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Revisiting the link between business strategy and performance: Evidence from hotels

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ABSTRACT

This paper aims to investigate the competitive success factors for hotel companies and examine the link between business strategy and performance. Using a structured questionnaire, the researchers collected data from hotel managers in Spain. Study results suggest that a firm's assets and strategies have a greater influence on performance than industry forces do. This lack of direct influence by industry forces is due to the sector's specific characteristics, which cannot be overlooked during analysis. Based on these research findings, theoretical and managerial implications and future research are presented.

1. Introduction

The present study aims to analyze and identify the strategy factors driving the performance of hotels. Several studies have examined how managers formulate and implement business strategies to gain sustainable competitive advantages (Durand et al., 2017; Furrer et al., 2008; Hoskisson et al., 2013) in their markets. Scholars suggest that, when formulating or implementing strategies, managers should focus on the external environment, called the position-based view (Porter, 1985); or the internal environment, called the resource-based view (RBV) (Barney, 1991). These studies claim that no approach fully explains a company's performance or the success of a single strategy (Lam et al., 2015). Grant (2016) suggests that companies should combine these two approaches to gain sustainable competitive advantages. However, because of the ongoing debate concerning these approaches (Parnell, 2006), combining them has not been adequately considered or executed when formulating and implementing competitive strategies (Armanios et al., 2017; Brenes et al., 2016; Hoskisson et al., 2000).

Scholars have advised managers in the hospitality industry to follow either the position-based view (Chathoth and Olsen, 2007), resource-based view (Claver-Cortés et al., 2007; Marco-Lajara et al., 2016), or both views simultaneously (Koseoglu et al., 2013; Lam et al., 2015; Pereira-Moliner et al., 2015). Some specific characteristics of hotel companies, such as the lack of inventory and the fact that production and consumption coincide in space and time (the servuction process) require special capabilities in employees. In the servuction process, both clients and employees can modify the services provided and their cost. Thus, applying these two approaches in the hotel industry may play an important role both in the formulation and implementation of competitive strategies (Koseoglu et al., 2013; Koseoglu et al., 2016). Consequently, to clarify key success factors, more studies examining how the application of both approaches simultaneously impacts hotel performance are needed. The present study addresses the relationship between business strategy and firm performance in hotels by examining the following research questions: What is the structure of the relationship between business strategies and firm performance, including market performance and profitability? What factors—industry forces, firm assets, or both—drive firm performance? How do these factors influence firm performance?

Through a literature review, the position-based view and the resource-based view are examined, to explain both their competitive success related to hotels and the research model which integrates both approaches. Following this, the research design and methodology of this study are discussed. The results achieved by estimating the research model by Partial Least Square are then shown. After discussing the primary results of this research, relevant conclusions, as well as theoretical and managerial implications, are drawn from the findings. In the final section, certain limitations are recognized that, in turn, shed light on future avenues of research.

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2. Literature review

Before the 1980s, business strategy aimed to detect the needs of the market and, subsequently, acquire the technological capability and resources required to address them. To address globalization, a company must differentiate itself from its competition and offer products with exclusive added value (Yin-Hsi, 2012). To do this, an organization must leverage the permanent assets it has amassed from experience, which cannot easily be replicated by the competition. The company must adopt a business strategy that engages with the evolving environment and market in which it operates while considering and maintaining coherence with its own resources. In this respect, two mutually complementary theories exist: Porter's theory of competitive forces, which gives priority to aspects of the industry the company operates within; and resources and capabilities theory, which focuses on a company's potential for achieving a competitive advantage, given the internal resources that lead it to select as yet unexploited opportunities. According to Spanos and Lioukas, (2001), Bridoux (2004), and Yin-Hsi (2012), the two theories complement and enhance one another by providing a company with both the internal and external analyses required to survive and perform well in a competitive environment.

2.1. Porter's framework and RBV in the manufacturing industry

Some authors believe that environment determines a company's results. In his study of industrial organizations, Bain (1959) measured and analyzed the variables that shape the competitive market structure a company operates within and the company's interrelationship with its competitors. According to this study, a sector's structure determines its economic-financial results, meaning that a company has no influence over its own results. Mason (1949) also maintained that the structural forces of a sector steer the actions of a company's manager. In organizational theory, Hannan and Freeman (1977) likewise highlight the environment's determinant role.

Hannan and Freeman were forerunners of the competitive-forces-based paradigm that Porter (1980) developed during the 1980s: the Strategic Approach. In this approach, a firm develops defensive strategies to counter environmental forces (Porter, 1985, 1991), meaning that the structure of the market determines the position the company should adopt. Thus, the company is in a state of constant adaptation, seeking the set of strategic activities that will enable it to obtain the best performance. The goal of this school (position-based view) of thought is to create at least one of the three types of business-level strategies leading to competitive advantage: differentiation, low-cost strategy, or focus strategy (Hamdan, 2017; Notta and Vlachvei, 2017).

The second school of thought, the resource-based view (RBV), claims the organization's internal resources determine its performance (Barney, 1991). This view assumes that the resources and capabilities used by a company in its strategies must be heterogeneous and non-transferrable from one company to another, thus helping the business differentiate from its competitors. The RBV states that a sustainable competitive advantage is determined by an organization's resources (Hitt et al., 2016; Kellermanns et al., 2016; Kull et al., 2016). Several studies claim that company-specific resource characteristics, such as uniqueness, evaluability, sustainability, and capability, lead to superior performance (Backman et al., 2017; Darcy et al., 2014; Lockett and Wild, 2014; Mahoney and Pandian, 1992; Schroeder et al., 2002). These resources may be tangible (i.e., physical and financial resources) and intangible (Dodd, 2016; Greco et al., 2013; Grant, 2016; Stead and Stead, 2016). At the firm level, there are four types of intangible resources: intellectual property assets, the interest and importance of which are based on a sustainable competitive advantage provided by a legal mechanism to protect property rights (Hoopes et al., 2003); organizational assets (Brooking, 1996); reputational assets (Day and Wensley, 1988; Srivastava et al., 2001) leading to sustainable economic benefits; and capabilities, meaning the skills necessary for appropriately managing these resources (Grant, 2016).

Although these two schools of thought may be considered rivals, in practice, businesses need to consider both external and internal environments simultaneously when formulating and implementing business strategies, as performance depends on the fit between the capabilities and resources of an organization, and its environmental contingencies based on contingency theory (Balkin and Gomez-Mejia, 1987; Dikova et al., 2017; Shirokova et al., 2016). Depending on the situation—including market structure, the intensity of competition, industrial differences, the type of economy, the industry life-cycle, the level of uncertainty, and cultural differences (Fernández-Olmos and Ramírez-Alesón, 2017)—organizations can focus on one or more strategies (McAdam et al., 2016; Phillips, 1999; Spanos and Lioukas, 2001; Turner et al., 2017). Hence, these two perspectives are complementary to each other. Conner (1991), Mahoney and Pandian (1992), and Teece et al. (1997) investigated the stated premises of the RBV in relation to market power and types of rents. They proposed a dynamic-capabilities approach for competitive advantages and superior performance. This approach goes beyond the static RBV when incorporating market dynamics (Ambrosini and Bowman, 2009; Eisenhardt and Martin, 2000). The dynamic-capabilities view focuses on exploiting a company's specific external and internal environment to quickly adapt to changes faster than its competitors can (Barros et al., 2016; Teece et al., 2016). The above studies suggest that no single school of thought fully explains company performance and the success of choosing a single strategy action. Based on these discussions, the following integrated research model (Fig. 1) might be developed. This multidirectional model incorporates the following effects, which are essential for achieving competitive success: 1) the effects of strategy actions, industry forces, and firm assets on competitive success; and 2) the indirect effects of firm assets on competitive success via strategy actions and the indirect influence of strategy actions on competitive success via industry forces, which would provide suitable conditions for any competitive advantage to remain sustainable.

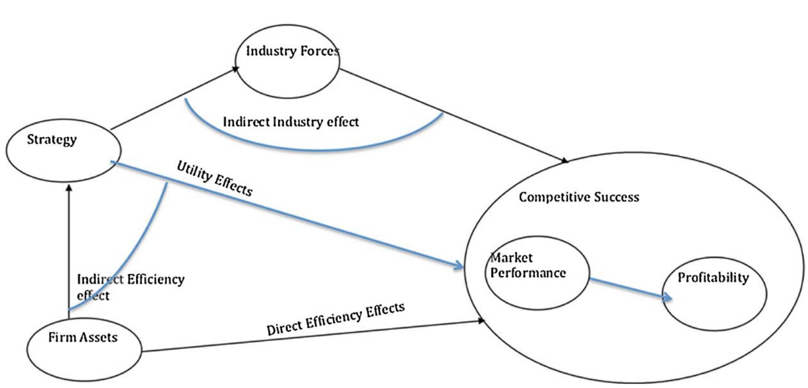

Fig. 1. Research Model: Integrated approach for business strategy (Spanos and Lioukas, 2001).