
Cost Leadership Strategy, Firm Structure And Performance Of Star Rated Hotels

JANE NYOKABI¹, JULIANA NAMADA², MAINA MUCHARA³

^{1,2,3}Chandaria School of Business, United States International University-Africa, Kenya

Abstract

The purpose of this study was to assess the influence of cost leadership strategy and firm structure coalignment on firm performance of star rated hotels in Kenya. The research philosophy adopted was positivism and the research design was descriptive and correlative. The population consisted of senior managers from star rated hotels listed by the Tourism Regulatory Authority of Kenya as at 2018. Sampling techniques used in the study were proportionate stratified sampling and simple random sampling. 267 hotel managers were sampled. 253 managers responded out of which 103 respondents were found to represent cost leadership hotels. Hypothesis was tested using structural equation modeling. The study concluded that cost leadership strategy and firm structure coalignment has significant and positive influence on performance of star rated hotels in Kenya. The study recommends hotel managers to ensure a match between the pursuit of cost leadership strategy and the choice of firm structure.

Keywords

Coalignment; Cost leadership strategy; Firm structure; Hotels

INTRODUCTION

Cost leadership strategy is one of Porter's generic strategies. Organizations pursuing a cost leadership strategy attain and maintain a low cost position by employing unique capabilities to achieve high efficiency (Pearce & Robinson, 2015). Strategy empowers firms to deal with industry forces by taking offensive and defensive actions. The five competitive industry forces are bargaining power of suppliers, bargaining power of buyers, threat of substitute products, threat of new entrants and rivalry among existing firms (Porter, 1998a).

Human resource management and appropriate firm structures are vital in the hotel industry. The hotel, catering and tourism sector employs 1 worker out of every 11 global workers (WTO, 2018). For every 1 employment opportunity created in the sector, an additional 1.5 jobs are created in related sectors (ILO, 2010). Governments therefore find it critical to create an enabling environment for a thriving hotel industry (Irwin, 2015). This includes use of government incentives to encourage development in hotel, catering and tourism (WTO, 2015).

Coalignment is a key area of strategy practice and research. Garlich's (2011) posits that coalignment between different firm

contingencies has positive implications on performance. Coalignment between an organization's strategy and its internal environment strengthens a firm's competitive position (De Wit & Meyer, 2010 ; Onuoha, 2014).

Ray (2004) highlights on the difficulty of defining and measuring organizational performance. The balanced scorecard resolves this difficulty by providing a strategic perspective of performance measurement (Pearce & Robinson, 2015).

Anecdotal and empirical observations have revealed that hotels are increasingly experiencing global competition. This has resulted to poor returns on investment and dismal financial performance (Solnet, Paulsen and Cooper, 2010; Sitawati, Winata and Mia, 2015). This study aimed at informing hotel stakeholders on whether internal consistency between cost leadership strategy and firm structure would lead to improved performance. The objective of this study was to assess the influence of cost leadership strategy and firm structure coalignment on performance of star rated hotels in Kenya.

LITERATURE REVIEW AND HYPOTHESES

Structural Adjustment To Regain Fit Theory

Developed by Donaldson (1987), SARFIT theory underpins all prior approaches of structural adaptation (Donaldson, 2006). The theory has its roots in structural contingency theory. Structural contingency theory advances that organizations succeed when contingencies such as structure are matched with strategy (Donaldson, 2001). SARFIT theory states that a firm's strategy is initially in alignment with the firm's structure (Donaldson, 1987). The theory emphasizes that such a strategy-structure coalignment positively influences performance. The theory indicates however that organizational growth leads to a mis-alignment between strategy and structure (Donaldson & Joffe, 2014). The mis-alignment negatively impacts on performance. To counter the low performance the theory posits that firms adopt an organizational structure that aligns with its new level (Donaldson, 2001). The firms make a structural adjustment to regain fit.

Cost Leadership Strategy

Literature reviewed informed the operationalization of cost leadership strategy. Cost leadership strategy was operationalized through production cost, economies of scale and capacity utilization.

Production Cost

Organizations pursuing a cost leadership strategy aim at incurring low production costs relative to their competitors. Cost leadership firms are characterized by high centralization, high formalization and high specialization (Ireland, Hoskisson, & Hitt, 2013). Overall cost leadership calls for high attention to cost control by managers and employees. There is therefore a clear linkage between cost leadership strategy, firm structure and firm performance (Porter, 1998a). In hotels, the cost of foods and beverages need to be closely monitored and controlled (Dittmer & Keefe, 2009). Organizations pursuing cost leadership strategies are characterized by use of standard operating procedures and strict cost control (Yilmaz, 2013). A cost leadership strategy and firm structure fit is necessary for effective strategy implementation (Oyewobi, Windapo, Rotimi, & Jimoh, 2016).

Economies Of Scale

Large scale operation reduces the cost of a unit of output causing hotels to enjoy economies of scale (Hill, Jones, & Schilling, 2015). Economies of scale are also enabled by managerial efficiency in internal support services such as procurement (Enz, 2010). Hotels outsource non-core activities thereby reducing employee costs and other costs such as equipment maintenance costs or cost of purchasing new equipment. By so doing the hotels are able to free up finances and concentrate core competencies (Zhang, Ma, & Qu, 2018).

Capacity Utilization

Hotel capacity investments need to be aligned with the hotel's strategy. Efficient capacity utilization requires that hotels accurately forecast demand and also build flexibility into room design (Heizer, Render, & Munson, 2017). This would enable hotels to control the average cost of production per unit as the volumes decrease or increase (Chase & Jacobs, 2011).

Cost Leadership Strategy-Firm Structure Coalignment And Performance

Pearce and Robinson (2015) indicate that the implementation of a new strategy without creating consistency with the organizational structure is not only challenging but also negatively influences organizational performance. Competitive strategy and human resource management practices linkage is vital for the attainment of sustainable competitive advantage. A sustainable competitive advantage for hotels would translate into high room occupancy percentages, high profit margins and large market share. It has been argued that cost leadership strategies should be matched with tight controls that increase the productivity of employees and support minimization of production costs (Chakravarti, 2011).

Hypothesis Of The Study

The null hypothesis formulated to guide the study was, **H₀₁**: Cost leadership strategy and firm structure coalignment has no significant influence on performance of star rated hotels in Kenya.

METHODS

Research Philosophy And Research Design

Positivism research philosophy was adopted. Positivism is an appropriate philosophy for a study whose research objective is described at the onset (Petty, Thomson, & Stew, 2012). A descriptive and correlative research design was applied to the cross sectional study.

Target Population

552 senior managers were targeted from 69 three, four and five star rated hotels in Kenya. The scope of the study was limited to tourism establishments that were classified as town hotels or vacation hotels by the Tourism Regulatory Authority of Kenya as at the year 2018 (TRA, 2018). Therefore, establishments classified as tented camps, motels, villas, apartments, lodges or restaurants were omitted from the study.

Sampling Design

Proportionate stratified sampling and simple random sampling techniques were used. Yamane (1967) sample size formula was used for sample size computation. To cater for incomplete responses, researchers have increased the primary sample size (Wen, Shi, Li, & Wang, 2012). An additional 15% was added to cater for incomplete responses giving a final sample size of 267 managers.

Data Collection

A structured questionnaire was administered to collect primary data. The questionnaire was administered through the drop-and-pick method in order to enhance response rate.

Data Analysis Methods

The key analyses performed to prepare the data for hypothesis testing were exploratory factor analyses, normality tests, reliability tests, and validity tests. The models used to answer the research hypothesis were confirmatory factor analysis models which were run to determine the number and attributes of variables (Brown, 2015) and structural equation modeling which was run to measure the hypothesis of study. Structural equation modeling was found appropriate as its techniques allow researchers to model variables that are observed or unobserved (Pituch & Stevens, 2016).

RESULTS AND DISCUSSION

An analysis of the mean responses to the multi-item Likert scale questionnaire was used to identify hotels pursuing cost leadership strategy. This approach has been used by researchers in the operationalization of generic strategies (Nandakumar, Ghobadian and O'Regan, 2011; Conant, Mokwa and Varadarajan, 1990). From this analysis, 103 respondents were found to represent cost leadership hotels.

Exploratory Factor Analyses

KMO and Bartlett's Test

Cost leadership factor extraction adequacy was confirmed by the Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's test of sphericity. KMO measure of sampling adequacy was strong at .708 with Bartlett's test of sphericity being significant at $X^2(28, N=103) = 152.539, p < .05$.

Total Variance Explained

Components were extracted using principal components analysis. 3 cost leadership strategy components were extracted. Eigen values of the 3 components were >1 and the components accounted for 54.279% variability.

The inflexion point for the scree plot was on the fourth component thus indicating the extraction of 3 components. The scree plot is presented in figure 1.

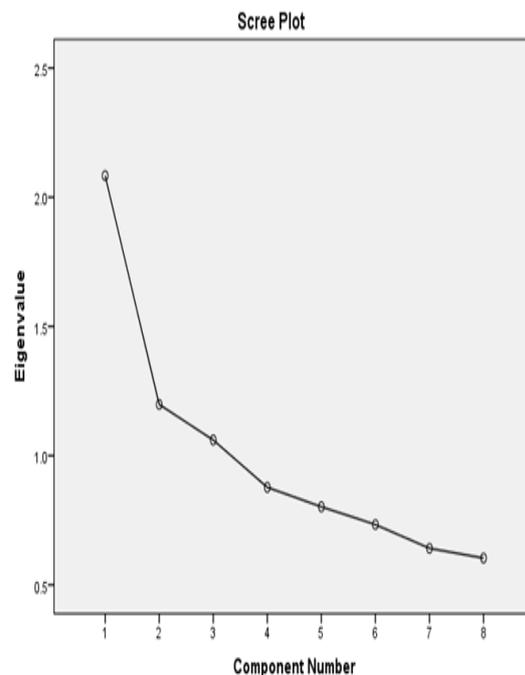


Figure 1. Scree Plot

Table 1. Path coefficients of influence of cost leadership strategy-firm structure coalignment on hotel performance

			Unstandardized estimates	Beta	Standard Error	T-value	p
Firm structure	<---	Cost leadership	.839	.967	.192	4.380	***
Hotel performance	<---	Firm structure	1.703	1.649	3.725	.457	.048
Hotel performance	<---	Cost leadership	-.993	-1.107	3.127	-.318	.751

Pattern Matrix

A pattern matrix generated using Promax with Kaiser Normalization as the rotation method showed the specific items under each of the 3 extracted components. The factor loadings ranged from .428 to .879. For sample sizes of less than 300, rotated factors loading >.32 should be considered statistically meaningful (Tabachnick & Fidell, 2013). All items were thus retained.

Diagnostic Tests

Diagnostic tests were performed to confirm normality, reliability and validity tests. Normality tests were performed using tests of skewness and kurtosis. Normally distributed data has values ranging from -2 to +2 for skewness tests and -7 to +7 for kurtosis tests (Kline, 2015). Skewness results ranged from -.454 to -2.009 and kurtosis results ranged from -.418 to 4.976. This confirmed the normal distribution of the cost leadership strategy data.

Reliability test assessment was done. Composite reliability values ≥ 0.7 show instrument reliability (Tavakol & Dennick, 2011). Composite reliability value for cost leadership strategy was .875 which was greater than .7 hence reliable.

Average variance extracted was used to determine convergent validity. The average variance extracted for cost leadership strategy was .508 which was above the .5 threshold. Validity of a good survey should be above 50 per cent (Hough, Thompson, Strickland, & Gamble, 2011).

SEM Model Fit Indices

In assessing the influence of cost leadership strategy and firm structure coalignment on performance of star rated hotels in Kenya, the SEM model fit indices were excellent; CMIN/DF = 1.569 (between 1 and 3), CFI = .937 (>.90), RMSEA= .048 (<.08) and PCLOSE = .648 (>.05).

Hypothesis testing using structural equation modeling

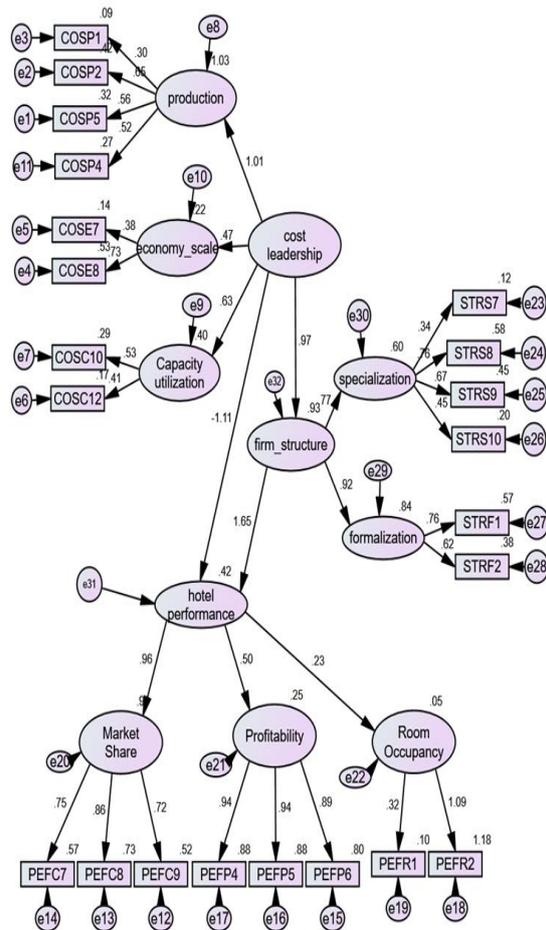


Figure 2 Structural equation model of influence of cost leadership strategy-firm structure coalignment on hotel performance

R^2 explains the degree of variance. Figure 2 shows that cost leadership strategy explained 93% ($R^2 = .93$) of the variance in firm structure. Cost leadership strategy-firm structure co-alignment explained 42% ($R^2 = .42$) of the variance in hotel performance. The remaining 58% was explained by other factors not included in this study.

As presented on table 1, the path coefficient for the relationship between cost leadership strategy to hotel performance was negative and not significant ($\beta = -1.107$, T-value = -0.318 , $p > 0.05$). This reveals that in this model, cost leadership strategy has no direct influence on hotel performance.

The path coefficient for the relationship between cost leadership strategy and firm structure of hotels was positive and significant ($\beta = .967$, T-value = 4.380 , $p < 0.05$). The positive relationship indicates that a unit increase in cost leadership increases firm structure by $.967$. Similarly, the path of cost leadership-firm structure co-alignment to hotel performance was positive and significant ($\beta = 1.649$, T-value = 4.457 , $p < 0.05$). The positive relationship indicates that a unit increase in cost leadership strategy-firm structure co-alignment increases hotel performance by 1.649 .

Therefore, the null hypothesis of study was rejected, H_0 : Cost leadership strategy and firm structure coalignment has no significant influence on performance of star rated hotels in Kenya and the alternate hypothesis of study was accepted, H_1 : Cost leadership strategy and firm structure coalignment has significant influence on performance of star rated hotels in Kenya.

CONCLUSION

This study revealed that cost leadership strategy and firm structure coalignment has significant influence on performance of star rated hotels in Kenya. This research concludes that for improved performance, the pursuit of cost leadership strategy requires a structural adjustment to a matching organizational structure.

To deal with the increasingly competitive global market, this study recommends that hotel managers make organization structure adjustments in order to successfully pursue cost leadership strategy.

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