

# THE EFFECTS OF DIFFERENTIATION STRATEGY ON MARKET ORIENTATION AND PERFORMANCE IN VIETNAMESE SMALL RESTAURANTS

## Abstract

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*Purpose* - This study aims to explore the potential mediating role of differentiation strategy in the relationship between market orientation and restaurant performance based on balanced scorecard approaches.

*Methodology* - Based on the Vietnamese Yellow Pages database, a sample of 144 small restaurants in Vietnam was analysed using partial least squares structural equation modelling.

*Findings* - The results indicate that differentiation strategy fully mediates the relationship between market orientation and restaurant performance based on balanced scorecard approaches.

*Originality of the research* - This study contributes significantly to the field by deepening our understanding of the underlying mechanisms of differentiation strategy on the market orientation-performance links. Focusing on Vietnam, a collectivistic and transitional economy, enhances our comprehension of the influence of market orientation and differentiation strategy on the performance of small restaurants in these distinctive environments. The study provides robust evidence supporting the positive effects of differentiation strategy on performance by using balanced scorecard approaches. It advances the theoretical development of the resource-based view by using a contingency perspective to empirically demonstrate how organisations can sustain competitive advantages by leveraging their resources.

**Keywords** Balanced scorecard, Differentiation strategy, Market orientation, Restaurant performance, Small business, Vietnam.

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## INTRODUCTION

Small restaurants face many challenges when competing with larger ones (Rezaei et al., 2022). In particular, small restaurants have limited financial resources, lack skilled labor, competitive benchmarking, and prime locations, and have limited expertise in implementing marketing on social media (Jessica Hwang & Lockwood, 2006; Lepkowska-White & Parsons, 2019; Motta & Sharma, 2020). To maintain current and expand market share, restaurants must focus on their competitors and customers (Huber et al., 2010). When restaurants focus on customers and competitors, they are more likely to adopt market orientation (MO) (Jogaratanam, 2017a). It is suggested that MO adoption allows for performance implications (Narver & Slater, 1990). The beneficial effects of MO can be explained using a resource-based view (Barney, 1991). Based on this view, MO theorists (see Alnawas & Hemsley-Brown, 2019; Aydin, 2021; Jogaratnam, 2017a) argue that MO is an intangible resource which permits competitive advantages. Recently, empirical studies have shown that adopting MO results in high restaurant performance (RP) (Chou et al., 2020; Jogaratnam, 2017b, 2018; Salehzadeh et al., 2017).

MO scholars argue that MO has not only a direct but also an indirect effect on performance. Prior studies' results indicate that this relationship is influenced by mediators (see Alnawas & Hemsley-Brown, 2019; Kajalo & Lindblom, 2015; Kiessling et al., 2016; Mahmoud et al., 2016). In this light, MO has an indirect impact on RP. Consistently, contingency theory posits that organisations find high performance when they successfully align their strategy with their internal characteristics. The alignment is established when strategy mediates the relationship between those characteristics and performance (Venkatraman & Camillus, 1984). In strategic management literature, the generic strategy framework suggests that businesses can find competitive advantages by pursuing an appropriate strategy (Porter, 1980). Differentiation strategy (DS) is argued to improve the sustainability of performance implications (Banker et al., 2014). DS is relevant for service providers in hospitality industries to find performance implications (Köseoglu et al., 2013). In the restaurant literature, scholars have examined the impact of DS on performance (Altuntaş et al., 2014; Kankam-Kwarteng et al., 2020; Parnell, 2011). In this regard, DS potentially mediates the MO - RP association.

In the 80s, the Vietnamese government implemented Doi Moi (Renovation), which allowed the transition from a centrally planned economy to a market-oriented economy (Migheli, 2012). Vietnamese socio-economic development has undergone dramatic changes following this implementation. As a result, the Vietnamese economy enjoys a stable growth trend. This trend has made eating out popular among the Vietnamese (see Lachat et al., 2009). It offers restaurant owners and operators a great opportunity due to the high demand for eating out among Vietnamese people. However, it is also perceived as a threat due to the unique characteristics of the restaurant industry. In this industry, the restaurant industry is subjected to a low barrier to entry (Lee et al., 2019). Furthermore, the majority of restaurants in Vietnam are classified as small restaurants (General Statistical Office, 2020). As a result, they need to find competitive advantages under the constraints of various factors caused by the small size (Rezaei et al., 2022).

This research study addresses three existing gaps in the current literature. Firstly, although previous studies on restaurants have demonstrated a positive association between MO and performance (Chou et al., 2020; Jogaratnam, 2017b, 2018; Salehzadeh et al., 2017), more investigation into this connection is needed, specifically within the context of Vietnam. Vietnam is considered a transitional economy, shifting from a centrally planned economy to a market-oriented one (Kien & Heo, 2008). Implementing market-oriented practices in transitional economies faces challenges related to government regulations, ownership structures, and resource availability (Qu & Ennew, 2005). In such transitional economies, the level of MO is influenced by economic developments (Sternquist et al., 2010). Consequently, there are concerns regarding the generalizability of the positive impact of MO on its outcomes due to the varying degrees of economic development observed in the countries under study (Kuada, 2016).

Furthermore, Vietnam is a collectivistic country, which differs from the prior studies. There are two contradicting arguments when collectivistic culture is taken into account. On the one hand, collectivistic culture influences organisations to have a broad degree of stakeholder orientation (Crilly, 2011). A broad degree of stakeholder orientation permits an insight into multiple demands of those stakeholders, which positively affects MO, and as such, organisations improve and sustain performance (Stocker et al., 2021). On the other hand, collectivistic culture influences individuals in society to conform to social norms (Templer, 2012). Conformity is disadvantageous in restricting intra-organisation information flows (Hamzah et al., 2020). A low degree of information flow diminishes MO effectiveness (Kirca et al., 2005). In this regard, the difference in the research context's culture questions the generalization of prior results of the impact of MO on its consequences in Vietnam.

Second, despite prior restaurant studies examining the impact of DS on performance, the results are mixed (Altuntaş et al., 2014; Kankam-Kwarteng et al., 2020; Parnell, 2011). There are two possible reasons for these mixed results. The first reason is due to the approach to measuring performance. There are many dimensions of performance, such as financial and non-financial performance (Jang et al., 2017). A more comprehensive approach is required to measure the performance of restaurants in order to address those mixed results. Strategic management scholars suggest that the performance measured based on the balanced scorecard approach is comprehensive (see Bhatia et al., 2020; Chopra & Gupta, 2019; Mehralian et al., 2018; Mehralian et al., 2017). Despite this, there is limited understanding of the impact of DS on performance as measured by the balanced scorecard approach.

From the customer's perspective, the second reason is that the context of an examining country may cause these mixed results. As argued earlier, Vietnam is a collectivistic country and a transitional economy. Two opposing arguments relate to the collectivistic culture and require more research on this culture. On the one hand, a collectivistic culture values conformity; as a result, individuals exhibit a low degree of the need for uniqueness (Geng et al., 2019). It may cause the ineffectiveness of DS because the effectiveness of this strategy depends on the organisation's uniqueness. On the other hand, some subcultures embedded in collectivistic cultures cause cultural groups' preferences within a country to be different (Suhoyo et al., 2018). DS can improve effectiveness by promoting the uniqueness of the restaurant's products and services, which meet these diverse preferences. Those two arguments question the impact of DS on performance in collectivistic countries such as Vietnam.

Relating to the characteristics of transitional economies, there are also two contrasting arguments relating to the effectiveness of DS. On the one hand, individuals living in transitional economies exhibit low trust (Kacprzak & Dziewanowska, 2021), which may lead to a low degree of brand trust. In the hospitality sector, brand trust is positively associated with a brand reputation (Kim et al., 2021), promoted by differentiation (Chen et al., 2017). In such a regard, DS permits small restaurants to outperform their rivals in transitional economies because it increases customer trust, resulting in a high brand reputation. On the other hand, transitional economies have weak regulations relating to intellectual property protection (He & Rayman-Bacchus, 2010), which limits the effectiveness of DS (Malone et al., 2008). Furthermore, transitional economies exhibit price sensitivity (Srivastava, 2018), which poses an obstacle for DS due to the premium prices charged. In this regard, more research is required to shed light on transitional economies.

Finally, there is no study examining the mediating effects of DS on the relationship between MO and performance. MO fosters a high degree of customer orientation and competitor orientation. Customer orientation permits a high degree of customer demand. Competitor orientation allows a high degree of insight into competitors' capabilities and resources, enhancing the predictability of competitors' strategies. Small restaurants take advantage of those two types of orientation by providing products that satisfy customers' demands and differentiate themselves from their competitors. From contingency theory, the alignment between MO and DS is required to improve the performance of small restaurants.

Hence, this study aims to address the interrelationship between MO, DS, and RP in the context of small restaurants operating in Vietnam. This study aims to shed light on the following research questions.

RQ1: Do small restaurants in Vietnam improve their RP when they adopt MO?

RQ2: Do small restaurants in Vietnam improve their RP when they pursue DS?

RQ3: Does the alignment between MO and DS induce RP of small restaurants in Vietnam?

This study was outlined as follows. The following section reviews the literature and develops the hypotheses. After that, the method section is introduced. The fourth and fifth section is to present and discuss this study's results. The last section is to conclude, reveal limitations, and indicate the directions for future research.

## 1. LITERATURE REVIEW

### 1.1. Market orientation

MO is considered a foundational and fundamental concept within marketing research (Crick, 2021). There are two separate interpretations of MO. According to Narver and Slater (1990), the primary perspective suggests that MO is a fundamental element of organisational culture, resulting in the creation and provision of increased value for consumers. On the other hand, the second viewpoint, suggested by Kohli and Jaworski (1990), regards MO as specific actions demonstrated by the organisation in generating, disseminating, and using information within the organisation.

This study follows the first approach because scholars consider that organisational culture affects strategy formulations, and the alignment between culture and strategy fosters performance outcomes (Borrero et al., 2020). When conceptualizing MO as an organisational culture, it comprises three components: customer orientation, competitor orientation, and inter-functional coordination (Tajeddini et al., 2006). Guo and Wang (2015) defined these three concepts as follows. Customer orientation prioritises consumers' interests, which leads to a comprehensive grasp of their requirements and desires. Competitor orientation involves knowing competitors' advantages, disadvantages of strategic plans, and responses. Inter-functional coordination refers to the interaction and collaboration between organisational departments.

### 1.2. Differentiation strategy

According to the generic framework of strategy (Porter, 1980), organisations can enhance their competitiveness by developing differentiation advantages. To gain these advantages, the organisation needs to adopt a DS. DS allows organisations and their products/services to be distinct from others available in the market (Porter, 1980). This strategy's uniqueness offers a competitive advantage over others for specific reasons. Berman et al. (1999) found that differentiation influences how customers perceive an organisational uniqueness. Uniqueness makes clients willing to spend more on a business's products and services than typical offerings in the market (Rothaermel, 2017). This strategy enhances pricing and profitability because organisations charge premium prices (Islami et al., 2020). Consequently, this strategy strengthens entry barriers, reduces the threats of substitutes (Zehir et al., 2015), and sustains organisational performance (Banker et al., 2014).

There are some explanations for the positive impact of DS on performance. According to Li et al. (2019), adopting DS has the potential to enhance an organisation's reputation. According to Miller et al. (2020), there is a positive correlation between a substantial level of organisational reputation and significant performance outcomes. Furthermore, DS aims to increase consumer loyalty (Souitaris & Balabanis, 2007). According to Smith and Wright (2004), organisational performance is enhanced due to a high level of customer loyalty.

### 1.3. Restaurant performance based on balanced scorecard approaches

Accurately evaluating an organisation's performance is crucial (Lin & Kuo, 2007). There are several approaches aimed at evaluating this performance. In the past, it was evaluated based on the assessment of financial metrics such as return on assets or return on investment. However, this approach was criticized for being short-term oriented and incomprehensive (Chen & Liang, 2011). Therefore, some scholars suggested that non-financial metrics should be included in addition to financial metrics to measure performance more comprehensively (Dossi & Patelli, 2010). Furthermore, it is argued that organisational performance should focus not only on past performance (e.g., financial performance) but also on the future potential of the organisation (Lee & Choi, 2003). BSC is suggested for evaluating both lagging and leading key performance indicators (Northcott & Smith, 2011). To measure such performance, four perspectives should be considered: financial, customer, business process, and learning and growth (Khomba, 2015). The financial perspective measures financial metrics such as the organisation's profit, ROA, and ROE. The customer perspective assesses the degree of customer satisfaction. The business process perspective evaluates the efficiency and effectiveness of internal processes. The learning and growth perspective allows for monitoring organisational progress. Consequently, these four perspectives should be considered when measuring an organisation's performance. Recently, management scholars have executed this approach to measure the performance of an organisation (see Bhatiasevi & Naglis, 2020; Chopra & Gupta, 2019; Mehralian et al., 2018; Mehralian et al., 2017). This approach was also used to measure RP (Salehzadeh et al., 2017). Similarly, this study argues that RP consists of four perspectives: financial, customer, business process, and learning and growth.

### 1.4. Resource-based view

Scholars in strategic management have recognized the significance of a firm's internal resources in attaining competitive advantages that lead to good performance results (Penrose, 2009). Within this framework, Wernerfelt (1984) emphasised the evaluation of organisations, asserting that their assessment should be centered on their resources rather than solely focusing on their strengths. This is due to the substantial impact a firm's assemblage of resources has on its overall performance. The resource-based view (RBV) has been widely recognised as a foundational paradigm for understanding how a firm's resources and skills contribute to its competitive advantage and performance.

Based on RBV, organisations demonstrate heterogeneity in resources and capabilities, even though they operate within the same industry. The unique combinations of these resources and skills cause performance variation between these organisations (Collis & Montgomery, 2008). Furthermore, RBV contends that it is more pragmatic to utilise current resources in innovative ways to capitalize on external opportunities rather than attempting to acquire new competencies for each unique opportunity (Donnellan & Rutledge, 2019). Accordingly, the resource-based approach posits that the competitive advantages and subsequent excellent performance outcomes of a firm's business divisions are contingent upon the unique resources and capabilities available to them (Barney, 2014). In order to attain a sustained competitive advantage, resources and capabilities must exhibit the attributes of value, rarity, inimitability, and non-substitutability (Barney, 1991). Therefore, the resources and competencies an organisation has access to play a crucial role in developing competitive advantages that drive economic success (Barney, 1996). The VRIO (Valuable, Rare, Inimitable, and Organisation) framework is used to analyse the degree of competitive advantages when an organisation possesses specific resources and capabilities (Knott, 2015). According to this framework, organisational resources and capabilities must be valuable, rare, inimitable, and well-organised by organisations to sustain competitive advantages and performance.

### 1.5. Contingency theory

Strategic alignment is a major concern for strategic scholars (Ngo, 2023c). The concept of strategic alignment, also known as strategic fit, encompasses the degree to which an organisation's strategy aligns with the demands and objectives of its external environment and its internal attributes and structure (Boyd et al., 2012; Ngo, 2021b). The concept discussed here pertains to the phenomenon in which an organisation undergoes adjustments, modifications, and reorganisation to achieve alignment between its strategic objectives, external circumstances, and internal characteristics to gain effectiveness (Ngo, 2020; Venkatraman, 1989). The inability to achieve alignment may impede a firm's capacity to rapidly adapt to market fluctuations (Carmeli et al., 2010; Zajac & Shortell, 1989), resulting in increased risks and reduced performance. Strategic alignment is of utmost importance as it serves as a valuable resource for organisations, enabling them to enhance their competitive advantages and maintain sustainable growth amid continuous market adaptation (Murray et al., 2009). The scholarly community has shown great interest in the congruence between a firm's strategy, its external environment, and its internal characteristics, as this alignment has been found to substantially influence performance (Ilmudeen et al., 2019; McAdam et al., 2019; Ngo, 2023c).

To shed light on this concept, classical strategic management scholars such as Bruns and Stalker (1994) and Lawrence and Lorsch (1967) applied contingency theory as a theoretical lens. Contingency theory posits that the attributes of an organisation are influenced by contextual variables that affect its overall success (Donaldson, 2006). Hence, from contingency theory, strategic scholars posit that organisational success depends on the alignment between strategic choices and the external environment as well as its internal characteristics and designs (Miles & Snow, 1978; Peng et al., 2018; Venkatraman, 1989).

The performance implications stem from strategic alignment, which happens when a restaurant successfully aligns its strategy with the internal elements and designs (Ngo, 2023d). Venkatraman and Camillus (1984) identified several manifestations of alignment, including mediating and regulating analytical methodologies. However, Boyd et al. (2012) proposed that a significant portion of research focuses on examining moderating effects rather than mediating ones. This research adopts a mediating analysis approach to investigate strategic alignment.

### 1.6. Research model

According to Morgan et al. (2009), MO is an intangible resource that permits competitive advantages. This view serves as a theoretical lens to explain how and why small restaurants in Vietnam can achieve RP by adopting MO. The performance implications of MO can be explained based on the VRIO framework, a framework of the resource-based view. MO is an intangible resource that is valuable to restaurants, rare in the market, and difficult for rivals to imitate. Such a resource allows small restaurants to gain temporary competitive advantages according to the VRIO framework.

Furthermore, when small restaurants successfully organise this resource, they can achieve sustainable competitive advantages, as outlined in the VRIO framework. In this regard, small restaurants gain high RP because they sustain their competitive advantages. Ketchen Jr et al. (2007) stated that exploiting MO is necessary for successful performance outcomes. Some scholars (see Atuahene-Gima, 2005; Day, 1994) consider MO valuable as it precedes capability building. As a result, taking into account these capabilities is necessary to capture the core concept of the RBV in explaining the effects of MO on performance (Murray et al., 2011).

According to the VRIO framework, the sustainability of competitive advantages requires the ability of the organisation to organise its resources successfully. In the RBV, there is a limitation regarding the proposition of an analytical framework for assessing how organisations can successfully organise their resources. In this regard, examining the impact of MO on RP from an additional perspective, such as the contingency perspective, can overcome this limitation. According to contingency theory, one reason is that small restaurants can align their strategy with MO to achieve performance improvements. This aligns with the argument that small restaurants should enhance their ability to exploit MO resources. This study posits that pursuing DS is the method to exploit MO effectively. Thus, drawing from both a contingency perspective and the RBV, the study posits that the positive impact of MO on PR is contingent upon implementing DS. This study relies on the Cartesian framework of Venkatraman and Camillus (1984) to propose strategic alignment of the research model. This alignment indicates the mediating effects of DS on the link between MO and RP.

According to Baron and Kenny (1986), to examine the mediating effects, it is necessary to examine the relationships between independent variables and mediators, independent and dependent variables, and mediators with dependent variables. In response to the research questions, this study proposes a research model that includes four hypotheses. Based on the literature, the following sections provide the development of those hypotheses.

### **1.7. The direct association between MO and RP**

Restaurants with high MO can improve four perspectives of RP based on the balanced scorecard approach. First, MO aims to gain insight into customers' demands, expectations, and preferences. Successfully achieving MO is shown to result in high customer satisfaction and loyalty because the organizations effectively meet these requirements with their products and services. In this regard, MO positively impacts the customer perspective. Second, Kurniawan et al. (2021) found that MO significantly supports organizations in enhancing business process agility. This agility is proposed to enhance the capacity to rapidly and effectively adjust to the market environment, thereby improving the efficiency of internal organizational processes (Chen et al., 2014). This leads to improvements in the business process perspective. Third, the learning and growth perspective corresponds to the innovation and growth perspective (Marr & Adams, 2004). In the literature, MO is shown to have a positive relationship with innovation Ngo (2023b) and learning capabilities (Kim et al., 2016). Consequently, MO positively impacts this perspective. Lastly, regarding the financial perspective, recent MO studies (Kazemian et al., 2021; Wilson & Liguori, 2022) document its positive association with financial performance. Hence, based on these arguments, this study proposes the first hypothesis.

H1: MO is positively associated with RP.

### **1.8. The direct association between MO and DS**

Restaurants with high MO are more likely to pursue DS for the following reasons. First, an MO organisation has a deeper understanding of customer needs and preferences, resulting in a heightened ability to develop products or services that meet customer requirements (Ho et al., 2018). Consequently, customer insight also enables organisations to differentiate their offerings, making their products and services unique and authentic (Nasir, 2019). Furthermore, customer insight allows organisations to stay ahead in the market, and their product and service offerings differ from those of their competitors (Birn & Stone, 2021; Töytäri, 2018). In this regard, adopting DS is effective because MO enhances both the uniqueness and authenticity of organisations. Second, Ngo (2023b) demonstrated that MO is crucial in fostering both incremental and radical innovation. According to Shao et al. (2023), when organisations successfully enhance innovation, they adopt DS. Considering these two reasons, this study presents the third hypothesis based on the explanations above.

H2: MO is positively associated with DS.

### **1.9. The direct association between DS and RP**

Pursuing DS enables restaurants to achieve enhanced RP due to the following aspects. First, following DS has positively impacted customer loyalty (Souitaris & Balabanis, 2007). It affects the customer perspective because customer loyalty is a sign of customer satisfaction (El-Adly, 2019). Second, the adjustment of internal processes, aimed at cost reductions, enhancing profitability, improving quality and time to market, and gaining commercial success, plays a crucial role in new service development in hospitality organisations (Ordanini & Maglio, 2009). In service sectors, organisations develop new services by following DS and by adjusting the internal processes (Das & Joshi, 2007). Hence, this strategy positively impacts the internal process perspective. Third, the learning and growth perspective aims to foster human capital by developing and enhancing employees' abilities to learn and improve (Cohen et al., 2008). It is argued that DS boosts the development of such human capital, leading to high innovativeness (Selvarajan et al., 2007). In this regard, DS is positively associated with the learning and growth perspective. Lastly, DS is expected to influence the financial perspective as Banker et al. (2014) indicated an association between DS and financial performance. This study presents the third hypothesis based on the explanations above.

H3: DS is positively associated with RP.

### **1.10. The mediating effect of DS on the association between MO and RP**

The literature suggests that examining the indirect effects of MO on its outcomes provides more insight into the conditions under which MO is effective. Similarly, from the contingency perspective, strategy is the contingent factor that must align with internal organisational factors to enhance performance outcomes. According to the Cartesian framework by Venkatraman and Camillus (1984), strategy mediates the relationship between these factors and performance outcomes. From this viewpoint,

this study posits that DS is the mediator in the relationship between MO and RP. Specifically, as argued earlier, MO fuels DS because it provides insights into customers' needs, preferences, and expectations. Consequently, restaurants can differentiate their services and position themselves as the market's first movers. It is also argued that DS supports the four perspectives of RP, according to balanced scorecard approaches. In this context, the alignment between these elements results in high RP. This argument is supported by prior studies (Kraus et al., 2020; Ngo, 2021a, 2022b; Sánchez et al., 2015) which demonstrate that when strategy mediates the relationship between internal factors and performance outcomes, a strategic fit is achieved. Therefore, in line with these studies, this study anticipates the final hypothesis.

H4: DS has a mediating effect on the association between MO and RP.

## 2. METHODOLOGY

### 2.1. Data collection

Given the absence of secondary data to measure MO and DS and the difficulty in obtaining subjective data to measure RP, this study relies on a survey-based approach to gather primary data, aligning with successful methodologies used in prior studies (Jogarathnam, 2017a, 2017b, 2018; Köseoglu et al., 2013). To ensure a representative sample, previous researchers (Beka Be Nguema et al., 2022; Chae et al., 2017; Ngo, 2022a, 2023a; Yu & Huo, 2019; Yu et al., 2021) randomly selected firms from Yellow Pages, an online directory of businesses categorized by industry. Yellow Pages has shifted primarily online and provides contact information such as phone numbers and email addresses. Researchers used Yellow Pages when other databases were unavailable to gather information on all known enterprises in a country (Grimmer et al., 2016). This study follows a similar approach by using the sampling pool based on Yellow Pages to survey SMEs and access their email addresses. The data collection process relies on the database available on the website of Vietnam Yellow Pages (2022), which includes over 250,000 email addresses of currently operating enterprises in Vietnam.

In total, 1,500 emails were sent to target respondents. 156 respondents completed their survey. Twelve observations were removed due to the most missing values (e.g., more than 70%). In total, 144 observations were used in the analysis. During the data-gathering process, several conditions were applied. Firstly, the respondents consisted of owners or managers of small restaurants. The restaurants analysed in the study were categorised as follows: (1) micro-restaurants with fewer than 10 employees; (2) small restaurants with fewer than 50 employees.

Table 1: Respondents' and restaurants' characteristics

		Frequencies	%
Respondents' characteristics			
Gender			
	Male	65	45.14
	Female	79	54.86
Title			
	Owner	89	61.81
	Manager	55	38.19
Tenure			
	< 5 years	42	29.17
	5 - 10 years	59	40.97
	10 - 15 years	25	17.36
	15 - 20 years	13	9.03
	> 20 years	2	1.39
Education			
	High school or less	76	52.78
	Bachelor	57	39.58
	Master	11	7.64

		Frequencies	%
Restaurants' characteristics			
Number of employees			
	< 10 employees	18	12.5
	10 - 20 employees	49	34.03
	20 - 30 employees	52	36.11
	30 - 40 employees	12	8.33
	40 - 49 employees	8	5.56
Years since founding			
	< 5 years	38	26.39
	5 - 10 years	52	36.11
	10 - 15 years	28	19.44
	15 - 20 years	15	10.42
	> 20 years	9	6.25

## 2.2. Measures

This study used the instrument of Narver and Slater (1990) to measure MO. This instrument was operationalized as a reflective/reflective second-order construct, which includes three dimensions: customer orientation (CUO), competitor orientation (COO), and inter-functional coordination (IFC) (see Tajeddini et al., 2006). Similar to Köseoglu et al. (2013), this study utilizes the instrument of Zahra and Covin (1993) to measure DS. In alignment with Mehralian et al. (2018) and Mehralian et al. (2017), this study measures RP based on the BSC as a second-order construct, which comprises four dimensions: finance (FIN), customer (CUS), internal process (PRO), and learning and growth (LAG). RP was defined as a reflective/reflective second-order construct comprising these four dimensions. Finally, restaurants' size (SIZE) and age (AGE) are used to control for RP. Table 2 details the variable operationalization for this study.

Table 2: Variable operationalisation

Higher-order constructs	Lower-order construct	Items	Statements
Market orientation	Customer orientation	CUO_1	Our objectives are driven primarily by customers' satisfaction.
		CUO_2	We constantly monitor our level of commitment and orientation to customers.
		CUO_3	Our strategy for competitive advantage is based on our understanding of our customer's needs.
		CUO_4	Our strategies are driven by our beliefs about how we can create greater value for customers.
		CUO_5	We measure customer satisfaction systematically and frequently.
		CUO_6	We give close attention to after-sales service.
	Competitor orientation	COO_1	Our salespeople regularly share information within our business concerning competitors' strategies.
		COO_2	We rapidly respond to competitive actions that threaten us.
		COO_3	We target customers where we have an opportunity for competitive advantage.
		COO_4	Top management regularly discusses competitors' strengths and strategies.
	Inter-functional coordination	IFC_1	Our managers from every function regularly visit our current and prospective customer.
		IFC_2	We freely communicate information about our successful and unsuccessful customer experiences across all business functions.
		IFC_3	All of our functions are integrated in serving target market.
		IFC_4	All of our managers understand how everyone in our business can contribute to creating customer value.
		IFC_5	We share resources with other business units.

Higher-order constructs	Lower-order construct	Items	Statements
Restaurant performance	Differentiation strategy	DS_1	Our restaurant uses new methods and technologies to create superior dishes.
		DS_2	Our restaurant emphasises on new dish development.
		DS_3	In our restaurant, the rate of new dish introduction to market is high.
		DS_4	In our restaurant, the number of new dishes offered to the market is high.
		DS_5	The advertising and marketing are intensive.
		DS_6	Our restaurant develops and utilises sales force.
		DS_7	Our restaurant focuses on building strong brand identification.
	Finance	FIN_1	Our restaurant has been successful in efficient and effective use of its investment.
		FIN_2	Our restaurant has been successful in reducing unnecessary costs and waste.
		FIN_3	Our restaurant has a good rate of return.
		FIN_4	Compared to similar restaurants, the average productivity rate is better in our restaurant.
	Customer	CUS_1	Our restaurant has succeeded in achieving customer satisfaction
		CUS_2	Our restaurant has been successful in identifying customers' demands.
		CUS_3	Our restaurant has been successful in providing customer service.
		CUS_4	Our restaurant has been successful in addressing customer complaints.
	Internal process	PRO_1	Our restaurant has been successful in improving quantity and quality of services.
		PRO_2	Our restaurant has succeeded in implementing internal processes in a timely fashion.
		PRO_3	Our restaurant has been successful in research and development.
		PRO_4	Our restaurant has been successful in its working methods.
	Learning and growth	LAG_1	Our restaurant pays appropriate attention to increase the skills and knowledge of staff.
		LAG_2	Our restaurant pays great attention to increase the employee satisfaction.
		LAG_3	Our restaurant has been successful in developing creative ideas.
		LAG_4	Our restaurant pays great attention to identify the staff development needs.

### 2.3. Common method bias and non-response bias

Harman's single-factor test was conducted to examine common method bias (Podsakoff & Organ, 1986). A t-test analysis was conducted to compare the characteristics of respondents who completed the survey early to those who completed it later (Clotey & Grawe, 2014), aiming to assess non-response bias. The results show no concern for either type of bias in this study.

### 2.4. Partial least squared structure equation modelling

This study relies on latent constructs to measure latent variables and to assess the mediating effects. Therefore, partial least squares structural equation modeling (PLS-SEM) was utilized. This method estimates the complex causal-effect relationship between latent variables by maximizing total variances explained by latent dependent variables in the models (Hair et al., 2011). In addition, this method is capable of handling mediating effects (see Sarstedt et al., 2020).

## 3. EMPIRICAL RESULTS

### 3.1. Measurement model

Due to the presence of a second-order construct in the model, a two-stage approach is required, consisting of two steps, to examine the measurement model. The first step involves examining first-order constructs (CUO, COO, IFC, DS, FIN, CUS, PRO, LAG), and the second step involves assessing the second-order constructs (MO, RP).

In the first step, this study evaluates indicator loadings, internal consistency, convergent validity, and discriminant validity of first-order constructs. Indicator loadings must be higher than the threshold value of 0.708 (Hair et al., 2019). According to Hair et al. (2011), achieving internal consistency requires Cronbach's Alpha and the constructs' composite reliability to be



higher than the threshold values of 0.7. Convergent validity is established when average variance extracted (AVE) values are higher than the threshold value of 0.5 (Hair et al., 2019). Discriminant validity is confirmed when the correlation's heterotrait-monotrait (HTMT) ratios are lower than 0.85 (Henseler et al., 2015). The results led to the removal of CUO\_2 and CUO\_3 due to low indicator loadings. Furthermore, Table 3 confirms that all requirements are satisfied.

Table 3: Cronbach's Alpha, Composite reliability, AVE, and HTMT ratios of first-ordered constructs

	Cronbach's Alpha	CR	AVE	HTMT ratios								
				COO	CUO	CUS	DS	FIN	IFC	LAG	PRO	
COO	0.787	0.861	0.609									
CUO	0.830	0.873	0.536	0.606								
CUS	0.814	0.876	0.638	0.173	0.246							
DS	0.887	0.912	0.598	0.588	0.362	0.353						
FIN	0.792	0.865	0.616	0.201	0.222	0.523	0.396					
IFC	0.839	0.886	0.609	0.639	0.44	0.188	0.512	0.134				
LAG	0.804	0.870	0.626	0.250	0.109	0.468	0.399	0.486	0.103			
PRO	0.791	0.864	0.614	0.251	0.134	0.577	0.491	0.526	0.098	0.486		

In the second step, the same approach was utilized. It is noted that three first-order variables, CUO, COO, and IFC, were converted into three indicators to measure the second-order construct (MO). A similar process was applied to RP, which consisted of four indicators: FIN, CUS, PRO, and LAG. The factor scores for these variables were derived from the first step. The assessment of the second-order constructs followed a method similar to that used for the first-order constructs. Table 4 shows the validity of internal consistency, along with convergent and discriminant validity for MO and RP.

Table 4: Cronbach's Alpha, Composite reliability, AVE, and HTMT ratios of second-ordered constructs

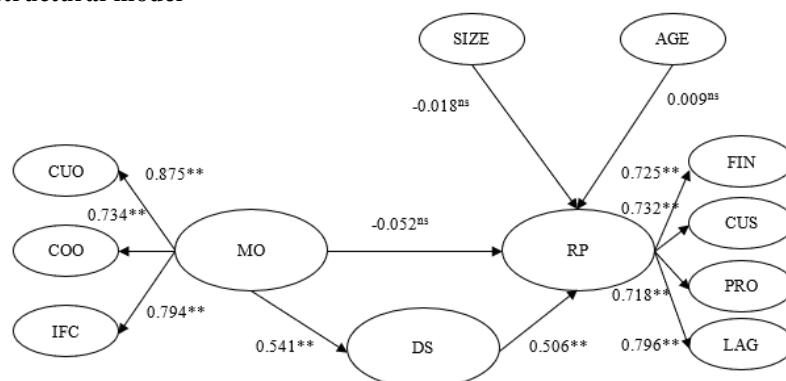
	Cronbach's Alpha	CR	AVE	HTMT ratios		
				DS	MO	RP
DS	0.887	0.912	0.598			
MO	0.726	0.844	0.645	0.658		
RP	0.732	0.831	0.553	0.584	0.306	

### 3.2. Structural model

Figure 1 shows the result of the strength and magnitude of hypothesised paths. The direct effects between MO and RP are insignificant ( $\beta=-0.052$ ,  $p=0.571$ ). MO has a significant positive impact on DS ( $\beta=0.541$ ,  $p<0.001$ ), and DS has a significant positive association with RP ( $\beta=0.506$ ,  $p<0.001$ ). Therefore, H1 is not supported by the analysis, while H2 and H3 are supported.

The mediating effects of DS were assessed using the approach of Zhao et al. (2010), which builds on the procedure of Baron and Kenny (1986). Because the results indicate insignificant effects between the independent and dependent variables when controlling for the mediator, it is necessary to examine the mediator's significance and the confidence interval. The results show that DS mediates the relationship between MO and RP ( $\beta = 0.274$ ,  $p < 0.001$ ). The confidence interval ranges from 0.182 to 0.399, which excludes zero. Therefore, the link between MO and RP is fully mediated by DS. Hence, H4 is supported.

Figure 1: Results of the structural model



## 4. DISCUSSION

### 4.1. Research implications

#### 4.1.1. The direct impact of MO on RP

The results indicate that MO does not influence RP. This suggests that in Vietnam, restaurants adopting MO do not necessarily achieve RP directly. This finding contrasts with Jogaratnam (2017b) and Jogaratnam (2018), who observed that in the U.S., small restaurants enhance their performance by adopting MO. Two contextual factors may influence this relationship. First, Vietnam is considered a transitional economy, shifting from a centrally planned to a market-oriented one (Kien & Heo, 2008). Implementing market-oriented practices in transitional economies is challenging due to government regulations, ownership structures, and resource availability (Qu & Ennew, 2005). In such economies, the level of MO is also influenced by economic developments (Sternquist et al., 2010). Consequently, a low degree of MO does not significantly improve the performance of small restaurants. Second, Vietnam's collectivistic culture encourages individuals to conform to social norms. Conformity is detrimental by restricting intra-organisation information flows within small restaurants. A low degree of information flow reduces MO effectiveness because it restricts the flow of market information within small restaurants. Therefore, small restaurants struggle to see performance improvements when adopting MO.

Furthermore, this finding differs from Salehzadeh et al. (2017), who reported that restaurants in Iran see direct performance improvements when adopting MO. Iran shares similarities with Vietnam in terms of collectivistic culture and emerging economy status. One reason for this contrasting result is the size of the restaurants studied. This study focused on small restaurants, whereas the mentioned study may have included larger restaurants, given no control over the sampling process. In terms of size, small restaurants require more financial resources (Rezaei et al., 2022), which restricts their marketing investments (Mishra & Ewing, 2020). A low marketing budget limits their understanding of customers' demands and competitors' strategic plans (Schwartz, 2012). Additionally, small restaurants face limited marketing capabilities (Van Scheers, 2011). In the MO literature, significant marketing capability is essential to realize the benefits of MO (Ngo & O'Cass, 2012). Thus, differences in the size of the restaurants studied could explain the variations in results. This finding adds to the restaurant literature by highlighting the impact of MO on performance in collectivistic and transitional economies.

#### 4.1.2. The direct impact of MO on DS

The results indicate a positive relationship between MO and DS. This suggests that in Vietnam, small restaurants pursue DS when they adopt MO. The significant association can be explained as follows: MO enables small restaurants to gain insights into their Vietnamese customers' needs regarding food and service preferences. This insight allows restaurants to understand the current demands of their customers and promptly adjust their food and services to meet these demands. Moreover, MO provides insights into the strategies of competitors due to a high competitor orientation. This knowledge helps restaurants gain new ideas from what their competitors are doing and refine them. Inter-functional coordination is crucial for small restaurants because this feature enables employees within the restaurants to collaborate and collectively exploit this insight to improve their food and services to meet customers' demands and outperform their competitors. This result is consistent with McManus (2013), which indicated that hotels in Australia adopting MO pursue a prospector strategy. It also aligns with findings by Ngo (2021c), who found that MO drives small businesses in Vietnam to adopt a prospector strategy.

#### 4.1.3. The direct impact of DS on RP

The findings also indicate a positive association between DS and RP. This suggests that in Vietnam, small restaurants following DS achieve higher RP. There are two explanations specific to the Vietnamese context. Regarding the characteristics of transitional economies, it is argued that individuals living in such economies tend to exhibit low trust (Kacprzak & Dziejowska, 2021). In Vietnam, it is more likely that people have low brand trust. In the hospitality sector, brand trust is positively associated with brand reputation (Kim et al., 2021), which is enhanced by DS (Chen et al., 2017). Consequently, DS enables small restaurants to enhance their trustworthiness, resulting in improved performance. Within Vietnam's collectivistic culture, certain subcultures can lead individuals to develop distinct preferences that diverge from the collective norms. This diversity is evident in the cultural differences within Vietnam (e.g., North and South cultures), causing individuals in a specific region to behave differently from those in other regions (Li et al., 2018). Furthermore, among the Vietnamese majority, there are 53 ethnic minority groups (Edmondson & Gregerson, 2007), each with unique preferences influenced by their local cultures. DS can enhance effectiveness by promoting the uniqueness of the restaurant's products and services, tailoring them to meet the specific preferences of these diverse groups. Consequently, small restaurants achieve high RP.

Additionally, this result parallels Köseoglu et al. (2013), who found that hotels in Turkey, a collectivistic and emerging country, could improve both financial and non-financial performance by pursuing DS. This finding enriches the restaurant literature by highlighting the impact of DS on performance in transitional economies and is notable as the first study to demonstrate the positive relationship between DS and performance using the balanced scorecard approach.

#### 4.1.4. The mediating effect of DS on the MO-RP link

This study demonstrates that DS fully mediates the relationship between MO and RP. Specifically, in Vietnam, restaurants achieve performance improvements when there is an alignment between DS and MO. Although MO is considered an intangible resource that is valuable, rare, and difficult to imitate by competitors, this resource must be effectively exploited to sustain a competitive advantage according to the VRIO framework (Barney, 1995). Accordingly, small restaurants can exploit this resource when adopting MO to sustain competitive advantages. An effective way for restaurants to achieve RP is to pursue DS, due to the alignment between MO and this strategy.

This finding is consistent with prior studies in other industries, which indicate that the link between MO and performance occurs through mediators (see Alnawas & Hemsley-Brown, 2019; Kajalo & Lindblom, 2015; Kiessling et al., 2016; Mahmoud et al., 2016; Ngo, 2021a, 2021c). This study makes a significant contribution to the MO literature by examining the mediating effect of DS on the relationship between MO and RP, thereby illuminating the mechanisms through which MO influences performance.

#### 4.2. Theoretical contributions

This study makes a valuable contribution to the theoretical development of the resource-based view by introducing a contingency perspective on how organisations can sustain their competitive advantages by exploiting their resources and capabilities. As highlighted by Ketchen Jr et al. (2007), the existing literature emphasises the importance of successfully leveraging MO for performance implications. However, scholars such as Atuahene-Gima (2005) and Day (1994) have recognised that MO is a precursor to capability building. Murray et al. (2011) noted that it is necessary to consider how these capabilities are exploited when examining the core concept of RBV and its effects on performance.

While the RBV provides an analytical framework for understanding how organisations can leverage their resources and capabilities, it lacks comprehensive perspective on how these characteristics can be organised to sustain competitive advantages. Recognising this limitation, this study introduces a contingency perspective to explore the exploitation of resources and capabilities. Through empirical analysis, this study demonstrates that aligning MO with DS is a form of exploitation, enabling small restaurants to achieve high RP. This study enriches the resource-based view's theoretical development by incorporating a contingency perspective and empirically examining the exploitation of resources and capabilities within the context of MO and DS. It expands our understanding of how organisations can effectively organise their characteristics to sustain competitive advantages, offering valuable insights for scholars and practitioners in strategic management.

This study adds to the Tourism and Hospitality Management (THM) journal in significant ways. Initially, it engages with RBV as found in the hospitality literature, where previous work published in THM journal has highlighted MO as a strategic resource that enables hotels to achieve notable performance outcomes (Božič & Knežević Cvelbar, 2016). Contrary to this, our research indicates a minimal direct correlation between MO and performance. The operational variances between hotels and restaurants, which are both part of the hospitality industry, may explain the different impacts of MO on performance in these sectors. Hotels emphasize personalized service and multiple customer touchpoints for long-term relationships, whereas restaurants focus on rapid, high-quality service and consistency to enhance customer loyalty. Thus, our study broadens the existing knowledge within the THM journal regarding the MO-performance relationship. Furthermore, this research empirically shows that DS has a positive impact on RP. This finding addresses the limitations pointed out by Cetinski and Milohnic (2008), who proposed models that connect competitive strategies with competitive advantages but observed limited understanding of how these strategies and advantages could improve performance outcomes.

#### 4.3. Managerial implications

Based on the findings of this study, restaurant managers in Vietnam should strategically align MO with DS to enhance RP. Understanding customer needs and competitor strategies and ensuring inter-functional coordination are crucial for developing market knowledge. However, integrating this knowledge to craft unique menu innovation, branding, and marketing approaches is equally vital. This integration leads to the restaurant's creation of distinctive, innovative offerings and service methods, which effectively translating into notable performance improvements. Moreover, enhancing performance leads to higher financial outcomes, elevates customer satisfaction, refines internal processes, and boosts staff development and employee creativity. Aligning market insights with distinctive offerings is essential to achieve comprehensive improvements across financial metrics, customer relations, operational efficiency, and employee growth. Such alignment is crucial for securing sustainable success in a competitive market.

## CONCLUSION

This study aims to draw upon the resource-based view and contingency theory to assess whether DS mediates the link between MO and RP. Data was collected from 144 small restaurants currently operating in Vietnam. PLS-SEM was utilized to assess the proposed model. The results indicate that DS fully mediates the relationship between MO and RP.

This study's results should be interpreted with some caveats. First, this study relies on measures previously used in other countries. Therefore, a translation was necessary to adapt the questionnaire into the local language. Thus, it may have introduced some noise due to the translation process. Second, data was collected at a single point in time due to the use of cross-sectional data. Therefore, it is subject to the limitations of causal inference. Third, a pilot test was not conducted, which may lead to concerns when interpreting the results. Fourth, the generalisation of this study's results should be approached with caution when applied in contexts other than the Vietnamese one, because data was collected from restaurants operating in Vietnam.

Despite the mentioned limitations, this study provides an avenue for future studies. First, this study shows that adopting MO cannot directly lead to RP. Based on a resource-based view, this study argues that restaurants should be able to exploit this intangible resource (e.g., MO) to gain RP. Therefore, future studies should examine whether combining this resource and restaurant capability can lead to RP. Second, González-Benito et al. (2014) argued that the external environment has a moderating impact on the relationship between MO and performance. Agyapong et al. (2020) also argued that the external environment has the same impact on the relationship between strategic choices and performance. Therefore, examining whether external environment variables have a moderating effect on the relationship between MO, DS, and RP would be valuable. Third, the findings can be generalised, with appropriate caution, due to the unique socio-economic conditions of the research location (i.e., Vietnam). Therefore, future studies could benefit from applying the model developed in this research to data from various emerging economies, thereby addressing the limitations associated with the unique socio-economic context of the research. Lastly, due to the limitation relating to the cross-sectional methodology used, future studies should use longitudinal data to assess the relevance of the results in terms of causal inference.

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