

The Impact of Small Size Firm and Differentiation Strategy in the Niche Strategic Implementation on the Organizational Performance

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Abstract

Niche marketing strategy is a critical strategy applied by many small-size firms to compete with the large-size firms in the same industry. Despite the resource scarcity, small-niche strategy firms differentiate their products or services to address market's specific needs. Thus, differentiation strategy is one of the significant competitive strategies of small-niche strategy firms to provide high value products or services to the customers, which are different from the rivals. Moreover, communication types and methods may vary from one company to another according to its size. It has many effects on organizational performance. Hence, this study aims to investigate the impacts of the small size of the niche-strategy firms, their differentiation strategy and communication factor of niche-strategy firms on the organizational performance. The quantitative research method is used by distributing the questionnaires to niche-strategy firms in the hospitality industry, Thailand. The data was collected from the sample of 420 employees, who work in hotels, restaurants, travel agent companies and hospitality-related businesses. Structural equation modeling (SEM) was used to analyze the data. The outcome has shown that the small size of the firm, differentiation strategy and communication factor affect the organizational performance of the niche-strategy firms. This study highlights the importance of the key success factors of the firms applying niche strategy to improve their performance.

Keywords: Communication, Differentiation Strategy, Niche Strategy, Organizational Performance, Small Size Firm

Introduction

Niche marketing has been studied and focused since many decades ago for both fields; marketing and strategy (Echols & Tsai, 2005; Hannan & Freeman, 1977; McPherson, 1983; Porter, 1980; Kotler, 1989). The definition of niche strategy has been given from several authors but there are not exactly definitions about this strategy that fit with every scholar (Dalgic, 2006; Dubrovski, 2013). Dalgic & Leeuw (1994) stated about niche strategy to be a superior and winning strategy for small or specialized organizations who has a limit of resources. Morrison & Teixeira (2004) added more details about the smallness for niche company represents an important contributor to the achievement of competitive advantage. Many small niche firms prefer to differentiation strategy to differentiate themselves from other

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competitors and gain the competitive advantage. Allen (2007) found that the differentiation strategy serves as a way to increase competitiveness for niche firms. In order to implement niche strategy successfully, niche firms must be able to communicate their goal and objective to everyone in the company for getting everyone on the same page. Therefore, communication in niche firm is an important factor to transfer niche strategy from top management to their employee because the clear message will help all employees to be aligned in the same direction (Caniëls & Romijn, 2008). Thus, this research focuses on small-size niche firms, their differentiation strategy, and their niche strategy communication process, which should generate a positive result and superior performance to the niche organization.

Research Questions and Objectives

Niche strategy is the approach for small companies which having limited resources (Toften & Hammervoll, 2010). The small niche firms need to differentiate themselves to compete with other bigger competitors. Akbar et al. (2017) presented that small size company can implement niche strategy and compete successfully in markets which occupied by the larger companies. This leads to the first research question with regards to the effect of the small size of the firm on the performance of niche organization. Differentiation strategy is applied to initiate the brand new and very rare products and services to serve the small group of specific customers. There is much research that found the positive performance for small niche firm which applying differentiation strategy (Akbar et al., 2017; Choudhary, 2014). This information leads to the second research question with regards to whether differentiation strategy affects the performance of niche organization. Lastly, communication is also one of the important tools to implement strategy (Brinkschröder, 2014). For small and specialized niche firm, the relationship between management and employee is very close and informal. Allen (2007) found that communication in niche firm is the highest important level of successful variable to implement niche strategy, then there are a lot of communication ways to communicate to each other throughout the organization (Caniëls & Romijn, 2008; Echols & Tsai, 2005; Fevzi, 2003). These results bring about the third question of the communication in niche firm influences the performance of the organization. Thus, the first objective of this research is to explore the relationship between small size firm and the organizational performance. The second objective in this study aims to investigate the relationship between the differentiation strategy and the organizational performance. The third and the last objective is to examine the relationship of the communication and the organizational performance.

Theoretical Background

Small Size Company

Niche strategy is an option for success for small companies (Tamagnini & Tregear, 1998). Niche firms are mostly small and specialized for some areas which are abandoned from other competitor especially big player in the industry. Dalgic (2006) stated that small niche firms have a limited of resources and small number of employees, but they are successful by becoming a leader in their markets (Stiver, 2008). Akbar et al. (2017) stated that small niche firms are the company which offer small number, type or kind of their productions and services by focusing on a few customers and avoiding market with so many competitors or some company that already occupy the market. Therefore, this research will study the niche-strategy firms, which are small. These firms have limited resources but there are profitable with the potential of growth in the future.

Differentiation Strategy

Niche firms are normally small and need to use their limited resources with full potential. Hence, small niche companies mostly apply differentiation strategy (Porter, 1980). Echols & Tsai (2005: 219) stated that a differentiation strategy represents a firm that try to offer the distinctive products from other players in the same competitive market. Carroll (1985)

presented niche firm strategy applies differentiation strategy to compete with other competitors by offering a different products and services which very few companies could offer or doing some operational process that very few competitors could practice or imitate (Baum & Oliver, 1996). The great advantage of differentiation strategy could be a chance of doing better quality products and emphasis on the innovation to serve their customer (Semuel et al., 2017b). Niche firm that applies the differentiation strategy will attempt to offer the special products and services to the customer and charge the higher price or premium price more than other competitor because this higher price could be able to represent the unique characteristic or qualification and customer will accept to pay this premium price (Hilman, 2009; Kotler, 2003). In this study the differentiation strategy means small niche firm which offer a distinctive, specific and unique products and services to their small group of customers, charging higher price and difficult for the competitors to imitate.

Communication in Niche Firms

Communication is one of the very significant factors for niche firms to interchange information and ideas in the organization from owner or top management to the employee and on the other hand it could bring the feedback from employee come back to the top management as well (Mishra & Mishra, 2009). To receive the effective communication in niche firms, rather than a clearly and explicit message from management, employee also need the right information, goal, value and attributes of products and services and the goals of the company to every staffs. (Allen, 2007; Caniëls & Romijn, 2008) especially if the proper communication methods are used such as top down message for the important issue or new policy, and bottom up approach is used when management need to receive the feedback from on the job staffs to gain more information and details in order to change the new policy or solving some tremendous problem. The proper methods will help a lot to encourage the successful and powerful communication system in niche firms (Fevzi, 2003). This research focuses on the communication methods in niche firms that could lead to better performance.

Niche strategy organizational performance

Niche marketing strategy focus on the group of customers who have specific need which has been overlooked from other competitors and serve by charging premium price for their unique and high-quality product (Dalgic & Leeuw, 1994; Kotler, 2003; Toften & Hammervoll, 2010). There are several research that support the success of niche marketing strategy to apply with the organization and bring good performance to the firms for example Echols & Tsai (2005) studied with 80 US venture capital firms and result shown a positive on niche firm performance. In this research the niche strategy organizational performance will be divided into 2 part which are finance and non- finance performance. According to several niche literatures, the effective implementation of niche strategy leads to financial performance which will be reflected from increase profit, generate higher sale, market share, higher purchase frequency (Efrat & Shoham, 2012; Assadinia, 2014; Doyle, 2002; Allen, 2007; Kotler, 2003) while non- financial performance are customer loyalty, increasing competitiveness, and increase growth possibility (Hsieh & Chen, 2011; Stiver, 2008; Toften & Hammervoll, 2010).

The Conceptual Framework

According to the research objectives, the hypotheses and conceptual framework were formulated to explore how niche strategic performance could be influenced by small size firm and differentiation strategy. The research also intends to explore another factor which is communication in niche firm that mediate between these variable and effect to the successful performance of niche organization. The following conceptual framework in picture 1 depicts the relationship between small size firm and differentiation strategy to niche strategy performance by the mediating effect of communication in niche firm.

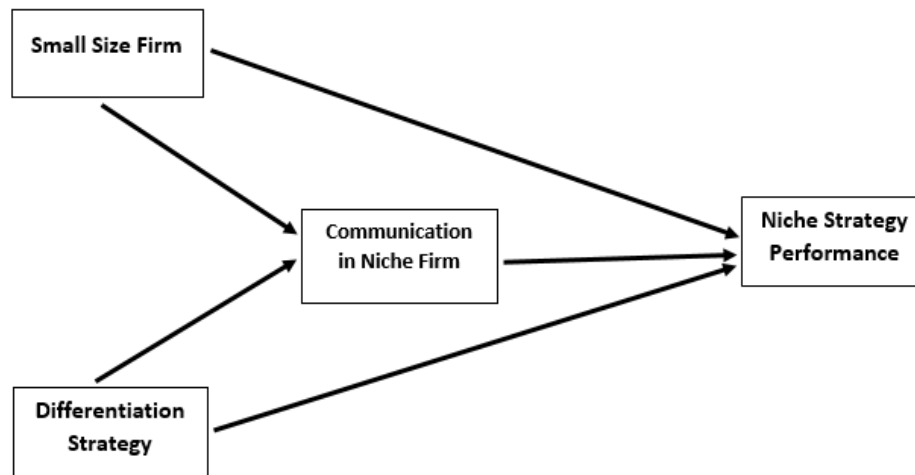


Figure 1 The Conceptual Framework

Relationship between small size firm and communication in niche firm. Small size of firm is one of the characteristics of niche marketing strategy because niche strategy focus on a small and specific group of customers and provide the unique products and services to serve these specific clients by charging premium price (Dalgic & Leeuw, 1994; Toften & Hammervoll, 2010). While communication methods in niche firm could be done via several methods which are top-down, bottom-up, formal and informal but most of niche firm perform an informal communication approach because it could help to encourage their employee to perform their tasks with fully potential and supervisor or management will always be ready to support when the employee needed (Parrish et al., 2006). Small size of niche firm could facilitate the speed and flow of information throughout the organization, moreover it could help to strengthen relationship between management and employee. Mishra & Mishra (2009) stated that small company is more effective than large company in term of are the internal cooperation, communication methods and other collaboration between departments. By these literature reviews could be hypothesized as:

H1: There is the positive relationship between small size firm and communication in niche firm

Relationship between differentiation strategy and communication in niche firm. For small niche firm to compete with bigger player, they need to find the unique products and services (Jarvis & Goodman, 2005). Alonso (2009) studied about the aquaculture industry in Australia concluded that unique product even from the rural area could be able to make it in the different way such as combine with other industry for example tourism and it will attract the new group of customers, moreover these local products could be developed to be a premium product. The differentiation strategy is the activities of the firm that put their effort to design a set of brand-new products and services to distinguish the company from other competitors that offerings in the same market (Semuel et al., 2017a) but management must be able to communicate this strategy to their employee. Allen (2007) found that differentiation strategy in niche firm could help and stimulate management to strongly communicate the goal of their project to company members in order to educate employees to understand and practice in the same direction. As an outcome of above information, the following hypothesis is presented;

H2: There is a positive relationship between differentiation strategy and communication in niche firm

Relationship between small size firm and niche strategy performance. One of the outstanding characteristics for niche firm strategy is a size of company is small (Toften & Hammervoll, 2010; Morrison & Teixeira, 2004; Akbar et al., 2017). Small niche firm with a limited resources conduct their business by focusing on small and specific group of customers

to gain their competitive advantage. Ibrahim (1993) stated that a small firm that following a niche strategy can build their competitive advantage in a small and well-defined target group of specific customers to avoid competing with large competitors. Boone et al. (2004) found the positive performance for small and specialized firms in Dutch newspaper industry rather than produce a mass product. Peters (1990) found the small size of niche firms could be comparing as a backbone of German economy which could help to create great successful performance to the industry (Dalgic & Leeuw, 1994). Following these literature reviews the hypothesis is presented:

H3: There is a positive relationship between small size firm and niche strategy performance

Relationship between differentiation strategy and niche strategy performance.

The differentiation strategy is the strategy that many small companies use to serve their small group of customers which are concerned with uniqueness or high quality of product and willing to pay higher price for more benefit that they will receive (Gorondutse & Abdullah, 2017). Allen & Helms (2006) found that differentiation strategy gives a chance to company to be more competitive and having a chance to increase their price for good and better quality and services including increasing the performance of the company. Kumar & Subramanian (1998) found companies which applying differentiation strategy has successful performance while Boone et al. (2004) supported small niche firm that could differentiate their products and services will help to increase positive performance. Therefor this research will examine the relationship between differentiation strategy and niche strategy organizational performance by the following hypothesis;

H4: There is the positive relationship between differentiation strategy and niche strategy performance.

Relationship between communication in niche firm and niche strategy performance.

Communication is one of main contributing factors for success in imparting and interchanging policy, thought, opinion and information in the organization to (Mishra & Mishra, 2009). Heider et al. (2021) suggested that small niche firm is a high specialization degree, and they need to be able to agile their organization for changing environment to maintain the internal flexibility, flat hierarchies, informal communication and potential of operation (Liu & Cui, 2012). Heerwagen et al. (2004) found that the effective communication helps to reduce distraction and interruption in the workplace and also improved performance on mental tasks which will link to stimulate the positive performance of the whole organization (Wyon, 1996). To this end, the sixth hypothesis in this research is presented:

H5: There is the positive relationship between communication in niche firm and niche strategy performance.

Mediating Effect

Communication in the organization is one of the very important factors in order to implement niche strategy into the company (Brinkschröder, 2014). It is the method of distributing goals and objective from owner or top management to their employees. Niche strategy firms are small, specialized and produce the different products and services to compete with other competitors then manager needs to communicate these uniqueness and specialties to employees in the organization to avoid misunderstanding and working in the same direction (Porter, 1980; Porter, 1985; Doyle, 2002). There are a number of research that study about niche strategy and found the important role of communication in niche firms and also relationship between communication with small size firm, differentiation strategy and performance (Caniëls & Romijn, 2008; Alonso (2009); Allen, 2007; Echols & Tsai, 2005; Chen & Hsieh, 2005). These studies lead to the following hypothesis:

H6: communication in niche firm mediate the relationship between small size firm and niche strategy performance

H7: communication in niche firm mediates the relationship between differentiation strategy and niche strategy performance

Research Methodology

A minimum number of the sample size in SEM is the “10-times rule” method (Hair et al., 2011). A sample size in this research was 420 staffs (both management and employees levels) that work in small niche firms in hospitality industry. The quantitative method was applied by using questionnaire to collect the data. Questionnaires both versions online and papers were sent to the small niche company in the hospitality industry which including hotel, restaurant, travel agent and other business such as spa and car rental. The chosen small niche company follows the criteria of SME of Thailand which mentioned small company is the firms that having less than 50 employees. For small niche hotel were chosen by the standard of Hotel Act, 2004 which divided hotel into 4 categories and the first and smallest types is the hotel with less than 50 guest rooms.

Results

The Construct Reliability Convergent Validity and Discriminant Validity

The testing of construct reliability, convergent validity and discriminant validity was done. Every measurement scale in general should be higher than 0.50 and 0.70 for the average variance extracted (AVE) and composite reliability (CR). According to Fornell & Larcker (1981) which stated that the square root of AVE should be higher than the discriminant validity (Jusoh et al., 2019). Hair et al. (2010) also advised the good and reliable standardized factor loading of every variable should be higher than the recommended value of 0.50. Table 2 shows construct reliability and convergent validity of small size company ($\alpha = .824$, AVE = .609, CR = .714), differentiation strategy ($\alpha = .873$, AVE = .624, CR = .703), communication in niche firm ($\alpha = .868$, AVE = .693, CR = .730), and niche strategy performance ($\alpha = .854$, AVE = .865, CR = .873). Every factor loading result was between .69 and .97. Finally, every reliability and the convergent validity was accepted. Table 3 presents the discriminant validity outcome.

Structural Equation Model (SEM)

To test the overall fit of the structural model, the structural equation modeling (SEM) was used in this research, to examine the results for hypothesis testing. According to Hair et al. (2010) suggested that the criteria of model fit should have $\chi^2/df \leq 3.00$, GFI ≥ 0.90 , CFI ≥ 0.90 , NFI ≥ 0.90 , AGFI ≥ 0.90 , RMSEA ≤ 0.07 , and RMR ≤ 0.08 . This is a criterion of good fit value that can be accepted in term of statistic. Table 4 shown the model fit indices; firstly, the initial model showed moderate fit ($\chi^2 = 1426.222$, $\chi^2/df = 6.993$, $p = .000$, GFI = .785, CFI = .844, NFI = .823, AGFI = .733, RMSEA = .122, RMR = .266). Later on, the modification was done and the new model showed good fit ($\chi^2 = 311.307$, $\chi^2/df = 1.898$, $p = .000$, GFI = .936, CFI = .981, NFI = .961, AGFI = .902, RMSEA = .047, RMR = .023). The results that presented in Table 3 and Figure 2 present the SEM (structural equation modeling) model outcomes.

Table 2 the Construct Reliability, and Convergent Validity Outcome

Construct & Items	Factor Loading Score	Cronbach's Alpha	AVE	CR
Small Size Company		.824	.609	.714
NCSS1	.73			
NCSS2	.77			
NCSS3	.69			
NCSS4	.82			
NCSS5	.85			
NCSS6	.82			
Differentiation Strategy		.873	.624	.703
NCDS1	.74			
NCDS1	.77			
NCDS1	.78			
NCDS1	.83			
NCDS1	.80			
NCDS1	.76			
NCDS1	.83			
NCDS1	.80			
Communication in Niche Firm		.868	.693	.730
NSC1	.81			
NSC2	.83			
NSC3	.87			
NSC4	.85			
NSC5	.74			
NSC6	.88			
Niche Strategy Performance		.854	.865	.873
NPP	.97			
NPRS	.89			

Table 3 Discriminant Validity

Constructs	NCSS	NCDS	NSC	NP
NCSS	0.7802			
NCDS	0.8080	0.8182		
NSC	0.7682	0.8102	0.8325	
NP	0.7422	0.8037	0.8380	0.9298

Note: the square root of AVE values were represented in italics

Table 4 The Absolute Model Fit Indices

Absolute Model Fit Indices								
Model	χ^2	χ^2/df	GFI	CFI	NFI	AGFI	RMSEA	RMR
Criteria	-	≤ 3.00	≥ 0.90	≥ 0.90	≥ 0.90	≥ 0.90	≤ 0.07	≤ 0.08
Initial model	1426.222	6.993	.785	.844	.823	.733	.122	.266
Final model	311.307	1.898	.936	.981	.961	.902	.047	.023

Remark: χ^2 means chi-square, χ^2/df means relative chi-square, GFI means goodness of fit index, CFI means comparative fit index, NFI means normed fit index, AGFI means adjusted goodness of fit statistic, RMSEA means root mean square error of approximation, RMR means root mean square residual

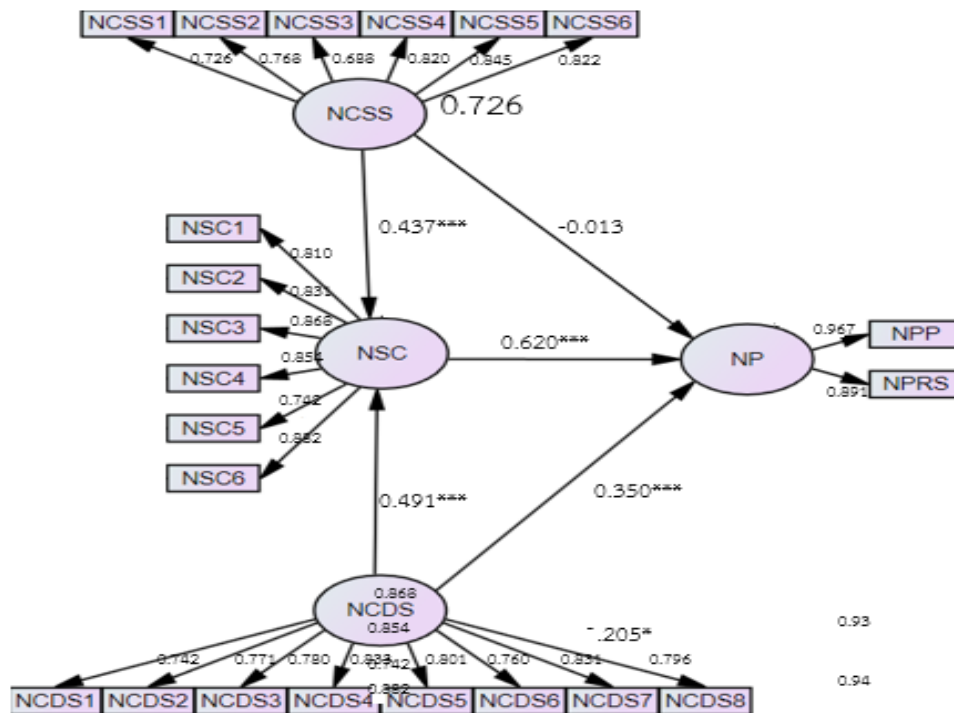


Figure 2 Structural Equation Model Result

Note: *** $p < .001$ (significant level), ns = not significant

Results of Hypothesis

The total of seven hypothesis results were presented in Table 4. The first hypothesis which proposed a positive relationship between small size company and communication in niche firm. Resulted shown that the first hypothesis is significantly supported, which can explain that small size company has an influence on communication in niche firm because the small of size will encourage the communication process to be fast, direct and throughout the organization. This refers that if the small size company is small and having enough resources then owner or management would be able to provide the suitable communication methods of each department. The second hypothesis proposed a positive relationship between differentiation strategy and communication in niche firm. It is also significantly supported, describing the differentiation strategy should focus on producing a different products and services from other competitors. The different products could be adapted from the existing products or creating a brand new and innovative products to the specific group of customers. As the differentiation strategy is new and it needs to be informed clearly to every stakeholder. Management could communicate with their employee frequently to be sure that everyone understand this strategy correctly. The third hypothesis proposed a positive relationship between small size firm and niche strategy performance, but result shown that this hypothesis was not significantly supported, which could be explained that if niche firm is having only the characteristic of small size company. It doesn't help their business to be successful. Small niche company need to have more characteristics to support niche strategy especially being a specialized for somethings or having unique products and services which other competitors could not imitate easily. That will help the small company to be successful in niche market. The fourth hypothesis proposed a positive relationship between differentiation strategy and niche strategy performance. This hypothesis is also significantly supported, which implies that the differentiation strategy is one of the very important elements that help niche firm to be successful because niche firm is small and having limited resources. They could not compete with the big company, then differentiation strategy will help niche firm to create new and

innovative product and find the new, small and strong target group by charging premium price which could bring the positive performance to the company. Lastly the fifth hypothesis proposed a positive relationship between communication in niche firm and niche strategy performance, the fifth hypothesis is also significantly supported, which indicates if niche strategy is communicated and informed clearly since the beginning of the working process, all employees will be aligned in the same direction, then they will be able to implement niche strategy successfully and help to increase positive performance to the company.

Table 5 Hypothesized Relationship Results

Hypothesized relationship	Results
H1: There is the positive relationship between small size firm and communication in niche firm	supported
H2: There is the positive relationship between differentiation strategy and communication in niche firm	supported
H3: There is a positive relationship between small size firm and niche strategy performance	not supported
H4: There is the positive relationship between differentiation strategy and niche strategy performance	supported
H5: There is the positive relationship between communication in niche firm and niche strategy performance	supported
H6: communication in niche firm mediate the relationship between small size firm and niche strategy performance	supported
H7: communication in niche firm mediate the relationship between differentiation strategy and niche strategy performance	supported

Mediating effects of communication in niche firm, small size company, differentiation strategy and niche strategy performance

Table 5 presented the outcomes of the mediating variables of hypothesis 6 which proposed that communication in niche firm is the mediator of the relationship between small size firm and niche strategy performance, and also hypothesis 7 that proposed communication in niche firm is the mediator the relationship between differentiation strategy and niche strategy performance. The results show that communication in niche firm partial mediates the relationship between small size company and niche strategy performance while communication is a fully mediator of the relationship between niche differentiation strategy and niche strategy performance. This result indicates that communication in niche firm plays a significant role as a support element to expand the quality of niche strategy implementation process to achieve higher performance (Caniëls & Romijn, 2008; Allen, 2007).

Table 6 Mediating Effect Results

Mediating effect	IV-M-DV		Mediation type
	direct	indirect	
NCSS → NSC → NP	-.013 (p = 0.824)	0.271 (p = .007)	Partial mediation
NCDS → NSC → NP	.350 (p = 0.001)	0.305 (p = .005)	Full mediation

Note: NCSS: Small size company; NCDS: Differentiation strategy; NSC = Communication in niche firm; NP: Niche strategy performance

Conclusion and Discussion

According to the result from data analysis of the SEM analysis technic, it is an evident that communication in niche firm is indirectly impacted by small size of firm and directly impact by niche differentiation strategy. The consistency of these 2 variables will provide the positive

performance for niche firms. The result also indicated that small size firm and differentiation strategy are the beginning of the process to define the communication to be flexible and having the decentralized approach to apply in the company. Niche firms usually are small in size and specialized with limited resources (Parrish, 2010; Akbar et al., 2017). To be competitive, niche firms need to produce a different products and services from the mass market otherwise they could not compete with the bigger players which occupy the market. These differentiated products could be a brand-new with innovation or it could be the top up product from the mass product and make it better or different. This research focus on the mediating effect of communication methods in niche firm and result also shown that this variable is a partial mediator effect between small size firm and full mediator effect on the differentiation strategy to the niche strategy performance. Communication in niche firms should be performing in several methods such as top-down, bottom-up, formal and informal because as company is small and specialized then every staff must perceive their responsibility clearly and should be able to change quickly when it needed and the fast communication process will help to maintain the quality of this issue.

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