

## EXAMINING AN INFLUENTIAL FACTOR MEDIATING PERFORMANCE IN TOURISM

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### Abstract

This study explores the impact of market orientation on business performance for small and medium enterprises in the tourism industry in Thailand. The associations among market orientation, innovation, and business performance are investigated with an emphasis on the extent to which market orientation and innovation affect business performance. Small and medium hotels located in the Bangkok metropolitan region in Thailand were selected as sample for data collection. A quantitative approach and a structural-direct questionnaire survey were adopted. Of 400 questionnaires distributed to chief decision-makers of small and medium hotels, 155 of the returned questionnaires were usable. Among the small and medium hotels sampled, nearly 60% were small-sized hotels, whereas 40% were medium-sized hotels. The majority of hotels in the sample had been in operation for approximately 10 years. Structural Equation Modelling (SEM) with AMOS was used for data analysis. The results suggest that intelligence generation, intelligence dissemination and responsiveness load significantly into the construct of market orientation. Findings also suggest that market orientation does not have a significant direct effect on business performance for small and medium hotels. However, the effect of market orientation is apparent when the mediating role of innovation is acknowledged. Research limitations and future studies are also addressed.

**Keywords:** Performance, Small and Medium Enterprises, Tourism.

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### 1. Introduction

It has been posited that an effective understanding of market orientation improves firm performance. This assertion has since been well supported by many researchers (Narver & Slater, 1990; Panigyrakis & Theodoridis, 2007; Tsiotsou, 2010; Kumar et al., 2011; Lee, 2015) however, some studies have reported inconsistent findings regarding the relationship between market orientation and business performance.

There are two widely accepted perspectives of market orientation: market orientation under a behavioural context (Kohli & Jaworski, 1990) and market orientation under a cultural context (Narver & Slater, 1990). This study examines market orientation under a behavioural context as measured from the perspective of the organization itself. Market orientation is defined as consisting of three behavioural activities: market intelligence generation, the dissemination of this intelligence across departments in the organization and responsiveness to intelligence (Kohli & Jaworski, 1990). This conception of behavioural market orientation has been used in previous small and medium enterprises (SME) studies (Verhees & Meulenber, 2004; Kara, Spillan & De Shields, 2005).

SMEs in the tourism industry were selected as the unit of analysis in this study owing to following reasons: First, the Thai government has developed a strategic policy for SMEs entering the ASEAN Economic Community (AEC) in 2015. Secondly, according to the Office of Small and Medium Enterprise Promotion, in 2014, more than 80 percent (80%) of the

hotels and resorts in Thailand were SMEs. It is important to note that hotel industry is a major player in Thai tourism, which generates a good portion of the income for the overall economy of Thailand that is approximately 10-17 percent (10-17%) (The Office of Small and Medium Enterprise Promotion, 2015). Thailand's tourism industry generated an income valued at 35.6 billion US dollars in 2014. This number is actually higher than the goal of 33.1 billion US dollars as set by the Ministry of Tourism and Sports (Kasikorn Research Center, 2014).

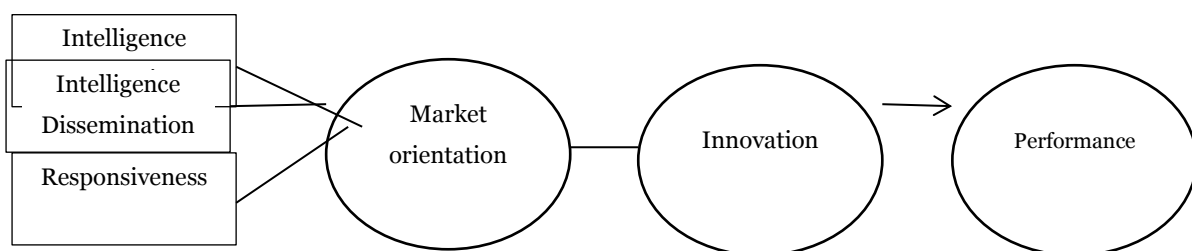
SMEs in Thailand's tourism industry must continually improve business performance in order to compete not only with the larger companies from their home municipality, but also with those in foreign markets.

## 2. Literature review

Generally speaking, market orientation is about understanding customers' demands through introducing competitive products and services, developing real capability, focusing on lowering costs and combining inter-departmental efforts to reach the goals of firms (Ames & Hlavacek, 1989). While the marketing department usually manages efforts to achieve market orientation, other departments within the organization are also required to be involved (Kohli & Jaworski, 1990).

Business performance is a multidimensional construct, comprising two broad measures: judgmental performance (e.g. customer service loyalty) and objective performance (e.g. profit, return on assets: ROA) (Agarwal, Erramilli & Chekitan, 2003). A substantial volume of the literature reveals that market orientation is associated with objective measures of performance, such as gross operating profit, market share, and capacity utilization (Narver & Slater, 1990). Innovation also plays a vital role in a company's success. Innovation refers to the process of generating, developing, and adopting a new item, idea, or behaviour (Zaltman, Duncan & Holbeck, 1973; Damanpour, 1991). At the organizational level, research has focused on differences in organizational structure, culture and management to explain differences in innovative success (Zaltman, Duncan & Holbeck, 1973).

Prior studies have offered empirical examination of the associations among market orientation, innovation and performance. A study by Lado and Maydeu-Olivares (2001) assessed the European and US insurance markets and found that the effectiveness of innovation can be enhanced through following market orientation principles within the organizations. Companies that are less market-oriented are less likely to consider innovation (Agarwal, Erramilli & Chekitan, 2003). Agarwal, Erramilli and Chekitan (2003) investigated the role of innovation and its associations with market orientation and performance with data from 201 international hotels, with results suggesting that innovation has a significant, positive relationship with objective performance. Results also indicated that innovation mediates the relationship between market orientation and objective performance.



### Figure 1: Conceptual framework

This study hypothesizes that a high level of market orientation in, SMEs, when accompanied by the high market orientation behaviours of intelligence generation, intelligence dissemination, and responsiveness (as defined by Kohli and Jawarski in 1990), will exert a positive impact on business performance (i.e., costs, revenue, and profit), and that this relationship is mediated by innovation as shown in Figure 1. Our hypothesis can be stated as follows:

Innovation mediates the relationship between market orientation and business performance.

## 3. Method

### 3.1 Data collection

Data was gathered from SME hotels located in the Bangkok metropolitan region, Thailand. These areas were chosen owing to their potential growth in revenue structure and quantity. Thailand's office of Small and Medium Enterprise Promotion (2015) provided a database containing a list of emails, websites, and contact persons. The target respondents were owners or managers in charge of marketing functions as these individuals make decisions based on their perceptions of market conditions.

A total of 400 self-administered questionnaires were mailed to either the owners or managers of hotels. A postage-paid return envelope was enclosed in order to improve the response rate. Of the 400 questionnaires, 155 completed questionnaires were returned and usable, yielding a response rate of 38.75%. Among the SMEs sampled, nearly 60% were small-sized hotels. A hotel is considered small-sized when it has fewer than 80 rooms. The majority of hotels in the sample had been in operation for approximately 10 years.

### 3.2 Measures

The survey was made up of multi-item measurements that were developed from the extant literature and informal discussion with practitioners in the tourism industry. This study adopted the scale used by Kara, Spillan and De Shields (2005) and Kohli and Jaworski (1990) for the measure of market orientation.

Respondents were asked to rate all question items dealing with market orientation and innovation on a five-point Likert scale (1 = "strongly disagree" to 5 = "strongly agree"). The Cronbach's alpha ratings for the scale reliability of each construct were 0.905, 0.905, 0.896, 0.932 respectively (see Table 1), indicating that the internal consistency among each the constructs was acceptable and above the lower limit of 0.7 (Nunnally, 1978; Hair et al., 2010). The third item regarding intelligence generation was reverse coded in order to minimize the response set bias.

A three-item scale of business performance, in which respondents were asked to rate three items on a five-point Likert scale (1= "decreased more than 10%" to 5 = "increased more than 10%") was adapted from the research of Kumar et al. (2011) and Moorman and Rust (1999). The Cronbach's alpha was 0.886 (Table 1). In addition, the first item was reverse coded in order to minimize response set bias.

To confirm content validity the questionnaire items were reviewed by five scholars who are knowledgeable in the marketing field and service industry. A pilot study was then conducted with 30 owners/managers of SME hotels. An English version was translated into Thai and then translated back to ensure semantic conformity. The managers were asked to read and answer each question, then offer comments as to whether the questions could be improved. Adjustments were then made based on their recommendations.

#### 4. Results

Structural equation modelling (SEM) was employed to analyse results. SEM provides a comprehensive statistical approach to test hypotheses and determine which relationships exist among observed and latent variables. Confirmatory factor analysis (CFA) was used to assess the fit of the single-factor congeneric models to the observed data. Byrne (2010) suggested that CFA is most appropriately applied to measures that have been fully developed and their factor structures validated. The measurement model in this study used AMOS 17.0 with the Maximum Likelihood (ML) estimation. In addition, squared multiple correlation (R<sup>2</sup>) was used to evaluate the model and the suggested value exceeded 0.5 which means the observed variable was reliable (Holmes-Smith, 2001; Byrne, 2010). Construct reliability was estimated by calculating internal consistency among individual items of the measurement scales for the same construct. The reliability of the tested constructs ranged from 0.886 to 0.905 (Table 1), exceeding 0.7 which is the lower limit generally agreed upon for construct reliability (Nunnally, 1978; Hair et al., 2010).

The following approaches were employed to test content and convergent validity. To achieve content validity, we chose established measurement scales that have been used in previous literature and then consulted with experts in the marketing field by administering a pre-test of the questionnaire. Convergent validity was assessed through factor loading estimations and the means of the average variance extracted (AVE). All measured factor loadings must exceed 0.7 to ensure convergent validity (Bagozzi & Yi, 1988). The factor loadings varied from 0.76 to 0.90 (see Table 1), all of them exceeding the suggested value of 0.7. An AVE estimate of 0.50 or higher indicates acceptable validity for a construct's measure (Fornell & David, 1981). As illustrated in Table 1, all AVE values were higher than the necessary threshold; hence, convergent validity of all constructs was achieved.

Table 1: Measures, standardized loading, reliability, average variance extracted

Item description (Reliability/Average variance extracted)	Standardized loading
<b>Intelligence Generation: MG</b> (0.905/0.655)	
In this hotel, individuals from our service department interact directly with customers to learn how to better serve their needs.	0.82
In our business unit, we do in-house market research.	0.81
We are slow to detect changes in our customers' product/service preferences.	0.79
We collect industry information by informal means.	0.79
We periodically review the likely effect of changes in our business environment, such as regulations and technology, on customers.	0.84
<b>Intelligence Dissemination: MD</b> (0.905/0.654)	
A lot of informal talks in this business unit concern our competitors' tactics or strategies.	0.77
Marketing personnel in our business unit spend time discussing customers' future needs with other functional departments.	0.81
Our business unit periodically circulates documents that provide information on our customers.	0.80
When something important happens to our major customer market, the whole business unit knows about it within a short period.	0.82
Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.	0.84
<b>Responsiveness: MR</b> (0.896/0.632)	

We periodically review our effort at product development to ensure that they are in line with what customers want.	0.80
If a major competitor was to launch an intensive campaign targeted at our customers, we would implement a response immediately.	0.80
We are quick to respond to significant changes in our competitors' pricing structures.	0.77
When we find out that customers are unhappy with quality of our service, we take corrective action immediately.	0.82
Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.	0.78
<b>Innovation: IV (0.932/0.696)</b>	
We place emphasis on new business development.	0.84
We constantly develop and refine existing offers.	0.85
We are innovative in our service process.	0.87
We like to experiment with new ways of doing things.	0.82
We accept a challenge more often than other hotels and accommodation.	0.80
<b>BusinessPerformance: BP(0.886/0.728)</b>	
Business costs over the last year.	0.77
Business revenue over the last year.	0.89
Business profit over the last year.	0.89

A structural model defines relationships among the unobserved constructs. It specifies which latent constructs directly or indirectly influence changes in the values of other latent constructs in the model. The model provided a satisfactory fit to the data (CMIN/df = 2.483, GFI = 0.865, AGFI = 0.836, NFI = 0.903, TLI = 0.932, CFI = 0.939, RMSEA = 0.065). The SEM analysis result of the hypothesized model shows that although market orientation does not have a direct effect on business performance, it does have an indirect effect on business performance via innovation. Hence, the hypothesis is supported.

## 5. Conclusion

The findings show that superior performance for SME hotels depends on the fit between the market orientation and innovation. The importance of the impact of innovation upon business performance among SMEs suggests the need for a better understanding of the organisational forces that determine the degree and shape the direction of innovation within their businesses. A higher degree of emphasis on market orientation tends to be linked with a higher level of innovation because the commitment to market-oriented concept will force a SME to become more innovative.

These results are of significance to SME executives. The unique characteristics of the tourism industry allow these executives to employ innovation more easily than can be done in other industries, permitting the adoption of an innovative culture as a means to achieving a competitive edge. It is easier for such managers to exploit the benefits of flexibility and simplicity inherent in their industry. Business practitioners and executives of SMEs should combine sound market orientation with an emphasis on innovation because such a combination is likely to result in higher levels of business success. SME hotels and other businesses in the tourism industry should adopt market orientation as a business strategy, even when the economy is flourishing. The more SMEs in the tourism industry emphasize market-oriented offerings, the greater the likelihood that innovation will lead to higher business performance.

However, as with any research, it has limitations. First, this study employed a cross-sectional design, which means that cause-and-effect relations cannot be inferred from our findings. Future studies would be beneficial to examine the change of an organisation's market orientation over time using a longitudinal research design. Second, the results may not provide entire answers because of limitations of a quantitative study. Future research could be expanded by undertaking qualitative research methods, such as interview or focus groups in order to provide a plausible explanation of market orientation and performance relationship.

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