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## The Effect of Entrepreneurial Orientation, Service Innovation on Firm Performance: A Perspective of Star Rating Hotel in Sarawak

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### Abstract

The hotel industry is characterized as a human-intensive service provider, therefore, innovation, particularly service innovation, does not generally depend on technological and scientific contributions. Most often, innovation in this industry is derived from human interaction that often leads to little adjustments or continuous improvement to meet potential customer expectations and to satisfy the current customers. Although several recent studies have begun to address this issue, an understanding of service innovation in low-technology and service industries, particularly hotel firms, is less understood. This research builds on the resource-based view (RBV) of the firm to examine the effects of entrepreneurial orientation on service innovation and service innovation on hotel performance. Utilising a quantitative approach, 73 hotel operators were taken as the sample of this study. A non-probability sampling of purposive sampling was used in this study whereby only hotels that have a star rating from one to five stars were chosen and included in the sample based on the list of registered hotels provided by Sarawak Ministry of Culture, Arts and Tourism Malaysia. The findings of the study found that there is a positive relationship between entrepreneurial orientation, service innovation and performance. This study makes a considerable contribution to the existing literatures on entrepreneurial orientation, service innovation, particularly in regards to explaining the performance of hotel industry in Sarawak.

**Keywords:** Entrepreneurial Orientation, Service Innovation, Performance

### Introduction

Gaining superior performance and competitive advantage for many organizations is extremely critical in today's dynamic competitive environment (Hilman & Kaliappen, 2014). Most firms are dealing with complex competition by offering relevant products or services that meet customers' ever-increasing expectations that no other competitors can match (Ramadani et al., 2017). This implies that one of the main challenges that organisational firms are facing today is to find strategic ways of achieving sustainable competitive advantage to

outperform their competitors. Over the past several years the service sector has seen innovation-led changes that result in greater dynamism productivity growth rate.

The service sector comprises a wide variety of service industries such as tourism, banks, sports, restaurants, legal, information, health, education, transportation, and entertainment. The competitive risk and challenges facing the service sector compounded by changing customer demand have a considerable implication on the sectors' efficiency and productivity. Thus, the service industry must respond quickly to rapid changes and thereby grow. Within the service sector, tourism firms worldwide including the hotel industry are confronted with challenges to win a higher market share in the increasing competition (Oskam & Boswijk, 2016). Tourism has grown substantially in the last several years and it was ranked the third largest export in the world after chemicals and fuel (World Tourism Organisation, 2018). The tourism sector contributed to 9.3% of world global employment (World Tourism Organisation, 2018). It has been acknowledged by the tourism sector that innovation is a critical emerging force providing support to continuously renew processes and offerings to maintain an internationally competitive position among other destination tourism competitors (Ottenbacher, 2007; Thakur & Hale, 2013).

Over the years, scholars have shown reluctance to address innovation studies in the service sector generally, and in the hospitality industry particularly as compared to innovation studies in manufacturing (Ettlie & Rosenthal, 2011). This is further supported by Rajapathirana and Hui (2018) who stressed the lack of empirical quantitative research on innovation in the hospitality industry. Several studies have emphasised that hotel firms are not high technology-based firms (Den Hertog et al., 2011; Nieves et al., 2014). Regarding innovation in hotels within the technology-driven innovation, hotel firms are using technological innovation that is developed by suppliers (Evangelista & Savona, 2003; Castellacci, 2008).

Apparently, the growth of the service sector has increased the interests of academic researchers and practitioners on service innovations (Thakur & Hale, 2013; Barrett et al., 2015; Snyder et al., 2016). There is an increasing focus on the importance of service innovation for increasing the firms' competitiveness in the competitive marketplace (Tseng et al., 2015). Since services are mainly intangible or knowledge products, service innovation plays an important role and pervades all service sectors.

In addition, entrepreneurial orientation is also associated with a competitive strategy to gain and improve competitive advantage through the process of acquiring and leveraging resources to exploit business opportunities, ultimately influence firm performance (Kraus et al., 2012). Entrepreneurial orientation is considered a distinct intangible resource or organisational capability that signifies a competitive advantage and resulting in superior performance to the firm (Bakar & Ahmad, 2010). However, most past investigations on the entrepreneurial orientation role on innovation have been centred on the manufacturing sector or physical goods (Ndubisi & Agarwal, 2014).

Several studies have suggested that the hotel's capacity to innovate is a crucial element in maintaining competitive edge in the industry and thus have a significant impact on performance (Horng et al., 2016; Lahap et al., 2016; Shamim et al., 2017). Therefore, it is essential for hotels to continuously innovate their services through service innovation in order to achieve higher performance levels. Some studies even advocate that innovation and creativity is a crucial element in maintaining competitive edge in the hotel industry (Tigu et al., 2013; Lahap et al., 2016).

In fact, most of the previous studies regarding the relationship between innovation and performance have focused mainly on the manufacturing sector, but the innovation research

in tourism service sector has so far received little attention (Kalay & Lynn, 2015; Durst et al., 2015; Rajapathirana & Hui, 2018). Gomezelj (2016) maintains that research is novel with respect to the topic of innovation within the tourism industry, specifically the hotel sector. However, with notable exceptions of Hilman and Kaliappen (2015) relatively few studies have explicitly examined the impact of service innovation on firm performance in the tourism services sector particularly in the hotel industry in a developing country. Therefore, the main objectives of this study are two fold: (i) to determine the effect of entrepreneurial orientation on service innovation and (ii) to test the effect of service innovation on firm performance. The rest of the paper is structured as follows. First, based on an extensive literature review, a research framework is developed and hypotheses are explained followed by the discussion on the adopted methodology. Next, the findings of the study are further discussed. Lastly, a conclusion is made, and theoretical and practical implications, limitations, and an agenda for future research are highlighted.

## Literature Review

### *Resource Based View Theory*

The RBV of the firm has to date been one of the most accepted theories that explain the differences in performance across firms (Barney, 1991; Newbert, 2007). Early literature review on empirical research of RBV of the firm first theorized that a firm is a unique collection of several resources used to compete among firms (Newbert, 2007). Wernerfelt (1984) most significant argument was that strategic resources possessed by firms are crucial to the firms' ability to compete and to achieve success. This is further supported by Barney (1991); Peteraf (1993) suggesting that the firm-specific resources and capabilities of RBV are the fundamental sources of competitive advantage and superior performance.

According to Agarwal and Selen (2009), innovation is considered one of the firms' most essential capabilities that deliver superior value for their customers and for the firms to grow. Findings from previous studies (Watson & Hewett, 2006; Nasution & Mavondo, 2008; Ngo & O'Cass, 2009) which suggest that in the context of services, the ability of service firms to sustain and maintain competitive advantage is by being innovative, appear to be in line with Agarwal and Selen's (2009) arguments. Prior work on competitive advantage and firm performance has also pondered that innovation is critical to facilitate the firms to quickly develop and adopt new services and solutions to meet the market needs and the organisation's success (Weerawardena & O'Cass, 2004; Nasution & Mavondo, 2008). Based on the RBV theory perspective, innovation capabilities of firms are developed by setting up innovation platforms, dynamic routines and processes to various products or processes to meet changing market conditions to yield a continually competitive advantage (Ndubisi & Agarwal, 2014). Although the competence of an individual firm can be duplicated across firms, service firms can continuously use innovation platforms or develop innovation processes by adapting, integrating and reconfiguring their capabilities to sustain and maintain competitive advantage (Eisenhardt & Martin, 2000).

### *Entrepreneurial Orientation and Service Innovation*

Firms are dealing with complex competition by having to offer relevant products or services that meet customers' ever-increasing expectations that no other competitors can match (Ramadani et al., 2017). Consequently, as the requirement to sustain a strong competitive position increases in the marketplace, firms are constantly searching for various strategic ways to achieve sustainable competitive advantage to outperform their competitors. Some

organisations are investing in being entrepreneurially oriented in order to outperform the industry rivals, since they have become increasingly aware that a firm's competitive advantage is achieved by leveraging the entrepreneurial behaviour (Kajalo & Lindblom, 2015). According to Jogaratnam and Tse (2006), entrepreneurial orientation lays an important foundation for the firm's capabilities to achieve long term success in various industries. Since entrepreneurial orientation is considered an essential prerequisite in product innovation (Ireland & Webb, 2007), thus it is logical to assume the role of entrepreneurial orientation in service organisations particularly in the hotel industry would have a link to innovation. Although attention to entrepreneurial orientation has attracted much attention to academic researchers, empirical work related to the effect of entrepreneurial orientation on innovation particularly service innovation in the service industry is still unclear (Kraus, 2013).

#### *Service Innovation and Firm Performance*

Prior research on the impact of innovation has also shown that innovation helps firms to respond to the changing market environment and exploit opportunities faster than competitors particularly in dynamic markets and thus may improve the firm's overall performance (Chen et al., 2015; Soto-Acosta et al., 2016). Similarly, other researchers also concur with the agreement that innovation is an important source of sustainable competitive advantage and therefore may improve firm's performance outcomes (Tse et al., 2016). In addition, a considerable number of past studies has indicated that a positive relationship exists between innovation and firm performance (Crema et al., 2014; Saunila, 2014). Hence, the adoption of innovation allows firms to promote adaptive behaviour that would create change in the organisation contributing to improved organisational efficiency and ultimately improve the organisation's performance (Damanpour et al., 2009). In particular, the importance of service innovation in the literature has been highlighted in service-oriented firms that it is important to acquire new skills or knowledge to develop new services and at the same time it is also important to extend the existing skills and knowledge to improve the existing services offered (Åkesson et al, 2016). However, little attention has been given to innovation research in the hotel industry (Nagy, 2012; Gomezelj, 2016). The debate as to the effect of service innovation on firm performance within the service context is again not resolved yet (Rajapathirana & Hui, 2018).

#### **Framework and Hypotheses Development**

The development of the research framework was carefully crafted after conducting extensive literature review on this topic. In addition, the instruments used in this study were basically adapted and adopted to suit the context of this study. We derived three (3) hypotheses to examine the proposed research framework as depicted in Figure 1.

- H1 : Entrepreneurial orientation has a positive influence on service innovation
- H2 : Service innovation has a positive influence on firm performance





Figure 1: Research Framework

### Research Methodology

A probability sampling technique was adopted to verify that the collected data were valid and to ensure the sample characteristics corresponded to the nature of the study. Therefore, purposive sampling was adopted in this study whereby only hotels that have a star rating from one to five stars were chosen and included in the sample based on the list of registered hotels provided by Sarawak MOTAC. For this study, questionnaire was used as an instrument to gather relevant information from the respondents. The scaling technique required respondents to indicate a degree of disagreement or agreement with each series of statements using a 7-point Likert scale.

To ensure that the sample size for this study is adequate, G\*Power 3 software by Faul, Erdfelder, Lang and Buchner (2007) is used to calculate the sample size. With an alpha level of .05, power of  $(1-\beta) = 95\%$  and a moderate effect size of .20 as recommended by Gignac and Szodorai (2016) and since the model had 1 number of predictors, the result derived from the use of G\*Power 3 software, indicated that the minimum sample size required is 67 respondents. Data were collected using the field survey and mailing method. Questionnaires were then sent to 96 hotels that have a star rating from one to five stars in Sarawak, Malaysia targeting a single key informant of each hotel represented by the higher-level managers such as owner or senior executive manager because of their experience in the hotel industry and knowledge of their hotels' marketing practices and innovation activities across the whole organisation (Kumar, Stern & Anderson, 1993). Out of 96 one-to-five-star hotels targeted, 7 hotels did not grant access and 76 were returned leading to a response rate of about 79%. Out of the 76 returned, 3 surveys were found to have more than 25% of unanswered items eventually resulted in 73 usable of returned questionnaires or 76% usable response rate.

The constructs (see Figure 1) are examined using multiple items (Hayduk & Littvay, 2012), and the data was then analysed using SmartPLS 3.0 (Ringle et al., 2014) to test the hypotheses. PLS-SEM is used for data analysis in studies by researchers from a variety of business and social science disciplines, including marketing, entrepreneurship, tourism, hospitality, family business, education, and etc (Cham et al., 2021).

### Data Analysis and Results

Table 1 presented the summarized demographic profile of respondents. In general, most of the respondents are over 35 years old (75.4%) with at least a university diploma (82.2%) and more than 5 years of tenure with their current organisation (56.2%), which made a sound sample. The hotels are mostly located in Kuching which is the capital of Sarawak (41%). Respondents represented were from the hotel top management (52%) and middle management (48%). The managers are from hotels rated as 5-star (6%), 4-star (23%), 3-star (37%), 2-star (23%) and 1-star (15%).

Table 1

*Respondent Profile*

Item	Number	Percentage
<b>Job Position</b>		
Top Management	38	52.0
Middle Management	35	48.0
<b>Tenure</b>		
5 years or less	32	43.8
6-10 years	18	24.7
11-20 years	9	12.3
21-30 years	13	17.8
Over 30 years	1	1.4
<b>Age</b>		
25 and below	3	4.1
26-35	15	20.5
36-45	19	26.0
46-55	23	31.5
56 and above	13	17.8
<b>Qualification</b>		
Primary Education	1	1.4
Secondary Education	12	16.4
Diploma	27	37.0
Bachelor's	31	42.5
Degree/Professional		
Postgraduate Degree	2	2.7
<b>Hotel Rating</b>		
1 star	11	15.0
2 stars	17	23.0
3 stars	27	37.0
4 stars	14	19.0
5 stars	4	6.0
<b>Location</b>		
Betong	1	1.0
Bintulu	10	14.0
Kapit	1	1.0
Kuching	30	41.0
Limbang	2	3.0
Miri	11	15.0
Mukah	2	3.0
Sarikei	2	3.0
Sibu	12	17.0
Sri Aman	2	3.0

*Reflective Measurement Model*

Table 2 demonstrates the findings of construct reliability (CR) and the convergent validity testing. By examining the loadings for each of the three constructs, all the items had loadings higher than 0.5. AVE for all constructs shown exceeded the recommended value of 0.5

suggesting an acceptable level of convergent validity (Hair et al., 2016). In addition, the CR for each construct were all higher than the recommended value of 0.708 (Hair et al., 2016) suggesting that the constructs were acceptable. As such, it is concluded that the constructs have achieved reliability and convergent validity requirement at this stage.

Table 2  
*Measurement Model Assessment*

<b>Constructs</b>	<b>Items</b>	<b>Loading</b>	<b>CR</b>	<b>AVE</b>
<b>Entrepreneurial Orientation</b>				
Risk-taking	RT25	0.737	0.843	0.642
	RT26	0.852		
	RT27	0.810		
Innovativeness	Inn28	0.821	0.910	0.772
	Inn29	0.894		
	Inn30	0.918		
Proactiveness	Pro31	0.895	0.919	0.790
	Pro32	0.933		
	Pro33	0.837		
Competitive Aggressiveness	Com34	0.811	0.884	0.717
	Com35	0.845		
	Com36	0.883		
Autonomy	Aut37	0.793	0.906	0.618
	Aut38	0.711		
	Aut39	0.788		
	Aut40	0.870		
	Aut41	0.834		
	Aut42	0.704		
<b>Service Innovation</b>				
Service Innovation	SI43	0.748	0.940	0.549
	SI44	0.757		
	SI45	0.764		
	SI46	0.641		
	SI47	0.692		
	SI48	0.697		
	SI49	0.892		
	SI50	0.755		
	SI51	0.635		
	SI52	0.798		
	SI53	0.786		
	SI54	0.764		
	SI55	0.660		
<b>Firm Performance</b>				
Firm Performance	PerfSVG1	0.928	0.956	0.811
	PerfPMG2	0.952		
	PerfMSG3	0.914		
	PerfOCP4	0.878		



*Discriminant Validity*

Table 3 displays The Fornell-Larker criterion test to examine the discriminant validity of the measurement model. The square root of the AVEs as shown by the bolded values (diagonals) were greater than the squares of the correlations (off-diagonal) between all the constructs of the model (Fornell & Larcker, 1981) indicating that all constructs exhibited sufficient or satisfactory discriminant validity, confirming the discriminant validity of the measurement model. The findings indicated that it is appropriate to proceed with the structural model assessment to test the study's hypotheses, as there is no issue of multi-collinearity between indicators loaded on different constructs in the outer model.

Table 3

*Discriminant Validity using Fornell and Larcker (1981)*

	AUT	COM	INN	PRO	Perf	RT	SInn
AUT	<b>0.786</b>						
COM	0.266	<b>0.847</b>					
INN	0.396	0.617	<b>0.879</b>				
PRO	0.210	0.752	0.747	<b>0.889</b>			
Perf	0.460	0.269	0.398	0.300	<b>0.919</b>		
RT	0.432	0.283	0.529	0.332	0.344	<b>0.801</b>	
SInn	0.483	0.724	0.708	0.620	0.428	0.522	<b>0.741</b>

*Structural Model Assessment*

To assess the structural model, it is vital that the first step is to assess the model for any collinearity issues. Variance inflation factor (VIF) value is used to assess collinearity issue in which specifically a VIF value of 5 and higher (Hair, et al., 2016) or the more stringent criteria by Diamantopoulos and Siguaw (2006), where VIF value of 3.3 and higher, indicate a possible problem which is referred to as collinearity problem.

The following Table 4 presents the outcome of the lateral collinearity test for the structural model in this study. The VIF analysis results show that the Inner VIF values for the independent variable (entrepreneurial orientation) that need to be examined for lateral multicollinearity are below 5 suggesting that lateral multicollinearity in the variables is not a concern in the research (Hair et al., 2016).

Table 4

*Lateral Collinearity Assessment*

	Service Innovation (VIF)	Firm performance (VIF)
Entrepreneurial orientation	3.168	
Service Innovation		1.000

Table 5 demonstrates the assessment of the path coefficients, which are represented by Beta values for each path relationship. A 5000-bootstrap resampling data was conducted to test the hypotheses (Hair et al., 2017). The results of path coefficients indicate that entrepreneurial orientation towards service innovation to be supported. The same goes with the path coefficient of relationship between service innovation towards firm performance was also found to be supported.

Table 5 and Figure 2 (graphical illustration of Structural Modeling) depicts the path coefficient assessment. The results indicate all the two proposed relationship are significant. Specifically, the study found support for H1 (Entrepreneurial Orientation → Service Innovation,  $\beta = 0.545$ ,  $p < 0.000$ ) and H2 (Service Innovation → Firm Performance,  $\beta = 0.440$ ,  $p < 0.000$ ).

Table 5

*Path Coefficients Assessment*

	Relationship	Beta	Std Error	t-value	p-value	Decision
H1	Entrepreneurial orientation -> Service innovation	0.545	0.104	5.253**	0.000	Supported
H2	Service Innovation -> Firm Performance	0.440	0.101	4.359**	0.000	Supported

Note: \* $p < 0.05$ , \*\* $p < 0.01$  (Hair et al., 2017)

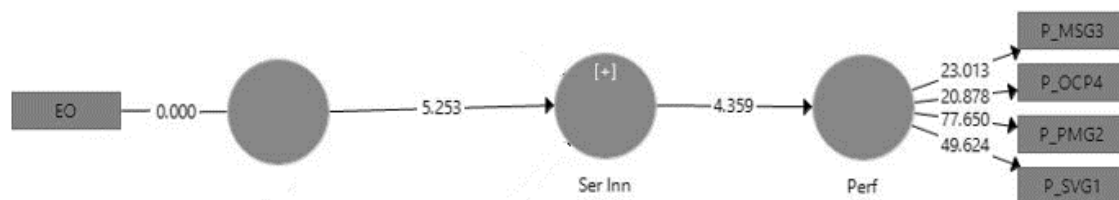


Figure 2: Path Coefficients

*Model Quality Assessment*

Table 6 displays quality assessment of the model H1 (Entrepreneurial Orientation → Service Innovation) and H2 (Service Innovation → Firm Performance) shown to carry strong and moderate effect sizes  $f^2$  on service innovation value at 0.381 and towards firm performance value at 0.240. The coefficient of determination represented by  $R^2$ , which explains whether the Entrepreneurial Orientation could explain Service Innovation indicate strong effects (Chin, 1998). The  $R^2$  value is 0.754 suggesting that the Entrepreneurial Orientation is above 0.26 value is considered substantial in the explanatory power. On the other hand, firm performance has moderate explanatory power, with the  $R^2$  value of 0.193 hovering around 0.13 (Cohen, 1988).

Furthermore, multi-collinearity between indicators is also assessed. All indicators for constructs satisfy the VIF values, and they are consistently below the threshold value of 5.0 (Hair et al., 2014) and 3.3 (Diamantopoulos & Siguaaw, 2006). Therefore, it can be concluded that collinearity issues do not reach critical levels in any of the constructs, therefore, there is no issue with estimating the PLS path model. As presented by  $Q^2$  using the blindfolding procedure (Hair et al., 2017), the predictive relevance values of Entrepreneurial Orientation → Service Innovation, Service Innovation → Firm Performance were 0.376 and 0.148 indicating the model has sufficient predictive relevance. Therefore, the model in this study is assumed to have achieved predictive relevance as the endogenous latent construct  $Q^2$  value is larger than 0 construct (Hair et al., 2017).

Table 6

*Model Quality Assessment*

	<b>Relationship</b>	<b>f<sup>2</sup></b>	<b>R<sup>2</sup></b>	<b>VIF</b>	<b>Q<sup>2</sup></b>
H1	Entrepreneurial orientation -> Service innovation	0.381	0.754	3.168	0.376
H2	Service Innovation -> Firm Performance	0.240	0.193	1.000	0.148

$f^2 \geq 0.35$  consider Substantial (Cohen, 1988)

$R^2 \geq 0.26$  consider Substantial (Cohen, 1988)

Lateral Collinearity:  $VIF \leq 3.3$  (Diamantopolous & Siguaw, 2006)

$Q^2 > 0.00$  consider Large (Hair, 2017)

$0.02 \leq Q^2 < 0.15$ ; weak predictive power

$0.15 \leq Q^2 < 0.35$ ; moderate predictive power

$Q^2 \geq 0.35$ ; strong predictive power

### Discussions

This study investigates whether entrepreneurial orientation is associated with service innovation. In addition, we also examine service innovation influence on firm performance. Specifically, (H<sub>1</sub>), the entrepreneurial orientation has a positive influence on service innovation. The result demonstrated that entrepreneurial orientation is an important driver of service innovation. This positive and significant relationship was similar to previous studies (O’Cass & Weerawardena, 2009; Lee & Hsieh, 2010; Wang & Juan, 2016). This study supports aspects of previous research but also provides some new insights of the importance of the impact of entrepreneurial orientation on service innovation among hotels in the state of Sarawak, Malaysia which is a developing country. Another study by Lassen et al (2006) provides evidence in the high-tech industry involving high tech development and manufacturing that entrepreneurial orientation stimulates the development of radical innovation. Relative to the findings in the above-mentioned studies, the finding in this current study in the context of hotel firms that mostly involves incremental service innovation in a developing economy, finds consistency in terms of entrepreneurial orientation has a positive impact on service innovation. This implies that hotel firms that adopt entrepreneurial orientation can successfully innovate than their competitors. A study by Ndubisi and Agarwal (2014) on the relationship of entrepreneurial orientation and service innovative was on IT firms which is considered a high technology sector in a developed economy but the current study was on the hotel firms which is considered a non-technological sector involving incremental innovations focusing on services in a developing economy.

Similarly, H<sub>2</sub> confirmed the positive impact of service innovation on firm performance. service innovation essentially benefits the performance of service-oriented firms over time as suggested by (Zheng et al., 2018). The direct impact of service innovation on firm performance in this study is consistent with of previous studies (Soto-Acosta et al., 2016; Witell et al., 2016; Rajapathirana & Hui, 2018). The results obtained in the analysis of the relationship between service innovation and firm performance in this study clearly indicates that service innovation is critical to facilitate the firms to quickly adopt new services or solutions to meet changing market needs which in turn contribute to an organisation’s success. As Chen et al (2015) state, this may be due to the fact that innovation help firms to respond to the changing market

environment and exploit opportunities faster than competitors particularly in dynamic markets and therefore improve the firm's overall success. This relationship supports the argument that service innovation is a central source of competitive advantage and results in a positive impact on firm performance within the service sector context could enhance a firm's performance.

### **Conclusion**

Overall, the results provide strong empirical evidence to support the hypotheses regarding the positive effect of entrepreneurial orientation and service innovation and the effect of service innovation on firm performance. Theoretically, this research has proposed a research model that connects entrepreneurial orientation with service innovation and service innovation towards firm performance. As such, the current research empirically demonstrates that entrepreneurial orientation is important for the hotel industry in pursuit of enhanced service innovation which eventually lead to firm performance. A study by Kajalo and Lindblom (2015) revealed that firms adopting entrepreneurial orientation may reap huge benefits as it increases the firm's capability to identify and seize new market opportunities by quickly reacting to the competitive and uncertain challenges in the marketplace.

Moreover, this study highlights the key role of resource-based view (RBV) theory. Therefore, the resource-based theory that underpinned the phenomenon of this study has emphasized that efficient and effective use of resources to enhance firm performance. The hoteliers are recommended to build a strong entrepreneurial oriented culture. This suggests that hotels should invest in being entrepreneurially oriented, that is to adopt an innovative, autonomous, proactive, risk-taking, and competitive aggressiveness approaches in managing their firms. Since resources are scarce, hotel firms, therefore should pay careful attention in designing their strategic plans. It will help to contribute to the creation of an entrepreneurial climate that encourages innovation and improve firm performance.

This study contributes to the literatures by providing strong empirical evidence about the role of entrepreneurial orientation in influencing service innovation and firm performance in the context of top star rating hotel in Sarawak, Malaysia. As the current performance does not reach the desired level performance, the hoteliers need to rethink the way they are responding to market challenges to get them ahead of competition. They should adjust their strategies and develop their entrepreneurial qualities to enhance service innovation and achieve superior performance.

Despite important contributions, this current research is subject to some limitations. First, this study uses single informants to complete the survey instrument. And as such, the use of a single informant might only divulge information that informant feels more acceptable reporting and for the researcher to publish and thus could raise the issue of such bias. Second, only one aspect of strategic orientation which is entrepreneurial orientation is utilised in this study. Third, the sample of this study was derived from the MOTAC directory for registered hotels in Sarawak and thus excluded companies that were not listed in the directory. Consequently, generalisations from the findings of this study to all service companies in Malaysia cannot be made. Therefore, to generalise these findings, further research within different service sectors is needed in a developing country context. Future research should also attempt to replicate this study by using the controlling possible variables that could

influence the firm performance to recognize the accurate link of service innovation and firm performance.

This research empirically demonstrates that entrepreneurial orientation is important for the hotel industry in pursuit of enhanced service innovation. Moreover, this study highlights the key role of RBV theory in explaining the relationships between the variables of the study in the developing country context. From a practice perspective, this study reinforces the need for hoteliers to rethink the way they are responding to market challenges to get them ahead of competition. By adopting entrepreneurial orientation may reap huge benefits as it increases their capability to identify and seize new market opportunities by quickly reacting to the competitive and uncertain challenges in the market place.

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