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**Predicting Performance Through Business Strategy:
The Mediating Role of Innovation's type in Small Hotel**

Strategic Management

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Predicting Performance Through Business Strategy: The Mediating Role of Innovation's type in Small Hotel

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Abstract

Despite having a great advantage of potential natural resources and cultural resource, Kelantan tourism industry is still behind other states in Malaysia in terms of number of tourists visited and spend time in hotel, particularly in small's hotel. Previous literature shows that performance of the firms is related to the selection of strategy and innovation type. However, very little study has been done to determine the best combination of competitive strategy and type of innovation. Therefore, this study aims to explore the best match of strategy and type of innovation among small hotels in Kota Bharu. The data was collected through questionnaires, and employed SmartPLS3 for data analysis. Findings of this study noted that firstly cost leadership and differentiation are significantly related to incremental type of innovation and the activeness of innovation. Secondly, blue ocean strategy is not significantly related to any type of innovation and does not performance. The contributing factor to this is the readiness to implement value innovation which is the heart of the blue ocean strategy. These findings add to tourism and hospitality literature by quantitatively uncovering the match of competitive strategy to type of innovation and firm performance. Third finding is incremental innovation mediate the relationship between cost leadership strategy and performance as well as differentiation to performance, therefore this suggest that firms will achieve better productivity by focusing on incremental innovation. In contrast radical innovation is not mediates the relationship between blue ocean strategy and firm performance. The study contributes to the present pool of knowledge about the fitness of firm strategy and particular type of innovation to the performance of small's hotel business.

Keywords: Cost Leadership, Differentiation; Blue Ocean; Radical innovation; incremental innovation; Small Hotel strategy.

1 Introduction

Travel and tourism is one of the fastest growing sectors in the world and plays a key role in the development and competitiveness of many regions. In the past decade's travel and tourism and its enabling ecosystem have proven to be significant drivers of economic growth. World Economic Forum, in 2017 stated that the travel & tourism industry continues to make a real difference to the lives of millions of people by driving growth, creating jobs, reducing poverty and fostering development and tolerance. The industry contributed 10.2% of global GDP and generated 1 in 10 jobs on the planet in 2016. International arrivals followed suit, reaching 1.2 billion in 2016, 46 million more than in 2015. These promising figures are expected to continue increasing in the coming decade. Improved transport and communications systems that have reduced traveling time and costs, as well as the increasing number of social and business trips have accelerated the growth of tourism (Cunha & Cunha, 2005). The number tourist visited Malaysia 27 million in 2016. Malaysia is in ranking 26th according to the Tourism and Travel Competitiveness Index 2017. Malaysia still has big potential natural resources and cultural resources as an important driver of economic development, however Fernando and Long (2012) suggested that competitive advantage in tourism is no longer natural, but increasingly man-made, driven by information technology and innovation. It is not simply the stock of natural resources that will determine its share in the tourism market, but how they managed and integrated with other competencies to create the competitive advantage to the destination.

Porter (1990) suggest a model to answer the question about why some countries and industries are more successful than others in the global scale. Further he explained that a nation's competitiveness depends on the capacity of its industry to innovate and upgrade. Nations succeed in particular industries because their home environment is the most forward-looking, dynamic, and challenging. Furthermore Porter (1990) said that competitive industries are usually linked together through vertical (buyer-seller) or horizontal (common customers, technology, channels) relationships and promotes cluster. Developing these clusters will increase the speed of getting competitive advantage which depends on the ability of its firms in increasing the productivity, capacity for innovation and productivity growth that supports innovation and expands the cluster (Porter, 1990). In tourism industry clusters are generally composed of several layers, the leading industries, the supporting industries, and other actors such as transportation and service. Because members of the cluster are mutually dependent good performance by one can boost the success of the others, then the quality of a visitor's experience depends not only on the appeal of the primary attraction but also on the quality of supporting clusters such as hotel, restaurants, shopping outlets, and transportation facilities (Nordin, 2003).

During the past few years, there have been various studies, in tourism industry which suggest on raising the level of value creation and innovation to compete either domestically or internationally (Özer, Latif, Saruşik, & Ergün, 2012; Tajzadeh-Namin, 2012; Vanhove, 2011). Fernando and Long (2012) proposed a conceptual model of competitiveness in national and firm level, that brought an integrated approach using Porter (1990) diamond model and (Crouch & Ritchie, 2005) to measure competitive advantage related with tourism infrastructure (restaurants, hotels, events and attractions, transport etc.). Although

Fernando and Long (2012) model shows interaction between factors, it doesn't explain how value creation and innovation can be generated on firm's level. On the other hand, Walsh, Lynch, and Harrington (2010) propose a resource-based view and dynamic-capability approach, to theoretically explore how small tourism firms can manage and reconfigure their pool of resources through their innovative capabilities. In fact, there is lack of empirical study for both Walsh et al. (2010) and Fernando and Long (2012) models. As very limited research done especially on what strategy is best influence innovation, and how firms compete and at the same time cooperate with supporting actors in the ecosystem. Overall, there is a need for a theoretical framework that captures the cooperative and competitive strategy that drives innovation in tourism and travel industry. Addressing this need this study attempts to build a theoretical framework by drawing the strategy – innovation – performance relationship. The purpose of this study is to examine the impact of competitive strategy at firm-level on innovation and business performance in small hotel. (Ambrosini & Bowman, 2009; Fernando & Long, 2012; Walsh et al., 2010) calls for researchers and practitioner to conduct more empirical test to enable the concept of hotel competitiveness to be useful in the field of strategy management as a field of study. Therefore, it was proposed in the current study to investigate type of strategy, type of innovation practice, the strategy – performance linkage and the mediating effect of type of innovation among small hotel in Kota Bharu.

2 Literature Review

According to McGee and Sammut-Bonnici (2015) competitive strategy is the process of developing competitive advantage and earning above-average returns for stakeholders. Competitive advantage is achieved through the strategic management of resources, capabilities, and core competences, as well as the firm's responsiveness to opportunities and threats in the external environment (McGee & Sammut-Bonnici, 2015). Competitive strategy requires continuous adjustments and realignment to develop internal competences and to preempt changes in the external environment. According to Desyllas, Miozzo, Lee, and Miles (2017) all contrast competitive strategies focusing on minimizing costs (and maximizing efficiency) with those focusing on offering differentiated products or services. They also all see strategy implementation as requiring consistency across the full system of value-creating activities. Cost-oriented firms try to gain high market share so as to improve their bargaining power and exploit efficiency gains arising from economies of scale and scope. In contrast, differentiation-oriented firms compete by offering unique or leading-edge service products, or by tailoring their service offerings to meet the demands and secure the loyalty of a few highly valuable customer (Desyllas et al., 2017). Differentiation by service firms may involve offering leading-edge service-products to customers, but can also take other forms. Some firms focus on tailoring their service offerings to meet the demands of a few highly valuable customers, thus securing long-term loyalty. These firms tend to collaborate closely with high-end clients and to invest critical resources into idiosyncratic projects and relationships (Suddaby, Seidl, & Lê, 2013). A part of these two generic strategies, strategists create scenarios as possible futures hands to reduce these types of uncertainties and develop "blue ocean" strategies (Kim & Mauborgne, 2005). The key points are to create a current market strategy image that will allow the expansion of existing market boundaries and the discovery of common characteristics of noncustomers. The tool for realization is to find a new value curve using four steps that transform the current competitive model. Blue ocean strategy describes the success factor for pattern of organization is 'making the competition irrelevant'. It is a reconstructionist view from traditional competitive theories (Vinayan, Jayashree, & Marthandan, 2012). There have been many recent studies on empirical research, measurement tools and other aspects of Blue ocean strategies for example (Borgianni, Cascini, & Rotini, 2012; Shafiq, Tasmin, Takala, Qureshi, & Rashid, 2017) to explore the heart of blue ocean strategy: the value innovation.

According to Bilgihan, Okumus, "Khal" Nusair, and Joon-Wuk Kwun (2011), innovation refers to the continuous flow of new products and services, which are valued by the customer. Innovation is presented in various forms such as product/process, radical/incremental and administrative/technological. Different innovation types include administrative, technical, product and process innovations (Bilgihan et al., 2011). Administrative innovations are defined as those that occur in the administrative component and affect the social system of an organization. Administrative innovations include the introduction of new management systems, administrative processes, or staff development programs as well as the introduction of altered work assignments, authority relations, communication systems, or formal reward systems into the organization (Kam Sing Wong, 2013). Some examples of administrative innovations include total quality management, quality chambers, and ISO 9000. Such innovations emerge rarely compared to process or product innovations. Meyer and Subramaniam (2014) defines technical innovation broadly, as pertaining to different types of innovation. It consists of the equipment and methods of operations used to transform raw materials or information into products or services. Technical innovations pertain to products, services, and production process technology; they are related to basic work activities and can concern either product or process. Similarly, Cozzarin, Kim, and Koo (2017) define technological innovation as the process by which industry generates new and improved products and production processes. It includes activities ranging from the generation of an idea, research, development, and commercialization of the innovation to its diffusions throughout the economy in the form of new and improved products, processes, and services.

In marketing, the conventional meaning of the term innovation largely refers to new product-related breakthroughs. A product's degree of innovativeness can be determined by the product's newness to the firm that develops the product and to the industry within which the firm operates (Löfsten, 2014). Process innovation enhances the efficiency and the productivity of production activities, increases quality and reduces unit cost of production. Process innovation involves performing a work activity in a new, innovative way (Al-Sa'di, Abdallah, & Dahiyat, 2017). On the other hand, process innovation is creating valuable modifications in the process of generating the offerings, and service innovation is creating useful modifications in the service that customers use According to (Kaliappen & Hilman, 2017). Organizations that use process innovation aim at

producing innovative products and new products as well (Hassan, Shaukat, Nawaz, & Naz, 2013).

Innovations also differ in terms of radicalness. Baker, Sinkula, Grinstein, and Rosenzweig (2014) suggest that innovations differ only in terms of their radicalness which is defined as newness. Accordingly, innovations are, by definition, unique - one is rarely commensurable with another. They define innovative accomplishments very broadly to include any policy, structure, method or process, product or market opportunity that the manager of the innovating unit perceives to be new. Radicalness is an important outcome because organizations have to develop different capabilities to deliver incremental versus radical innovations (Jean, Chiou, & Sinkovics, 2016). Innovation radicalness refers to the extent to which an innovation differs from existing alternatives. Accordingly, firms are realizing its critical importance and are striving to develop radical innovative capabilities to stay ahead of the competition.

In the last few years researchers have been emphasizing the significance of frequency (Quintana, Olea, Abdallah, & Quintana, 2016). Innovation frequency, refers to how often organizations deliver new products to the market or how often they introduce process innovations in the organization (Lorenz, 2015). Organizations are trying to increase the frequency of their innovations to cope with shrinking product life cycles and increasing customer demands. The frequent changes in the market put greater pressure on organizations to innovate in order to maintain and improve on existing profitability levels (Lorenz, 2015). Due to the developments in information and communication technology, information about new technologies, applications, new research results, product performance, and customer experiences spread fast and products become outdated quickly increasing the pressure to develop new innovations in order to keep ahead of the competition game (Zastempowski & Przybylska, 2016)

2.1 Cost Leadership and Innovation

A cost leadership strategy is typically appropriate for efficient cost production, to be successful cost leaders, hotels need efficient internal abilities and cost reduction through the learning curve, tight cost, overhead cost control and cost minimization in several areas; service, sales, marketing and R&D. Firms are trying to achieve the cost advantage by producing at the lowest cost while seeking some combination of efficiency, low level overhead and high volume (Pereira- Moliner et al., 2015; Teeratansirikool, Siengthai, Badir, & Charoenngam, 2013). From the discussion above, this hypothesis was formulated:

H1: Cost leadership strategy has a positive relationship with innovation

2.2 Differentiation and Innovation

Kaliappen and Hilman (2017) agreed that differentiation strategy is generally appropriate for hotels that attempt to distinguish their offerings on the attributes of technology, location, skill and employees' experience. Hoteliers can attain differentiation advantage by involving in superior service offerings, included voicemail, and interactive guides that allow automation of the service delivery system, thus reducing the guest-communications workload of the front office and concierge staff and allowing time for a greater focus on other guest services (Bilgihan et al., 2011). Hotels that implement differentiation strategy often consider customers as their first priority. Customer loyalty and inimitable uniqueness will create sustainable competitive advantage. In fact, the differentiation strategy increases customers' interest in buying unique and quality offerings at a high price (Andrea, 2012). Based on the above arguments, the current study proposed the following hypothesis:

H2: Differentiation strategy has a positive relationship with innovation

2.3 Blue Ocean and Innovation

It is highlighted that there are differences between innovative and non-innovative firms as riskiness influence innovative capability positively (Bolisani & Bratianu, 2017). The need of organizations in hypercompetitive markets to innovate and communicate require to adopt specialized generic strategies to reach out to customers differently and to gain competitive advantage (Karabulut, 2015). Supportively, the primary purpose of an organization's existence is not only to exist but also to thrive. Despite the fact that both product and process innovation have a positive effect on business performance, the understanding of the external market conditions or characteristics under which these two different forms of innovation more or less beneficial is limited. Competitors are quickly able to copy innovations, product life cycles are becoming shorter and competitors from low wage countries have considerable cost and price advantages (Bolisani & Bratianu, 2017). Hence, companies consider business model innovation as an opportunity to build sustainable competitive advantage (Ezzia & Jarbouib, 2016). It is necessary to evaluate and compare the impact of different strategies on innovation performance. Successful innovation strategies could deliver superior performance as innovation delivers value to customers (Prajogo, 2016), that makes it mandatory to study relationship of blue ocean strategy and innovation performance. In light of above discussions this study proposed the following hypothesis:

H3: Blue ocean strategy has a positive relationship with type of innovation

2.4 Innovation and Performance

Innovation is widely seen as an important component of competitiveness that is embedded in the organizational structure, the production process, launched products, as well as marketing strategy within a company (Haryanto, Haryono, & Sawitri, 2017). (Hassan et al., 2013) further explained, the basic guideline to determine the activity of innovation at a company level is divided into four different types of innovation, namely: product innovation, process innovation, marketing innovation, and organizational innovation. Type of innovation as a whole has a positive impact on company's performance. A research conducted by (Eshlaghy & Maatofi, 2011) showed the important role of innovation that could make a positive contribution to

the performance of the company. The company's role in responding to the bumpy environment requires innovation, which automatically has a central role in reaching comparative excellence and highest performance. Although many researchers in the past have investigated the influence of innovation on organization performance, it seems the role of innovation needs to support the company's performance. Various authors show that innovation is essential to improving performance and that innovation comes into play in order to improve organizational performance (Cozzarin et al., 2017; Lu, Zhu, & Bao, 2015). Consequently, innovation performance is considered to have a direct effect on firm performance. Amores-Salvadó, Martín-de Castro, and Navas-López (2014) empirically analyze the moderating role of the green corporate image in the relationship between environmental product innovations and firm performance. The results show the importance of efficiently managing the green image of the firm. Based on the above researches, the following assumption has been made:

H4: Innovation has a positive relationship with small hotels' performance

2.5 *Strategy and Performance*

Valipour, Birjandi, and Honarbakhsh (2012) has the opinion that a certain product offered differently or the attribute of product is perceived differently compared to the product which is offered by the competitor, including in it, the price. This strategy requires the development of goods or unique services from unmatched by relying on customer loyalty to the brand. A company can be offered higher quality, performance or unique features that each of them can justify the higher prices. Valipour et al. (2012) argued that if companies' strategy is based on product differentiation strategy; the financial leverage, firm's size and financial leverage multiplication strategy variables, will have a direct link relationship with company's performance. Thus, if the company's strategy is based on product differentiation strategy, with increase in financial leverage, firm's size and financial leverage multiplication strategy; the performance will be increased. The financial leverage multiplication strategy variable has inversely relationship with company's performance. Porter (1985) developed a framework that outlines how firms might choose a business strategy in order to compete effectively. He argued that a firm must choose between competing as the lowest-cost producer in its industry (i.e., a cost leadership strategy) or competing by providing unique products in terms of quality, physical characteristics, or product related services (i.e., a product differentiation strategy). In addition, he emphasized that the essence of a firm's business strategy is its ability to deliberately choose a set of activities which will deliver a unique mix of values to its customers. The product has a distinctive variety when comparing with other companies in the same business, and respond customer needs and build lasting competitive advantage (Earsakul & Ussahawanitchakit, 2016). Therefore, in view of the above, the following hypothesis was advanced:

H6: Differentiation strategy has a positive relationship with small hotels' performance

Todd (2016) suggested that blue ocean strategy proving to be extremely successful in the larger businesses as founded in the research conducted by Kim and Mauborgne (2005a), affording long term sustainability and profitability, this researcher has found that the same strategies can be executed on a smaller scale, providing similar successes to the small business owner without the need to implement any red ocean strategies. Other researcher (Au & Tucker, 2018; Krause, 2012; Sanjeevan, 2016) also confirmed that blue ocean strategy is not limited to small organizations. High profitable and stable in the banking market. They have average threat from its competitors and also, they have excellent brand image and trust that is giving more benefits to them in the industry. Radulescu (2017) confirmed that a company to achieve commercial success needed to do something different, and so to stand out among the competition. Differentiation is expensive, time-consuming and functional differences are quickly copied. To obtain a significant competitive advantage adoption of blue ocean strategy is valuable in the idea of being first in a new market or be better than others in an existing market. Based on these arguments, the current study sought to put forward the following hypothesis:

H7: Differentiation strategy has a positive relationship with small hotels' performance

2.6 *Mediating role of Innovation*

The relationship between competitive strategy and firm performance has been repeatedly validated by many scholars. (Löfsten, 2014; Lu et al., 2015). There has been research to confirm that cost leadership positively relates to innovation (Amores-Salvadó et al., 2014; Cozzarin et al., 2017; Lu et al., 2015; Pereira-Moliner et al., 2015) express the positive relationship of innovation and performance, based on the above fact, the following is hypothesized:

H8a: Innovation positively mediates the relationship between cost leadership strategy and small hotels' performance

Kaliappen and Hilman (2017) agreed that differentiation strategy is generally appropriate for hotels that attempt to distinguish their offerings on the attributes of technology, location, skill and employees' experience. The same result from the study of (Andrea, 2012; Bilgihan et al., 2011; Hilman & Kaliappen, 2015). The supporting result of the study of Valipour et al. (2012) and Earsakul and Ussahawanitchakit (2016) argued that if companies' strategy is based on product differentiation strategy; the financial leverage, firm's size and financial leverage multiplication strategy variables, will have a direct link relationship with company's performance. Based on the above arguments, the current study proposed the following hypothesis:

H8b: Innovation positively mediates the relationship between differentiation strategy and small hotels' performance

The study from (Bolisani & Bratianu, 2017; Cliffe & McGrath, 2011; Ezzia & Jarbouib, 2016; Karabulut, 2015; Prajogo, 2016) confirmed that value innovation from blue ocean strategy positively relate to innovation, and other researcher

(Au & Tucker, 2018; Krause, 2012; Radulescu, 2017; Sanjeevan, 2016) were confirmed that blue ocean strategy positively relates to performance, therefore from the discussion above, this hypothesis was formulated:

H8c: Innovation positively mediates the relationship between blue ocean strategy and small hotels' performance.

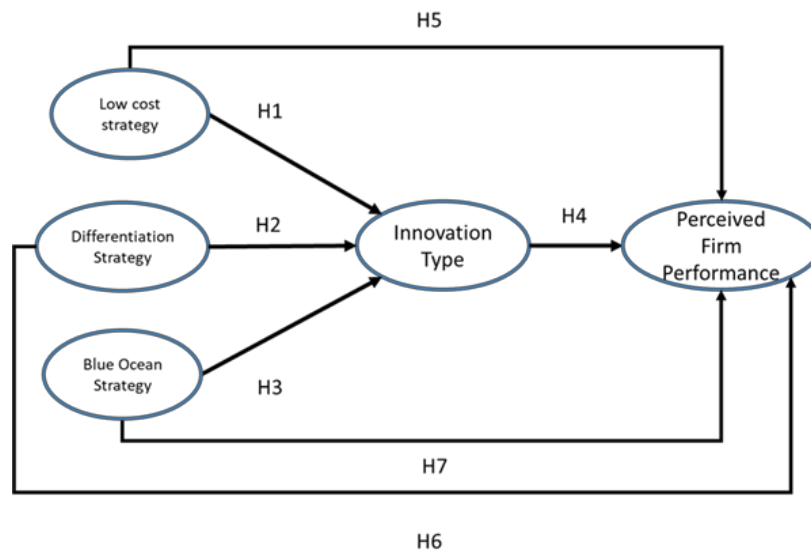


Figure 1 Research Framework

The research framework shown in Figure 1 represents the constructs of the study investigated, namely, the three competitive strategy dimensions as independent variables, hotel performance as the dependent variable, and innovation as the mediating variable at the eight hypotheses to be tested. The conceptual framework illustrates the relationships of firms' performance constructs that were bolstered by competitive strategy and innovation is shown in Figure 1

3 Methodology/Materials

A quantitative research approach, is used in the current study because its effective for scientific examination of hypothesis statements rather than understanding human behaviors and their environment (Bell, 2014). This research was conducted in a cross-sectional design and used probability simple random technique. To determine sample, minimum sample size requirement provided by Cohen (1992) was applied. Based on the table this study has number of arrows pointing at a construct in the model, then we need minimum 38 observations to detect R2 values of at least 0.50, with 5% probability error, for a statistical power of 80%. The population of small hotels in Kota Bharu was 55 and we manage to get 45 number of it as a sample of study. We used questionnaire to measure competitive strategy, innovativeness, and perceived business performance. Cooperative strategy we use three items measurement for cluster cooperative strategy derived from (Murphy, Arenas, & Batista, 2015). In particular, three items to evaluate cost leadership strategy five items were employed to measure differentiation, and three items to evaluate blue ocean strategy. Innovation was measured using the scale adopted from (Andrea, 2012) consist of nine items questionnaires of human dimension and organizational dimension. Measurement of business performance contained nine items focuses on sales growth market share profits, the level of customer satisfaction, the level of customer loyalty (Santos-Vijande et al., 2012). All items will be measured in a five-point Likert scale. Data analysis was started by evaluating survey responses and respondents' profiles. This was followed by data screening which involved dealing with issues such as missing data, outliers, normality, using SPSS version 22.0. Next, the statistics descriptive step to describe the central tendency and variation on of the variables. Means, range, standard deviation, and variance was evaluated. On the verification model, first measurement model was evaluated using internal consistency reliabilities, convergent validity and discriminant validity which were calculated using SmartPLS 3 (F. Hair Jr et al., 2014). Finally, bootstrapping was used to assess the path coefficients' significance. The minimum number of 5000 bootstrap samples must be at least larger than the number of valid observations in the original data set were used (F. Hair Jr et al., 2014; Garson, 2016). After that, as recommended by F. Hair Jr et al. (2014) the relationships results were analyzed using critical t-values for a 1-tailed test of 1.96 at a level of significance of 0.05

4 Results and Findings

The most strategy used in small hotels in Kota Bharu is low cot strategy (3.29) followed by differentiation (3.16) and blue ocean strategy (3.07). Active innovation and incremental innovation are among the preferred innovation they practice over the radical innovation, showing by the means value of (3.7), (3.3) and (3.1).

4.1 Evaluation of Measurement Model

Evaluation of the measurement model includes internal consistency (Cronbach's alpha, composite reliability), convergent validity (indicator reliability, average variance extracted (Jing & Avery) and discriminant validity (Cross Loadings, Fornell-Larcker criterion, HTMT) (Hair Jr et al., 2014). The result shows that the construct measure are reliable and valid, Cronbach's Alpha and composite reliability for all variable are above 0.7 respectively indicating internal consistency and reliability. For convergent validity yield an AVE of 0.705, providing support for convergent validity as shown in Table 1.

Table1. Construct Validity and Reliability

Latent Variable	Indicator	Internal Consistency Reliability			Convergent Validity	
		Cronbach's alpha	rho_A	Composite Reliability	Loadings	AVE
		>0.7	>0.7	0.6 – 0.9	>0.7	>0.5
LCOS	LCOS-1	0.929	0.934	0.95	0.907	0.825
	LCOS-2				0.887	
	LCOS-3				0.908	
	LCOS-4				0.93	
DIFF	DIFF-1	0.9	0.913	0.931	0.884	0.772
	DIFF-2				0.937	
	DIFF-3				0.808	
	DIFF-4				0.88	
BOSS	BOS-1	0.751	0.752	0.857	0.826	0.666
	BOS-2				0.778	
	BOS-3				0.843	
INNO	ACTI	0.929	0.920	0.949	0.928	0.86
	INCR				0.928	
	RADI				0.926	
PERF	CUST	0.928	0.928	0.949	0.903	0.822
	FINA				0.917	
	PROC				0.883	
	LEAR				0.923	

High outer loading in the construct indicate the associated indicators have much in common, which is captured by the construct. AVE is defined as a grand mean value of the square loadings of the indicators associated with the construct. An AVE value of 0.5 or higher indicate that on average more variance remains in the error of the items, than in the variance explained by the construct. constructs' convergent validity criterion are outer loading and average variance extracted (AVE). Construct reliability and convergent validity's threshold values are all should be greater than 0.7, except for AVE is 0.50 (F. Hair Jr, Sarstedt, Hopkins, & G. Kuppelwieser, 2014). Table 4-6 shows that outer loadings for all constructs in the conceptual model > 0.708 and AVE for all construct higher than 0.5, therefore construct reliability and convergent validity is fulfilled. Fornell-Larcker's criterion was established providing evidence for the constructs' discriminant validity, which compares and ensures that the variables' square root is greater than all latent variable correlations. Cross loading criterion was checked and that all indicator's outer loading on the associated construct are greater than all of its loadings on other constructs, therefore discriminant validity was fulfilled.

4.2 Evaluation of Structural Model

The structural model of the study as in Figure 2, was evaluated for its model's predictive capabilities and construct's relationship, using a set of criterion: collinearity, path coefficient, coefficient of determination (R2 Value), effect size (f2), and blind folding predictive relevant (Q2) was employed for theory development and explanation of prediction of the construct. (Hair Jr et al., 2014).

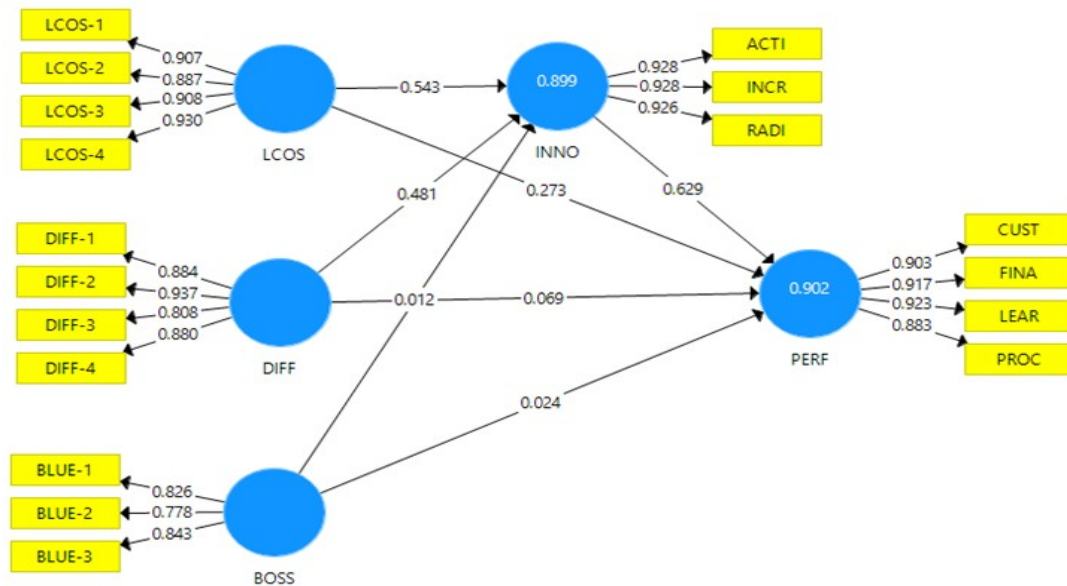


Figure 1. Result of evaluation of structural model

Assessment of Collinearity is shown in Table 2. According to Hair et al. (2014) VIF above 5, indicative that there were collinearity issues. As illustrated in Table 2 all VIF value are below 5, thus predictor construct doesn't have collinearity problem.

Table2. Collinearity Assessment

	INNO	PERF
LCOS	2.049	4.967
DIFF	1.982	4.265
BOSS	1.345	1.346
INNO		4.883

4.3 Hypothesis Testing

To test the hypothesized relationships, we assessed the path coefficients' significance by means of bootstrapping computations, the t-values, p values and confidence interval bias corrected. Data was run in bootstrap resampling procedure in SmartPLS3 with 5000 subsamples, the result of the hypothesis testing was summarized in Table3.

Table3. Path coefficient, T-Values, P-Values and Confidence Intervals

Relationship between construct	Path Coefficient	t-value	P value	Confidence Interval bias corrected		Finding
				2.5%	97.5%	
LCOS -> INNO	0.543	6.496	0.000	0.371	0.693	H1 Supported
DIFF -> INNO	0.481	5.612	0.000	0.298	0.634	H2 supported
BOSS -> INNO	0.012	0.212	0.832	-0.116	0.114	H3 not supported
INNO -> PERF	0.629	4.662	0.000	0.347	0.873	H4 Supported
LCOS -> PERF	0.273	3.029	0.002	0.087	0.438	H5 Supported
DIFF -> PERF	0.069	0.772	0.440	-0.094	0.257	H6 not supported
BOSS -> PERF	0.024	0.417	0.677	-0.086	0.142	H7 not supported

Note: *Significant at 0.05(1-tailed)

As can be seen in Table 3 low cost strategy has a strong positive impact to innovation and performance, shown by high value of path coefficient and t value >1.96 and p value <0.05 with bootstrapping of 95% confident interval doesn't include the value 0, indicate that Hypothesis 1 and Hypothesis 5 is supported. Differentiation strategy positively and significantly relate to innovation, showed by the value of path coefficient (0.481), and significance at t-stats and p-value (5.612, 0.000), indicate that Hypothesis 2 is supported.

However, the result for the relationship between differentiation and small hotel performance doesn't support the Hypothesis 6. Blue ocean strategy has no relationship to both innovation and performance, showed by the p value and confidence interval bias corrected at 95% include value 0, indicate that Hypothesis 3 and 7 is not supported. Finally, we tested the hypothesis of mediating role of innovation on the relationship between cost leadership, differentiation, Blue Ocean and performance. The specific indirect effect and total effect of the mediating variables can be seen in Table 4.

Table4. Bootstrapping report for Indirect and direct relationship

Indirect relationship	Original Sample	T Statistics	P Values	2.5%	97.5 %	Finding
LCOS → INNO → PERF	0.342	3.548	0.000	0.180	0.567	H8a Supported
DIFF → INNO → PERF	0.302	3.823	0.000	0.159	0.470	H8b Supported
BOSS → INNO → PERF	0.008	0.209	0.834	-0.075	0.074	H8c Not Supported

Note: *Significant at 0.05(1-tailed)

The indirect relationship for LCOS→ INNO→ PERF is positive and significant with t value > 1.96 and p value < 0.005, and confidence interval bias corrected at 95% doesn't include 0, therefore the indirect relationship is significant, indicate H8a is supported. Innovativeness complementary and partially mediate the relationship between low cost strategy and performance. Variance accounted for (VAF) innovation in the relationship between low cost strategy and performance is 56%. Therefore, Hypothesis 8a is supported.

The indirect relationship for DIFF→ INNO→ PERF is positive and significant with t value > 1.96 and p value < 0.005, and confidence interval bias corrected at 95% doesn't include 0, therefore the indirect relationship is significant, indicate H8b is supported. Since the direct relationship between differentiation and performance is not significant, therefore Innovation mediates the relationship between differentiation and performance.

The indirect relationship for BOSS→ INNO→ PERF is positive and not significant with t value > 1.96 and p value > 0.005, and confidence interval bias corrected at 95% include 0, therefore the indirect relationship is not significant, and direct relationship between blue ocean and performance also not significant, indicate H8c is not supported.

Since the direct relationship between differentiation and performance is not significant, and indirect effect BOSS→ INNO→ PERF is not significant, therefore Innovation is not mediate the relationship between blue ocean and performance.

4.4 Discussion and Research Implication

The first objective of the study was to examine the relationship between strategy to perceived firm performance and the mediating role of innovation in small hotel. The empirical results provide support to three out of six hypothesized relationships as depicted in Table 7. Cost leadership strategy is significantly related to type of innovation with strong correlation (0.543), therefore H1 is supported. These findings highlight the importance of the practice operational efficiency as innovation in the small hotel. Consistent with (Lee, Abdul-Rahman, & Wang, 2014; Tajuddin, Ibrahım, & Ismail, 2015) findings the analysis revealed a significant and positive relation between cost leadership strategy and innovation.

Differentiation strategy is significantly related to type of innovation with lower path coefficient (0.481), indicate that differentiation strategy was not chosen as first option to compete in small hotel business, since it needs more focus on the process and product innovation, involving investment in R&D and promotional activities to stand out of crowd and gaining premium payment from traveler. Blue ocean strategy has no support for both innovation and perceived firm performance, therefore H3 is supported. This indicates that value innovation by doing innovation in the operation site and at the same time improving product to be the leader in the market was not a choice in small hotel strategy. This can be explained that the blue ocean strategy need leadership and readiness of the company to implement it.

As expected, type of innovation strongly and significantly related to perceived firms' performance. This is consistent with (Kuo & Kuo, 2010; Suárez, AbouRizk, & Karapetrovic, 2014; Zavadskas, Vilutienė, Turskis, & Šaparauskas, 2014) findings and suggest that incremental and active innovation is the highest loading factor of type of innovation in enhancing firm performance. The findings highlight again the role of the hotel owner to establish an active and open culture of innovation atmosphere that committed in facilitating small incremental activities in the small hotel to achieve performance.

The second objective of the study was to investigate the mediating role of innovation in the relationship between strategy and perceived performance. The results revealed that innovation mediates the relationship between strategy and performance. The findings support the study of (Lee et al., 2014). Surprisingly active and incremental innovation does not mediate blue ocean strategy and perceived firm performance. A further possible explanation for this could be that as a small hotel with little cooperation with other hotels or tourism ecosystem (travel agent, transportation, residential, café or restaurant), need extra effort for leader to create a culture of creativity, trust, openness and collaboration in the company and with external interested parties. The practical significance of these findings suggests that managers and decision makers aiming to maximizing hotel performance, should dedicate their resources and attention to adoption of innovation advancement in their process to achieve effectiveness and cost leadership strategy to compete to another hotel.

The findings indicate choosing blue ocean strategy in small hotel to be less appropriate. The findings also suggest that organizations striving to achieve better performance through innovation should focus their energies on creating small incremental on novelty and differentiate process and product and start practice cluster cooperation (Au & Tucker, 2018; Hansmann, 2018).

Another criticism of blue ocean strategy is the lack of empirical evidence and adoption. In a 2014 online survey given to 498 managers, 60% had not heard of BOS ((Tassabehji & Isherwood, 2014)). Of those that had heard of blue ocean strategy, only 20% stated they could apply the methodology within their current job (Tassabehji & Isherwood, 2014).

It could be argued ease of use may be a reason blue ocean strategy has not been more widely adopted by firms looking to make strategic shifts. A common criticism is the tools included in blue ocean strategy are not as readily usable, such as a strength- weakness-opportunity threat (SWOT) graph. However, managers and implementers with background knowledge of blue ocean strategy are likely to use the comprehensive list of its strategic tools, such as the strategy canvas and buyer utility map (Tassabehji & Isherwood, 2014). It can be argued that simplicity equates to usability for the average manager looking to develop strategy.

5 Conclusion

The study is the first study that focus on matching the combination between type of competitive strategy chosen and innovation type, and it has contributed to the literature and body of knowledge in three ways. First, the results suggest a new theory that cost leadership strategy and differentiation strategy are significantly relate to incremental and activeness of innovation. Second, blue ocean strategy is not significantly related to innovation and perceived performance in small firms. The contributing factor to this is the readiness of R&D and culture to implement value innovation. These findings add to the hotel and tourism literature by quantitatively uncovering the significance of competitive strategy to type of innovation and firm perceived performance. Third, innovation type mediate the relationship between cost leadership strategy and performance as well as differentiation to performance. This suggest that firms will achieve better productivity by focusing on small incremental innovation either in operation or in the product or service they offer to traveler. In contrast radical innovation is not mediates the relationship between blue ocean strategy and firm performance.

We acknowledge several limitations inherent in this study, which warrant future research. The first limitation is is related to the sample bias that may affect the generalization of the findings. The study covers only a small number of small hotels in Kota Bharu instead of whole Malaysia. The second limitation is there is no definition about small hotel, therefore our sampling related to the star rating hotel as population which is the three star and below and not based on number of employees. For further research we call for research using multi-dimensional of innovation construct to reflect different effects to performance. A comparison to cooperative strategy could be explored as well.

Future research can also be undertaken to identify problems and areas of improvement, which can be used by the relevant government agencies to formulate policies to ensure the survival of small hotel in Kota Bharu and Kelantan. Realizing the importance of tourism and hospitality sector in Malaysia, government agencies should take initiative to provide cluster cooperation and increasing the level of service and innovation in order to attract more tourism come to Kelantan.

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