

**MARKET ORIENTATION**  
**A STUDY ON HOTELS OF PENANG**

By

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DEDICATED TO MY FAMILY...

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## ABSTRAK

Industri perhotelan merupakan suatu industri yang berkembang pesat, ianya memainkan peranan yang penting kepada ekonomi setiap negara. Perkembangan yang pesat telah meningkatkan cabaran di antara pesaing. Dalam lingkungan rangkakerja perancangan strategik, pengurusan harus membuat keputusan pemasaran yang kritikal. Tujuan kajian ini adalah untuk memberi pemahaman kepada orientasi pasaran secara amnya, dan membantu pengurus dalam penentuan penyebab yang menentukan orientasi pasaran ini dalam industri perhotelan. Kajian ini telah dilaksanakan dengan mencadangkan suatu rangkakerja teoritikal berasaskan model Kohli dan Jaworski (1993) untuk mengkaji perhubungan di antara penyebab orientasi pasaran dan akibat orientasi pasaran dalam industri perhotelan di Pulau Pinang. Soalselidik dibentuk berdasarkan kajian Kohli dan Jaworski (1993). Populasi untuk kajian ini adalah semua hotel di Pulau Pinang. Sebanyak 68 soalselidik telah dihantar dan hanya 53 jawapan telah dikembalikan, atau 78% kadar responden. Hasil kajian menunjukkan kesan yang signifikan bagi orientasi pasaran terhadap prestasi. Ini menunjukkan bahawa untuk mencapai keuntungan, perniagaan harus mempunyai orientasi pasaran. Perhubungan di antara bahagian dalam organisasi didapati memainkan peranan yang signifikan untuk orientasi pasaran.

## ABSTRACT

Hotel industry is one of the important industries that play a major role in economy of every country. The rapid expansion increases the challenges among competitors. For one to succeed in the business, the business must be market oriented and customer driven. Within a strategic-planning framework, managers must make critical marketing decisions. The purpose of this study was to contribute to the general understanding of market orientation and to assist managers in determining antecedents that contributes to market orientation as well as to understand the consequences of applying market orientation in the hotel industry. This study was conducted, by proposing a theoretical framework made from Kohli and Jaworski Model, to investigate the relationship between antecedents of market orientation as well the consequences of market orientation in hotel industry of Penang. A questionnaire was generated from the Kohli and Jaworski (1993) research. The population for this study is the hotel of Penang. Sixty-eight survey questionnaires were sent out and only fifty-three usable responses were received, constituting a response rate of 78%. Findings indicated that the market orientation is having a significant effect on the performance, which indicates that to earn a better profit one should be market oriented. Inter-departmental connectedness plays a very crucial role in making market orientation, while top management emphasis and inter-departmental conflict showed no significance in relation to market orientation. However, one needs to be cautioned when adopting these research findings due to some of the research limitations.

# Chapter 1

## Introduction

### 1.1 Introduction

Hotel industry is one of the most upcoming industries, which is playing a major role in economy of every country. This industry also needs few strategies to follow to get the best performance for one's benefit as well as country's benefit too. So, this chapter is the introduction to the study and will give a brief idea of hotel industry of Penang, market orientation, its objectives, problem statement, scope and significance of this study as well as summary of what is discussed in this chapter in the end.

### 1.2 Background of Hotel Industry

Lodging activities have existed for centuries. Since then, the elements of products related to these activities and the conditions of the market place have also changed due to growth of tourism industry. Therefore, there should also be a corresponding requirement for a change in the overall epistemology of doing business including the application of marketing tools (Latif, Omar & Othman, 1999). Tourism products should be delivered effectively by applying strategies in accordance to the market conditions to fulfill the market requirements. Marketing has become a vital component for all tourism enterprises in the current scenario. Marketing is a business philosophy, which places the consumer and his/her need at the front of all activities (Cooper, Fletcher, Gilbert & Wanhill, 1993).

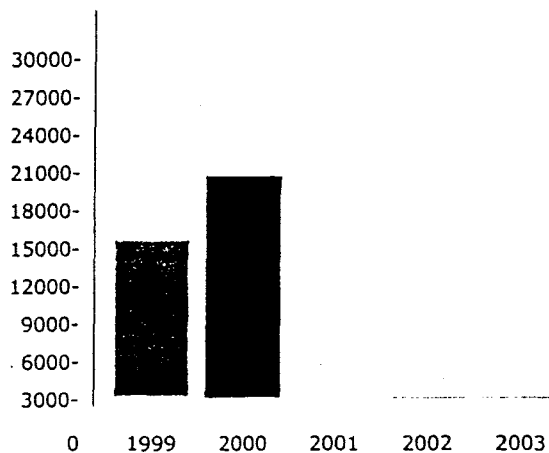
Hotel and tourism industry are two sides of the same coin and it is required to study about this industry as this industry is playing a vital role in the economy of lots of nations. This industry is the major foreign currency contributor to any economy.

The same is the case of Malaysian economy, to which this industry is playing a very important role is bring up this country's economy. Table 1.1 shows the tourist arrivals and the total tourist expenditure done in this country by the tourists. Figure 1.1 will show the bar diagram of the increase of the total tourists and their expenditure done in this country.

Table 1.1

*Summary of Tourist Arrival and Total Expenditure Between Years 1999 - 2003*

Year	Tourists Arrival	Total Tourist Expenditure (RM Mn)
1999	7,931,149	12,321.3
2000	10,221,582	17,335.4
2001	12,775,073	24,221.5
2002	13,292,010	-
2003	1,070,428	-



*Figure 1.1* Tourist Receipts: 1999 - 2003

Source: [www.tourism.gov.my/statistic/statistics.asp](http://www.tourism.gov.my/statistic/statistics.asp)

The table and the bar chart show how fast the Malaysian tourism industry is expanding and how much capital this industry is giving to the country. Tourism and hotel industry was expected to contribute roughly 4.7% of the GDP and this contribution is set to grow by 6.1% in the coming years (Chaynee, 2001). Even in Budget 2002, the service sector was projected to continue to sustain growth at 4.4% (2000: 4.8%). In Budget 2003, the government policy states "Extended Exemption Period for Local and Inbound Tourism" and "Deduction of Expenses in Respect of Hotel Accommodation and Sustenance Provided to Potential Importers for Promotion of Exports". This shows that the Malaysian government is not only taking active part in foreign tourist only rather they are paying attention to local people also. The hotel and the tourism industry can serve as a cushion by reducing the total reliance on the manufacturing industry. Looking at this year alone, this hotel industry alone has contributed 4.2% of the total employment. These are few of the main reasons for choosing hotel industry in particular for studying the relationships of market orientation. One more major reason for selecting this industry was that there have been very few studies done in this particular sector especially towards marketing of this industry and in this particular region of the world.

Penang is having a nice combination of hotels which takes care of all kinds of tourist's preference of hotel ranging from 5-star to budget hotels, resorts, motels, etcetera. Even after economical setback of 11<sup>th</sup> September 2001, Malaysia is able to attract lots of tourist as it is considered one of the safest places for traveling for leisure and business.

### 1.3 Market Orientation

The market concept has been a paradox in the field of management. For more than 40 years managers have been exhorted to “stay close to customers”, “put customer at the top of the organizational chart”, and define the purpose of a business as the creation and retention of satisfied customers. Companies that are better equipped to respond to market requirements and anticipate changing conditions are expected to enjoy long run competitive advantage and superior profitability.

A market orientation refers to the organization wide generation of market intelligence, dissemination of this intelligence across departments and organization wide responsiveness to it (Kohli & Jaworski, 1993) i.e. this definition refers to the collection of the information from the market, distributing this information in whole organization to understand the current market trend as well as current consumer style. Then, finally checking the response of this information utilization as a consumer standpoint as well as on the employee front.

Now managers are beginning to see market orientation as one of the important factors in maintaining position in the current market. Organizations that fail to identify and respond to their customers abound, Cravens et al. (1998) argue that being market oriented creates an environment for listening, understanding and responding to the market and competition. Customer satisfaction is managed and strong competitive barriers are applied in this way.

There can be a lot of reasons to take this topic in particular for doing research but the reason to choose this topic are as follows:

- (a) As checked from Asian Academy Of Management Journal, it was seen that no study has been previously conducted on this topic as a particular although some related topics have been chosen earlier, specifically in this part of the world. And

as per personal findings there is one paper, which has done study on market orientation study on small and medium hotels of Langkawi done by Latif, Omar & Othman, (1999). So this point motivated this study to go on with this topic.

(b) Secondly, this topic is of recent origin i.e. recent investigations into the effect of market research on firm performances have revealed a new concept called market orientation (Latif, Omar & Othman, 1999) and therefore is of point of concern in the market these days to enhance performance. This also gives a standpoint to do some research as this is a relatively new topic.

#### **1.4 Problem Statement**

The intense global competition over the past decade has promoted market orientation as a very important and useful strategy and a timely topic for academic research. Hotel organizations are using this strategy as a means to collect data and get the response of the market when it is utilized in the same organization. Since, now this strategy has become so important in field of marketing, few related questions also arises, which are as follows:

- Is top management having any relation with the market orientation?
- Is there any relationship between inter-departmental conflict and market orientation?
- Does inter-departmental connectedness play any role in making up market orientation?
- Does the market orientation affect the performance of hotel industry of Penang?



## **1.5 Objectives of the Study**

Main objectives of this study are to explore the domain of what is market orientation and are there any effects of market orientation to business performance of Penang. Specifically, this research is being carried out to achieve the following objectives:

- a. To investigate whether top management has any relationship with market orientation.
- b. To understand the relationship of inter-departmental dynamics with market orientation.
- c. To understand the whole relationship between the antecedents, market orientation and its relation to performance in hotel industry.
- d. To examine the effects of market orientation practices in hotel's performances in the state of Penang.

## **1.6 Scope of Study**

This study will focus on all hotels registered with Malaysian Tourism Promotion Board (MTPB) and who are members of regional hotel association. The accommodation sector in this context will include all hotels of State of Penang ranging from 5-star hotels to budget hotels, resorts, motels, etc. This study will take all hotels available into consideration, as the number of hotels in Penang state is limited to 68 only, which does not provide a big sample population.

## **1.7 Significance of the Study**

Today globalization has changed the role of the marketing strategy of each organization. To meet the requirements of this new century, firms are again planning

and applying new and different marketing strategies. A well-defined and effective marketing strategy is one of the important ways to improve performance. Therefore this study was conducted to understand an upcoming marketing strategy “market orientation”. The establishment of this strategy, not only enhances the performance rather it also enhances the relationship and communication between each departments and lower staff and the top management.

This study is of further use to both the professionals as well as to academic practioners. To the professionals this study will help to understand the strategy, how to implement this strategy as well as it will help them to understand how to get better gains by applying this strategy. While to academic practioners it will help as a reference for their study, it will guide them to understand the basics of this strategy. It will also guide them for other related researches, which can be done related to this area.

## **1.8 Summary**

Hotel industry shows great business opportunities in Malaysia, as this is one of the fastest growing industries in Malaysia. Understanding the market values of hotel industry enables one to gain competitive advantages in market oriented business environment. This study employed Kohli-Jaworski’s Model.

### Literature Review

#### 2.1 Introduction

This chapter will focus on reviewing the literatures for market orientation and relationship between market orientation and performance of the business. After that few earlier proposed theoretical framework will be considered and a summary to end this chapter.

#### 2.2 Market Orientation

The high service based content of the product in the tourism industry has been characterized by the customs and traditions (Latif, Omar & Othman, 1999). These two components have described as lack of vision in the industry and this indirectly resulted in the demise of many companies (Cooper, C., Fletcher, J., Gilbert, D. & Wanhill, S., 1993). A new strategy has been revealed in the marketing strategies that is "market orientation".

Marketing scholars refers to Market orientation as the generation of market intelligence, dissemination of that intelligence across departments and organizational responsiveness to future customer needs (Kohli & Jaworski, 1990; Narver & Slater, 1990; Ruekert, 1992).

Some authors argue that the adoption of market orientation business philosophy is all but essential for survival in a competitive environment (Lewitt, 1960; Crawford, 1983; Kotler & Andreason, 1987; Kotler 1977). Kohli and Jaworski (1990) define market orientation as "the generation and dissemination of market intelligence that is composed of information about customer's current and future needs

and extraneous factors that influence their needs". This strategy simply shows that by applying market orientation an organization will show better performance through well-coordinated departmental effort.

Shapiro (1988) specifies three characteristics that make a company, market driven:

- 1) Information on all-important buying influences permeates every corporate function.
- 2) Strategic and tactical decisions are made inter-functionally and inter-divisionally.
- 3) Divisions and functions make well-coordinated decisions and execute them with a sense of commitment.

As per suggested by materials above, firms should become more marketing oriented and aware of their customer needs. Market orientation provides a firm a better broad look to market as well it provides flexibility also to business.

The starting point of market orientation according to Kohli and Jaworski (1990) is market intelligence. They conceptualize market orientation as a broader concept going beyond the verbalized need and preferences of customers. Kohli and Jaworski (1990) state that market intelligence includes monitoring competitor's actions and their effect on customer preferences as well as analyzing the effects of other exogenous factors such as government regulation, technology and environmental forces. Kohli and Jaworski (1990) also indicate that effective market intelligence involves not just current needs but future ones.

According to the definition proposed by Kohli and Jaworski (1990), the first key element in market orientation is generation of market intelligence. Market intelligence can be generated from a number of resources like surveys, questionnaires, discussion, researches, etcetera. An important part of this element is that intelligence

generation is not the exclusive responsibility of the marketing department (Kohli & Jaworski, 1990). All functional departments in the company such as R&D, manufacturing and finance obtain information that is relevant regarding the customers and competitors. Therefore, organizations should look for better mechanisms or systems through which this generated information can be distributed also.

This leads to second key element described by Kohli and Jaworski (1990), intelligence dissemination. This step basically discusses about how well dissemination of the information or intelligence generated is being done among the different departments of the organization. This dissemination of market intelligence is important because it provides a shared basis for concerted actions by the different departments (Kohli & Jaworski, 1990).

The third key element of a market orientation is responsiveness to market intelligence. This is the last step of market orientation, which carries no meaning if first two steps are not being followed properly but if this last step is not followed properly the market orientation process is of less significance. According to Kohli and Jaworski (1990), all departments need to be responsive and this can take the form of selecting the appropriate targets markets, designing, producing, promoting and distributing products that meet current and anticipated needs.

Product is anything that is being offered to market, which includes physical goods, services, events, organization, people and ideas (Dalrymple & Pearsons, 1995). In this case, tourism products can be included within this definition as the product falls within a continuum of goods and services, but most commentators of tourism studies recognize the differences between tourism related products and consumer related products (Latif, Omar & Othman, 1999). The former are characterized by intangibility, perishability, heterogeneity and inseparability (Holloway, 1992; Cooper

et al., 1993). Quite a number of researches have been conducted to determine the needs of customers and action to be taken to ensure that those needs are met in the most profitable fashion.

Narver and Slater (1990) explicated the view, arguing that if there is a strong market orientation in a business, there will be greater likelihood to offer superior value to buyers. This shows that market oriented firms are better than non-market oriented organizations and can have better performance and profitability.

### **2.3 Antecedents of Market Orientation**

The first antecedent in this study is about the emphasis given by the top management in an organization. Several authors suggest that top managers play a critical role in shaping an organization's value and orientation (e.g., Felton, 1959; Hambrick & Mason, 1984; Webster, 1988). The central theme in these writings is that unless an organization gets clear signals from top managers about the importance of being responsive to customer needs, the organization is not likely to be market oriented (Levitt, 1969; Webster, 1988). Top management reinforcement of the importance of a market orientation is likely to encourage individuals in the organization to track changing market, share market intelligence with others in the organization, and be responsive to market needs (Kohli & Jaworski, 1993).

Inter-departmental dynamics is the second set of the antecedents, which is shown to have significance on market orientation. A particularly salient factor proposed to affect a market orientation is inter-departmental conflict, which refers to the tension among departments arising from the incompatibility of actual or desired responses (Gaski, 1984; Raven & Kruglanski, 1970). Several authors point to inter-departmental conflict as an inhibitor of a market orientation (Levitt, 1969; Lusch,

Udell & Laczniak, 1976; Felton, 1959). Essentially, inter-departmental conflict is likely to inhibit communication across departments (Ruekert & Walker, 1987), which hurdles the dissemination of the intelligence generated in different departments of the organization.

Second factor of inter-departmental dynamics, which affects the market orientation, is inter-departmental connectedness, which means the level of coordination among the different departments. Several related streams of research suggest that connectedness facilitates interaction and exchange of information, as well as the actual utilization of the information (Cronbach, 1981; Deshpande & Zaltman, 1982; Patton, 1978). Therefore, it can be expected that the greater the extent to which individuals across the departments are directly connected (or networked), the more they are likely to exchange market intelligence and respond to it in a concerted fashion (Kohli & Jaworski, 1990).

#### **2.4 Relationship between market orientation and performance**

For past three decades, the subject of market orientation is one form or another (e.g. Kotler, 1977; Levitt, 1960; Shapiro, 1988; Webmaster, 1998) has occupied the center stage of the theory and practice of marketing strategy. Writers have asserted that market oriented approaches business will lead to better corporate performances (Kotler, 1991).

The association between market orientation and business appears to have been taken for granted by the academicians and practitioners alike (Houston, 1986; McGee & Spiro, 1988; Shapiro, 1988; Webster, 1988). This growing body of research was largely inspired by two articles both published in the *Journal of Marketing*, namely Kohli and Jaworski (1990) and Narver and Slater (1990).

Narver and Slater (1990) developed a measure for market orientation and tested its effects on business performances. Their measure of marketing orientation closely parallels Kohli and Jaworski's (1990) definition and consists of three behavioral components (customer orientation, competitor orientation and inter-functional orientation). Each of which involves intelligence generation, dissemination and managerial action.

Numerous studies (Hambrick, 1983; McGee, Varadarajan & Pride, 1989; Snow & Hrebiniak, 1980) have found that effectiveness of a particular strategic orientation is contingent on the dynamics of the market. Importance of a market oriented business culture is crucial to managers and scholars alike (e.g. Day, 1990, 1992; Deshpande & Webster, 1989; Narver & Slater, 1990; Shapiro, 1988). Narver and Slater (1995) states that market orientation is valuable because it focuses the organization on

- a) Continuous collection of information about target customer's needs and competitors capabilities.
- b) Using this information to create continuously superior customer value.

Comprehensive theories of nature and consequences of a market orientation have been developed (e.g. Kohli & Jaworski, 1990; Narver & Slater, 1990; Shapiro, 1988) and a body of research illustrating relating the relationship between market orientation and performance has emerged (Deshpande, Farley & Webster, 1993; Kohli & Jaworski, 1993; Narver & Slater, 1990; Reukert, 1992; Narver & Slater, 1994). Market orientation has taken a central role in discussion about marketing management and strategy (Day, 1992).

A market orientation is frequently posited to improve business performance (Kohli & Jaworski, 1993). The study by Lusch and Laczniak (1987) provides some