The Structural Relationship among Business Environment, Market Orientation and Business Performance: Evidence from Tourism Industry in Dili, Timor-Leste

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ABSTRACT

The purpose of this research is to test the influence of the external environment on the business performance, and the mediating effect of market orientation on the relationship between the industry environment and business performance in the small and medium tourism industry. A total of 195 samples and questionnaires were used for data collection, while SMART-PLS 3.0 was used to test the hypothesis. The findings of this research show that the industry environment has a positive and significant influence on market orientation and business performance. Contrarily, market orientation has no significant influence on the business performance, as well as on the relationship between business environment and performance. This implies that the small and medium enterprises (SMEs) tourism industry enhanced their business performance by using properly its existing resources to cope with the dynamic changes of industry environment in Timor-Leste.

Keywords: Industry environment, market orientation, business performance, tourism industry.

1. Introduction

Today, companies face a wide range of challenges related to the dynamic change of consumer demand which is characterized by the sensitivity of customers on product quality and price. Therefore, companies are demanded to develop its capabilities in market intelligence to provide high value creation of product and services based on the continuous change of the customer needs (Lehtimäki, 2016 ; Grant, 2019 ; Agustina et al., 2020), aiming to enhance competitive advantages and achieve sustainable business performance (Cadogan, 2012 ; Ayimey et al., 2021).

Many empirical studies revealed that the industry environment has direct influence on the business performance (Renko et al., 2022 ; Lee et al., 2022). However, numerous empirical studies also show that the industry environment has adverse influence (Metts, 2007) or no significant influence on business performance (Menicucci, 2018 ; Hesford et al., 2019 ; Reyes-Santiago et al., 2019). To this, recent empirical studies seek to develop strategies, dimensions, and indicators to measure business performance in highly competitive industry environment (Saldanha et al., 2018).

This research was conducted in the SMEs tourism industry in Dili Municipality. Prior to the Covid-19 pandemic, the tourism industry in Dili, Timor-Leste experiences a high speed of growing. Nonetheless the Covid-19 pandemic in 2020 had led to a significant effect on SMEs tourism industry performance (Flores et al., 2020). Many hotels closed down due to the restriction of the movement of people which had led to the dramatic decrease of tourist arrival in Timor-Leste. Within the limitation of visitors, hotel industry in Timor-Leste has to develop strategic fitness to attract visitors and secure business sustainability in hotel industry.

One way to increase business sustainability is to provide good service quality based on the customer demands. . Oliveira et al. (2020) confirmed that service quality has a positive and significant influence on the customer satisfaction. A satisfied customer will also loyal to the products and services of a restaurant which in turn lead to over perform its competitors. Nevertheless, there were limited researches on the role of market orientation on the relations between industry environment and business performance in SMEs tourism industry in Timor-Leste. On the other hand, customer & competitor orientation and inter functional coordination which may be the efficient method for enhancing the SMEs tourism industry performance in emerging countries such as Timor-Leste. This research aims to improve company's performance by using market orientation in a dynamic industry environment. Our specific objectives are: (1) to assess the influence of the industry environment on market orientation and business performance. (2) to assess the effect of market orientation on business performance, and (3) to test the effect of market orientation on the relationship between the industry environment and business performance. Papers submitted in a technically unsuitable form will be returned for retyping, or cancelled if the volume cannot otherwise be finished on time.

2. Theoretical Frameworks, Research Model and Hypothesis.

2.1. Industry Environment

The industry environment has gained huge attention from researchers and practitioners due to its direct influences on business competitiveness and performance (Liu et al., 2021; Mao et al., 2018; Duh et al., 2016). The well-known concept of industry environment has been introduced by Porter (1980) as industry rivalry, supplier power, purchaser power, threats of substitution, and threats of new entrants. This concept more focuses on the important aspects of the industry the firm operates (González-Rodríguez et al., 2018).

Porter (1980) stated that industry environment had adverse influence on business performance. This has been confirmed by numerous empirical studies showed that competitive rivalry has no significant direct effect on market performance or firm profitability (González-Rodríguez et al., 2018). Nonetheless, other empirical studies also revealed that industry environment has direct effect on firm competitiveness and performance (Metts, 2007; Tan & Sousa, 2015; Saldanha et al., 2019; Liu et al., 2021).

The change of industry environment will increase competition in the markets, which lead to firm try to reformulate strategies which are closely related to the customer demands (Ghasemi et al., 2015). Therefore, managers who use firm's resources to develop proper industry strategy will lead to overcoming industry environment and retain its competitiveness and high performance (Porter, 1985; Metts, 2007; Amit et al. (2017); González-Rodríguez et al., 2018; Saldanha et al., 2019).

2. 2. Market Orientation

Market orientation is a well-known business strategy in marketing management. Narver & Slater (1990) and Kohli & Jaworski (1990) had defined market orientation based on two different approaches. The first defines market orientation as efficient organizational culture to create superior value from product and services for the customers (Jyoti and Sharma, 2012). This concept is heavily based on the costumer and competitor orientation and the ability of the firm to coordinate its internal resources to offer products and services based on customer demands, aiming to over perform its rivals, and achieving high and sustainable performance. While Kohli and Jaworski (1990) see market orientation as active and proactive initiates by a firm to seek data about its customers' current and future demands, share that data across functional units, and develop appropriate strategy to meet those demands (Oduro and Haylemariam, 2019). In the modest industry environment, competitor orientation and customer orientation are very important because it offers a vital understanding of the current marketplace to undertake better decisions for greater performance (Kaliappen & Hilman, 2017).

Market orientation is the most effective and efficient organizational culture to create the behavior necessary to enhance a higher value for customers and achieve high sustainable performance (Narver & Slater, 1990; Taghian, 2010; Ipek & Bıçakcıoğlu-Peynirci, 2020; Osuagwu, 2019). A successful company in controlling the market was designated as a market-drive firm, specially a company that able to harmonize customer and competitor orientation in order to achieve high performance (Dabrowski et al., 2019). Therefore, adequate attention is needed to customer and competitor orientation to meet the needs and demands of the consumer (Calero-Sanz et al., 2022; Türeli et al., 2019). Market-oriented organizations act as sensitive sensors to access customer needs and competitor information via the process of collecting, sharing and answering market knowledge with inter-functional coordination (Tseng and Liao, 2015).

Numerous researchers found that market orientation has significant contribution to the business performance (Abbu and Gopalakrishna, 2019). However, a group of researchers also found that market orientation has no significant influence on business performance (Le et al., 2018). This can be explained by Bhattarai, Kwong, & Tasavori (2019) that simultaneous implementing market orientation and disruptiveness capability in dynamic market environment will provide adverse effect on the firm performance.

2. 3. Business Performance

Business performance is the key factor to measure firm profitability and sustainable operation. Yu et al. (2019) define that firm performance is a common factor used to measure the progress of firm 'strategy in achieving it goals. Numerous studies have revealed that business performance has been influenced by numerous antecedents such as business strategy (Saldanha et al., 2019; Yuliansyah et al., 2016), marketing strategy (Tsai and Wang, 2017; Yadav, Tripathi and Goel, 2019), industry environment (Haschkaa et al., 2022), although variety results were appeared.

Today, many researchers and practitioners are focusing their attentions on the business performance measurement. In general, business performance was measured by financial and non-financial performance. Financial performance generally measured by using ROI, ROE, ROA, return on sales (ROS), profit growth and total income growth, while non-financial is measured by market share, customer satisfaction (Esmaeel et al., 2018; Saldanha, 2019; Tajeddini, Martin and Ali, 2020), reputation and environment performance (Kristoffersen et al., 2021). Due to using different performance measurement for business organization, which in turn will lead to different results of the previous empirical studies.

2. 4. Theoretical Framework

The resource-based view was used to develop this research model. The company with valuable, unique, imitable and organized resources will have good competitive advantages and performance (Barney, 1991). Market-oriented companies will have a good competitive value to increase sustainable business performance (Espino-rodríguez & Taha, 2022; Anders, 2021; Pereira-Moliner et al., 2021). In Timor-Leste, most companies are categorized as the SMEs which have faced highly competitive environment. Thus, market orientation can increase competitive advantages and performance in a competitive industry environment.

The industry environment was measured by using indicators adapted from Porter (1980, 1985), the market orientation from Narver & Slater (1990), while business performance from Huang & Lee (2012), Jogaratnam (2017) and Saldanha et al., (2020). The research model is as shown in image 1.
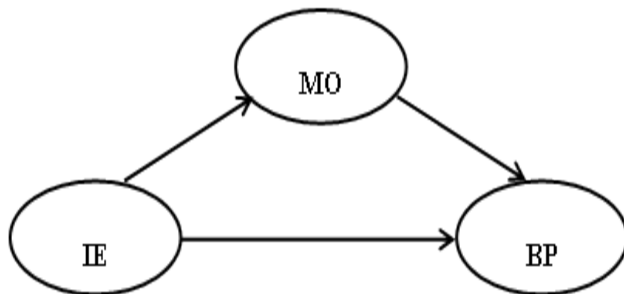

Figure 1. Research Model (IE = Industry Environment; MO = Market Orientation; BP = Business Performance).

2. 5. Hypothesis

a) Industry Environment and Business Performance.

External, internal, and risk management are important factors to the SME performance (Anning-dorson, 2017; Hanggraeni et al., 2019). Ibrahim & Harrison (2020) stated that external factors have a greater influence on business performance. Numerous empirical studies revealed that industrial environment had great influence on business growth (Ismail & Kuivalainen, 2015 ; Nirino et al., 2020; Hanggraeni et al., 2019). Other study showed that external factors showed positive effect but no significant to the business performance (Saldanha et al., 2019). Therefore, the hypothesis of this research can be derived as followed:

H_1: The industry environment has a positive and non-significant influence on business performance.

b) Industry environment and market orientation.

Businesses that know a good marketing environment and can analyze and deal with threats on market opportunities (Vijfvinkel et al., 2011). In addition, study conducted by Sriayudha et al. (2020) found that the business environment had a positive influence on market orientation. Therefore, this research can formulate hypothesis as followed:

H_2: Industrial Environment has a significant effect on market orientation.

c) Market orientation and business performance.

The company which is offer product and services based on customer needs will extend market share and increasing business performance. Market orientation has a significant influence on business performance (Kirca et al., 2005; Nguyen, 2018; Dabrowski et al., 2019; Yadav et al., 2019). Hypothesis can be formulated as below:

H_3: Market orientation has a significant effect on business performance.

d) Industry environment, market orientation and business performance.

Slater & Narver (1994) suggests that market oriented investment is immediately carried out in the expanding business environment than wait too long which may result in losing the market. Porter (1980) and Sin et al. (2005) stated that a different industry environment and strategy will also have significant influence on performance. The external environment has a moderate effect on market orientation and business development (Wang, Chen and Chen, 2012). Numerous studies showed that there were a significant relationship between the industry environment, market orientation and business performance (Berács & Nagy, 2010; Ndegwa et al., 2020).

H_4: Market orientation has significant influence on the relationship between the industrial environment and business performance.

3. Research Method

The study used the quantitative method to conduct research in the SME's tourism industry in Dili Municipality from March to May 2022. The target population of this research was owner/manager of hotel, restaurant, and accommodation in Dili, Timor-Leste. According to the National Directorate of Entrepreneurship Activities and Tourism Products (DNEAPT), there are 195 hotels, restaurants, and accommodations in Dili which was considered as target respondent.

In this study, the industry environment was measured by adapting dimensions and items from Porter (1980;1985), while market orientation was measured by adapting items from Slater (1990). Business performance was divided in to financial performance (ROI, profitability, ROA, ROE, profit growth, total income), and non-financial (sale growth, market share, and customer satisfaction) (Metts, 2007 ; Huang & Lee, 2012; Jogaratnam, 2017; Saldanha et al., 2020). A five Likert questionnaire derived

from previous empirical studies ranging from Strongly Disagree (1) to Strongly Agree (5).

A quantitative research was carried out to test research hypothesis. The data analysis using the Smart-Partial Least Square (SMART- PLS 3.0) because no need to undertake classical assumption test. In addition, the software can also be used to predict a model with the small sample size, using reflective/formative indicators, and multivariate analysis (Hair et al., 2017 ; Richter et al., 2016; Saldanha et al., 2019).

The outer model measurements were tested to understand the reliability and validity of the indicators within the research model. The reliability test uses the composite reliability (CR). An indicator is reliable when the CR and CA value are higher than 0.7 respectively (Hair et al., 2014; Saldanha et al., 2019). The validity test will be divided into two convergent validity (outer loading or indicator loading with an average extracted variant or AVE) and discriminant validity (Fornell-larcker, Cross load, and Heterotrait-Monotrait). In convergent validity, the indicator is valid when the outer loading (OL) value exceeds 0.7, and the average value of extracted variant (AVE) exceeds 0.5 (Hair et al., 2017; Saldanha et al., 2019). Based on discriminant validity, an indicator is valid when the value of the root square the AVE is higher than the value of the other indicator (Hair et al., 2014), and the value of the heterotrait-monotrait (HTMT) is lower than 0.90 (Henseler et al., 2015).

The inner model measurement was carried out to test hypothesis by conduction path coefficient test (T and P

values). The relationship between variables was significant, if the T values are greater than 1.96, while the P values are lower than the threshold value 0.05 (Hair et al., 2017; Saldanha et al., 2019).

4. Result and Discussion
4.1. Reliability and validity Test (Outer model Measurement)

The reliability test was used to observe the internal consistency of the relationship between the indicators and the variable in this research model. The reliability test normally uses composite reliability (CR) from the calculation of the Algorithm in SMART-PLS 3.0 (Hair et al., 2014). According to Hair et al. (2017), items are reliable, when the CR values are higher than 0.7. In this research, the CR values of all items were higher than 0.7 (Table I), therefore, all items were reliable to use for hypothesis test.

The convergent validity and discriminant validity of the model were tested. The outer loading (OL) and average extracted variant (AVE) were used to measure convergent validity. The OL values of items that below than 0.5 were removed in order to enhance content validity (AVE values) as recommended by Hair et al. (2014). After this treatment, the OL and AVE values of all items were well above the threshold value 0.7 and 0.5 respectively (Figure 2 and Table I).
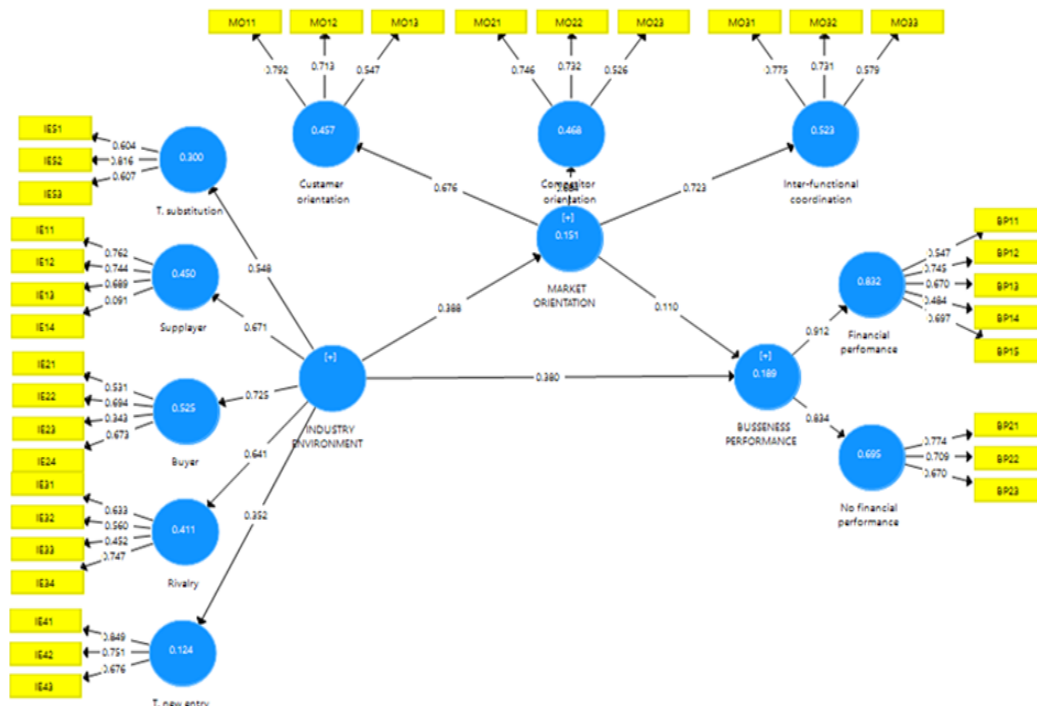

Figure 2. Outer Loading for Convergent Validity Test

The discriminant validity was tested by using Forner-Larsker Criterion (FL) and Heterotrait-Monotrait (HTMT).

The result as seen in the Table I meet the criterion recommended by Hair *et al*. (2014).

Table I. CR, AVE and Fornell-Larcker Criterion

Item	CR	AVE	1	2	3	4	5	6	7	8	9	10	11
BP	0.90	0.50	0.702										
PB	0.76	0.61	0.212	0.784									
COMPO	0.78	0.64	0.106	0.208	0.797								
CO	0.80	0.67	0.149	0.160	0.175	0.819							
FP	0.82	0.70	0.862	0.173	0.061	0.115	0.837						
IFC	0.81	0.68	0.104	0.175	0.275	0.160	0.076	0.822					
NFP	0.8	0.66	0.840	0.187	0.121	0.139	0.449	0.103	0.813				
R	0.76	0.62	0.302	0.145	0.189	0.134	0.311	0.178	0.201	0.784			
PS	0.77	0.54	0.304	0.217	0.054	0.133	0.215	0.131	0.306	0.313	0.733		
NE	0.80	0.58	0.004	0.196	0.160	0.121	0.035	0.062	0.031	0.005	0.015	0.762	
S	0.71	0.56	0.002	0.325	0.202	0.155	0.008	0.164	-0.014	0.142	0.227	0.217	0.751

Based on Heterotrait-Monotrait (HTMT) rule, an indicator is valid, when the HTMT0.85 is below 0.85 (Henseler et al., 2015). The results of the test as shown in the Table II, the

HTMT values of all items are below than 0.85. Therefore, all items are valid based on HTMT for discriminant validity.

Table II. Heterotrait-Monotrait (HTMT) for Discriminant Validity

	1	2	3	4	5	6	7	8	9	10
PB	0.426									
COMPO	0.282	0.500								
CO	0.272	0.359	0.363							
FP	1.391	0.374	0.161	0.236						
IFC	0.200	0.387	0.585	0.309	0.169					
NFP	1.496	0.434	0.386	0.280	0.841	0.212				
R	0.604	0.400	0.484	0.359	0.661	0.403	0.471			
PS	0.489	0.484	0.183	0.289	0.367	0.247	0.568	0.681		
NE	0.131	0.395	0.317	0.213	0.113	0.182	0.135	0.243	0.223	
S	0.374	1.042	0.591	0.409	0.315	0.486	0.397	0.500	0.521	0.527

4.2. Hypothesis Test

The results of hypothesis test as presented in Table III. The first hypothesis (H1) was tested to understand the influence of the industry environment on business performance, and the result shows that T value (2.844) is higher than 1.96 and the P value (0.005) is lower than 0.05, which means that the relationship between the two variables were positive and significant. Therefore, H1 is not supported. The second hypothesis (H2) was to test the influence of the industry Environment on market orientation, the result showed that T value (3.065) and P value (0.002), which means both variables have significant relationship. Thus, H2 can be supported. The third hypothesis (H3) was to test the effect of market orientation

on business performance, the results showed that T value (0.994) and P value (0.321) which is above the minimum threshold value of 1.96 and 0.05 respectively. This means that market orientation does not have a significant influence on the business performance. Therefore, H3) is not accepted.

The fourth hypothesis (H4) was to test the mediation effect the market orientation on the relationship between the industry environment and business performance. The result showed that T value (0.901) and P value (0.368), which means market orientation does not play important role in the relationship between the industry environment and the business performance. Thus, H4 is not accepted

Table III. Path Coefficient for Hypothesis Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDV|)	P Values	Note
IE -> BP	0.335	0.347	0.118	2.844	0.005	Significant
IE -> MO	0.386	0.387	0.126	3.065	0.002	Significant
MO -> BP	0.085	0.074	0.086	0.994	0.321	No Significant
IE -> MO -> BP	0.028	0.024	0.032	0.893	0.372	No Significant

4.3. Discussion

The first objective of this research was to test the influence of the industry environment on business performance, and the result showed that the industry environment has a significant influence on business performance. This finding reveals that hotel industry in Dili has adequate knowledge on the industry environment, so that they can develop proper strategy to offer product and services to satisfy customer demands. The company which pays attention to the industry environment, develop good strategic option in fitting to the environment change will lead to have better competitive advantages (Wang et al., 2012). The result of this study confirmed numerous empirical studies that product and service quality provide great influence to retain customers (Kim & Kim, 2015; Céspedes-Lorente et al., 2003; Santoso et al., 2020; Kim & Han, 2022). However, the result of this study is inconsistent with the study of Legimai (2022) found that the industry environment insignificant effect on the business performance.

The second objective of this research was to test the influence of the industry environment on the market orientation. The result showed that the industry environment has a significant influence on the market orientation. As industry environment change, companies also try to change its business strategy in order to align with the change of costumer needs, competitor new strategy, and new products/services. In addition, the industrial environment has a significant influence on the company strategy which in turns lead to influence business performance (Ismail and Kuivalainen, 2015). This study confirmed the study Awan & Shamim, (2020) and Hanggraeni et al. (2019) that environmental performance, economic performance and market orientation have positive relationship.

The third objective was to test the influence of market orientation on the Business Performance. The result shows that market orientation has no significant effect on the Business Performance. This means that during the Covid-19 period, tourism industry such as hotels, restaurant and accommodations in Timor-Leste do not pay much attention on customer and competitors. They tend to focus their efforts more on fast environment change, align its strategy

to deal with this speedy change in very short period in order to retain business performance. This aligns with Campo et al. (2014) who stated that when a company face crisis in the short term the market orientation is not significant influence on the performance of the hotel. In addition, tourism industry may fail to develop competitive differentiation, identify and meet customer demands (Pratono et al., 2019). This also confirms by numerous empirical studies that market orientation has no direct effect on the business performance (Caruana, Pitt & Berthon, 1999; Deshpandé et al., 2000; Merlo & Auh, 2009; (Kajalo & Lindblom, 2015; Le et al., 2018). This study is not line with numerous empirical studies revealed that market orientation has significant effect on business performance (Dabrowski et al., 2019; Sharma et al., 2021; Schulze et al., 2022; Yadav et al., 2019). The variety results of the empirical studies may be due to the different firm types, size (Saldanha et al., 2018) and environment (Prajogo, 2016).

The fourth objective of this research was is to test the influence of market orientation on the relationship between the industry environment and business performance. The results of the study revealed that market orientation has no significant influence on the relationship between the industry environment and business performance. This study confirmed the study of Sun *et al.*, (2016) which found that dynamic environment does not significantly influence market orientation and business performance. Contrarily, the result of the study is not line with study of Wilson et al. (2014) and Kelson (2012) that market orientation has a direct influence on the performance of the business of SMEs. In a dynamic change of industry environment, the company can use its internal resource to understand the market (Morgan et al., 2009) and develop proper strategy by using mixed marketing mix (i.e. location, product, entrepreneur and consumer, physical evidence, price) to enhance the firm's business performance (Wichmann *et al.*, 2021). A study of Köhr et al. (2019) also proved that market orientation can be a good mediation for the relationship between organisation system and firm performance. This can be achieved if the firm provides proper incentives to stimulate staff performance in a disruptive capacity and rapid change of industry environment Bhattarai, Kwong, & Tasavori (2019).

5. Conclusions and Implications

Overall, this research shows that industry environment has significant influence on market orientation, and business performance. Contrarily, market orientation has no significant influence on business performance as well as no significant role on the relationship between the industry environment and business performance. This implies that business managers need to focus more on short and rapid change of industry environment in industry rivalry, power of buyers, power of suppliers, new entrance and threat of substation triggered by the growing market competition in order to retain good business performance.

6. Limitation and Research

This research has some limitations. The first, this research was conducted with SMEs which comprised of hotels, restaurants, and hostels/ paid places of accommodation therefore it is not enough to represent all industries within the SMEs. So future research could consider other industries to observe the influence of the industry environment and market orientation to business performance. This research only uses market orientation as a mediation variable for the relationship between the industry environment and business performance. The following research also needs to explore other variables such as product differences, service quality, innovation, and human resources management to see the influence on business performance. The research was also focused only at the supplier side (from the industry perspective) but has not yet been views from the customer perspective. Therefore, the following research should also focus at the customer's perspective.

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