Do Cost Leadership Strategy and Process Innovation Influence the Performance of Malaysia Hotel Industry?

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Abstract

This research used strategy implementation perspective and strategic alignment of organizational strategies to investigate the link of cost leadership strategy, process innovation and organizational performance in context of Malaysia hotel industry. The purpose is to show that cost leadership strategy and process innovation have a significant impact on organizational performance. The paper designed a mail and email survey that was sent to top and middle level managers in three stars and above rated hotels, which resulted in 54 usable surveys. The results show that cost leadership significantly affects the process innovation and process innovation also significantly affects the organizational performance. Furthermore, the results show that process innovation mediates the cost leadership strategy and organizational performance link. Consequently, the hotel managers, perhaps make strategic decisions by simultaneously develop cost leadership and process innovation to obtain superior organizational performance and competitive advantage.

Keywords: cost leadership strategy, process innovation, organizational performance, Malaysia hotel industry

1. Introduction

Today’s dynamic competitive business environment is required successful businesses continuously reinvent in order to gain or retain superior performance and competitive advantage (Hilman & Mohamad, 2011). Particularly, the hospitality industry, which consists of accommodation, restaurant, entertainment and transportation is facing strong competition from the rapid technological turbulence, frequent changes in customer’s needs and expectations, external environmental complexity and volatility (Kaliappen & Hilman, 2013; Wang, Chen, & Chen, 2012; Bordean, Bonza, Nistor, & Mitra, 2010; Awang, Ishak, Radzi, & Taha, 2008). In response to these demands, hoteliers should practise continuous improvement by making few key strategic alignments, if properly utilised can assist the hotels to achieve superior organizational performance and competitive advantage.

In Malaysia, the hotel industry is one of the most potential industry that numerously contributing to a nation’s economic growth (Awang et al., 2008). It has not only contributed to economic growth, but also a workforce demanding industry that has the ability to produce additional job opportunities (National Key Economic Area (NKEA) Report, 2011). The report of Ministry of Tourism and Culture Malaysia shows there are 288 hotels with three to five star rating in Peninsular Malaysia, 108 hotels with three to five star rating in Sabah and Sarawak and 79 hotels with three to five star rating in federal territories. Presently, there are 475 hotels with three to five star rating in Malaysia. The number of hotels keeps on increasing with every year.

1.1 Statement of Problem

Previous studies have been addressed several aspects of cost leadership strategy, process innovation and organizational performance, but each study focused on a particular basis. Even though, the prior studies, contributing valuable information to the body of knowledge, however, it is still insufficient in integrating these strategic factors in the context of hotel industry in Malaysia. Over the past decade, there is growing realization of the vital contribution of cost leadership strategy (Auzair, 2011; Hilman, 2009; Allens & Helms, 2006) and process innovation (Hilmi, Ramayah, Mustapha, & Pawanchik, 2010; Schilling & Werr, 2009; Baker, 2002) on organizational performance. So, in order to bridge the existing research gap, this study integrates and investigates the strategic link of cost leadership strategy and process innovation on organizational performance.
of hotels in Malaysia. An investigation of these issues is vital because it assists to formulate better strategic decision making among the hotels’ managers in Malaysia.

1.2 Purpose of Study

This study tests the context of research more holistically from the strategic management viewpoint for the best decision making process in order to achieve superior organizational performance among hotels in Malaysia. Therefore, this study investigates the use of Porter’s cost leadership strategy, process innovation and their influence on organizational performance in the context of Malaysia hotel industry. First, the study identifies the strategic type of hotels, based on their current business strategy. Then, it examines whether the specific cost leadership strategy is associated with specific process innovation strategy on organizational performance. Furthermore, the study discusses about the managerial implications for the managers in Malaysia hotel industry. The justification for conducting this study is the need to test the interrelationship of these three variables since there were inconclusive findings indicated in the prior literatures.

2. Literature Review

2.1 Theoretical Background

The strategy implementation perspective explained that strategy affecting the organizational dimension/structure, then influence performance (Voola & O’Cass, 2010; Prajogo & Sohal, 2006; Homburg, Krohmer, & Workman, 2004; Chandler, 1962). Crucially, Ros, & Sintes (2009) stated that innovation considered as a function of internal resources and the specific behaviour of a firm. Thus, this study drew upon the framework based on strategic implementation perspective by highlighting strategy (cost leadership) affecting the organizational structure (process innovation) towards performance. Furthermore, the relationship between cost leadership and process innovation is also built with consideration of process innovation as a functional strategy because it assists to add value to the offerings (O’Sullivan & Dooley, 2009). So, this study aligns cost leadership (business strategy) and process innovation (functional strategy) to produce better performance based on strategic alignment among organizational strategies approach. The framework is best illustrated through the following simple paradigm.

![Figure 1. Theoretical framework](image)

The rationale here is that the effect of cost leadership strategy (independent variable) and process innovation (mediating variable) influence organizational performance (dependent variable).

2.2 Cost Leadership Strategy

Hilman, Mohamed, Othman, & Uli (2009) stated that to gain cost leadership advantage organization should pursue forward, backward and horizontal integration strategies. Organizations that implement cost leadership strategy employs several activities like accurate demand forecasting, high capacity utilization, economies of scale, technology advancement, outsourcing and learning/experience curve (Bordean et al., 2010; Porter, 1985). Cost leadership strategy emphasises that firms can gain competitive advantage by achieving low cost within the industry (Hilman, 2009; Allens & Helms, 2006; Porter, 1980, 1985). Cost leadership strategy is effective in hospitality industry, if the hotel has distinctive competency in the management of materials and production process (Lo, 2012; Lewis & Chambers, 2000). Lo (2012) stated that hotels could successfully pursue a cost leadership strategy through efficient, cost saving in hotel designs and operational activities. Organizations can follow cost leadership strategy, when the customers don't give much importance for brand, price sensitivity and buyers have significant bargaining power (Hilman et al., 2009; Allens & Helms, 2006; Venu, 2001; Porter, 1980). Porter (1980) explained that cost leadership may lead to process innovation to a certain extent. In line, Frohwein & Hansjurgens (2005) suggested that to gain cost leadership advantage the organization should emphasise on cost minimization and involve with process innovation activities.
2.3 Process Innovation

O’Sullivan & Dooley (2009) defined process innovation as making beneficial changes in the process of producing the product/service. Meanwhile, Wang & Ahmed (2004) stated that process innovation is considered as introducing new production methods, management approaches and technology to improvise the production and management process. Crucially, process innovation relates to all operational activities to attain competitive advantage by enhancing the quality of offerings and efficient delivery method than competitors (O’Sullivan & Dooley, 2009). In 2011, Gunday, Ulusoy, Kilic, & Alpkan stated that process innovation assist the organization to reduce the cost of production and delivery as well as enhance quality features. Additionally, Qin (2007) mentioned that process innovation is allowing the organization to achieve economies of scale, reducing the cost and gain market share. Drljaca (2006) noted there were three types of processes in the hotel industry; management process, core process and support process. Thus, these are the processes may hoteliers can perform innovation in order to attain cost reduction, larger market share and better efficiency than rivals. The above literatures clearly indicate similar characteristics between cost leadership strategy and process innovation, but very limited empirical evidence validates the above mentioned association.

2.4 Performance Measurement

It is hazardous to emphasis merely on financial aspects because such performance estimation may mislead managers to overlook other strategic goals (Karsak & Tolga, 2001; Morgan & Daniels, 2001). Numerous scholars have recommended that performance measurement must involve both financial and non-financial dimensions (Kaplan & Norton, 1996; MacDougall & Pike, 2003). Therefore, balanced scorecard (BSC) retained the financial measures and added three non-financial perspectives, namely customer, internal process and learning and growth (Kaplan & Norton, 1992, 1996). BSC is the most popular, least criticized, widely accepted and implemented a performance measurement tool (Paranjape, Rossiter, & Pantano, 2006; Evans, 2005). Literature specified that financial measures were considered as lagging indicators so that the BSC transformed these lagging indicators with several important non-financial drivers as leading indicators of future economic performance (Paranjape et al., 2006; Niven, 2002; Kaplan & Norton, 1992, 1996). The present study used the subjective approach to assess the organizational performance of hotels in balanced scorecard setting.

The ultimate research question of this study is to determine the extent of process innovation mediates the cost leadership strategy in its relationship with organizational performance. Given the gap in the literature on this perspective, this study intends to address the several proposed hypotheses.

H1: Cost leadership strategy significantly linked to organizational performance.

H2: Cost leadership strategy significantly linked to process innovation.

H3: Process innovation significantly linked to organizational performance.

H4: Hotels pursuing a cost leadership strategy mediates by process innovation produce a better organizational performance.

3. Methodology

The facts for this research were collected between June 2013 and September 2013 by a mail and email assessment method. Questionnaires were administrated to 475 hotels’ managers and 54 or 11% of them replied. The questionnaires were sent to top and middle level managers in three to five star rated hotels, which registered in the directory of Ministry of Tourism and Culture, Malaysia. This research utilized prior scholars’ instrumentations. For cost leadership strategy, the instrument has 4 questions which were adapted from Auzair (2011). For process innovation, the instrument has 4 questions that were adapted from Hilmi et al. (2010). For organizational performance, the instrument combined both financial and non-financial measures which consist of 6 questions adapted from Hilman (2009) and Kaplan & Norton (1996). Refer to Table 1.

The cronbach alpha was computed as to identify the reliability of research instrumentation. The analysis showed that the all the alpha values were higher than 0.80. Moreover, a group of experts in the hotel industry and academicians were consulted for face and content validity. This showed that the instrument used was reliable and valid.
Table 1. Research instrumentation and measurement

<table>
<thead>
<tr>
<th>Variables</th>
<th>Items</th>
<th>Authors</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost leadership</td>
<td>• Achieving lower cost of service.</td>
<td>Auzair (2011)</td>
<td>7 point likert scale (strongly disagree to strongly agree)</td>
</tr>
<tr>
<td>strategy (4 items)</td>
<td>• Making services/procedures more cost efficient.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Improving cost required for coordination of various services.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Improving utilization of available equipment, services and facilities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Constantly improving business process.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• During 5 years, has developed many new management approaches.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process innovation</td>
<td>• If cannot solve a problem using conventional methods, we improve on new methods</td>
<td>Hilmi et al. (2010)</td>
<td>7 point likert scale (strongly disagree to strongly agree)</td>
</tr>
<tr>
<td>(4 items)</td>
<td>• Change service creation methods at great speed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Return on Investment (ROI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational</td>
<td>• Market share</td>
<td>Hilman (2009)</td>
<td>7 point likert scale (Decrease significantly to increase significantly)</td>
</tr>
<tr>
<td>performance (6 items)</td>
<td>• Sales growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Customer perspective</td>
<td>Kaplan and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Internal process perspective</td>
<td>Norton (1996)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Learning and growth perspective</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Results

Table 2 demonstrates the result of regression analysis between cost leadership strategy and organizational performance. Cost leadership explained 97% of the changes in organizational performance. The outcomes show that cost leadership has a statistically significant association with organizational performance. Hence the proposed hypothesis of the study is supported.

Table 2. Regression result between cost leadership strategy and organizational performance

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Dependent variable</th>
<th>Cost leadership strategy</th>
<th>T value</th>
<th>R²</th>
<th>Adjusted R²</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Organizational performance</td>
<td>1.245**</td>
<td>59.068</td>
<td>0.97</td>
<td>0.97</td>
</tr>
</tbody>
</table>

Note: significant at **p < 0.01

Table 3 demonstrates the result of regression analysis between cost leadership strategy and process innovation. Cost leadership explained 96% of the variance in process innovation. The results indicate that cost leadership has statistically positive and significant association with process innovation. Hence the proposed hypothesis of the study is supported.

Table 3. Regression result between cost leadership strategy and process innovation

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Dependent variable</th>
<th>Cost leadership strategy</th>
<th>T value</th>
<th>R²</th>
<th>Adjusted R²</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Process innovation</td>
<td>1.052**</td>
<td>48.921</td>
<td>0.96</td>
<td>0.96</td>
</tr>
</tbody>
</table>

Note: significant at **p < 0.01
Table 4 demonstrates the result of regression analysis between process innovation and organizational performance. Process innovation explained 97% of the changes in organizational performance. The results indicate that process innovation has a statistically significant association with organizational performance. Hence the proposed hypothesis of the study is supported.

Table 4. Regression result between process innovation and organizational performance

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Dependent variable Organizational performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Process innovation</td>
<td>1.155**</td>
</tr>
<tr>
<td>T value</td>
<td>56.977</td>
</tr>
<tr>
<td>R²</td>
<td>0.97</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.97</td>
</tr>
</tbody>
</table>

Note: significant at **p < 0.01

Next to test the mediation effect, the researchers used four step method suggested by Baron & Kenny (1986). This study adapted a table of simple explanation of mediation steps from Ramayah, Samat, & Lo (2011).

Table 5. Result of mediation analysis

<table>
<thead>
<tr>
<th>Dependent-Organizational performance</th>
<th>Without mediator</th>
<th>With mediator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost leadership strategy</td>
<td>1.245**</td>
<td>0.661**</td>
</tr>
<tr>
<td>Process innovation</td>
<td>0.555**</td>
<td>0.98</td>
</tr>
<tr>
<td>R²</td>
<td>0.97</td>
<td>0.98</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.97</td>
<td>0.98</td>
</tr>
</tbody>
</table>

Note: significant at **p < 0.01

Cost leadership strategy significantly related to organizational performance (Table 5), cost leadership significantly related to process innovation (Table 3) and in the final step of multiple regression (Table 5) revealed that both cost leadership (B = 0.661, p < 0.01) and process innovation (B = 0.555, p < 0.01) have a significant impact on organizational performance. The link of cost leadership strategy and organizational performance is significant after the direct effect of process innovation on organizational performance was controlled. Cost leadership still has a significant impact on organizational performance, although it has reduced from B = 1.245 to B = 0.661. Therefore, this model is consistent with partial mediation (Baron & Kenny, 1986). Hence, hypothesis 4 of the study is also supported.

5. Discussions

Discoveries of this research ratify the worth of cost leadership strategy and process innovation to Malaysia hotel industry. The results also accentuate the earlier studies that recognised cost leadership strategy and process innovation as important strategic factors in today’s dynamic competitive business environment (Nandakumar, G Hobadian, & Regan, 2011; Parnell, 2011; Gunday et al., 2011; Hilmi et al., 2010). Current study identified 11% of hotels in Malaysia chosen cost leadership strategy as business strategy and process innovation as functional strategy.

Hypothesis 1 point out that cost leadership strategy has a positive impact on the organizational performance. The result of this research is consistent with previous results which were found from various industries (Nandakumar, G Hobadian, & Regan, 2011; Seedee, Sulaiman, & Ismail, 2009; Hilman, 2009). Hypothesis 2 indicates that cost leadership strategy has a positive impact on the process innovation. Such outcomes were derived due to both strategies has similar characteristics such as emphasising cost reduction, acquiring larger market share, increasing internal efficiencies, attaining economies of scale and monitoring potential rivals (Prajogo & Sohal, 2006; Frohwien & Hansjurgens, 2005; Porter, 1980, 1985). Hypothesis concerning the relationship of process innovation and organizational performance was posited and tested. The findings indicated that this hypothesis was supported; process innovation was found to have a statistically significant association with organizational performance. The finding of this hypothesis is consistent with prior results (Gunday et al., 2011; Hilmi et al., 2010; Wang & Ahmed, 2004).
Finally, the findings of multiple regressions for the mediation effect have provided a strong indication on how the model is linked together. This study revealed that process innovation plays a partial mediation role in the connection of cost leadership strategy and organizational performance. This is precise since cost leadership is a business strategy that assists the firms to be low cost producer by increasing internal efficiencies and refining the utilization of all the resources effectively than the rivals (Porter, 1980, 1985). Therefore, with process innovation, hotels that pursuing cost leadership strategy could give a better organizational performance.

6. Conclusion, Implications and Limitations

This research offered valid evidence for the hotels’ superiors for creating strategic choices in determining business strategies, functional strategies and performance measurements. In their efforts to strive for the superior organizational performance, hoteliers may consider the results of this study by integrating cost leadership strategy and process innovation in their hotels strategic business model. Crucially, these findings suggested that strategic implementation perspective and strategic alignment between organizational strategies are operative in creating better performance.

In terms of limits, this study involved only with 54 three to five star rating hotels in Malaysia. Another, this study used cross sectional research design not longitudinal. Finally, the facts used in this research were acquired from single source (e.g., top and middle management). It is recommended for future research to consider the mentioned limitations as to get fruitful results.

References


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