

# **An Empirical Evidence on the Usage of Internet Marketing in the Hospitality Sector in an Emerging Economy and its Relationship to Profitability**

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## **Abstract**

The hospitality sector in South Africa has been making use of Internet marketing techniques, with many hotels developing websites for marketing purposes. Given the well-recognised value of Internet marketing in the hospitality industry, the impact of Internet marketing on the profitability of the hospitality sector in South Africa was examined to establish factors which influence Internet marketing usage. Outcomes of this research indicate that the use of Internet marketing can positively influence business profitability and those factors such as technological competence, managerial support, level of star grading and alliances significantly influence Internet marketing usage in the hospitality sector.

**Keywords:** Hospitality, Internet marketing, Profitability

## **Introduction**

The growth of the Internet as a marketing tool has progressed daily since its inception. Over

the last decade, organizations in all sectors of the economy rushed to join the online business community and adopted the Internet in their daily business activities (Barnes & Hinton, 2007:1). In the hospitality context, many companies (especially hotels) have aggressively adopted the Internet as another marketing tool (Ulhas, 2007:6; Wei, Heif, Thomas, Combrink & Hubet, 2001: 45). The hospitality sector has not been left behind in adopting e-commerce, as it is evident from numerous hospitality properties that have established their presence on the Internet. However, it is not yet clear whether the spread and utilization of Internet marketing has improved the profitability of the South African hospitality properties. Thus, the real benefits of this tool are of major concern to both managers and researchers in the hospitality sector.

It is widely recognized that Information and Communication Technologies (ICTs) such as the Internet are rapidly expanding and have affected the way business is performed and the way organizations compete (Grandson & Pearson, 2004; Barnes & Hinton, 2007:1). It is known that the Tourism industry makes use of a diverse range of information (Ulhas, 2007:6) and is a main user of these technologies. Such technologies have affected the way tourism organizations conduct their business and, in particular, the way organizations market their tourism products.

The use of e-commerce technologies such as the Internet offers opportunities for tourism firms to expand their customer base, build communication with customers and related partners in a more cost-effective way (Kivijarvi & Saarinen, 1995; Lo & Darma 2000; Singh & Harmon, 2003; Ozituran & Roney, 2003; Shin, 2006). Although the impact of this new technology in business performance in the tourism sector has received considerable attention in the literature during the past years (Lo & Darma, 2000; Song 2005; Sunny, Kim & Jeong, 2004; Shin, 2006; Salwani, Marthandan, Norzaidi & Chong, 2009), its impact on business performance and profitability has rather been inconclusive. Research literature does not provide a reliable generalization on the relationships between e-commerce usage and business performance (Powell & Dent-Micallef, 1997; Lo & Darma, 2000). Some studies (Sunny *et al.*, 2004; Ulhas, 2007; Salwaniet *al.*, 2009) believe that Internet marketing brings about high profitability, while others (Powell & Dent-Micallef, 1997; Kivijarvi & Saarinen, 1995; Lo & Darma 2000; Singh & Harmon, 2003; Ozituran & Roney, 2003; Shin, 2006) found no relationship at all. Some researchers (Salwani *et al.*, 2009; Wen, Hau & Chang, 2005) indicate that the relationship between e-commerce and business performance is normally affected by the experience in which the business has used e-commerce. The conflicting results suggest that the relationship between e-commerce usage and business performance is much more complex than previously thought.

Resultantly, the impact of Internet marketing usage on the profitability of the South African hospitality sector, particularly the hotel and lodging sector, needs to be examined, especially because it is an area which has received little research attention. A considerable portion of the literature has emphasized the Impact of internet marketing on the performance of businesses indifferent countries (Ozituran & Roney, 2003; Sunny *et al.*, 2004; Chaston & Mangles, 2003; Shin, 2006; Salwani *et al.*, 2009). However, there is very little published literature on the impact of Internet marketing on the hotel and lodging sector in South Africa (Maswera, Davison & Edwards, 2008). Past research on Internet marketing in South Africa concentrated on the utilisation or the role of e-commerce or the Internet in tourism as a whole (Song, 2005; Elliott & Sewry, 2006; Maswera *et al.*, 2008; Elliott & Boshoff, 2009). As a result, there is no clear picture of the state of Internet marketing adoption and its impact within the South African hospitality industry. Verhoest *et al.*, (2007) commented that previous studies on Information Communication Technologies in South Africa have often limited themselves to the role of ICT *per se*, and failed to capture the critical role and complexity of the utilisation of ICT as a determining factor in shaping the impact on economic outcomes.

Graded hotels and lodges in South Africa are the focus of this investigation and, the reasons being: Firstly, as mentioned above, this sector has not been the central subject of study in this research area, especially in South Africa. Secondly, during the last few years, hotels worldwide have become increasingly dependent on information technologies such as the Internet for marketing, as well as to manage the diverse range of service provision needed in a

highly competitive and globalised market (Lo & Darma, 2000:2). Instead of conducting the study in a technologically advanced country, the researcher has chosen the developing economy with rapidly changing national information technologies. In terms of tourist demand, South Africa is as significant as any other tourist destination, since it is one of the most popular destinations in Africa. Hence, the need to recognize the importance of information technologies such as the Internet to remain competitive in the market is just as real as in other parts of the world.

The widespread use of the Internet facilitates greater opportunities to enhance efficiency and effectiveness of firms, thus the relationship between Internet marketing usage and business profitability in the South African Hotel and Lodging sector, necessitates proper investigation. Internet marketing usage should be seen to enable as an umbrella term encompassing the commonly used Internet marketing methods which are e-mail marketing, web advertising, online branding as well as the use of search engines and newsletters for marketing hospitality services. Newly developed Internet features such as twitter and facebook are not being regarded as indicative, the reason being that data from 2006-2009 received attention. It implies that during this period, most hotels and lodges were not using these new features for marketing. Thus, usage was measured using the number of Internet marketing methods that a company uses.

Scrutiny of the relationship between Internet marketing usage and business profitability involved an extensive literature review to determine what constitutes Internet marketing and which internal and external factors influence Internet marketing usage. The E-value model by Salwani *et al.*, (2009) was then adopted and some minor adjustments were made in order to examine the pre-and post adoption issues of Internet marketing. A perceptual survey was then carried out to establish the relationship between Internet marketing usage and business profitability as well as determining internal and external factors which can influence Internet marketing usage in the hotel and lodging sector of South Africa.

## Statement of the Problem

While it is apparent that Internet development and its application in tourism have attracted the attention of many researchers in both developed and developing nations, the relationship between e-commerce application such as internet applications and business performance has not yet been established. Researchers have not yet reached a general conclusion on the impact of Internet applications on business performance. Previous researchers present contradictory findings as some found a positive relationship between the two concepts (Sunny *et al.*, 2004; Ulhas, 2007; Salwani *et al.*, 2009) and some found no relationship at all (Kivijarvi & Saarinen 1995; Powell and Dent-Micallef, 1997; Lo and Darma, 2000; Singh & Harmony, 2003; Ozituran & Roney, 2003; Shin, 2006). This implies that the impact of e-commerce on business performance is still debatable.

In order to fully realise the benefits of Internet marketing investment and usage in the South African hospitality sector, a full-scale deployment at the post-adoption stage and its impact of business financial performance especially in a developing nation stand out as an important research topic.

Subsequently, an investigation aimed at examining the impact of Internet marketing usage on business profitability in South Africa was conducted. An investigation was embarked upon to analyse the relationship between Internet marketing usage and business profitability, followed by establishing internal and external factors which influence Internet marketing usage in the South African hospitality sector. Thus, it is intended to establish:

- the extent to which organisational and environmental factors influence Internet marketing usage and business profitability; and
- to establish whether a relationship between level Internet marketing usage and business profitability exists through consideration of the effect of a moderating variable (such as internet marketing experience).

The findings of this investigation could serve to not only inform decisions on the benefits of Internet marketing, but also to furnish useful guides to the establishments in the hospitality sector as well as firms of similar structure on how the Internet can best be deployed for improved business profitability. Thus, as theoretical framework to this investigation, an interactive, comprehensive and multi-dimensional theoretical model (E-value model by Salwani *et al.*, 2009) was used to fill the gaps of knowledge in the literature.

## **Literature Review**

The literature review will revolve around the application of e-commerce and business performance since internet application is a subset of e-commerce (Caldeira & Ward, 2003:10).

## **E-Commerce**

E-commerce is an unfolding phenomenon in view of technological advancement (Salwani *et al.*, 2009:160). From a research perspective, an increase in e-commerce usage, especially the advancement in the use of Internet features in all sectors of the economy, has led to the development of various theories and models related to the diffusion and use of information technology. However, from the literature, there is no integrated theoretical framework which has led to a fractured research stream with many suggestions and modifications of the existing models (Salwani *et al.*, 2009:163). Avlonities & Kayarani (2003:3) also indicate that since lack of established criteria for measuring the extent and success of Internet use exists, researchers need to develop concepts and standards which provide a mechanism for measuring investment opportunities and business success on the Internet. In line with the deliberations of this investigation, one of the more popular theories such as the RBV theory and the corresponding E-value model receives brief attention.

## **The Resource-Based View Theory (RBV)**

The RBV of a firm has emerged as an important theoretical perspective to understand the linkage between information technology and firm value. The theory maintains that resources that are valuable, rare and imitable can lead to sustainable competitive advantage (Bharadwaj, 2000:170). The RBV is a theory which emphasizes the internal capabilities of the organization in formulating a certain strategy to achieve a sustainable competitive advantage in its markets and industries (Caldeira & Ward, 2003:103). In general, the RBV theory addresses the central issue of how superior performance can be attained, relative to other firms in the same market and posits that superior performance results from acquiring and exploiting unique resources of the firm (Caldeira & Ward, 2003:130). The theory argues that competitive advantage can be generated by the unique “bunch” of resources and capabilities that a business has access to. The resources can be thought of as inputs that enable an organization to carry out its activities which can either be tangible (physical, financial and human resources) or intangible (intellectual resources and reputation). On the other hand, capabilities which are sometimes called “core competencies” are a cluster of attributes that an organization possesses, which in turn, allows it to achieve a competitive advantage, such as knowledge and special skills (Chen & Zhu, 2004). In relation to e-commerce or Internet innovation, the RBV theory is used to demonstrate how firms leverage their investments in Internet related issues to create unique Internet-enabled capabilities that determine firm’s overall commercial effectiveness. The RBV theory is embraced by several researchers in the e-commerce field (Powell & Dent-Micillef, 1997; Caldera & Ward, 2003; Ozituran & Roney, 2003; Zhu, Derick & Kraemer, 2004; Elliott & Boshoff, 2009).

Despite its wide acceptance by e-commerce researchers, the RBV theory has been criticised by others (Ozituran & Roney, 2003; Salwani *et al.*, 2009; Hooley, Moller & Broderick, 1998 cited in Elliott & Boshoff 2009; Barney, 2001). These researchers agreed that the RBV is

inwardly focused and static, rather than dynamic in nature. Barney (2001:12) added that a firm can be profitable by exploiting its internal resources, but the external factors ought also to be considered as they can affect the activities of a firm. Salwani *et al.*, (2009) further indicate that a significant gap in literature regarding the application of the RBV of business as a means of understanding e-commerce performance exists, which makes it imperative to consider the E-value model as used in relation to analysing the relationship between Internet marketing and business profitability.

## **E-Value Model**

After noting gaps in the RBV theory and the Technological, Organisational and Environmental model (TEO), Salwani *et al.*, (2009) proposed the E-value model, which is a combination of the RBV theory and the TEO model. The general assumption regarding this model is that the usage of e-commerce is influenced by multiple factors which range from internal factors to external factors. The model combines the pre-adoption issues and post-adoption issues of e-commerce usage and introduces the effect of a moderating variable (experience) on the relationship between the usage of e-commerce and business performance. It also introduces the effect of a mediating variable (back-end integration) on the relationship between e-commerce usage and business performance. The model then further links e-commerce usage to business performance.

This model was pre-tested in the Malaysian tourism sector by Salwani *et al.*, (2009). It was thus found that the main advantage of this model was that it is a multi-dimensional research model which considers the pre-and post-adoption issues of e-commerce usage, its direct and indirect effects and the effect of the moderator and mediating variables. Salwani *et al.*, (2009) argued that experience of implementing e-commerce has a strong contingent effect on the relationship between e-commerce usage and business performance, thus they included e-commerce experience as a moderating variable on the relationship between e-commerce usage and business performance in the model. They also proposed that the nature of the relationship between e-commerce usage and business performance is clarified by e-business capability such as back-end integration and subsequently included back-end integration as a mediating variable in the model. Salwani *et al.*, (2009) argued that the RBV theory on its own is not sufficient to explain the issues of e-commerce usage, neither is the TEO theory. Therefore, Salwani *et al.*, (2009) formulated the E-value model to examine the relationship between e-commerce and business performance. Salwani *et al.*, (2009) found that e-commerce experience has a contingent effect on the relationship between e-commerce usage and business performance and back-end integration and e-commerce usage significantly influence business performance.

Unfortunately, no previous literature criticizing this model exists, since it is a recent model in the field of e-commerce. However, it was found that a limitation of this model is that it is a newly developed model which has never been tried or tested by other researchers than Salwani *et al.*, (2009). Subsequently, the adjusted E-value model which is a combination of the E-value model and RBV theory is explained in the next section.

## **E-Value Model and Relative Adjustments**

As the Internet and its related technologies are increasingly attracting the attention of many researchers and business managers, the literature on making use of the Internet for marketing purposes remains unclear, especially from the organisational perspective, particularly on the use of the Internet and value creation. A conceptual model that is not based on theory is needed for analyzing the complexity of internet applications and business performance (Avlonities & Kayarani, 2003:3; Melville, Kraemer & Gurbaxani, 2004:15). In a bid to solve this issue Salwani *et al.*, (2009) as mentioned above developed an interactive, comprehensive and multi-dimensional theoretical model known as the E-value model. This helped to solve some missing links in the literature.

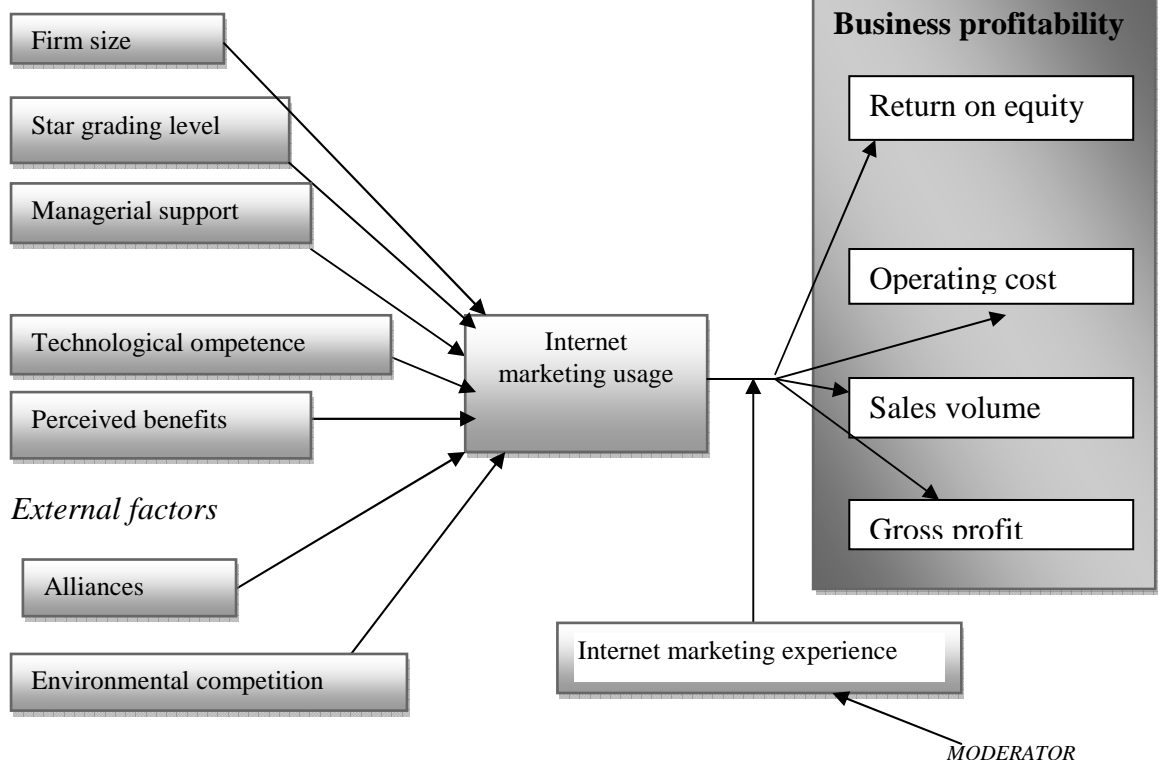
Although, Salwani *et al.*, (2009) analyzed the relationship between e-commerce and business performance, this does not give a clear understanding on whether e-commerce applications such as internet usage can really improve business profitability, since performance is measured by a number of variables. Therefore, some adjustments were made to the E-value model as shown in Table 1 which appears as appendix 1 to this paper. These adjustments led to the development of the adjusted E-value model, which appears in the appendix section and was used to examine the impact of Internet marketing usage on business profitability. Thus, the adjusted model shows the effect of internal external factors on Internet marketing as well as the effect of Internet marketing usage on business profitability. The adjustments were made to cater for other factors such as level of star grading, existence of alliances as well as to consider the influence of internet marketing on one performance measure, which is profitability. Salwani *et al.* (2009) used the E-value model to analyze the impact of e-commerce on business performance, hence the study concentrated on one critical performance measure. Below is an explanation of how the hypotheses for this study were formulated.

**Table 1:** Proposed adjustments to the E-value model (Salwani *et al.*, 2009)

E-value model	Proposed framework for this investigation
Absence of important variables such as perceived benefits and existence of alliances that could have significant influence on the use of e-commerce (internet marketing).	The inclusion of two new variables: perceived benefits, existence of alliances and substitute firm scope with level of star grading.
Measure effect of e-commerce on business performance.	Measure the effect of internet marketing on business profitability.
Use e-commerce usage as a moderating variable	Use internet marketing experience as moderating variable

**Source:** researchers' own compilation

*Internal factors*



**Figure 1:** The adjusted E-value model

**Source:** researchers' adjustment of E-value model by Salwani *et al.*, (2009)

## **Factors Affecting Internet Marketing Usage**

Four internal factors as well as two external factors were included in this section as shown below:

### **Internal Factors**

#### **Internal Factor 1: Firm Size and Internet Marketing Usage**

Firm size is one of the factors that can influence Internet marketing spending as well as the sales of a firm (Kan, 2005). Large firms are more likely to benefit from the use of e-commerce than smaller ones, in view of the fact that they have more resources than smaller ones (Salwaniet *al.*, 2009). This can be clearly understood as firm size represents several important aspects of the organisation, such as resource availability and prior technological experience (Zhu, Kraemer, Xu & Derick, 2004). Firm size, in the hotel sector, can be measured by a number of aspects such as the number of permanent employees, number of rooms and number of beds (McMaster, Kato & Kan, 2005; Ye, Rob & Gu, 2008). It can therefore be derived that size (as measured by the number of rooms) has a significant influence on Internet marketing usage of hotels and guesthouses. To ascertain whether size has a significant influence on internet marketing usage,  $H_1^a$  is proposed.  $H_1^a$ . *Business size significantly explains variance in internet marketing usage in the South Africa graded hotels and lodges.*

#### **Internal Factor 2: Level of Star Grading and Internet Marketing Usage**

Property star rating is able to influence Internet marketing usage as well the revenue of a hotel (Ye *et al.*, 2008). It is also indicated that hotel star rating has a significant effect on the use of the Internet (Wei *et al.*, 2001). Wei *et al.*, (2001) indicated that hotels can be regarded as lowly graded or highly graded. In this instance, one to two star hotels are regarded as lowly graded, and three to five star hotels are regarded as highly graded hotels. Hence  $H_2^a$  is proposed as follows: *Level of star grading significantly explain the variance internet marketing usage in the South African graded hotels and lodges.*

#### **Internal Factor 3: Top Management Support and Internet Marketing Usage**

A number of studies indicate that top management support is the most critical factor in determining the successful use of e-commerce (Del Aguila-Obra, & Padilla-Melendez, 2006:13). Top management commitment is one of a small set of organizational factors which constantly re-appear as significantly related to the successful use of information technologies (Wu, Mahajan & Balasubramaniam, 2003). For the purpose of this investigation, managerial support refers to the manner in which top management places emphasis on the use of Internet marketing, how top management advises on the use of Internet marketing and how they are willing to provide the necessary resources. In general, if top managers are committed to the use of Internet marketing, it will allow other subordinates to follow suit. To test whether managerial support can significantly influence internet marketing usage  $H_3^a$  is proposed as follows: *Managerial support significantly explains the variance in internet marketing usage in the South African graded hotels and lodges.*

#### **Internal Factor 4: Technological Competence and Internet Marketing Usage**

The term competence can be seen as the acquisition of knowledge, skills and abilities at a sufficient level of expertise, enabling properties to perform in an appropriate work setting (Cloete, Courtney & Dfintz, 2002:8). On the other hand, many researchers view technological resources as an important factor for successful Internet adoption (Kuan & Chau, 2001; Del Aguila-Obra & Padilla-Melendez, 2006; Salwani *et al.*, 2009), especially as a strong backing of e-commerce usage. In this investigation therefore, technological competence refers to the Information Technology (IT) personnel that enable the development and implementation of Internet marketing. If the IT personnel have sufficient training in the ways to use the Internet, then implementing Internet marketing could be successful. Realizing that previous authors support technological competence as an important factor affecting e-commerce usage, the following hypothesis was formulated: *Technological competence significantly explain the variance in internet marketing usage in the South African graded hotels and lodges (H<sub>4</sub><sup>a</sup>).*

#### **Internal Factor 5: Perceived Benefits and Internet Marketing Usage**

Del Aguila-Obra & Padilla-Melendez (2006:130) indicate that one of the factors that can affect the adoption and use of the Internet is the perceived benefits of using such technology. Cloete *et al.*, (2002:8) also mention that adoption of e-commerce is largely based on perceived benefits. Perceived benefits can be direct, such as cost saving, an increase in sales volume and an increase in the number of new customers or indirect aspects such as convenience and the building of customer loyalty. In this investigation, the perceived benefits which were considered are: the ability of the Internet to reach global markets and increase in sales volume as well as the aspect of convenience. To test whether perceived benefits can influence the use of internet marketing, H<sub>5</sub><sup>a</sup> which states that: *Internet perceived benefits significantly explain the variance in internet marketing usage in the South African graded hotels and lodges* is proposed.

### **External Factors**

#### **External Factor 1: Existence of Alliances and Internet Marketing Usage**

Business alliances can take on a number of forms and thus include personal contact networks, social networks, business networks and marketing networks (McGowan & Durkin, 2002:56). In this investigation, alliances refer to the extent to which hospitality properties use business associates or contact networks as a mediating resource to plan and implement their Internet marketing strategies. Alliances play an important part in small and medium tourism businesses marketing, by reducing uncertainty and facilitating trust, thereby reducing the risk for the parties involved (Elliott & Boshoff, 2009:40). To establish whether a relationship between the existence of alliances and Internet marketing usage could be found, the following hypothesis was formulated: *Existence of alliances significantly influence internet marketing usage in the South African graded hotels and lodges (H<sub>6</sub><sup>a</sup>).*

#### **External Factor 2: Environmental Competition and Internet Marketing Usage**

Research literature supports that the decision to engage in a particular behaviour, depends on what is happening in the environment at that particular moment (Salwani *et al.*, 2009).



Competitive pressures and customer pressure make up external drivers that can influence the adoption of Internet marketing. In this investigation, environmental competition was assessed using three antecedents namely; discussion of competitors' strength and weakness on Internet marketing, responding to competitors' actions and lastly the value placed on tracking competitors' activities. To establish whether environmental competition can influence Internet marketing usage, the following hypothesis was tested; *Environmental pressure significantly explain the variance in internet marketing usage in the South African graded hotels and lodges (H<sub>7</sub><sup>a</sup>).*

The next section considers the effect of internet marketing usage as well as Internet marketing experience on the profitability of the South African hospitality sector.

## Internet Marketing Usage and Business Profitability

It remains unilaterally that the overall objective of using Internet marketing is to maximize profit. Clayton & Crisiscuolo (2002:32) indicate that firms that use e-commerce are more likely to assess their innovations as having high positive impacts on firm performance than those who do not make use of e-commerce. However, as previously mentioned little research has been done at this stage on the extent to which Internet marketing influence business profitability in the South African hospitality sector. Thus to establish this, the following hypothesis was tested; *Internet marketing usage significantly influences business profitability for the South African graded hotels and lodges (H<sub>8</sub><sup>a</sup>).*

**Table 2:** Variables used in the study

Independent variable	Measurements	Sources
<b>Internal factors</b>		
Property size	Number of rooms	Salwaniet <i>al.</i> , (2009)
Managerial support	Provide resources necessary for internet marketing, keep track with latest developments in internet features, emphasise in adapting to internet related market trends	Chiochenet <i>al.</i> , (2000), Wu <i>et al.</i> , (2003)
Tech-competency	Trained personnel, skilled personnel	Salwaniet <i>al.</i> (2009)
Level of star grading	Star grading is divided into two levels: lowly graded and highly graded	Wei <i>et al.</i> , (2003)
Perceived benefits	Reduction in advertising cost, ability to increase sales volume, improvement in marketing communication, convenience and ability to reach global markets	Chiochenet <i>al.</i> , (2000),
<b>External factors</b>		
Competition	Responding to competitors action on internet marketing Use of competitors' information to maintain competitive advantage Aware of competitors' strength and weakness on internet marketing.	Wu <i>et al.</i> , (2003) Del Aguila-Obra and Padilla-Malendez (2006), Zhu <i>et al.</i> , (2005)

Alliances	Provide information on internet marketing Influence how business markets over internet Improve proficiency at obtaining information on how to market over the internet	Elliott and Boshoff (2009)
<b>Dependent variable</b>		
Profitability	Return on equity, Sales volume, Profit margin, Operating cost	Wu <i>et al.</i> , (2003),
Internet marketing usage	E-mail marketing, online branding web advertisement, use of newsletters use of search engines	Nothnagel (2006)
<b>Moderating variable</b>		
Internet marketing experience	Number of years using internet marketing	Salwaniet <i>al.</i> , (2009)

The last aspect which was considered in this study was the effect of Internet marketing experience on the relationship between Internet marketing usage and business profitability. Previous experience with Internet marketing is a vital factor in the successful utilization of this technology, thus it is believed by Salwani *et al.*, (2009:56), that experience in the use of e-commerce will have a strong contingent effect on the relationship between e-commerce usage and business financial performance. Khan & Motiwalla, (2002:34) conclude that experience in e-commerce is an important factor which determines usage and business financial performance. To establish whether Internet marketing experience can significantly moderate the relationship between Internet marketing usage and business profitability, this aspect received attention and the following hypothesis was posed; H<sub>8</sub><sup>a</sup>: *The relationship between internet marketing usage and business profitability is significantly moderated by the internet marketing experience (years)*

To achieve the above mentioned objectives, a certain methodology needs to be applied. Thus, the next section explains the methodology used for this study.

**Table 3:** Cronbach's alpha coefficient for each construct

Variable	No of indicators	Alpha coefficient
Star grading	5	0.811
Technological competence	2	0.671
Managerial support	3	0.715
Perceived benefits	4	0.615
Environmental competition	2	0.723
Alliance	3	0.837
Business profitability	4	0.690
Internet marketing usage	4	0.734

**Source:** researchers' own compilation

## Methodology

All aspects mentioned above were investigated into, making use of a quantitative research approach. According to this study, all graded hotels and lodges in the Eastern Cape Province of South Africa formed part of the enquiry, owing to small number of properties. The Tourism Grading Council of South Africa reveals that there are 80 graded hotels and lodges in the Eastern Cape Province. The population is thus made up of 80 properties. To obtain information, all managers and marketing managers were targeted with the assumption that they were able to report about changes in business performance since they were involved in business management meetings as well as the general administration of the properties. Data for this investigation were collected from September 2011 to November 2011. This study used data from 2006 to 2009 assuming that the World Cup Tournament which was held in 2010 might affect the hospitality sector's profit levels. A set of indicators used to measure each variable used in this study is found in Table 2 in the appendix section. Five-point Likert type scale questions were used on all variables except on property size and star grading since these requires actual counting. The following section discusses the data collection and analysis procedure.

**Table 4:** Summary of the proposed model

model	R	R square	Adjusted $R^2$	F Change	Sig Change	Durbin- Watson
1	0.813	0.661	0.622	16.748	0.000	2.224

**Source:** extracts from statistical analysis

**Table 5.** Results of multiple linear regression analysis

Model 1	Standardised coefficients	Sig.
(Constant)		0.077
Tech competent	0.152	0.050*
Level of star grading	0.862	0.000***
Business size	-0.113	0.163
Competition	0.063	0.123
Perceived benefits	-0.067	0.391
Alliances	0.089	0.001**
Managerial support	0.502	0.012**

\*\*\*Significant at 1%, dependent variable: internet marketing usage

\*\*Significant at 5%

\*Significant at 10%

## Data Collection and Analysis Procedure

A set of structured questions were used to collect information as part of a formal questionnaire and two questionnaires were distributed to each property. Although 160 questionnaires distributed through the self-administered method, only 136 of these questionnaires were returned, giving a response rate of 78%. In order to steer clear of bias, the

response rate for using the self-administering method should be more than 70%. In this study, the response was greater than 70%, which is acceptable for a self-administered questionnaire (Hair *et al.*, 2006:102).

The responses to the questionnaire were then coded, in order to sort data into categories (McDaniel & Gates, 2001:56). This was done using Microsoft office Excel 2007. Descriptive statistics under the Social Statistical Package for Social Sciences (SPSS18) and inferential statistical methods such as regression analysis and Cronbach alpha test were used for final analysis.

### **Testing Construct Reliability**

The Cronbach alpha test was performed to test the reliability of the constructs. All the constructs retain an alpha coefficient which is above 0.6, an accepted cut-off point (Hair *et al.*, 2006). Therefore all the constructs were considered reliable in all aspects in this investigation, because they retain an alpha coefficient which is above the accepted cut-off point. Table 2 shows cronbach alpha coefficient for each construct. Thus, it was accepted that all the constructs used in this investigation were regarded as reliable, since they all scored an alpha coefficient which is above 0.6, the cut-off point used for this investigation (see table 2). Now that the entire constructs are regarded to be reliable, evaluation of the model used for this investigation was effected to ensure its fitness.

### **Evaluation of Model Fitness**

According to Field (2008), a model is regarded as fit if it has a significant statistical meaning and if the responses support the theoretical and conceptual distinction of all the variables proposed in the investigation. Thus, the model proposed for this investigation (figure 1) was evaluated using Durbin-Watson statistics, adjusted  $R^2$  and F change value. Lin & Zhilin (2008:71) indicated that a model needs to meet the assumption that there is no serial correlation problem among residuals. Thus, the Durbin-Watson value is a measure to test whether residuals are serial correlated. Its value is between zero and four, if it is close to zero, it means a positive serial correlation, if it is close to two it means no serial correlation problem (Field, 2008). Thus, in this model the Durbin-Watson value is 2.224 (see table 3), which is between the two critical values  $1.5 < d < 2.5$  and implies that there is no serial correlation between the variables.

According to Field (2008), for a model to have significant statistical meaning, the F change value should be greater than 10. The coefficient of determination  $R^2$  and adjusted  $R^2$  are 0.661 and 0.622 respectively (see table 3), meaning that 66% of the variation of Internet marketing usage was explained by the seven independent variables, showing the model's good explanation ability and fitting effect is significant.  $R^2$  value ranges from zero and one, the closer the value is to one, the better "fit" the model is. These results confirmed that the responses of the managers/marketing managers generally support the theoretical and conceptual distinction of all the variables proposed in this investigation.

Based on the results in table 3, it is concluded that the model used in this investigation is valid in all aspects. As such, data was further applied for extensive analysis.

### **Results**

Table 5 shows a summary of the hypotheses testing. It gives answers to research hypotheses formulated earlier in this study. The term supported was used to show that hypothesis which not rejected and not supported was used to show hypotheses which were rejected. From Table 5, it is shown that technological competence, level of star grading, managerial support, and alliances were found to have an influence on the extent to which properties use Internet for marketing purposes. As such, hypotheses  $H_2^a$ ,  $H_3a$ ,  $H_4a$  and  $H_6^a$  were supported. No support

was found for  $H_1^a$  and  $H_5^a$  (property size and perceived benefits) as well as  $H_7^a$  (environmental competition). In other words these hypotheses were not supported.

Since Business profitability was measured using four financial measures which are: Return on Equity, operating cost, sales volume and profit margin (see Figure 1 in the appendix section). Proposition 8 ( $H_8^a$ ) “*Internet marketing usage positively influences business profitability*” was analysed using the four above mentioned measures of profitability. Thus the rejection or acceptance of this hypothesis is based on the results of the four preceding hypotheses tests. In other words the relationship between internet marketing usage and each profitability measure was tested. It was found that all the three profitability measures except operating cost were positively influenced by internet marketing usage (Table 6-9). As such this hypothesis was supported.

Finally the relationship between Internet marketing usage and business profitability is significantly moderated by number of years of experience in using Internet for marketing purposes. This was evident by the increase in the  $R^2$  value when internet marketing experience was added in the regression analysis. An increase which is greater than 3% shows that internet marketing experience significantly moderates the relationship between Internet marketing usage and business profitability (Wen et al, 2005).

## Resultant Effects

The research has fulfilled all the objectives set forth in this enquiry. It offers significant contributions to the tourism sector, not only in terms of the potential benefits of Internet marketing usage, but also advances knowledge in the application of the E-value model in the hospitality sector.

The results suggest that Internet marketing usage appears to be determined by level of star grading, technological competence, managerial support and existence of alliances (see table 4). The findings are consistent with prior studies (Chieochan, 2000; Wei *et al.*, 2001; Wu *et al.*, 2003; Zhu *et al.*, 2005; Del Aguila-Obra & Padilla- Malendez, 2006; Elliott & Boshoff, 2009; Salwani *et al.*, 2009). This is not difficult to comprehend as most highly graded properties tend to utilize the Internet for market more than lowly graded properties and the majority of properties make use of alliances in marketing their hospitality services. The findings also demonstrate that Internet marketing experience significantly moderates the relationship between Internet marketing usage and business profitability (Khan & Motiwalla, 2002; Zhu & Kraemer, 2005). This is proven by the increase of 4.5% in the  $R^2$  value after the variable was added in the model. It can be concluded that experience in Internet marketing is an important factor which determine usage and business profitability.

On the other hand, property size, perceived benefits and environmental competition do not determine Internet marketing usage (see table 4). This is consistent with the findings of prior studies (Salwani *et al.*, 2006; Wei *et al.*, 2001; Del Aguila-Obra & Padilla Melendez, 2006). This is not difficult to comprehend as firms are required to have Internet presence in order to keep pace with market needs, be they small or large in size. However, contrary to prior studies (Merhtens *et al.*, 2001; Grandson & Pearson, 2004), this study concludes that perceived benefits do not determine Internet marketing usage. The possible reason for this might be that, Merhtens *et al.* (2001) and Grandson & Pearson (2004) concentrated on e-commerce as a whole, whilst this study concentrated on a sub-section of e-commerce.

Consistent with prior studies (Kivijarvi & Saarinen 1995; Salwani *et al.*, 2009; Wu *et al.*, 2003), these findings also demonstrate that Internet marketing usage significantly influence business performance and profitability. Firms that use Internet marketing are able to reach global markets without geographic boundaries, obtaining feedback from customers as well as examining market and performance feedback. This in turn helps firms to evaluate their performance.

**Table 6-9** shows regression results for the influence of internet marketing on profitability

**Table 6**

Model1	Standardised coefficient	Sig
(Constant)		.000
Internet marketing usage	.119	.000*

*Dependent variable: profit margin*

**Table 5.23:** Regression extracts of hypothesis 8<sup>c</sup>

Model 1	Standardised coefficient	Sig
(Constant)		0.000
Internet marketing usage	0.477	0.000***

*Dependent variable: sales volume*

**Table 5.21:** Regression extracts of hypothesis 8<sup>b</sup>

Model 1	Standardised coefficient	Sig.
(Constant)		0.000
Internet marketing usage	-0.115	0.363

*Dependent variable: operating cost*

**Table 5.19:** Regression extracts of hypothesis 8<sup>a</sup>

Model 1	Standardised coefficient	Sig.
(Constant)		0.000
Internet marketing usage	0.066	0.001*

*Dependent variable: Return on Equity*

## Limitations and Areas of further Research

A number of limitations were experienced during the cause of completing this work.

The first limitation was that limited published literature on the adoption and impact of Internet marketing on the developing nations' hospitality sector is to be found and resultantly most of the literature used in this study emanated from studies effected in other countries, especially developed countries.

This study was based on perceptions of respondents only and there was no hard financial data used. It is therefore suggested that a similar study be conducted using other profitability measures such as profit after tax, return on investment and sales volume; all of which use actual financial figures rather than perceptions. Future research should consider a bigger sample size. Ideally a large sample size would provide a clearer understanding of the relationships between variables.

However, despite these limitations, the researcher has managed to reach useful conclusions and the usefulness and significance of conducting the research still transcends the drawbacks posed by this setting. In many instances the research found support from previous studies across different countries and therefore, generalisability is not much of a concern.

From the researcher's experience on the investigation, it is suggested that future research could replicate this study and examine the impact of Internet marketing usage and business

performance in both graded and non-graded South African properties. Comparisons can then be made to determine whether differences exist regarding the impact of Internet marketing usage in graded as well non-graded properties.

## Conclusion

The study has advanced existing knowledge by addressing the potential of Internet marketing usage and its relation to business performance from a multi-dimensional perspective through the use of both internal and external factors. The paper found support from prior research conducted across different industries in different countries therefore; generalisability is not much of an issue. The contribution of this research is twofold. Firstly, it provides empirical evidence for the impact of internet marketing usage on business profitability by focusing on the moderating effect of internet marketing experience. This is a subject that the researcher discovered has received little attention in prior hospitality research; especially in developing countries like South Africa. By considering internet marketing experience as a moderating variable, the researcher demonstrated that the effect of internet marketing usage on business financial performance is not the same for all properties but may depend on the experience or the number of years in which the property has been using this tool for marketing purposes.

Secondly, the research also sheds light on factors that can influence variance in internet marketing usage by using a combination of the E-value model and the Resources Based View theory; which is a new dimension in the hospitality literature, especially in developing countries. Apart from Salwani *et al.*, (2009), the researcher is unaware of any study in the hospitality sector which has used RBV theory together with the E-value model to explain the relationship between e-commerce and business performance and profitability. The study considered the pre-and-post adoption issues of internet marketing, which helps in explaining why some businesses are not fully utilising internet marketing and why the impact of internet marketing on business profitability varies from business to business. The RBV theory has been applied and has been accepted in a number of management disciplines, and is a useful of appreciating internet marketing success. This implies that internet marketing can only contribute to the performance of a business if properly integrated with other complementary business resources hence, the results of this study supports the concept of the RBV theory that the contribution of Information Technology to the firm's competitive advantage is dependent on other internal resources that a business has.

The results of this study are not only useful to the tourism industry but also other service-based industries which intend to engage in Internet marketing. In addition, it also encourages service-based firms to embark onto Internet marketing. In this hypercompetitive world, it is imperative that firms should react fast to the changing business environment.

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