Customer Orientation and Innovation as Drivers of Firm Performance: Evidence from the Hotel Industry

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Abstract

Background: Customer orientation and innovation shape firm performance, but their interrelationships and differential effects on economic and customer-related outcomes remain underexplored, especially in service contexts. **Objectives:** This study examines the impact of customer orientation and innovation on firm performance, with a focus on the mediating roles of product and service innovation and their link to marketing innovation. **Methods/Approach:** A quantitative study was conducted on a sample of 111 hotels in Croatia. Data were collected via a structured questionnaire and analysed using PLS-SEM in SmartPLS 4.0. **Results:** Customer orientation has a significant positive effect on both innovation and performance, with stronger effects on performance outcomes. Product and service innovation significantly influences marketing innovation and customer-related performance, but not economic performance, while marketing innovation shows no direct effect on performance. **Conclusions:** The findings suggest that customer orientation acts as a primary organisational capability driving firm performance, while innovation plays a differentiated and limited mediating role. The study contributes to the Resource-Based View by highlighting the uneven and context-dependent performance effects of different innovation types in service firms.

Keywords: customer orientation; innovation; performance; RBV; hospitality industry

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Introduction

Hotels are a vital component of the tourism industry, fulfilling a fundamental function by providing accommodation and meeting tourists' basic need for a place to stay at a destination. According to Eurostat and the NACE Rev. 2 classification, hotels and similar accommodation (Group 55.1) comprise establishments that provide accommodation primarily for short stays, typically in furnished rooms or suites. A range of additional services may also be provided, including food and beverage services, parking, laundry services, swimming pools and exercise rooms, recreational facilities, and conference and convention facilities (Eurostat, 2021). The hotel industry is also an important component of tourism destinations, contributing to their competitiveness, economic performance, and long-term development (Attila, 2016).

Given the important role of hotels within tourism destinations, understanding the organisational factors that influence their performance and competitiveness is particularly relevant. Firm performance depends on the effective deployment of internal resources and capabilities, including tangible and intangible assets. Within this context, the Resource-Based View (RBV) emphasises that competitive advantage and superior performance arise from valuable, rare, and difficult-to-imitate firm-specific resources (Barney, 1991, 2001). Strategic orientations represent key intangible capabilities that enable firms to respond to market changes. Customer orientation, as a core component of market orientation, reflects a firm's ability to understand and respond to customer needs and preferences (Narver & Slater, 1990; Jaworski & Kohli, 1993). In service industries such as hospitality, where value is co-created through interactions between employees and guests, customer orientation plays a particularly important role. It enables hotels to gather customer insights and translate them into improved service offerings and innovation activities (Grissemann et al., 2013; Jalilvand, 2017; Serafim & Cristóvão Veríssimo, 2021). Innovation represents a key mechanism through which firms transform internal capabilities into market outcomes. In the service industry, it contributes to service differentiation, improved quality, and enhanced customer experience, thereby supporting firm performance (Ottenbacher et al., 2006; Chang et al., 2011; Tang et al., 2015). Following the Oslo Manual (OECD & Eurostat, 2005), innovation is conceptualised through two forms: product and service innovation and marketing innovation. While product and service innovation reflects the development of new or significantly improved offerings, marketing innovation focuses on new ways to promote, position, and price them.

Although prior research has examined relationships between customer orientation, innovation, and firm performance, these constructs have often been analysed in isolation. In hospitality, studies have predominantly focused on specific drivers of innovation, such as human resources, knowledge, or organisational practices, while paying less attention to customer orientation as a central capability. Moreover, few studies simultaneously examine multiple innovation types and their interrelationships, particularly the link between product and service innovation and marketing innovation. Previous research has also highlighted the need to understand better innovation strategies and their performance implications in hospitality settings (Martin-Rios & Ciobanu, 2019). Importantly, there is limited empirical evidence on how different types of innovation contribute to hotel performance, and whether innovation equally affects financial and customer-related outcomes. The mediating role of innovation between customer orientation and hotel performance also remains underexplored.

To address these gaps, this study develops and empirically tests an integrated research model grounded in the RBV. The model examines the direct effects of customer orientation on product and service innovation and hotel performance, as

well as relationships between product and service innovation, marketing innovation, and two performance dimensions: economic and customer-related performance. It also investigates the mediating role of product and service innovation in linking customer orientation to performance and marketing innovation.

This study contributes to the literature in three main ways. First, it extends the Resource-Based View by conceptualising customer orientation as a key organisational capability directly affecting firm performance. Second, it provides a more nuanced understanding of innovation by distinguishing between product and service innovation and marketing innovation and examining their interrelationships. Third, it highlights the differential effects of innovation on economic and customer-related performance, showing that not all innovation types contribute equally to firm outcomes. From a managerial perspective, the findings highlight the importance of leveraging customer orientation as a strategic capability and aligning it with innovation activities. Hotels that effectively transform customer knowledge into innovative services may enhance customer-related performance, while customer orientation contributes directly to both economic and customer-related outcomes.

The remainder of the paper is organised as follows. The next section presents the theoretical background, conceptual model, and development of the research hypotheses. The methodology section then describes the sample, data collection procedure, measurement of constructs, and analytical approach. This is followed by the presentation of the empirical results and hypothesis testing. Finally, the findings are discussed in relation to the existing literature, together with their theoretical and managerial implications, study limitations, and directions for future research.

Literature review

Resource-Based View (RBV) as a theoretical foundation

The role of firm resources and capabilities is fundamental for creating superior customer value and achieving competitive advantage (Wernerfelt, 1984; Barney, 1991; Peteraf, 1993; Slater & Narver, 1994; Ülgen & Mirze, 2010). The Resource-Based View (RBV) emphasises the importance of intangible resources as key determinants of firm success, as they are rare and difficult to imitate (Barney, 1991; Amit & Schoemaker, 1993; Michalisin et al., 1997; Ray et al., 2004). According to RBV, market-oriented capabilities are valuable, rare, and non-substitutable resources that improve firm performance (Lonial & Carter, 2015; Kiessling et al., 2016). Customer orientation helps firms better understand customer needs and develop products and processes that support superior outcomes (Han & Zhang, 2021). Sundbo's theory of strategic innovation highlights that market orientation, customer focus, networks, and internal firm resources jointly shape firm innovativeness (Sundbo, 2001).

From an RBV perspective, customer orientation is a valuable intangible capability that enables hotels to sense and interpret guest needs. Product and service innovation represents the transformation of this capability into new or improved offerings, while marketing innovation reflects complementary activities for presenting and positioning them in the market. Hotel performance therefore depends not only on customer-oriented capabilities, but also on how effectively they are translated into innovation outcomes.

Customer Orientation

Customer relationships play a crucial role in the development of new ideas, product launches, and organisational innovation (Genis-Gruber & Öğüt, 2014; Kamasak, 2015). Von Hippel (2005) emphasises that customers can anticipate trends and stimulate new

product development, suggesting that market needs drive innovation. According to Lukas and Ferrell (2000), customer-oriented firms are more likely to adopt new-to-the-world products. Narver and Slater (1990) define market orientation as a component of organisational culture that includes customer orientation, competitor orientation, and interfunctional coordination. Deshpandé et al. (1993) conceptualise customer orientation as a set of beliefs that prioritises customers' interests while considering other stakeholders, aiming to achieve long-term profitability. Levitt (1960:56) emphasised that "the entire corporation must be viewed as a customer-creating and customer-satisfying organism," highlighting the importance of delivering customer value. Customer orientation is particularly important in service industries and for innovation in this sector (Grissemann et al., 2013; Jalilvand, 2017; Serafim & Cristóvão Veríssimo, 2021). The close interaction between consumers and service providers, as well as the simultaneity of service production and consumption, significantly shapes innovation processes, with customers often acting as "partial employees" (Hall & Williams, 2008).

Innovation

Innovation enables hotels to respond to changing demand conditions and improve service quality and operational efficiency, thereby enhancing customer value and overall business performance (Tang et al., 2015). In hospitality, innovation is a key source of competitive advantage, as it supports service differentiation, quality improvement, and stronger market positioning (Ottenbacher et al., 2006; Chang et al., 2011).

Following the Oslo Manual (OECD & Eurostat, 2005), product and service innovation refers to the introduction of new or significantly improved products or services that are new to the firm, but not necessarily to the market. Marketing innovation involves implementing new marketing methods, including significant changes in product design or packaging, placement, promotion, or pricing, to satisfy customer needs better and increase sales.

Although widely studied, evidence on innovation and performance in the hotel sector remains limited (Martin-Rios & Ciobanu, 2019). Moreover, prior research often does not clearly distinguish between different types of innovation or examine their interrelationships and differentiated effects on performance. Accordingly, this study focuses on product and service innovation and marketing innovation as the central forms of innovation activity in the hotel industry.

Business Performance

Firm performance reflects how effectively organisations utilise their resources and capabilities to achieve desired outcomes. Understanding its determinants and measurement remains a central issue in management research.

Although various theoretical approaches define firm performance, they all emphasise the importance of resources and how they are utilised to create competitive advantage. Performance can be assessed through the achievement of different objectives, such as profit growth and increased market share (Štavlić, 2016). Contemporary approaches to performance management highlight using performance measurement outcomes to improve organisational processes and support managerial decision-making (Amaratunga & Baldry, 2002). Accordingly, performance is viewed as a combination of financial indicators (profit, revenues, growth) and non-financial dimensions, such as employee satisfaction and service quality (Rahman et al., 2014; Taouab & Issor, 2019).

In the hotel industry, business performance encompasses both financial and non-financial outcomes (Liao et al., 2010). Financial performance is typically reflected in

indicators such as revenues, profitability, and occupancy rates. Non-financial performance, by contrast, is closely associated with customer-related outcomes, including customer satisfaction, perceived service quality, and customer loyalty (Zhou et al., 2009). In service industries such as hospitality, where value is co-created through interactions with guests, customer-related performance is a particularly important dimension of firm performance. Hotels that align their offerings with customer needs are more likely to achieve superior outcomes in both financial terms and customer satisfaction and loyalty.

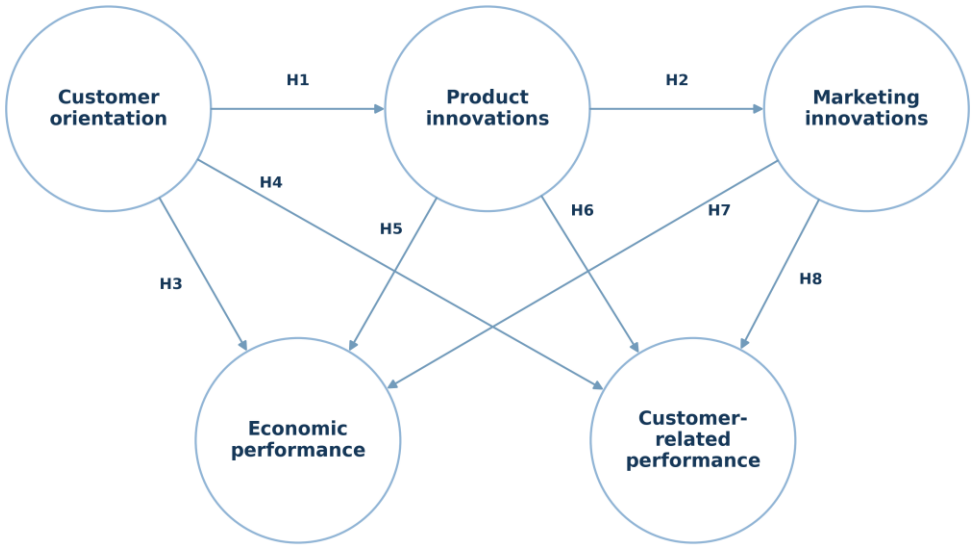
Conceptual model

Based on the theoretical arguments, empirical findings, and research gaps discussed above, this study proposes a conceptual model (Figure 1). The model integrates the Resource-Based View (RBV) with customer orientation and innovation to explain hotel performance. Customer orientation is conceptualised as a key organisational capability that directly influences product and service innovation and hotel performance. Product and service innovation is expected to stimulate marketing innovation and affect both economic and customer-related performance, while marketing innovation is also assumed to influence both dimensions. In addition to direct effects, product and service innovation is proposed to mediate the relationship between customer orientation and hotel performance, as well as marketing innovation. This model addresses a research gap by examining direct and indirect effects of customer orientation on hotel performance through different types of innovation.

This integrated model addresses a research gap by examining the direct and indirect effects of customer orientation on economic and customer-related hotel performance through different types of innovation.

Figure 1

Conceptual model of customer orientation, innovation, and hotel performance based on the proposed conceptual model; the following hypotheses are developed



Source: Author's work

Research hypothesis

Empirical evidence across industries supports a positive relationship between customer orientation and firms' innovation activities (Newman et al., 2016; Alhakimi & Mahmoud, 2020; Komariah et al., 2024). Firms that systematically gather and use customer information are better positioned to develop new products and services. For instance, Lukas and Ferrell (2000) show that customer orientation fosters new product development, while Božić (2006) confirms its positive effect on product innovation.

However, findings in the hospitality sector are not entirely consistent. While some studies report a positive impact of customer orientation on innovation (Tajeddini, 2011; Jalilvand, 2017), others indicate weak or non-significant relationships (Serafim & Cristóvão Veríssimo, 2021; Tajuddin & Trueman, 2008). These mixed results suggest that the relationship may depend on contextual factors such as resources, organisational practices, and customer relationship management.

Based on these arguments, customer orientation is expected to enhance firms' ability to develop new products and services in the hotel industry. Accordingly, the following hypothesis is proposed:

- *H1: Customer orientation has a positive and statistically significant effect on product and service innovation in the hotel industry.*

Few studies have directly examined the relationship between product innovation and marketing innovation (Gunday et al., 2011), yet the literature consistently points to their interdependence and complementarity. Developing new products typically requires designing new marketing approaches and tools to ensure successful commercialisation, suggesting that product innovation stimulates marketing innovation. At the same time, introducing new products facilitates entry into new markets and increases the likelihood of market success (OECD & Eurostat, 2005; Schubert, 2010; Ceylan, 2013, as cited in Ramirez et al., 2018). Empirical evidence further supports this relationship. Ramirez et al. (2018) identify a statistically significant effect of product innovation on marketing innovation, while Chummee (2022) confirms a positive, significant relationship between these two constructs. Damanpour et al. (1989) emphasised the need for further research across different types of firms to enhance the generalizability of findings on innovation relationships. Similarly, Walker (2008) showed that organisational, marketing, and service (or product) innovations are closely interrelated, while also highlighting the need for further research to understand these interconnections better. In line with the RBV perspective, product and service innovation can be viewed as a fundamental organisational capability that fosters complementary marketing innovations and enhances market value. Based on the above, the following hypothesis is proposed:

- *H2: Product and service innovation has a positive and statistically significant effect on marketing innovation in the hotel industry.*

From a theoretical perspective, customer orientation is a core component of market orientation and an important element of organisational culture (Narver & Slater, 1990). It reflects the firm's ability to generate, disseminate, and respond to customer-related information, thereby enabling the creation of superior customer value. Prior hospitality research indicates a positive relationship between customer orientation and hotel performance. Sin et al. (2005) find that market orientation is positively associated with financial and marketing performance in the hotel industry, while Wang et al. (2012) demonstrate a similar link with firm performance. At the same time, customer orientation implies that firms are responsive to identified customer needs and preferences, although such responsiveness may also involve a more reactive approach to decision-making (Wanjiru & Wambugu, 2022). Bekata and Kero (2024) likewise find that customer orientation has a significant positive effect on

enterprise performance. These practices contribute to higher customer satisfaction and loyalty, as well as improved financial outcomes through increased revenues, occupancy rates, and customer retention. Accordingly, customer orientation is expected to have a direct positive effect on both economic and customer-related performance. Based on these findings, the following hypotheses are proposed:

- *H3: Customer orientation has a positive and statistically significant effect on the economic performance of hotels.*
- *H4: Customer orientation has a positive and statistically significant effect on the customer-related performance of hotels.*

A large body of research confirms the important role of innovation in enhancing business performance in the hotel industry. The positive impact of innovation on business performance has also been widely confirmed in studies outside the hotel sector (Han et al., 1998; Li & Atuahene-Gima, 2001; Matsuno et al., 2002; Gunday et al., 2008, 2011; Stock & Zacharias, 2011; Rubera & Kirca, 2012). Although widely studied, evidence on innovation and performance in the hotel sector remains limited (Martin-Rios & Ciobanu, 2019). Nevertheless, several studies report a positive impact of innovation on hotel business performance, including those by Jacob et al. (2003), Orfila-Sintes et al. (2005), Tseng et al. (2008), Orfila-Sintes and Mattsson (2009), Grissemann et al. (2013), Martín-Rios and Ciobanu (2019), Serafim and Cristóvão Veríssimo (2021), and Costa (2022).

Some studies highlight that different types of innovation affect firm performance differently. For example, Ottenbacher and Gnoth (2005) show that product and service innovations contribute to financial performance and hotel reputation, while other studies confirm that innovation enhances strategic positioning, reduces costs, and improves service quality (Tseng et al., 2008; Tajeddini & Trueman, 2012). Hu et al. (2020) demonstrate that various types of innovation positively affect hotel performance, while Fatah and Amin (2023) report similar findings. Nguyen et al. (2016) find that product innovation directly affects financial performance, and Gunday et al. (2011) confirm the contribution of product and marketing innovation to performance. Moreover, Prajogo (2016) emphasises the importance of product innovation, while Setiowati et al. (2015) and Cuevas-Vargas et al. (2021) confirm the positive effect of marketing innovation.

Based on these arguments, innovation can be considered a key driver of hotel performance. Accordingly, the following hypotheses are proposed:

- *H5: Product and service innovation has a positive and statistically significant effect on the economic performance of hotels.*
- *H6: Product and service innovation has a positive and statistically significant effect on the customer-related performance of hotels.*
- *H7: Marketing innovation has a positive and statistically significant effect on the economic performance of hotels.*
- *H8: Marketing innovation has a positive and statistically significant effect on the customer-related performance of hotels.*

Prior research has emphasised innovation as a key mechanism linking customer orientation to firm performance. The underlying argument is that customer-oriented firms are more likely to implement innovations that enhance customer satisfaction and stimulate demand, thereby improving business performance (Han et al., 1998). Empirical evidence from service industries supports this mechanism. The indirect effects of customer orientation on business performance have been examined in recent studies through other organisational processes such as innovation, with innovation suggested as a "missing link" between customer orientation and business efficiency (Han et al., 1998; Agarwal et al., 2003; Kirca et al., 2005). Han et al. (1998),

in their study of the banking sector, found that the relationship between market orientation and performance is mediated by innovation. Similarly, Kirca et al. (2005) confirmed in a meta-analysis that market orientation affects organisational performance through innovation-related mechanisms. Agarwal et al. (2003) find that innovation partially mediates the relationship between market orientation and perceptual performance (service quality, customer satisfaction, and employee satisfaction), and mediates the relationship between market orientation and objective performance (gross operating profit and market share). Market orientation plays a dual role in explaining firm performance. It has a direct effect on performance outcomes and an indirect effect by fostering innovation, which serves as a mechanism through which market-oriented capabilities translate into superior performance (Matear et al., 2002).

From an RBV perspective, product and service innovation can be conceptualised as an organisational capability that transforms customer-oriented resources into superior performance outcomes. Based on the above theoretical and empirical arguments, the following hypotheses are proposed:

- *H9: Product and service innovation mediates the relationship between customer orientation and the economic performance of hotels.*
- *H10: Product and service innovation mediates the relationship between customer orientation and the customer-related performance of hotels.*

Beyond performance outcomes, prior research also suggests that product and service innovation may act as a mechanism through which strategic orientations translate into marketing innovation. Ramirez et al. (2018) show that access to external information influences marketing innovation only through product innovation, indicating full mediation. In this process, firms first transform external knowledge into product innovations, which are subsequently commercialised through new marketing methods (e.g., design, packaging, placement and pricing strategies), enabling the development of sustainable competitive advantages.

Following this logic, product and service innovation can also be expected to mediate the relationship between customer orientation and marketing innovation.

- *H11: Product and service innovation mediates the relationship between customer orientation and marketing innovation in the hotel industry.*

Methodology

Sample and data collection

The target population consisted of three-, four-, and five-star hotels operating in the Republic of Croatia. Based on data from the Croatian Bureau of Statistics, the target population comprised 702 hotels, including 280 three-star hotels (39.88%), 366 four-star hotels (52.14%), and 56 five-star hotels (7.98%).

Data were collected using a structured survey to gather information, attitudes, and perceptions related to the research topic. The questionnaire was administered to managers, directors, and owners of three-, four-, and five-star hotels, selected as key informants because of their comprehensive knowledge of hotel operations. Respondents received an email invitation describing the study, ensuring anonymity and confidentiality, and including a survey link and contact details (Podsakoff et al., 2003).

The survey was conducted between July and December 2023, with a temporary interruption during the peak tourist season. To increase participation, we used reminder emails and follow-up telephone calls. After data screening, 111 valid responses were retained, representing 15.81% of the target population. The sample

comprised 30 three-star hotels (27.03%), 67 four-star hotels (60.36%), and 14 five-star hotels (12.61%). Although the proportions do not fully match those of the target population, the sample reflects the same distribution, with four-star hotels representing the largest group, followed by three-star and five-star hotels.

Regarding hotel characteristics, small hotels accounted for 44.14% of the sample, medium-sized hotels for 30.63%, and large hotels for 25.23%. Independent hotels represented 60.36% of the sample, while 39.64% operated as part of a hotel chain. In terms of ownership, 75.68% were domestically owned, 18.02% were foreign-owned, and 6.31% had mixed ownership.

At the respondent level, 53.20% were female, and 46.80% were male, with an average age of 42.74 years. Managers accounted for 50.45% of respondents, directors for 39.64%, and hotel owners for 9.91%. Most respondents were highly educated, with 64.86% holding a university degree or master's degree. In addition, 64.87% had more than ten years of professional experience in the hotel industry, further supporting their suitability as knowledgeable key informants.

Measurement of constructs

Customer orientation was measured using the scale developed by Narver and Slater (1990), which consists of six items. All items were assessed on a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree.

Innovation constructs were operationalised in line with the Oslo Manual (OECD & Eurostat, 2005) and the Community Innovation Survey (CIS) framework, which define innovation in terms of implementing specific types of innovation rather than their intensity. Accordingly, dichotomous indicators were used to capture whether a hotel had introduced a particular type of innovation (0 = no; 1 = yes). Product and service innovation was operationalised using a single dichotomous indicator capturing whether the hotel had introduced new or significantly improved products or services. Marketing innovation was measured using four dichotomous indicators capturing the implementation of new practices related to promotion, placement, design, and pricing.

To examine the relationship between innovation activities and hotel performance, subjective managerial assessments were used, as managers are often reluctant to disclose objective financial data (Slater & Narver, 1994; Matsuno et al., 2002). Accordingly, perceptual performance measures are widely used and considered appropriate in hospitality research (Agarwal et al., 2003; Tajeddini, 2010).

Business performance was conceptualised as a multidimensional construct comprising economic and customer-related performance. Economic performance was measured using three items adapted from Grissemann et al. (2013) and Tseng et al. (2008), assessed on a five-point Likert scale (1 = very unsuccessful to 5 = very successful). Customer-related performance was measured using two items adapted from Pivčević (2010), capturing changes in customer satisfaction and customer loyalty on a five-point Likert scale (1 = significantly decreased to 5 = significantly increased). Customer-related performance represents the non-financial dimension of performance, capturing outcomes directly associated with customers, which are particularly relevant in service-intensive industries such as hospitality.

Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) in SmartPLS 4.0, following established guidelines for PLS-SEM assessment (Hair et al., 2019). PLS-SEM was selected because it is suitable for estimating complex structural models involving multiple constructs and direct and indirect relationships, and is appropriate for studies with relatively limited sample sizes. The analysis followed a two-stage procedure involving the assessment of the measurement model and the

structural model. The measurement model was evaluated for indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Internal consistency was assessed using Cronbach's alpha and composite reliability (ρA and ρC), while convergent validity was evaluated using outer loadings and average variance extracted (AVE). Discriminant validity was assessed using the heterotrait–monotrait ratio (HTMT) and the Fornell–Larcker criterion.

The structural model was subsequently evaluated by examining collinearity using variance inflation factor (VIF) values, coefficients of determination (R^2), effect sizes (f^2), path coefficients, and model fit using the standardised root mean square residual (SRMR). Direct and indirect effects were examined to test the proposed hypotheses, including the mediating role of product and service innovation. The statistical significance of the estimated relationships was assessed using a bootstrapping procedure with 5,000 subsamples.

Results

Measurement model assessment

The measurement model was assessed for internal consistency reliability, convergent validity, and discriminant validity, following established PLS-SEM guidelines.

The results of construct reliability and convergent validity are presented in Table 1. All constructs demonstrate satisfactory internal consistency reliability, as Cronbach's alpha and composite reliability values (ρA and ρC) exceed the recommended threshold of 0.70 (Hair et al., 2019). All outer loadings exceed the recommended value of 0.70, except for one indicator of marketing innovation (INNM4 = 0.696), which was retained due to its theoretical relevance and the construct's overall satisfactory reliability. All average variance extracted (AVE) values exceed the threshold of 0.50, confirming adequate convergent validity of the measurement model. Product and service innovation was operationalised as a single-item construct using a dichotomous indicator, as described in the Methodology section. As internal consistency reliability and convergent validity require multiple indicators, Cronbach's alpha, ρA, ρC, and AVE do not apply to this construct. Its outer loading was therefore fixed at 1.000 in the PLS-SEM model.

Table 1

Measurement Model Assessment: Indicator Reliability, Internal Consistency Reliability, and Convergent Validity

Construct	Indicator	Description	Loading	Cronbach's α	ρA	ρC	AVE
Customer orientation	CO1	Monitoring the level of employee commitment to meeting customer needs	0.772	0.890	0.895	0.916	0.647
	CO2	Business objectives are driven by customer satisfaction	0.831				
	CO3	Customer needs drive competitive strategy	0.856				
	CO4	Business strategies are guided by the belief in creating superior customer value	0.852				
	CO5	The hotel regularly monitors customer satisfaction	0.799				
	CO6	The hotel pays attention to after-sales services	0.705				

Product and service innovation	INNP1	Introduction of new or significantly improved products or services	1.000	n/a	n/a	n/a	n/a
Marketing innovation	INNM1	Introduction of new promotion techniques or media	0.776	0.716	0.726	0.822	0.537
	INNM2	Introduction of new distribution or placement methods	0.710				
	INNM3	Significant changes in product or service design	0.747				
	INNM4	Introduction of new pricing methods	0.696				
Economic performance	EPERF1	Achievement of market share objectives	0.839	0.829	0.862	0.897	0.745
	EPERF2	Achievement of sales objectives	0.927				
	EPERF3	Achievement of occupancy rate objectives	0.820				
Customer-related performance	CRPERF1	Increase in customer satisfaction with service quality	0.910	0.839	0.869	0.924	0.860
	CRPERF2	Increase in customer loyalty	0.944				

Note: n/a = not applicable
Source: Author's work

Discriminant validity was assessed using two complementary approaches: the heterotrait–monotrait ratio (HTMT) and the Fornell–Larcker criterion.
As shown in Table 2, all HTMT values are below the threshold of 0.85, indicating that the constructs are empirically distinct. The highest HTMT value (0.527) remains well below the cut-off, providing strong evidence of discriminant validity.

Table 2
Discriminant Validity Assessment Using the Heterotrait–Monotrait Ratio (HTMT)

	EPERF	INNM	INNP	CO
INNM	0.369			
INNP	0.266	0.507		
CO	0.527	0.391	0.226	
CRPERF	0.426	0.467	0.505	0.520

Source: Author's work

The Fornell–Larcker criterion (Table 3) further confirms discriminant validity, as the square root of the average variance extracted (AVE) for each construct exceeds its correlations with other constructs. This indicates that each construct shares more variance with its own indicators than with others.

Table 3
Discriminant Validity Assessment Using the Fornell–Larcker Criterion

	EPERF	INNM	INNP	CO	CRPERF
EPERF	0.863				
INNM	0.306	0.733			
INNP	0.240	0.437	1.000		
CO	0.464	0.315	0.218	0.804	
CRPERF	0.361	0.368	0.458	0.466	0.927

Source: Author's work

Overall, HTMT and the Fornell–Larcker criterion confirm discriminant validity. The measurement model also demonstrates satisfactory reliability and convergent validity.

Structural model assessment

The structural model was assessed by examining collinearity diagnostics, coefficients of determination (R^2), effect sizes (f^2), path coefficients, and overall model fit.

Collinearity was assessed using variance inflation factor (VIF) values. All VIF values range between 1.000 and 2.978. These findings indicate that collinearity is not a concern and that the estimated path coefficients can be interpreted without bias caused by multicollinearity. In addition, the VIF values are below the recommended threshold, suggesting that common method bias is unlikely to be a serious concern.

The explanatory power of the structural model was subsequently assessed using the coefficients of determination (R^2 and adjusted R^2) presented in Table 4. The model explains 25.0% of the variance in economic performance (R^2 = 0.250) and 36.0% in customer-related performance (R^2 = 0.360), indicating moderate explanatory power for hospitality research. It also explains 19.1% of the variance in marketing innovation (R^2 = 0.191) and 4.7% in product and service innovation (R^2 = 0.047). Although the explanatory power for product and service innovation is relatively low, this is expected, as customer orientation is the only predictor. Overall, the R^2 and adjusted R^2 values indicate that the model provides greater explanatory power for the performance dimensions and marketing innovation than for product and service innovation.

Table 4

Explanatory Power of the Structural Model: Coefficients of Determination (R^2 and Adjusted R^2)

	R-square	R-square adjusted
INNP	0.047	0.039
INNM	0.191	0.184
EPERF	0.250	0.229
CRPERF	0.360	0.342

Source: Author's work

The effect sizes (f^2) of the structural relationships are presented in Table 5. Effect sizes (f^2) were assessed to evaluate the contribution of exogenous constructs to endogenous variables. Customer orientation shows moderate effects on economic (f^2 = 0.190) and customer-related performance (f^2 = 0.180), and a small effect on product and service innovation (f^2 = 0.050). Product and service innovation has a moderate effect on marketing innovation (f^2 = 0.236) and a relatively small effect on customer-related performance (f^2 = 0.138), while its effect on economic performance is negligible (f^2 = 0.009). Marketing innovation shows small effects on economic (f^2 = 0.020) and customer-related performance (f^2 = 0.014), indicating a limited contribution to performance outcomes. Customer orientation and product and service innovation emerge as the main drivers of performance, while marketing innovation plays a more limited role. The results suggest that customer orientation is a stronger driver of performance than of innovation, while product and service innovation primarily contribute to marketing innovation and customer-related performance.

Table 5
Effect Sizes (f^2) of Structural Relationships among the Study Constructs

	INNP	INNM	EPERF	CRPERF
CO	0.050		0.190	0.180
INNP		0.236	0.009	0.138
INNM			0.020	0.014

Note: Effect sizes are interpreted as small (0.02), medium (0.15), and large (0.35).
Source: Author's work

The path coefficients indicate that customer orientation has a positive but relatively weak effect on product and service innovation. In contrast, it has strong, statistically significant effects on both economic and customer-related performance. Product and service innovation shows a significant positive effect on marketing innovation and customer-related performance but does not significantly influence economic performance. In contrast, marketing innovation does not exhibit significant direct effects on either dimension of performance.

Model fit was assessed using the standardised root mean square residual (SRMR). The SRMR value for the saturated model is 0.078, below the recommended threshold of 0.08, indicating acceptable model fit. This suggests that the proposed structural model adequately reproduces the empirical covariance matrix.

Hypothesis testing

The results of hypothesis testing for both direct and indirect relationships are presented in Tables 6 and 7.

Direct effects

The results of hypothesis testing for the direct effects are presented in Table 6 (and Figure 2).

Table 6
Hypothesis Testing Results for Direct Effects in the Structural Model

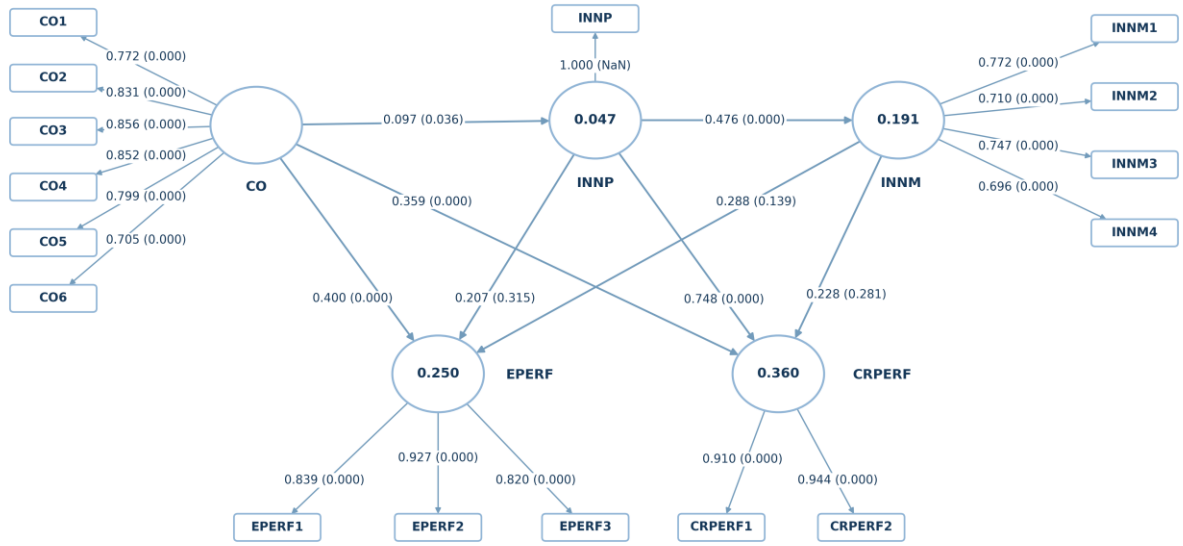
		β	T statistics	P values	Results
H1	CO -> INNP	0.097	2.095	0.036	Supported
H2	INNP -> INNM	0.476	6.535	<0.001	Supported
H3	CO -> EPERF	0.400	5.234	<0.001	Supported
H4	CO -> CRPERF	0.359	4.342	<0.001	Supported
H5	INNP -> EPERF	0.207	1.004	0.315	Not supported
H6	INNP -> CRPERF	0.748	3.692	<0.001	Supported
H7	INNM -> EPERF	0.288	1.481	0.139	Not supported
H8	INNM -> CRPERF	0.228	1.078	0.281	Not supported

Note: p-values below 0.05 indicate statistical significance, while p-values below 0.10 are interpreted as marginally significant.
Source: Author's work

Customer orientation has a positive, statistically significant but substantively weak effect on product and service innovation (β = 0.097, p = 0.036), supporting H1. Furthermore, product and service innovation has a strong and statistically significant positive effect on marketing innovation (β = 0.476, p < 0.001), confirming H2. Customer orientation also demonstrates significant positive effects on both economic performance (β = 0.400, p < 0.001) and customer-related performance (β = 0.359, p < 0.001), supporting H3 and H4. Product and service innovation shows a positive and statistically significant association with customer-related performance (β = 0.748, p <

0.001), supporting H6. However, its direct effect on economic performance is not significant (β = 0.207, p = 0.315), leading to the rejection of H5. Similarly, marketing innovation does not have statistically significant effects on either economic performance (β = 0.288, p = 0.139) or customer-related performance (β = 0.228, p = 0.281), so H7 and H8 are not rejected.

Figure 2
Structural model results (standardised path coefficients, p-values, and R^2 values)



Note: INNP is measured as a single-item construct; therefore, its loading is fixed at 1.000 and the p-value is not applicable
Source: Author's work

Indirect (mediating) effects of product and service innovation

Table 7 presents the mediation analysis results. The mediation analysis indicates that product and service innovation does not significantly mediate the relationship between customer orientation and economic performance (β = 0.020; p = 0.372), and therefore H9 is not supported. In contrast, product and service innovation shows a weak, marginally significant mediating effect between customer orientation and customer-related performance (β = 0.072; p = 0.052), providing partial support for H10. Similarly, a marginal indirect effect is observed in the relationship between customer orientation and marketing innovation (β = 0.046; p = 0.067), indicating partial support for H11.

Table 7
Mediation Analysis Results: Specific Indirect Effects of Product and Service Innovation

		β	T statistics	P values	Results
H9	CO -> INNP -> EPERF	0.020	0.892	0.372	Not supported
H10	CO -> INNP -> CRPERF	0.072	1.941	0.052	Partially supported (marginal effect)
H11	CO -> INNP -> INNM	0.046	1.834	0.067	Partially supported (marginal effect)

Note: p-values below 0.05 indicate statistical significance, while p-values below 0.10 are interpreted as marginally significant
Source: Author's work

Overall, the results indicate that customer orientation has significant direct effects on both economic and customer-related performance, while its effect on product and service innovation is comparatively weaker. Product and service innovation is positively associated with marketing innovation and customer-related performance but does not significantly affect economic performance. Marketing innovation shows no significant direct effects on either performance dimension. Finally, the mediation analysis indicates that the indirect effects of customer orientation through product and service innovation are limited, with marginal indirect effects observed only for customer-related performance and marketing innovation. Taken together, these findings highlight the stronger role of direct relationships compared with the indirect pathways examined in the model.

Discussion

Summary of research

The findings indicate that customer orientation is a central organisational capability associated with firm performance, while product and service innovation plays a more selective, context-dependent role. This pattern aligns with the Resource-Based View (RBV), which suggests that valuable capabilities may contribute to performance both directly and indirectly through complementary organisational mechanisms.

First, customer orientation shows a positive but relatively weak effect on product and service innovation. This suggests that while firms attentive to customer needs are better positioned to generate new or improved offerings, customer orientation alone is unlikely to be a dominant driver of innovation. Rather, innovation appears to depend on a broader set of organisational factors, including managerial support, technological resources, and internal capabilities. Second, product and service innovation exhibits a strong positive relationship with marketing innovation, confirming the interdependence of different innovation types. This finding indicates that new or improved offerings often require corresponding changes in marketing activities to ensure their effective market introduction and positioning. Third, customer orientation demonstrates strong and significant direct effects on both economic and customer-related performance. This highlights its role as a key performance-relevant capability, suggesting that firms capable of understanding and responding to customer needs can directly enhance value creation and performance outcomes. In this sense, customer orientation appears to exert a more immediate influence on performance than innovation-mediated pathways. The effects of innovation on performance are more differentiated. Product and service innovation significantly contributes to customer-related performance, but not to economic performance. This suggests that innovation outcomes may first materialise through non-financial indicators, such as customer satisfaction and loyalty. At the same time, their economic effects may be delayed, offset by implementation costs, or contingent on additional organisational conditions. By contrast, marketing innovation does not exhibit significant direct effects on performance. This finding implies that changes in marketing practices alone may be insufficient to generate performance improvements unless substantive changes in the core offering support them. Finally, the mediation analysis indicates a limited and selective mediating role of product and service innovation. No mediation effect is observed for economic performance, and only weak, marginally significant indirect effects are identified for customer-related performance and marketing innovation. Overall, the results suggest that customer orientation primarily contributes to performance through direct effects, whereas innovation plays a complementary but not dominant role in this relationship.

Theoretical implications

This study contributes to the literature in several ways. First, it extends the Resource-Based View (RBV) by integrating customer orientation and multiple types of innovation in explaining multidimensional firm performance. In doing so, it conceptualises customer orientation as a key organisational capability that directly shapes performance and contributes indirectly through innovation-related mechanisms. Second, the study advances prior research by simultaneously examining both direct and indirect relationships between customer orientation, product and service innovation, marketing innovation, and distinct performance dimensions. This integrated approach responds to calls for more comprehensive models that move beyond examining these constructs in isolation. Third, the findings reveal differentiated roles of innovation types. Product and service innovation emerges as a complementary but limited pathway linking customer orientation to customer-related performance, while marketing innovation appears to depend on prior innovation in core offerings. This highlights the interdependence of innovation activities and suggests that not all innovation types contribute equally to performance outcomes. Importantly, the results indicate that the indirect effects of customer orientation through innovation are relatively weak, suggesting that its primary contribution to performance operates through direct effects. This finding refines the RBV by indicating that valuable organisational capabilities may not always rely on strong mediation mechanisms to generate performance outcomes.

Overall, the study contributes to the RBV literature by demonstrating that customer orientation functions as a central capability with a stronger direct influence on performance than on innovation. In contrast, innovation itself reflects a broader set of organisational conditions and capabilities.

Managerial implications

The findings provide several practical implications for managers. First, customer orientation emerges as a key strategic capability that directly contributes to both economic and customer-related performance. Managers should therefore systematically collect, analyse, and leverage customer information to support service development and strategic decision-making. Second, product and service innovation plays an important role in enhancing customer-related outcomes, particularly customer satisfaction and loyalty. This suggests that investments in new or improved offerings and the overall customer experience are critical for achieving non-financial performance improvements. Third, the results indicate that marketing innovation should be aligned with product and service innovation. The effectiveness of marketing activities appears to depend on the value embedded in the core offering, implying that marketing efforts alone are unlikely to generate significant performance gains without substantive service innovation. Overall, the findings highlight the importance of aligning customer-oriented capabilities with innovation activities, while recognising that different innovation types contribute unevenly to performance outcomes.

Limitations and future research directions

This study has several limitations. First, the data rely on managers' subjective assessments, which may introduce bias when evaluating business performance. Second, innovation constructs were operationalised using dichotomous indicators in line with the Oslo Manual and CIS, capturing the presence rather than the intensity of

innovation activities. While appropriate for identifying whether innovation has been implemented, this approach may not fully capture the depth or extent of innovation. Third, the model includes a limited number of predictors and does not account for potentially relevant contextual factors. Fourth, non-response bias was not formally assessed. Finally, the study was conducted in a single country, which may limit the generalisability of the findings to other hospitality contexts.

Future research could improve the measurement of innovation by incorporating the intensity or degree of implementation of each innovation type. Future studies could also extend the model by incorporating additional variables, such as technological orientation, organisational culture, or employee engagement, as well as control variables such as hotel size, category, and ownership structure. Longitudinal research could provide further insights into the long-term effects of innovation on financial performance. At the same time, comparative studies across countries and different types of hotels could enhance the generalisability of the findings.

Conclusion

Overall, this study demonstrates that customer orientation represents a central strategic capability for hotel performance, exerting significant direct effects on both economic and customer-related outcomes. Product and service innovation contributes primarily to customer-related performance and supports the development of marketing innovation, whereas marketing innovation shows no significant direct effects on the examined performance dimensions. The findings therefore suggest that, in the hotel context, customer orientation may generate performance benefits more directly than through innovation-mediated pathways. By integrating customer orientation, multiple forms of innovation, and multidimensional performance outcomes within a single empirical model, the study contributes to a more differentiated understanding of how internal strategic capabilities translate into hotel performance. At the same time, the identified limitations highlight the need for future research using broader samples, longitudinal designs, and more comprehensive measures of innovation to examine these relationships across different hospitality contexts further.

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