COMPETITIVE STRATEGY AND ITS IMPACT ON HOTEL PERFORMANCE: A PARTIAL LEAST SQUARE APPROACH ON HOTEL MANAGERS IN BALI, INDONESIA

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Abstract

The purpose of this study is to examine the influences of competitive strategy (cost leadership and differentiation) toward business performance from the local chain hotel manager's perspective in Bali. A Partial Least Square was used in this study to analyze 117 data. The results advise that in conducting its businesses, the competitive strategy impact the performance of chain hotels in Bali. However, a comprehensive interpretation of these implementation will be analytical for the success of a dynamic hotel strategy. This is one of the few research studies, to assess competitive strategy and business performance of local chain

hotels in Bali. Further, the results suggest that other indicators of strategies and business performance by comparing between chain and independent hotels could be well developed in the future research.

Keywords: Competitive strategy, cost leadership, differentiation, business performance, local chain hotel

INTRODUCTION

Hospitality sector becomes one of the excellent economic growth and tourism in Indonesia evidenced through the operational of a global chain hotels in this country. According to the study from Howarth HTL, 2013; Indonesia is in the third position after China and India in growth statistics opening of regional hotels in the Asia Pacific region.

Figure 1. Percentage of Star Hotel Operations Asia Pacific, Year of 2013
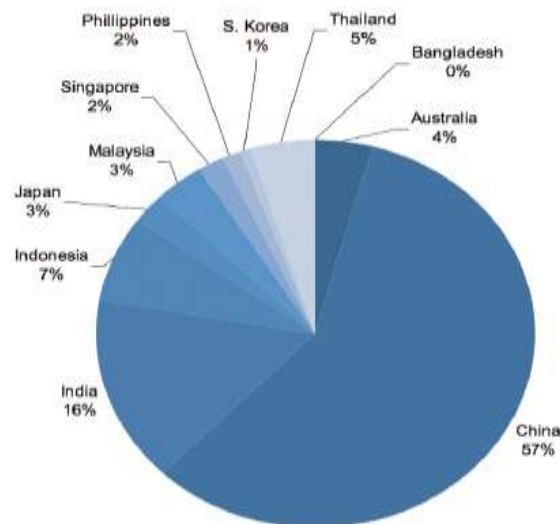
Source: Howarth HTL, 2013

The above figure shows the distribution of global hotel operations in the Asia Pacific region in 2013. China was the highest with the percentage of 57%, followed respectively by India and Indonesia respectively 16% and 7%. It becomes interesting facts to be explored for further empirical studies conducted on the potential development of this sector including the hotel performance based on its implemented strategy in Indonesia. Widiatedja (2010) stated, as a consequence of participation in the GATS, the Indonesian government has expressed commitment to liberalize services in the form of initial commitment made in February 1991. This is a form of readiness of the government to accelerate the services sector are ready to be

liberalized. Bali, in fact is a destination where the largest hotel opening project growth compared to other potential destinations in Indonesia. It is proven with the growth of tourists come to Bali at the below table.

Table 1. The Percentage of Tourists Visited Star and Non Star Hotel Bali in 2014

	Bulan	Berbintang		NonBintang		SeluruhJenis Hotel	
		Asing	Domestik	Asing	Domestik	Asing	Domestik
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Januari	74,91	25,09	44,37	55,63	63,13	36,87
2	Pebruari	67,07	32,93	42,54	57,46	62,09	37,91
3	Maret	65,42	34,58	49,50	50,50	61,22	38,78
4	April	67,19	32,81	48,57	51,43	61,60	38,40
5	Mei	65,46	34,54	48,87	51,13	69,34	30,66
6	Juni	71,72	28,28	45,56	54,44	70,50	29,50
7	Juli	73,83	26,17	59,70	40,30	71,05	28,95
8	Agustus	69,64	30,36	60,17	39,83	69,49	30,51
9	September	68,59	31,41	58,45	41,55	61,59	38,41
10	Oktober	72,15	27,85	55,09	44,91	60,16	39,84
11	November	65,02	34,98	50,81	49,19	63,13	36,87
12	Desember	68,54	31,46	43,14	56,86	62,09	37,91
J u m l a h:							
	2014	**69,26**	**30,74**	**51,39**	**48,61**	**65,54**	**34,46**
	2013	71,66	28,34	50,55	49,45	66,95	33,05
	2012	74,06	25,94	45,86	54,14	67,73	32,28
	2011	74,46	25,54	46,44	53,56	69,30	30,70
	2010	75,22	24,78	44,18	55,82	69,81	30,19

Source: Statistic Beurau of Bali, 2014

The above table shown an increasing number of tourists visited Bali in last five years from 2010-2014. This fact is also in line with the growth number of the hotel accommodation which consist of local and independent hotels. The local chain itself are dominating in Bali. However, the global chains are leading surpassing the local chain. The global hotel chains have established future plans and objectives based on development strategies to the geographical areas that have not been exploited to gain the highest profit (Fleseriu, et al. 2014). Therefore, local chain hotels in Bali require an appropriate strategy to win the competition as well as improving its business performance. It is crucial to create the competitive advantage which lead to the uniqueness from others and it could be achieved when the companies implement value creating strategy Barney (2007). Cathoth and Olsen (2007) emphasizes that strategy formulation and

implementation are the significant factors in undertaking the company's goal. Recently, many hotel managers develop their competitive strategies that purpose to secure a strong market position and achieve high revenue. Enz (2008) argued that a single resource cannot create competitive advantage. It requires other resources such as human resources, information and technology or even more a strong brand. The current condition in Bali, made the management of local chain hotel in Bali become innovative to implement their strategy of business which Porter's generic strategies considered suitable to deal with such competition.

This study attempts to determine the impact of competitive strategy toward business performance of local chain hotels in Bali. This is examined by data collected through questionnaires to 117 hotel's manager of the local chain hotels in Bali. Therefore, it is crucial to examine this topic further to assist the local chain hotels in Bali facing a hyper competition particularly from global chain hotels, which have been aggressively penetrated in Indonesia.

LITERATURE REVIEW

The hotel industry with its facilities such as the room, restaurant, and other businesses (B. Brotherton,1999), is facing extremely competition. Hence, hotels need to select a suitable strategy to gain their competitive advantage. Herman (2005) stated that strategy defined as activities focused on planning and executing company growth. Another researcher, Grant (2005) declared that strategy is about confirming the company's wealthy. Therefore, firm could highly consider a strategy as a guide to accomplish their overall objective. The numerous studies have evaluated toward the strategies of Porter, however there were still very limited have assessed the classification of strategies are established in the hotel industry in Indonesian, particularly in Bali region. M. Pretorius (2008) declared that there are three approach could be taken based on Porter's generic strategy which are cost leadership, differentiation and focus strategy.

Figure 2. Porter's Generic Strategy

Source: Porter, 1986

This model described that a business can optimize its performance through various approaches including implementing a low cost or differentiation for their product and services in the competitive industry. These approached could be accompanied as well by the focus approach to strengthen company's position in the market. Porter (1986) also stated that company could gain their guideline through its competitive strategy to achieve their competitive advantage. Schuler and Jackson (1987) claims that there were three types of competitive advantage ; cost reduction, innovation and quality-enhancement. However, other argued that the only fundamental aspect in determining competitive advantage was the ease level on how the competitors enter the current tight market.(Greenwald and Kahn, 2005).

In another hand, the hotel industries face dynamic challenges both internally and externally, such as infrastructure issues, lack of innovation, incompetence employees, aggressive competitors, including the performance measurement tools. There has been many approaches used by the management to measure their business performance which could achieve a superior outcomes. One of the famous approach used was the Balance Score Card (BSC). BSC has gained wide acceptance by focusing on the financial and non-financial aspects to deliver an effective performance evaluation (Kaplan & Norton, 1992). Through BSC framework, management will evaluate those two major aspects into four functions of finance, customer, the process of internal business, customer aspect and as well as learning and growth (Kaplan & Norton, 1992; Banker *et al.,* 2005).   Denton & White (2000) testified on the experience of their case study of White Lodging Services implementing the BSC and recorded several positive improvement in the performance. However, some researchers shown their reluctance of the utilization of BSC but more in to their insistence on finance aspect for measuring hospitality performance ; Brander-Brown & McDonnel (1995), Haktanir&Harris(2005), Wadongo *et al.*, (2010).

Few studies have been conducted to evaluate the forms of competitive strategies linked with the performance of local chain hotels in developing countries. One of these is the study by Agyapong and Boamah (2013), who found that the low price (cost leadership) and the uniqueness of product and services (differentiation) are the two factors of competitive advantage that can improve the performance of the hotel. Their study did not specify the classification of the hotel. Another study was undertaken by Wong and Kwan (2001) that cost competitiveness, people and partner aspect as well as service delivery system were the top of competitive strategies implemented at travel agents and hotels sector in Hong Kong. Nevertheless, Wong and Kwan did not use the business performance as variable they have observed on their study.

It is important to mention that there has been no empirical research that examines the linkage between competitive strategy and the performance of local chain hotel. Hence, the hypothesis of this study are as follow:

H1. Competitive strategy of the local chain hotel is not good.

H2. Hotel Performance of the local chain hotel is not good.

H3. Competitive Strategy does not have any impact to the local chain hotel performance.

METHODOLOGY

This study used descriptive and causal research design to determine the correlations among competitive strategy and hotel performance of 3, 4 and 5 stars of local chain hotels in Bali. The data was analyzed by developing a structural questionnaires comprised of 32 closed-ended questions.

In term of the independent variables, a popular measure was used to capture various aspects of a competitive strategy based on Porter (1986) and Agyapong and Boamah (2013). The dependent variable indicator was taken based on (Kaplan & Norton, 1992 and Banker *et al.,* 2005). These areas were operasionalised in the second section of the instrument, using Likert-scale items, with response option ranging from 1 to 5. Higher score on each scale indicated higher importance attached to a particular variable observed.

The hypotheses was examined by using analytical tools PLS (Partial Least Square) version 2.0 M3. Stratified purposive sampling was used to select 117 hotel managers. Questionnaires were spread to the respondents who are the management representative of the local chain hotels around 117 managers. The statistic test used to examine hypothesis was a *t* test, with the criteria if $t_{counted} > t_{tabel}$, hence H$_o$ is rejected.

ANALYSIS AND RESULTS

Table 2. One sample *t* test of competitive strategy variable

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Y (Stategi)	117.724	116	.000	49.30769	48.4781	50.1373

The statistic test towards the average of competitive strategy indicators shown that the value of $t_{counted} > t_{tabel}$, where $t_{counted}$ value was 78.462 with p-value 0.000. The value of t_{tabel} for db = 116 and α =5% was 1.96. Hence, $t_{counted} > t_{tabel}$ (78.462 > 1.96). Therefore, H₁ was accepted. It means that the competitive strategy of local chain hotels in Bali is good.

Table 3. One sample *t* test of hotel performance variable

One-Sample Test

| | Test Value = 3 | | | | | |
| | | | | | 95% Confidence Interval of the Difference | |
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Z (Kinerja)	90.579	116	.000	48.74359	47.6777	49.8094

The statistic test towards the average of hotel performance indicators shown that the value of $t_{counted} > t_{tabel}$, where $t_{counted}$ value was 90.579 with p-value 0.000. The value of t_{tabel} for db = 116 and α =5% was 1.96. Hence, $t_{counted} > t_{tabel}$ (90.579 > 1.96). Therefore, H₁ was accepted. It means that the hotel performance of local chain hotels in Bali is good.

The model test was required before the third hypothesis test conducted. Test model of research in Partial Least Square-Structural Equation Modelling can be done through the outer and inner models. The result obtained by SmartPLS stated that loading factor values above 0.5 is required to established construct. Furthermore, the results presented in the table outer validity loading.

Table 4. Table outer validity loading

	Competitive Strategy	Hotel Performance
X1	0.827	
X2	0.835	
X3	0.743	
Y1		0.803
Y2		0.609
Y3		0.801
Y4		0.763

Based on the above table, the loading factors provide a value above the recommended value that is equal to 0.5. It means that indicators applied in this study is valid or has met the convergent validity.

Table 5: AVE values

	Average Variance Extracted (AVE)
Competitive Strategy	0.844
Hotel Performance	0.851

The result of reliability test are found to reliably remember all composite reliability values on demonstrated above 0.7. Cronbach Alpha is use to measure of discriminant validity which suggested to have a value above 0.7. As can be seen Cronbach Alpha value calculation results as follows:

Table 6: Cronbach Alpha

	Cronbach Alpha
Competitive strategy	0.722
Hotel Performance	0.851

Based on the above table it can be shown that each variable has a Cronbach alpha values above 0.7. The highest Cronbach alpha values obtained hotel performance variable, while the variables obtained the lowest Cronbach alpha was competitive strategy variable. Therefore, it can be concluded that outer model complied with the criteria established.

The following testing is the inner structural model or test the influence / hypothesis by looking at the coefficient of determination R square, T-statistics and coefficient parameters. The coefficient determination test or tests R-square aims to determine how well the inner model (structural model) were formed. According Ghozali (2011), when the R square value of 0.67; 0.33; and 0.19 indicate that the model "Good", "Moderate" and "Weak" for endogenous variables in the model inner.

The test results from the outer inner weight models indicate that the results of each indicator is significant to the latent variable for t statistic > 1.96.

Table 7: Path coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Competitive Strategy ->Hotel Performance	0.270	0.283	0.094	2.877	0.005

In view of the above table between variables test results showed that the relationship between variables by testing the variables are significant. Thus we can conclude all hypotheses can be accepted.

To confirm the results of the study hypothesis test conducted as follow;

Table 8: Hypothesis test result (*t-test*)

Variable	*T*	*Sig.*
Competitive Strategy	2.77	.000
Hotel Performance	4.40	.000

Hypothesis 3

H_0: ≠ 0 Competitive Strategy does not have any significant impact to hotel performance at local chain hotel in Bali.

H_a: ≠ 0 Competitive Strategy has any significant impact to hotel performance at local chain hotel in Bali.

In the first statistical testing using statistical tests partially with the testing criteria of departure if t count > t table at significance level α with = 1.96. Based on the results in table 8 of hypothesis test result, it appears that value of t count > t table. It means that competitive strategy has significant impact to hotel performance.

DISCUSSION

This study pursued to evaluate whether the different of competitive strategy has an impact toward the hotel performance of local chain hotel in Bali. The study revealed that the competitive strategy has strongly impact to the hotel performance in Bali. Competitive strategy consist of several approaches which cost leadership and differentiation were dominant compared with value approach. It is similar with the real condition faced by the local chain hotel

managers that they are struggling to increase hotel occupancy since most of the local chain hotels were trapped with the price strategy. The price is highly crucial for particular travel agents as well as the customers. Even though, the hotel managers realize that to maintain a great image of their stars hotel, they must put a highly concern on the uniqueness product and services. This finding is similar with a previous study conducted by Ugur & Marcella (1996), who stated that price leadership was effective to boost up the hotel performance as well as to increase customer loyalty. Another similarities on the result that the competitive advantage has an impact toward performance of the hotel by implementing BSC are from Hoque and James (2000) and Bergin-Seers & Jago (2005). They also emphasize that the firms adopted BSC would achieve much more benefits rather than those focused only on the financial parameter. It is also suggested for a further research seeks to compare this model with more variables between chain and independent hotels that might be relevant for the development of hotel strategy in Bali or other destination with hyper competition circumstances.

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