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Market orientation and firm performance in star-rated hotels: the mediating role of service innovation

Margaret Lucy Gregory[1*], Rudy Ujang[2], Malvern Abdullah[3]

[1,2,3] *Faculty of Business and Management, Universiti Teknologi MARA (UiTM) Cawangan Sarawak, Kota Samarahan, Malaysia*

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ABSTRACT

Service innovation is increasingly recognised as a strategic response to mounting competition, digital disruption, and evolving guest expectations in the global hotel industry. Although market orientation (MO) is widely acknowledged as a core marketing capability, empirical evidence on its direct impact on performance in service contexts remains inconsistent, suggesting that value may be realised through intermediate capability development rather than solely through MO routines. Drawing on the resource-based view (RBV) and the dynamic capabilities perspective, this study examines whether service innovation mediates the relationship between MO and firm performance in star-rated hotels. Data were collected from hotel managers in Sarawak, Malaysia (n = 73 valid responses) and analysed using partial least squares structural equation modelling (PLS-SEM). Findings indicate that MO positively influences service innovation ($\beta = 0.203$, $p < 0.05$), which in turn positively affects firm performance ($\beta = 0.440$, $p < 0.01$). The indirect effect of MO on performance through service innovation is statistically significant ($\beta = 0.090$; 95% CI [0.029, 0.199]). The direct pathway from MO to performance is minimal, suggesting that service innovation is a crucial mechanism for translating market intelligence and responsiveness into performance outcomes. This study contributes to hospitality marketing research by clarifying a capability pathway through which market-oriented routines become performance-relevant, and it offers practical guidance for hotel managers and tourism policymakers seeking to strengthen service innovation as a lever for competitiveness.

[1*] Corresponding author. *E-mail address*: margaret@uitm.edu.my

1. INTRODUCTION

Hotels operate in a service environment marked by high-intensity contact, co-creation with guests, and the rapid diffusion of service ideas across competing properties. Digital platforms, online reviews, and experience-based consumption have raised expectations for responsiveness, personalisation, and service recovery, making service innovation a strategic necessity rather than an optional improvement (Hjalager, 2010). Recent studies in leading hospitality journals further show that service innovation, ranging from smart-service redesign to sustainability-oriented improvements, has become central to sustaining competitiveness and guest loyalty (Dai et al., 2025; Begum et al., 2025).

Market orientation (MO) is commonly defined as the systematic generation of market intelligence, its dissemination across functions, and coordinated organisational responsiveness (Kohli & Jaworski, 1990; Kohli, Jaworski, & Kumar, 1993). Meta-analytic evidence generally supports a positive association between MO and performance. However, the magnitude of this benefit varies by context and can be modest in-service settings where outcomes depend heavily on frontline execution and cross-departmental coordination (Kirca, Jayachandran, & Bearden, 2005; Ellis, 2006).

In hospitality, this contingency is particularly salient: market insights do not automatically translate into improved guest experiences or operational results. A hotel may be strong at sensing and interpreting customer and competitor signals (e.g., through review monitoring, competitor benchmarking, and guest feedback) yet cannot convert those insights into redesigned service processes, new interaction channels, and consistent delivery across shifts. This creates a mechanism problem in MO research, especially in emerging destinations, where capability building and resource constraints are more acute: what operational capability converts MO into realised performance?

Service innovation offers a theoretically grounded and practically relevant answer. In services, innovation often takes the form of new or improved service concepts, interaction channels, and delivery systems that reshape the guest journey and operational consistency (den Hertog, van der Aa, & de Jong, 2010; Ordanini, Parasuraman, & Rubera, 2011). Innovation has long been positioned as a 'missing link' between MO and performance (Han, Kim, & Srivastava, 1998; Hurley & Hult, 1998), yet hospitality studies often treat innovation either broadly (as an outcome) or under-specify its mediating role in MO models.

Recent evidence from hospitality across regions illustrates both the promise and the limits of MO as a direct driver of performance. A recent meta-analysis in Tourism Management shows that market-based orientations and learning-related factors are among the most consistent predictors of innovation in tourism and hospitality. Yet, effect sizes vary substantially across settings, suggesting that MO does not automatically translate into outcomes (Lim et al., 2024). Studies in leading hospitality journals also indicate that the quality-of-service design routines and employee-level innovation behaviours shape whether market insights translate into improved guest experiences and performance (Tajeddini et al., 2024; Wu et al., 2023). These mixed patterns strengthen the case for mechanism-based models that explicitly explain how market sensing gives rise to operational change in hotels.

This study addresses that gap by testing a parsimonious linking MO to service innovation and firm performance model in star-rated hotels in Sarawak, Malaysia. Building on the resource-based view (RBV) and dynamic capabilities logic that distinguish sensing from reconfiguration, the paper clarifies when and how MO becomes performance-relevant through the implementation of service innovations (Barney, 1991; Teece, Pisano, & Shuen, 1997; Teece, 2007; Nieves, Quintana, & Osorio, 2014).

Accordingly, the study aims to accomplish the following research objectives: to examine how MO influences service innovation and firm performance in star-rated hotels; and to investigate whether service innovation mediates the relationship between market orientation and firm performance.

By specifying a capability pathway from market sensing to service-system reconfiguration, this study contributes to hospitality strategy research by (i) strengthening an RBV–dynamic capabilities explanation of how market-oriented routines translate into firm performance through service innovation,

(ii) consolidating comparative hospitality evidence to enhance generalisability, and (iii) providing actionable implications for hotel managers and destination policymakers seeking to strengthen innovation capability in resource-constrained contexts.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This study is grounded in the resource-based view (RBV), which explains performance differences through a firm's valuable, rare, and difficult-to-imitate resources and capabilities (Wernerfelt, 1984; Barney, 1991). Given the volatility and experience-driven nature of hospitality markets, the study also draws on the dynamic capability perspective, an extension of the RBV, to explain how firms renew and reconfigure resources and routines to sustain advantage amid change (Teece et al., 1997; Teece, 2007). Through this combined lens, market orientation is an intangible marketing capability that supports the sensing and learning of customers and competitors. In contrast, service innovation is a seizing-and-reconfiguring capability that converts those insights into redesigned service concepts, channels, and delivery systems (den Hertog et al., 2010). The framework, therefore, predicts that MO primarily contributes to firm performance through the service innovations it enables. The following subsections review each construct and develop hypotheses consistent with the proposed mediation model (Figure 1).

2.1 Market orientation: conceptualisations and performance implications

MO has been conceptualised through at least two predominant perspectives: a behavioural approach emphasising intelligence activities and responsive actions (Kohli & Jaworski, 1990; Kohli et al., 1993), and a cultural approach emphasising norms and values directed towards customers and competitors (Narver & Slater, 1990). Recognising these viewpoints provides a comprehensive understanding of MO's complexity and its significance in shaping hotel strategies and performance.

Meta-analytic evidence indicates that MO directly and indirectly influences performance through intermediary outcomes, including quality, customer satisfaction, and innovation (Kirca et al., 2005). However, Ellis's (2006) cross-national meta-analysis shows that institutional conditions and market maturity can moderate the magnitude of MO's benefits. In the hospitality industry, these contingencies are particularly pronounced, as service outcomes depend on frontline behaviours, standardisation across shifts, and operational capabilities to reliably deliver the promised experience.

Analysis of hotel MO studies reveals three common issues that obscure the direct link between MO and performance. First, performance metrics vary widely across financial, market, and customer outcomes, with short-term accounting results often lagging capability development. Second, MO is sometimes broadly defined as a cultural orientation, while the key active elements are specific routines, such as intelligence sharing and coordinated responses. Third, hotels compete through experience differentiation, which often requires innovation in processes and guest journeys; thus, MO alone may be necessary but not sufficient, given the need for additional implementation capabilities. Recognising these issues underscores the importance of modelling intermediate capability pathways.

Existing hospitality studies often document a positive association between MO and outcomes, but they differ on which 'outcome' is emphasised and where MO delivers the strongest payoffs. Some focus on market share and financial indicators, whereas others emphasise service quality, guest satisfaction, or reputation outcomes that may precede financial results. This diversity partly explains why MO's direct performance effect can appear weak or inconsistent: MO may first operate through intermediate capabilities and operational improvements that accumulate over time rather than producing immediate financial gains (Kirca et al., 2005; Ellis, 2006).

Moreover, the hotel context magnifies the implementation challenge. Unlike many goods settings where market insights can be translated into product features, hotel value is co-produced in real time through employee–guest encounters and tightly coupled back-office processes. Consequently, the same

level of MO can yield different performance outcomes depending on whether a hotel redesigns service processes, trains and empowers staff, and coordinates cross-functional execution. These observations motivate a mechanism-based model that posits service innovation as the conversion capability linking MO to firm performance in the hospitality industry (Han et al., 1998; Hurley & Hult, 1998; den Hertog et al., 2010).

2.2 Market orientation and service innovation

Innovation research indicates that market-oriented learning can promote innovation by identifying unmet needs and reducing uncertainty about customer preferences (Hurley & Hult, 1998). Han et al. (1998) explicitly suggest that innovation is a fundamental mechanism through which MO influences organisational performance. This premise is particularly pertinent to service industries, where competitive advantage is maintained through the renewal of experience rather than modifications to product features.

In the hotel industry, MO fosters innovation through interconnected routines: (1) proactive collection of customer and competitor intelligence, such as review analytics, complaint analysis, and benchmarking; (2) dissemination of insights across functions; (3) shared interpretation to establish consensus on priorities; and (4) coordinated responsiveness that translates insights into redesigned services and processes. Empirical evidence from the hospitality sector shows that customer and competitor orientation are correlated with innovative activities and enhanced performance (Grissemann, Plank, & Brunner-Sperdin, 2013). Additionally, innovative behaviours, including service scope expansion and managerial innovations, strengthen competitiveness (Orfila-Sintes & Mattsson, 2009). More recently, Pascual-Fernández et al. (2021) demonstrate that market orientation in Spanish hotels contributes to an organisation's innovation capability and, consequently, to improved performance, reinforcing the notion that MO is most effective when operationalised through the development of innovation-oriented capabilities. Complementing this perspective, mixed-methods research reveals that hotel innovation capability is facilitated by both market-facing inputs and internal organisational conditions, such as leadership support and cross-functional coordination, which help convert customer insights into concrete innovation (Chandran et al., 2024). Extending this capability view, recent hospitality research indicates that balancing exploratory and exploitative service innovation (service innovation ambidexterity) strengthens service design outcomes, implying that market-oriented routines must be accompanied by deliberate innovation management (Tajeddini et al., 2024). At the micro level, hotel employees' service innovation performance depends on thriving at work and change-oriented organisational citizenship behaviour, highlighting the importance of internal dissemination, empowerment, and supportive climates for converting market intelligence into frontline innovation (Wu et al., 2023).

Nevertheless, previous hospitality research often defines "innovation" broadly, conflates product and process innovations, or treats innovation merely as an outcome without explicitly examining its mediating role in the relationship between MO and firm performance. Consequently, this prompts the formulation of a specific hypothesis that emphasises service innovation as the mediator most closely associated with guest experience and service system redesign. Thus, this study proposes:

H1: Market orientation has a positive effect on service innovation.

2.3 Service innovation and firm performance

Service innovation is the development and implementation of novel or substantially improved service concepts, customer interaction channels, delivery systems, and enabling technologies that enhance customer value and organisational performance (den Hertog, van der Aa, & de Jong, 2010; Ordanini et al., 2011). The service innovation framework highlights that such innovation often involves recombining existing resources, reconfiguring processes, and actively engaging employees and customers (den Hertog et al., 2010).

In the hospitality industry, service innovation can take several forms: experience innovations (such as new packages and themed stays), process innovations (including streamlined check-in and check-out procedures and improved service recovery routines), interaction innovations (such as omnichannel concierge services and self-service technologies), and back-office innovations (such as data-driven scheduling and integrated property management systems). Because these innovations affect perceived value and operational efficiency, they can influence both customer outcomes (including satisfaction, loyalty, and online reputation) and financial outcomes (such as occupancy rates, pricing strategies, and cost efficiency).

Empirical evidence in the hospitality industry supports the contribution of service innovation to organisational performance. For example, studies in Spain show that innovation and knowledge-based resources enhance hotel performance (Nieves et al., 2014). More recent hospitality research indicates that perceptions of service innovation in smart-hotel settings are associated with tourist happiness and brand loyalty, underscoring the customer-based performance pathway of service innovation (Dai et al., 2025). Research also shows that capability-building practices (e.g., green training, learning capability, and human capital) can stimulate green service innovation in hotels, reinforcing the role of internal capabilities in innovation-driven competitiveness (Begum et al., 2025). In addition, customer characteristics may condition frontline innovation; for instance, customer perfectionism can either support or inhibit employees' service innovation, suggesting boundary conditions for innovation effectiveness (Zhou et al., 2025). Collectively, these findings substantiate a positive relationship between service innovation and organisational performance. Thus, this study proposes:

H2: Service innovation positively affects firm performance.

2.4 Market orientation and firm performance

From a marketing perspective, MO should enhance performance by aligning offerings with customer needs and enabling prompt responses to competitive actions. However, hotel literature suggests that the direct effect may be constrained, as performance also depends on operational implementation and the ability to translate intelligence into redesigned service routines. Consistent with mechanism-focused evidence (e.g., Dabrowski et al., 2019), we propose a direct relationship, though it is expected to be smaller than the indirect effect through service innovation. Thus, this study suggests:

H3: Market orientation has a positive effect on firm performance.

2.5 The mediating role of service innovation

Integrating MO with RBV and the dynamic capabilities view strengthens the theoretical explanation. Under RBV, MO can be viewed as an intangible resource that helps hotels create appropriate value by consistently sensing, sharing, and responding to market signals (Barney, 1991). Consistent with the dynamic capabilities' perspective, MO routines primarily serve as sensing and learning activities that systematically identify market changes and analyse their implications (Kohli & Jaworski, 1990; Teece et al., 1997). Conversely, service innovation exemplifies a seizing-and-reconfiguring capability that embeds market knowledge within the service system (people, processes, and technologies) to deliver new value propositions (Teece, 2007; den Hertog et al., 2010).

This mediation argument advances MO theory beyond prior direct-effect models in three ways. First, it explains why MO's performance can be inconsistent in the hospitality industry: market intelligence can generate potential value, but performance gains require transforming that value into implemented innovations that guests experience. Second, it conceptualises service innovation as a capability "bridge" that translates market sensing into competitive outcomes, thereby delineating an actionable capability pathway aligned with capability hierarchies (lower-order routines enabling higher-order transformation). Third, it emphasises the micro foundations of this pathway within hotels, specifically frontline discretion,

cross-functional coordination, and service design routines, bringing MO theory closer to the operational realities of hospitality organisations. Accordingly, we hypothesise:

H4: Service innovation mediates the relationship between market orientation and firm performance.

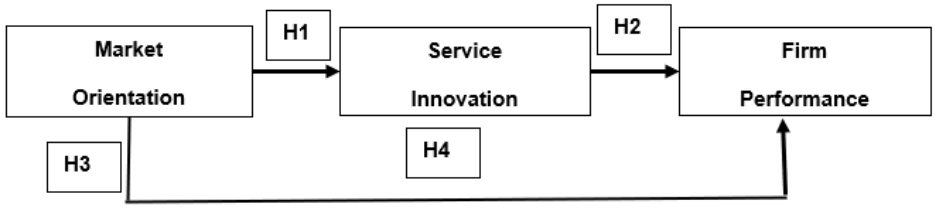

Fig. 1. Research Framework

3. METHODOLOGY

3.1 Sample and data collection

This study focuses on star-rated hotels in Sarawak, Malaysia. Data were collected via a structured questionnaire administered to hotel managers and department heads, who are well-positioned to evaluate their hotel's market-oriented routines, service innovation practices, and overall performance (Jaworski & Kohli, 1993). A total of 73 usable responses were obtained, meeting the minimum requirements for partial least squares structural equation modelling (PLS-SEM) given the model's predictive focus (Hair, Hult, Ringle, & Sarstedt, 2022).

Several procedural steps were implemented to reduce potential nonresponse and common-method bias. Participation was voluntary, and respondents were assured of anonymity to reduce apprehension about evaluation. Predictor and criterion constructs were presented in separate questionnaire blocks with clear instructions, and items were phrased in concrete, behaviourally anchored terms wherever possible. Following Armstrong and Overton (1977), nonresponse bias was assessed by comparing early and late responses.

Finally, procedural and statistical checks were conducted in accordance with established guidance on standard method variance in survey research (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). These steps increase confidence that observed relationships are not artifacts of the single-respondent, single-wave survey design.

3.2 Measures

All constructs were measured using established multi-item reflective scales adapted to the hotel context. Items were reviewed for clarity and contextual fit, and minor wording adjustments were made to reflect hotel operations while preserving the original meaning of the measures.

Market orientation was measured as a four-dimensional construct comprising information generation, information dissemination, shared interpretation, and organisational responsiveness. The scale comprised 9 items adapted from established MO measures and prior hospitality applications (Kohli et al., 1993; Wang, Chen, & Chen, 2012).

Service innovation was assessed using 13 items that capture renewal across service concepts, customer interaction channels, and service delivery systems (Grawe, Chen, & Daugherty, 2009; den Hertog et al., 2010). This operationalisation reflects the multidimensional nature of service innovation and aligns

with contemporary hospitality innovation research that emphasises both frontstage and backstage renewal (Ordanini et al., 2011).

Firm performance was measured perceptually using 4 items (sales growth, profit growth, market share growth, and overall competitive position) relative to key competitors, adapted from established performance measures in marketing and service research (Jaworski & Kohli, 1993; Claycomb, Dröge, & Germain, 1999). Perceptual measures are standard in hospitality studies, where objective financial data are challenging to obtain, and they capture managers' comparative assessments of their hotel's performance.

3.3 Data analysis

The study employed PLS-SEM to estimate the measurement and structural models and to test the proposed mediation. PLS-SEM is appropriate for prediction-oriented models with latent constructs and is widely used in hospitality research, particularly with moderate sample sizes (Hair et al., 2022). Bootstrapping with 5,000 resamples was used to obtain standard errors, confidence intervals, and significance levels for the direct and indirect paths (Preacher & Hayes, 2008).

Measurement model evaluation followed recommended guidelines: indicator reliability (outer loadings), internal consistency (composite reliability), convergent validity (average variance extracted; Fornell & Larcker, 1981), and discriminant validity (HTMT; Henseler, Ringle, & Sarstedt, 2015).

Structural model assessment examined collinearity (VIF), path coefficients, and explained variance (R^2). Mediation was evaluated using bootstrapped indirect effects and their confidence intervals. Model fit was also assessed using the standardised root mean square residual (SRMR), consistent with contemporary PLS-SEM reporting practices (Hair et al., 2022).

4. RESULTS

4.1 Respondent and firm profile

Table 1 summarises respondent demographics and hotel characteristics. The sample consists primarily of managerial respondents with substantial industry experience, providing an informed perspective on strategic orientation and innovation practices in their hotels.

Table 1. Respondent and hotel profile

Item	Number	Percentage
Position		
Top Management	38	52.0
Middle Management	35	48.0
Tenure		
5 years or less	32	43.8
6–10 years	18	24.7
11–20 years	9	12.3
21–30 years	13	17.8
Over 30 years	1	1.4
Gender		
Male	45	61.6
Female	28	38.4
Age (years)		
25 and below	3	4.1
26–35	15	20.5
36–45	19	26.0
46–55	23	31.5
56 and above	13	17.8

Qualification		
Primary Education	1	1.4
Secondary Education	12	16.4
Diploma	27	37.0
Bachelor's Degree/Professional	31	42.5
Postgraduate Degree	2	2.7
Nationality		
Malaysian	71	97.0
Non-Malaysian	2	3.0
Hotel Rating		
1 star	11	15.0
2 stars	17	23.0
3 stars	27	37.0
4 stars	14	19.0
5 stars	4	6.0
Hotel Management		
Independent property	48	66.0
International chain management	7	9.0
Domestic chain property	18	25.0
Hotel Age (years)		
10 or fewer	29	40.0
11–25	29	40.0
Over 25	15	20.0
Hotel Location		
Betong	1	1
Bintulu	10	14
Kapit	1	1
Kuching	30	41
Limbang	2	3
Miri	11	15
Mukah	2	3
Sarikei	2	3
Sibu	12	17
Sri Aman	2	3

4.2 Measurement model assessment

Table 2 presents the indicator loadings, composite reliability (CR), and average variance extracted (AVE). All composite reliabilities exceed 0.70, and AVEs exceed 0.50, indicating acceptable reliability and convergent validity (Hair et al., 2022). Discriminant validity is supported by the Heterotrait-Monotrait (HTMT) criterion (Henseler et al., 2015).

Table 2. Reflective measurement model results

Constructs	Items	Scale	Loading	CR	AVE	Convergent Validity (AVE > 0.5)
Market Orientation						
Information generation	IG1	Reflective	0.937	0.937	0.881	YES
	IG2		0.940			
Information dissemination	ID3	Reflective	0.548	0.720	0.577	YES
	ID4		0.925			
Shared interpretation	SI5	Reflective	0.911	0.896	0.844	YES
	SI6		0.890			

Organisation responsiveness	OR7	Reflective	0.744	0.829	0.618	YES
	OR8		0.762			
	OR9		0.848			
Service Innovation	SInn43	Reflective	0.748	0.940	0.549	YES
	SInn44		0.757			
	SInn45		0.764			
	SInn46		0.641			
	SInn47		0.692			
	SInn48		0.697			
	SInn49		0.892			
	SInn50		0.755			
	SInn51		0.635			
	SInn52		0.798			
	SInn53		0.786			
	SInn54		0.764			
	SI55		0.660			
Firm Performance	PerfSVG1	Reflective	0.928	0.956	0.811	YES
	PerfPMG2		0.952			
	PerfMSG3		0.914			
	PerfOCP4		0.878			

4.3 Structural model and hypothesis testing

Table 3 presents the results of the structural model. Market orientation positively influences service innovation ($\beta = 0.203$, $p < 0.05$), supporting Hypothesis 1. Service innovation positively affects firm performance ($\beta = 0.440$, $p < 0.01$), supporting Hypothesis 2. The direct relationship between market orientation and firm performance is positive yet comparatively weak ($\beta = 0.089$, $p < 0.05$), supporting Hypothesis 3 and suggesting that direct effects in the hospitality sector may be limited when innovation capability is not explicitly considered.

Table 3. Structural model results

Path-Coefficient Assessment (N=73)

	Relationship	**Std Beta**	**Std Error**	**t-value**	**p-value**	**Decision**
H1	Market Orientation → Service Innovation	0.203	0.096	2.105**	0.019	Supported
H4	Service Innovation → Firm Performance	0.440	0.101	4.359**	0.000	Supported
H3	Market Orientation → Firm Performance	0.089	0.052	1.723**	0.043	Supported

Note: *p<0.05, **p<0.01

4.4 Mediation analysis

Table 4 presents the bootstrapped indirect effect. The indirect effect of MO on firm performance through service innovation is statistically significant (β = 0.090; 95% CI [0.029, 0.199]), supporting hypothesis H4. The pattern of a modest direct effect alongside a substantial indirect effect suggests that service innovation is a key mechanism through which market-oriented routines affect performance outcomes in the sampled hotels.

Table 4. Mediation results

Hypothesis Testing on Mediation

Hypotheses	Mediation Relationship	Std Beta	Std Error	t-value	Confidence Interval Bias Corrected		
					LB	UB	Decision
H4	MO → Ser Inn → Perf	0.090	0.035	2.571**	0.029	0.199	Supported

Note: **p<0.01, *p<0.05

5. DISCUSSION

This study reinforces the theoretical framework of MO in the hospitality industry by empirically examining service innovation as a mediating mechanism. The findings support the proposed capability pathway: MO enhances service innovation, which, in turn, boosts firm performance. This corroborates the broader MO–innovation–performance paradigm (Han et al., 1998; Hurley & Hult, 1998) and explains the observed inconsistency or modesty in MO's direct performance returns when innovation is not explicitly incorporated into the model.

The positive relationship between MO and service innovation indicates that hotels investing in market intelligence routines and cross-functional dissemination are more likely to introduce new service concepts and enhance service delivery systems. These routines may include structured review monitoring, systematic post-stay feedback, competitor benchmarking, and internal forums for collaboratively interpreting market signals. This finding aligns with hospitality research that associates customer and competitor orientations with innovativeness and innovative behaviours (Grissemann et al., 2013; Orfila-Sintes & Mattsson, 2009), as well as with broader empirical evidence demonstrating that MO correlates with more robust innovation outcomes (Grinstein, 2008).

Secondly, the positive impact of service innovation on performance supports the view that service renewal is a crucial source of competitive advantage in the hospitality industry. Service innovation can enhance performance through (a) differentiation, which supports pricing power; (b) increased perceived value and customer loyalty, thereby boosting occupancy rates and encouraging repeat patronage; and (c) process improvements that reduce costs associated with service failures. International research in the hospitality sector indicates that innovation activities and knowledge-based resources are correlated with superior performance (Nieves et al., 2014). The present findings extend this understanding to the context of emerging destinations.

Thirdly, the modest direct effect of MO on performance, coupled with a significant indirect effect, indicates that MO does not inherently lead to desirable outcomes unless hotels implement specific changes. This pattern aligns with mechanism-based evidence in hospitality, which reports indirect pathways from MO to performance via intermediary programmes or capabilities (Dabrowski et al., 2019; Pascual-Fernández et al., 2021). From an RBV standpoint, MO is an intangible resource that yields advantage only when leveraged through complementary capabilities that reshape the service offering (Barney, 1991). From the dynamic capabilities perspective, MO facilitates sensing and learning, whereas service innovation encompasses seizing and reconfiguring actions that incorporate market knowledge into the service system (Teece et al., 1997; Teece, 2007; den Hertog et al., 2010).

Depending on the specific mechanism, service innovation translates the MO into improved performance through at least four channels in the hospitality sector. (1) Frontstage encounter innovation: Market intelligence on guest pain points can inform the redesign of service scripts, enable personalised service recovery, and enhance interpersonal interactions, thereby increasing customer satisfaction and online ratings. (2) Interaction-channel innovation: Insights from customers and competitors can encourage the adoption of new channels, such as mobile concierge and self-service options, reduce friction, and improve speed without compromising perceived service quality when implemented judiciously. (3) Backstage process innovation: The MO can reveal operational bottlenecks—such as housekeeping turnaround times and maintenance response time enabling process redesigns that promote greater consistency and efficiency, essential drivers of profitability in labour-intensive services. (4) Experience-system innovation: By integrating intelligence across various touchpoints, hotels can overhaul the overall guest journey—from pre-arrival to post-stay follow-up—creating differentiated value propositions that are challenging for competitors to imitate.

Furthermore, the growing importance of digital platforms makes the market orientation to service innovation pathway increasingly evident through online reputation and review dynamics. In smart-hotel contexts, perceptions of service innovation have been linked to tourist happiness and brand loyalty, reinforcing the strategic value of digitally enabled service redesign (Dai et al., 2025). Market-oriented hotels may use review text analytics and complaint pattern analysis to prioritise service innovation initiatives most valued by guests, such as cleanliness, check-in procedures, and Wi-Fi reliability. Simultaneously, innovative hospitality ecosystems enable faster experimentation and integration across various touchpoints (Buhalis & Leung, 2018). Contemporary evidence further indicates that organisational systems for innovation can enhance hotels' online reputation outcomes, signalling an additional performance channel beyond traditional financial metrics (González-Mohíno, Donate, Sánchez-Cañizares, & Cabeza-Ramírez, 2025).

These channels clarify why service innovation is a suitable mediator in the hospitality industry: they capture the organisational transition from "knowing the market" to "reconfiguring service systems and the guest experience." Consequently, the findings strengthen an RBV–dynamic capabilities explanation by explicitly delineating and quantifying the capability pathway through which market-oriented routines translate into performance outcomes, offering a more actionable account than models based solely on direct effects.

Finally, the context of Sarawak suggests that service innovation may be significant for emerging destinations, where hotels must simultaneously build service capabilities and compete for international visibility. In such contexts, MO routines can help identify shifts in market segments and experience expectations. At the same time, service innovation enables hotels to operationalise destination positioning (e.g., cultural tourism, eco-experiences) through tangible improvements in service design and delivery. This supports calls for research that tests MO mechanisms in underrepresented hospitality contexts to improve the generalisability of theory (Sampaio & Régio, 2022).

6. IMPLICATIONS

6.1 Theoretical implications

The study contributes to hospitality and marketing theory by clarifying how market orientation (MO) creates value through an innovation-enabled capability pathway. Rather than treating MO as a direct performance driver, the results support interpreting MO as a sensing and learning capability whose payoff depends on the organisation's ability to translate insights into implemented changes. By positing service innovation as the mediator, the study advances MO theory beyond prior models by specifying the "conversion mechanism" that links market intelligence to performance outcomes in service contexts in which execution and coordination are central.

The mediation model also aligns market orientation research with RBV and dynamic capabilities research. Market orientation routines (intelligence generation, dissemination, interpretation, and responsiveness) constitute an intangible marketing resource and provide micro foundations for sensing; service innovation captures seizing and reconfiguring actions that modify service systems (Barney, 1991; Teece et al., 1997; Teece, 2007; den Hertog et al., 2010). This framing helps reconcile inconsistent findings in hospitality by explaining why MO may have limited direct effects when innovation and implementation capabilities are omitted. The study further enhances generalisability by linking evidence from Malaysia with comparative hospitality findings from Europe and other regions (Tajeddini, 2010; Dabrowski et al., 2019; Nieves et al., 2014).

Importantly, conceptualising service innovation as a mediator shifts the theoretical lens from 'being market oriented' to 'doing something with market insight'. This distinction matters in hospitality, where competitive advantage is embedded in service routines and experience systems rather than in easily separable product features. The mediation results imply that MO's value depends on a hotel's ability to orchestrate cross-functional change, design, trial, and scale service renewal, thereby providing a clearer micro-foundational basis for MO's performance consequences in service ecosystems (den Hertog et al., 2010; Ordanini et al., 2011).

6.2 Practical implications for hotel managers

For hotel managers, the findings indicate that treating MO as an operational system that supports a structured service innovation pipeline is advisable. The following three practical priorities are therefore identified.

First, enhance market intelligence beyond ad hoc feedback. Hotels are advised to institutionalise voice-of-customer analytics, including reviews, complaint logs, and likelihood-to-recommend scores—alongside competitor benchmarking and market scanning for emerging segments. To prevent insight overload, intelligence should be distilled into a concise set of "service priorities" each quarter (e.g., check-in speed, room readiness, and service recovery) to guide improvement initiatives.

Secondly, establish cross-functional interpretation and facilitate rapid experimentation. Service innovation in hotels is seldom the sole responsibility of a single department; instead, it requires coordination among departments such as rooms, the front office, Food & Beverage, maintenance, and sales. Management may form interdisciplinary "service sprint" teams that use service blueprinting and small-scale experiments, such as trialling alternative service scripts (e.g., two greeting or upselling approaches) or piloting new guest communication channels, before broader implementation across the property. This approach reduces implementation risk while maintaining a focus on market-driven objectives.

Thirdly, focus on implementation capability: training, empowerment, and metrics. Because many service innovations depend on frontline delivery, hotels should allocate resources to training that builds technical and interpersonal competencies, empowers employees to adapt within established guidelines, and reinforces desired behaviours through recognition systems. Evidence indicates that employee thriving and change-oriented citizenship behaviours are critical drivers of service innovation performance in hotels, strengthening the case for investments in supportive HR and empowerment practices (Wu et al., 2023). Similarly, green training can foster green service innovation by strengthening organisational learning capabilities and human capital (Begum et al., 2025). Performance monitoring should link innovative initiatives to outcome metrics, such as online rating trends, complaint recurrence, occupancy rates, and room revenue, thereby fostering organisational learning. In summary, market orientation delivers significant financial value when operationalised through effectively managed service innovation routines.

To keep these routines from becoming "extra work," managers can formalise a light governance structure for service innovation. Convert each quarterly service priority into a small portfolio of initiatives (e.g., one front-stage improvement, one channel experiment, and one backstage process fixed). Assign an owner, set a short timeline, and define a simple 'definition of done' (for example: fewer repeat complaints,

faster recovery service, or improved review mentions). This makes innovation execution visible and accountable while preserving flexibility for local conditions.

A simple performance-and-learning dashboard can support this discipline. Beyond financial statements, hotels can track a small set of leading and lagging indicators that link innovation activity to outcomes, including:

- online rating trends and review theme shifts (e.g., check-in speed, cleanliness, staff helpfulness).
- complaint recurrence for top pain points and service recovery resolution time.
- repeat booking signals (where available) and referral / likelihood-to-recommend scores.
- occupancy rates and room revenue trends to reflect overall market response.

Finally, managers should treat service innovation as a change-management exercise. Standardise what must remain consistent (core brand promises, safety, and minimum service-recovery standards) while allowing bounded flexibility for frontline personalisation. This balance helps prevent service-quality 'drift' across shifts and departments and supports scalability across outlets or multiple properties.

Given that guest choice and willingness to pay are increasingly influenced by online reviews and platform reputation, managers should also treat service innovation as a lever for reputation building. Track how innovations affect review themes and ratings (e.g., friendliness, responsiveness, ease of service) and close the loop by communicating improvements to guests during and after the stay. This helps ensure that MO-driven innovations translate into both operational outcomes and market visibility in platform-mediated hospitality environments (Buhalis & Leung, 2018; González-Mohíno et al., 2025).

6.3 Implications for policymakers and destination stakeholders

At the policy level, the findings suggest that destination competitiveness can be enhanced by enabling hotels to translate market insights into service innovation. Policymakers and tourism agencies can play catalytic roles in three areas.

First, capability-building support: provide targeted training and advisory programmes in service design, digital service delivery, and service-recovery innovation for hotel managers and supervisors (Begum et al., 2025). Second, incentives for innovative projects: offer competitive grants or tax incentives to hotels that implement measurable service innovations aligned with destination positioning (e.g., eco-tourism service journeys and community-based experiences). Third, ecosystem coordination: facilitate collaboration platforms that connect hotels with local SMEs, attractions, and technology partners to co-develop new tourism experiences and strengthen service supply chains.

To ensure these supports reach both large and small properties, programmes can be tiered. For example, agencies may provide 'minimum viable service innovation' toolkits (service blueprint templates, service recovery scripts, digital check-in guidelines, and staff micro-credentialing) that hotels can adopt at low cost, while reserving larger grants for more complex innovations that require technology integration or cross-actor coordination.

Policymakers can also create an 'innovation sandbox' at the destination level—pilot zones or living labs where hotels, attractions, and technology partners can test new guest-journey solutions (e.g., integrated mobility and ticketing, innovative queue management, or digital concierge services) under shared data standards and privacy safeguards. This reduces uncertainty for adopters and accelerates the diffusion of proven service innovations across the destination ecosystem (Buhalis & Leung, 2018).

In addition, destination stakeholders can strengthen “shared sensing” by establishing data-sharing partnerships that deliver hotels with timely market intelligence (demand trends, visitor profiles, event calendars) and by upgrading digital infrastructure to enable smart hospitality integration across

transportation, attractions, and accommodations. Such ecosystem-level support increases the likelihood that hotel-level service innovations scale into destination-wide experience improvements and strengthen competitiveness in international markets (Buhalis & Leung, 2018).

Because hotels are embedded in destination ecosystems, complementary policies that support skills development, connectivity, and collaborative product development can amplify the performance gains from hotel-level service innovations and enhance overall tourism competitiveness.

7. LIMITATIONS AND FUTURE RESEARCH

This study has limitations that also point to future research opportunities. First, the cross-sectional design limits causal inference; longitudinal designs could better capture how market-orientation routines accumulate and how service innovations diffuse and affect performance over time. Second, firm performance was measured perceptually; future studies could triangulate these perceptions with objective indicators such as revenue growth, profitability, market share, repeat-guest rate, and online reputation metrics (e.g., average review scores or sentiment), using archival or platform data where available.

Third, the context is a single emerging destination. Replicating in other regions and conducting multi-country comparisons would strengthen boundary-condition testing (e.g., market maturity, institutional support, digital readiness) and build on cross-national MO evidence (Ellis, 2006). Fourth, service innovation was modelled as a unified construct; future work can distinguish between frontstage and backstage innovation, incremental and radical innovation, or digital and human-centred innovation to increase theoretical precision. Finally, moderators such as environmental turbulence, ownership structure, and human capital may condition the linking of MO, innovation, and performance.

8. CONCLUSION

This study extends hospitality strategy research by identifying service innovation as a mediating factor in the relationship between market orientation and firm performance. Drawing on evidence from star-rated hotels in Sarawak and supported by international research on hospitality innovation, the findings show that market-oriented routines primarily enhance performance by enabling hotels to innovate in service concepts, interaction channels, and delivery systems.

For academic researchers, these results refine market orientation theory by delineating a capability pathway from sensing to reconfiguration; for practitioners and policymakers, they underscore that developing capabilities in service innovation is a practical lever for maintaining hotel competitiveness across both emerging and established destinations. Future studies can strengthen causal inference and generalisability by using longitudinal designs, testing the model across multiple countries or destination types, and triangulating perceptual performance with objective operational indicators, such as occupancy and room revenue trends, when data access permits.

9. CONTRIBUTION OF AUTHORS

Dr. Margaret Lucy Gregory conducted the research and wrote and revised the article. Rudy Ujang conceptualised the central research idea and provided the theoretical framework. Dr. Malvern Abdullah designed the study and supervised its progress.

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11. CONFLICT OF INTEREST STATEMENT

The authors agree that this research was conducted in the absence of any self-benefit, commercial or financial conflicts, and declare the absence of conflicting interests with the funders.

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About the Authors

Margaret Lucy Gregory is a senior lecturer at the Faculty of Business and Management, Universiti Teknologi MARA Cawangan Sarawak. She was the previous Head of the Centre of Studies for the faculty. Her main research activities are entrepreneurship and marketing. She can be contacted via email at margaret@uitm.edu.my

Rudy Ujang is a lecturer at the Faculty of Business and Management, Universiti Teknologi MARA Cawangan Sarawak. His main research activities are entrepreneurship and digital marketing. He can be contacted via email at rudyujang@uitm.edu.my

Malvern Abdullah is a lecturer at the Faculty of Business and Management, Universiti Teknologi MARA Cawangan Sarawak. He is also the coordinator for the Malaysian Academy of SME and Entrepreneurship Development (MASMED) at UiTM Cawangan Sarawak. His main research activities are entrepreneurship and marketing. He can be contacted via email at malvernabdullah@uitm.edu.my