

**Paper submitted to the 6th INTERNATIONAL CONGRESS OF
MARKETING TRENDS**

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Learning Orientation and Financial Performance in the Hotel Industry: The Mediating Role of Services Innovation

ABSTRACT: This study falls into the supply stream of the tourism sector, more specifically, the hotel industry. While building on the resource-based view and resource-advantage theories, this paper proposes a model to identify how learning orientation and services innovation influence financial performance of each hotel unit. Using survey data of 448 executives, primarily responsible for hotel establishments, the authors empirically test the model and found that new-services innovation has a strong direct impact on financial performance. Although they found no direct effect of learning orientation on financial performance, the total effect becomes highly significant and positive in the presence of services innovation. Thus, results evidence that new-services innovation plays a key role on the financial performance of the hotel units, both as a direct determinant and as a mediator in the relationship between learning orientation and financial performance. Implications for researchers and practitioners are discussed.

Keywords: *Learning Orientation, Services Innovation, Financial Performance.*

1. INTRODUCTION

In recent years, tourism has become one of the most important sectors of the world economy. This is particularly evident in Portugal, which in recent last decades has been trying to switch its focus from the primary sector to the services sector. Due to its favourable weather and the fact of being recognised as a safe country, tourism quickly emerged in Portugal and became one of its fastest growing sectors. From a research perspective, to our knowledge, previous studies have tested the impact of learning orientation only on organisational performance, using market variables (e.g. Sinkula, Baker, & Noordewier, 1997; Baker & Sinkula, 1999a, 1999b; Zhou, Yim, & Tse, 2005). However, due to the great pressure that managers have nowadays to obtain financial objectives, namely for personal interests (Lages & Lages, 2004), it is important to investigate the influence of learning orientation on financial outcomes.

This research falls into the supply perspective of the tourism industry by researching hotel establishments. The purpose is to fill a major gap in the literature by investigating the relationship between learning orientation and financial performance, as well as gain a better understanding of the mediating effect of services innovation on this relationship. From a managerial perspective, we expect to help managers in the definition of priorities for resources allocation and help to increase the financial performance of their hotel units.

The paper is organised as follows. First, a brief review of the literature is presented. Second, the conceptual framework and the hypotheses are developed. This is followed by the research methodology, and then the presentation of our findings. Finally, we conclude with the research and managerial implications, limitations and directions for further research.

2. THEORETICAL BACKGROUND

This research is supported by two complementary theories:

(1) *resource-based view theory*, which looks at firms as portfolios of resources rather than portfolios of products (Wernerfelt, 1984), and posits that competitive advantages result from resources and capacities created and controlled inside the organisation (Jap, 1999). This one is understood as a set of tangible and intangible resources used to create a privileged market position (Wernerfelt, 1984; Barney, 1991; Grant, 1991); and

(2) *resource-advantage theory of competition*, where fundamental sources of competitive advantage are considered to be innovation, people's entrepreneurial skills, and organisations' entrepreneurial capabilities (Hunt & Morgan 1996). This theory posits that firms have as primary objective superior financial performance, seeking a level of performance exceeding some benchmark, internal or external to the firm (Hunt & Morgan 1996, 1997; Hunt, 1997, 2000). This superior performance results from occupying marketplace positions with a comparative advantage in resources, and from developing market offerings with superior value for customers. This theory enhances the important role of innovation to the developing of new and high valued products for customers, because it improves the identification of new opportunities (Hunt and Morgan, 1996).

In line with these theories, this study focuses on the effects of new-services innovation as a driver of superior financial performance. The success comes from the creation and implementation of innovative services using the organisational resources and capabilities.

3. CONCEPTUAL FRAMEWORK AND HIPOTHESES DEVELOPMENT

While building on these theories we developed a conceptual framework and hypotheses, based on prior marketing literature and earlier empirical studies and therefore we only discuss them briefly. We selected three constructs:

(1) **Learning Orientation** (adapted from Baker & Sinkula, 1999a) - this construct is conceptualised as the degree to which the organisation values knowledge, is open-minded and has a shared vision (Sinkula et al., 1997);

(2) **Services Innovation** (based on Baker & Sinkula, 1999a) - this is a new construct, which builds on the work of Baker & Sinkula (1999a) that assesses the introduction rate of new services in the market relative to largest competitor. Additionally, it captures new services differentiation and degree of success; and

(3) **Financial Performance** (adapted from Siguaw, Simpson and Baker, 1998) – we assessed the financial performance of the hotel units as the level of satisfaction of their managers with respect to the return on investment, return on shareholders, gross profit margin, and net profit from operations, during the last three years.

In the framework, we consider that learning orientation and services innovation have a direct impact on financial performance. Moreover, we propose that financial performance is also, indirectly affected by learning orientation through its influence on services innovation. From these assumptions, we formulated three overall research hypotheses (see Figure 1).

Figure 1 – Conceptual Framework



Sinkula et al., (1997), observed that learning orientation influences a company's capacity to create and use all types of knowledge and not just a market-based one. Baker & Sinkula (1999b), suggest that knowledge does not come only from the reaction to the market as it is, but also from innovation. They argue that the firms, rather than being market led (i.e. reactive), may at times believe that it is more appropriate to lead the market (i.e. being proactive). Firms with a strong learning orientation are more willing to question the long-held assumptions, fundamental beliefs and practices that define the innovation process itself (Baker & Sinkula, 1999b; Day, 1994a, 1991). Hence, these firms recognise that innovation may not always be maximised through a strict interpretation of the feedback received from current customers, channels and competitors, but in many cases through innovative disruptions to the *status quo*. Previous empirical work (Baker & Sinkula 1999a, 1999b) has confirmed that the extent to which an organisation engages in a successful product innovation is a function of learning orientation. Similarly, we propose the same link with services innovation.

H₁: Learning orientation has a positive impact on services innovation.

Baker and Sinkula (1999b) recognised that learning orientation facilitates the type of higher-order learning that leads to shifts in product paradigms. This dynamic generative learning will enable firms to be first to market with differentiated successful innovations, and to engage innovative activities that increase productivity (Baker & Sinkula, 1999a, 1999b; Sinkula, et al., 1997). So, based on previous findings it is acceptable that services innovation is a consequence of greater customer satisfaction with the introduction of new services, and that this may result in large gross profit margins to the firm, and in a quicker return on the investment. Moreover, services innovation may lead to a continuous and cumulative customer satisfaction, which Homburg, Koschate and Hoyer (2005) found to have a strong impact on profit margins and the willingness to pay. Similarly, we expect that the successful development of new services may result in large gross profit margins to the hotel units and in a quicker return on the investment. This leads to the following hypothesis:

H₂: Services innovation has a positive impact on financial performance.

Earlier research has demonstrated a direct causal relationship between learning orientation and organisational performance (Baker & Sinkula, 1999a) because it introduces innovation on

the development of new services, which, in turn, leads to a cumulative customer satisfaction. Moreover, learning orientation is postulated to drive product innovation directly, as well as organisational performance directly and indirectly (Baker & Sinkula, 1999b). Similarly, we hypothesized that learning orientation has a positive effect on financial measures, as profit margins:

H₃: Learning orientation has a positive impact on financial performance.

4. METHODOLOGY

4.1. Data Collection Procedure:

A questionnaire was developed that incorporates a variety of multi-item measures and indicators of the conceptual framework. The questionnaire was developed on the basis of the literature review and refined by field interviews, both in-depth and semi-structured interviews, carried out with nine experts in the tourism industry and eight general directors of hotel units. These interviews allowed us to improve and refine the conceived theoretical framework (Lee, 1999) and to reinforce its pertinence.

We also conducted a pretest including: interviews with four scholars and four directors/supervisors of professional tourism associations, as well as a questionnaire that was mailed to 25 hotel managers. A week after the mailing, the questionnaire was followed by a telephone reminder. The results from the pretest introduced some changes in wording of the questions and estimated a response rate between 12% and 32%.

Regarding the design of the questionnaire, we followed the Total Design Method (TDM) (Dillman 1991, 1983, 1978). This method utilises social exchange theory to guide the integration of specific procedures and techniques in order to increase the response rate. It posits that respondents are most likely to respond if they expect that the perceived benefits outweigh the perceived costs of responding. Among the TDM design recommendations are the following: type of colour, dimension, letter and configuration of the cover page; existence of a second replacement questionnaire; certified mail for non-respondents; and signed and personalized letters. In line with the TDM, we also guaranteed confidentiality to the participants, and offered to provide a summary of the study to each respondent.

4.2. Data Collection and Sampling:

The questionnaire and a postage-paid reply envelope were mailed to all hotel establishments in Portugal (including Madeira and the Azores Islands). According to the database of the Official Guide for Touristic Accommodation-2003, the official annual publication from the government agency DPT (Directorate General for Tourism), there are a total of 2.203 units. The data collection was conducted in early 2005, and we obtained 448 valid responses, which gave an overall response rate of 21% (95% confidence level and 4% sampling error). This result is quite satisfactory, considering that high-level executives are much less likely to respond than people in the general population (Hunt & Chonko, 1987).

We tested nonresponse bias by comparing early respondents (first 75%) and late respondents (last 25%), with regard to all the variables for both samples (Armstrong & Overton 1977). The findings evidenced that nonresponse bias was not a problem in these data.

4.3. Data and Respondents' Profile:

Nearly 57% of the respondents reported on establishments in the category of "Hotels and Similar" (i.e., hotel, hotel resort, hotel-apartment, aparthotel, and touristic apartments); 31% are from smaller units in the category of "Hostels and Similar" (i.e., hostel, guest-house, motel); 12% are from "inns" and "lodges".

The target key informants are the primarily responsible for each hotel unit accommodation in Portugal. The job title of these individuals included general managers, managing directors, marketing directors, and managers from other functional areas. The respondents indicated that they had been working in the tourism industry for an average of 18 years ($sd=11$), and for that specific unit for an average of 7 years ($sd=6$). This indicates that although the title of the respondents may be wide-ranging, the individuals appear to have significant knowledge of the tourism sector and activities.

4.4. Unit of Analysis:

Consistent with previous research in this area (e.g. Homburg and Pflesser 2000; Baker and Sinkula, 1999), the unit of analysis is each hotel establishment unit. This level of analysis enables both individually owned units and large chain units to be included in the sample (Homburg, Hoyer, & Fassnacht, 2002).

4.5. Measures:

As one may observe in Table 1, all measures and their sources were adapted from the literature. The feedback from the exploratory interviews has allowed us to adjust the measures to the Portuguese' tourism context, involving word and sentences changes to enhance their understanding. All the measures were translated from English to Portuguese, using the back-translation method to ensure conceptual equivalence (c.f. Douglas & Craig, 1983).

We measured all items using seven-point likert scales. We used the Harman's one factor test (c.f. Podsakoff and Organ 1986) to examine the potential common method variance problem, resulting from collecting the dependent and independent variables from the same respondent in the same survey. Since a single factor did not emerge and one general factor did not account for most of the variance, we may accept that common method variance is not a problem in this study.

To assess learning orientation we initially used items from Baker and Sinkula's (1999a, 1999b) scales, which cover the three dimensions of commitment to learning, open-mindedness and shared vision. Measurement results indicate acceptable reliabilities for the three dimensions (Bagozzi, 1980). Since Fornell and Larcker's (1981) test revealed a lack of discriminant validity among the initial constructs, in line with the recommendations and procedures of other researchers facing the same situation (c.f. Desphandé & Farley, 1998a; Homburg & Pflesser, 2000), we used a one-dimensional conceptualisation of learning orientation. This resulted in a 7-item measure of learning orientation with good psychometric properties (see Table 1), which includes items from all of the three originally proposed dimensions.

The scale for services innovation was adapted from Baker and Sinkula's (1999b) new product success scale, and by Moorman and Rust (1999) new product performance scale and is related with new services introduction and success rates, and to their degree of differentiation of new services.

Financial performance was adapted from Siguaw, Simpson, and Baker's (1998) scale, and includes the return on shareholders, gross profit margins, net profit from operations and the return on investment.

TABLE 1 - FINAL SCALE ITEMS AND RELIABILITIES

	$\alpha/\rho/\rho_{vc(n)}$	Standardized Item-Loading	T-Value
LEARNING ORIENTATION	.86/.85/.45		
Adapted from Baker and Sinkula (1999a; 1999b). Please rate your agreement with each of the following statements, regarding to your accommodation unit. Scale: 1 = Strongly Disagree; 7 = Strongly Agree			
1. The basic values of this hotel unit include learning as a key to our competitive advantage.		.62	13.61
2. The collective wisdom in this hotel unit is that once we quit learning, we endanger our future.		.51	10.75
3. All employees are committed to the goals of this hotel unit.		.54	11.68
4. Top leadership believes in sharing its vision for the business unit, with the lower levels.		.61	13.40
5. Our hotel unit places a high value on open-mindedness.		.79	19.05
6. Managers encourage employees to “think outside of the box”.		.80	19.15
7. Original ideas are highly valued in this hotel unit.		.76	17.95
SERVICES INNOVATION	.91/.91/.77		
Adapted from Baker and Sinkula (1999b) and Moorman and Rust (1999). How did your accommodation unit performed during the last three business years, with respect to ... Scale: 1 = Very Low; 7 = Very High			
1. New service introduction rate relative to largest competitor		.86	22.43
2. New service success rate relative to largest competitor		.97	27.16
3. Degree of new services differentiation		.79	19.65
FINANCIAL PERFORMANCE	.96/.96/.85		
Adapted from Siguaw, Simpson and Baker (1998). Please rate your level of satisfaction with the performance of your accommodation unit during the last three years, with respect to ... Scale: 1 = Very Unsatisfied; 7 = Very Satisfied			
1. Return on Shareholders		.89	24.03
2. Gross Profit Margin		.95	27.06
3. Net profit from operations		.95	26.93
4. Return on Investment		.90	24.31

5. DATA ANALYSIS AND RESULTS

5.1. Analytical Procedures:

We refined the measures and assessed their validity using the coefficient alpha, item-to-item correlations, and exploratory factor analysis (EFA), followed by a confirmatory factor

analysis (CFA), using full-information maximum likelihood (FIML) estimation procedures in LISREL 8.51 (Jöreskog & Sörbom, 1993). Items that did not affect the theoretical concept and possessed either low factor loadings or high cross-loadings were dropped. All the final factors analysed individually showed good fit indices (see Table 1).

5.2. Measurement Model Results:

After the operationalisation of individual factors, an overall measurement model was analysed. In this model, each item was restricted to load on its pre-specified factor, with the three factors allowed to correlate freely. Despite the significant chi-square for this model ($\chi^2=133.68$; 74df, $p<.00$), the fit indices indicate that the model fits the data well. The comparative fit index (CIF=0.99), the incremental fit index (IFI=0.99), the Tucker-Lewis fit index (TLI=0.99), the goodness of fit index (GFI=0.96), and the adjusted goodness of fit index (AGFI=0.94) indicate a good fit. We also assessed the root mean square error of approximation (RMSEA), which incorporates a penalty for lack of parsimony. The value for RMSEA is 0.042, less than the recommended 0.05, thus indicating a close fit to the population. Finally, we analysed the root mean of residuals (standardised) which is RMR=0.039. An overview of the standardised estimates and t-values of each item to its intended construct is shown in Table 1.

Convergent validity is evidenced by the large and significant standardised loadings of each item on its intended construct, with an average loading size of 0.78. All constructs present the desirable levels of composite reliability (c.f. Bagozzi, 1980) (see Table 1).

Discriminant validity was assessed by comparing the average variance extracted with the squared correlations for all pairs of factors (Anderson & Gerbing, 1993; Fornell & Larcker, 1981) and the correlation estimates between any two constructs (Jöreskog & Sörbom, 1993). No correlation includes the value of 1 (Anderson & Gerbing, 1988) and the highest correlation is 0.56, for financial performance and services innovation.

Table 2 provides an overview of the construct means, standard deviations, and the correlation matrix among the constructs.

TABLE 2 – MEANS, STANDARD DEVIATIONS, AND CORRELATIONS AMONG LATENT CONSTRUCTS

Construct	Mean	SD	Min	Max	FP	SI	LO
FP-Financial Performance	3.987	1.483	3.971	3.995	1.00		
SI-Services Innovation	4.246	1.243	4.149	4.341	0.56	1.00	
LO-Learning Orientation	5.636	1.146	5.353	5.825	0.22	0.36	1.00

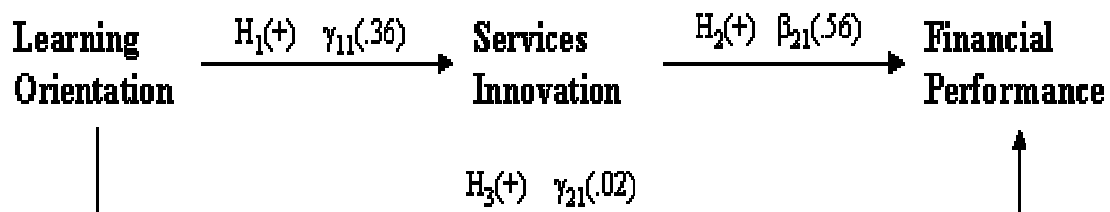
5.3. Path Model:

The final structural model also presents a good fit: CFI (0.99), IFI (0.99), and TLI (0.99). All values observed reveal that the final model is good in reproducing the population covariance structure, and there is an acceptable discrepancy between the observed and predicted covariance matrices (Steiger, 1990). We used the maximum likelihood estimates to assess all the direct, indirect and total effects associated with structural paths (see Table 3). The estimates are standardised and, thus, may be treated as an indication of the relative importance of each variable to each endogenous variable (Goldberger, 1964).

5.4. Hypotheses Testing:

The hypotheses H₁ and H₂ were confirmed and all the predicted effects, are statistically significant at p<0.01. The exception is H₃ (i.e. the relationship between learning orientation and financial performance), which is nonsignificant. Please see Figure 2 and Table 3 for the direct, indirect and total effects.

Figure 2 – Hypotheses Testing



5.5. Indirect Effects and Relative Importance of the Variables:

One of the key advantages of using a path model is the possibility of estimating not only the *direct* effects, but also the *indirect* and *total* effects among latent variables (Bollen 1989; Lages and Montgomery 2005).

As predicted, learning orientation has a positive and significant impact on services innovation ($\gamma_{11} = 0.36, p < 0.01$). When analysing the determinants of financial performance, we found that services innovation has a strong and significant impact on financial performance ($\beta_{21} = 0.56, p < 0.01$). On the contrary, the direct impact of learning orientation on financial performance is nonsignificant ($\gamma_{21} = \text{NS}$).

When analysing the indirect and total effects we found that the relationship between learning orientation and financial performance becomes significant in the presence of new-services innovation (direct effect = NS; indirect effect = 0.20, $p < 0.01$; total effect = 0.22, $p < 0.01$).

**TABLE 3 – EFFECTS OF EXOGENOUS AND ENDOGENOUS CONSTRUCTS
(Maximum Likelihood Estimation, N=448)**

EFFECT OF/ON	η_1 (SI) Services Innovation			η_2 (FP) Financial Performance		
	Direct	Indirect	Total	Direct	Indirect	Total
η_1 (SI) Service Innovation				0.56* (11.33) H ₂		0.56* (11.33)
ξ_1 (LO) Learning Orientation	0.36* (7.12) H ₁		0.36* (7.12)	0.02 (0.37) H ₃	0.20* (6.19)	0.22* (4.32)

Notes: Values in upper rows are completely standardized estimates; values in lower rows are t-values * $p < 0.01$ (two-tailed test).

6. CONCLUSIONS

6.1. Research Limitations and Further Research:

Despite the study's evident limitations, it is believed that it contributes to a better understanding of the innovation process in the hotel industry. We measured all items using 7-point likert scales. We used the Harman's one factor test (c.f. Podsakoff & Organ, 1986) to examine the potential common method variance problem, resulting from collecting the dependent and independent variables from the same respondent in the same survey. Since a single factor did not emerge and one general factor did not account for most of the variance, we believe that common method variance is not a problem in this study. Due to the national character of the sample and single-industry design, our results cannot be automatically generalised to hotel establishments in other countries, nor to other services or manufacturing firms. Future research is encouraged to test this model in other service samples and collect data from multiple informants from different levels of the hotel unit. Also recommended is a longitudinal approach in order to better explore the causality of the relationships.

6.2. Research Implications:

The main objective of this study was to investigate the impact of learning orientation on financial performance, and the mediating effects of services innovation on this relationship. Our findings highlight the role of services innovation as a fundamental direct driver to the financial performance and as a key mediator between learning orientation and financial performance. These results may be explained as follows. First, learning orientation influences the degree to which firms are likely to promote generative learning (Slater & Narver, 1995). It questions the theories-in-use and the internal procedures, and leads to breakthrough innovations (Baker & Sinkula, 1999b), thus influencing services innovation. Second, if services innovation results from adaptative and generative learning, it presumably will have a high level of differentiation and represent a comparative advantage in resources. This comparative advantage will yield marketplace positions of competitive advantage and, thereby, superior financial performance (Hunt & Morgan, 1996). Finally, learning orientation enables firms with the predisposition to innovate (Slater & Narver, 1995) to obtain superior financial performance through the implementation of innovative services. Hence, our findings are particularly important for future research linking innovation with performance outcomes.

6.3. Managerial Implications:

The model presented in this paper helps managers to improve the financial performance of their accommodation units, through the development and implementation of innovative services. This is especially important for the tourism industry, where emotions, feelings and small details of innovative services influence customers' choices. Hence, managers must pay attention to the continuous introduction of new services with added value for customers, resulting in successful services from a market and financial perspective. Moreover, this study suggests that innovative services positively influence variables such as gross profit margins and net profits from operations. Hence, managers must take this into consideration when defining their firm's price strategy.

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