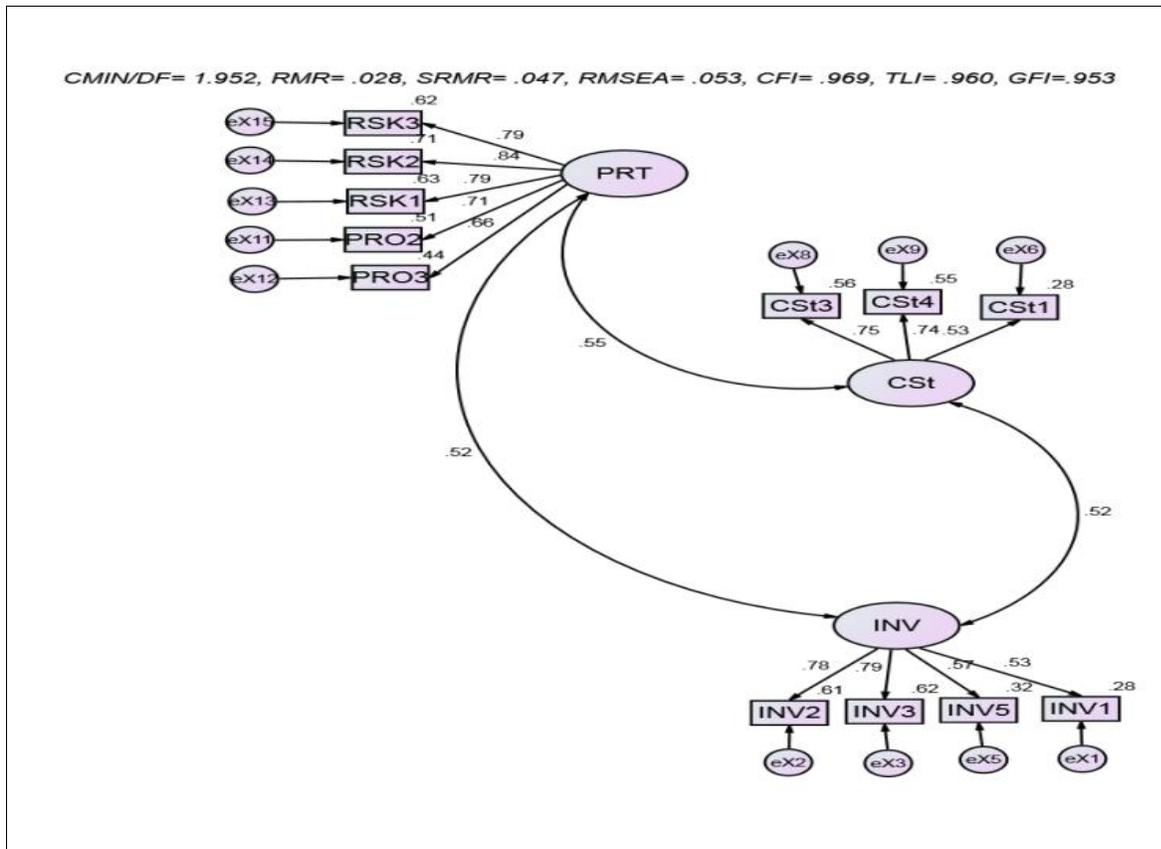
improve the EO measurement model. The AMOS 23 software was used in this regard to generate the model fit indices and test whether the specified EO model is theoretically consistent (Hair *et al.*, 2014). This was achieved by assessing models' goodness-of-fit indices [Chi-square ( $\chi^2/df$ ), Goodness-of-Fit Index (GFI), Root Mean Square Error of Approximation (RMSEA), Comparative Fit Index (CFI)]. The estimated values of these indices were evaluated against the recommended thresholds (Hair *et al.*, 2014).

Thereafter, EO construct validity was further ascertained using convergent and discriminant validity tests. Convergent validity test was essential to confirm how well measured indicators converge or share a high proportion of variance in common (Hair *et al.*, 2014). To achieve this, average variance-extracted (AVE) and composite reliability for the EO dimensions were examined (Fornell and Larcker, 1981; Hair *et al.*, 2014). Discriminant validity was assessed by comparing the square root of AVE for each dimension with inter-construct correlations associated with that dimension (Hair *et al.*, 2014). This enabled to establish how truly the EO dimensions are distinct and independent from one another. This approach is consistent with Stetz *et al.* (2000).

## **Findings and Discussion**

EFA indicates that hotels' EO consists of three dimensions: Innovativeness (INV), Competition Approach (CSt) and Proactive-Risk taking (PRT), a combination of pro-activeness and risk-taking attributes. The values of Cronbach's alphas for Innovativeness; Competition Approach; and Proactive-Risk-Taking are .74; .70; and .87 respectively. Moreover, composite reliability for each dimension is reasonably above the minimum threshold of 0.7, confirming that each dimension exhibits an adequate level of internal consistency and is reliably measured in line with Hair *et al.* (2014) guidelines.

Based on CFA, the model fit indices confirm the validity of underlying dimensions as illustrated by the EO measurement model in Figure 2. As indicated in the model, all model fit indices are within the recommended thresholds in line with Hair *et al.* (2014). This was achieved after eliminating three indicators (PRO1-Market Leadership; INV4-Speed to Market and CSt1-Price Undercutting). CFA model further indicates that the EO dimensions exhibit low to moderate correlations with each other. The correlations are regarded as low-to-medium in comparison to perfect correlations which is a condition for the unidimensionality of a construct (Stetz *et al.*, 2000; Jiang, 2006). The correlation between Proactive-Risk taking and Innovativeness is .52; the correlation between Innovativeness and Competition Approach is .52 while the correlation between Proactive-Risk taking and Competition Approach is .55. Because the dimensions have correlations equal to 1, it implies that the three EO dimensions may vary independently of one another. This is consistent with the assertions set forth by Kreiser *et al.* (2002) and Lumpkin and Dess (1996). Essentially, this finding confirms that EO in the hospitality industry exhibits multidimensionality.



**Figure 2. Entrepreneurial Orientation Measurement Model**

Note: RSK; PRO; INV and CSt are scale items for-Risk-taking; Proactiveness; Innovativeness and Competition Approach respectively.

Furthermore, the results on the construct validity test further confirm that EO exhibits multidimensionality. The AVEs for all dimensions are at least 0.5 while composite reliability for each dimension is well above the minimum threshold of 0.7. This implies an acceptable level of convergent validity in that indicators for each EO dimensions converge or share a high proportion of variance in common. Moreover, discriminant validity results indicate that all the AVEs are greater than corresponding inter-construct correlations squared (Table 3). This implies that each dimension of EO in the measurement model is truly distinct from other dimensions. This is consistent with Fornell and Larcker (1981) guidelines.

**Table 3. Convergent and Discriminant Validity Tests**

	PRT	INV	CSt
Proactive-Risk-Taking (PRT)	1		
Innovativeness (INV)	0.52	1	
Competition Approach (CSt)	0.55	0.52	1
	PRT	INV	CSt
Composite Reliability (CR)	0.9	0.8	0.8
Average Variance-Extracted (AVE)	0.6	0.5	0.7
Square Root of AVE	0.8	0.7	0.8

## Implications and Conclusions

In the hospitality context, this study adds to the body of knowledge that EO is multidimensional as indicated by low-to-moderate correlations among its dimensions. The level of correlations is considered low-to-moderate compared to perfect correlations which commonly used as an indicator for the unidimensionality of a construct (Joreskog, 1974; Bollen and Grandjean, 1981; Jiang, 2006). Moreover, the discriminant validity being satisfactorily acceptable also confirms that EO is framed around three distinct dimensions. This empirical finding enriches other hospitality studies such as Jogaratnam (2017), Hernández-Perlines (2016), and Seilov (2015) that consider EO as merely unidimensional. The multidimensionality EO observed in this study is consistent with non-hospitality studies such as Kreiser *et al.* (2002) and Covin *et al.* (2006). In the emerging country contexts like Tanzania, this finding supports the multidimensionality nature as hypothesized in studies such as Eijdenberg (2015) and Philemon and Kessy (2016).

Understanding EO dimensionality and the relationships among its dimensions in the hospitality industry is important both theoretically and practically. Theoretically, the results imply that EO in the hospitality industry also needs to be considered a multidimensional phenomenon to exploit the full potential of entrepreneurial processes. The specification of the relationships among the EO dimensions and how the dimensions relate to the overall EO concept are central in EO research not only for future theory building but also in the conceptual operationalization in theory testing. That is modelling EO as a mere single composite (unidimensional) construct (Covin and Slevin, 1989) is a narrow approach as it can largely mask the specific and independent contributions of specific EO dimensions on business performance as revealed in Lechner and Gudmundsson (2014) and Vega-Vázquez *et al.* (2016).

Accordingly, based on the multidimensional EO perspective, hospitality firms can benefit by appropriately allocating resources based on the importance of a particular dimension. In other words, to allocate resources in a way that benefits hospitality businesses, managers must be

observant of the role of individual EO dimensions. Moreover, positive and significant correlations between the EO dimensions imply that hotels' entrepreneurial efforts have to be aligned in a similar direction to appropriately exploit market opportunities.

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**APPENDIX:** Research Questionnaires

Please circle one option that best describes the hotel on the following statements (1= strongly disagree while 5= strongly agree).

This hotel.....	strongly disagree	disagree	Neither agree nor disagree	agree	strongly agree
INV1-strongly emphasizes and capitalizes on technological advancements	1	2	3	4	5
INV2-provides highly standardized services based on its brand	1	2	3	4	5
INV3-maintains its market share by providing quality goods and services	1	2	3	4	5
INV4-has marketed a lot of new products and services in previous years	1	2	3	4	5
INV5-usually experiences quite dramatic changes in product and service lines	1	2	3	4	5
PRO1-is often the first to introduce new services and administrative techniques	1	2	3	4	5
PRO2-adopts a very proactive approach in exploiting markets opportunities	1	2	3	4	5
PRO3-normally initiates changes and actions upon which competitors respond to	1	2	3	4	5
RSK1-has strong tendency toward getting involved in high risk-high yield projects	1	2	3	4	5
RSK2-exercises bold, wide-ranging acts necessary to achieve hotel's objectives	1	2	3	4	5
RSK3-typically adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunities	1	2	3	4	5
CSt1-is flexible in pricing, given the nature of competition in the industry	1	2	3	4	5
CSt2-sometimes undercut prices (rates) to cope with competition	1	2	3	4	5
CSt3-engages in aggressive marketing of its services	1	2	3	4	5
CSt4-maintains a very close customer relationship management	1	2	3	4	5