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Research paper

Predictors of Superior Firm Performance: a Conceptual Model of Tourism Small Medium Enterprises in Saudi Arabia

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Abstract

Deriving from previous literatures, the theories of Resource-based View and Dynamic Capability was used in this study to propose a model that examines the predictors of the performance of Small and Medium Enterprises (SMEs). Accordingly, it will examine the influence of corporate management strategy on the performance of SMEs. It will analyze the extent to which innovative dynamic capabilities would enhance the relationship between corporate management strategy and performance of SMEs. It will also examine the extent innovation leadership serves as the moderator factor on the link between corporate management strategy and performance of SMEs. Finally, this paper intends to recommend a model of performance management system for the performance of tourism SMEs in Saudi Arabia. The study will employ a quantitative approach among selected tourism SMEs in Saudi Arabia. SPSS and AMOS (SEM) will be used to analyse the data obtained. Findings from this study will serve as a guideline for policy and decision makers in both private and public organizations.

Keywords: *Corporate management strategy; innovative dynamic capability; leadership and performance.*

1. Introduction

World economic depression and uncertainty have greatly affected the landscape of business performance among most firms globally (1). This has caused some firms to review and revise their business strategies to ensure survival. Business performance has been widely discussed and researched by scholars and becomes the main attention of many practitioners due to its tremendous impact on the sustainability of the firms. The importance of this topic is also reflected in the pervasive use of organizational performance studies as a dependent variable (2). This is also due to the difference in performance among of the business firms (1). Continuous efforts and research on firm performance imply that this topic has been the concern of many parties, especially scholars and practitioners. Apart from that, most firms also aim to improve business performance to remain competitive and sustainable. Firm performance is a result from and being linked with a series of contributing factors such as organizational, internal and external environmental factors (2), motivation, environment and organizational capacity (3), organizational strategy (4), human capital or human resources (5), strategic alignment (6), as well as leadership and innovation leadership (7-9).

Research on firm performance has been widely rooted from Resource-based View (RBV) theory, which suggests that the performance of a firm is influenced by tangible and intangible resources (10). Samad (8) argued that understanding the crux thrusts of firm performance to be the key focus of research in organizations. Theories of strategic management and RBV have also emphasized the vital role of intangible factor such as corporate management strategy as efforts in attaining superior organization performance and competitive advantage (10). This conceptual paper proposes a study that will examine the effects of corporate management strategy on performance of tourism SMEs. However, scholars have argued that the performance of firms would not be fully achieved without considering other driving factors that could propel superior performance (11). Researchers have addressed this issue by identifying the salient features of the SMEs performance and developing several strategies in order to create a synergy for better performance of the SMEs (12, 13). Further, most studies related to SMEs performance were linked to strategic related factors (3).Limited efforts have been ventured into the study of other intangible factors such as mediating factor of dynamic capability and moderating factor of innovation leadership on the performance of SMEs.

This study attempts to develop a model of SMEs performance that integrates innovative dynamic capability as a mediating factor and innovation leadership as a moderating factor on the relationship between corporate management strategy and SMEs performance in the setting of the tourism industry in Saudi Arabia. Tourism in Saudi Arabia has emerged as the second highest contributor to the Gross Domestic Product (GDP) growth of the nation, with figures up to USD 21.33 billion in 2016 (14). Vision 2030 has also earmarked tourism industry as the main agenda of economy diversification strategy with the view of reducing dependence on oil. Whereas most previous studies have paid more attention on the linear impact of corporate management strategy on performance of companies this study proposes an integrative model that combines the mediating variable of innovative dynamic capability and the moderating factor of innovation leadership. Furthermore, such integrative model is insufficiently understood and explored in tourism SMEs. This model would inevitably bridge this gap by providing a more comprehensive performance model for tourism SMEs in Saudi Arabia. The expected findings from this study would presumably spur the tourism industry and the SMEs towards achieving superior performance that will contribute to the GDP of Saudi Arabia. In conclusion since the theoretical frame-

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work of the SMEs performance has not yet been fully developed, undoubtedly the influence of corporate management strategy along with the integration of dynamic capability and innovation leadership on the SMEs performance would be a new contribution and an enhance to the classical strategic management theory.

2. Literature Review

2.1. Firm Performance

The performance of firms has been addressed differently by various researchers, and apart from the multi-dimensional nature of the firm performance concept, the performance management literature also suffers from concentrating too much on finding appropriate performance measures due to the variety of concepts and interpretations(15). However, Barney and Clark (10) linked organizational performance in terms of the value created by an organization using its productive assets or resources in comparison with the value that the owners of these assets expect to obtain. Florian (16) highlighted that the performance of an organization has been commonly measured based on financial performance, e.g. return on investment (ROI) or shareholder returns. Within the related management strategies, firm performance has been measured in both financial and non-financial aspects, e.g. customer satisfaction, production and service, staff competence, and resource utilization (17). Contemporary approaches to performance measurement include intangible dimensions, such as public image and perception, attrition, skills levels, new value streams, and competitive advantage (18). Competitive advantage, which relates to the ability of companies to create economic values when several competing organizations are also engaging in similar actions, has also been used as an indicator of firm performance. It is often used with organizational performance synonymously. However, the measure of value solely based on financial aspect, which is common among tourism and hotel SMEs, could lead to numerical manipulations (18). Hence, this study proposes the performance of tourism SMEs to be measured from both financial and non-financial perspectives. Further, various factors have been found to influence the performance of SMEs. This paper highlights the influence of corporate management strategy, the mediating factor of innovative dynamic capability, and the moderating factor of innovation leadership on the performance of SMEs in Saudi Arabia.

2.2. Determinants of Firm Performance

Hansen and Wernerfelt (19) suggested two major streams of research in business policy literature that relate to the predictors of organizational performance. Firstly, the stream is based on economic tradition, which emphasizes the importance of external market factors in determining organizational performance. Secondly, it is built on behavioural and sociological paradigms and organizational factors and their 'fit' within the environment as the major determinant of success. Behavioural and sociological paradigms have focused the predictors of organizational performance based on organizational factors such as human resources policies, organizational culture, organizational climate, and leadership styles.(4) suggested a model of performance based on economic considerations, namely the characteristics of the industry in which the organization competes, the position of an organization relative to its competitors, and the resource quality of the firms. Aziz and Samad (12) suggested that corporate management strategy is vital for firm performance, particularly in the service industry. This is in line with the strategic management theory that highlights the importance of strategy in formulation, implementation, and evaluation (20). The service industry, including hotel SMEs could achieve desired performance through corporate management strategy and innovative dynamic capability based on the premise of innovativeness (8), innovation leadership (9), framework of RBV (10), and Dynamic Capability View (21-23).

2.3. Corporate Management Strategy, Innovative Dynamic Capability, and Firm Performance

Increasing concerns among the public towards corporate management strategy, innovative dynamic capability, and leadership have attracted great attention among researchers and practitioners in service industries, including tourism (8, 24). Previous research proposed that the performance of firms will improve through effective corporate management strategy, innovation dynamic capability, and leadership, all of which are key factors in the survival and competitiveness of the hotel and tourism businesses (12). Typical business organizations usually consider three levels of strategies: 1) corporate or organizational level, 2) business level strategy, and 3) operational strategies(25). The strategy of a firm forms a comprehensive master plan that guides an organization to achieve its mission and objectives by encompassing formulation, implementation, and evaluation. Corporate management strategies have been defined and measured differently by various firms to achieve desirable performance. This paper suggests corporate management strategy in terms of environmental approach, which constitutes internal and external orientations (26), 2001), and management practices (27). In the field of strategic management, there have been studies that described corporate management approaches to environmental aspects, environmental management systems or practices, and their influence on strategy and performance (1, 3). Henri and Journeault (28) argued that the increased demands for environmental effectiveness from different stakeholders have led organizations to integrate environmental factors into their corporate management systems. This integration, termed environmental control is the formalized procedures and systems that use financial and ecological (environmental) information to maintain or alter patterns in environmental activities.
(1) opined that management, environmental variables and internal resources are among the major factors in entrepreneurial strategic orientation that will influence firm performance. In addition, SMEs should be able to adopt innovative capabilities to ensure business sustainability. This can be realized by having a dynamic environment for dynamic capabilities (24). Dynamic innovative capability would help the firms to configure complex resources in the form of capabilities (22). Dynamic capabilities in the innovation of service sectors such as tourism and hotel SMEs relate to the ability in implementing creative ideas to solve problems and create opportunities. The role of innovation in the adaptation of continuous change in this sector needs to be emphasized (29). This suggests that corporate management strategy would be realized if it is enhanced by innovative dynamic capability. Thus innovation is vital for corporate management strategy and firm performance relationship. The capability level of innovation, in terms of technology, human capital and organizational factors are considered as sources of competitive advantage that would help improve firm performance (8). Furthermore, it has also been emphasized as one of the important factors and strategies to ensure the survival of firms and SMEs in facing global challenges.

2.4. Leadership and Firm Performance

Tourism SMEs such as hoteliers and travel agencies are key players of the tourism industry that would always operate in unpredictable situations. Globally, such businesses are exposed to various risks of interruptions such as economic volatility, political instability, terrorism, and health pandemics (30). The roles of these companies are not only to create values for consumers and investors, but also the ability to combine a variety of resources including human and technology. Besides macro-economic cycles and trends in consumerism, the influence of parallel sectors could affect their performance, e.g. airlines and seasonal travel demands

as well as product innovation and development pipelines(30). (30) highlighted the importance of effective business leaders in the tourism industry to understand and manage the unpredictable situations and the impacts of different shocks in industrial operations, as well as in developing the tools required to manage the consequences. Thus, tourism SMEs require effective leadership to lead the industry towards performance excellence. Furthermore, innovative leadership is important for the survival of organizations (8, 9, 31). Studies have indicated that this factor has substantially influenced the performance of the service industry.

2.5. Underlying Theories

2.5.1. Resource-Based View

Grounded from Resource-based View (RBV) and Dynamic Capability View (DCV) theories, this paper proposes a performance model for SMEs in Saudi Arabia. RBV refers to internal resources of organizations or firms that can either be tangible or intangible (10)**.** Tangible resources are the resources or assets that are possessed by the firms in physical form, e.g. financial reserves, and buildings**.** Examples of intangible resources include technology, human capital, image, strategy orientation, brand reputation and intellectual property, in which reputation and strategy are unique to each firm. Not only are they required for a long period, but they are also difficult to be replicated by other competitors. Therefore, such resources provide a huge advantage to the firm in the long run and are also considered as the main source of competitive advantage.

There are a variety of assets in the tourism industry such as tourist attractions, restaurants, hotels, and other forms of accommodations. For these resources to gain competitive advantage, it should be: a) valuable, b) rare, c) imperfectly imitable, and d) not easily substituted. RBV explains and predicts the inability of firms to gain competitive advantage and secure high performance (10). Further, Das and Teng (32) opined that the idea of RBV was based on how competitive advantage could be secured through the ability of companies to manage internal resources. The assumption in RBV suggests that the ownership of these assets is insufficient to deliver sustained competitive advantage, unless the dynamic capabilities are able to leverage the resources (22). However, RBV has been criticised as conceptually vague, redundant and focuses less on the manner in which the resources could contribute towards competitive advantage (22). As a result, the theory of DCV was postulated and elaborated as an enhancement of RBV (21).

2.5.2. Dynamic Capability View

Since RBV posits criticisms due to its inadequacy in justifying the capability of some firms to gain competitive advantage in rapid change of environment, Helfat, Finkelstein (24) suggested that RBV should be integrated with dynamic capabilities. The theory postulates that in order to achieve competitive advantage, the capabilities of company (in new products and processes) should be transformed and re-invented. Dutta, Narasimhan (33) noted that dynamic capabilities act as the transformational process of resources that will be transformed into the output of the organization. Eisenhardt and Martin (22) postulated that dynamic capability is a part of the efforts of the firm to match and create new market change via integration, re-configuration and release of valuable resources. It involves the processes of re-configuring resources and operation routines of a particular organization.

DCV explains how competitiveness can be attained. Teece (23) developed a DCV model that suggested three means to achieve competitive advantage. Firstly, competitive advantage could be attained through processes which refer to activities done internally within an organization. Secondly, competitive advantage through position, which indicates the types of relevant assets in organizations, and thirdly, through paths that relate to the strategic direction of an organization. This model also emphasized the importance of firm responsiveness, coordination, and competence to gain competitive advantage. Responsiveness is highly relevant in the context of tourism SMEs in Saudi Arabia, as this industry must react positively towards market dynamics and towards the need for speedy product innovation. Accordingly, achieving success and gaining competitive advantage necessitate these SMEs to coordinate and re-deploy internal and external competences. This is parallel to the dynamic concept as the capacity to renew competence in facing uncertainties in the business environment, critical market situations and unpredictable competitions (23). Teece (23) urged that these capabilities play key roles in strategic management such as in adapting, integrating, and re-configuring internal and external resources, as well as functional competences to face with a rapidly evolving environment. Further, specific competences can be gained through business processes, market positions, and opportunities or paths in the firm which serve as the foundation for dynamic capabilities determination within the firm. Rooting from DCV, it can be inferred that the competences and capabilities of tourism SMEs in Saudi Arabia in terms of values, cultures and organizational experiences could not be easily traded in the market. This suggests the competences and capabilities should be built within the SMEs, which require continuous proper planning, management and investment.

Based on the above arguments and the notion of DCV by Teece (23), it can be implied that in terms of process, the tourism SMEs in Saudi Arabia should be able to coordinate, learn, and reconfigure their methods of operations. In terms of position, they should prepare specific budget or allocation for technology, intellectual capital property, complementary assets, customers, and external linkages, e.g. with suppliers. Meanwhile, the path relates to strategic alternatives that the SMEs have, which also refers to their path dependencies and technological opportunities. It is assumed that the way SMEs shape the process with the available position of assets and in the form of path will explain and define the essence of dynamic capabilities and competitive advantage of SMEs in Saudi Arabia.

DCV theory has attracted interests from many scholars. For example, Helfat, Finkelstein (24) argued that the idea of this theory proposed by Teece (23) may include organizational and managerial processes to identify the needs and opportunities for change and to achieve the change itself. With this notion, Helfat, Finkelstein (24) suggested managerial capabilities to include three constructs, namely managerial human capital, managerial social capital, and managerial cognition. These premises are relevant due to the decisions made by managers, in which different organizational resources and capabilities could lead to varied level of organizational performance. Other scholars such as Wang and Ahmed (21) have added three factors to the DCV concept that reflect the common features of dynamic capabilities in a firm, namely adaptive capability, absorptive capability, and innovative capability. These ideas were assumed to be able to avoid confusion on how resources and capabilities could be applied to sustain organizational performance in a long term. When linking these concepts to the tourism SMEs in Saudi Arabia, adaptive capability may refer to the capability of the SMEs to secure advantage from the opportunities present in the market. As for the absorptive capability, it relates to the ability of SMEs to identify and apply external sources such as information for business purposes. On the other hand, innovative capability focuses on the ability of SMEs to develop new products, ideas, markets, and innovations. On another note, Ambrosini, Bowman (34) postulated internal and external factors in DCV which serve as drivers and inhibitors of dynamic capability. Inferring from these concepts, this paper relates the external factors in the context of tourism SMEs in Saudi Arabia with the characteristics of market and history of the firms, enabling them to predict and make decisions within the uncertainties in the market. As for the internal factor, the SMEs need to link with existing intellectual capital in terms of managerial behaviour, social capital and trust as the basis for the ability of the organization to develop innovative dynamic capability. Interestingly,

Eriksson (35) has suggested that the development of sustainable dynamic capability could also be affected by internal antecedents such as structural and social factors and external antecedents such as environment, network, and relationship influence.

Preceding discussions and arguments provide solid ground on the importance of innovative dynamic capability to help improve the performance of tourism SMEs in Saudi Arabia. Moreover, these capabilities are considered as the main driver for innovation of products and processing systems (36). This includes components of capability and substantive capabilities. Substative capabilities denote to the ability of a firm to make changes, e.g. in the operation and processes of new output development. Capability refers to the ability of firms to create new products that have substantive capabilities. Meanwhile, dynamic capabilities refer to the ability of firm to reform the new products. Most researchers agree that innovation in management is one of the dynamic capabilities that could be capitalized by a firm. Hence, dynamic innovation capability is important towards achieving high performance of SMEs.

In conclusion, both RBV and DCV theories provide a strong foundation to explain the framework of this study. RBV helps to understand how organizations create and sustain competitive advantage, and along with DCV, serves as mechanisms to attain competitive advantage and superior business performances through process, position and path or opportunities (23) as well as innovative capability (21). Innovative dynamic capabilities are perceived as the driver of resource creation to achieve competitive advantage, and as a tool to manipulate resource configurations (22). They are the enabling factors that help firms to create, deploy, and protect intangible and tangible assets (23). Studies on the influence of dynamic capability to enhance the link between corporate management strategy and superior firm performance have been the focus of many scholars. This suggests that innovative dynamic capability would serve as an important factor in enhancing the relationship between corporate management strategy and firm performance.

Service-based industries such as tourism SMEs are very heterogeneous with a great variety of interesting and complex innovative activities (37). In a dynamic environment, these SMEs need to gain competitive advantage. The internal processes and routines will act as enablers to renew and change their capabilities as responses towards environmental changes, which will help firms to deliver new and innovative products and services continuously (23). Thus, the capacity to innovate substantially contributes to the competitive advantage of an organization (12). The assumption is that corporate management strategic resources will enhance the performance of SMEs by innovative dynamic capability to achieve stellar firm performance.

In addition, as postulated in DCV, competence has been highlighted as an important factor to gain competitive advantage (23). Meanwhile, Helfat, Finkelstein (24) suggested managerial human capital, managerial social capital, and managerial cognition as key factors to achieve change and attain a desirable firm performance. It is consistent with the factors of managerial behaviour, social capital and trust to develop innovative dynamic capability and firm performance, as suggested by Samad (8) and Samad (11). These stress the importance of having capable and competent leaders so that tourism SMEs in Saudi Arabia could achieve superior performance and propel them into greater heights. With this notion, this study proposes innovation leadership as a moderating factor on the relationship between corporate management strategy and the performance of tourism SMEs. Accordingly, it is assumed that the relationship between corporate strategic management and the performance of hotel SMEs in Saudi Arabia is contingent upon the existence of innovation leadership.

Based on the preceding discussions, the authors propose the following hypotheses:

H1: A significant positive relationship exists between the higher level of corporate management strategy and the performance of tourism SMEs.

H2: Innovative dynamic capability will mediate the relationship between corporate management strategy and the performance of tourism SMEs.

H2: Innovation leadership will moderate the relationship between corporate management strategy and the performance of tourism SMEs.

2.5.3. Tourism SME Performance Model

Deriving from the previous theoretical foundation, this paper presents an integrated conceptual model as shown in Figure 1. It focuses on the role of corporate management strategy, innovative dynamic capability, and innovation leadership in attaining superior performance for tourism SMEs.

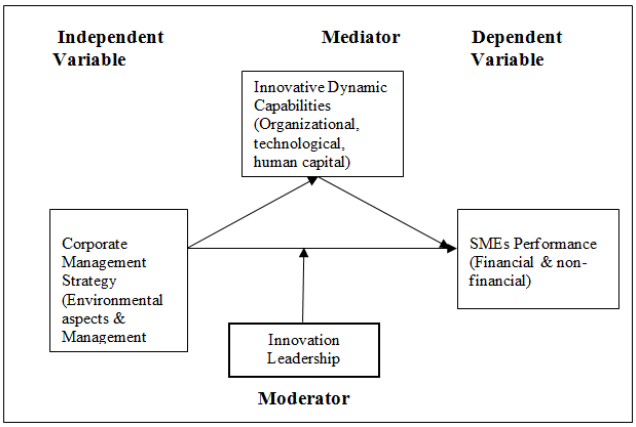

Fig. 1: Tourism SMEs Performance Model

The SME performance model in this paper is drawn from the RBV (10) and DVC (24) theories, and is supported by previous empirical research. The unique, imitable and not substitutable resources would help secure competitive advantage and superior firm performance (38). The competence and performance of tourism SMEs will improve significantly if the corporate management strategy is harnessed with innovation, ultimately inducing superior competitive advantage. Thus, continuous innovation is necessary to sustain barriers to imitation (39). Hence, the impact of innovation in creating superior competitive advantage for the performance of SMEs could not be ignored. Further, the combination of corporate management strategies (in terms of management strategy and management practices) and innovative capability, e.g. in terms of innovation levels in technology, human capital and organizational, along with another intangible source (innovation leadership), could strengthen the capabilities that lead towards the creation of competitive advantage and superior performance among SMEs

3. Research Design and Methodology

The research design in this study is explained based on the quantitate approach and procedures which includes sampling procedures, sampling techniques, data collection, instrumentation and data analysis. Methodology in this study deals with the processes for studying and science of finding out (40, 41). Methodology in this study refers to a procedure that explains and predicts phenomena by using proper methods and techniques (40). The research will be a cross-sectional study measuring the impact of corporate management strategy, mediating factor of innovative dynamic capability and moderating factor of innovation leadership on the performance of SMEs in Saudi Arabia. The instruments to be used will be based on items which will be adapted from the previous researchers. The questionnaires will be based on the variables that are depicted in the research framework. The researcher follows a specific process to design the questionnaire which involves planning what to measure, formatting the questions for each element to

be measured, translating the questionnaire from English to Arabic (vice-versa) by the appointed expert to ensure the accuracy of the translation, sequencing and layout decisions, conducting the pilot study and correcting the anomaly issues. Data will be collected based on random sampling from the sampling frame that is obtained from The Saudi Chamber of Commerce. The unit analysis in the study is the senior staff that are responsible on the operation of SMEs in Saudi Arabia (in particular hotels). The sample size in this study will be based on the rule of thumb by Sekaran and Bougie (42) which states that a minimum sample of 210 is sufficient for social sciences studies while for G*Power rule of thumb the minimum sufficient sample is 129. On another note Roscoe (43) states that a sample of at least 50-500 is sufficient for social sciences studies. While Randall and Gibson (44) suggested a minimum of 230 respondents is required for a sample size. The data which will be based on survey, will be secured using self-administered questionnaire.The collected data will be analysed using descriptive and inferential statistics. Statistical Package of Social Science (SPSS) and Structural Equation Modelling (SEM) using Partial Least Squares will be employed to perform the analysis to answer the objectives and hypotheses of the study.

4. Conclusion and Implications

This conceptual paper presents a model to quantify the performance of tourism SMEs in Saudi Arabia. Deriving from RBV and DCV theories, and previous empirical research, this paper proposes corporate management strategy combined with innovative dynamic capability and innovation leadership to help tourism SMEs achieve superior performance. The conceptual model indicates integrative links among the following aspects: internal resources of corporate management strategy that constitutes of environmental aspects and management system, the mediating effect of innovative dynamic capability (in terms of innovation in organization, human capital, and technology), and the moderating effect of innovation leadership to achieve superior SMEs performance.

The model is expected to provide evidence and recommendations to relevant parties for propelling the tourism SMEs towards achieving competitive advantage and for providing the tools to assess their innovative capabilities. This will help the SMEs develop corporate strategies and policies to support the tourism industry. The proposed model is crucial in guiding policy makers to the important variables that need to be prioritized by tourism SMEs for the economic growth in this sector. Academia will also benefit from the findings as the results will add to the existing body of knowledge. Indeed, this model contributes to the body of knowledge in academia as well as towards practical implications to practitioners. Finally, this study intends to propose a performance management system for hotel SMEs using the latest information technology (IT) applications.

5. Recommendations for Further Research

This paper certainly serves as the starting point for further studies to be carried in this area, especially by using other methods such as in-depth study, mixed mode, integrating other variables, and applying other relevant theories. This is a pioneering study, which undeniably provides understanding on how tourism SMEs in Saudi Arabia will secure competitive advantage and superior performance via internal resources, innovative dynamic capability, and innovation leadership.

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