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## Exploring important capabilities and their roles based on MO and DC concepts for small and medium local hotels

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### Abstract

This article uses the concepts of Market Orientation (MO) and Dynamic Capabilities (DC) to explore a simple and relevant capability construct for Small-Medium Local Hotels. Four capabilities are needed to improve business performance; Market Learning, Integration, Coordination, Market Responsiveness. There are two capability paths to Business Performance: Market Learning influences Market Responsiveness and then Business Performance. Other path, Integration influences Coordination and then Business Performance. These four capabilities, with their respective roles, carry out business processes for the effectiveness and efficiency in achieving business performance.

This research also reveals simple and specific items/indicators (activities) that are important in this business context. How digital technology can improve these four capabilities (and activities) needs to be researched in the future. Data analysis shows that the goodness of fit model is in the good category, and the coefficient of determination/ $R^2$  of the independent variable on the dependent variable is in the medium-high category.

**Keywords:** Market orientation; dynamic capability; market learning; market responsiveness; integration; coordination; business performance; small medium business performance; local hotel business performance

### Introduction

Management studies have provided a lot of knowledge regarding resource based view/ RBV (Teece *et al.*, 2007 and 1997; Kohli and Jaworski, 1990; Barney, 1991; Porter, 1985; Penrose, 1959) [76, 39, 6, 87, 88, 89]. Its development tends to be at a high level of abstraction so it is more relevant for large, complex, well-resourced and systems-based companies (McCartan-Quinn and Carson, 2003) [48]. On the other hand, there are many small and medium-sized enterprises that play an important role in the economy and employment (Ayabduby and Houghton., 2017; Ionica, 2012; Longenecker *et al.*, 2003; Kuratko and Hodgetts, 2001; Day, 2000; Hill, 1999) [3, 33, 90, 91, 92, 93] which also requires appropriate/specific capabilities to improve business performance.

Two prominent schools of thought deal with competition, industrial organization (IO) in economics and corporate organization in strategic management (Nayak *et al.*, 2023) [94]. Economics focuses on external factors or industry structure (Porter, 1985) [88], while Strategic Management focuses on internal factors or resource based view/ RBV (Barney, 1991) [6]. Integration of outward-looking into inward-looking has been carried out in RBV studies (Nayak, *et al.*, 2023) [94], two well-known concepts are Market Orientation/MO (Kohli & Jaworski, 1990) [39] and Dynamic Capabilities/DC (Teece and Shuen, 1997) [76]. MO emphasizes generation/dissemination/responsiveness of market intelligence, while DC emphasizes sensing/seizing/reconfiguring, by observing that these two concepts have similarities and differences. Both can be used to explore important and simple capabilities for small and medium local hotels. Research has examined various internal factors that drive business performance within the key constructs of Market Orientation (MO) or Dynamic Capabilities (DC) (Teece, 2018; Morgan, 2012; Wang and Ahmed, 2007) [77, 54, 95]. The aim of this research is to explore relevant/simple capabilities related to the main constructs of MO and DC for small and medium enterprises in improving business performance. What capabilities are important for small-medium local hotels? What is the role of each of these capabilities? What are the specific important activities (items/indicators)

related to these capabilities? This question is relevant to raise considering that small businesses have limited resources to utilize (Matejun, 2017; Kozlowski *et al.*, 2016) [46, 40].

### Literature Review

The external view emphasizes that industry structure determines performance, in the concept of structure conduct performance/SCP (Modani and Paliwal, 2020; Porter, 1985) [88] [50]. Another view emphasizes that internal factors/company resources determine performance and competitiveness (Barney, 1991; Teece *et al.*, 1997) [6, 76]. Currently research in the field of management mainly focuses on internal factors or RBV (Barney, 1991; Teece and Shuen, 1997; Morgan, 2012) [6, 76, 54], research in the RBV paradigm is needed to build company capabilities.

In evolutionary theory, Survival for the Fittest states that only those who are able to adapt will survive. This principle was originally implicit in the marketing concept and five forces Porter, which ultimately led to market orientation (MO) and then dynamic capabilities (DC). MO emerged from the marketing discipline, which combines outward and inward views, emphasizing the importance of market information and the ability to respond based on that information (Kohli & Jawrowski, 1990) [39, 99]. A similar concept emerged from the strategic management discipline, DC which emphasizes the ability on sensing the markets, sorting/ seizing opportunities, and reconfigure resources to respond to market changes and new opportunities (Teece and Shuen, 1997) [76].

### Market Orientation

The marketing concept suggests achieving goals through the satisfaction of consumer needs and desires (McNamara, 1972) [49], and paves the way to marketing orientation/ MO (Kohli and Jaworski., 1990) [39]. Market orientation as a set of beliefs that prioritize customer interests (Deshpande *et al.*, 1993, p.27, in Kohli *et al.*, 1990) [15, 39] and through organization's ability to obtain and dissemination customer information to respond to the market (Day 1994) [13]. MO focuses on the capabilities needed to fulfill consumer desires (satisfaction) rather than business opportunity.

Two types of Market Orientation (MO), responsive and proactive (Narver *et al.*, 2004) [97], responsive refer to understand observed customer needs, proactive refer to understand latent customer needs (Bodlaj, 2010) [10]. Responsiveness in the ambidexterity concept requires managing exploitation and exploration to suit the business environment (Wagner *et al.*, 2012) [81]. Market responsiveness means being responsive to current conditions and proactive in the future, and if a company is only responsive to the current market it will lose momentum in exploiting future opportunities. How companies can sustainable in the market depends on how they balance current and future interests, balancing responsive and proactive strategies is the art of business.

Market orientation (MO) emphasizes three core dimension of capabilities; market intelligence generation (market knowledge), intelligence dissemination, and market responsiveness (Kohli & Jawrowski, 1990) [39, 99]. Business processes related to inter-functional dynamics include customer-focused activities, coordinated marketing, inter-functional coordination, organizational structures and systems (Narver and Slater 1990; Kohli & Jaworski., 1990)

[39, 97]. The Market Orientation concept is structured in the form of antecedent, moderator, mediator and outcome relationships. Various studies show that the relationship between MO and performance is positive and still needs to be developed (Fakhreddin & Foroudi, 2022) [21].

### Dynamic Capabilities

The most important resources are those that create customer value/are rare/non-imitable/non-substitutable (Barney, 1991) [6] and create new opportunities (Barney, 1995) [7]. In a transparent and rapidly changing world, the concept of rare/non-imitable/non-substitutable is becoming less relevant, so it is being replaced by the concept of Dynamic Capability (DC). DC is the ability to always renew old resources into new resources in order to be agile in capturing new opportunities now and in the future (Helfat *et al.*, 2007; Zahra, 2006) [29, 86]. To be able to face new competition, core capabilities must be possessed; knowing the current and future business environment (sensing), selecting/determining current and future profitable opportunities (seizing), rearranging the company's internal and external resources to be new and superior (reconfiguring). DC can also include learning, integration/coordination, and transformation (Griffith and Harvey., 2001; Teece *et al.*, 1997) [76, 96].

### Parallelism of Market Orientation and Dynamic Capability

There is parallelism between DC and MO in terms of business processes starting from external factors continuing to internal factors, outward and inward looking. External factors need to be addressed appropriately through restructuring old resources into new resources. The difference is, MO focuses on the market in a narrow sense or consumers (Deshpande *et al.*, 1993) [15]. Meanwhile, DC focuses on the market in a broad sense, both in terms of current and future business opportunities.

Capability constructs in MO include Market Intelligence and Learning, Inter-Departmental Dynamics, Inter-Functional Coordination, Market Responsiveness, Coordinated Marketing, Orchestration (Narver and Slater, 1990; Kohli and Jaworski, 1990; Zachary *et al.*, 2011; Wilson and Liguori, 2022; Wasim *et al.*, 2024) [39, 85, 84, 83, 97]. Capability constructs in DC include Sensing, Seizing, Reconfiguring, Market Responsiveness, Respond to Change, Learning and Knowledge, Absorptive, Coordinate, Communication, Integration, Respond to Change, Innovativeness, Strategy/ Structure/ and Management, Process and System (Teece *et al.*, 1997; Eriksson, 2014; Tanimkarn, 2014; Deyasa, 2023) [76, 19, 74, 98]. The number of capabilities represents the same-similar-different construct, at a high or low level of abstraction, all of which include the ability to carry out business processes. This capability is needed to search for current and future market information, provide direction to meet current consumer needs and future opportunities, build new resources according to needs, be agile and adaptive, and be able to satisfy customers while generating profits (Day, 2011 & 1994; Catherine *et al.*, 2007; Teece, 2007; Morgan *et al.*, 2009) [14, 12, 53].

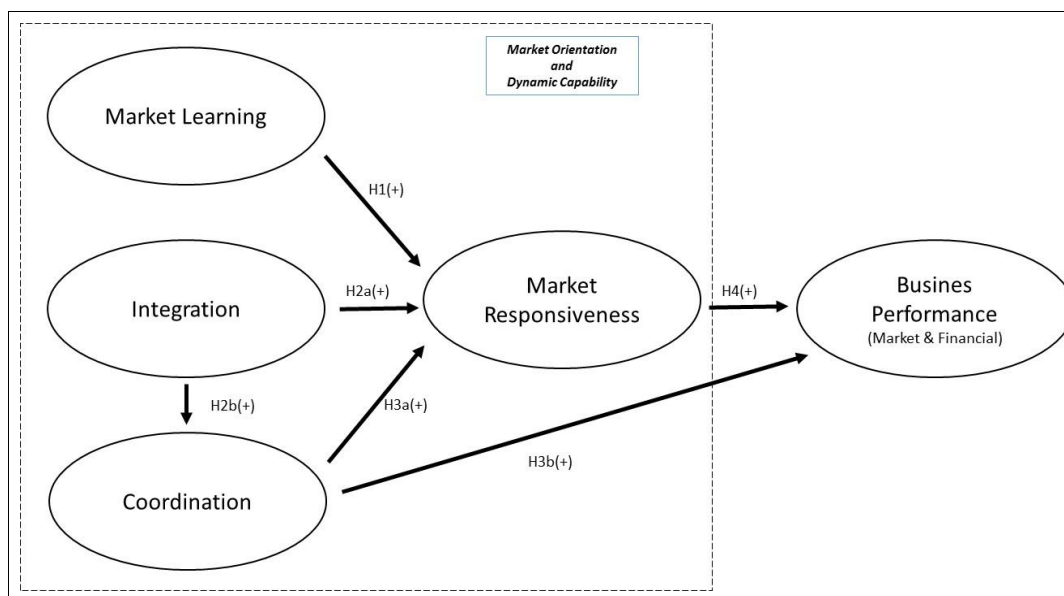
### Research Concept and Hypothesis

Previous research has discussed various capability constructs, simplification is still needed to suit the business context (Shiferaw and Kero., 2024) [69]. Determination of the

capability construct uses the following criteria: i) Related to the three core dimensions of MO (market intelligence/ dissemination/ market responsiveness) and DC (sense, seize, reorganize). ii) Low level of abstraction so it is easy to implement in small-medium businesses, iii) intangible resources that are a source of competitive advantage, iv) efficient and effective so that it fulfills the principle of simplicity in theory.

The four capability constructs selected as antecedents of business performance are as follows; Market Learning capability is about sensing to provide anticipated future direction. Integration and Coordination capability to seize new opportunity and reorganize/reconfigure new resources (Rehman and Jajja., 2023; Li and Tuunanen., 2022; Martinez and Jarillo., 1989) [63, 42, 45]. Market Responsiveness capability to be the first to serve an ever-changing market (Kalaiganam *et al.*, 2021; Khan *et al.*, 2021; Garrett *et al.*, 2009) [36, 38, 24].

Figure-1 is a research framework, explaining the relationship between selected capabilities in their impact on business performance. To create business performance requires knowledge (Odor, 2018; Lee *et al.*, 2009) [56, 41], integration and coordination of all organizational functions, and market responsiveness (Felton-1959 in Kohli and Jaworski-1990) [39]. Knowledge gain from market learning, and as a provider of direction in an increasingly rapidly changing world. Integration related to structures and systems as the unification of external and internal resources into new capabilities to act effectively and efficiently (Ricciardi *et al.*, 2018; Teece *et al.*, 1997) [64, 76]. Coordination reflects human interaction in responding to internal and external market dynamics as a mechanism for implementing market learning into market responsiveness and business performance (Teece, 2018; Day 1994) [77, 13]. The four capabilities are a simple representation of MO and DC that influence Business Performance.



**Fig 1:** Research Framework

**Market Learning:** Learning organizations is the result of years of organizational learning so that they are able to provide products that satisfy consumers and make a profit (Odor, 2018) [56]. In MO, learning organization is centered on market knowledge (consumers) to create company profits (Jawrowski *et al.*, 1990) [99].

Market learning (ML) is a part of organizational learning and learning organizations, especially those related to markets and consumers. Organizational Learning allows companies to reorganize their resources appropriately and quickly so that they are flexible and fast in responding to market changes and gaining profits (Slater and Narver, 1995) [70]. ML is about generating and disseminating of market information to respond market dynamics for business performance (Morgan *et al.*, 2009) [53], and provides direction for the development of new services and products that meet customer expectations.

The search and development of knowledge in small-medium businesses is carried out through social interaction and communication (Prieto and Smith, 2006) [61]. Knowledge-relatedness that well codified then be used to respond to the market appropriately (Lee *et al.*, 2009) [41]. The challenge is the ability to understand the complexity and diversity of

markets that are changing rapidly in the internet era (Blankson, 2006; Rashidirad *et al.*, 2020; Day, 2011) [4, 62, 14].

**H<sub>1</sub>:** Market Learning has a positive influence on Market Responsiveness.

### Integration

DC and MO emphasized the importance of integrating external and internal resources to create connectivity between departments through systems and structures. Integration is an important construct in context studies; enterprise (Rehman & Jajja, 2023) [63], product market (Li & Tuunanen, 2022) [42], stock market (Valdes *et al.*, 2016) [100], organizational functions and subsystems (Sanmartin *et al.*, 2023) [66], corporate information systems (Lee *et al.*, 2009) [41]. Integration exists in organizational routines to unite subsystems/functions/units inside and outside the company (Ricciardi *et al.*, 2018) [64], smooth the flow of information in the product innovation process for differentiation (Berente *et al.*, 2009; Amaral *et al.*, 2007; Etlie *et al.*, 1992) [9, 1, 20], support market-relevant operational effectiveness (Teece *et al.*, 1997; Narver *et al.*, 1990; Kohli *et al.*, 1997; al., 1990) [76, 97], strengthen interdependent units to adapt to

each other and respond synergistically to achieve goals (Barki and Pinsonneault., 2005)<sup>[5]</sup>.

Small business emphasize internal integration carried out through informal relationships and social interactions (Blankson, 2006)<sup>[4]</sup>, where in large organizations IT plays a role as an important tool to facilitate dialogue/communication and integration in co-creation (Li & Tuunanen, 2022)<sup>[42]</sup>. Social interaction is a reciprocal process with various parties in creating value for consumers (market performance) based on trust (Gummesson, 2003; Morgan & Hunt, 1994)<sup>[52]</sup>. Integration increase the effectiveness and efficiency of routine activities and processes for new ideas related to products/ procurement/ production/ promotion/ distribution/ and services (Berente *et al.*, 2009)<sup>[9]</sup>. The ability to respond to the market appropriately and quickly requires integration of all activities in subsystems/units (Lee *et al.*, 2009)<sup>[41]</sup>, in small and medium companies the integration system is unstructured and non-IT (McCartan-Quinn and Carson, 2003)<sup>[48]</sup>.

**H<sub>2a</sub>:** Integration has a positive influence on Market Responsiveness.

Integration is one of the predictors of business performance (Barki & Pinsonneault., 2005)<sup>[5]</sup>, plays an important role in facilitating coordination and collaboration between people/ unit/ inter and intra organizations in responding to market (Ricciardi *et al.*, 2018)<sup>[64]</sup>, facilitating in knowledge creation and implementation in a smooth process (Barki and Pinsonneault., 2005; Hauptman *et al.*, 1999; Petroni, 1998)<sup>[5, 28, 60]</sup>. Integration facilitates superior capabilities in creating business performance (Flynn *et al.*, 2010; Sanmartin *et al.*, 2023)<sup>[23, 66]</sup> where coordination is the mediation (Ropper *et al.*, 2003; Petroni, 1998)<sup>[60]</sup>.

**H<sub>2b</sub>:** Integration has a positive influence on Coordination.

### Coordination

Coordination has been discussed in economics since Adam Smith because of asymmetric information in economic systems. Coordination as well as integration is discussed in political economic, institutional, intra-organizational and industrial studies. In context of the organization, coordination will increase the effectiveness and efficiency of planning and operations. A growing problem in recent decades is the gap between market dynamics and company response, a gap that can only be narrowed through coordination (Kapras, 2016)<sup>[37]</sup>. Coordination improves orchestration between units and partners to anticipate market and business changes (Teece, 2019). Small businesses implement simple systems with few human resources to carry out many tasks (Blankson, 2006)<sup>[4]</sup>, coordination remains important and is carried out even with a limited system. Coordination is important in the creation/distribution/implementation of knowledge (Taylor, 2013; Teece, 2018; Day 1994)<sup>[75, 77, 13]</sup> and also to create synergy between units.

MO states the importance of coordination between functions (Narver and Slater., 1990)<sup>[97]</sup>, including internal and external companies (Osifo, 2013)<sup>[57]</sup>, and as a prerequisite for sensing/seizing/ reorganizing to run well (Rehman & Jajja., 2023)<sup>[63]</sup>. Coordination in small business tends to be internally focused (Blankson, 2006)<sup>[4]</sup>, in some degree does not rely on sophisticated IT, and only through social interaction (McCartan & Carson., 2003)<sup>[48]</sup>. Coordination also increases the realization of information from market

intelligence into product and service innovations that consumers expect (Mostaghel *et al.*, 2019)<sup>[5]</sup>, so that coordination increases market responsiveness (Tai *et al.*, 2024)<sup>[73]</sup>.

**H<sub>3a</sub>:** Coordination has a positive influence on Market Responsiveness.

Coordination plays a role in increasing the effectiveness and efficiency of the business value chain, increasing intra-inter-organizational co-creation, reducing transaction costs, reducing the problem of disappointment with decisions and actions resulting from not achieving individual or unit targets. Coordination can use structural and formal mechanisms, or informal and subtle mechanisms (Martinez & Jarillo., 1989)<sup>[45]</sup>. To a certain extent business runs individually, intuitively/unplanned, spontaneously and in a social order, even in abstract rules which are a combination of formal and informal (Kapras, 2016)<sup>[37]</sup>. Coordination has a positive effect on organizational performance by making internal and external business processes run smoothly (Osifo, 2013)<sup>[57]</sup>, effective and efficient.

**H<sub>3b</sub>:** Coordination has a positive influence on Business Performance.

### Market Responsiveness

Market Responsiveness (MR) is one of the dimensions of Market Orientation (Kohli & Jaworski., 1990)<sup>[39]</sup> in the sense, "responsiveness is the action taken in response to (business/market) intelligence that is generated and disseminated....in the form of selecting target markets, designing and offering products/services that cater to their current and anticipated needs, and producing, distributing, and promoting the products away that elicit favorable end-customer responses", This includes the notions of sensing and seizing contained in Dynamic Capability (DC).

Market responsiveness resulting from learning, integration and coordination capabilities. Market responsiveness is about how quickly and appropriately a company responds to the current and future market/consumer/business environment, which makes it a market pioneer and leader (Khan *et al.*, 2021; Garrett, 2009; Randall *et al.*, 2003; Kohli and Jaworski., 1990; Teece *et al.*, 1997)<sup>[38, 24, 76, 39, 104]</sup>. Responsiveness is also related to agility in responding to changes in the business environment such as technology, society, customers, competitors (Kalaiganam *et al.*, 2021; Ngo, 2020)<sup>[36, 105]</sup>. MR which is the result of organizational learning, influences business performance (Kalaiganam *et al.*, 2021)<sup>[106]</sup> or market performance and financial performance (Ngo, 2020; Nemkova, 2017)<sup>[105, 107]</sup>. Market responsiveness is an antecedent of Business Performance, and a mediating variable for other variables on business performance (Kalaiganam *et al.*, 2021; Khan and Khan, 2021; Nemkova, 2017; Garrett *et al.*, 2009; Lee *et al.*, 2009)<sup>[36, 38, 24, 41, 107]</sup>. Small companies and large companies need the ability to be responsive to the market to create business performance.

**H<sub>4</sub>:** Market Responsiveness has a positive effect on Business Performance.

### Methodology

The measurement items are based on various sources of previous empirical research, with some contextual adjustments to meet face validity, in statement sentences with alternative answers to the degree of agreement; strongly disagree (1) to strongly agree (scale 5). The

definition of each construct and its references are below, and the measurement items are in Appendix-1.

- Market learning (ML) is a capability related to market/consumer knowledge and its utilization; acquisition, dissemination, creation, and implementation/action (Odor, 2018; Blankson, 2006) <sup>[56, 4]</sup>.
- Integration (INT) is the ability to unite various units/functions within or between the organizations (Ricciardi *et al.*, 2018; Lee *et al.*, 2009; Blankson, 2006; McCartan-Quinn and Carson., 2003; Teece *et al.*, 1997) <sup>[64, 41, 48, 76]</sup>.
- Coordination (COORD) is the ability to carry out orchestration both formally and/or informally, in order to organize activities to achieve desired results, by interacting between people/units/institutions based on written and unwritten or formal and informal rules (Teece, 2018; Kapas, 2006; Blankson, 2006; Day 1994) <sup>[77, 37, 4, 13]</sup>.
- Market responsiveness (MR) refers to the speed in responding to changing consumer/market/business environment needs to maintain a competitive position (Narver and Slater., 1990; Teece *et al.*, 1997) <sup>[76, 97]</sup>.
- Business performance (BP) includes market performance and financial performance, where market performance is measured from consumer and market perspective, while financial performance from sales revenue and profitability (Robert and Groover. 2012; Morgan, 2012; Bodlaj, 2010; Blankson, 2006) <sup>[65, 54, 10, 4]</sup>.

Data was taken from local hotels in Bali in the small and medium categories considering that their simple operational systems tend to be traditional compared to chain-hotel. In this area, most of the tourists come from abroad, so it represents more or less the management of international small local hotel. The questionnaire is filled out by hotel managers who are able to provide opinions regarding business and management at their hotel. Sent via email or postal mail to 140 hotels, through various means returned 130 questionnaires (92%). After checking the completeness of the filling and the small and medium category hotels (<300 rooms), finally 75 questionnaires were ready to be processed.

Data processing uses Smart-PLS with some reasons; the amount of data is far below the item multiplied by 5, non-

normal distribution data, formative measurement items. To test the validity of items with formative measurements we used the following criteria; each items are valid when factors loading  $\geq 0.70$  (recommended) but still acceptable when  $>0.5$ ,  $T > 1.96$ , variance inflation factor/VIF  $< 5$  (no multicollinear). Items are reliable when cronbach's alpha  $> 0.6$  (Hair *et al.*, 2021) <sup>[27]</sup>.

To test the hypothesis, significant criteria are used with a T value  $> 1.96$ , or  $P < 0.05$ , and B (+/-). To determine the magnitude of the independent variable's explanation of the dependent variable, the coefficient of determination /R2 is used (large if  $R2 > 0.75$ , medium  $R2 > 0.5-0.75$ , weak  $R2 < 0.25$ ). It is necessary to test the goodness of fit/GOV of the proposed model (Schuberth *et al.*, 2023) <sup>[67]</sup>. With formative measurement items there are several steps as follows (Henseler *et al.*, 2014) <sup>[30]</sup>. To find out whether there is a difference between the model and the facts, look at the standardized root mean square/SRMQR, a value  $< 0.08$  means there is a good match between the model and the data. The Norm Fit Index (NFI) has a value between 0 and 1, the closer to 1 the better the fit between the model and the data, good fit when  $NFI > 0.9$ . To determine the overall similarity of the model, look at the bootstrap-based inference test; square euclidean distance/  $d_{ULS} > 0.05$ , and Geodesic distance/  $d_G > 0.05$ .

**Results**  
**Validity Testing**

Five research constructs in this study; ML, INT, COORD, MR, BP. Initially there were 25 formative measurement items (see operational table in Appendix-1). After carrying out the validity test, 15 valid and reliable items remained (notes; item mr3 factor loading = 0.668 was included because the factor loading was above 0.5 and  $T > 1.96$ ). The number of measurement items to represent each construct meets the requirements just identified with a minimum of 3 items (Hair *et al.*, 2010) <sup>[27]</sup>, all valid and reliable items can be seen in Table-1. Some items did not pass validity tests related to formative measurements using multi-regression principles (parsimony and multi-collinear/significance tests). With these results, the most important measurement items passed the test, some are specific activities, and this is one of the research objectives.

**Table 1:** Loading Factor, T-value, and VIF

Construct	Code	Measurement Items	Loading Factor	T-value	VIF	C. Alpha	Conclusion
Market Learning	ml1	Encourage employees to know customer desires	0.911	16.999	1.892	0.794	Valid & Reliable
	ml2	Regularly analyze new opportunities	0.845	11.797	1.817		
	ml4	Explore new-data-based for knowledge	0.753	8.982	1.499		
Integration	int1	Consolidate between units	0.856	15.387	1.63	0.822	Valid & Reliable
	int2	Carry out tasks according to job description and experience	0.856	13.264	2.033		
	int4	All unit participation supports company goals	0.864	19.574	2.132		
Coordination	coord2	Coordination between units	0.836	11.858	1.752	0.796	Valid & Reliable
	coord3	Communication between employees	0.879	23.847	1.588		
	coord4	Discussions for service innovation	0.798	15.660	1.766		

	mr1	Reaction to changing customer needs	0.863	15.460	1.653		
Market Responsiveness	mr2	Fast in service response	0.857	12.670	1.653	0.721	Valid & Reliable
	mr3	Friendliness towards customers	0.668	5.771	1.23		
Business Performance (Market and Financial)	bp.m1	Image from customers and competitors	0.791	7.048	1.255		
	bp.m4	Success in acquiring new consumers	0.800	10.502	1.676	0.708	Valid & Reliable
	bp.fin3	Profit compared to competitors	0.789	8.987	1.526		

**Hypothesis Testing**

Table-2 shows the goodness of fit of the valid items. The discrepancy between the model and data shows low or there is no difference, SRMR below the limit of 0.08 in the saturated and estimated model (0.059 & 0.072). The difference between the model and empirical data shows non-significant or no different, d\_ULS is above the 0.05 limits in the saturated and estimated models (0.421 & 0.621), and also d\_G (0.344 & 0.391). Incremental fit measures, NFI is slightly below better fit (0.845 & 0.827), medium fit closes the limit of 0.9 with a maximum of 0.1. The model and data is generally considered to be fit.

**Table 2:** Goodness of Fit

	SRMR	D_ULS	D_G	NFI
Saturated model	0.059	0.421	0.344	0.845
Estimated model	0.072	0.621	0.391	0.827

Table-3 shows the results of the structural model to test the research hypothesis. Market learning has a significant and positive effect on market responsiveness, T = 2.507, P = 0.012, B = +, then H1 is accepted. Integration has a significant and positive effect on market responsiveness, T = 1.571, P = 0.116, B = +, then H2a is not accepted. Integration has a significant and positive effect on coordination T = 25.598, P = 0.000, B = +, then H2b is accepted. Coordination has a significant and positive effect on market responsiveness, T = 1.326, P = 0.185, B = +, then H-3a is rejected. Coordination has a significant and positive effect on business performance, T = 3.568, P = 0.000, B = +, then H3b is accepted. Market responsiveness has a significant and positive effect on business performance T = 2.118, P = 0.034, B = +, then H4 is accepted. The results of statistical analysis show that four hypotheses were accepted and two hypotheses were rejected (Table 3), and also see the structural model in Appendix-2.

**Table 3:** Coefficients and T-Statistics

	Hypothetical Relationships	Coefficients (B)	T statistics	P values	Conclusion
H1	Market Learning - > + Market Responsiveness	0.387	2.507	0.012	Accepted
H2a	Integration - > + Market Responsiveness	0.251	1.571	0.116	Not-Accepted
H2b	Integration - > + Coordination	0.864	25.598	0.000	Accepted
H3a	Coordination - > + Market Responsiveness	0.266	1.326	0.185	Not-Accepted
H3b	Coordination - > + Business Performance	0.500	3.568	0.000	Accepted
H4	Market Responsiveness - > + Business Performance	0.343	2.118	0.034	Accepted

Table 4 shows the variance explained by the independent variable on the dependent variable. Business performance can be explained by 62.9% by market responsiveness and coordination. Market responsiveness can be explained as much as 69.9% by market learning. Coordination can be explained as much as 74.7% by Integration. In conclusion, the explanatory power of exogenous variables explains endogenous variables in the range of 50 -75%, moderate close to high.

**Table 4:** Explanatory Power of Independent Variable: Coefficients of Determination/ R<sup>2</sup>

Endogen variables / Dependent variables	R <sub>2</sub>
▪ Business performances	0.629
▪ Market responsiveness	0.699
▪ Coordination	0.747

**Discussion**

Market Learning Capability (ML) influences Market Responsiveness capability (MR) and then Business Performance (BP). ML is about the ability to obtain information to be able to respond to the market, and is a prerequisite for being agile in responding to changes in the business environment (Kalaigannam *et al.*, 2021; Teece *et*

*al.*, 2007; Jawrowski & Kohli., 1990) [36, 99]. The role of ML is to provide direction for change by encouraging employees to always pay attention to consumer needs and desires, periodically analyze shared information and data for new opportunities in services/products, and distribute market knowledge between units (Table 1). ML influences MR in terms of fast and precise responses to changing customer needs, and customer friendliness. Ultimately, this capability increases BP in terms of creating a positive image for consumers, success in acquiring new customers, and ultimately gain profit over competitors (Table 1). Integration Capability (INT) influences Coordination Capability (COORD) and then Business Performance. Integration is carried out by eliminating silos between units, carry out the tasks of each unit and unite business processes in a seamless value chain, increasing the participation of all units in supporting company goals (Robert and Groover., 2012; Tanimkarn, 2014; Lu, 2009; Pavlou *et al.*, 2006) [65, 74, 109], and synergize all organizational resources in co-creation (Table 1).

The results of the hypothesis test explained in Appendix-2 show that there are two main paths. The first path, ML and MR capabilities are about outside-in processes, this provides direction to respond effectively to market changes. The second path, INT and COORD capabilities play a role in the

inside-out process to gain efficiency. These two separate pathways imply the existence of two important processes, sensing and responding, to achieve goals effectively and efficiently.

Valid research items/indicators show that small and medium businesses carry out business processes through simple and loose systems and structures, likewise unit consolidation tends to be carried out through communication and interpersonal relationships to achieve common goals (Blankson, 2006) [4]. In the digital era, specific internal systems and processes need to be improved using information technology.

### Conclusion

The critical capabilities for small-medium local hotels are Market Learning, Integration, Coordination and Market Responsiveness. These four capabilities play a role in two main business processes, providing direction and implementing responses effectively and efficiently. In achieving goals, businesses need to transform from being reactive to being sensitive and responsive.

Each capability has a specific role in creating Business Performance. Market-Learning to provide direction in responding to change. Market responsiveness to deal with changes quickly and precisely according to market information. Integration and Coordination to unite and synergize all resources. All of these capabilities make a business run effectively and efficiently in achieving business performance.

Valid items/indicators are important and specific activities to increase business effectiveness and efficiency in small and medium local hotels, as well as other types of similar businesses. The limitation of this research is that the capability constructs and items/indicators filtered in this research do not all explicitly reflect the core constructs of MO and DC, further research needs to develop them all explicitly. Continuing the results of this research, the next question is how simple and appropriate digital technology can improve market learning, integration, coordination, and market responsiveness.

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**Appendix 1**

Construct	Definition	Code	Items	References
Market Learning	Ability in consumer/market knowledge and utilization, through the processes of acquisition, dissemination, creation, and implementation/action (Odor, 2018).	ml1	Encourage employees to know customer desires	O, RG, T, L, PE
		ml2	Regularly analyze new opportunities	
		ml3	Able to utilize internal and external information	
		ml4	Explore new data-based knowledge	
		ml5	Exchange information between departments	
Integration	Kemampuan untuk menyatukan berbagai unit/fungsi dalam organisasi atau luar organisasi (Ricciardi et al, 2018; Lee et al., 2009; Teece, 1997)+B27	int1	Consolidate between departments	R, L, T, RG, T, L, PE, MC
		int2	Carry out tasks according to job description and experience	
		int3	Desire to achieve joint achievements	
		int4	Department participation supports company goals	
Coordination	Kemampuan untuk melakukan orkestrasi yang dilakukan baik secara formal maupun formal, berupa interaksi melalui atau tidak melalui rules dan conventions (Teece, 2019; Kapas, 2006; Day 1994).	coord1	Working relationship	T2, K, D, RG, T, L, PE, BI, MC
		coord2	Coordination between departments	
		coord3	Communication between employees	
		coord4	Discussions for service innovation	
Market Responsivenss	Kemampuan secara cepat dalam merespon perubahan selera konsumen dan pasar untuk mempertahankan sustainable competitive position (Narver and Slater, 1990; Teece, 1997)	mr1	Reaction to changing customer needs	NS, T1, RG, T, L, PE, BI
		mr2	Fast in service response	
		mr3	Friendliness towards customers	
		mr4	Meeting customer needs	
Business Performance	Kinerja usaha yang meliputi market performance dan financial performance (Morgan, 2011; Robert and Groover, 2012).	bp.m1	Positive image from customers and competitors	M, RG
		bp.m2	Popularity of the hotel in the eyes of customers	
		bp.m3	Repeat customers	
		bp.m4	Success in acquiring new consumers	
		bp.fin1	Sales revenue	
		bp.fin2	Revenue growth compared to competitors	
		bp.fin3	Profit compared to competitors	
		bp.fin4	Achievement of financial performance targets	

(T2= Teece, 2019. O= Odor, 2018. R= Ricciardi et al, 2018. RG= Robert and Groover, 2012. T= Taninkam, 2014. M=Morgan, 2011. L= Lee et al., 2009. L= Lu, 2009. W= Wang, 2009. PE= Pavlou and El Sawy, 2006. BI= Blankosn, 2006. K= Kapas, 2006. MC= Mc Cartan, 2003. T=Teece, 1997. D= Day, 1994. NS= Narver and Slater, 1990.)

**Appendix 2**  
Structural Model (T-value)

