

# **The Effect Of Strategic Orientation On Market Performance Of Hotels: Empirical Evidence From The Saudi Arabia Hospitality Industry**

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## **INTRODUCTION**

Saudi Arabia is an emerging economy. Though comfortably floating upon its oil reserves, the country is substantially diversifying its economy by reducing over dependence on oil and extending business activities to other sectors of the economy ([http://www.eia.doe.gov/emeu/aer/pdf/pdf/pages/sec11\\_10.pdf](http://www.eia.doe.gov/emeu/aer/pdf/pdf/pages/sec11_10.pdf)). The hospitality industry, with hotels as an integral part, is one such sector. Through diversification, the hotels in the hospitality industry are playing greater roles in the Saudi economy. The spread of business activities within the hospitality industry has heightened competition amongst the hotels. Increasingly, competition in the Saudi hospitality industry is exerting pressure on the ability of the hotels to create and maintain superior market performance. In the face of this scenario, it is important that the hotels be strategically inclined. Strategic inclination defines the direction an organization chooses in order to provide more competitive services to its clientele. Specifically, the direction is the choice as to whether organizations should concentrate business activities on the customer, the competition or both. Greyser (1997) referred to this as “*Strategic Orientation*”. Gatignon and Xuerb (1997) conceptualized strategic orientation as the specific approach a company adopts to create superior and continuous performance. In light of this, the strategic orientation of hotels in the Saudi hospitality industry is critical to creating superior market performance. Frequently, strategic orientation is stressed as important to improving market performance; however, in practice, the decision regarding strategic orientation is an arduous task. This is so because an organization that orients its business activities toward satisfying the customer at the expense of the competition is likely to lose track with competitors' activities and vice versa. Put differently, organizations whose strategic orientation skews mainly in the direction of the competition or customers are likely to have a partial or peripheral vision of the marketplace. In an attempt to be holistic, an organization may tend its business activities in the direction of the competition and customer. In other words, they seek to put in place business activities that are competition and customer driven. It must be cautioned, however, that though this strategic orientation is all embracing, in practice, it may be difficult for organizations to cope with, principally because of the enormous financial and human capital requirements that are associated with this strategic direction. This realization has left unanswered the question as to what should constitute an organization's strategic orientation. More specifically, are hotels operating within the Saudi hospitality industry competitor or customer oriented? Or are they concentrating business activities on both the customer and competition? Finally, does the strategic choice of the hotels have any influence on their market performance? An attempt to answer these questions provides the rationale for the study.

## **LITERATURE REVIEW**

The strategic orientation literature discusses two general approaches to accomplishing improved market performance. These approaches include customer and competitor orientation (Day and Nedungadi, 1994; Armstrong and Callopy, 1996; Han et al., 1988; Christensen and Bower, 1995; Lynn and Spiro, 1988; Hurley and Hult, 1998). An organization may decide to be customer oriented by having a tendency of thoughts towards the customer in its business activities. In this case, organizational activities are concentrated on the customer. In strict business terms, such organizations are said to be market focused. The choice of this strategic orientation is rooted in the belief that organizational activities have a significant impact on market performance if priority is placed on the creation and maintenance of customers. On

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the basis of this belief, the business activities of the organization revolve around the customer. Because every organization must serve a clientele, this strategic direction is often emphasized by strategy researchers as being desirable (Kohli and Jaworski, 1990, Deshpande and Farley, 1998, Deshpande et al. 1993, Day, 1994). Day (1994) elaborated this notion further by observing that the customer orientation perspective is the practical implementation of the marketing concept. Kohli and Jaworski (1990) identified three structural components of customer orientation: generation and analysis of all relevant information about the market; dissemination of the information among the various departments of the organization so as to coordinate organizational activities, and implementation of strategic initiatives directed at satisfying the market. Empirical studies have tended to indicate that the customer orientation perspective is the sole effective approach to improve market performance (Deshpande et al. 1993, Deng and Dart, 1994, Fritz, 1996, Greenley and Foxall, 1998). Though the results of the customer orientation perspective are encouraging, it must be emphasized that this orientation is a single dimensional component of the two core strategic orientation components. Therefore, conclusions reached on the strategic orientation and performance relationship examining customer orientation may be questionable. This is so because such conclusions are drawn based on a one-sided view of the overall strategic orientation picture. Competitor orientation lay side by side with customer orientation to give a complete view of strategic orientation. From this perspective, organizations may choose to be overly concerned with industry competition and be competitor focused. Organizations that are predisposed to industry competition believe that “*warfare*” is the key to survival and as such, coordinating the organization's activities is often like developing warfare plans. Based on this notion, organizations are forced to see industry competition as the enemy and the customer as the ground to be won (Diwan and Jain, 2009, Ries and Trout, 1986). Competitor focused organizations grow their market share and sales from target competitors. The rationale for choosing to be a competitor focused is simply to beat the industry competition (Porter, 1985). This is important because when a market reaches maturity, the only way for organizations to increase market share is to shake off portions of competitors' share of the market. One of the ways through which an organization can do this is to constantly keep surveillance on competitors. When key competitors are checked and/or outmaneuvered, it creates leverage that enables the organization to improve its market performance. Slater and Narver (1994) stressed that to achieve this leverage, an organization must gather intelligence on three main questions: Who are the competitors? What technologies does the competition offer? And does the competition represent an attractive alternative from the perspective of the target customer? Using target rivals as the frame of reference, organizations can identify their weaknesses and strengths and also keep pace with, or stay ahead of the competition (Han et al., 1988). The customer and competitor orientations have created two distinct schools of thought theoretically seeming to be polar extremes in the strategic orientation literature. In practice, are these schools of thought necessarily polar extremes? Or do organizations use hybrid components of the two schools of thought to achieve superior and continuous market performance as emphasized by Gatignon and Xuereb (1997) and Voss and Voss (2000).

## THE CONCEPTUAL MODEL

The conceptual model presented in the Figure 1 has three notions. First, that the hotels in the Saudi hospitality industry concentrate activities on the customer. The model postulates that the hotels exhibiting this strategic orientation have greater ability to create superior and continuous market performance. Based on this, the researchers hypothesize that:

✿**H<sub>1a</sub>: Hotels that are strategically oriented towards the customer have superior sales performance.**

✿**H<sub>1b</sub>: Hotels that are strategically oriented towards the customer have a larger share of the Saudi hospitality market.**

The second notion suggested by the model runs parallel to the first hypothesis. It posits that hotels concentrate business activities mainly on industry competition. From this standpoint, the model suggests that hotels that are strategically oriented towards competition in the Saudi hospitality industry have greater ability to create superior and continuous market performance. Specifically, the researchers hypothesize that :

✿**H<sub>2a</sub>: Hotels that are strategically oriented towards the industry competition have superior sales performance.**

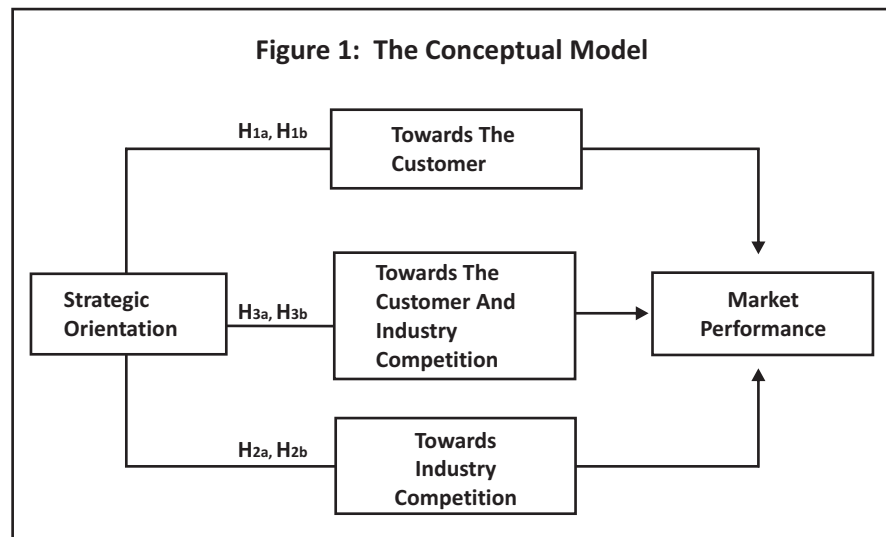
✿**H<sub>2b</sub>: Hotels that are strategically oriented towards the industry competition have a larger share of the Saudi hospitality market.**

The model radically deviates from the polar view of concentrating business activities on the customer or the industry

competition. In this regard, it puts forward that the customer and industry competition perspectives are inseparable. The model suggests that the two streams of thought provide the confluence around which the hotel's activities are concentrated. On this, the researchers hypothesize that:

⊗ $H_{3a}$ : Hotels that are strategically oriented towards the customer as well as the industry competition have superior sales performance.

⊗ $H_{3b}$ : Hotels that are strategically oriented towards the customer as well as the industry competition have a larger share of the Saudi hospitality market.



## METHOD

Hotels abound in each of the 13 regions that constitute the Kingdom of Saudi Arabia. In this study, focus is placed on hotels situated in Jeddah, Riyadh, Mecca and Abha. Given that the study's interest aimed at examining the relationship between strategic orientation and market performance, the study excluded hotels that are likely to lack comprehensive competitive attributes. To achieve this, the threshold-level for inclusion of hotels was set at minimum 3 stars. Structured questionnaire was used to examine the strategic orientation and market performance of the sampled hotels on a five-point likert scale ranging from 1 (strongly agree) to 5 (strongly disagree). The questionnaire examined market performance on two fronts: annual sales; and market share. Customer orientation was measured using six (6) items: whether the hotel places emphasis on the customer in competitive activities, whether energy and resources are devoted to customer complaints, whether complaints from customers are treated, whether the customer participates in determining the quality of a hotel's product(s), whether customers are challenging, and the nature of the relationship between hotel staff and customers. Competitor orientation was examined using two indicators: whether a hotel places emphasis on industry competition during competitive activities, and whether energy and resources are devoted to the industry competition during competitive activities. Although 85 questionnaires were administered, 79 were properly filled out and were found to be useable. The KMO and Bartlett's tests were employed to measure the sampling adequacy. From the test, the KMO measure is 0.768 and the Bartlett's test for sphericity is significant. These results suggest that the data can undergo correlation and factor analytic procedures.

## RESULTS

The correlation between the two market performance indicators and the strategic orientation of the sampled hotels was ascertained and shown in the Table 1. The Table 1 reveals that statistical significance exists between the hotel's annual sales and 3 (three) of the six (6) items were used to measure customer orientation ( $r = .265 p \leq .05$ ;  $r = .250 p \leq .05$ ;  $r = .247 p \leq .05$ ). Correlation was found between the hotel's annual sales and the two items used to measure competitor orientation ( $r = .370 p \leq .01$ ;  $r = .356 p \leq .01$ ). The examination of the relationship between market share and strategic

orientation of the hotels shows that market share correlated with the six (6) items used to measure customer orientation ( $r = .273$   $p \leq .05$ ;  $r = .390$   $p \leq .01$ ;  $r = .475$   $p \leq .01$ ;  $r = .337$   $p \leq .01$ ;  $r = .283$   $p \leq .05$ ;  $r = .369$   $p \leq .01$ ). Statistical significance was found between the market share and one of the two items used to measure competitor orientation. The examination of the relationship between annual sales and both strategic orientations (customer and competitor) reveal that 5 of the eight (8) items used to measure both orientations correlated with annual sales ( $r = .265$   $p \leq .05$ ;  $r = .250$   $p \leq .05$ ;  $r = .247$   $p \leq .05$ ;  $r = .370$   $p \leq .01$ ;  $r = .356$   $p \leq .01$ ). Statistical significance exists between market share and seven (7) of the eight items used to measure both orientations ( $r = .273$   $p \leq .05$ ;  $r = .390$   $p \leq .01$ ;  $r = .475$   $p \leq .01$ ;  $r = .337$   $p \leq .01$ ;  $r = .283$   $p \leq .05$ ;  $r = .369$   $p \leq .01$ ;  $r = .603$   $p \leq .01$ ).

Table 1 : Correlations		
Strategic Orientation Items	Annual Sales	Market Share
Emphasis Placed On Customer.		.273*
Energy And Resources Devoted To Customer Complaints.	.265*	.390**
Treatment Of Customer Complaints.	.250*	.475**
Participation Of Customer In Determining Product Quality.	.247*	.337**
Description Of Customer (Nature Of Customer).		.283*
Relationship Between Staff And Customer.		.369**
Emphasis Placed On Competition.	.370**	.603**
Energy And Resources Placed On Competition.	.356**	
Annual Sales Compared Against Key Competitors.		
Market Share Relative To Competitors.		
** Correlation is significant at the 0.01 level (2-tailed)		
* Correlation is significant at the 0.05 level (2-tailed)		

The results of the factor analysis are presented in the Tables 2 and 3. According to the Table 2, three (3) of the ten (10) items included in the analysis were extracted. The first factor accounts for 42.1% of the variance, the second factor 14.0% and the third factor 12.1%. The remaining factors are not significant. The first factor loaded on nine (9) of the ten items, while the other two factors loaded on four of the items. To reduce the number of items on which the factors loaded and to make interpretation of the data easier, the rotation method using Varimax was employed (see Table 3).

Table 2 : Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.628	42.072	42.072	4.628	42.072	42.072	3.274	29.760	29.760
2	1.537	13.974	56.046	1.537	13.974	56.046	2.640	24.002	53.762
3	1.326	12.055	68.101	1.326	12.055	68.101	1.577	14.339	68.101
4	.842	7.652	75.754						
5	.756	6.870	82.623						
6	.538	4.894	87.517						
7	.394	3.579	91.096						
8	.327	2.977	94.073						
9	.267	2.428	96.501						
10	.203	1.843	98.344						
11	.182	1.656	100.000						
Extraction Method: Principal Component Analysis.									

Table 3: Rotated Component Matrix (a)			
	Component		
	1	2	3
Emphasis Placed On Customer.		.751	
Energy And Resources Devoted To Customer Complaints.			
Treatment Of Customer Complaints.	.682		
Participation Of Customers In Determining Product Quality.		.870	
Description Of Customer (Nature Of Customer).		.879	
Relationship Between Staff And Customer.	.838		
Emphasis Placed On Competition.	.818		
Energy And Resources Placed On Competition.			.827
Annual Sales Compared Against Key Competitors.			.737
Market Share Relative To Competitors.	.685		
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 5 iterations.			

Table 3 reveals that four (4) of the items ('*treatment of customer complaints*', '*relationship between staff and customers*', '*emphasis placed on competition and market share*') are substantially loaded on Factor (component) 1. Three (3) items ('*emphasis placed on customer*', '*energy and resources devoted to customer*', '*participation of customer in determining product quality*', and '*nature of the customer*') are substantially loaded on Factor (component) 2. Two (2) items ('*energy and resources placed on competition*' and '*annual sales*') loaded substantially on Factor (component) 3.

## DISCUSSION

The study partially supports the first hypothesis ( $H_{1a}$ ) because three (3) of the six items used to measure customer orientation correlated with annual sales. This suggests that the annual sales revenue of the hotels in the Saudi hospitality industry is partially influenced by being customer oriented. The study completely supports  $H_{1b}$ . This indicates that the hotels' market share improves when they are customer oriented.  $H_{1a}$  and  $H_{1b}$  partially support the literature that suggests that organizational activities have a significant impact on market performance if emphasis is placed on the creation and maintenance of customers (Kohli and Jaworski, 1990, Deshpande and Farley, 1998, Deshpande et al. 1993, Day, 1994). The study further supports  $H_{2a}$  owing to the fact that the two items used to measure competitor orientation correlated with annual sales. This suggests that the hotels' annual sales revenue improves when emphasis is placed on the industry competition. The support for  $H_{2b}$  is partial because of the non-statistical significance found between one of the two items used to measure competitor orientation and market performance. The conclusion derived from  $H_{2a}$  and  $H_{2b}$  partially corroborates the notion that warfare is the key to survival and keeping competitors in check or outmaneuvering them creates the leverage that enables organizations to improve market performance (Porter, 1985; Ries and Trout, 1986; Slater and Narver, 1994).  $H_{3a}$  was partially supported because all of the items used to measure customer and competitor orientations did not correlate with annual sales. This suggests that annual sales revenue of the hotels is partially influenced when emphasis is placed on the customer and the competitor.  $H_{3b}$  is also partially supported because one of the eight items used to measure both orientations did not correlate with market share. This result confirms that the market share situations of the hotels are partially influenced when emphasis is placed on the customer and the competitor. The notion put forward by  $H_{3a}$  and  $H_{3b}$  is partially consistent with the literature that suggests that organizations hybrid the customer and competitor orientations to achieve superior and continuous market performance (Gatignon and Xuereb, 1997, Voss and Voss, 2000). The factor analysis suggests that the effect of strategic orientation on market performance of hotels in the Saudi hospitality industry can best be examined relying on the nine of the ten items.



## CONCLUSION

The aim of the study was to find out the effect of strategic orientation on market performance of hotels in the Saudi hospitality industry. Though the study established positive correlations between market performance and strategic orientations of the hotels, the correlations confirm partial support for the hypotheses. The study, therefore, cautiously concludes that the strategic orientation of the hotels in the Saudi hospitality industry positively affects their market performance.

## DIRECTIONS FOR FUTURE RESEARCH

The sample size used for this study is non-representative of the population of hotels in the Saudi hospitality industry. It is, therefore, recommended that the subject matter be re-examined in the context of a sample that is representative. It is hoped that future research in this direction would strengthen the findings of this study.

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