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The Implementation of Market Orientation and Innovation in SMEs

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Abstract
This study attempts to explore the implementation of market orientation and innovation on business performance for SMEs hospitality industry in Thailand. The market orientation perspective of Kohli and Jaworski (1990), which consists of intelligence generation, intelligence dissemination, and organization-wide responsiveness, is employed in this study. The unit of analysis of the study is SMEs hotels located in Thailand. A quantitative approach and a structural-direct questionnaire survey were adopted. Structural Equation Modeling (SEM) with AMOS version 17.0 was used for data analysis. The results conclude that intelligence generation, dissemination and responsiveness have a significant indirect effect on business performance through innovation.

Keywords: Business performance, Hospitality, Market orientation, Innovation

1. Introduction

Thai government has the strategic policy of preparation for SMEs in tourism industry entering the ASEAN Economic Community (AEC) in 2015 (the Office of Small and Medium Enterprise Promotion 2013). As reported by Kasikorn Research Center (2013), the total income earned from tourism would estimate 35.6 billion US dollar in 2013. The actual numbers of tourists and total income were higher than those previously set by the Ministry of Tourism and Sports at 24.5 million people and 33.1 billion US dollar respectively.

With respect to characteristics, several differences between SMEs and their larger components can be noted. For example, SMEs tend to be intrinsically more innovative, especially in the early stages of the industry lifecycle (Audretsch 2002). Smaller firms are also likely to have more customer contact (Coviello et al. 2000), a greater propensity for action (Chen and Hambrick 1995) and more output flexibility than larger firms (Fiegenbaum and Karnani 1991). SMEs and larger organizations are also likely to differ with respect to resources. Firm resources include a variety of elements (assets, capabilities, information, etc.) and these resources are often the key to sustained competitive advantage and superior performance.

Hult et al. (2005) use a resource-based view to examine the interrelationship between market orientation and elements such as information processing and organizational responsiveness. Olavarrieta and Friedmann (2008) consider knowledge-related resources to provide a key link between market orientation and firm performance. It is possible that SMEs may be quite distinct from larger organizations in terms of how they integrate various elements

such as information processing, knowledge, and responsiveness into a unique strategic resource. While they may not have as many resources as larger firms, this ability to develop unique strategic resources could be a key distinguishing feature of SMEs.

As a consequence, it is significant for studying the role of market orientation in SMEs. The hotel segment is chosen for this study because this segment belongs to the tourism industry, which is regarded as a significant service sector to the country's economy. Therefore, it is needed for Thai SMEs, particularly hotel industry, to enhance their business performance in order to compete with larger market size from home municipality to the foreign markets. The objective of this study is to examine direct and indirect effects of market orientation and innovation toward business performance in SMEs hospitality industry.

2. Literature Review

2.1 SMEs in Thailand

The definition of small and medium sized enterprise (SME) varies. Because of the diversity of small business, every simple definition is subject to criticism. According to Institute For Small and Medium Enterprises Development enterprises in Thailand have been defined according to 3 broad categories: 1. Production Sector are Agriculture Processing, manufacturing and Mining, 2. Trading Sector are Wholesale and Retail, and 3. Service Sector. Type of SME in Thailand has been defined according 1. Value of assets of each type of enterprises 1.1 Production Sector: medium size not exceeding 200 million bath and small size not exceeding 50 million bath 1.2 Service Sector: medium size not exceeding 200 million bath and small size not exceeding 50 million bath. 3. Trading Sector medium size: wholesale not exceeding 100 million and small size not exceeding 50 million. Medium size: retail not exceeding 60 million and small size not exceeding 30 million. 2 number of full-time employees of each type of enterprises 2.1 Production Sector: medium size not exceeding 200 employees and small size not exceeding 50 employees. 2.2 Service Sector: medium size not exceeding 200 employees and small size not exceeding 50 employees. 2.3 Trading Sector: wholesale medium size not exceeding 50 employees, retail medium size not exceeding 30 employees and small size not exceeding 15 employees.

SMEs play a significant role in the economy of a country. According to statistics provided by the Office of Small and Medium Enterprise Promotion (2013), the 2012 GDP of SMEs was 3.7 trillion baht which was 37.1 percent of Thailand's GDP, increasing 2.4 percent over the last year. When considering the GDP based on the size of the enterprises, the small enterprise had higher GDP than the medium enterprise. The GDP of small enterprise in 2012 was 2.4 trillion baht, rising 1.9 percent from the previous year and was 24.7 percent of the total GDP. The GDP of medium enterprise in 2012 was 1.2 trillion baht, increasing 9.5 percent from 2011 and was 12.4 percent of the overall GDP.

Prior studies explored Thai SMEs in hospitaliy industry as follows. The study by Chuen-Upakaranun (2009) regarding small and medium hotel and resort enterprises in Pattaya city suggested that hotel business operators should cooperate with the government sectors and educational institutions in order to promote the cooperative tourism cluster development procedures resulting in the hotel businesses' competitiveness increase as a whole. The work by Thanomthin (2009) in surveying guest house business in Mae Hong Son province indicated that the high management efficiency comprised location, good environment, and standard room

facility whereas the low management efficiency included lacking publicity and limited service assortments. The study by Kumphangsirichai (2011) suggested that activities the tourists needed to be provided by the entrepreneurs of home stay were villager life sightseeing, participating in indigenous activities, participating in community festivals, hearing history told by indigenous learned men, attending preaching and practicing Buddhist activities in monasteries. However, the community advised to obtain additional support from relevant organizational in particular activities such as language, communication, public relation, marketing as well as environmental management based on sufficient economy philosophy in order for upgrading the home stay tourism to the national standard (Suprakritanan 2010).

2.2 Market Orientation

Recently, market orientation is a popular research topic (Boso and Cadogan 2013; Foley and Fahy 2009; Modi 2012; Murray et al. 2011; Tsioutsou 2010). A market orientation helps firms adopt the most effective and efficient activities for creating superior value for buyers and thus continuous superior performance for the business (Narver and Slater 1990).

The concept of market orientation has been approached from two perspectives: market orientation as behavioral (Kohli and Jaworski 1990) and market orientation as cultural (Narver and Slater 1990). Kohli and Jaworski (1990) defined market orientation as consisting of three behavioral activities: market intelligence generation, the dissemination of this intelligence across departments in the organization and responsiveness to intelligence. This study adopts a behavioral concept of market orientation and follows the general trend in the literature by measuring it from the perspective of the organization itself. The framework proposed by Kohli and Jaworski (1990) will be selected because this model has been previously employed in SMEs studies (Kara et al. 2005; Verhees and Meulenberg 2004).

Intelligence generation. Market intelligence generation refers to the collection and assessment of both customers' current and future needs, plus the impact of government regulation, competitors, technology and other environmental forces.

Intelligence dissemination. Kohli and Jaworski (1990) stated that market intelligence must be communicated and disseminated throughout an organization in both a formal and an informal way. The firm must have an effective way to disseminate the intelligence generated and thus it is vital that different departments collaborate in such intelligence dissemination efforts.

Responsiveness. The last component of the framework proposed by Kohli and Jaworski (1990) stressed the responsiveness of the firms to the market intelligence generated and disseminated. Responsiveness should involve the selection of target markets, designing and providing products and services to customers' current and expected needs, and the distribution and promotion of products.

2.3 Business Performance

Performance is a multidimensional construct, comprising two broad measures: judgemental performance (e.g. customer service loyalty) and objective performance (e.g. ROA) (Agarwal et al. 2003). A substantial volume in the literature reveals that market orientation is associated with judgmental performance and specifically with both the degree of long-run and short-term profitability, expressed as return on assets (Narver and Slater 1990), market growth rate and

sales growth (Dawes 2000). However, objective measures of performance such as gross operating profit, market share and capacity utilization have been also found to be related to market. Scholars have noted that while judgmental measures of performance are important to profitability, objective measures of performance provide the link to profitability in service organizations (Javalgi et al. 2005). By being market oriented, a firm can keep existing customers satisfied and loyal, attract new customers, accomplish the desired level of growth and market share and, consequently, achieve desirable levels of business performance (Homburg and Pflesser 2000).

Research on the relationship between market orientation and performance outcomes has been largely based on work conducted in the early 1990s. Dawes (2000) noted that a number of studies focused on market orientation and performance relationships and that for several years these studies have presumed that market orientation is linked to better firm performance. Pelham and Wilson (1995) found that small firms cannot compete successfully by duplicating the strategies and practices of large firms, but small firms could achieve sustainable competitive advantage by installing market-oriented behaviors in employees. Horng and Cheng (1998) found that marketing training programs help to improve the manager's level of market orientation and that this, in turn, contributes to better business performance. Further, the most frequent measures of business performance were profit, sales, market share and cash flow.Hence, it is interesting to examine whether the concept of market orientation can influence achievements of SMEs hospitality enterprises.

2.4 Innovation

The term innovation has acquired various meanings over the years (Zaltman et al. 1973). the process of developing a new item, the new item itself, and the process of adopting the new item. Innovation can be researched at various levels: the sector, region, organization, and project (Verhees and Meulenberg 2004). Innovation plays a vital role in the success of organizations. At the organizational level, research has focused on differences in organizational structure, culture, and management to explain differences in innovative success. Considerable research also supports the meditational role of innovation in determining organizational performance (Langerak et al. 2007).

Meeus and Oerlemans (2000) highlighted that in competitive market a focus on continuous innovation is a better innovation policy than inactivity and gradual innovation and vice versa. A study by Lado and Maydeu-Olivares (2001) explored the link between market orientation and innovation in the European and US insurance market and found that the effectiveness of the innovation activities can be enhanced through the market orientation principles within the organizations. The relevance of innovation orientation to smaller businesses is a reflection of the transformation of modern market environments in which new product development and differentiation have become important aspects of the business development of many firms. Smaller firms which adopt a low cost strategy are characterized by an internal orientation that focuses on cost effectiveness and production efficiency. On the other hand, smaller businesses which pursue a differentiation strategy involving new product introduction will tend to emphasize the need for an overall customer orientation. In this study, innovation is investigated as mediator because of the desire to understand the extent of innovation and the degree of market orientation in SMEs.

Based on the review of literature in previous section, this section explains the conceptual development and the corresponding hypotheses for SMEs hospitality industry, particularly hotels and accommodation. Figure 1. shows the conceptual framework of the relationship between market orientation and performance outcomes in this study. The variables of the constructs are defined to operationalize the conceptual framework. The dependent variables are innovation and business performance, while the independent variable is market orientation.

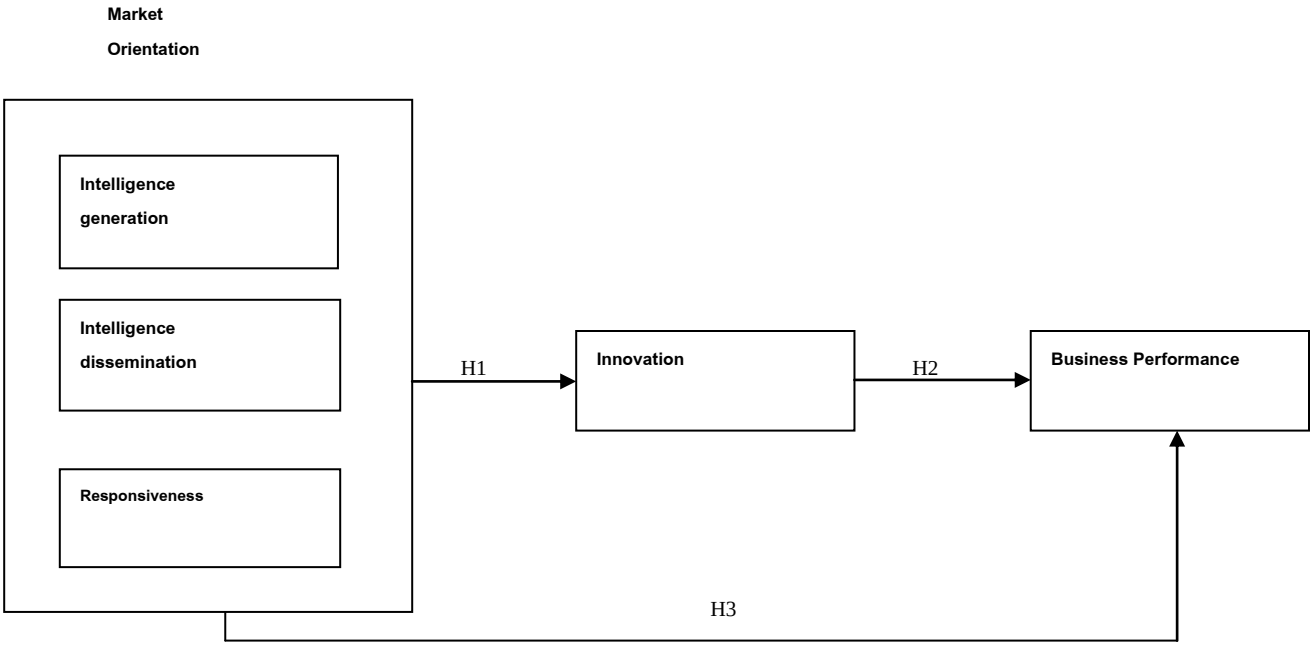

Figure 1: The Conceptual Framework

3. Method

3.1 Sample and Data Collection

The research focuses on examination the relationship among, market orientation, innovation, and business performance within SMEs hospitality industry. The hotel segment is chosen as the unit of analysis because this segment dominates SMEs hospitality industry in Thailand. As reported by the Office of Small and Medium Enterprise Promotion (2013), SMEs hospitality industry accounts for over 80 percent of the total hotels and resorts in Thailand.

Data were gathered from SMEs' hotels located in Bangkok metropolitan region and provinces in the east of Thailand owing to its potential growth in terms of revenue structure and quantity as reported by the Office of Small and Medium Enterprise Promotion (2013). Further, the office provided a database containing a list of emails, websites, and contact persons. The target respondents were owners or managers in charge of marketing functions of hotels because they are in a right position in making decisions based on their perceptions of market conditions.

Self-administered questionnaire packets were prepared for distribution to target respondents. Each of the packets consisted of a cover letter, one questionnaire survey and a postage-paid return envelope enclosed to improve the response rate. A total of 400 self-administered questionnaires were mailed out to either owners or managers of hotels, of which, 354 were eligible for the data analysis, yielding a response rate of 88.5%.

3.2 Measurements

Multi-item Measurements developed from the extant literature and informal discussion with service industry practitioners were used in this survey. Regarding the topics, market orientation is an organizational behavioral aspect that most proficiently creates the necessary behaviors for the creation of superior value for buyers (Kohli and Jaworski 1990). The study adopted the scale from Kohli and Jaworski (1990) and Kara et al. (2005) for the measure of market orientation. Market orientation was measured using a second-order scale including intelligence generation (five items), intelligence dissemination (five items) responsiveness (five items).

Intelligence Generation. Respondents were asked to rate four items on five-point Likert scale ("1 = strongly disagree to 5 = strongly agree"). Examples of statements used for measure were "In this hotel, individuals from our service department interact directly with customers to learn how to serve their needs better" and "In our business unit, we do in-house market research."

Intelligence Dissemination. Respondents were asked to rate four items on five-point Likert scale ("1 = strongly disagree to 5 = strongly agree"). Examples of statements used for measure were "Marketing personnel in our business unit spend time discussing customers' future needs with other functional departments" and "Our business unit periodically circulates documents that provide information on our customers."

Responsiveness. Respondents were asked to rate four items on five-point Likert scale ("1 = strongly disagree to 5 = strongly agree"). Examples of statements used for measure were "We are quick to respond to significant changes in our competitors' pricing structures"and "Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis."

The scale reliability of each construct based on Cronbach's alpha was 0.905, 0.905, 0. 0.896 respectively (Table 1), indicating that the internal consistency among each construct was acceptable and above the lower limit of 0.7 recommended by Hair et al. (2010) and Nunnally (1978).

Innovation. This scale was derived from Appiah-Adu and Singh (1998) and Verhees and Meulenberg (2004) for innovation. This measurement scale considered the perceptions of managerial practitioners rather than customers in the SMEs hospitality industry. Respondents were asked to rate six items on five-point Likert scale ("1 = strongly disagree to 5 = strongly agree"). Examples of statements used for measure were "We constantly develop and refine existing offers" and "We like to experience with new ways of doing things." The Cronbach's alpha is 0.932 (Table 1), suggesting that the internal consistency among the construct is higher than the recommended value.

Business performance was assessed on objective-based criteria of significant value to the SMEs hospitality industry. A three-item scale of business performance was adapted from Kumar et al. (1998) and Moorman and Rust (1999). The example of statement used for measure

was "The costs of our business over last year." The Cronbach's alpha is 0.886 (Table 1), indicating that the internal consistency among the construct is greater than the recommended value.

Considering the content validity, the questionnaire items were reviewed by five academics whom proficient in the marketing field and service industry. Next, a pilot study was conducted with 30 owners or managers from SMEs hotels. English version was translated into Thai and then translated back to ensure meaning conformity. The managers were asked to read each question, answering the questions and suggesting advice about whether the questions could be improved. Afterwards, adjustments were made based on their recommendations to enhance clarity.

4. Analysis

The results were analyzed employing structural equation modeling (SEM), a method for providing a comprehensive statistical approach to testing hypotheses and determining relations among observed and latent variables. A confirmatory factor analysis (CFA) was used to assess single-factor congeneric models for their fit to the observed data. Byrne (2010) suggested that CFA is most appropriately applied to measures that have been fully developed and their factor structures validated. The measurement model in this study used AMOS 17.0 with the Maximum Likelihood (ML) estimation. In addition, squared multiple correlation (R2) was used to evaluate the models and the suggested value exceeded 0.5 which means the observed variable was reliable (Byrne 2010). Construct reliability was estimated by calculating internal consistency among individual items of the measurement scales in the same construct, and the generally agreed upon lower limit for construct reliability is 0.7 (Hair et al. 2010). The reliability of each construct ranged from 0.886 to 0.905 (Table 1), greater than the recommended value.

To test the validity of the constructs, two approaches were employed including content and convergent. Content validity was achieved by establishing the measurement scales in the literature review and confirming them with experts in the marketing field during the pre-test of the questionnaire. Convergent validity was assessed by measurement factor loading estimations and means of the average variance extracted (AVE). Bagozzi and Yi (1988) proposed all measurement factor loadings must be significant and exceed 0.7 to ensure convergent validity. The factor loadings varied from 0.76 to 0.90 (Table 1), exceeding the suggested value of 0.7, as indicated by Bagozzi and Yi (1988). An AVE estimate of 0.50 or higher indicates acceptable validity for a construct's measure (Fornell and Larcker 1981). As illustrated in Table 1, all AVE values were higher than the necessary threshold, and hence, convergent validity of all constructs was achieved.

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Table 1: Construct Reliability and Average Variance Extracted (AVE)

Measure	Item	Standardized loading	Reliability	AVE
Intelligence Generation	01	0.82	0.905	0.655
	02	0.81		
	03	0.80		
	04	0.79		
	05	0.83		
Intelligence Dissemination	01	0.77	0.905	0.654
	02	0.81		
	03	0.80		
	04	0.82		
	05	0.84		
Responsiveness	01	0.79	0.896	0.632
	02	0.80		
	03	0.77		
	04	0.82		
	05	0.80		
Innovation	01	0.84	0.932	0.696
	02	0.84		
	03	0.87		
	04	0.83		
	05	0.81		
	06	0.82		
Business Performance	01	0.76	0.886	0.728
	02	0.90		
	03	0.89		

The model defines relationships among the unobserved constructs. It specifies which latent constructs directly or indirectly influence changes in the values of other latent constructs in the model. The model provided a satisfactory fit to the data (CMIN/df = 2.483, GFI = 0.865, TLI = 0.932, CFI = 0.939, RMSEA = 0.065), as listed in Table 2. The result of the hypothesized model is shown that market orientation has a significant effect on business performance via innovation, but does not have a direct effect on business performance. Hence, Hypothesis 3, “the greater the level of market orientation, the greater the level of business performance”, is not supported. Therefore, although market orientation does not have a direct effect on business performance, it does have an indirect effect on business performance via innovation. Therefore, Hypotheses 1 and 2 are supported.

Table 2: Results of Structural Equations Analysis

Path		Mediation model	
		Standardized regression weights	t-value
Market orientation →	Innovation	0.609	7.450***
Innovation →	Market orientation	0.564	7.440***
Market orientation →	Business performance	0.027	0.355
Model Fit Statistics			
CMIN			610.852
DF			246
CMIN/DF			2.483
GFI			0.865
TLI			0.932
CFI			0.939
RMSEA			0.065

Note 1. GFI = Goodness-of-Fit; TLI = Tucker-Lewis Index; CFI=Comparative Fit Index RMSEA=Root Mean Square Error of Approximation
*Note 2. *p<0.05; **p<0.01; ***p<0.001*

5. Conclusion

Academics have long investigated the market orientation-performance relationship across industries and have found that implementing a market orientation can be a source of competitive advantage for companies and organizations (e.g. Narver and Slater 1990; Olavarrieta and Friedmann 2008). This study hypothesized that business performance would increase as the level of market orientation increases. However, the study found that market orientation, comprising intelligence generation, intelligence dissemination and organization-wide responsiveness, has no direct influence on business performance.

The findings show that superior performance for SMEs hotel enterprises depends on the fit between the market orientation deployed and the innovative culture present. The importance of the impact of innovation upon business performance among SMEs hotels

suggests the need for a better understanding of the organizational forces that determine the degree and shape the direction of innovative culture within the SMEs hotel. A high degree of emphasis on market orientation tends to be linked with a higher level of innovation because the commitment to market-oriented concept will force a firm to become more innovative.

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

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