

IMPLEMENTATION OF CUSTOMER ORIENTATION IN THE HOSPITALITY INDUSTRY: IMPLICATIONS FOR BUSINESS PERFORMANCE

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Abstract: *The purpose of this paper is to examine whether there is a relationship between customer orientation and successful hotel business performance. An empirical study was conducted by examining the marketing management of hotel companies in Primorje-Gorski Kotar County and Istria County. The study found that there is a statistically significant relationship between customer orientation and hotel business performance. The results of the research can be used in practice by the marketing management of hotel companies to determine long-term directions of action. In order to take into account, the wants and needs of the guest and to achieve a competitive advantage, the implementation of customer orientation should be a fundamental postulate in the future business operations of all providers of the hotel offering.*

Keywords: *Customer orientation, Hotel business performance, Croatia.*

1. INTRODUCTION

For hotel enterprises to gain and sustain a competitive advantage in the market in today's business environment, it is essential they introduce and apply customer orientation, a business philosophy based on the needs, wants and demands of customers. Years ago, numerous foreign studies had already suggested that customer orientation was imperative to, as well as the fundamental element of, successful business performance (Narver and Slater, 1990; Deshpandé, Farley and Webster, 1993; Sandvik and Sandvik 2003; Sin et al., 2005; Grisseemann, Plank and Brunner-Sperdin 2013).

Various marketing scholars (Tsiotsou, 2010; Ro and Chen, 2011; Tajeddini and Trueman, 2012; Ziggers and Hensler, 2015) have pointed out that customer orientation is a concept that focuses all business activities on identifying and meeting the needs of customers in order to deliver value to customers. Moreover, customer orientation is the set of values of a company and its employees that puts customers and their needs first (Deshpandé, Farley and Webster, 1993).

Grissemann, Plank and Brunner-Sperdin (2013) point out that although marketing scholars have studied the relationship between customer orientation and business performance, very little of their research has focused on the relationship between customer orientation and hospitality performance. Because there are also very few studies in Croatia dealing with this relationship, this research is considered to be fully justified and will contribute to a deeper understanding of the issue.

The purpose of this paper is to explore the extent to which customer orientation has been adopted by the hospitality industry of Croatia. The paper also seeks to prove that the degree to which hotel enterprises have adopted customer orientation has a positive effect on their business performance.

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The paper consists of six parts. Following the introduction, the second part of the paper provides a literature review and sets the research hypothesis. The third part describes the research methodology. Findings are presented in part four and future researched directions are discussed in part five. The last part of the paper summarizes theoretical and application insights.

2. LITERATURE BACKGROUND

In the marketing literature there are various approaches to and definitions of market orientation. Most authors (Agarwal, Erramilli, and Dev, 2003; Cano, Carrillat, and Jaramillo, 2004; Mahmoud, 2011; Jyoti and Sharma, 2012) agree, however, that market orientation is the implementation of the marketing concept, implying a focus on the needs, wants and demands of customers. According to Narver and Slater (1990), marketing orientation consists of customer orientation, competitor orientation and inter-functional coordination. As one of the three components of marketing orientation, customer orientation “plays a relatively larger role in the firm’s market orientation dynamics” (Mohiuddin Babu, 2018, p. 703). For the purpose of this paper, customer orientation is regarded as “the set of beliefs that puts the customer’s interest first, while not excluding those of all other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise” (Deshpandé, Farley and Webster, 1993, p. 27). It should be noted that customer orientation is a long-term orientation focused not only on attracting customers but on retaining them as well. Customer retention is the guarantee to successful business performance in the long run, based on value and satisfaction (Racela, 2014).

In the context of the hotel industry, business performance can be expressed through two sets of indicators (Chen, Tsou and Huang 2009): financial and non-financial performance indicators. Financial performance “refers to objective measures such as the average occupancy rate, lodging index, and market share whereas the non-financial measures of hotels refer to perceptual measures such as customer retention and reputation” (Grisseemann, Plank and Brunner-Sperdin, 2013, p. 349).

Previous studies have shown that there is a positive relationship between customer orientation and business performance in hospitality (Sin et al., 2005; Wang, Tsitsou, 2010; Chen and Chen, 2012; Grisseemann, Plank and Brunner-Sperdin, 2013). Sin et al. (2005) proved that there is a significant and positive relationship between market orientation and hotel business performance. Tsioutsou (2010) examined three main components of market orientation – customer orientation, competitor orientation and inter-functional coordination – and their influence on tourism service performance. His study confirms that only customer orientation has a direct effect on service performance, while the other two components have an indirect effect. Moreover, Wang, Chen and Chen (2012) explored the link between total quality management, market orientation and hotel performance and proved there is a positive relationship between market orientation and hotel performance. Their research also confirmed the moderating effect of market orientation on TQM and hotel performance. Grisseemann, Plank and Brunner-Sperdin (2013) examined the relationship between customer orientation, innovation and hotel business performance and found that the effect of customer orientation in hotels exceeds the effect of innovativeness and innovation behavior on hotel business performance. Moreover, they revealed that customer orientation has a direct effect on financial performance but only in 4-star and 5-star hotels and concluded that the managers and owners of such hotels attach greater importance to customer orientation than do the managers and owners of 1- to 3-star hotels.

Accordingly, the following hypothesis is set: Customer orientation has a positive and significant effect on hotel business performance.

3. METHODOLOGY

The survey method was used to conduct research. The research instrument was a questionnaire comprising three parts. The first part contained statements referring to customer orientation, taken from previous studies by Grisseman, Plank and Brunner-Sperdin (2013) and Taghian (2010). The second part of the questionnaire was made up of statements to examine the business performance of the hotel enterprise. A scale was designed according to the previous research of Chen, Tsou and Huang (2009) and respondents were asked to rate statements with a score of 1 to 5 (1=strongly disagree, 5=strongly agree). The questionnaire's third part referred to the general data of hotel enterprises and to the socio-demographic profile of respondents.

The respondents were persons in charge of the planning and execution of marketing activities in hotel enterprises in Croatia (Istria County and Primorje-Gorski Kotar County). The survey was conducted from March to April 2015. The size of the sample corresponds to the total number of 128 hotel enterprises in the above-mentioned counties (according to the list of categorized tourism facilities of the Croatian Ministry of Tourism, 17 February 2015). A total of 62 properly filled out questionnaires (48%) were collected.

4. RESEARCH RESULTS

The description of the sample of hotel enterprises consists of the enterprises' status and way in which they carry out marketing activities. In the sample of 62 hotel enterprises, the respondents who filled out the questionnaire were mostly the heads of sales departments (35.5%), have a university degree (69.4%) and are female (56.5%). Of the 62 hotels, 66.1% are limited liability companies and 33.9%, joint-stock companies. Marketing activities are most often carried out by marketing departments (38.7%), and in 37.1% of cases, there is no special organizational unit in charge of marketing.

Table 1 presents a descriptive analysis of customer orientation.

Table 1. Descriptive analysis of customer orientation

| Item | Mean | SD* | Mode | CA** |
|--|------|-------|------|--------|
| Customer satisfaction is continuously measured | 4.26 | 1.085 | 5 | -1.572 |
| Market information is quickly analyzed and distributed among the various departments of the enterprise | 3.39 | 1.150 | 4 | -0.482 |
| We respond promptly to the campaigns of competitors | 3.19 | 1.157 | 4 | -0.261 |
| We take account of the future demands of guests (markets) and adjust our offering accordingly | 3.87 | 1.138 | 4 | -1.119 |
| Total average rating | 3.68 | | | |

* SD – standard deviation

** CA – coefficient of asymmetry

Source: Research results

The above table shows that the average scores for the construct “customer orientation” range from 3.19 to 4.26. The variable “We respond promptly to the campaigns of competitors” has the lowest score and the variable “Customer satisfaction is continuously measured”, the highest. The total average score is 3.68, suggesting that on average the respondents partially agree with the given statements. Standard deviation values are greater than 1, indicating a wider spread of data. For two of the variables the coefficient of asymmetry is in the range of -1 and +1, indicating normal distribution of data, but for the other two variables it is outside that range. The mode

value shows that respondents mostly gave a score of 4 to the observed variables, indicating that for the most part they partially agree with the given statements.

Table 2 presents the results of research pertaining to “business performance”.

Table 2. Descriptive analysis for “business performance”

| Item | Mean | SD* | Mode | CA** |
|---|------|-------|------|--------|
| We made a profit | 3.89 | 1.415 | 4 | -1.084 |
| We achieved our profit-related objectives | 3.63 | 1.309 | 4 | -0.858 |
| We achieved our sales-related objectives | 3.79 | 1.133 | 4 | -0.970 |
| We enhanced the loyalty of existing guests | 3.90 | 1.097 | 4 | -1.188 |
| We attracted a significant number of new guests | 3.94 | 1.143 | 4 | -1.230 |
| We built a well-perceived image | 3.79 | 1.042 | 4 | -0.819 |
| We increased the occupancy rate of our accommodation capacities | 3.89 | 1.057 | 4 | -1.229 |
| We improved our liquidity | 3.79 | 1.175 | 4 | -1.141 |
| We improved our productivity | 4.00 | 1.040 | 4 | -1.264 |
| We improved our business efficiency | 3.82 | 1.138 | 4 | -1.086 |
| Total average rating | 3.84 | | | |

* SD – standard deviation

** CA – coefficient of asymmetry

Source: Research results

It can be concluded that the average scores given to variables in the construct “business performance” are relatively high, ranging from 3.79 to 4. The total average score is 3.84, and the most frequent score (mode) is 4. These scores indicate that respondents positively rated the observed indicators of business performance. Respondents in hotel enterprises gave the highest score to “improved productivity” and the lowest to “achieved profit-related objectives”. The standard deviation in all variables is higher than 1, indicating a wider spread of data. The coefficient of asymmetry of three variables is within the interval from -1 to +1, meaning the distribution of scores is symmetrical in those cases.

Correlation analysis was conducted to test the set hypothesis. Prior to testing, Cronbach’s alpha, the coefficient of internal consistency, was calculated. Cronbach’s alpha was 0.807 for the construct “customer orientation” and 0.939 for the construct “business performance”, suggesting high reliability in measuring the individual constructs.

To test the hypothesis, a linear composite was created for each construct, that is, the average value of the individual statements that make up a construct was calculated. The normality of distribution of the observed variables was also tested, as shown in Table 3.

Table 3. Descriptive analysis

| Item | Mean | SD* | CA** |
|----------------------|------|------|-------|
| Customer orientation | 3.68 | 0.90 | -0.80 |
| Business performance | 3.84 | 0.93 | -1.28 |

* SD – standard deviation

** CA – coefficient of asymmetry

Source: Research results

A slight negative asymmetry of the observed variables is seen in the above table. The coefficient of asymmetry of the construct “customer orientation” is, however, within the limits of acceptability for normal distribution (located in the interval from -1 to +1). The distribution of the variable “business performance” is slightly asymmetric. Considering that the variables meet the condition of normality, the hypothesis was tested using Pearson’s correlation coefficient.

The conducted correlation analysis established that there is a significant and positive relationship between customer orientation and business performance ($r = 0.637$; $p < 0.01$). The values of the correlation coefficients suggest that the better the customer orientation, the better the business performance. In view of this, the set hypothesis can be accepted.

Regression analysis was used to test the cause-effect relation between customer orientation and business performance.

Table 4 shows the results of regression analysis.

Table 4. Regression analysis for “customer orientation” and “business performance”

| Indicators | Value | | | |
|---|--------|-------|-------|-------|
| Correlation coefficient R | 0.637 | | | |
| Coefficient of determination R ² | 0.406 | | | |
| F ratio | 41.045 | | | |
| Sig. | 0.000 | | | |
| Independent variable | B | Beta | t | Sig. |
| Constant | 1.421 | | 3.650 | 0.001 |
| Customer orientation | 0.659 | 0.637 | 6.407 | 0.000 |

Note: Dependent variable – business performance; B – unstandardized coefficient; Beta – standardized coefficient.

Source: Research results

Table 4 indicates a moderate positive relationship between customer orientation and business performance ($r=0.637$). According to the coefficient of determination ($R^2 = 0.406$), the variables in the model share 40.6% of common factors. This means that 40.6% of the variance (information) in variable “business performance” can be explained by the variable “customer orientation”. Furthermore, the results are statistically significant ($F = 41.045$; $p < 0.01$). The unstandardized coefficient B indicates that a result increase of one point in “customer orientation” is linked to an average increase of 0.659 points in the result of “business orientation”. Conversely, a one-score decrease in “customer orientation” results in an average decrease in “business performance” of more than half a score (to be exact, 0.659 of a score). The value of the beta coefficient suggests the relative significance of the independent variable (and corresponds to the correlation coefficient). The t-test leads to the conclusion that customer orientation has a significant effect on business performance ($p < 0.01$).

5. FUTURE RESEARCH DIRECTIONS

This study contributes to a better understanding of customer orientation in the hotel industry and the implications it has on business performance. The research on customer orientation indicates that hotel enterprises are continuously measuring guest satisfaction and adjusting the hotel offering to market demands. In the hotel enterprises, market-related information is relatively quickly analyzed and distributed within the various departments of the enterprises. The study

also established that hotel enterprises are weakest in their responses to the campaigns of competitors. With regard to business performance, hotel enterprises achieve financial and non-financial performance outcomes to the fullest extent, in particular with regard to improving productivity, attracting a significant number of new guests and enhancing the loyalty of existing guests.

The study has some limitations. One is its spatial limitation, considering that research was conducted only in two counties in Croatia. Accordingly, future studies could include hotel enterprises in other counties throughout Croatia. It is also suggested that future studies should seek to make comparisons with best practices in the hotel industry worldwide. To that end, future research should focus on competitive benchmarking with a competitor-to-competitor comparison, generic benchmarking to find the best practice regardless of the industry, and collaborative benchmarking to compare the business performance of those hotel enterprises that have built a partner relationship prior to introducing the benchmarking process. Another limitation refers to the application of a single research method, the survey method. Future research could apply other methods as well (for example, focus groups, in-depth interviews, etc.) to obtain more comprehensive sight into the research problem.

6. CONCLUSION

The results of the conducted study confirm the hypothesis positing that customer orientation has a positive and significant relationship with hotel business performance. This is consistent with the findings of studies by Tsotsou (2010) and Grisseemann, Plank and Brunner-Sperdin (2013) which prove that customer orientation has a direct and positive effect on hotel performance. Furthermore, Zhou et al. (2007) in their study confirmed that customer orientation had a stronger effect on hospitality performance in economically better developed regions as well as in markets with good local business conditions, greater resource availability, and discerning customers.

In adapting to modern trends, it is essential for hotels to become customer oriented, as a fundamental precondition to successful business performance. The marketing managers of hotel enterprises should be able to assess the degree to which strategic marketing plans are carried out because customer orientation is operationalized through those plans. This would also make timely responses to competitors possible, what is important, considering this study has established that hotels are slow in responding to the competition. Preconditions to customer orientation are the existence of an adequate information system and the digitalization of businesses, as suggested in a study by Zhu and Nakata (2015). In designing new products capable of satisfying the increasingly discerning tourism demand, focus should be placed on the selective development of various services, facilities and events that can provide a memorable experience to guests.

The overall hotel offering should be adjusted to the guests and their ever more discerning needs and wants. To this end, hotels can reach out to potential guests through a variety of information and communication-based forms of promotional activities (for example, by promoting services via social networks, storytelling, gamification, etc.). They can provide the latest technological solutions for guests to use during their stay in a hotel (for example, the use of mobile applications to adjust room conditions, make bookings, check-in and check-out, order room service and receive personalized information about a hotel's current offerings and services). To build the market distinctiveness of a hotel enterprise and its brand and image, a specialized hotel offering should be developed, based on themed hotels fully adjusted to the needs of guests (for example, wellness, boutique, historical, children's and eco hotels).

It can be concluded that the implementation of customer orientation in the hotel industry is a demanding and complex task, requiring the continuous adjustment of a hotel enterprise's marketing activities to the specific conditions and requirements of the industry.

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