

# The impact of regulation and ownership structure on market orientation in the tourism industry in China

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## Abstract

The nature of market orientation and its impact on business performance and other related outcomes have been extensively researched in a range of service contexts including tourism. In contrast, our understanding of the factors that influence market orientation is still limited. This paper reports on a study that contributes to our understanding of the determinants of market orientation within the tourism sector by focusing specifically on the role played by two strategically important variables, namely government regulation and ownership structure. The study analyses two national samples of hotels and travel services in the rapidly growing tourism industry in China. The hotel sector has been open to foreign investment for two decades and has a diversified ownership structure, whereas the travel services sector has been dominated by government owned firms and relatively closed to foreign investment. The results of the survey suggest that of the two new antecedents, only government regulation has a significant role to play in driving market orientation. Internally, access to appropriate managerial and marketing capabilities was identified as a significant predictor of the development of market orientation.

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## 1. Introduction

The importance of marketing in relation to the tourism industry is well recognised (for example, Seaton & Bennett, 1996; Buhalis, 2000; Buhalis & Laws, 2001). However, much of the existing research in tourism marketing has tended to emphasise the consumer perspective, the tourism product and the nature of tourism distribution channels. In contrast, research in other sectors has increasingly emphasised the importance of the development of a marketing orientation as a route to competitive success. (Houston, 1986; Webster, 1988; Kohli & Jaworski, 1990). Building on the initial research by, inter alia, Kohli and Jaworski (1990),

Narver and Slater (1990), and Deshpande, Farley, and Webster (1993) significant progress has been made in the understanding the conceptualisation and measurement of market orientation and evaluating its impact upon business performance in a range of different contexts including tourism (see Kohli, Jaworski, & Kumar, 1993; Slater & Narver, 1994; Cadogan & Diamantopoulos, 1995; Hooley, Cox, Fahy, & Shipley, 2000; Au & Tse, 1995; Sargeant & Mohamad, 1999; Harris, 2001; Wu, 2004).

In contrast, despite their obvious importance, issues relating to the determinants and development of market orientation are still relatively under-researched (Jaworski & Kohli, 1996; Harris, 2002) and virtually no attention has been paid to the determinants of market orientation in the tourism sector. Where the determinants of marketing orientation have been the subject of research effort, it is typically internal organisational influences

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that have been the focus of attention (e.g. Ruekert, 1992; Jaworski & Kohli, 1993; Harris, 1996, 2000; Homburg & Pflesser, 2000; Cadogan, Paul, Salminen, Puumalainen, & Sundqvist, 2001). Notwithstanding the impact of the external environment on business performance and the integration of environmental influences into the original market orientation models (Kohli & Jaworski, 1990; Narver & Slater, 1990), researchers have devoted relatively little attention to exploring the impact of these variables in practice.

Despite its economic significance, relatively little market orientation research has examined the travel and tourism sector and understanding of the factors that drive market orientation is, at best, limited. This paper aims to contribute to this relatively under-researched area by exploring both the internal and external influences on market orientation among hotels and travel services in China. In addition to an examination of existing, identified internal antecedents, the paper argues that governance issues may be of relevance to market orientation and considers the impact of ownership structure. With respect to external influences, the paper explicitly considers the impact of regulation—both of competition and product quality. The article begins with a brief review of the literature and discusses the development of hypotheses. The following sections explain the research method and data collection procedures. Thereafter, the results of the data analysis are presented and discussed and the final section provides a summary and conclusions.

## 2. The determinants of market orientation

In one of the seminal works on market orientation, Kohli and Jaworski (1990) defined market orientation as “the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation-wide responsiveness to market intelligence”. The antecedents to market orientation were defined as “the organisational factors that enhance or impede the implementation of the business philosophy represented by the marketing concept”. They did not ignore external factors but saw their role as being primarily in moderating the relationship between market orientation and its outcomes. They argued that the choice of an internal perspective is appropriate “because managers have more control over internal antecedents compared to external ones” (Jaworski & Kohli, 1993). On the basis of 64 in-depth interviews, they identified three sets of organisational factors (individual, intergroup and organization-wide) as the antecedents to market orientation (Kohli & Jaworski, 1990).

The formalisation of the construct of market orientation spawned a range of studies to investigate its relevance and applicability across a range of sectors. The bulk of these studies focused on the consequences of market orientation—i.e., the implications for performance. The evidence for the beneficial effects of market orientation in the tourism sector is limited and varied. In a study that pre-dates the work of Kohli and Jaworski (1990). Greenley and Matcham (1986), comment on the relatively low levels of marketing orientation amongst organisations serving the in-bound tourism market in the UK. Subsequent studies in the hotel sector (Au & Tse, 1995; Sargeant & Mohamad, 1999) also report low to moderate levels of market orientation and find little evidence of significant impacts on performance. However, more recent research in China has identified significant performance impacts (Qu & Ennew, 2003) with variations across sectors within the tourism industry and a study in Taiwan suggests that market orientation has a positive, but indirect impact on business performance for online travel businesses (Wu, 2004). More generally, there is an extensive and growing body of evidence from other sectors to support the importance of market orientation in relation to business performance (for example, Diamantopoulos & Hart, 1993; Kohli et al., 1993; Slater & Narver 1994; Greenley, 1995; Cadogan & Diamantopoulos, 1995, Hooley et al., 2000; Soehadi, Hart, & Tagg, 2001; Harris, 2001).

Despite widespread recognition of the benefits of market orientation, there has been relatively little work on its antecedents either generally or in the tourism sector. In one of the few studies to address this area in the tourism sector, Harris and Watkins (1998) identify a range of factors which serve as barriers to the implementation of market orientation within small hotels and these barriers include lack of knowledge, lack of resources, satisfaction with the status quo, inappropriateness, short-termism and lack of perceived differentiation. By implication, the removal of such barriers would serve to facilitate market orientation. In contrast, studies in other sectors have tended to focus attention on the internal managerial influences identified by Kohli and Jaworski (1990). For instance, Egeren and O’Conner (1998) examined the effects of characteristics of the top management team. They found that market orientation is significantly influenced by group cohesiveness among top management team on the basis of a survey of 289 senior managers from 67 services firms in a Midwestern state of the USA. Similarly, using a random sample of 400 managers from five SBUs of a large US high-tech firm, Ruekert (1992) found that market orientation in a SBU is significantly affected by use of market oriented processes in recruiting personnel, provision of customer services training and the use of a market-based reward system. In a different cultural context, Bhuian (1998) explored the transferability of

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