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Market-Driven Hotel Brands: Linking Market Orientation, Innovation, and Performance

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Abstract

"Market orientation" is a term popularized by marketing practitioners to indicate the extent to which a firm is market driven. This presumed linkage between market orientation and profitability has caught the attention of scholars, but, surprisingly, only two prior studies have reported a positive association between the two. Given the special relevance to the hotel industry of being market driven, we believe this industry provides the ideal setting for demonstrating the link between market orientation and performance. This research examines this linkage in the hotel industry. The results of our study suggest that market orientation is positively and significantly related to innovation, subjective performance, and objective performance. This result yields a number of useful ideas about how to harness the power of the marketing concept.

Keywords

Hotel, Lodging, Innovation, Market Orientation

Market-Driven Hotel Brands:
Linking Market Orientation, Innovation, and Performance[A]

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"Market orientation" is a term popularized by marketing practitioners to indicate the extent to which a firm is market driven. This presumed linkage between market orientation and profitability has caught the attention of scholars, but, surprisingly, only two prior studies have reported a positive association between the two. Given the special relevance to the hotel industry of being market driven, we believe this industry provides the ideal setting for demonstrating the link between market orientation and performance. This research examines this linkage in the hotel industry. The results of our study suggest that market orientation is positively and significantly related to innovation, subjective performance, and objective performance. This result yields a number of useful ideas about how to harness the power of the marketing concept.

"*Market orientation*" is a term popularized by marketing practitioners to indicate the extent to which a firm is market driven. A market-driven firm determines the needs and wants of its target markets and develops products and brands that deliver the desired satisfactions more effectively and efficiently than its competitors do. A market-driven firm develops superior market-sensing and customer-linking capabilities with the conviction that such capabilities lead to higher-performing brands in comparison with less market-driven firms (Day, 1994).

This presumed linkage between market orientation and profitability has caught the attention of scholars, but, surprisingly, only two prior studies have reported a positive association between management-reported market orientation and return on investment (see Narver & Slater, 1990; Slater & Narver, 1994). These studies used the same dataset for both papers and confirmed the hypothesis that market orientation improves return on investment.

Despite the paucity of empirical support, most practitioners continue to embrace the commonsense appeal of market orientation. Given the special relevance to the hotel industry of being market driven, we believed this industry would provide the ideal setting for demonstrating the link between market orientation and performance. Our research was therefore designed to examine this linkage in the hotel industry.

WHAT IS MARKET ORIENTATION?

A firm's market orientation is the extent to which it implements the market-driven concept. The power of this concept becomes clearer when we compare its underlying rationale with that of the "*selling concept*". The selling concept is based on the premise that consumers are not naturally inclined to purchase a given brand's products. A brand must therefore undertake an aggressive selling effort. The market-driven concept, on the other hand, assumes that consumers will buy brands that satisfy their needs. An organization that attempts to understand its customers' needs first (and keeps an eye on its competitors' marketing efforts) and then creates and delivers the desired products will enjoy a competitive advantage. In other words, instead of trying to bludgeon the customer into buying its products (the selling concept), a firm listens to the customer and responds by configuring its brands around customer demands. Such a focus on consumer satisfaction may be expensive, but those who follow the marketing concept believe that it is essential to long-term profitability.

If so many analysts and managers believe in the market-driven concept, why does the literature reveal such meager empirical support for its efficacy? One possibility is that prior

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research has not examined the right industry or has diluted the effects by studying firms across disparate industries. Had such studies examined service firms (focusing on a single business activity), the studies might have found clear evidence of such a linkage. Service firms, especially those in the hospitality industry, are unique because they must be market oriented to operate successfully in a hyper-competitive, global-branding environment. Hence this study makes an important contribution to our understanding of the hotel industry environment.

This study also explicates the process by which market orientation impacts performance. Observing a direct relationship between market orientation and performance simply indicates a correlation; it does not explain *how* market orientation impacts performance. The process may be outlined as follows: If a market-oriented brand has developed superior market-sensing and customer-linking capabilities, it should be in a position to "innovate" in a manner that provides superior value to its target customers. Service brands, including global hotel brands, can innovate by developing new products and services or by reformulating existing ones, and perhaps by discovering new approaches to management and competitive strategy. There is significant support in the management literature for the idea that innovation leads to superior performance. We took our initial lead in connecting market orientation to profitability through innovation from Han, Kim, and Srivastava (1998). Both Narver and Slater (1990) and Slater and Narver (1994) have addressed the issue as well. The connection between innovation and profitability has found support in Damanpour and Evan (1984); Damanpour, Szabat, and Evan (1989); Khan and Manopichetwattana (1989); and Zahra, de Belardino, and Boxx (1988). We therefore explored this process by focusing on the global hotel industry

We also incorporated the idea that performance is a two-dimensional concept, with both objective and subjective aspects. Objective performance measures include capacity utilization, profitability, and market share. Subjective performance involves customer- and employee-based benchmarks, such as service quality, customer satisfaction, and employee satisfaction. The overarching goal of being market-driven is the creation and retention of satisfied customers: "To maximize its long-run performance, [a] business knows it must build and maintain a long-run mutually beneficial relationship with its buyers" (Narver & Slater, 1990, p. 21). Statements such as "stay close to the customer," "put the customer at the top of the organization chart," and "define the purpose of a business as the creation and retention of satisfied customers" indicate that companies that offer superior customer value are "expected to enjoy superior long-run competitive advantage and superior profitability" (Day, 1994, p. 37; see also Day & Wensley, 1988; Drucker, 1954; Hooley, Lynch, & Shepherd, 1990; and Kotler, 1977). Moreover, a related goal, especially in service organizations, is to satisfy employees. A satisfied employee is committed to an organization and experiences a high level of esprit de corps (Kohli & Jaworski, 1990). When such highly satisfied employees deliver superior customer satisfaction, they generate customer loyalty (Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994). Satisfied customers then spread the good word to other potential customers, expanding the customer base and in turn enhancing profitability and revenue growth. In this way the marketing concept points to the proposition that superior subjective performance is a pre-requisite for superior objective performance. Consequently, our study was designed to test the idea that a market-oriented brand is likely to be innovative, is likely therefore to be able to achieve superior subjective performance, and thus, in turn, is likely ultimately to be able to achieve superior objective performance.

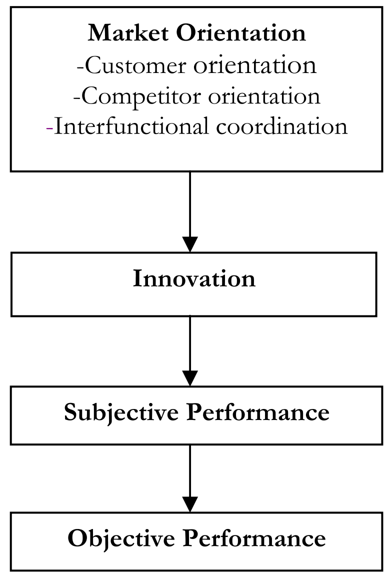
The purpose of this study was, therefore, to assess the mediating role of innovation and subjective performance in the relationship between market orientation and objective performance. Because the focus of this study was on a single industry, namely, the hotel industry, we did not examine the moderating role of environmental considerations that may influence firms differently across different industries (on the advantage of researching a single industry—and a service industry—see Han et al., 1998).

THE STUDY

We studied how a firm that adopts a market orientation might achieve superior objective performance. We diagramed the general business model for such an orientation in Figure 1.

Figure 1

The Study Model



We focused our first set of hypotheses on the role of innovation and the second set on the role of subjective performance.

Our first set of hypotheses, designed to measure the effects of innovation, tested whether adopting a market orientation would be positively associated with innovation, subjective performance, and objective performance. Next we tested whether innovation is a mediating factor in these associations—that is, whether innovation captures the full impact of market orientation to bring about superior subjective and objective performance, respectively. In other words, we tested whether the way market orientation delivers superior performance is by making the firm more innovative. Other studies that have focused on innovation include Deshpande, Farley, and Webster (1993) and Slater and Narver (1994).

Our second set of hypotheses, designed to measure the effects of subjective performance, tested whether subjective performance captures the full impact of innovation and brings about superior objective performance. In other words, we tested whether innovation leads to superior subjective performance, which, in turn, results in superior objective performance (for more on the relationship between subjective and objective performance, see Day & Wensley, 1988; Heskett et al., 1994; and Kohli & Jaworski, 1990).

Data Collection

A survey questionnaire was developed to measure the study constructs. The questionnaire, modified after pre-testing, was mailed to the general managers of 530 hotels, accompanied by a cover letter from the CEO of the Global Hoteliers Club. A reminder was sent two weeks later, and a second reminder was sent four weeks later with the copy of the survey questionnaire. Table 1 lists some of the well-known brands that were represented in the study.

Table 1

Brands Represented in the Study

ANA	Holiday Inn	Nikko	Renaissance
Caesar Park	Hyatt	Novotel	Ritz-Carlton
Camino Real	Inter-Continental	Oberoi	Rockresorts
Conrad	Kempinski	Okura	Shangri-La
Crowne Plaza	Mandarin Oriental	Omni	Sheraton
Disney	Marriott	Pannonia	Sonesta
Fairmont	Melia	Pan Pacific	Taj
Four Seasons	Meridien	Peninsula	Traders
Hilton	Movenpick	Regent	Westin
			Wyndham

Measures

Market orientation. Market orientation was measured with a 14-item set, based on one proposed by Narver and Slater (1990). Each item was measured on a 5-point scale, where 1 indicated "*strongly disagree*" and 5 indicated "*strongly agree*". An average of the 14 items represented a hotel's overall market orientation. The scale included three main concepts—customer orientation, competitor orientation, and interfunctional coordination.

Innovation. Innovation was measured with a two-item scale. The scale assessed a hotel's propensity to invest in generating new capabilities that provide it with new ways to serve customers. The measure captured both administrative and technological innovation, with both items measured on a 5-point scale, where 1 indicated *strongly disagree* and 5 indicated *strongly agree* (see Han et al., 1998, for more on the distinction between administrative and technological innovation). An average of the two items represented a hotel's overall level of innovation.

Performance. Performance was measured with reference to six items, of which three were objective measures and three were subjective measures. The three objective measures were occupancy rate (a key performance measure in the hotel industry), gross operating profit, and market share. The three subjective measures of performance were service quality, customer satisfaction, and employee satisfaction. Each of these items was measured on a 5-point scale, where 5 indicated "*Much better than competitors*," 4 indicated "*Better than competitors*," 3 indicated "*About the same*," 2 indicated "*Worse than competitors*," and 1 indicated "*Much worse than competitors*." An average of the three objective measures represented a brand's overall measure of objective performance, and an average of the three subjective measures represented a brand's overall measure of subjective performance.

Participants

Exhibit 2 summarizes the salient characteristics of the analysis sample. Seventy-four percent of the respondents were general managers of their respective hotel properties. The hotels represented in the sample were heavily international, and they had been international for a significant period of time. Forty-six countries were represented in the sample, assuring diversity. About 61% of the hotels in the sample represented city-center locations, and almost 67% were classified as five-star hotels. The average hotel's customer mix was predominately individuals and group business people.

Table 2

Sample Characteristics

Geographic Origin			**Parent Company Particulars**	
Continent	Number	Percent		
Africa	21	10.4	Number of hotel properties worldwide	312
Asia	78	38.8	Number of years since international	28
Australia	17	8.5	Percent of revenue from international	58
Europe	45	22.4		
South America	5	2.5		
North America	35	17.4	**Individual Property Characteristics**	
Total	201	100.0		
			Number of rooms available for sale	365
			Number of full-time employees	435
Positioning of Hotel				
Luxury/5 Star	77	38.3		
Upscale/5 Star	58	28.9	**Respondent Characteristics**	
First Class/4 Star	54	26.9		
Others	12	06.0	Number of years in current position	6.5
Total	201	100.0	Number of years in hotel industry	24.5
			Number of countries where worked	7.3
Location of Hotel			% having college education	74.4
			% who are General Manager	73.8
City Center	122	60.7		
Suburban	16	8.0		
Resort	51	25.4		
Others	12	6.0		
Total	201	100.0		

A total of 201 usable responses were received. Through correspondence with non-respondents we were able to conclude that non-response bias was negligible and insignificant (following Armstrong & Overton, 1977).

RESULTS

Mediating Role of Innovation

According to the method we used to test for the mediation effect of innovation on the relationship between market orientation and both objective and subjective performance, the data would have to demonstrate that market orientation is related independently to both innovation and performance, but the impact of market orientation should disappear when looking at the combined impact of market orientation and innovation on performance. The results contained in

Table 3 suggested the same. This led us to conclude that innovation fully mediates the relationship between market orientation and performance.

Table 3

Regression Results

Eq. #	Regression Equation	Dependent Variables	*Independent Variables*		
			Market Orientation	**Innovation**	**Subjective Performance**
1	$IN^{A} = b_0 + b_1*MO^{B}$	**Innovation**	$.52^{a}$		
2	$JP^{C} = b_0 + b_1*MO$	**Subjective Performance**	$.47^{a}$		
3	$OP^{D} = b_0 + b_1*MO$	**Objective Performance**	$.17^{c}$		
4	$JP = b_0 + b_1*MO + b_2*IN$	**Subjective Performance**	$.39^{a}$	$.15^{c}$	
5	$OP = b_0 + b_1*MO + b_2*IN$	**Objective Performance**	.08	$.17^{c}$	
6	$JP = b_0 + b_1*IN$	**Subjective Performance**		$.36^{a}$	
7	$OP = b_0 + b_1*IN$	**Objective Performance**		$.22^{b}$	
8	$OP = b_0 + b_1*MO + b_2*IN + b_3*JP$	**Objective Performance**	-.04	.12	$.31^{a}$

^{a}: $p < .001$; ^{b}: $p < .01$; ^{c}: $p < .05$

A; IN=Innovation

B: MO=Market Orientation

C: JP=Subjective Performance

D: OP=Objective Performance

Our findings indicated that market orientation is positively and significantly related to innovation, subjective performance, and objective performance, but because the results showed significant positive relationships of both market orientation and innovation to subjective performance, we failed to confirm that innovation mediates the relationship between market orientation and subjective performance. We thus concluded that innovation may be a partial mediator in the relationship between market orientation and subjective performance.

On the other hand, the results indicated that market orientation is insignificantly related to objective performance in the presence of innovation, which is positively and significantly related to objective performance. In this case we were able to support the associated hypothesis, so we suggest that innovation does mediate the relationship between market orientation and objective performance.

Mediating Role of Subjective Performance

Using the same statistical procedure for our second set of hypotheses, we needed to demonstrate that innovation is related independently to both subjective performance and objective performance. If innovation would prove to be related to objective performance directly, and subjective performance would explain a significant amount of variance in objective performance in the presence of innovation, we would be able to conclude that innovation fully mediates the relationship between market orientation and performance. The results indicated that innovation is positively and significantly related to both subjective performance and objective performance.

Further results indicated that subjective performance is positively and significantly related to objective performance, after controlling for market orientation and innovation. This implied that subjective performance is a full mediator of the relationship between innovation and objective performance. Moreover, according to our results, market orientation was not related directly to objective performance, implying that subjective performance is a mediator of the relationship between market orientation and objective performance. Ultimately, then, we were able to find in the results of the study full or partial confirmation of all of our hypotheses.

MANAGERIAL IMPLICATIONS

We set out in this study to test a commonsense insight that we think may apply particularly to the global hotel industry, namely that market-oriented brands can enjoy an important competitive advantage. Our study, we have emphasized, assumed that performance is a two-dimensional construct, comprising both objective performance, which involves financial or market-based measures such as capacity utilization, profitability, and market share, and subjective performance, which involves customer and employee-based measures such as service quality, customer satisfaction, and employee satisfaction. The results of our study suggest that the commonsense insight about the marketing concept indeed holds true: Superior objective performance is based on superior subjective performance. This result yields a number of useful ideas about how to harness the power of the marketing concept.

How to be Market Oriented

In order to adopt a market orientation and reap the rewards represented by superior objective performance, we suggest that a brand must begin by (a) generating market intelligence to identify the needs of its customers, (b) generating market intelligence to understand its competitive environment, and (c) developing an organizationally coordinated response (see Narver & Slater, 1990). We now consider each of these policies in turn.

Generation of Market Intelligence on Customers. In order to respond to customer needs, brands need information about the needs and preferences of customers that will provide the basic intelligence to prepare marketing plans. Being customer oriented requires that a seller understand a buyer's entire value-chain, not only as it operates today but also as it will evolve over time. Our analysis suggests that the investment entailed in developing such a capability will garner a significant return. It should be mentioned that intelligence generation is the job of every employee of an organization. Employees who come into direct contact with customers, such as receptionists, concierges, restaurant servers, and even housekeepers, are the obvious intelligence gatherers. Programs such as Hilton's ECHO (Every Contact Has Opportunity) and The Breakers' THEO (Team Hears Every Opportunity) are best-practice examples of such intelligence gathering. However, other employees also may have the opportunity to generate intelligence from other types of sources. For instance, general managers, marketing directors, and chefs can learn about market trends and customer preferences by attending executive-education programs and trade shows.

Generation of Market Intelligence on Competitors. Managers must understand the short-term strengths and weaknesses as well as the long-term capabilities and strategies of both current and future competitors. This type of intelligence also includes monitoring competitive factors that may influence customers' future needs and preferences. Among the best practices followed by market leaders, we cite regular competitive "shopping" by members of a management team, subscribing to competitive reports (e.g., reader board reports, STAR, Hotelligence, Phaser, FuturePACE, HotelSpotlight, and RateView), and attending executive programs and conferences to learn what competitors are doing. Again, our research suggests that these activities are worth the investment.

Interfunctional Coordination. Creating superior value for customers requires that a brand do more than just market its products. Every individual in every function in a hotel brand is involved in producing and delivering the product—in this case services—to the customer. This makes it important for each employee to internalize the needs and preferences of the organization's customers and endeavor jointly to create customer satisfaction. A brand must draw upon and integrate effectively, as well as adapt as necessary, its entire human and other capital resources in a continuous effort to create superior value for customers. Achieving effective interfunctional coordination requires an alignment of the functional areas' incentives and the creation of interfunctional dependency so that each area perceives its own advantage in cooperating closely with the others. In other words, it is critical to have a system by which employees can share the intelligence they have generated. In the THEO system used by The Breakers, for example, each customer contact is called into a voice mail system, which is then transcribed. The resulting report is then circulated to all departments for acknowledgment and possible follow-up action. Such a three-part system of intelligence collection, dissemination, and action is essential to the innovation process.

Why Be Market Oriented?

The goal of all organizations is to boost market share and profitability. Becoming market oriented provides a unifying focus for the efforts and projects of individuals and departments within an organization, thereby leading to superior performance. In addition, a market orientation evidently provides psychological and social benefits to employees. Accomplishing customer satisfaction results in employees' sharing a feeling of worthwhile contribution, as well as higher levels of job satisfaction and organizational commitment.

Importance of Innovation. Innovation is a key to the survival of most brands, especially service brands. Our study results suggest that brands that are less market oriented are less likely to consider innovation. Unless they are somehow protected from competition, such brands are likely to face declining performance.

Importance of Subjective Performance. As we have noted, this is the first study to provide evidence that subjective performance is a key mediator in the relationship between market orientation and objective performance as well as between innovation and objective performance. It is therefore imperative that brands pay close attention to increasing service quality, customer satisfaction, and employee satisfaction if they want to ensure superior profitability.

In a nutshell, then, the management team of a global hotel brand can expect to see such a brand's objective performance measures rise if it adopts a market orientation and develops innovative ways to enhance both customer and employee satisfaction through higher service quality.

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