

**MEDIATING AND MODERATING EFFECTS OF
ENTREPRENEURIAL SELF-EFFICACY AND
ABSORPTIVE CAPACITY ON THE RELATIONSHIP
AMONG COGNITIVE FACTORS, STRATEGIC
ORIENTATION AND FIRM PERFORMANCE OF
SMALL AND MEDIUM SCALE HOTEL AND
RESTAURANT INDUSTRY IN SRI LANKA**

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**DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
March 2014**

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ORIENTATION AND FIRM PERFORMANCE OF SMALL AND MEDIUM
SCALE HOTEL AND RESTAURANT INDUSTRY IN SRI LANKA**

By

HERATH MUDIYANSELAGE ARIYARATHNE

**Thesis submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Fulfilment of the Requirement for the Degree of Doctor of Philosophy**

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ABSTRACT

The low performance of small and medium scale enterprises deprives their multiple contributions to the economies in their mobility towards the development. Though the issue has attracted the attention of many researchers, even today it is compelling due to the emerging global competition in the context of developing countries. The previous findings on the understanding of the complex relationships among factors influencing firm performance remain fragmented and unexplained. Therefore, the purpose of this study was to test a research model for investigating the effect of cognitive factors and strategic orientation on firm performance. The research model incorporated achievement motivation, personal goal setting, and mastery experience as cognitive variables while entrepreneurial orientation, market orientation, and learning orientation were configured as strategic orientation. The mediating role of self-efficacy and the moderating effect of absorptive capacity were also examined. The survey questionnaire translated into the native language was administered to a sample of 800 owner managers in the small and medium scale hotel and restaurant industry in Sri Lanka resulting in 350 usable responses. The stratified random sampling was the method used for the selection of the respondents to the sample. Data analysis was carried out by applying the structural equation modeling method. The findings widened the knowledge of the complex relationships among variables concerned indicating that the synergetic effect of cognitive variables and strategic orientation on firm performance is indispensable. Self-efficacy was found to be a significant mediating mechanism in the relationship between cognitive dispositions and firm performance. Strategic orientation of the organizations with higher level of absorptive capacity was found to be strongly related to firm performance. The results also extended the contextual validation of the research model in the developing countries.

Keywords: cognitive factors, strategic orientation, firm performance, self-efficacy, absorptive capacity

ABSTRAK

Prestasi rendah perusahaan kecil dan sederhana tidak menggalakkan kepelbagaian sumbangan mereka kepada ekonomi dalam mobiliti ke arah pembangunan. Biarpun isu ini telah menarik perhatian ramai penyelidik, kini ianya didesak pula oleh kemunculan persaingan global dalam konteks negara-negara membangun. Penemuan sebelumnya tentang pemahaman hubungan kompleks antara faktor-faktor yang mempengaruhi prestasi firma masih lagi terlerai dan tidak terjawab. Oleh itu tujuan kajian ini adalah untuk menguji model kajian bagi menyiasat kesan faktor-faktor kognitif dan orientasi strategik terhadap prestasi firma. Model penyelidikan ini menggabungkan pencapaian motivasi, penetapan matlamat peribadi dan penguasaan pengalaman sebagai pembolehubah kognitif manakala orientasi keusahawanan, orientasi pasaran dan orientasi pembelajaran telah dikonfigurasikan sebagai orientasi strategik. Peranan pengantara efikasi sendiri dan penyederhana keupayaan absorptif juga diteliti. Soal selidik yang diterjemahkan ke dalam bahasa tempatan telah dimajukan kepada sampel 800 pengurus/pemilik hotel dan restoren berskala kecil dan sederhana di Sri Lanka, menghasilkan sebanyak 350 respons yang boleh digunakan. Kaedah persampelan rawak berstrata telah digunakan sebagai kaedah pemilihan responden untuk sampel. Analisis data telah dijalankan dengan menggunakan kaedah model persamaan berstruktur. Penemuan yang meluaskan pengetahuan tentang hubungan kompleks antara pembolehubah berkenaan menunjukkan bahawa kesan sinergi pembolehubah kognitif dan orientasi strategik kepada prestasi firma adalah amat diperlukan. Efikasi sendiri didapati memainkan peranan penting sebagai mekanisme pengantara dalam hubungan antara tabiat kognitif dan prestasi firma. Orientasi strategik organisasi dengan tahap keupayaan absorptif yang lebih tinggi didapati berkait rapat dengan prestasi firma. Hasil kajian juga memperluaskan kesahihan konteks model penyelidikan di negara-negara membangun.

Kata kunci: faktor-faktor kognitif, orientasi strategik, prestasi firma, efikasi sendiri, keupayaan daya menyerap

ACKNOWLEDGEMENT

The endeavour to complete this thesis was exciting and intellectually challenging. This target could not have been achieved unless I was kindly assisted by many other parties and the grateful words of thank are due to all of them.

First, I would like to express my gratitude to my supervisor, Prof. Dr. Rosli Mahmood for his boundless support and encouragement. His free style approach for supervision was a great stimulation for my effort to develop as a self-dependent researcher. I also extend my gratitude to the examiners of the thesis for their valuable comments.

My thanks are due to the Othman Yeop Abdullah Graduate School of Business for offering me a precious opportunity for my doctoral studies and the Dean and other academic and administrative staff for facilitating the smooth running of the study process.

This effort would not have been successful without the financial support from Higher Education for the Twentieth Century (HETC) scholarship scheme and thanks are offered to all officials in the Ministry of Higher Education in Sri Lanka and to the director and the other staff of the programme.

Many people from Wayamba University of Sri Lanka, including the Dean and my trusted colleagues in the Faculty of Business Studies and Finance, the Director and the other staff of the OTS who supported me are offered my heartiest thank.

Finally, very heartiest thank goes to my beloved wife Ramani for her innumerable sacrifices by shouldering all the family responsibilities and allowing me to fully concentrate on my studies. The support from my three children who tolerated my resentful behavior during the period of studies must also be noted.

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LIST OF ABBREVIATIONS

ACAP :	Absorptive Capacity
AM :	Achievement Motivation
AVE :	Average Variance Extracted
CR :	Construct Reliability
DV :	Dependent Variable
EO :	Entrepreneurial Orientation
ESE :	Entrepreneurial Self-efficacy
GS :	Goal Setting
IV :	Independent Variable
LO :	Learning Orientation
ME :	Mastery Experience
MEV:	Mediating Variable
MO :	Market Orientation
MOV:	Moderating Variable
PER :	Performance
SME :	Small and Medium Scale Enterprises
VIF :	Variable Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Many of the previous empirical and other sources have continuously been emphasizing the centrality of a highly performing small and medium scale business sector for promoting the economic and social development of any country (Asian Productivity Organization, 2011; Kongolo, 2010; Griffin & Ebert, 2006; Piech, 2004; Ladzani & Vuuren, 2002; Ghobadian & Gallear, 1996). The multiple contributions of SMEs in terms of the innovations, the economic development, the employment generation, and in many other aspects have made their existence pivotal to the upward mobility of the developed and the less developed countries (Kongolo, 2010).

It has been reported that the small and medium scale business entities account for relatively a higher percentage of the total number of businesses in many of the countries (Asian Productivity Organization, 2012). Their contribution to the gross domestic product and the employment generation accounts for more than 75 percent in many of the nations in the Asian region. Moreover, they are considered as the seedbeds of entrepreneurship, the cornerstones for creativity and innovation, and the engines of the economic growth (Asian Productivity Organization, 2011). The SMEs represent the position of the most dynamic entities in any country. They are playing a pivotal role in the economic and the social progress of a nation by expediting the attainment of the socio-economic goals (Ghobadian & Gallear, 1996). Many of the well-developed and rapidly growing economies are characterized by a stronger SME sector which makes a vigorous effect on the employment creation and the innovation (Ladzani & Vuuren, 2002). They open the avenues for the innovation and the

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