



Price Strategy, Market Orientation, and Business Performance in the Hotel Industry


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ABSTRACT

This study seeks to study the relationship between market orientation and business performance and to evaluate the mediating effect of adopting a low-price strategy in this relationship in the hotel industry. A sample from the Spanish and Portuguese hotel industry is used. Results show that the effect of market orientation on business performance is positive and direct. On the other hand, the results do not confirm the mediating effect of a strategy based on low-price in the strength of this relationship. Moreover, results indicate that a price strategy based on low-price is negatively related to hotel business performance.

KEYWORDS

Business Performance, Hospitality Industry, Hotel Industry, Market Orientation, Mediating Effect, PLS, Pricing Strategy, Tourism Marketing

INTRODUCTION

Market orientation literature faced a faster development in the 1990s when Kohli and Jaworski (1990) and Narver and Slater (1990) established the foundations for the following research on this subject. During this period, several market orientation scales were developed (Deshpandé & Farley, 1998; Deshpande, Farley, & Webster, 1993; Jaworski & Kohli, 1993; Kohli, Jaworski, & Kumar, 1993; Narver & Slater, 1990; Ruekert, 1992), although, MKTOR scale (Narver & Slater, 1990) and Jaworski and Kohli (1993) scale, or its reduced version, MARKOR scale (Kohli et al., 1993) established the cornerstone of the market orientation research.

Furthermore, research on market orientation was mainly directed to the industrial and consumer goods sectors (Gray, Matear, & Matheson, 2002; Quintana-Déniz, Beerli-Palacio, & Martín-Santana, 2007; Sin, Tse, Heung, & Yim, 2005). Nevertheless, in recent years, several studies testing the relationship between market orientation and business performance on the hotel industry were

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carried out (Bazazo, Alansari, Alquraan, Alzgaybh, & Masa'deh, 2017; Hinson, Abdul-Hamid, & Osabutey, 2017; Jogaratnam, 2017; Polo-Peña, Frías-Jamilena, & Rodrigues-Molina, 2012; Sampaio, Hernández-Mogollón, & Rodrigues, 2019; Wang, Chen, & Chen, 2012) yet, there is a shortage of market orientation research on the hotel industry with a transnational scope.

The tourism industry depends on the hotels' ability to provide accommodation and is recognized as a key factor influencing a country or region's economic potential, employment, and social and environmental variables. This is particularly the case of Spain and Portugal. According to the Eurostat (2019b), Spain, in 2017, was the most common tourist destination in the EU for non-residents (people traveling outside their country), with 306 million nights spent in tourist accommodation establishments, or 20.0% of the EU-28 total. As for Portugal, the total contribution of Travel & Tourism to GDP was EUR33.5bn, 17.3% of GDP in 2017, and was forecasted to rise to EUR44.7bn, 20.5% of GDP in 2028 (World Travel and Tourism Council, 2018).

Nevertheless, hotel companies face several challenges, such as the high fixed costs and floating demand that puts pressure on hotel business performance. On the other hand, travelers tend to use online travel agencies to search and book hotel rooms (Toh, DeKay, & Raven, 2011) and online search engines (such as booking.com, expedia.com) experienced significant growth on the accommodation reservation services (Booking Holdings Inc., 2019; Expedia Group, 2019), retaining a booking commission and pressuring further the hotels gross margin.

Moreover, according to Liu and Zhang (2014), channel related factors have a positive effect on customers purchase intention and product price and product review are among the most important factors driving customers to a booking channel and their priority. On the other hand, price is key factor in the selection of accommodation (Lockyer, 2005) and hotels change prices according to an inter-temporal structure of the trend primarily depending on the type of customer (leisure or business) and the star rating (Abrate, Fraquelli, & Viglia, 2012).

Furthermore, the two most common strategies used by hotel managers are low-cost leadership through price discounting and developing customer loyalty by providing unique benefits to customers (Kandampully & Suhartanto, 2000), which customers are aware through the available information about product price and product review in the online booking engines.

Therefore, there is a significant positive relationship between perceived price and the surrogates for perceived quality (staff and condition) (Bojanic, 1996). Price is what is given up or sacrificed to obtain a product (Zeithaml, 1988) and market orientation seeks to provide superior value to customers (Narver & Slater, 1990), combining price and service quality. Thus, this work has two main objectives. First, to evaluate the nature of the relationship between market orientation and business performance, and second, to access the mediating effects of a strategy based on a low-price on the relationship between market orientation and business performance in the hotel industry.

To accomplish the objectives defined above, a literature analysis is conducted, and the model hypotheses are formulated. Next, the methodologic procedures used in this research are described, and the obtained results are presented. Finally, some conclusions about this research are proposed.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Market Orientation, Business Performance and Hotel Industry

Despite the early definitions of market orientation in the 1950s, the advent of the 1980s brought a rediscovery of the marketing concept (Webster, 1988), and a relative shifting from marketing oriented as the implementation of the marketing concept, to market orientation defined as the set of processes touching every company departments targeting the market (Shapiro, 1988). Nevertheless, the 1990s shaped the current state of market orientation research. Narver and Slater (1990) and Kohli and Jaworski (1990) established the framework for the following work about this issue.

According to Narver and Salter (1990), market orientation is seen as a concept built on three behavioural components: customer orientation, competitor orientation and inter-functional coordination, whereas Kohli and Jaworski (1990) defined market orientation as a concept consisting in three activities: intelligence generation, intelligence dissemination and responsiveness.

From a theoretical point of view, two main approaches were established. Market orientation was seen from a cultural perspective or from a managerial focus perspective (Lafferty & Hult, 2001). Shapiro (1988), Kohli and Jaworski (1990), and Ruekert (1992) exemplified a more managerial focus, whereas Narver and Slater (1990), and Deshpandé et al. (1993) studies represented market orientation as a kind of organisational culture.

Notwithstanding the theoretical developments, market orientation was widely reported as having a positive effect on business performance (Chang, Franke, Butler, Musgrove, & Ellinger, 2014; Haugland, Myrtveit, & Nygaard, 2007; Kara, Spillan, & Deshields, 2005; Kirca, Jayachandran, & Bearden, 2005; Lee, Kim, Seo, & Hight, 2015; Liao, Chang, Wu, & Katrichis, 2011; Nwokah, 2008; Wang et al., 2012).

For several years, the hospitality sector has been overlooked in the development of the existent market orientation measurement models. The scales used to measure market orientation in the hotel industry are usually based on MARKOR (Kohli et al., 1993) and MKTOR (Narver & Slater, 1990) scales, or some kind of adaptation to these models. Nevertheless, recently, some proposals emerged to improve these models and adapt them to the hotel sector (e.g., Campo, Díaz, & Yagüe, 2014; Polo-Peña et al., 2012; Wang et al., 2012).

Moreover, market orientation studies on hospitality sector were carried out more frequently in the 2000s, showing that market orientation is positively related with hotel business performance (e.g., Agarwal, Erramilli, & Dev, 2003; Campo et al., 2014; Gray, Matear, & Matheson, 2000; Jogaratnam, 2017; Kasim, Ekinci, Altınay, & Hussain, 2018; Polo-Peña et al., 2012; Sampaio, Rodrigues, & Hernández-Mogollón, 2019; Sin et al., 2005; Vega-Vázquez, Cossío-Silva, & Revilla-Camacho, 2016).

Therefore, the proposed model states that market orientation enhances a business knowledge on how to provide superior value to customers, thus, increasing business performance. This is done by means of gathering intelligence on customers' needs and preferences. The staff plays a critical role, analysing exogenous factors that influence those needs and preferences and balancing it with a focus on competition (Kohli & Jaworski, 1990) and other market structure issues.

Thus, the following hypothesis was formulated:

H1: There is a positive direct effect between market orientation and business performance.

Price Strategy, Market Orientation and Business Performance

Guests accommodation selection is an interesting research stream and has been intensively analysed in literature and, for the guest, the created value is a critical point in the choosing process, yet, there is some sort of divergence between the guest point of view when choosing a hotel and the hotels managers thoughts on the drivers of the guests decisions (Lockyer, 2000, 2002, 2005).

Lewis (1987) found five cases of critical factors for guests' expectations: cleanliness, the comfort of bed; quick check-in/check-out; staff friendliness; and quiet. Conversely, according to Lewis hotels management does not realize the importance of these factors.

Similarly, Dolnicar and Otter, (2003), found several factors influencing hotels occupancy. Among them, convenient location, service quality, reputation, friendliness of staff, price, and room cleanliness, were the most important ones. Furthermore, location and accessibility, staff performance, and room quality were found to be the core determinants of customer satisfaction (Xu & Li, 2016) and the length of stay affects costumers expected discount (Schwartz, Riasi, & Liu, 2018).

According to Lockyer (2000, 2002, 2005), cleanliness was also found as an essential factor in the guests' accommodation decision. Interestingly, the Lockyer (2005) research conducted a quantitative

and qualitative study. When asking hotels guests about the factors driving their accommodation selection, cleanliness was found to be the most critical factor for accommodation selection by the quantitative research. However, when asking the participants to write down the three most important factors when selecting hotel or motel accommodation, the price was listed as the first most crucial factor.

Furthermore, according to Lockyer (2002), hotel managers see guest accommodation selection depending on the relationship between facilities, location, price and staff. Conversely, hotels guests' accommodation decision depends on a close relation between friendly, location, service, and restaurant. Moreover, price level seems to have an effect on consumer expectations (Bojanic, 1996) and firms may add value by improving perceived quality or lowering perceived price (Kashyap & Bojanic, 2000).

Hotel industry, as a service industry faces several issues related to the intangible nature of the business. Furthermore, hotels demand is not constant, and hotels tend to adapt their prices according to the demand. For instance, according to Abrate et al. (2012), the hotels' prices vary according to the weekday (mid-week day or weekend day) and according to the type of guest (business people or leisure customer). Furthermore, these authors found that, in some cases, prices tend to get lower, close to a guest check-in date, as the hotel looks to fill empty rooms.

From the consumer's perspective, price is what is given up or sacrificed to obtain a product (Zeithaml, 1988), and people evaluate products on the basis of their perceptions of price, quality and value, rather than objective attributes such as actual prices or actual quality. Therefore "expressions of value can be captured in one overall definition: perceived value is the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given" (Zeithaml, 1988, p. 14). Furthermore, customer price perception is positively related to customer satisfaction and with customer consumption emotions (Ali, Amin, & Ryu, 2016) and plays a key role in providing exceptional customers value (Amin, Yahya, Ismayatim, Nasharuddin, & Kassim, 2013).

Market orientation enables value creation to customers and continuous business performance improvement (Narver & Slater, 1990) and allows a unifying objective to individuals and departments, conducting to superior business performance. It also produces a sense of belonging in the workforce to the organization, in which the central goal is to satisfy the customer, conducting to a compromise with the efforts of clients satisfaction (Kohli & Jaworski, 1990), and consequently improving business performance.

On the other hand, the main goal for a company existence is customer satisfaction, and it is the customer who determines what the business is (Drucker, 1954). Thus, satisfying clients' needs is generally recognized as important to managers because it is assumed to be a significant determinant of repeat sales, positive word-of-mouth, and consumer loyalty (Bearden & Teel, 1983). Satisfaction is also essential to clients, once it represents the positive effect or the reward for satisfying needs (Day & Landon, 1977). Furthermore, consumer satisfaction level depends primarily on two factors: expected service and perceived service (Grönroos, 1984). Therefore, the expected service and the perceived service depends on what customer values for a given price.

Service provided by hotels is basically immaterial and can be characterized as an activity where production and consumption to a considerable extent take place simultaneously (Grönroos, 1984). Therefore, service companies, as hotels, depended strongly on humans' interactions to satisfy clients' needs. The effective delivery of services is dependent upon the attention and attitudes of staff as well as their performance (Mullins, 1993). Providing superior value to clients by means of a market-oriented organization is a complex process that requires considerable expenditure of money and time (Slater & Narver, 1994), as well as a commitment of resources, and is only useful if the benefits it affords exceed the cost of those resources (Kohli and Jaworski, 1990).

Therefore, market orientation increases the underlying cost of the service, having hence a negative effect on a low-price strategy, leading to the following hypothesis:

H2: There is a negative direct effect between market orientation and a hotel low-price strategy.

For a stable accommodation demand, hotels decisions about the pricing strategy will affect the gross margin. Yet, hotels face high fixed costs, a fixed rate of supply, but a fluctuating, seasonal and often unpredictable demand (Mullins, 1993). Furthermore, the hotels' prices are not stable, it vary according to the weekday (mid-week day or weekend day) and according to the type of guest (business people or leisure customer) (Abrate et al., 2012) which, pressures the gross margin and consequently business performance.

On the other hand, providing superior service quality to customers leads to a higher commitment to the hotel brand (Tavitiyaman, Qu, & Zhang, 2011), leading also to higher costs. Furthermore, customers are increasingly ware of hotels offers and online reviews acquired increasing importance in the reputational arena, implying that further effort should be made to satisfy and improve customers' experiences and expectations over time (Abrate & Viglia, 2016), in which the accommodation price plays a relevant role (Ali et al., 2016; Dolnicar & Otter, 2003; Schwartz et al., 2018). Nevertheless, a hotel strategy based on a low-price should have a negative effect on hotel business performance. The expected service and the perceived service are closely related to what the customer gives or sacrifices to have it and a low-price strategy implies lower margins to the hotels and one of the main reasons for company existence is to be profitable.

Consequently, companies pursuing a low-price strategy will suffer from low margins, implying that the relationship between a low-price strategy and business performance would be negative, leading to the following hypothesis:

H3: There is a negative direct effect between a hotel low-price strategy and hotel business performance.

Finally, market orientation is recognised to provide superior value to customers, although, its characteristics are usually related to a superior price premium to the supplier. Moreover, developing a market-oriented organization is a complex process that requires considerable expenditure of money and time (Slater & Narver, 1994) and market orientation is positively related with business performance (Jogaratham, 2017; Kasim et al., 2018; Sampaio, Rodrigues, et al., 2019; Vega-Vázquez et al., 2016).

Consequently, market orientation should be positively associated with hotel business performance (H1), negatively associated with a hotel low-price strategy (H2) and the low-price strategy, negatively associated with hotel business performance (H3). This issue implies that the mediating effect of a hotel strategy based on low prices on the relationship between market orientation and business performance should be assessed.

Therefore, the following hypothesis was formulated:

H4: The relationship between market orientation and business performance is mediated through a hotel low-price strategy.

METHODS

As it was stated in the introduction section, the purpose of this work is to analyse the relationship between market orientation and business performance and to evaluate the mediating effects of a low-price strategy on this relationship. To perform this analysis, a survey was sent to the managers of a sample of Spanish and Portuguese hotels.

Measurement Scales

Former market orientation measurement scales, namely the MARKOR scale and the MKTOR scale face several problems and raised some criticisms about its validity and reliability (Farrell, 2002; Farrell & Oczkowski, 1997; Gauzente, 1999; Pelham, 1993; Siguaw, Brown, & Widing II, 1993), therefore, the market orientation (MO) construct was measured using a scale developed based on a

literature review and following Churchill's (1979), Webb (2002) and Nunnally and Bernstein (1994) guidelines on scale development.

Market orientation proposed scale items were sent by an online survey to a group of academic marketing experts from Western Europe countries to assess its content validity. The obtained responses gave to the authors strong evidence that the proposed market orientation measurement model holds content validity. The final market orientation measurement scale is considered a multidimensional construct and it was based on the three dimensions of intelligence generation (IG), intelligence dissemination (ID) and a coordinated response (CR) about three domains: client, competition and market structure. Each one of the three dimensions (intelligence generation, intelligence dissemination and a coordinated response) having seven items.

Low-price strategy (P) was assessed using a judgemental measurement scale that comprises three items, based on (Zhou, Brown, & Dev, 2009). Hotel managers were asked to provide their perception of their company price positioning strategy.

Business performance (BP) was measured using a judgmental measurement scale that comprises five indicators, partially based on Powell (1995) total performance scale, measuring profitability, sales growth and occupancy rate.

Survey items were assessed with a 1-7 Likert-type scale in which one represents strongly disagree, and seven represents strongly agree and aggregates three scales to measure market orientation, low-price strategy and business performance.

Sample

Data used in this research were collected using an online survey sent to the managers of a sample of 9,217 hotels around Spain and Portugal. The statistical population was composed by the set of hotel companies from Spain and Portugal.

Hotel companies are defined as tourist accommodation establishments. A local kind-of-activity unit providing a paid service (although the price might be partially or fully subsidised) and short-term or short-stay accommodation services (Eurostat, 2019a).

Hotel contacts were obtained in the government tourism departments and the Spanish and Portuguese yellow pages service.

Data collection was conducted between October 2013 and January 2014. All valid questionnaires were answered by the hotels' directors, marketing department directors or direction assistants.

A total of 232 valid surveys were obtained, representing a response rate of 2.5%, among them, 17 (7.33%) were one-star hotels, 33 (14.22%) were two-star hotels, 79 (34.05%) were three-star hotels, 81 (34.92%) were four-star hotels and 22 (9.48%) were five-star hotels. Regarding the industrial structure, 41 (17,7%) hotels were part of a hotel chain, and 191 (82,3%) were independent hotels. Furthermore, 127 (54,74%) responses were obtained from Portugal and 105 (45,26%) from Spain.

RESULTS

This research used a component-based structural equation modelling (PLS), and the SmartPLS 3.0 (Ringle, Wende, & Becker, 2015) software was used to compute data.

Data analysis was conducted in two steps. Firstly, the measurement models were evaluated, following Hair et al. (2017). Indicator reliability, model purification and internal consistency reliability through the composite reliability indicator were assessed. Convergent validity was assessed throughout the average variance extracted (AVE) that should be higher than 0.50.

The discriminant validity was evaluated using the heterotrait-monotrait ratio of correlations (HTMT) criterion (Henseler, Ringle, & Sarstedt, 2015) and the square root of the AVE of each construct that should be higher than its highest correlation with any other construct (Fornell & Larker, 1981).

Secondly, the proposed model was evaluated, and the specific hypotheses and the general structural model were assessed.

Assessing the Measurement Models

Following Jarvis, MacKenzie, and Podsakoff (2003) guidelines to determine whether a construct is formative or reflexive, the latter approach was used. Moreover, the conceptual model comprises second order constructs. A two-step analysis was conducted (Wright, Campbell, Thatcher, & Roberts, 2012) to work around this issue. Firstly, first order constructs validity and reliability were evaluated. The measurement models were purified, and construct validity and reliability were achieved. Secondly, data from the first order constructs analysis was computed in a new model and used to evaluate second-order constructs validity and reliability and to assess the structural model.

First Order and Second Order Constructs' Reliability and Validity

Data were computed and first order constructs outer loadings were evaluated to purify the measurement models. Outer loadings below 0.55 were deleted from the model. According to Chin (1998), standardised loadings should be higher than 0.707. Nevertheless, this rule of thumb should not be as rigid in the early stages of scale development, and loadings of 0.50 or 0.60 may still be acceptable. Although outer loadings below 0.55 threshold share little in common and are of questionable value in defining the variable (Falk & Miller, 1992). Therefore, indicators IG7 = 0.451 and RC3 = 0.296 were removed from the model. Table 6 shows the measurement models and first and second-order constructs outer loadings.

After the purifying process, the AVE value was evaluated to assess convergent validity. The construct IG with an AVE of 0.472 (table 1) does not achieve the AVE threshold of 0.50 (Fornell & Larcker, 1981), implying a lack of convergent validity.

To work around this issue, further analysis was conducted. The IG construct single indicators outer loadings were carefully analysed by means of further removing do not decrease content validity (Hair et al., 2017) and the items IG6 = 0.584 and IG2 = 0.609 were removed from the model.

Data from the purified model was once again computed and the validity and reliability criteria were finally met (Table 2 and 3). Table 2 shows the reliability results according to the composite reliability indicator, the convergent validity results measured through the AVE and the discriminant validity according to the Fornell and Larcker (1981) criterion, of the first order purified models.

Results from the first order constructs (table 2) show that the AVE values were above 0.50, thereby indicating that convergent validity was established. Furthermore, according to the Fornell and Larcker (1981) the discriminant validity was also confirmed (the square root of the AVE of each construct are higher than its highest correlation with any other construct). Results (table 3) also show that all the HTMT values are below 0.85 and the inference criterion shows the confidence intervals

Table 1. First-order constructs, convergent validity and reliability indicators

Construct	Reliability	Convergent Validity
	Composite Reliability	(AVE)
BP	0.919	0.695
CR	0.904	0.613
ID	0.923	0.632
IG	0.841	0.472
P	0.824	0.613

Table 2. First order constructs, validity and reliability indicators

Construct	Reliability	Convergent Validity	Discriminant Validity (Fornell & Larker, 1981)				
	Composite Reliability	(AVE)	BP	CR	ID	IG	P
BP	0.919	0.695	0.834				
CR	0.904	0.613	0.363	0.783			
ID	0.923	0.632	0.397	0.69	0.795		
IG	0.824	0.541	0.379	0.576	0.661	0.735	
P	0.814	0.599	-0.239	0.01	0.006	-0.038	0.774

Table 3. First order constructs discriminant validity – HTMT

Path	HTMT value	Confidence Intervals	
		5.00%	95.00%
CR -> BP	0.409	0.275	0.535
ID -> BP	0.442	0.327	0.548
ID -> CR	0.771	0.689	0.845
IG -> BP	0.471	0.33	0.604
IG -> CR	0.717	0.614	0.813
IG -> ID	0.811	0.735	0.882
P -> BP	0.253	0.175	0.373
P -> CR	0.167	0.133	0.275
P -> ID	0.108	0.096	0.212
P -> IG	0.177	0.137	0.307

are below the value one, thereby indicating all the HTMT values are significantly different from 1 and that discriminant validity has been established, according to Henseler et al. (2015).

Second order constructs model were computed using data from the first order constructs purified models. Moreover, the second order constructs validity and reliability were evaluated (table 4 and 5). Findings show that the measurement models possess the appropriate convergent and discriminant validity and reliability. The composite reliability values were above 0.70, the AVE values were above 0.50, and the square root of the AVE of each construct were higher than its highest correlation with any other construct, the HTMT value is below 0.85 and the inference criterion confidence intervals are significantly different from 1, establishing, therefore, reliability, convergent validity and discriminant validity, respectively.

Testing the Proposed Model

Structural equations modelling was used to assess the proposed model, which enables the evaluation of the relationship between the model’s variables and to test proposed hypotheses. To evaluate the low-price strategy mediating effects, the Preacher and Hayes (2008) approach was used. This method has been used frequently in empirical studies (Castro & Roldán, 2013; Vega-Vázquez et al., 2016) and

Table 4. Second order constructs validity and reliability indicators

Construct	Reliability	Convergent validity		Discriminant validity		
	Composite Reliability	AVE	BP	MO	P	
BP		0.919	0.695	0.834		
MO		0.906	0.762	0.435	0.873	
P		0.823	0.611	-0.234	0.001	0.782

Table 5. Second order constructs discriminant validity – HTMT results

Path	HTMT Value	Confidence intervals	
		5.00%	95.00%
MO -> BP	0.505	0.373	0.622
P -> BP	0.253	0.174	0.371
MO -> P	0.135	0.091	0.247

the guidelines applied to PLS studies has been settled (Hair et al., 2017; Nitzl, Roldan, & Cepeda, 2016) in recent years.

The proposed model relationships were analysed. Results (table 7) show a positive and significant direct effect of market orientation on business performance, coefficient path $c' = 0.436$ (t-value = 6.760), confirming a positive direct relationship between market orientation and business performance (H1). On the other hand, the relationship between market orientation and a hotel low-price strategy (H2) was rejected. The coefficient path $a = 0.001$ (t-value = 0.011) does not confirm the significance of this relationship, whereas the coefficient path $b = -0.235$ (t-value = 3.599) confirms the hypothesis H3, that there is a negative direct effect between a low-price strategy and hotel business performance.

The next step was to analyse the hypothesised mediated effect of a low-price strategy in the relationship between market orientation and business performance (H4). A necessary condition to confirm this premise is the significance of the indirect effect ($a * b$). Data was computed and shows that the indirect effect $a * b = 0,000$ (t-value = 0.012).

Despite the result of the total effect, coefficient path $c = 0.438$ (t-value = 6.802), has expected, the H4 was rejected once the significance of the paths a and b is condition to confirm a mediating effect of the variable P on the relationship between the variable MO and the variable BP (Hair, Hult, Ringle, & Sarstedt, 2013).

Figure 1 (Model 1A and 1B) present the data of the hypothesized coefficient path effects.

Furthermore, predictive accuracy and predictive relevance was computed (table 6). Coefficient of determination (R^2 value) is a predictive accuracy measure. A R^2 of 0.67, 0.33, or 0.19 for endogenous latent variables, can be respectively described as substantial, moderate, or weak (Chin, 1998). Results from the proposed model show an R^2 of 0.000 on the P variable, indicating that the independent variable MO does not contribute to explaining the variance of the endogenous variable P . While the BP variable $R^2 = 0.245$ suggests that the combined effects of the exogenous variables MO and P explain 24,5% of BP endogenous construct. Moreover, the predictive relevance data presented mixed results. For the variable P , a $Q^2 = -0.3\%$ indicates that that the exogenous construct MO does not have predictive relevance on the endogenous construct P . However, the results of the variable BP ($Q^2 = 15,5\%$) indicates that the exogenous constructs MO and P have predictive relevance on the endogenous construct BP .

Table 6. Measurement models outer loadings

	Measurement models	First order constructs outer loadings	Second order constructs outer loadings	R ²	Q ²
Market orientation					
Intelligence generation					
			0.855		
IG1	We poll our clients to assess our products and services quality.	0.708			
IG2	We track our competitors' activities and offers at least two times a year.	Dropped			
IG3	We have a gathering information informal procedure (ex: diners, informal meetings, etc.) about market developments and trends (ex: market structure, etc.)	0.667			
IG4	Our company is fully committed, when dealing with customers, in gathering information about their desires and needs, even if they didn't recognize them yet.	0.793			
IG5	Our company seeks to obtain quickly market information that could change clients' perceptions about our products and services.	0.766			
IG6	Our company seeks to know quickly our competitor's new products and services, each time they bring them to the market.	Dropped			
IG7	People in this firm, other than salespeople, obtain informal information about our competitors.	Dropped			
Intelligence dissemination					
			0.903		
ID1	Customer information is quickly disseminated to all the firm's departments.	0.732			
ID2	In our company, we have a formal information dissemination procedure, among all the firm's departments, about our clients.	0.66			
ID3	If a firm's department gets key intelligence about our clients, it spreads the information quickly to all the other departments.	0.868			
ID4	Our company usually organizes formal meetings targeted to discuss our competitors' activities and offers.	0.795			
ID5	Information about our competitors' advantages known by one of these firm departments is quickly spread to all the other departments.	0.788			
ID6	This firm's departments are fully committed to sharing information about market information and trends affecting our business.	0.841			
ID7	Information about market structure changes (trends, regulation, etc.), obtained by one of our firm's departments, spreads quickly to all the other departments.	0.859			
Coordinated response					
			0.86		
CR1	All our company departments are fully committed to respond to our clients' needs and desires.	0.687			
CR2	When it is needed to act targeted to clients' needs, all departments in our company participate.	0.722			
CR3	Some of this company's departments take more time than it should to respond to our clients' needs and desires.	Dropped			
CR4	We always respond to competitive activities from our competitors.	0.712			
CR5	Competitive actions from our competitors have a quick, coordinated response from our company.	0.811			
CR6	All these company departments respond quickly to changes in market structure (trends, regulations, etc.)	0.888			
CR7	Response to market changes is done in a coordinated way by all this firm's departments.	0.856			
Low-price strategy					
				0	-0.003
P1	Our target market is price sensitive	0.611	0.642		
P2	There is great pressure on us to have competitive prices	0.789	0.814		
P3	Our customers choose hotels based on prices	0.896	0.87		
Business performance					
				0.245	0.155
BP1	Over the last 3 years, our net income has been outstanding.	0.876	0.876		
BP2	Over the last 3 years, our net income has exceeded our competitors.	0.864	0.864		
BP3	Over the last 3 years, our sales growth has been outstanding.	0.867	0.867		
BP4	Over the last 3 years, our sales growth has exceeded our competitors.	0.875	0.875		
BP5	Our occupancy rate is much higher than that of our competitors.	0.666	0.666		

As for the effect size f^2 , results show a medium effect size of the exogenous construct MO ($f^2 = 0.251$) on the R² value of the endogenous construct BP, whilst the effect size of the exogenous construct P ($f^2 = 0.073$) on the R² of the endogenous construct BP indicates a small effect size.

Table 7 summarizes the obtained results of the proposed model.

CONCLUSION

This research aimed to study the nature of the relationship between market orientation and business performance using a sample obtained in the Spanish and Portuguese hotel industry context and to assess the mediating effects of a strategy based on low-price on this relationship.

To evaluate the proposed model, a two-step analysis was done. The first step was conducted by evaluating the measurement models. First and second order constructs were assessed, and market

Figure 1. Proposed model coefficient paths

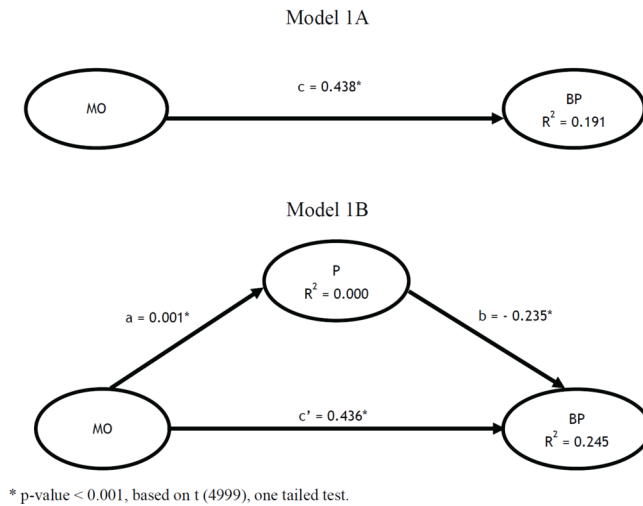


Table 7. Summary, hypotheses and effects

Path	Total effect		Direct effect		Indirect effect			
	Coefficient	t-value	Coefficient	t-value	Point estimate	t-value	Percentile bootstrap 95% confidence interval	
							Lower bound	Upper bound
P -> BP			(H3) -0.235	3.599*				
MO -> P			(H2) 0.001	0.011*				
MO ->P -> BP					(H4) 0,000	0.012**	-0.037	0.037
MO -> BP	0.438	6.802*	(H1) 0.436	6.760*				

Bootstrapping 95%, confidence interval based on 5000 bootstrap samples

* p-value < 0.001, based on t (4999), one-tailed test

** p-value < 0.5, based on t (4999), one-tailed test

orientation, low-price strategy and business performance scales were found to have the appropriate validity and reliability settings. Secondly, the proposed model was evaluated, and the suggested hypotheses were tested.

Results show that the relationship between market orientation and business performance is direct and positive. However, a price strategy based on low-prices has a negative impact on hotel business performance. Furthermore, the results do not confirm a negative relationship between market orientation and a low-price strategy and, consequently, neither the mediating effect of a low-price strategy on the relationship between market orientation and business performance.

The hypothesised positive relationship between market orientation and business performance was confirmed and is well documented in the background literature. Former studies on this subject found a positive relationship between market orientation and business performance (Agarwal et al., 2003; Campo et al., 2014; Gray et al., 2000; Kasim et al., 2018; Polo-Peña et al., 2012; Qu & Ennew, 2003; Sampaio, Rodrigues, et al., 2019; Sandvik & Sandvik, 2003; Sin et al., 2005; Vega-Vázquez et al., 2016). On the other hand, the postulated negative relationship between market orientation and a strategy based on low-price was not confirmed. According to the background literature, developing

a market-oriented organization is a complex process that requires considerable expenditure of money and time (Slater & Narver, 1994), as well as a commitment of resources, and is only useful if the benefits it affords exceed the cost of those resources (Kohli and Jaworski, 1990). However, results do not confirm a relationship between market orientation and the hotel low-price strategy. This result could be explained because market orientation is the business culture that most effectively and efficiently creates superior value for customers (Slater & Narver, 2000), and even budget hotels must concentrate on value drivers such as physical product offering, selection of location and staff (Subramanian, Gunasekaran, & Gao, 2016).

Furthermore, the negative link between a strategy based on low-prices and hotel business performance confirms, as expected, that low-prices should imply a reduced price-premium and consequently lower margins. Moreover, this result also indicates that hotels pursuing a low-price strategy will have a lower occupancy rate and weaker sales growth. Conversely, the mediating role of a price strategy based on low prices was not confirmed. This result is slightly odd, once the price is usually considered a variable that influences customers perceived value (Monroe, 1973; Monroe & Chapman, 1987; Zeithaml, 1988).

From a theoretical standpoint, this research contributes by taking a step forward on market orientation study in the service sector, particularly in the hospitality industry. Furthermore, the proposed model could be replicated in another context. Additionally, this study expands the knowledge on the relationship between market orientation and business performance in the hospitality industry, particularly by analysing the effect of the hotel price strategy on the relationship between market orientation and business performance and the direct link between the price strategy and the hotels business performance.

This study makes several significant contributions to hotels management. Market orientation by its features of generating intelligence about clients, competition and market structure, intelligence dissemination and coordinated response, positively influences the creation of superior value to clients. Hotel managers would produce a positive effect on business performance by implementing or improving a market orientated organization. Furthermore, service sector companies as hotels depended strongly on humans' interactions to satisfy clients' needs. Therefore, the market orientation positive effects on workforce produce a compromise with the efforts of client satisfaction (Kohli & Jaworski, 1990) and consequently a positive impact on business performance. Additionally, increasing and maintaining a certain degree of market orientation is a complex process that requires a considerable expenditure of money and time (Slater & Narver, 1994), requires a commitment of resources, and it is useful only if the benefits exceed the cost of those resources (Kohli & Jaworski, 1990). Therefore, results show that, despite this view, market orientation could evolve hotels business performance and consequently hotels managers should seek to establish the appropriate degree of market orientation.

Furthermore, the observed negative link between a price strategy based on low-prices and business performance indicates that reducing accommodation prices could have negative consequences on hotels business performance. On the one hand, the adverse effects occur on the present firm profitability, as well as on the potential firm profitability, by negatively influencing the occupancy rate and the sales growth. Therefore, hotel managers should carefully analyse if the short-term benefits of lowering prices, for instance, to fill empty hotel rooms, does not have long-term shortcomings on business profitability, occupancy rate and sales growth.

This work deals with a set of essential questions related to market orientation study in the hotel industry. Despite the enlightening it brought out, it carries several limitations that suggest the need for further research. Firstly, the sample was obtained in the Spanish and Portuguese hotel industry context, and the response rate is quite low. Hotel managing does not leave much time to answer surveys; thus, getting responses from managers is not an easy task. The online survey was found to be the best methodology to work around this issue, despite all the intrinsic cons, namely the low response rate. On the other hand, generalization should be taken with caution once results represent the case of the Spanish and Portuguese hotel industry.

Furthermore, several hypotheses, despite based on background literature, were not confirmed. These drawbacks represent several opportunities for further research by expanding the analysed context, or testing the hypothesized model in a different cultural environment, to assess if the research findings are replicated or not, or to evaluate if the strategy based on low-price moderates the relationship between market orientation and business performance.

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