

Effectuation Principles as an Entrepreneurial Strategy during a Crisis in the Hotel Industry in Indonesia

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Abstract

The principle of effectuation is a fascinating concept in entrepreneurship that emphasizes a flexible and adaptive approach to business creation. This approach is particularly beneficial in unpredictable contexts, encouraging entrepreneurs to leverage their current resources and networks. The aim of this study is to identify the entrepreneurial strategies employed by boutique hotels, grounded in five principles of effectuation, to navigate a crisis. This study utilizes semi-structured interviews as the primary method for collecting data on crisis management among business proprietors or senior executives. The respondents in this study comprised ten decision-makers from seven boutique hotels, including proprietors and top-level management. The findings indicate that boutique hotel entrepreneurs employed effectuation principles as an entrepreneurial strategy during a crisis, enabling the hotels to navigate the challenges effectively. This study's findings will enhance existing research in the hotel sector and elucidate entrepreneurial reactions to crises.

Keywords: *Boutique Hotel, Crisis, Effectuation Principles, Entrepreneurship, Uncertainty.*

Introduction

Entrepreneurs frequently face uncertainty, especially during the initiation or expansion of their enterprises. In the face of a crisis, be it a natural disaster, pandemic, financial collapse, terrorism, or other factors impacting a nation, region, or the globe, entrepreneurs encounter uncertainty. A defining characteristic of an entrepreneur is the capacity to make decisions in uncertain circumstances. Entrepreneurs have discovered through experience that the most exciting ventures emerge in areas where the future is not just uncertain but impossible to predict (Sarasvathy, 2022). They must shape and anticipate this unpredictable future.

Indonesia has undergone multiple crises, some affecting particular areas or regions, while others have influenced the entire nation. The Aceh Tsunami disaster in December 2004, along with the 5.9 magnitude earthquake in the Special Region of Yogyakarta in 2006, exemplify crises that can disrupt the economy and devastate business, social, and regional development conditions. The terrorist bombings in Bali in 2002 and 2005 illustrate crises that profoundly disrupted the tourism sector, which employs approximately 80% of the local population. The Bali Bombings tragedy significantly impacted Bali's economy, exerting substantial pressure on entrepreneurs, particularly in the hospitality sector, tour guiding, transportation, food and beverage services, restaurants, and entertainment.

The Covid-19 pandemic represents the second most significant crisis since the 1997 financial downturn. The Covid-19 pandemic unexpectedly emerged a decade following the conclusion of the Global Financial Crisis (GFC) and the 2007–2008 Great Recession (Cheema et al., 2022). The 2007-2008 financial crisis, the most severe since the Great Depression, devastated global financial markets (Zhuang, 2023). In early 2020, the World Health Organization (WHO) officially declared Covid-19 a global pandemic (Cucinotta and Vanelli, 2020; Puspitawati, 2021), resulting in a catastrophic impact on numerous countries, including Indonesia (Olivia et al., 2020). The crisis significantly affected numerous industry sectors, particularly tourism and leisure (Abbas et al., 2021; Atmojo & Fridayani, 2021). This crisis has profoundly impacted hotel entrepreneurs, compelling them to formulate strategies and identify opportunities amid uncertainty,

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as the future remains not only unpredictable but also unknowable, all while striving to sustain their businesses (Oktavio & Kaihatu, 2020; Shapoval et al., 2021).

Sarasvathy (2001a, 2001b) introduces the concept of effectuation into the entrepreneurship field as an alternative to the neoclassical economics-based causal model. Sarasvathy (2001a, 2001b) defines 'effectuation' as beginning with a set of means, attempting to control the future, and then gradually revealing its goals. Sarasvathy (2014) describes 'effectuation logic' as a decision-making approach where individuals utilize resources and capabilities within their network to collaboratively shape the future. In practice, effectuation is appropriate in situations of uncertainty (Galkina et al., 2022; Gil-Barragan et al., 2020; Welter & Kim, 2018). Effectuation theory outlines how businesses are created (Galkina et al., 2022; Sarasvathy, 2001a), how entrepreneurs identify international opportunities (Reuber, Knight et al., 2016), how uncertainty affects the decision-making process (Welter & Kim, 2018), and how entrepreneurs effectively launch international ventures (Galkina et al., 2022; Pawęta, 2016; Uthamaputhran, 2018).

The accommodation service sector in Indonesia has experienced significant growth, demonstrated by the construction of new hotel structures and amenities, alongside a rise in occupancy rates over the years. Numerous renowned hotels, including boutique establishments, exist in Indonesia (Yasmina et al., 2022). The boutique hotel has evolved into a significant tourist and cultural hub (Yuniati, 2021). Boutique hotels are generally owned by an individual and operated by a professional team, characterized by their distinctiveness, thematic elements, specialized amenities, and exceptional hospitality, rather than merely offering accommodations (Fuentes-Moraleda et al., 2020). The decision-making authority of a boutique hotel resides with the owner and/or the Chief Executive Officers or General Managers of the establishment. Unfortunately, the outbreak of the pandemic in March 2020 led to a drop in the occupancy rate to just 10% (Ricky et al., 2022).

The aim of this study is to identify the entrepreneurial strategies employed by boutique hotels, grounded in five principles of effectuation, to navigate a crisis. In light of the prior discourse, the researcher posits the following research question: How is the entrepreneurial strategy of the boutique hotel in dealing with a crisis based on the effectuation principles?

Literature Review

The research trend concerning "effectuation" and "entrepreneurship" has been strong over the past six years (2018–2023), peaking in publication volume in 2020. The Scopus database indicates an upward trend in these subjects, reflecting an increasing interest in research. Annually, there is a growing interest and focus on research pertaining to effectuation and entrepreneurship. The top ten articles in the field discuss effectuation, causation, and bricolage as emerging theories (Chinyoka, 2020). Effectuation is often associated with new markets or start-up businesses (Banikema & Tite, 2018; Chohan et al., 2022; Pawęta, 2016), in which the entrepreneurs face uncertainty (Kaihatu & Oktavio, 2020; Welter & Kim, 2018).

Experienced entrepreneurs apply five effectuation principles at each stage of the process: the bird-in-hand principle; the affordable loss principle; the crazy quilt principle; the lemonade principle; and the pilot-in-the-plane principle (Iandoli & James, 2022; Prashantham et al., 2019; Sarasvathy, 2022). The bird-in-hand principle is a means-driven strategy that focuses on using available resources to create new opportunities, rather than striving for predefined objectives (Martina, 2020; Reddy, 2023). The affordable loss principle promotes committing to a predetermined level of risk from the start, rather than focusing on predicting project returns (Reddy, 2023). While the crazy quilt principle involves negotiating with stakeholders willing to make actual project commitments regardless of opportunity costs, performing detailed competitive analyses, or focusing on specific resource providers (Read et al., 2021a). The lemonade principle advocates for recognizing and appropriating contingency by capitalizing on unexpected events rather than attempting to avoid, overcome, or adapt to them (Read et al., 2021b). Finally, the pilot-in-the-plane principle emphasizes the worldview that human action co-creates history rather than predetermines it (Amano et al., 2022). It highlights the importance of involving all stakeholders as co-pilots. There are no passengers on the effectual journey (Sarasvathy, 2001a, 2001b).

The principle of effectuation is used in uncertain and turbulent situations to anticipate and address the highly uncertain situation (Kogut et al., 2023; Welter & Kim, 2018). Seasoned entrepreneurs have gained firsthand knowledge that the most exciting ventures arise in environments where the future is not only uncertain but also unpredictable. (Thien & Hung, 2021). They must shape and anticipate this unpredictable future (Supriyati et al., 2023). Effectuation is a decision-making strategy employed by entrepreneurs to address challenges in highly unpredictable market conditions, such as during a crisis (Iandoli & James, 2022; Sarasvathy, 2022). To sum up, this principle is ideal for entrepreneurs seeking to traverse an unpredictable future and establish prosperous enterprises.

Methodology

This study aims to examine the implementation of five effectuation principles during a crisis in seven boutique hotels located in the Special Region of Yogyakarta, Indonesia, which has emerged as the preeminent destination in Java, especially for cultural tourism. This area is a home to several renowned monuments and heritage sites including Borobudur Temple, Prambanan Temple, and the Palace of Javanese Sultan. This study selects seven boutique hotels in the Special Region of Yogyakarta as research subjects. Boutique hotels in this region have evolved into multi-purpose MICE facilities in addition to accommodation providers (Murniati & Bawono, 2020). The 'boutique hotel' category is selected because, in contrast to conventional hotels, boutique hotels typically possess a distinct theme, and the proprietors actively participate in significant decision-making alongside senior management.

The first boutique hotel analyzed in this study, Tentrem Hotel Yogyakarta, embodies a pronounced Javanese theme, preserves Javanese heritage values, and showcases extravagant Javanese architecture. The hotel features a renowned jamu factory in Indonesia as a sister company (Kho et al., 2023), thereby highlighting the element of jamu (traditional herbal drink), such as offering it as a welcome beverage to guests upon arrival. The Phoenix Hotel, the second boutique hotel, is classified as a heritage hotel owing to its extensive history of advocating for Indonesian independence (Yasmina et al., 2022). The hotel is constructed in the Indonesian-Dutch (Indische) architectural style and is strategically located in the heart of Yogyakarta, near the renowned Tugu Yogyakarta landmark. Artotel Suites Bianti Yogyakarta, the third boutique hotel, integrates contemporary art elements into the design of each room. Furthermore, all hotel amenities are crafted in-house using traditional herbal ingredients by Natasha, a prestigious beauty and personal care brand affiliated with the hotel. The hotel has prioritized hygiene, especially during the pandemic, owing to its owner's medical background and its esteemed reputation for hygiene and health. The fourth boutique hotel, Swiss-Belboutique Yogyakarta, is distinguished by its contemporary minimalist architecture and authentic cuisine. The hotel offers elegant rooms with unique designs and includes meeting facilities for both business and leisure travelers. Moreover, it is strategically located in the city's commercial district. The fifth boutique hotel, Gaia Cosmo Hotel, is notably popular among the youth, particularly the café that welcomes guests upon arrival. The hotel also produces coffee, renowned among Yogyakarta's coffee aficionados. The sixth boutique hotel, h-Boutique Hotel Jogjakarta, is strategically situated near the city's commercial center and educational district, alongside several prestigious universities in Yogyakarta. The seventh boutique hotel, Prime Plaza Hotel Jogjakarta, showcases an interior rich in Javanese cultural heritage, complemented by regular performances of gamelan music. This hotel incorporates Javanese cultural values into its services.

This study employs semi-structured interviews as the primary method for collecting data on crisis management experienced by business proprietors and top executives, involving ten participants, including three boutique hotel proprietors and seven Chief Executive Officers or General Managers of boutique hotels. The interviews and data collection were conducted from May 2023 to December 2023, encompassing decision-making processes, implementation principles, challenges, and outcomes. In addition to the interviews, direct observation of entrepreneurs' actions and decisions during emergencies is performed. The steps outlined provide a comprehensive understanding of the implementation of effectuation principles in various case studies related to crisis-driven entrepreneurial decision-making. Thematic analysis is utilized to examine primary data from interviews and observations, organizing them into relevant categories in implementing the principles during a crisis. The primary data is analyzed using

N-VIVO, a qualitative data analysis software. Secondary data is obtained from published articles to collect insights on particular concepts, initiatives, or circumstances.

Results and Discussion

The study analyzes seven boutique hotels regarding their strategies and initiatives for crisis resilience, emphasizing the implementation of the five principles of effectuation. The first principle, Bird in Hand, which focuses on maximizing the use of existing resources, was effectively exemplified by the seven boutique hotels during the crisis. The Phoenix Hotel, a cultural heritage asset of Yogyakarta City, effectively utilizes its resources by optimizing the balconies of its Indonesian-Dutch style building as a spot for guests to sunbathe. This is effective because of a governmental health advisory against extended periods in enclosed, air-conditioned spaces. Tentrem Hotel Yogyakarta and Artotel Suites Bianti Yogyakarta adeptly leverage the strengths of their affiliated companies, particularly as both affiliates operate within the health and beauty industry. Tentrem Hotel Yogyakarta manages a sister company specializing in traditional herbal remedies, while Artotel Suites Bianti Yogyakarta produces its own amenity products using ingredients that have passed hygiene testing.

The second principle, Affordable Loss, emphasizes the necessity of cost-saving and investment, as demonstrated by Tentrem Hotel Yogyakarta, The Phoenix Hotel, Gaia Cosmo Hotel, and h-Boutique Hotel Jogjakarta. The four hotels are being renovated during low occupancy periods to improve their facilities and revitalize the property. This is a costly endeavor; however, it represents a long-term investment. Artotel Suites and Swiss-Belboutique Yogyakarta expand their kitchens by incorporating contemporary culinary equipment and high hygiene standards. This investment aims to guarantee that the food preparation is conducted proficiently and hygienically, serving as an advantage for guests who prioritize cleanliness.

The third principle, Crazy Quilt, aims to strengthen the hotel's network and connections for resilience during crises. This principle is best demonstrated by h-Boutique Hotel Jogjakarta, which maintains solid relations with doctors and hospitals in Yogyakarta to facilitate continuous catering requests, and Prime Plaza Hotel Jogjakarta, which cultivates strong partnerships with local communities, football clubs and athletes visiting Yogyakarta for training or regional competitions.

While innovation is a fundamental principle, as articulated in the fourth principle, the Lemonade Principle, all hotels actively seek novel concepts to foster innovation within their establishments. Gaia Cosmo Hotel establishes a youth-oriented café featuring an extensive array of coffee options for enthusiasts and created a communal table as a co-working space for remote young professionals. Swiss-Belboutique Hotel launches a bakery utilizing the hotel vehicle for mobile sales and introduced a new brand, Swiss-Bel Juice, which provides bottled healthy juices while repackaging its food products.

The fifth principle, Pilot-in-the-Plane, is effectively implemented by the General Manager of Prime Plaza Jogjakarta, who assumes the role of 'the pilot' to navigate the hotel through the crisis. The General Manager directly engages with the team, exemplifying leadership by guiding them and consistently reinforcing the hotel's vision, mission, and values, thus offering moral support to all employees.

Semi-structured interviews indicate that the proprietors and senior management apply these principles to differing extents, with the results summarized in the table below.

Table 1. Summary of Semi-Structured Interview Results on the Implementation of the Five Principles of Effectuation

Hotel	The Bird-in-Hand Principle	The Affordable Loss Principle	The Crazy Quilt Principle	The Lemonade Principle	The Pilot-in-the-Plane Principle
Tentrem Hotel Yogyakarta	<ul style="list-style-type: none"> Has loyal customers (the government, such as the ministries, non-ministerial institutions, the military, police and NGOs). Brand of “Sido Muncul” as the owner of the Hotel 	Rather than shutting down operations, the hotel invested in renovations during the crisis.	In terms of networking, partnership with the government serves as the most basic feeder market.	<ul style="list-style-type: none"> Innovation through <i>Tentrem Express</i>, a pick-up system for takeaway food. Using parking slot to build food-stalls. 	GM of the hotel has great leadership, communicate well to all of the employees and did not lay off the employees (permanent or long-term annual contracts).
The Phoenix Hotel	<ul style="list-style-type: none"> A heritage building, an asset to the city of Yogyakarta and the country. Has a large open space area and each room has balcony. 	Spend maintenance cost to rejuvenate the hotel.	Collaborated with both the hospital and the laboratory.	Not accepting sick people, but welcome healthy families, and provided food for those who stayed at home based on the family's requests.	The leader communicated well about the situation so togetherness within team is solid, consistent, and optimistic for the future.
Artotel Suites Bianti Yogyakarta	<ul style="list-style-type: none"> Strategic location at the famous business district. The owner has a good reputation. Making their own amenities under the Natasha Skin Care brand, using more reliable ingredients and maintain higher levels of hygiene, providing a sense of comfort to hotel guests. 	<ul style="list-style-type: none"> Invested in super-hygienic and well-guaranteed cooking equipment. Invested in technology. 	<ul style="list-style-type: none"> The owner's vast network. The owner's reputation as a doctor guarantees a safer and healthier stay at the hotel. Becomes a 'staycation destination for families. 	Creating a food and snack business made by the staff (homemade) but subject to the hotel's quality control.	<ul style="list-style-type: none"> Strengthen each other within team Continue to innovate
Swiss-Belboutique Yogyakarta	<ul style="list-style-type: none"> The most valuable asset is the teamwork. Strategic location of the hotel, in the heart of Yogyakarta city. 	Invest in cooking utilities (modern and professional cooking tools) to make a catering business under the hotel's quality control.	The hotel owner is the biggest tobacco supplier in T City who has strong relations with thousands of tobacco traders.	<ul style="list-style-type: none"> Open a bakery using hotel cars to sell on the road. Selling juice in bottles, <i>Swiss-Bel Juice</i>, and 	<ul style="list-style-type: none"> The hotel's leader has a strong commitment, determination, and solid connection

Hotel	The Bird-in-Hand Principle	The Affordable Loss Principle	The Crazy Quilt Principle	The Lemonade Principle	The Pilot-in-the-Plane Principle
				repackaged the food.	with the team. <ul style="list-style-type: none"> • Not dismissing permanent employees. • Monthly fees are deducted according to each position.
Gaia Cosmo Hotel	<ul style="list-style-type: none"> • CHSE-certified, prioritizing cleanliness and hygiene. • The hotel's concept is open-air, allowing good circulation. • Café & restaurant as the front facade of the hotel and open for public. 	<ul style="list-style-type: none"> • Good financial management, using savings to survive during the crisis. • Invest on a touch-up renovation. 	<ul style="list-style-type: none"> • Build network with the government. • Provide Work from Hotel (WFH) service with hygiene-guaranteed. 	<ul style="list-style-type: none"> • Establish a cafe with diverse coffee selection for coffee lovers • Create a communal table as a co-working space • Receive take-away orders for public. 	The hotel's leader possesses strong characteristic, <i>"Until the very end, I have told my staff that I am like the captain of the ship. I am the last one to jump."</i>
h-Boutique Hotel Yogyakarta	<ul style="list-style-type: none"> • Strategically located. • Human resources as the core team of the hotel. 	Spending costs on hotel maintenance during the pandemic.	<ul style="list-style-type: none"> • Establish MoUs with several hospitals to allow open orders. • Selling food, boxes, lunch, and dinner for employees. 	<ul style="list-style-type: none"> • Provide home-cooked food service for residential areas. • Provide cleaning service and AC service to residents of housing complex.. 	The GM's leadership quality is commendable, suggesting team members take time off for healing, and his effective communication with employees helps to calm them mentally.
Prime Plaza Hotel Yogyakarta	<ul style="list-style-type: none"> • Rooms with open space and open view. • Provide an outdoor space, 6,000 square meters, for wedding reception and other special occasions. • Has a fully equipped gym area. 	Departments are advised to save money and invest in essential items like disinfectants, spray equipment, and gym equipment cleaners during the pandemic.	<ul style="list-style-type: none"> • Enhance hotel promotion to all partners • Develop partnerships with local communities, clubs, and soccer players practicing in Yogyakarta or competing on a regional level. 	<ul style="list-style-type: none"> • F&B sells a hotel-style 'bento' with guaranteed hygiene. • Provide cleaning service for residents, fully dressed in PPE. • Selling outdoor wedding packages. 	<ul style="list-style-type: none"> • All heads of department must attend the morning briefing. • Continuously reiterated the hotel's vision, mission, and values and provide moral strength to

Hotel	The Bird-in-Hand Principle	The Affordable Loss Principle	The Crazy Quilt Principle	The Lemonade Principle	The Pilot-in-the-Plane Principle
				<ul style="list-style-type: none"> Adjusting the price and more flexible with check-out time. Turn the small meeting room into a photo studio. 	<ul style="list-style-type: none"> all employees. The GM even stepped down and engaged directly with the team, setting an example while also teaching them.

The N-Vivo study indicates that boutique hotels utilized five effectuation principles during the crisis, leveraging resources as a strategic strength to navigate uncertainty (see figure below). Each hotel employs unique strategies; however, all seven adopt a resource-based approach to survive and thrive, highlighting the significance of such methods in crisis management.

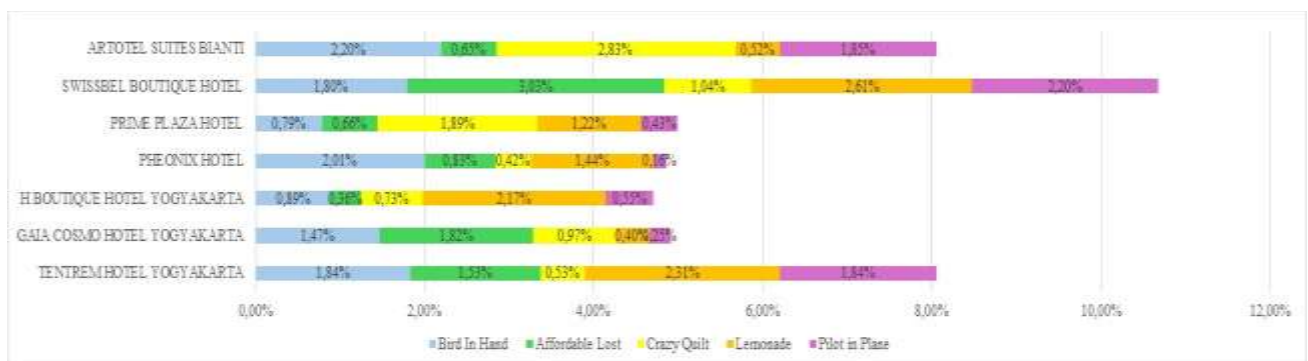


Figure 2. Results of the N-VIVO Graphic

Discussion

The seven boutique hotels commence utilizing available resources and opportunities while addressing the three W-questions of “who I am,” “what I can do,” and “whom I know” (Kalinic et al., 2014). All seven boutique hotels effectively implement the bird-in-hand principle, which pertains to managing uncertainty and unpredictable circumstances (Martina, 2020; Reddy, 2023), during the crisis. These boutique hotels leverage their existing resources to implement this principle, including optimal utilization of their strategic location, heritage architecture, semi-open spaces, and balcony rooms, as well as collaboration with product brands like Jamu Sido Muncul and Natasha Skincare, to sustain operations and endure the crisis.

The affordable loss principle encourages risk-taking and innovation by lowering the bar for risky ventures. “This is what I am willing to risk; let’s see what we can do with it” (Reddy, 2023). It requires a positive attitude and endurance to succeed. Those who intend to persist and persevere will need enough endurance (Williams, 2018). If coconuts were to fall, they could be utilized beneficially or evaluated for damage, ensuring that losses do not exceed the associated risks, thereby enabling a prompter initiation, outcomes, and acceleration. The seven boutique hotels actualize this concept by investing in cost-effective equipment, including food and beverage apparatus, technological devices, air conditioning maintenance tools, dry

cleaning machinery, and housekeeping implements. During the crisis, boutique hotels refurbished their properties, convinced they were making a prudent investment based on the principle of affordable loss.

The boutique hotels employ the crazy quilt principle, enabling stakeholders to participate in their planning and become co-creators. They collaborate to become co-creators (Read et al., 2021a). Instead of competing during the crisis, the boutique hotels engage in active collaboration and networking, developing programs with the government, communities (sports and arts), and the Indonesian Hotel and Restaurant Association of the Special Region of Yogyakarta to enhance their services.

Proprietors, Chief Executive Officers, or General Managers of boutique hotels must swiftly adapt to rapid market fluctuations by acquiring knowledge and executing innovations to ensure survival. Learning faster than the competition is crucial in an uncharted market experiencing rapid change (Oktavio et al., 2023; Read et al., 2021b). These include innovations implemented by the seven boutique hotels, such as the creation of drive-thru food, beverage stalls, or catering business, the provision of room services, laundry, dry cleaning, and air conditioning services to nearby residences, and the conversion of meeting rooms into photo studios for product photography. These strategies empower hotels to endure in an unpredictable environment and adapt to unforeseen challenges.

The pilot-in-the-plane principle is a strategy for controlling the future while working with partners of one's own choosing (Amano et al., 2022), focusing on what can be controlled (Kalinic et al., 2014). A good leader can build a great team as a partner (Jaqua & Jaqua, 2021). The Chief Executive Officer or General Manager of the hotels can shape the future by clearly communicating the vision and fostering hope among employees. The leader should exemplify diligence by promptly commencing work and holding daily briefings to offer support and encouragement to all employees (Kaihatu & Oktavio, 2020). The hotel executives, including the Chief Executive Officer, General Manager, or proprietor, can implement the principle of effectuation to ensure the seamless and secure survival of the hotel staff during the crisis.

Conclusion

This study analyzes the implementation of the five principles of effectuation in the hotel industry during a crisis, with a particular focus on boutique hotels in the Special Region of Yogyakarta, Indonesia, which experienced significant growth followed by a sharp decline due to the crisis. A case study analysis employing semi-structured interviews revealed that boutique hotel proprietors, Chief Executive Officers, and General Managers utilized the five principles of effectuation during crises, facilitating the survival and ongoing operation of seven boutique hotels through diverse strategies and innovations. They reallocate their existing resources, perceive the crisis as an opportunity to improve their assets, and engage in proactive collaboration and networking. They implement various innovations to ensure their survival. The entrepreneurs' decision to apply the effectuation principle allows the collective of boutique hotel members to navigate the pandemic effectively and safely. The boutique hotel entrepreneurs' decision to implement the effectuation principle enable them to thrive during the crisis.

This study focuses on the implementation of effectuation principles specifically in boutique hotels located in the Special Region of Yogyakarta. The findings of this study cannot be generalized to all hotel sectors in Indonesia. The study's findings reveal that all seven boutique hotels utilize effectuation principles during the crisis and effectively persevere both during and after it; however, there is an additional factor or variable that may affect the boutique hotels' ability in managing the crisis.

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