



Differentiation strategy, firm structure and performance of star rated hotels

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ABSTRACT

It is estimated that emerging economies will get over 1 billion international tourists by the year 2030. Also, strategic management researchers have severally recommended credible research in the area of strategy and structure in the hospitality industry. The purpose of this study therefore was to analyze the joint influence of differentiation strategy and firm structure on organizational performance of star rated hotels in Kenya. This study adopted positivism research philosophy and a descriptive-correlative research design. The population consisted of general managers and functional managers from Kenya's three, four and five star rated vacation and town hotels as at 2018. Multi-stage sampling that included proportionate stratified sampling and simple random sampling was used. 267 hotel managers were sampled out of which 253 managers responded. The extent to which the hotels had adopted differentiation strategy and organic or mechanistic firm structures was measured by an analysis of the responses to the multi-item Likert scale questionnaire. Structural equation modeling was used for hypothesis testing. The study concluded that differentiation strategy and firm structure have significant joint influence on organizational performance of star rated hotels in Kenya.

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Introduction

Coalignment studies may fall within the internal or external domain of an organization. The internal domain of coalignment includes the strategy implementation school (Venkatraman & Camillus, 1984). Coalignment between an organization's strategy and its internal environment has a positive and significant impact on organizational performance (Venkatraman & Prescott, 1990). Proponents of coalignment contend that a firm's strategy coalignment is not fixed. Continuous strategic adaptation is a characteristic of strategy coalignment (Grant, 2008). Differentiation strategy-firm structure coalignment enables successful strategy implementation which consequently leads to above industry organizational performance (Marx, 2016). Organizational performance is an essential consideration when assessing the suitability of strategy. Strategy suitability and organizational performance assessment should include aspects of organizational effectiveness (Luoma, 2015).

Classical theorists severally discussed the one best way of organization design. Classical theory of organizational design is associated with Weber's model of bureaucracy (Oliveira, 2012). The school of thought on the universal best way of organizing also includes Fayol's principles of management which advocated for unity of command, centralized decision making and division of labor in organizations. The classical principles of organization design had a mechanistic orientation (Child, 2015). In a critique of the classical approach, social science researchers instead argued in favor of the contingency perspective. The contingency approach posits that organizational efficiency and effectiveness is achieved when organizational structure fits various internal and external contingencies. In the contingency perspective is the Burn's and Stalker's theory that identified organic and mechanistic structures as contrasting forms of organizational design. Mechanistic structures are more rigid as compared to organic structures (Burns & Stalker, 1994).

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In 2018, the catering, hotel and tourism sector contributed to 10.4% of the total world's gross domestic product (Dudovskiy, 2016). It is forecasted that by the year 2030, emerging economies will host 57% of international tourists who are by then estimated to have grown to 1.8 billion. The estimate therefore is that emerging economies will get over 1 billion international tourists by the year 2030 (AfDB, NYU and ATA, 2015). In an analysis of the evolution of strategic management research in the hospitality industry, Köseoglu, Okumus, Dogan and Law (2018) found that hospitality strategic management research lacked a dominant paradigm. They identified the area of strategy and structure as one that required a convergence of assumptions drawn from credible research. This current study aimed at making a contribution to strategy-structure-performance knowledge and practice in star rated hotels in Kenya. The objective of this study was to analyze the joint influence of differentiation strategy and firm structure on organizational performance of star rated hotels in Kenya.

Literature Review

Coalignment Model

The coalignment model presents a linkage between environment events, strategy choice, firm structure and performance (Olsen, West, & Tse, 2008). A linear direction of the elements is assumed by the model. A fit of the elements of the coalignment model is argued to have positive implications on performance (Olsen, Sharma, Echeveste, & Tse, 2008). In the model, strategy choice refers to the selected competitive methods. The model posits that competitive methods and firm structure coalignment results in efficient and effective allocation of resources (Olsen, West, & Tse, 2008). In this study, 'environment events' was held constant. Figure 1 presents the section of the coalignment model that guided this study.

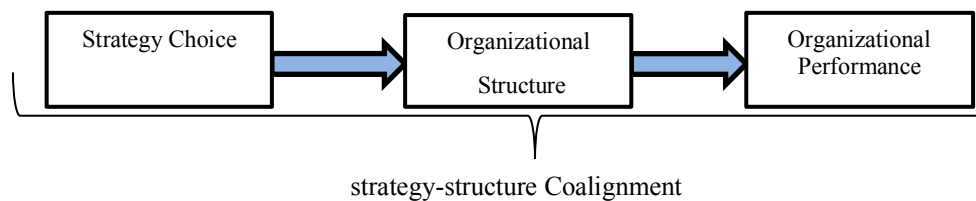


Figure 1: Organizational coalignment model

Adapted from "Strategic Management in the Hospitality Industry", by Olsen et al. (2008) p.6

Burns and Stalker's Organic/ Mechanistic Structures Theory

The terms mechanistic and organic systems of management were first used by Burns and Stalker. Mechanistic organizations have distinct characteristics from organic organizations. Mechanistic organizations have many similarities with Weber's bureaucratic organization (Sine, Mitsuhashi, & Kirsch, 2006). Mechanistic organizations are characterized by high specialization, centralization and formalization. In contrast, organic firms are characterized by lateral communication and authority in which managers are not assumed to know-it-all. Organic firms acknowledge that other employees within the firm may have special technical and commercial know-how (Burns & Stalker, 1994). It has been argued that organizations pursuing differentiation strategies are likely to adopt organic firm structures. Prior research has operationalized mechanistic and organic firm structures through formalization, centralization and complexity (Pertusa-Ortega, Claver-Cortés, & Molina-Azorín, 2008).

Differentiation Strategy

Organizations pursuing differentiation strategy seek to create exceptional product and service attributes that are widely valued by their customers. Porter's strategy typology comprises of three generic strategies namely differentiation strategy, overall cost leadership strategy and focus strategy (Porter, 1998b). The focus of this study was on differentiation strategy in which a firm focuses on creating a unique perception of itself in its industry (Porter, 1998a). Excellence in human resource management is associated with unique brand creation. A unique brand image on the other hand enables organizations to attract and retain highly talented employees. Strategic benefits of strong brands are achieved due to the imitation difficulties that competitors are likely to encounter (Enz, 2010). Mere marketing initiatives would not result in a strong brand image. A strong brand image is created through a consistent and complex institutionalization of an organization culture that responds to changing consumer needs (Dev, 2012). Hotel service is complex owing to the fact that the customers presence and the production process are inseparable (Okumus, Altinay, & Chathoth, 2010). The pursuit of differentiation strategy calls for skilled employees who have the ability to be creative. Employee authority to make decisions, teamwork and appropriate feedback systems improve the quality of service (Chakravarti, 2011). Employee training on personalization of customer service ensures flexibility to customer needs (Yilmaz, 2013). Hotels that place a high priority on training and empowering customer facing employees are likely to excel in customer service (Enz, 2010). For strategically innovative firms, innovative action is the way life (Abraham & Knight, 2001). Organizations pursuing innovation strategy may result in the creation of new products that make the prior products obsolete. Therefore, innovative firms have the ability to create new product life cycles enabling them to stay ahead of their competitors (Pearce & Robinson, 2015). Proper thought should be put into innovation strategies

so as to circumvent first mover risks and enjoy first mover advantages (Jones & Hill, 2013). Innovation may take the form of process, product, human capital or technological innovation (Needle, 2010; Tseng, Kuo and Chou, 2008).

A strategic integration of tangible and intangible hotel elements drives quality in hotels (Chakravarti, 2011). The tangible aspects include high quality food and beverages while the intangible aspects would include the hotel architecture (Yilmaz, 2013). Quality hotel architecture and design should be functional, durable and appealing (Dev, 2012).

Differentiation Strategy-Firm Structure Coalignment and Performance

Venkatraman and Prescott (1990) posit that the fundamental proposition of coalignment is that a match between an organizations strategy and its internal environment positively and significantly impacts on performance. In an elaboration of the McKinsey 7-S framework, Waterman, Peters and Phillips (1980) discuss coalignment between strategy, staff, structure, style, systems, skills and shared values as a prerequisite for firm success. The imitation barrier created by coalignment results to superior firm performance (Walker, 2009). The literature reviewed informed the operationalization of variables in this study. A summary is presented on Table 1.

Table 1: Operationalization of variables

Variable	Operationalization
Differentiation strategy	Brand image, customer service, innovation, quality
Firm structure	Mechanistic or Organic
Hotel performance	Room occupancy, profitability, market share

It has been argued that cost leadership strategy tends to be oriented towards mechanistic structures whereas differentiation is associated with organic structures (Pertusa-Ortega, Claver-Cortés, & Molina-Azorín, 2008). This study undertook to analyze the joint influence of differentiation strategy and mechanistic or organic firm structures on organizational performance of star rated hotels in Kenya. To guide this study, the null hypothesis that was formulated was,

H0₁: Differentiation strategy and mechanistic firm structure have no significant joint influence on organizational performance of star rated hotels in Kenya.

H0₂: Differentiation strategy and organic firm structure have no significant joint influence on organizational performance of star rated hotels in Kenya.

Research and Methodology

This study adopted positivism research philosophy (Petty, Thomson, & Stew, 2012). The study was cross sectional and used a descriptive and correlative research design was used (Bickman & Rog, 2008). The target population comprised of 552 managers of Kenya's three, four and five star rated town and vacation hotels as listed by the Tourism Regulatory Authority of Kenya as at the year 2018. The sampling plan in this study was multi-stage. Proportionate stratified sampling was used to divide the population into three strata (Kothari, 2004). Using Yamane (1967) sample size formula, a primary sample size of 232 was computed. The primary sample size was increased by an additional 15% to cater for non-responses (Wen et al., 2012). This gave a final sample size of 267 senior managers of 3-to-5 star rated hotels in Kenya. Simple random sampling was used to select respondents from each stratum. This study gathered primary data. The data was collected through a structured questionnaire that was administered through drop-and-pick method. Differentiation strategy of hotels was measured by an analysis of the responses to the multi-item Likert scale questionnaire. Nandakumar, Ghobadian and O'Regan (2011) indicate that such an approach is valid and appropriate. Organizations were also classified into those that had adopted mechanistic or organic firm structures. High scores to the Likert scale responses indicated that the firm structure was mechanistic whereas lower scales indicated that the firm structure was organic (Dust, Resick, & Mawritz, 2014). Exploratory factor analysis was carried out to reduce the number of variables. The test of reliability was assessed using construct reliability and Cronbach's alpha. Average variance extracted (AVE) was used to determine convergent validity. The final data set was used to run the structural equation models (SEM). Structural equation modeling is an appropriate analysis method for observed and unobserved variables (Pituch & Stevens, 2016). Model fit indices were assessed to ensure fitness of the structural models.

Results and Discussion

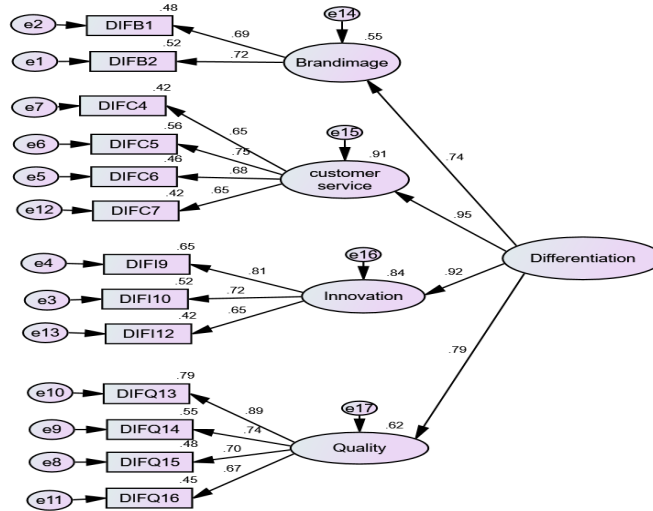
Exploratory Factor Analysis

Exploratory Factor Analysis was conducted for the hotels pursuing differentiation strategy. The KMO sampling adequacy was .876 and the Bartlett's test of sphericity was significant at $\chi^2(78, N=244) = 1150.690, p < .05$. The factor of differentiation strategy was adequate for extraction since KMO sampling adequacy was strong and Bartlett's test of sphericity was significant ($p < .05$). The total variance explained had four components with Eigen value of close to 1 which accounted for 65.337% of the variability of the

variables. Further, using Promax with Kaiser Normalization as the rotation method, all the factor loading for the four components ranged from .574 to .879 which were greater than .5 indicating the factors were well loaded and suitable.

Confirmatory Factor Analysis

CFA was done to show the attributes that constituted differentiation strategy. The differentiation strategy loading was customer service with the highest loading of .95, followed by innovation at .92, quality at .79 and brand image at .74. Figure 2 shows the CFA loadings for the model.

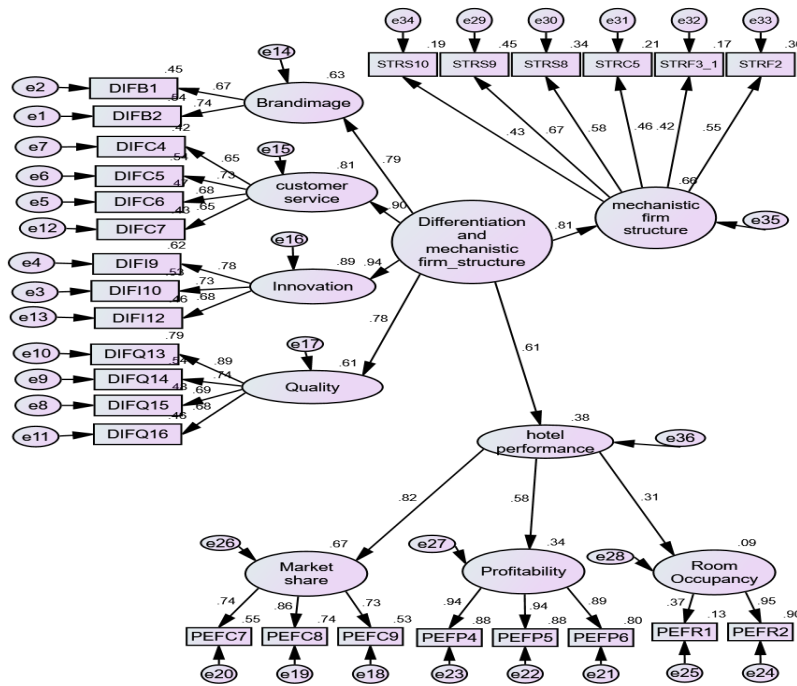


CMIN/DF = 2.248, CFI = .945, RMSEA = .070 and PCLOSE = .058

Figure 2: Differentiation strategy confirmatory factor analysis

Hypotheses Testing

In determining the joint influence of differentiation strategy and mechanistic firm structure on organizational performance of star rated hotels in Kenya, the SEM model fit indices were excellent. Hypothesis testing was done using structural equation modeling. Figure 3 presents the structural equation model.



CMIN/DF = 1.716, CFI = .924, RMSEA = .053 and PCLOSE = .233

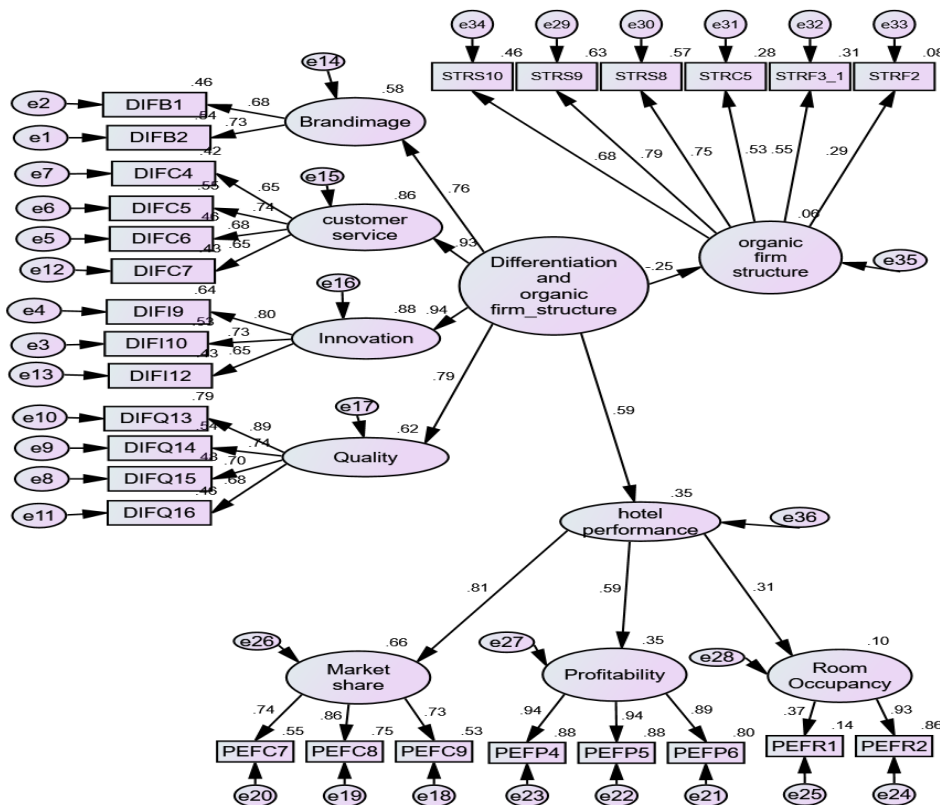
Figure 3: Structural equation model on joint influence of differentiation strategy and mechanistic firm structure on organizational performance of star rated hotels in Kenya

As presented on table 2, the path coefficient for joint differentiation strategy and mechanistic firm structure to hotel performance was positive and significant ($\beta = .614$, $T\text{-value} = 5.287$, $p < 0.05$). The positive relationship indicates that a unit increase in joint differentiation and mechanistic firm structure increases hotel performance by .614. Therefore, for firms pursuing differentiation strategy and which adopted mechanistic firm structure, the null hypothesis of the study was rejected, H_{01} : Differentiation strategy and mechanistic firm structure have no significant joint influence on organizational performance of star rated hotels in Kenya and the alternate hypothesis of study was accepted; H_1 : Differentiation strategy and mechanistic firm structure have significant joint influence on organizational performance of star rated hotels in Kenya.

Table 2: Regression weights on joint differentiation strategy and mechanistic firm structure on hotel performance

Path		Unstandardized estimates	Standardized Estimate (Beta)	Standard Error	C.R. (T-value)	p
Hotel performance	<--- Differentiation and mechanistic firm structure	.440	.614	.083	5.287	***

In determining the joint influence of differentiation strategy and organic firm structure on organizational performance of star rated hotels in Kenya, the SEM model fit indices were excellent. Hypothesis testing was done using structural equation modeling. Figure 4 presents the structural equation model.



CMIN/DF = 1.688, CFI = .929, RMSEA = .052 and PCLOSE = .308

Figure 4: Structural equation model on joint influence of differentiation strategy and organic firm structure on organizational performance of star rated hotels in Kenya

As presented on table 3, the path coefficient of joint differentiation and organic firm structure to hotel performance was positive and significant ($\beta = .589$, $T\text{-value} = 5.053$, $p < 0.05$). The positive relationship indicates that a unit increase in joint differentiation and organic firm structure increases hotel performance by .589. Therefore, for firms pursuing differentiation strategy and which adopted organic firm structure, the null hypothesis of the study was rejected, H_{02} : Differentiation strategy and organic firm structure have no significant joint influence on organizational performance of star rated hotels in Kenya and the alternate hypothesis of study was

accepted; H₂: Differentiation strategy and organic firm structure have significant joint influence on organizational performance of star rated hotels in Kenya.

Table 3: Regression weights on joint differentiation strategy and organic firm structure on hotel performance

Path		Unstandardized estimates	Standardized Estimate (Beta)	Standard Error	C.R. (T-value)	p
Hotel performance	<--- Differentiation and organic firm structure	.447	.589	.088	5.053	***

Discussions and Conclusions

The study findings revealed that differentiation strategy and firm structure have significant joint influence on organizational performance of star rated hotels in Kenya. There was no great difference between the joint influence of differentiation strategy and mechanistic structures and the joint influence of differentiation strategy and organic firm structures. The findings of this study contrast with those by Tavitiyaman, Zhang and Qu (2012) in their study on the effect of competitive strategies and organizational structure on hotel performance. Their study found no statistical significance on the relationship between brand image strategy, organizational structure and hotel behavioural performance. In their study, one of the hypotheses sought to establish whether there is a stronger relationship between financial performance and competitive brand image strategy in hotels that implement organic rather than mechanistic organizational structures. The hypothesis was rejected and it was concluded that the pursuit of a competitive brand image by hotels coupled with the adoption of an organic firm structure did not have stronger positive implications on hotel financial performance. In contrast, this study found positive implications on hotel performance of firms that pursued differentiation strategy and adopted organic firm structure.

Previous studies have argued that differentiation strategy is associated with organic structures and not mechanistic structures (Pertusa-Ortega, Claver-Cortés, & Molina-Azorin, 2008). This study makes a contribution to knowledge and practice of star rated hotels by revealing that mechanistic structures have a positive influence on performance in the pursuit of differentiation strategies.

The implementation of differentiation strategies requires making capital improvements, maintaining a strong brand image, offering high quality services and being innovative. In the implementation of these strategies hotel managers should not assume mechanistic firm structures to be inferior to organic firm structures. Mechanistic and organic structures are not dichotomies. They represent a polarity with intermediate stages between the extremities.

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