



## Total quality management, market orientation and hotel performance: The moderating effects of external environmental factors

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### ABSTRACT

With the market competition of hotel industry being heated, it is critical that hotels have a breadth of resource and more flexible forms to meet the needs of a changing marketplace. In the past, the relation of total quality management (TQM), market orientation, and performance are equivocal. These mixed results may be due to some factors or not to include the environmental factors. This study adopts the Input-Processing-Output (IPO) concept model to construct all variables research model. The research surveyed samples of 588 and used Structural Equation Model and discriminant analysis for analysis and testing. The results show that TQM positively affects hotel performance. Market orientation positively affects hotel performance. Market orientation has the mediating effect between TQM and hotel performance. External environment factors truly play a moderator between TQM, market orientation and hotel performance. External environment factors greater changes are going to help to build relationship with customer, to enhance hotel performance and further to gain chance of hotel's survival.

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### 1. Introduction

Total quality management (TQM) is a widely recognized management philosophy, and has become the key slogan as organizations strive for competitive advantage in markets (Sureshchandar et al., 2001). TQM focuses on continuous process improvement within organizations to provide superior customer value and meet customer needs. Meeting customer needs involves company operations focused on understanding, sharing, and responding to customers through marketing concept. Firms adopting and implementing the marketing concept are said to display a market orientation (Lamb et al., 2005). Market-oriented firms have been demonstrated to be successful at maintaining a strong competitive position (Walker et al., 2006). Therefore, TQM and market orientation can constitute a valuable firm strategy and provide a competitive advantage to respond to the competitive business environment.

Studies have claimed that marketing and TQM are complementary business philosophies (Longbottom et al., 2000; Mohr-Jackson, 1998a,b). However, departments responsible for implementing TQM policy may consider increasing sales through higher quality products or service needs rather than marketing. Poor coordination among departments, or even rivalries and distrust, are not

unusual. Moreover, partial enterprises that have conducted TQM have not considered their attributes or properly used them in marketing, preventing top managers from understanding marketing topics. Therefore one-third of TQM-adopting enterprises continue to exhibit prejudice (Witcher, 1995), or have failed in TQM implementation. These factors cause many organizations to have little or no to complement to TQM and market orientation together. However, even when both are linked in hotel performance effect, the empirical findings are mixed, and homogeneous results regarding their relationships are lacking. Furthermore, scholars have also argued that relationships among TQM, market orientation and organization performance often vary considerably in terms of magnitude, or when improving performance, generating mixed and controversial results. Additionally, the hotel industry suffers a lack of information regarding TQM or barriers to developing market orientation (Gray et al., 2000; Harris and Watkins, 1998; Lazari and Kanellopoulos, 2007); few studies have addressed this lack of information or the existence of such barriers in the Taiwanese hotel industry.

In the competitive market environment, quality is considered the basic consuming condition. Hotels seeking to improve their performance cannot simply rely on quality, but must also design inducements to attract customers. Longo and Cox (1997) and Youssef et al. (1996) addressed the IPO (Input-Processing-Output) model of TQM, which displays the relationships between the TQM system and participants. This model defines input to enlarge the process and involve both internal and external environments. Process improvement and products are designed to focus on present

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and future customer needs. Output describes the way in which participant quality is enhanced to ensure profitability and custom satisfaction. To gain competence of hotels faster than competitors and create superior customer value strategically within conflicts and interest of inter-departments are critical for hotel survival. This study adopted the IPO concept model of TQM to develop a research model and further probed the relationship between TQM and market orientation to understand its influence on hotel performance.

Environmental uncertainty arises from organizational ability to make environmental forecasts (Milliken, 1987). As a result, organizational decision making is influenced by environmental complexity and volatility (May et al., 2000). Organization attempting to ignore environmental factors or that refuses to respond to such factors create trouble for themselves and placing themselves at a competitive disadvantage. On the contrary, understanding and responsiveness can contribute to hotel effectiveness and benefits. Several studies have argued that market and technological turbulence and competitive intensity may moderate the relationship between market orientation and performance (Kirca et al., 2005; Qu and Ennew, 2003; Rose and Shoham, 2002; Subramanian et al., 2009), or that this relationship does not moderate effects (Aziz and Yassin, 2010; Jaworski and Kohli, 1993; Slater and Narver, 1994; Subramanian and Gopalakrishna, 2001). TQM is an open system that interacts with the surrounding environment (Steel and Jennings, 1992). However, scholars have argued that TQM does not adapt to dynamic situations (Dooley and Flor, 1998). Business environment is complicated by the dynamics of change and competition producing a degree of uncertainty such that the results after TQM implementing are unclear (Montes et al., 2003). Moreover, prior scholars have studied the influence of external environmental factors on the hotel performance effect; most studies have probed legal, political, social, economic, cultural, and technological dimensions. New advanced technologies and a changing market environment have provided quality and marketing concepts with a new dimension. Empirical studies have largely overlooked external environmental factors (for example, market and technological turbulence, and competitive intensity) related to hotel performance. This study incorporates these factors to examine and fill the gaps in the literature.

The maturing of the hotel industry has seen competition gradually intensify and customers become increasingly sophisticated. To compete, hotels require a breadth of resources to transform them into more flexible forms to meet the needs of the changing hotel industry marketplace. This study simplifies the complex reality of the hotel industry, in which hotels examine their performance using TQM, market orientation, and the moderating effects of external environmental factors. This study tested the research model using data gathered from hotels using a questionnaire survey method, and used the Structural Equation Model and discriminate analysis for analysis and testing. This paper is organized as follows. A literature review discusses four variables and establishes the study hypotheses. Subsequent sections then describe the methodology, results, and analysis. Finally, the last section discusses conclusions and presents limitations and recommendations.

## 2. Literature review

### 2.1. Total quality management

From Saraph et al. (1989), many studies have attempted to develop an appropriate set of critical quality management constructs to represent an integrated approach to TQM implementation in a business unit (Ahire et al., 1996a,b; Anderson et al., 1995; Flynn et al., 1995; Grandzol and Gershon, 1998; Rao et al., 1999). Montes et al. (2003) synthesized and induced their works to classify five generic constructs: (1) managerial leadership and com-

mitment; (2) human resources management; (3) the relationship between customers and suppliers; (4) internal organizational culture; and (5) process management. Subsequent studies have relied on these works to assess TQM program effectiveness. TQM is widely recognized as a management philosophy. Numerous controversies exist regarding the elements proposed by different researchers and professionals in relation to TQM. These elements do not fully coincide, and not all such fundamentals that compose the TQM theoretical framework can be called TQM without management factors being implemented in the organizations where they are based (Montes et al., 2003).

TQM is largely not applied because executives have not contended with it or consider it unnecessary in the hotel industry (Lazari and Kanellopoulos, 2007). The TQM system accords to the IPO (Input-Processing-Output) concept model to display the relationships between the TQM system and participants (Longo and Cox, 1997; Youssef et al., 1996). Input is defined as that which enlarges the process and involves both internal and external environments. Processing is focused on both present and future customer needs until top management must combine input with organizational ability to achieve desired goals. Output is defined as all participants (that is, organization members and departments, suppliers and customers) delivering designed services as reliably and economically as possible to ensure profitability and customer satisfaction. Hotels thus satisfy customer needs not only through continuous improvement (Dale and Plunkett, 1990), but also through process management in preventing problems from recurring. Cooperation between internal and external elements is critical for successful TQM implementation. Such successful implementation enhances the morale of employee fulfillment, increasing hotel efficiency (Lazari and Kanellopoulos, 2007). Leadership and guest focus are the principles most commonly incorporated into TQM programs of hotels (Breiter and Bloomquist, 1998; Li et al., 2007). Learning involves company-wide training that acquires a strategic value for hotels (Boudreau et al., 2001; Claver et al., 2006; Tihanyi et al., 2000) and enhances both staff skill level and service commitment (Costa, 2004; Haynes and Fryer, 2000). This study finds that TQM-adopting hotels focus on customer focus, continuous improvement, leadership, internal/external cooperation, employee fulfillment, learning, and process management. This study adopted the constructs of TQM stated by Grandzol and Gershon (1998).

Studies have assessed hotel performance using the lodging index (Wassenaar and Stafford, 1991), revenue growth rates (Van Doren and Gustke, 1982), both "objective" and "perceptual" (Haber and Reichel, 2005), or financial and non-financial performance (Banker et al., 2000, 2005). "Objective" is measured by occupancy rate per room, gross operating profit, and gross operating profit per available room per day. "Perceptual" contains competitive performance and stakeholder satisfaction. Any organization needs finance support. To maximize long-term performance businesses must build and maintain mutually beneficial relationships with buyers (Narver and Slater, 1990). Therefore, this paper adopts that Moorman and Rust (1999) and Narver and Slater (1990) developed measures of hotel performance that included financial and customer-based performance.

Some studies have suggested that TQM-adopting firms enjoy a competitive advantage over non-TQM (Brah et al., 2002; Powell, 1995). Furthermore, studies have variously reported that TQM and organizational performance are positively related (Demirbag et al., 2006a; Feng et al., 2006), or no effect of TQM on various performance measures (Harari, 1993; Salegna and Fazel, 1995), or that TQM is negatively related with organizational performance (McCabe and Wilkinson, 1998; Yeung and Chan, 1998), which may result from different measures of TQM, ineffective implementation, or a lack of management support, among other reasons (Tari et al.,

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