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The impact of industry force factors on resource competitive strategies and hotel performance

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ABSTRACT

This study integrates the Porter's five forces and resource-based approach measuring U.S. hotel performance. The results show that hotels with the advantage of low customer bargaining power and low threat of new hotel entrants exhibit the strong human resource and information technology (IT) strategies. In contrast, hotels with the advantage over existing competitors do not exhibit any significant competitiveness of brand image, human resource, and IT strategies. This dues to different hotels define competitors with various criteria such as proximity and price. Competitive human resource and IT strategies indicate the increase of hotel performance, while competitive brand image strategy has no influence on hotel performance. The competitiveness of brand image strategy may overlap with implementing human resource and IT strategies.

1. Introduction

A common objective for operating any business is to succeed in high profitability and increase performance. A competitive strategy is one of the factors that have a major influence on objective achievement. Developing the competitive strategy, however, is a challenging task for many hoteliers because the hotel industry is changing dramatically in the face of intense competition, increasing customer sophistication, and rapid technological advances. Harrison (2003) proposed some considerations for a hotel's strategic development before it implements any competitive strategy, such as: (1) How can the hotel take advantage of changes that are expected to occur in the industry? (2) Are there any resources or capabilities the hotel could develop to achieve competitive advantages?

Enz (2010:17) defines the meaning of strategy as: (1) "a pattern that emerges in a sequence of decision over time", or (2) "an organizational plan of action that is intended to move a company toward the achievement of its shorter-term goals and, ultimately, its fundamental purposes." Since strategy can be implemented over a short period of time, hoteliers become opportunistic, seizing all possibilities thrown up by the environment. A truly strategic approach would be to take into consideration as many factors as possible that impact on the hotel's performance. Regarding the external factors, Porter (1985) proposed the analysis of the industry boundaries based on the five forces of competitions (potential entrants, customers, suppliers, substitutes, and rivalry among existing firms). The concept of this approach is that the greater the weakness of the five forces that affect the firms, the greater the expected profitability in the industry. The existing hotels can apply five forces for some specific actions such as implementing new strategies for the current environment or a decision of leaving from the business (Enz, 2010). In the mean time, the internal factors can be explained by resources and capabilities possessed by an organization, which is represented as the resource-based view (Barney, 1991). Some common competitive resources are physical resources (e.g. buildings, equipment, and location), human resources (e.g. skills and well-trained staff), and general organizational resources (e.g. brand names and firms' reputation) (Barney, 1991). From the resource-based perspectives, many strategic methods have been applied in the hotel industry until present such as branding, technology innovation, niche marketing and advertising, pricing tactics, cost containment, service quality management, computer reservation systems, and employee relationship (Olsen et al., 2008; Lu and Chiang, 2003; Wong and Kwan, 2001). In the past, most researches tend to emphasize on single factor, either external or internal for strategic development. However, these days, these two theories – five forces and resource-based – dominate strategic management discourse today (Chathoth and Olsen, 2007; Galbreath and Galvin, 2008; Kim and Oh, 2004).

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Kim and Oh (2004) explored the conceptual difference of the Porter's five forces model and the resource-based approach in measuring hotel performance, and how the theories explained the hotel firm ability to compete. Galbreath and Galvin (2008) investigated the role of firm resources and industry structure on business performance in manufacturing and service firms. They argued for future research in other industry which may provide different phenomena. Chathoth and Olsen (2007) found significant relationships among environment, strategy, structure, and performance in the restaurant business. Olsen et al. (2008) studied the co-alignment of relationships among environmental events, strategy choice, firm structure, and performance in the hospitality industry. The notion of these researches is that external and internal factors create the best value of competitive strategy over time in order to succeed high performance.

The current study aims to address the research gaps that have been identified in the literature. First of all, following the lead of Galbreath and Galvin (2008), this study integrates two approaches: industry five forces approach and resource-based theory. However, Galbreath and Galvin's study was limited by industry uniqueness, such that the factors operated differently in the restaurant industry compared to the hotel industry. Hence the current study will focus on investigating these two approaches in the hotel industry for more in-depth insight into strategy implementation. Secondly, previous studies investigated the direct impact of five industry forces and firm resources on firm performance (Kim and Oh, 2004; Galbreath and Galvin, 2008). This study has adapted from the co-alignment model of Olsen et al. (2008), utilizing industry structure (defined by the five forces) as the antecedent variable for developing competitive strategies (for building firm resources) and consequently explaining hotel performance. In other words, competitive strategies are the mediating variables between industry forces and hotel performance. Therefore, the purposes of this study are (1) to explore the influence of industry forces on implementing competitive strategies, and (2) to assess the relationship of competitive strategies on hotel performance.

2. Literature review

2.1. Industry forces

Porter (1985) provided a framework called Porter's five forces. Its purpose is to gain a thorough understanding of a particular industry by analyzing the suppliers' bargaining power, customers' bargaining power, rivalry among existing firms, threat of new market entrants, and threat of substitute products. Industry forces explain performance in that a firm's success depends on how it reacts to market signals and how it accurately predicts the evolution of industry forces (Kim and Oh, 2004). When hoteliers understand the effect of each industry force, they can take either defensive or offensive actions in order to place themselves in a suitable position against the pressure exerted by these industry forces (Ormanidhi and Stringa, 2008). Of the five force factors, the threat of substitutes and bargaining power of suppliers do not seem to have a major influence on competitive strategies. According to Kim and Oh (2004) and Olsen and Roper (1998), the bargaining power of suppliers in the hotel industry appears to be low because of the large number of suppliers. This indicates that no supplier dominates the lodging market competition. Substitutes also constitute only a minor threat in the hospitality industry. This occurs when hotels offer similar or mass products and services (Dale, 2000). As the bargaining power of suppliers and the threat of substitutes tend to have little influence on implementing competitive strategies, the hotel business is mostly driven by customers, competitors, and new hotel entrants. Therefore, this study emphasizes only these three force factors—rivalry among existing hotel firms, bargaining power of customers, and threats of new hotel entrants.

2.1.1. Rivalry among existing firms

The degree of rivalry determines the extent to which the value created by an industry is dissipated through head-to-head competition (Karagiannopoulos et al., 2005). Intense rivalry is the result of a number of interacting structural factors: numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, capacity augmented in large increments, and diverse competitors (Botten and McManus, 1999). Competitive intensity in the hospitality industry increases due to an increased number of operating units, new product introductions, and market entries of non-traditional products such as corporate housing (Kim and Oh, 2004). For the hotel industry, most rivals are determined according to similarity of price, segment, and proximity (Mathews, 2000). The hotel can decrease the degree of rivalry of existing hotels by differentiating hotel products and services (Enz, 2010).

2.1.2. Bargaining power of customers

The bargaining power of customers is the ability of customers to force down prices, bargain for higher quality or more services, and play competitors off against one another (Botten and McManus, 1999). The size and concentration of customers are the determining factors of customers' power. This includes the volume of buying from customers. A study of Taylor and Finley (2009) stated that one of the major forces driving change in the hospitality environment is customers. The higher volume of product buying, the cheaper price and the more bargaining power of customers will have. Many hospitality firms seek to reduce customers' power by creating loyalty programs that reward customers for repeat purchases and by differentiating product and service offerings (Crook et al., 2003). If the hotels can withhold the bargaining power of customers, they have the competitive strategies and would be able to reach the most profitability for their business.

2.1.3. New market entrants

The threat of new market entrants refers to the prospect of new competitors entering an industry. The most common barriers to entry are economies of scale, brand equity, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independence of scale, and government policy (Botten and McManus, 1999). The hotel industry has high entry barriers such as a huge amount of investment required for buildings and the need for a national service network. However, companies or people with no experience in the industry investing in hotels are a threat (Kim and Oh, 2004). Harrison (2003) argues that some hospitality firms aggressively promote their brands in the hopes of creating differentiation and consumer loyalty, thus blocking attempts of newcomers to enter.

Depending on the environment, strategic formulation and implementation are often based on local conditions facing the hotel and the internal resources provided in response to them. Therefore, the competitiveness of hotel performance depends on strategic implementation (Brown and Dev, 2000). Karagiannopoulos et al. (2005) found that industry forces are valuable for business strategy formulation and implementation. The business should identify its position in the market area and fight against the competition that threatens its strategic position before formulating strategies. Furthermore, Covin and Slevin (1990) showed that industry forces have a major impact on firm strategies. The notion is that companies must adopt a more dynamic strategy to defend themselves against industry structures and increase their market share.