Knowledge creation process, customer orientation and firm performance: Evidence from small hotels in Malaysia

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ABSTRACT

This paper investigates how knowledge creation process mediates the relationship between customer orientation and firm performance for small hotels in Malaysia. A survey was conducted to gather data for this study from 308 small hotel owners located in five tourism regions in Malaysia. The results show that i) customer orientation has a direct relationship with firm performance 2) a firm's customer orientation initiatives have an impact on firm's knowledge creation process that are dependent on the dynamic capabilities of their tourism entrepreneurs and 3) customer orientation displayed by small hotels is found to be partially mediated by the knowledge creation process and its impact on firm performance. This paper maintains that small hotels that display customer orientation are mostly dependent on their own resources instituted internally by their owners. However, firm performance improves if the firm dutifully builds its knowledge database from internal and external knowledge sources through socialization, externalization, combination and internalization processes. This study establishes the importance of customer orientation and knowledge creation, especially to those of as resource-based and dynamic capabilities respectively into renewed firm outcomes, to both academics and industry practitioners. This research findings are useful for tourism entrepreneurs, who are seeking to compete and achieve superior firm performance for effective business practices and enhancing return on investment.

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1. Introduction

The hospitality industry is fiercely competitive. Hotels, especially boutique hotels, face pressure from their competitors offering similar products, and consumers who are more demanding and impatient in this fast-paced society. To maintain a competitive advantage, hotels need to place customer orientation in the heart of their businesses. Tsiotsou and Ratten claimed that customer orientation has a direct influence on firm performance in the hotel industry. Additionally, both scholars are of the view that further investigations on customer orientation in various tourism sub-sectors are necessary to have a better comprehension of its role on firm performance.

Knowledge creation forms another driver of success. Firms understand the importance of transforming novel knowledge into economic opportunities with the use of information communication technologies such as company websites, online travel booking platforms, travel blogs and forums. Acs, Braunerhjelm, Audretsch, and Carlsson (2009) argued that such knowledge creation process involves a spiral or a non-uniform set of aptitudes, skills, and cultural beliefs held by entrepreneurs and capable workers. Much has been written on the constructs of customer orientation and knowledge creation process, but there was little effort to study their combined role in improving firm performance.

We took reference to the hospitality industry in Malaysia, particularly small hotels. Small hotels are primarily dependent on the tourism entrepreneurs who are the main decision makers of their firms. While they may face greater resource constraints, there is no lack of competition. The challenge is to identify and adopt best practices.

The overarching theme of this paper is to examine whether knowledge creation and customer orientation contribute to superior firm performance. This paper pays particular attention to two
theories for resource development - Resource-Based Theory and Dynamic Capabilities Theory - and their respective contribution to the performance of small hotels in Malaysia. The resource-based view claims that the heterogeneity of firm resources influences the degree of a firm's competitive advantage and firm performance (Barney, 1991). The dynamic capabilities view focuses on a firm's internal capabilities that combine, transform and reconfigure resources that are valuable, rare, inimitable and non-substitutable (VRIN) to improve firm performance (Helfat & Peteraf, 2009). Although both theories are well established in explaining the internal resource development, it remains unclear in the literature how externally acquired knowledge could enhance firm performance in combination of customer orientation initiatives in small hotels. We empirically link internal customer orientation initiatives with externally acquired knowledge, and establish their explanatory power toward firm performance within a mediation model; the knowledge creation process mediates the relationship between customer orientation and firm performance.

This paper aims to advance the literature on Resource-based view and Dynamic Capabilities view by providing answers to how internal firm capability could lead to renewed firm outcomes where dynamic capabilities assume a mediating role. A survey was conducted to gather data for this study from 308 owners of small hotels located in five tourism regions in Malaysia. We show that customer orientation has a positive influence on knowledge creation process and firm performance. While knowledge creation process is a partial mediator between customer orientation and firm performance, is also has a direct influence on firm performance.

This rest of the paper is organised in the following manner. The next section provides a brief description of the tourism sector in Malaysia. Underpinned by the resource-based view and dynamic capabilities view, the hypotheses are developed thereafter. This is followed by the discussion of the research methods and results. The implications are examined in the concluding section.

2. Small tourism businesses in Malaysia

Malaysia is a Southeast Asian country that consists of thirteen states and three federal territories. The capital city of Malaysia is Kuala Lumpur. A multi-ethnic and multi-cultural country with a total population of 30 million people (Malays, 50.1%; Chinese 22.6%; Indigenous, 11.8% and Indians, 6.7%), Malaysia has enjoyed rapid economic growth over the last five decades (Malaysia was a formal British colony before it gained independence in 1957). Traditionally, agriculture was the main sector in Malaysia. Malaysia has transformed from an agriculture-based country since the 1980s to include more prominent sectors such as science, tourism, commerce and medical. Malaysia launched the Economic Transformation Programme on September 21, 2010, introducing initiatives and plans to transform the country into a high-income economy by the year 2020.

Tourism industry contributes significantly to the Malaysian economy, accounting for about 15% of Malaysia’s total employment and 12% of its gross domestic product (GDP). In the Economic Transformation Programme of the Tenth Malaysia Plan, covering the years 2011–2015, the Malaysian government demarcated the tourism industry as one of the key economic pillars. The aim was for the small hotels to identify and adopt relevant advancements in technology to improve customer experience and support their operations. The government is prepared to do more to globalise the brand name with the aim of attracting more tourists into the country (Giap, Gopalan, & Ye, 2016).

In this study, small hotels are defined as independently managed properties by the owners known as the tourism entrepreneur. The accommodation properties primarily offer sleeping facilities to guests but do not include the home-stay facilities where guests stay and live with the local families. These service-based enterprises, totalling 980 establishments, employ between five to 29 employees and generate between US$ 77,000 to US$ 800,000 in annual sales turnover (SME Corporation Malaysia, 2018). The hotels are located along beaches as well as in the city area, serving inbound visitors from other Malaysian cities/states and foreign visitors.

Small tourism businesses serve a mix of local and international clientele, arriving in Malaysia to enjoy its equatorial climate. Malaysia has beautiful beaches, mountains, remarkable shopping centres and a mix of ancient and modern architectural designs. It offers a fascinating mix of cultural festivals, food, art and craft. Located close to Cambodia and Vietnam in the north and Indonesia and Singapore in the south, Malaysia is an ideal holiday location.

Tourism has become an important sector in Malaysia, contributing to both employment and income to the nation. At the same time, tourists around the world are spoilt for choices as tourist destinations clamour for their attention and tourist dollars. It is therefore useful to examine the factors contributing to organisational excellence in the tourism sector as a means to retain Malaysia’s competitiveness and attractiveness as a tourist destination.

3. Theoretical background and hypotheses development

3.1. Resource-based view and dynamic capabilities view

Resource-based view and dynamic capabilities view are prominent in the literature to explain the contribution of firm resources to firm performance. The resource-based view argues that with a heterogenous set of firm resources that are VRIN, firms can gain competitive advantage that results in enhanced firm performance (Barney, 1991). Teece, Pisano, and Shuen (1997) have argued that resources owned by an individual firm could determine its market position in dynamic environmental forces. The dynamic capabilities view extends the resource-based view; that a firm’s internal capability can positively renew firm outcomes by combining, transforming and reconfiguring resources that become VRIN. Such dynamic capabilities are mostly embedded as formalized activities that are conducted to renew firm performance (Teece et al., 1997; Winter 2003). Researchers (example, Chesborough, 2003; Lin, 2003) claim that both internal and external firm resources are important to maintaining firms’ competitive advantage. In this study, we are keen to establish the link between a firm’s capability (customer orientation), dynamic capabilities (knowledge creation process) and renewed firm outcomes (firm performance).

3.2. Customer orientation and firm performance

Globalisation has exerted much pressure on firms. Small hotels are no exception. To win business, there is a constant demand for small hotels to focus on consumer needs and provide quality product and services. Consumer orientation matters; an internal capability that is expected to be demonstrated in small tourism businesses (Thomas, Shaw, & Page, 2011; Tsitsou & Ratten, 2010). Through the lens of the resource-based view, this internal capability possessed in the small hotels contributes to a firm’s competitive advantage and profitability (Barney, 1991). Customer-centricity is associated with gathering of first hand customer information (Shaw, Bailey, & Williams, 2011) and identifying and closing service gaps (Altmay, 2010). Tajeddini (2010) surveyed 156 hotel managers and owners in German and French speaking cantons located in Switzerland, and showed that customer orientation, entrepreneurial orientation, and innovativeness have a positive
impact on firm performance. Tajeddini and Trueman (2012) reached similar conclusions in their study on small retailers in Switzerland.

A large number of studies have examined the link between customer orientation and firm performance, focusing mainly on manufacturing firms, large hospitality enterprises, and organizations in general service sectors (Cheng & Krumwiede, 2012; Tang, 2014). Fewer studies have focused on small tourism businesses (some exceptions include Shaw & Williams, 1987; Tsotsou & Ratten, 2010). Comparatively speaking, small hotels are more capable in providing novelty seeking, attentive and value sensory customer service experiences due to their organisational flexibility compared to their large hotel chain counterparts (Grissemann, Plank, & Brunner-Sperdin, 2013; Tajeddini, 2011; Tang, 2014). In the case of Malaysian hotel resorts, memorable customer experiences positively influence organizational performance outcomes such as instituting fond memories and customer loyalty (Ali, Hussain, & Ragavan, 2014). Liat, Mansori, and Huei (2014) demonstrated that customer satisfaction and customer loyalty are important for hoteliers to sustain long-term business growth. From the above synthesis, it can be observed customer orientation is crucial in enhancing firm performance. The following hypothesis is established.

**H1.** Customer orientation of small hotels has a positive impact on firm performance.

### 3.3. Customer orientation and knowledge creation process

The dynamic capabilities view focuses on a firm’s internal capability that combines, transforms and reconfigures resources that become valuable, rare, inimitable and non-substitutable (VRIN) into enhanced firm performance (Helfat & Peteraf, 2009). Customer orientation focuses on collection and application of customer information efficiently, therefore compelling small hotels to conscientiously learn of customer needs by combining internal and external knowledge sources about their customers that create firm value. Lages and Piercy (2012) collected data from frontline catering employees in fast-food outlets and restaurants in the United States, and concluded that organizational commitment, job satisfaction and the ability to read consumer needs had a significant impact on knowledge creation that eventually led to improved firm performance.

It is known that the collection and application of information gathered from internal and external knowledge sources goes through a dynamic spiral process (Nonaka, 1994). According to Nonaka and Takeuchi (1995), knowledge creation involves a series of self-transcendental processes: socialization, externalization, combination and internalization (SECI) processes that facilitate knowledge conversion and transformation. Marketing activities and new product development start with the socialization process which involves face-to-face meetings, brainstorming sessions, and grapevine whereas externalization process triggers the understanding of different organizational stakeholders that lead to the formulation of marketing and product concepts. Combination process screens the concepts before tangible efforts are put into production and marketing campaigns. Internalization process refers to the conversion of explicit knowledge to tacit knowledge where knowledge is internalized and formalized into standard operating procedures. As businesses grow and formulate customer orientation, the tourism entrepreneurs can adopt the SECI process to combine novel and existing knowledge from their competitors, intermediaries, and customers. Customer orientation activities are then integrated and distributed among the firm stakeholders to generate more knowledge applications on online travel platforms. Trivago.com, to take an example, allows end consumers to find their ideal hotels by comparing hotel rates with accompanying customers testimonials. Its hassle-free booking features enable web features that suit customers’ budget and preferred destinations. Similarly, TripAdvisor.com has online travel forums that empower travellers to suggest service providers for an all-inclusive travel services from hotels, restaurants, and attractions. Other than offering easy price comparison and candid photos of many top tourist destinations, TripAdvisor.com provides latest reviews of hotels and allows customers to find hotels that offer the lowest prices and save money.

In sum, smaller hotels that practise customer orientation are prone to place efforts on knowledge creation process. A successful tourism entrepreneur exploits the knowledge through the spirals of knowledge creation and adoption, transforming the customer-orientated activities implemented in their firms. Accordingly, customer orientation is critical because of its positive impact on knowledge creation process, and this leads to the next hypothesis:

**H2.** Customer orientation of small hotels has a positive impact on knowledge creation process.

### 3.4. Knowledge creation process and firm performance

Knowledge is reckoned to be a strategic resource for businesses. The dynamic capabilities view argues that possession of VRIN resources such as knowledge can contribute to firm performance. However, success is dependent on the capabilities of entrepreneurs to generate and exploit knowledge, that enable them to forge a sustainable competitive advantage for their firms (Li, Huang, & Tsai, 2009; Soon & Zainol, 2011; Yeow, 2014). The immobility and heterogeneity characteristics of knowledge suggest that the role of knowledge creation process is crucial to transform a firm’s knowledge pool into the firm’s competitive advantage that reflects the success of a new business venture (Hunt & Arnett, 2006; Li et al., 2009). Knowledge creation process constitutes a contemporary strategic orientation for small tourism businesses to remain competitive. This strategic approach is taken by small tourism businesses as a response to intense international competition and eroding customer loyalty to tourism service providers (Tsotsou & Ratten, 2010). Muthuveloo, Shanmugam, and Teoh (2017) claimed that tacit knowledge management is hard to manage, however established that tacit knowledge management has a significant impact on the firm performance for electronic based industry firms as well as medical and pharmaceutical firms in their recent study.

Investigating the role of knowledge creation process on firm performance is an emerging research topic. Ramadan, Abazi-Alili, Dana, Rexhepi, and Ibraim (2017) confirmed the importance of the knowledge spillovers as a contributing factor to firm performance in the Balkan countries (particularly the micro and small firms). The disintermediation of tourism distributors and the increasing number of prosumers have disrupted how knowledge is generated, transferred, and received in tourist destinations. The discussion calls for a need to investigate whether the firm performance of small hotels will be positively impacted with the adoption of knowledge creation process in their firms. Therefore, the following hypothesis is presented:

**H3.** The knowledge creation process in small hotels has a positive impact on firm performance.

### 3.5. The mediating role of knowledge creation process

Broadly speaking, knowledge creation generates customer...
intelligence for hotels to continually and speedily respond to their competitive environment. To sustain superior firm performance, the dynamic capabilities view maintains the importance of internal firm capabilities to combine with externally acquired knowledge as a way to improve firm performance (Chesborough, 2003; Lin, 2003). Knowledge gained from these customer-driven activities has enabled small tourism businesses to provide better customer service relative to their competitors, providing directions to the businesses on their day-to-day activities, contributing to enhanced firm performance (Cheng, Chen, Hsu, & Hu, 2012; Zhou & Li, 2010).

In an interesting study on 126 hotels in Taiwan, Tang (2014) concluded that service innovation and service improvement mediated the relationship between customer orientation and organisational excellence, suggesting that customer orientation had a positive impact on firm performance through enhancement and improvement of service capabilities. Hotel websites and the advent of big data analysis enable hoteliers to better understand their consumers, and a safe, secure and good quality website can serve to strengthen trust between the firm and its consumers. The provision of accurate, current, and complete information on the official websites tends to increase consumer trust in online transactions, leading to more online bookings, and walk-in sales (Wang, Law, Guillet, Hung, & Fong, 2015). This implies that knowledge creation process is capable of guiding small customer-oriented hotels with directions on their day-to-day business, resulting in enhanced firm performance. On this basis, it can be hypothesized that knowledge creation process is a mediating factor between customer orientation and firm performance.

**H4.** The knowledge creation process in small hotels mediates the impact of customer orientation and firm performance.

Based on the literature, this study posits a conceptual model as shown in Fig. 1 and gather empirical data to establish the relationship between customer orientation, knowledge creation process and firm performance.

### 4. Research methodology

The sample of small hotels was drawn from the following databases: Malaysian Hotel Association (with 900 members) and Malaysian Budget Hotel Association (with 1,800 members). The hotels are either Orchid rated (below 1-star rating) or 1-star, if not, 2-star, 3-star, 4-star, 5-star rating. The sample was selected using stratified random sampling, which is suitable to ensure a good representation of small hotels. These establishments employ between five to 29 employees and generate between US$ 77,000 to US$ 800,000 in annual sales turnover (SME Corporation Malaysia, 2018). The sample was extracted from the five tourism regions in Malaysia and care is taken to ensure adequate representation from each tourism region, namely East Malaysia and the East Coast, South, North and Central regions of Peninsular Malaysia. The targeted respondents were the hotel entrepreneurs or the owners of the small hotels. This is based on the understanding that these entrepreneurs are heavily involved with the daily business operations. Small hotel entrepreneurs were the primary targeted respondents because they are likely the individuals who have the most knowledge about their firms (Jaafar, 2012; Keh, Nguyen, & Ng, 2007).

An email survey questionnaire was developed for this study. The questionnaire followed scale measurements that have been adapted based on clearly marked constructs to suit the context of the small Malaysian hotels. The questionnaire was pre-tested using seven small hotel entrepreneurs and three senior tourism lecturers to ensure that the survey content and scale measurements are valid, clear and appropriate. A total of 900 questionnaires was distributed thereafter, and 308 usable questionnaires were collected, giving us a response rate of 34%.

The questionnaire used was designed to measure the demographic information of the respondents, and to measure small tourism businesses that demonstrate customer orientation and embrace knowledge creation process through the SECI dimensions and the impact on firm performance.

Statistical Package for Social Science software version 21 was used to perform the descriptive statistical analysis and the exploratory factor analysis of this study. The latter procedure had to be performed for the data was extracted from questionnaires in a new context, mainly the small hotels in Malaysia. The exploratory factor analysis was useful for discovering the number of factors influencing the variables and which variables are to be combined into the research model of this study (Hair, Black, Babin, & Anderson, 2010; Yong & Pearce, 2013). Extant studies that investigated on the heterogenous nature of the small hotels and their service offerings, had led researchers into examining too many variables that may be trivial (Thomas et al., 2011). By performing the exploratory factor analysis, it was helpful for placing the variables under this study into meaningful categories for further analysis (Yong & Pearce, 2013). The combination of examining the three variables: knowledge creation process, customer orientation and firm performance in a research model altogether remained novel; limited studies in the past had investigated these variables in the context of small tourism businesses. Therefore, the data for this study was gathered by adapting previously tested measurements: Deshpande, Farley, & Webster Jr (1993) customer orientation scale, Sabherwal and Becerra-Fernandez’s (2003) knowledge creation

![Fig. 1. A Mediation Model (conceptual and empirical).](image-url)
process scale and Zeglat and Zigan’s (2014) firm performance scale. The data was further analyzed using the Confirmatory Factor Analysis by assessing the goodness of measure primarily unidimensionality, convergent validity, discriminant validity and reliability; and tested the developed hypotheses using Analysis of Moments Structure software version 21 that performed the covariance-based Structural Equation Modelling (CB-SEM). CB-SEM was deemed appropriate for this study since the causal modelling situation was based on prior theories that are fundamentally strong (resource-based theory and dynamic capabilities theory) and the research objective of this study is for further testing and confirmation of applying the two underpinning theories rather than theory-building (Anderson & Gerbing, 1988; Hair, Ringle, & Sarstedt, 2011).

5. Research Findings

5.1. Firm profile

The profiles of the sampled hotels are reported in Table 1. Half (51%) of the hotels are generating between US$ 77,000 and US$ 270,000 in revenue and employing five to ten employees. 35% of the respondents are hotels earning revenue in between US$ 270,001 and US$ 540,000 and staff strength is between 11 and 20 employees. The remaining 14% are hotels that generate revenue in between US$ 540,001 and US$ 800,000 and have a staff strength between 21 and 29 employees.

The small hotels have been operating for at least three years, a benchmark used to indicate their survival success since their inception phase. Of these firms, 47% of these small hotels achieved an annual occupancy rate of 61%–80%. These small hotels remained low yield since 79% make US$ 37.50 or less in their average room rate.

5.2. Exploratory factor analysis

The Principal Component Analysis using the varimax rotation was applied in this study, a function that enabled the high item loadings to load on one factor and the small item loadings to load on the rest of factor solutions (Hair et al., 2010). Items with factor loading below 0.5 were deleted, resulting each sub-construct for knowledge creation process with three measurement items, the unidimensional customer orientation construct with seven items and the unidimensional firm performance construct with four items. All constructs and sub-constructs achieved the minimum acceptable level of Cronbach’s alpha of 0.7 and above.

The customer orientation construct was quantified using the nine-item Deshpande et al.’s (1993) scale. This scale was based on a five-point Likert-scale (1= Strongly Disagree to 5 = Strongly Agree) which was adapted in this study and previously tested in prior studies such as Tajeddini’s (2010) and Tajedddini, Elg, and Trueman’s (2013) studies. The maximum likelihood with varimax rotation suggests a unidimensional construct consisting seven items (C01 to C06 and C08) with a factor loading above 0.5. The Cronbach’s alpha of the customer orientation construct exceeded 0.70, establishing the construct’s reliability (Hair et al., 2010). The Kaiser-Meyer-Olkin test resulted in a value of 0.891 and the Bartlett’s test of sphericity was significant. See Table 2.

To measure the knowledge creation process construct, the five-point scale of Sabherwal and Becerra-Fernandez (2003) model was applied that comprised the SECI (socialization, externalization, combination, internalization) processes (Nonaka, 1994; Nonaka, Toyama, & Nagata, 2000). The maximum likelihood with varimax rotation establishes four sub-dimensional constructs consisting three items each with a factor loading above 0.5. Twelve of the sixteen items have been retained and the items were loaded highly on the following four factors, that were C - combination (factor 1), I - internalization (factor 2), E - externalization (factor 3) and S-socialization (factor 4), with eigenvalues 1.0 and above (Hair et al., 2010). The Cronbach’s alpha value was 0.855 that exceeds the minimum guideline of 0.70 (Hair et al., 2010). The Kaiser-Meyer-Olkin test resulted in a value of 0.832 and the Bartlett’s test of sphericity was significant. See Table 3.

The firm performance construct in this study encompasses operational and financial performance items that are regarded as primary accommodation industry indicators (Zeglat & Zigan, 2014). Occupancy rate and revenue per available room are applied to measure their operational performance. Return on capital and gross operating profit were used to measure their financial performance. All four performance items (FP 1 to FP 4), referring to Table 4, were worded in such a manner that entrepreneurs evaluate their firm performance against their competitors. To reduce year-to-year variations that exist in the firm performance results, a three-year period was chosen. A different descriptor for firm performance (1 - Much worse to 5 - Much better) was applied. The intention was to make it easier for respondents to compare their firm performance with their competitors.

The factor analysis has established that the firm performance construct was unidimensional. A computation of the Cronbach’s alpha value was 0.820, exceeding the 0.70 level (Hair et al., 2010). The Kaiser-Meyer-Olkin test resulted in a value of 0.776 and the Bartlett’s test of sphericity was significant.

This study is based on self-reported data, therefore there is a risk of common method bias. A Harman’s single test was performed as suggested by Hair et al. (2010), and the test revealed there are altogether five factors with eigenvalues above 1. One of these factors explained 18 percent of the total explained variance, therefore there is no single factor that explained most of the variance. Thereby, common method bias is not likely to be a severe problem in this study.

5.3. Goodness of measurement (measurement model)

Correlation values of less than 0.85 suggest that customer
orientation and knowledge creation process constructs are not redundant (Awang, 2015). At first, the Fitness Indices of the measurement model did not achieve the level of acceptance, despite the absence of low factor loading items (<0.5). The next step is to consider pair(s) of items - modification indices of more than 15 that indicate redundant items in the model. Pairs CO2 and CO3 as well as CO5 and CO6 in the customer orientation construct have registered modification indices of more than 15. Both pairs of the redundant items are set as free parameter estimates and the measurement model is re-specified. Our results show a model fit for the measurement model (root mean square of error approximation = 0.047; goodness of fit index = 0.900; comparative fit index = 0.964; Tucker-Lewis index = 0.959; normed-fit index = 0.919; Chisq/df = 1.724).

Evaluating the unidimensionality, validity, and reliability for the measurement model is normally performed before constructing the structural model. Unidimensionality is met since all measurement items corresponded to items with factor loading above 0.50

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loading</th>
<th>Communality</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO1. My hotel has routine or regular measures of customer service.</td>
<td>0.667</td>
<td>0.445</td>
</tr>
<tr>
<td>CO2. My hotel's service development is based on good market and customer information.</td>
<td>0.844</td>
<td>0.712</td>
</tr>
<tr>
<td>CO3. My hotel knows our competitors well.</td>
<td>0.722</td>
<td>0.521</td>
</tr>
<tr>
<td>CO4. My hotel has a good sense of how our customers value our product and services.</td>
<td>0.748</td>
<td>0.559</td>
</tr>
<tr>
<td>CO5. My hotel is more customer focused than our competitors.</td>
<td>0.804</td>
<td>0.646</td>
</tr>
<tr>
<td>CO6. My hotel competes primarily based on product and/or service differentiation.</td>
<td>0.761</td>
<td>0.578</td>
</tr>
<tr>
<td>CO8. My hotel's products/services are the best in the industry.</td>
<td>0.736</td>
<td>0.541</td>
</tr>
</tbody>
</table>

Table 2
Factor analysis of customer orientation.

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loading</th>
<th>Communality</th>
</tr>
</thead>
<tbody>
<tr>
<td>S2. My hotel uses apprentice and mentors to transfer knowledge.</td>
<td>0.617</td>
<td>0.503</td>
</tr>
<tr>
<td>S3. My hotel usually adopts brainstorming retreats or camps.</td>
<td>0.864</td>
<td>0.795</td>
</tr>
<tr>
<td>S4. My hotel usually adopts employee rotation across areas.</td>
<td>0.825</td>
<td>0.731</td>
</tr>
<tr>
<td>E1. My hotel usually adopts problem-solving system such as Property Management System (PMS).</td>
<td>0.817</td>
<td>0.829</td>
</tr>
<tr>
<td>E2. My hotel usually adopts groupware and other learning collaboration tools.</td>
<td>0.816</td>
<td>0.821</td>
</tr>
<tr>
<td>E5. My hotel usually does capture and transfer experts' knowledge.</td>
<td>0.792</td>
<td>0.644</td>
</tr>
<tr>
<td>C1. My hotel usually uses web-based data which is accessible by employees.</td>
<td>0.871</td>
<td>0.893</td>
</tr>
<tr>
<td>C2. My hotel usually uses web pages (intranet and Internet).</td>
<td>0.779</td>
<td>0.758</td>
</tr>
<tr>
<td>C3. My hotel usually uses databases and it is accessible to the employees.</td>
<td>0.881</td>
<td>0.899</td>
</tr>
<tr>
<td>I1. My hotel usually adopts on-the-job training conducted by senior employees to equip new recruits with necessary knowledge, skills, and abilities.</td>
<td>0.878</td>
<td>0.888</td>
</tr>
<tr>
<td>I2. My hotel usually adopts learning by doing, a knowledge sharing process which usually helps in the work performance of employees.</td>
<td>0.828</td>
<td>0.802</td>
</tr>
</tbody>
</table>

Table 3
Factor analysis of knowledge creation process.

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loading</th>
<th>Communality</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP1. How would you rate your hotel's occupancy rate in the last 3 years as compared with your competitors?</td>
<td>0.728</td>
<td>0.530</td>
</tr>
<tr>
<td>FP2. How would you rate your hotel's gross operation profit in the last 3 years as compared with your competitors?</td>
<td>0.772</td>
<td>0.596</td>
</tr>
<tr>
<td>FP3. How would you rate your hotel's revenue per available room in the last 3 years as compared with your competitors?</td>
<td>0.927</td>
<td>0.860</td>
</tr>
<tr>
<td>FP4. How would you rate your hotel's profitability measured by return on capital in the last 3 years as compared with your competitors?</td>
<td>0.865</td>
<td>0.748</td>
</tr>
</tbody>
</table>

Table 4
Factor analysis of firm performance.

Note: Loadings less than 0.3 were supressed in varimax rotation; * reverse coding item.
Construct validity is achieved; fitness indices for all three constructs (customer orientation, knowledge creation process and firm performance) show a good model fit (Hair et al., 2010). Convergent validity is established since the average variance extracted (AVE) is greater than 0.60, which shows the measurement model is reliable in measuring all items in the analysis (Hair et al., 2010). Refer to Table 5.

As shown in Table 6, the square root of the average variance extracted (AVE) is greater than the correlations between each construct and other constructs, providing evidence of discriminant validity (Awang, 2015).

The next step was to model all constructs into a structural model using Analysis of Moments Structures version 21. The indices for the structural model displayed a good model fit (root mean square of error approximation = 0.050; goodness of fit index = 0.894; comparative fit index = 0.959; Tucker-Lewis index = 0.953; normed-fit index = 0.91; Chisq/df = 1.764). The correlation coefficient is below 0.85, suggesting that both exogenous constructs - customer orientation and knowledge creation process - are not redundant.

Fig. 2 displays the standardized path coefficient, path significance and the variance explained for each path or R². The results show that customer orientation accounted for 19% of the variance in knowledge creation process. The customer orientation and knowledge creation process constructs accounted for 25% of the variance in firm performance, suggesting a large effect of both constructs for the path analysis model according to Cohen (1988). H₁, H₂, and H₃ are supported by the path analysis results. The path from customer orientation to firm performance or H₁ is significant (β = 0.363 p < 0.05). This result is aligned with studies (example, Tajeddini, 2010; Tajeddini & Trueman, 2012). Customer orientation has a significant positive impact on knowledge creation process (β = 0.434, p < 0.05), and therefore H₂ is supported. It implies that the more customer-oriented the small hotel is, the more committed their entrepreneurs are in knowledge creation process. Additionally, knowledge creation process is established to have a significant positive impact on firm performance (β = 0.218, p < 0.05). Therefore, H₃ is supported and concurred with findings of past studies for example, Li et al. (2009) and Yeow (2014).

Referring to Fig. 2, the indirect effect is found to be smaller than the direct effect (the indirect effect is 0.095, p < 0.01 and the direct effect is 0.363, p < 0.01). This result indicates a potential partial mediation role of knowledge creation process since all three paths (1) customer orientation to firm performance (2) customer orientation to knowledge creation process, and (3) knowledge creation process to firm performance, are significant. To verify the mediation test result, we compared the value of the direct effect between independent variable and dependent variable in a single model, with its value when the mediator enters the model. If the value is reduced when the mediator is included, partial mediation occurs (Awang, 2015). The path of customer orientation to firm performance in a single model was found to be significant (β = 0.461, p < 0.01). The value was reduced when the knowledge creation process, the mediator, enters the model (β = 0.095, p < 0.01). Therefore, the results reveal that partial mediation occurs. Henceforth, H₄ is supported. Table 7 reports the results of the four hypothesised relationships: H₁, H₂, H₃, H₄.

6. Discussions and implications

This study establishes a stepwise link between customer orientation, knowledge creation process and firm performance. This relationship defines customer orientation as an internal resource. Both its direct and indirect effects to the firm performance are investigated to conceptually link to the resource-based view and the dynamic capability view. The results show that 1) customer orientation has a direct relationship with firm performance 2) a firm’s customer orientation initiatives have an impact on firm’s knowledge creation process that is dependent on the dynamic capabilities of their tourism entrepreneurs and 3) customer orientation displayed by small tourism businesses is found to be partially mediated by the knowledge creation process and its impact on firm performance.

Therefore, we maintained from the resource-based view that small hotels are mostly dependent on their own resources that are internally instituted by their owners [this result aligns with Hall and Rusher’s (2005) and Thomas et al., (2011). However, if the firm dutifully builds its knowledge database from internal and external knowledge sources through socialization, externalization, combination and internalization processes, this would enable the firm to compete more effectively in the crowded market. This means a customer oriented tourism entrepreneur can potentially institute a routine of creating new knowledge, combining new and existing knowledge, and incorporating them into new business vision. Knowledge assets can evolve into new forms of knowledge that are informative to staff, travel intermediaries, consumers and even for their direct competitors. When the small hotels participate...
in the spiral of knowledge creation, the tacit knowledge combined with the external environmental information enable entrepreneurs to optimise their resources and enhance firm performance.

From the dynamic capability view, it appears there is a need for small hotels to appreciate the SECI spiral of knowledge creation and its role in customer orientation that impacts firm performance. For example, entrepreneurs can make continuous efforts to schedule frequent staff briefings and quality circles. Novel spirals of knowledge that are identified and shared in these sessions are compiled into shared databases. This include the customer experiences shared by new staff, senior front-line staff and the entrepreneurs themselves as well as information received from the public, their travel intermediaries and consumers. To drive the desired behaviour, tourism entrepreneurs can offer attractive schemes and incentives to their staff who deal with these stakeholders frequently. Baule and Soost (2016) find non-financial incentives and social environment as drivers of intrinsic motivation for staff. Non-financial incentives in small hotels such as giving awards to recognise staff suggestions on continuous customer service improvements can compensate for the financial incentives such as the one-time job promotion and annual bonuses.

Arguably, this study claims that customer orientation positively impacts firm performance operationally and financially. Our results show that small hotels can influence their firm performance by focusing on customer needs. The reason being that a tourism entrepreneur who upholds customer orientation, provides the firm’s stakeholders with a better understanding of its customers (Tajeddini, 2011; Tajeddini, Elg, & Trueman, 2013).

### Table 6
Discriminant validity.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Customer orientation</th>
<th>Knowledge creation process</th>
<th>Firm Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer orientation</td>
<td>0.709</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge creation process</td>
<td>0.434***</td>
<td>0.710</td>
<td></td>
</tr>
<tr>
<td>Firm Performance</td>
<td>0.455***</td>
<td>0.376***</td>
<td>0.825</td>
</tr>
</tbody>
</table>

Note: The diagonal elements in bold in the 'correlation of constructs' matrix is the square root of the average variance extracted. ***p < .001.

### Table 7
Hypotheses and results.

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Standard Estimate</th>
<th>p-value</th>
<th>Results on hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Customer orientation of small hotels has a positive impact on firm performance.</td>
<td>0.363 ***</td>
<td></td>
<td>Supported</td>
</tr>
<tr>
<td>H2: Customer orientation of small hotels has a positive impact on knowledge creation process.</td>
<td>0.434 ***</td>
<td></td>
<td>Supported</td>
</tr>
<tr>
<td>H3: The knowledge creation process in small hotels has a positive impact on firm performance.</td>
<td>0.218 ***</td>
<td></td>
<td>Supported</td>
</tr>
<tr>
<td>H4: The knowledge creation process in small hotels mediates the impact of customer orientation and firm performance.</td>
<td>Direct effect: 0.461.</td>
<td></td>
<td>Supported</td>
</tr>
<tr>
<td></td>
<td>Indirect effect is 0.095 and this value is reduced when mediator enters the model. A partial mediation occurs.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fig. 2. Path analysis model.
consequently leads to returned customer visits. They are more likely to inform the travelling public of the unique customer experiences that the small hotels have to offer. These gains ultimately lead to long-term emotional bonds with their customers.

Our results suggest that it might be useful for tourism entrepreneurs to conduct internal staff training in customer service or enrol their staff in customer-centric courses offered by the local hotel associations. Local hotel associations can initiate national customer service awards to recognise the outstanding professionals from the small hotel businesses. Tourism entrepreneurs can seek public subsidies, grants, and training to internationalise their unique customer experiences through online travel booking platforms such as Booking.com, Trivago.com and Hotel.com. Other marketing initiatives can include showcasing promotional packages on the firm’s corporate website and portraying the small hotels as iconic attractions or destination per se in the national tourism campaigns.

This paper sheds some light specifically for small Malaysian hotels which formed the primary sample of this study. The findings of this study established that customer orientation forms a core strategy among small hotels in Malaysia. This paper supports aspects of past research, but also provides some new insights of the implementation in measuring customer orientation initiatives in small hotels in Malaysia. Firm performance is highly dependent on the cultural mindset of their entrepreneurs that advances the resource-based view using a firm’s internal capabilities. The service quality rendered by the hotel employees and the continuous improvement of product/service efforts in public areas and guestrooms are dependent on the degree of customer orientation and to some extent the knowledge creation process that integrate into effective business practices such as standard operating procedures that result in positive return on investment.

It is worth noting that Malaysia scores a high score of 100 on the power-distance cultural dimension and for the individualism dimension, Malaysia scores low at 26 out of 100 (Insights, 2018). Centralised organisational structure and autocratic leadership styles are popular in Malaysia. Employees prefer to be told what to do and loyalty is paramount to refrain from loss of face or shame. Therefore, in the Malaysian context, the employees mostly play the implementer role. The small hotel owners are likely the primary planner, organiser, leader, and controller of the customer orientation initiatives in their firms. Therefore, measurements of customer orientation initiatives instituted by the small hotel owners at firm-level are paramount to establish its significance to the firm performance. We suggest that continual measurements of both operational and financial performance indicators which better reveal whether there is a need to continue or improve the existing customer orientation initiatives should be instituted by the owners of small hotels in Malaysia.

From the resource-based view, we maintained that small hotel owners are the key individuals who internally institute the customer orientation initiatives in their premises. From the dynamic capabilities view, to sustain firm performance, we encourage that the small hotel owners do invest time and effort in seeking for internal and external knowledge resources accessible to them. Regular guest feedback and travel booking sites serve as reliable sources of data to form a knowledge database unique for each hotel’s information needs and for comparison with its main competitors.

This study suggests small hotels in Malaysia need to customise their knowledge database. Small hotels mostly serve niche market segments in different tourism regions in Malaysia. Therefore, the firm’s customer orientation initiatives should be developed based on the information rendered from their internal stakeholders such as their employees as well as their external stakeholders who include competitors, customers, and travel intermediaries in their respective locations. In other words, the knowledge databases cannot only rely on internal information sharing between small hotel owners and employees. Automating chatbots on the firm websites and partnering with online travel sites are a few cost-effective ways to inform small hotel owners on the development of customer orientation initiatives in their firms. The aim is to appeal to the niche market segments that the different small hotels are serving, well beyond their customer expectations, which is gainful towards enhancing their firm performance.

Overall, we gathered that firm performance improves if the firm dutifully builds its knowledge database from internal and external knowledge sources through socialization, externalization, combination and internalization processes that design the customer orientation activities of small hotels. This study establishes the importance of customer orientation and knowledge creation to academics, especially to those of resource-based and dynamic capabilities into renewed firm outcomes. The research findings are useful for tourism entrepreneurs managing the small hotels, who are seeking to compete through effective business practices and in turn achieving superior firm performance and enhancing the returns on their business investment.

7. Limitations and recommendations for future research

This study has several limitations. Firstly, a cross-sectional study and a parsimonious approach have been undertaken. Further research should include additional dimensions with respect to strategic resources that can enhance firm performance, for instance, their branding orientation and their innovation culture. The sample of this study is primarily drawn from small hotels. Therefore, some caution needs to be practised when generalising the findings of this study to other service sub-sectors in the tourism industry due to their heterogenous characteristics (Thomas et al., 2011; Tsiotsou & Ratten, 2010). Therefore, there is a one promising research avenue to establish whether the results of the relationship for the customer orientation and firm performance would be similar by extending the research to other service sub-sectors in the foodservices, event management and for the travel agencies. Additionally, what is lacking is the study on the overarching public policies that are recognised for their influences on the entrepreneurship programs that they can offer to small enterprises (Dana, Gurau, & Lasch, 2014; Nielsen, 2016). Future research should study the social and environmental effects since this study has only examined the economic perspective for improving firm performance. It is also possible that if this study is performed in other countries, the results may differ, thereby future research should be examined if the results are transferable to other tourism-based nations.

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