

# Impact of Learning & Market Orientation on Business Performance & Innovation: The Mediating Role of Business Resilience & CRM effectiveness

Mirza Waseem Abbas<sup>1\*</sup> Dr. Masood ul Hassan<sup>2</sup>

1. Department of Management, Shaheed Zulfikar Ali Bhutto Institute of Science & Technology, H-8 Sector,  
Street 94, Islamabad, Pakistan

2. Department of Commerce, Bahauddin Zakariya University, Bosan Road, Multan, Pakistan

## Abstract

This study discussed the mediating role of business resilience and customer relationship management effectiveness (CRMe) in the context of learning and market orientation, business innovation and business performance. Structural Equation Modelling was used to test the model with a sample size of 390 respondents from tourism ministry, travel agencies and hotels. The outcome of the study confirms that business resilience and customer relationship management effectiveness significantly mediates the relationship resulting into enhanced business performance and innovation.

**Keywords:** Learning and Market Orientation, Business Resilience, CRM Effectiveness, Innovation & Business Performance

## 1. Introduction

Travel and tourism is one of the key contributors to the world economy. Its total contribution to the world's Gross Domestic Product (GDP) was worth in excess of seven trillion dollars which is nearly 10% of the worldwide GDP (Economic Impact, 2014). Even in this age of turmoil and global conflict, there is a consistent and continual demand for traveling and tourism opportunities. This lends credibility to the value of this economic sector to contribute towards development, both economic and social since it generates significant activity within economies through the creation of direct and indirect opportunities for work. According to data from international sources, spending by tourists, especially international tourists increase every year. Data for 2013 measured an increase of nearly 4% in visitor exports, pushed up mostly by the 10% increase in international tourist spending in South East Asia alone for the year (Economic Impact, 2014). There is a consistent and regular increase in the demand for tourism and travel as more and more employed, working classes from developing economies also express increased willingness to spend on travel, both domestic and international (Economic Impact Pakistan, 2014).

Worldwide, the services industries are characterized by extremely turbulent, intensely competitive environments, facing multifold pressure from customers and markets regarding the provision of quality and increasingly diverse range of services. Service providers do not only have to meet existing needs of customers, but with speedy market evolution and changing socio economic factors must also be prepared to offer increasingly innovative services. This appears to be a never ending loop whereby the increase in services and facilities provided by these industries are in turn leading to the creation of more gaps which need to be filled by more services (Biggemann, Kowalkowski, Maley, & Brege, 2013). Facing pressures to deliver a varied range of customized services to internal and external customers, service organizations must now also be able to deliver them economically (ElKordy, 2014).

### 1.2. Evolution of The Pakistan Tourism System

Tourism, a multidimensional services business movement, has become a multi trillion dollars' industry around the world. Its significance to nation's monetary, administrations, and providing livelihood to millions, is imperatively perceived all over the globe (Rana, 2015). The considerable development of tourism action throughout the years unmistakably stamps tourism as a standout amongst the most amazing financial and social phenomena of the previous century that has following three quelled years (2001-2003) bobbed in 2004 with 10.7 % record increment in global visitor landings, coming to another record estimation of US 622 billion dollars in 2005 (Rana, 2015).

In spite of Indian Ocean earth tremor, Tsunami, earth shudder in Pakistan, circumstance in Afghanistan, surges and drafts in different parts of the district, South Asian execution in tourism segment has been on steady change throughout the previous few years notwithstanding, insights of 2014 show Pakistan falling behind in this respect. What to talk of contending world over, Pakistan's available remaining as vacationer destination is far beneath than other SAARC nations like India, Nepal, Sri Lanka, and even Maldives (Economics Survey of Pakistan, 2014).

Likewise, size of mountaineering undertakings, mountain dwellers, trekkers also, trekking gatherings in 2005 was additionally lower than 2004. (Ministry of Finance | Government of Pakistan, 2015). The circumstance further breaks down when Pakistan International Travel Account additionally goes negative.

Pakistan's offer in South Asian Tourism is baffling. Outside entries in Pakistan are much lesser than India, Iran, and almost equivalent to Bhutan. In any case, in Pakistan, notwithstanding its promising potential, the state of tourism issues is terrible. Travel and Tourism contributed about to 3.1% towards GDP in 2014 (Economic Impact Pakistan, 2014).

Tourism is an endlessly under-evaluated industry in Pakistan. The part of government in tourism improvement has never been a pushing one. Over centralization and lacking coordination between center, province, local level and intra-departmental levels have been the hall mark of mismanagement of the business. Administration needs to understand that the accessibility of quality goods and services, innovation, ensuring of tourist friendly environment through decently composed Public-Private endeavors and a stable socio-political circumstance, are fundamental requirements for tourism advancement (Tourism in Pakistan, 2015). To guarantee every last bit of it happens in befitting way, a well thoroughly considered productive administration framework is required on ground.

### *1.3. Specific Problem Statement*

This study was an attempt to highlight important sector of Pakistan's economy, tourism, often neglected but still contributing towards national income and sustaining thousands of families. This study has tried to empirically test the relationship of learning and market orientation with business resilience leading to CRM effectiveness and then quantify its impact on innovation and business performance management in organizations pertaining to travel and hotel industry of Pakistan/tourism sector. Variables like Business resilience and CRMe were analyzed as mediating variables.

### *1.4. Research Objectives*

The study has manifold objectives that may be categorized as:

1. To empirically test the relationship of learning and market orientation with Business Resilience in organizations related to tourism industry in Pakistan;
2. To analyze and test the mediation role of business resilience between learning and market orientation with CRM effectiveness.
3. To empirically test and analyze the mediating role of CRM effectiveness between business resilience, business performance and innovation.

### *1.5. Gap Identification*

Recent research from within the last five years provides theoretical evidence that business performance and business innovation are both dynamically impacted by the learning orientation and market orientation of the organization (Zhongfeng, Peng, Shen, & Xia, 2011). Similarly, literature on CRM effectiveness and performance of the organization is available (Palmatier, Dant, Grewal, & Evans, 2006; Matsuno, K., Mentzer, & Özsoy, 2002). Additionally, although theory suggests business success in terms of customer satisfaction which leads to customer retention and hence, financial performance (Minami & Dawson, 2008), no theory or literature shows the relationship of business resilience leading to CRM effectiveness that ultimately leads to business performance and innovation.

The mediating role of business resilience and CRMe has not been discussed in the context of learning and market orientation, innovation and business performance. This study has tried to fill this gap by analyzing the role of business resilience and CRM as mediators.

## **2. Literature Review**

Different studies have come up with diverse results when it comes to learning orientation and its impact on performance of the businesses. According to the study conducted in Norway, there is no direct impact of learning orientation on business performance (Nybakk, 2012). There is a strong effect of organization learning orientation on the financial and non-financial performance of the firm (Arh., Blažić, & Dimovski, 2012). Learning orientation is a process whereby for solving organizational problems and attaining high levels of performance, individuals and organizations gain and adopt attitudes, skills and knowledge (Wang, Tolson, Chiang, & Huang, 2010). LO is a set of firm's qualities which impact a firm's tendency to create and utilize information and the extent to which proactive learning happens (Baker & Sinkula, 1997). When learning oriented firm constantly learns and adjusts, new information and knowledge are created. This ultimately helps the firm to keep up its sensitivity to market variations and recognize market opportunities (Mavondo, Chimhanzi, & Stewart, 2005). Learning orientation and the level of innovation in a firm have a strong correlation that affects the organization's levels of performance (Rhee, Park & Lee, 2010).

Market orientation (MO) has received substantial and incessant focus as a strategy to enhance organizational compliance in a volatile environment (Choi, 2014). A study conducted in Vietnam found that MO have significant and positive effect on overall organizational performance (Hoang, 2015). The same has been

studied in another study which revealed that a positively significant relationship exists between MO and business performance and innovation (Jyoti, & Sharma, 2012). For any firm, higher performance can be achieved by sustainable competitive advantage that can be achieved by market orientation (Slater & Narver, 1994). Market oriented organizations always try to understand customers need and develop a superior set of solutions to cater those needs and demands (Slater & Narver, 1999). While in most studies, the outcomes signifying that market orientation tends to increase organization performance significantly and positively (Greenley, 1995; Kohli & Jaworski, 1993; Narver & Slater, 1990).

Resilience is characterized as the capacity of a system to keep up and adjust its vital structure and capacity even with unsettling influence while maintaining its identity (Cumming et al., 2005; Holling, 1973).

It is regarded as the capability of the organization to overcome and address disrupting events of the market and finally emerge itself as strengthen and more resourceful (Burnard, 2012). CRM has its roots in relationship marketing. Jayachandran, Sharma, Kaufman and Raman (2005), have explored and assessed the importance and processes of customer information in business-customer interactions. These information processes were defined as relational information processes and were defined as comprising of various dimensions consisting of capturing, integrating, accessing and using the information available.

### *2.1 Conceptual Framework*

The model for this study has two parts. The model starts from learning and market orientation, effecting business resilience of the organization. Business resilience in turn affects CRM in the organization. In the second part of the model Innovation and performance have been discussed as outcomes of CRM Effectiveness. Business resilience and CRMe have been studied as mediating variables.

## **3. Research Methodology**

### *3.1 Population*

The population frame for this study comprised of inter-related operational areas of Travel agencies hotel chains and Tourism Ministry of Pakistan. These businesses are part of a highly competitive, diverse, operationally complex and rapidly evolving industry of hospitality and tourism

### *3.2 Sample Frame Selection*

In the context of this research, representativeness means trying to identify a sample of organizations from Islamabad, Peshawar, Lahore, Multan and Karachi (main hubs from where large travel agencies, airports and international standard hotels operate) representing the characteristics of the industry as a whole. Moreover, employees from Tourism Ministry of Pakistan were also taken as respondents in order to grasp all the related information pertaining to tourism industry of Pakistan. Chambers of Commerce of the above mentioned cities also provided valuable information for sample selection.

The study was purely quantitative and primary data were collected for the purpose of analysis through structural modeling technique. The sample size was selected using formula presented in the paper of (Israel, 1992), because desired population was large and the variability was also not known; therefore, assuming  $p=0.5$  that is maximum variability. Additionally, a 95% confidence level and  $\pm 5\%$  precision was also desired, then resulting sample size was 385 respondents. Therefore, a sample of three hundred and ninety (390) respondents was preferred for this study.

### *3.3. Measurement Development Process*

The instrument was adopted from existing literature and modified according to local environment, keeping in view the results of pilot study for which fifty questionnaires were filled by different respondents. The instrument was adopted from different studies such as (Kim & Kim, 2009), (Kohli & Jaworski, 1990), (Calantone et al., 2002), (Somers, 2009) and (Ahmed & Shepherd 2000).

There were nine (9) main variables of interest, having twenty-eight dimensions. Each dimension then has four items, in this way, one hundred and twenty-five questions were presented in total, out of which 112 questions were related to measure relationships while 13 questionnaires were asked to collect demographic data from the respondents in the shape of a questionnaire against five point Likert Scale denoting 1=Strongly Disagree (SD), 2=Disagree (D), 3=Neutral (N), 4=Agree (A) and 5=Strongly Agree (SA). The Likert Scale is projected as an effective tool for psychometric analysis of respondent's behavior, which is why it is being used in this particular study (Likert, 1932).

### *3.4. Face & Content Validity of Pilot Survey*

An initial draft of the instrument was circulated via link (<http://freeonlinesurveys.com/s.asp?sid=8rojajvh0y8ya20500179>) to establish face and content validity. Fifty questionnaires were filled for pilot survey. The composition of pilot survey respondents was, Ph.D Professors 4

respondents, Ph.D Scholars 16 respondents, similarly respondents having MS/Mphil degree were 20, Master Degree holders 7 respondents and respondents having other degrees were only 3. On the basis of pilot testing questionnaires results, several items were modified or rephrased such as, items measuring Customer Relationship Management Effectiveness and Business Performance were rephrased with few modifications.

### 3.5 Reliability Statistics

The internal consistency based on computed values of Cronbach alpha ( $\alpha$ ) was used to establish the measure of reliability. Cronbach's alpha therefore, was calculated to in order to analyze the reliability of the dimensions. According to (Dunn, Baguley & Brunsten, 2013) alpha values from 0.70 or more are considered as good indicators of the reliability. Using SPSS-22, the Cronbach's alpha values for all the dimensions were from 0.710 to 0.928, therefore signifying good reliability. The questionnaire was having one hundred and twelve items measuring twenty-eight indicators/ dimensions.

### 3.6 Assessment of Data Normality

For normal univariate distribution, the values between -2 and +2 for asymmetry and kurtosis are considered acceptable to attest normality of data (George & Mallery, 2010). From the table below it is evident that values for skewness and kurtosis are in the acceptable range hence indicating that the data is normally distributed and can be used for further analysis.

### 3.7 Correlation Statistics

Table 3 shows the correlations statistics for the data collocated through questionnaire. The table shows positive and significant relationship among all the variables.

### 3.8 Model Fitness

Six model fit indices i.e. ( $\chi^2/df$ , GFI, AGFI, NFI, CFI and RMSEA) were measured for the model to test overall fitness of it for further analysis. These model fitness indices, on the basis of the structural model analysis, are summarized in the above Table 4.

For (Chi-square / degrees of freedom), it should be less than 3, similarly GFI, NFI, CFI should be greater than or equal to 0.9, for AGFI, it should be more than 0.8, and RMSEA, it should be less than or equal to 0.08 are deemed as indicators of good fit (Teo & Khine, 2009; Jackson, Denzee, Douglas & Shimeall, 2005). All goodness-of-fit indices are in the acceptable range.

### 3.9 Standardized Coefficient Paths Statistics

By employing the data gathered by 390 respondents from different cities of Pakistan pertaining to Tourism industry, the model was tested based on their responses. Structural Equation Modeling (SEM) path analysis, through Analysis of Moment Structures (AMOS), was used in order to test the hypotheses under question. The figure above shows the standardized regression coefficients of hypothesized paths along with loadings of latent variable's indicators. It was postulated that LO positively and significantly influences business resilience. Path coefficient of  $H_1$ ,  $\beta = .47$  at significant level, validates the hypothesis, hence  $H_1$  is accepted. It can be said with high level of confidence that if LO increases by 1 degree; it will tend to increase business resilience positively by 47%. Similarly, the path coefficient for  $H_2$  is  $\beta = .11$ , at significant level. This validates second hypothesis that postulated that market orientation positively and significantly influences business resilience. Therefore, it can be said with confidence that, if MO increases by 1 degree; business resilience will increase by 11%. Standardized regression coefficients for the path business resilience towards CRM, is  $\beta = .48$ , tends to validate third hypothesis that postulated that business resilience has a positive and significant impact on CRM. On the basis of results, it can be said with confidence that if business resilience increases by 1 degree; it will tend to impact CRM effectiveness positively by 48%. Fourth hypothesis, that CRM effectiveness positively and significantly impact innovation, is also accepted as standardized regression coefficients for this path is  $\beta = .28$  at significant level. Increase in CRM effectiveness by 1 degree will tend to increase innovation in an organization by 28%. Similarly,  $H_5$  is also accepted as the path coefficient  $\beta = .55$ , that means if CRM effectiveness increased by 1 degree in organization, it will increase business performance by 55%.

The first two hypotheses; learning and market orientation positively and significantly affect business resilience, were accepted. These two hypotheses are supported by the studies of (Vossen, 1998; Demmer, Vickery, & Calantone, 2011), that learning and market oriented firms tend to be more innovative and resilient because of their capacity for fast learning, rapid decision making, emphasis on internal knowledge sharing, timely environmental/market scanning and self-renewal over time. The third hypothesis was about positive and significant impact of business resilience on CRM effectiveness. This hypothesis was also accepted in the light of results in table no.5. This hypothesis is also supported by the study of Ismail, poolton and Sharifi (2011). Putting a cap on operational vulnerabilities through learning and market orientation, a resilient firm, is then in a position to respond

quickly and managing its existing customers as well as encouraged to reach a proactive state where growth and expansion is hunted through new customers by introducing innovation in product and services (Ismail, poolton & Sharifi, 2011). It was hypothesized at fourth and fifth stage that, CRM has a positive and significant impact on innovation and business performance. These hypotheses were accepted in the light of empirical results in the table no. 5. These two hypotheses supported the study of (Battor & Battor, 2010; Rodriguez & Honeycutt, 2011; Chang, Wong & Fang, 2014).

### 3.10 Mediation Analysis

To test our hypotheses regarding mediation, mediation analysis was carried out in AMOS. The rule of thumb to test mediation is if the direct relationship between exogenous (Independent) variable on endogenous (Dependent) variable becomes non-significant with the inclusion of a mediating variable than in that case it would be full mediation (Baron & Kenny, 1986). The table no. 6 shows that business resilience fully mediates the relationship of learning orientation and market orientation with CRMe as the direct effect of independent variables i.e. LO & MO, became non-significant with the inclusion of business resilience as mediator variable. Likewise, the direct effect of business resilience on innovation and business performance became in-significant with the addition of CRMe as mediator, proving that CRMe fully mediates this particular relationship. Hence all the hypotheses designed to test the mediation were accepted in the light of results shown in table below.

## 4. Conclusion

In this study, a complex relationship has been studied that starts from learning and market orientation and ends at innovation and performance as a result of CRM. In second portion of the model, innovation and performance of the organization has been discussed as a result of CRM effectiveness.

In this study various variables were investigated in Tourism industry of Pakistan and found very interesting results. Learning and market orientation variables were tested as antecedents of business resilience. It was found that tourism industry operating in volatile circumstances can become more resilient if it continuously strives for new knowledge within and outside the industry with open mind. Knowledge creation, gathering and dissemination are very important in making firms more resilient and ultimately strengthening the industry. As other businesses, tourism industry is also customer oriented, and therefore, customer's relationship management importance increases manifolds. Any effort in managing the customer's relationship will not bear fruit if the industry is not resilient enough to withstand the economic shocks domestically and internationally as well. Like resilient organizations worldwide, this industry, especially in Pakistan, has geared towards change by continuous learning new knowledge, sharing knowledge and proactive to market trends and shocks, in order to innovate and perform better through CRM in an intensely competitive regional market and turbulent environment. Resilient industry coupled with effective customer's relationship management campaign, leads to innovation and business performance even in competitive intensive and technological turbulent environment, *Ceteris Paribus*; assuming that customer's preferences, their composition and frequent changes in rules by regulatory agencies are held constant.

The study also involved studying indirect relationships between the variables of the study. Indirect relationships or mediation analysis is generally carried out when the purpose is to find out whether a mediator causes a particular outcome in a presumed relationship. In this particular case, mediation was presumed to occur at two points in the causal relationships. In the first instance, it was presumed that business resilience mediates the relationships between learning and market orientation with CRMe. Tests proved that in the presence of business resilience, the direct relationship between Learning Orientation and CRM Effectiveness and Marketing Orientation and CRM Effectiveness becomes insignificant. This implies that in the presence of business resilience, learning orientation has a significant impact on CRM effectiveness. Additionally, the tests prove that business resilience mediates the relationship between Market Orientation and CRM Effectiveness i.e. in the presence of business resilience, market orientation has a significant impact on CRM effectiveness.

A further assumption of mediation was made in the conceptual framework of this study. Indirect relationships were studied between business resilience and innovation and business performance mediated by the CRM effectiveness.

It was again found that in both instances, in the presence of CRM effectiveness, the relationships between business resilience and innovation and business performance was significant compared to the direct relationships.

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Figure 1. Conceptual Framework

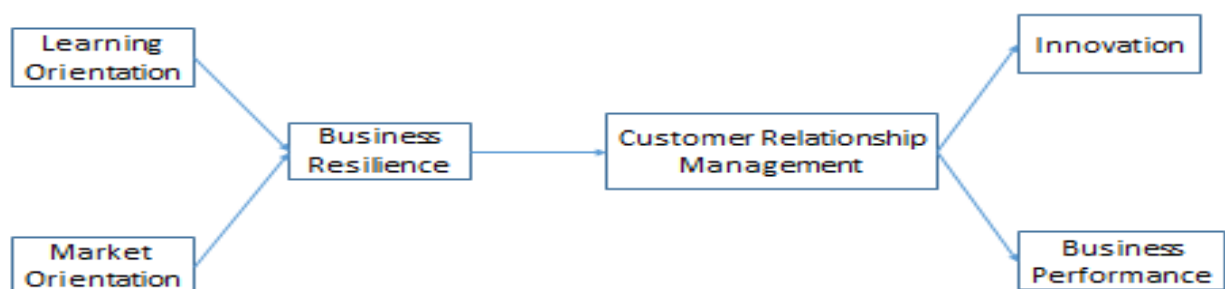


Table 1. Reliability Statistics  
 CFI, Composite Reliability, Average Variance Extracted, Cronbach Alpha Statistics

Variable Name/Factor	Description of Factors/Indicator	CFI	Factor Loading	Scale-Reliability (Cronbach Alpha)	Composite Reliabilities	Average Variance Extracted
<b>Learning Orientation</b>	Shared Vision	0.92	0.61	0.93	0.85	0.68
	Inta-Organizational Knowledge Sharing		0.58			
	Commitment to Learning		0.65			
	Open Mindedness		0.68			
<b>Market Orientation</b>	Intelligence Gathering	0.94	0.65	0.82	0.73	0.61
	Intelligence Dissemination		0.96			
	Responsiveness		0.71			
<b>Business Resilience</b>	Adaptive Capacity	0.91	0.79	0.78	0.81	0.67
	Future Orientation		0.60			
	Management of keystone vulnerabilities		0.90			
<b>Customer Relationship Management Effectiveness</b>	IT Performance	0.93	0.60	0.80	0.83	0.64
	Relationship Marketing Performance		0.56			
	Organizational Climate		0.99			
<b>Innovation</b>	Product/Service Innovation	0.96	0.60	0.79	0.79	0.69
	System Innovation		0.56			
	Process Innovation		0.96			
<b>Business Performance</b>	Return on Assets	0.94	0.74	0.78	0.91	0.72
	Competitive Advantage		0.62			
	Return on Investment		0.89			
<b>Technological Turbulence</b>	Rate of Change of Technology	0.91	0.64	0.72	0.88	0.65
	Technological Novelty		0.71			
	Adaption Rate		0.83			
<b>Market Turbulence</b>	Customer Preference	0.95	0.63	0.79	0.90	0.72
	Customers Composition		0.76			
	Regulatory Agencies		0.69			
<b>Competitive Intensity</b>	Level of Competition	0.92	0.74	0.76	0.85	0.68
	Industry Conditions		0.67			
	Competitive Density		0.83			

Table 2. Assessment of Data Normality

Variable	min	max	skew	c.r.	kurtosis	c.r.
MO	1.000	4.750	.035	.280	-.476	-1.897
LO	1.000	5.000	-.146	-1.165	-.151	-.604
BR	1.000	5.000	-.523	-1.171	.585	1.334
CRME	1.571	5.000	-.580	-1.631	.993	1.961
BP	1.000	5.000	-.704	-1.618	2.075	1.277
INN	1.600	5.000	-.510	-1.067	1.919	1.656



Table 3: Correlation Statistics

		LO	MO	BR	CRM	INN	BP
<b>LO</b>	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	390					
<b>MO</b>	Pearson Correlation	.428**	1				
	Sig. (2-tailed)	.000					
	N	390	390				
<b>BR</b>	Pearson Correlation	.412**	.543**	1			
	Sig. (2-tailed)	.000	.000				
	N	390	390	390			
<b>CRM</b>	Pearson Correlation	.493**	.464**	.675**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	390	390	390	390		
<b>INN</b>	Pearson Correlation	.513**	.515**	.617**	.644**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	390	390	390	390	390	
<b>BP</b>	Pearson Correlation	.450**	.458**	.498**	.617**	.547**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	390	390	390	390	390	390

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 4. Model Fitness Statistics

Fit Index	Threshold Values for Fit Indices (Hu & Bentler, 1999)	Observed values
Chi-square/ degrees of freedom	≤3.00	< 2.147
GFI	≥0.95	>0.967
AGFI	≥0.80	>0.911
NNFI	≥0.90	> 0.978
CFI	≥0.90 or ≥0.95	>0.986
RMSEA	≤0.05 or ≤0.08	<0.0391

GFI = goodness-of-fit index; AGFI = adjusted goodness-of-fit index;

NNFI = non-normed fit index; CFI = comparative fit index;

RMSEA = root mean square error of approximation.

Table 5. Standardized Regression Coefficients

Parameters		Path	Coefficients	Probability
Learning Orientation	→	Business Resilience	$\beta = .47$	***
Market Orientation	→	Business Resilience	$\beta = .11$	***
Business Resilience	→	Customer Relationship Management	$\beta = .48$	***
Customer Relationship Management	→	Innovation	$\beta = .28$	***
Customer Relationship Management	→	Business Performance	$\beta = .55$	***

Figure 2. Path Diagram for Standardized Regression Weights

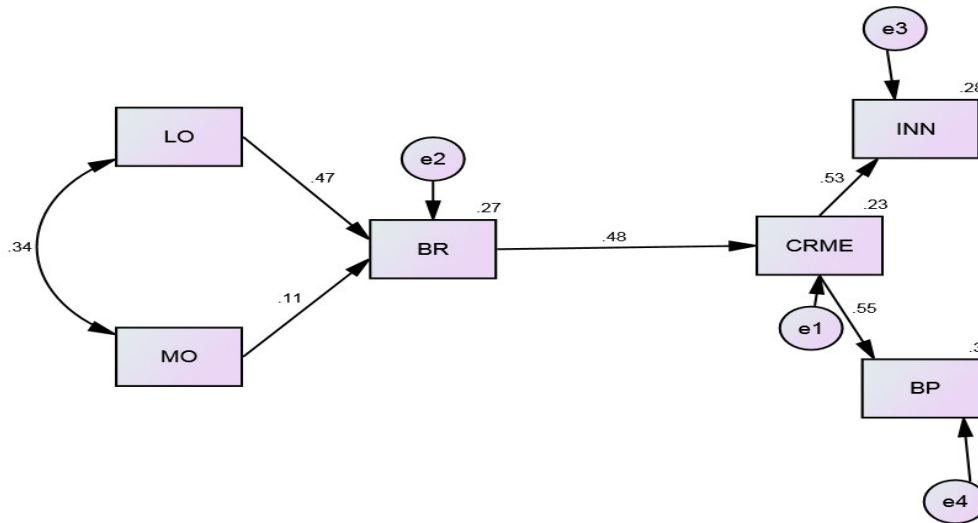


Table 6. Mediation Analysis Statistics

Hypothesis	Relationship	Mediating Variables	Total Effect	Direct Effect	Indirect Effect	Hypothesis Accepted /Rejected
H6a	LO → CRMe	Business Resilience	.264	.075*	.189***	Accepted
H6a	MO → CRMe	Business Resilience	.183	.14	.043***	Accepted
H7b	BR → INN	CRMe	.449	.192*	.257***	Accepted
H7b	BR → BP	CRMe	.490	.230*	.260***	Accepted

Notes: \*\*\* p-value < 0.01; \*\* p-value < 0.05; \* p-value < 0.10

Figure 3. Mediation Analysis Path Diagram

