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SOCIAL AND MANAGEMENT RESEARCH JOURNAL

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1. **A Study On Students' Background and Attitudes Towards Computer Skills in Selected Secondary Schools in Segamat** 1
Azizah Aris
Ruhana Zainuddin
Rafidah Kamarudin
Norzaidi Mohd. Daud

2. **Assessing the Effective Marketing and Employers' Perception of the Quality of Diploma in Public Administration of UiTM Sarawak Branch** 15
Kuldip Singh
Prabha Ramakrishnan
Elizabeth Caroline Augustine

3. **A Study on the Perception, Usage Rate, and Satisfaction of Herbal Products Among Customers in the Northern Region** 27
Fatimah Mohd Saman
Mohammad Zaki Ayob

4. **Stock Market and Real Activity: An Empirical Study of Several Asian Countries** 39
Masturah Ma'in
Arifin Md. Salleh
Abd. Ghafar Ismail

5.	The Relationship between Reading in L1 and EFL Writing Performance <i>Rahmah Mohd Rashid</i>	53
6.	Conceptions of Functions Among First Degree and Diploma Students <i>Siti Aishah Sheikh Abdullah</i>	67
7.	Does Operating Performance Really Improve Following Financial Institutions Merger: A Case of Malaysian Banks <i>Wan Mansor Mahmood</i> <i>Rashidah Mohamad</i>	77
8.	Self-directed Learning Readiness Among Web-based Learners <i>Shireen Haron</i>	87
9.	Strategy and Structure of the Hotel Industry in Malaysia <i>Salleh Mohd Radzi</i> <i>Mohamed Amran</i> <i>Abdul Razak Aziz</i> <i>Azlan Supardi</i>	97
10.	Predicting Students' Performance Through Techniques in Study Skills: A Multivariate Discriminant Analysis Approach <i>Shukri Shamsuddin</i> <i>Noor Izah Ismail</i> <i>Wan Haslina Wan Hussin</i>	109

Strategy and Structure of the Hotel Industry in Malaysia

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ABSTRACT

The major purpose of this study was to examine the relationship of strategy and structure. Porter's (1980) strategic typology was utilized to classify hotel firms by strategic orientation; and, an analysis of variance was performed to determine the differences in their performance. Structural Equation Modeling was used to confirm the factors underlying the strategy and structure constructs. The three performance variables used in this study were: 1) Occupancy percentage, 2) Return on sales, and 3) Return on assets. The results were tabulated and analyzed based on primary data derived from a mail survey questionnaires. A total of 283 hotel firms across the country that are rated as 5-star, 4-star, and 3-star were invited for participation. The response rate was 44.2 percent or 125 hotels responded within the required 5-week duration for data collection. Results indicated that strategy was not related to structure in hotel firms. It was found that all the three performance measures were not related to structure. These findings were inconclusive in validating Porter's model. The probable reason is that Porter's generic strategies may not be applicable for the service industry due to the existence of the fundamental differences in manufacturing and service.

Introduction

In light of the growing importance of the service industry, unfortunately only a small percentage of strategy literature has focused on service industry. Separate

strategy studies in service industries are needed because strategic studies in manufacturing may not always be generalizable to service industries. Significant differences between service industry and manufacturing industry may mean that strategy research findings are not generalizable to service industry. In order to discuss strategy and structure relationship, theories and models from the manufacturing firms were adapted and will be the starting point of the discussion.

Strategy

According to Simon (1993) strategy design must go on continually. Strategic planning is aimed at dealing with the enormous uncertainty and constant change that modern organizations find in the environments to which they must adapt. “Strategy is the ability of an organization to think and behave strategically. It involves paradigm (perspectives on how and where to compete – as a whole and with respect to every product and service in the activity portfolio), issues of positioning in relation to identifiable competitors and markets, and the ability to change” (Thompson 1998 p. 276). According to Olsen et al. (1992) the concept of strategy is a necessary ingredient in the portfolio of management skills of every hospitality managers. Strategy is different in service businesses and especially in the hotel industry with its unique mix of goods and services offered.

Structure

According to Schaffer (1984) organization structure can be thought of as comprehending the parameters, which define the way an organization is assembled. It is through an organization’s structure that a framework for integrating the organization’s strategic plans for the allocation of its resources is achieved. Dalton et al. (1980) consider organization structure as the anatomy of the organization, providing a foundation within which the organization functions and affect the behavior of organization members.

Perrow (1967) refers to structure as follows, “In the course of changing material in an organizational setting, the individual must interact with others. The form of interaction is called structure and involves arrangements or relationships that permit coordination and control of work” (p. 195).

Strategy and Structure

An organization’s structural framework can be viewed as an important element relative to its overall strategy. It represents the means through which organizational resources are employed to meet organizational objectives and the accomplishment of the organization’s purpose. Its strategy, culture,

management style and attitudes, employee involvement and satisfaction and channels of communication influence structure in an organization. The interest in the linkage between strategy and structure was demonstrated by Alfred Chandler's study in 1962.

Chandler (1962) proposes that strategy of diversification led to organizational problems and eventually to the emergence of a new corporate structure. Understanding the components of structure and the contingencies that affect these components are prerequisites to implementing structural configurations that will match situational requirements and result in a greater likelihood of organizational effectiveness (Schaffer 1984). Chandler (1962) concludes that strategy will determine structure. He hypothesizes that there will be a positive relationship between strategy and structure and Rumelt (1974) tests this hypothesis statistically and the results supported Chandler's hypothesis.

Problem Statement

Theoretical framework on service management is lacking and the service sector has been adopting different strategies proved to be effective in the manufacturing industry. According to Thomas (1978) strategy in service businesses is different from that of manufacturing business as the processes and outputs in manufacturing goods and in producing services are different.

Despite the phenomenal growth in the service sector, there has been little research to date using service organizations, as opposed to manufacturing organizations, as a sample frame of reference (Crawford Welch, 1990). Notwithstanding the lack of empirical work on the strategy and structure linkage in the hospitality literature, several hospitality researchers have recommended its conceptual importance and most of these relevant empirical work has been conducted solely in the USA (Phillips 1996). Specifically, the objectives of the study can be stated as follows:

1. To explore the strategic dimension utilized by the hotel industry in Malaysia.
2. To examine the relationship between structural attributes and generic strategy in the hotel industry.
3. To examine the relationship between strategy and structure of the hotel industry.

Conceptual Framework

Prior research done by Child (1972), Cyert and March (1963), Hofer and Schendel (1978) and Porter (1980) support this notion. Strategy typology developed by

Miles and Snow (1978) and Porter (1980) are the most accepted typology and have been used by numerous researchers in their study. There has been some support found for Porter's typology. In Hambrick's (1983) study of capital goods producers, all three Porter's (1980) generic strategies capital goods producers, all three Porter's (1980) generic strategies emerged. Hambrick (1983) concludes that it is obvious to have a single strategic approach rather than a mixed or hybrid strategy.

Dess and Davis (1984) further verify the validity of the generic strategy typology and support the notion that an organization following one of the three strategies will result in higher performance than those firms which are stuck in the middle. Miller and Friesen (1986) in a study of consumer durable industries also validated the typology. According to Kotha and Vadlamani (1995) Porter's generic strategies typology is robust and even though it is simple, it captures much of the complexity of business unit strategies. In attempting to measure and identify the relationship between strategy and structure, this study used the confirmatory approach to study the current state of development of the hotel industry. Porter's (1980) competitive strategy framework was utilized to test the relationship of strategy and structure. This framework was adapted from studies by Chandler (1962) and Rumelt (1974).

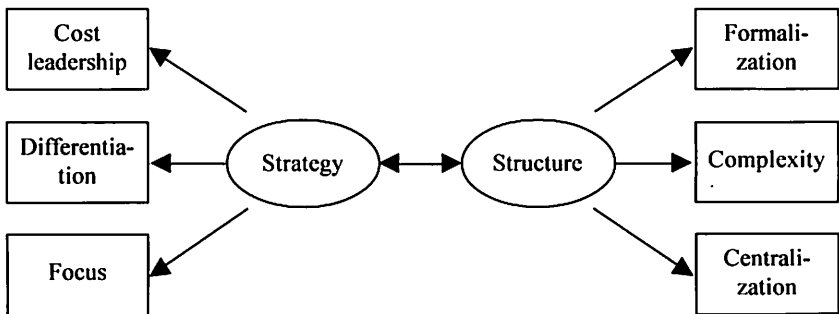


Figure 1: Framework of Strategy-Structure Linkage

Operational Definitions: Key Variables

Generic Strategy

As stated earlier, this study determined the characteristics associated with the nature of the types of operational strategy employed by hotel organizations using Porter's (1980), Miller's (1992) and Mintzberg's (1988) typology of generic strategies. Porter identified these strategies by which firms could gain a competitive advantage over their competitors and achieve above average performance in the long run. This study attempted to validate the Porter's

(1980) framework of generic strategy to the hotel industry in Malaysia. Most of Porter's (1980) work is based on the manufacturing industry experiences and therefore, the unique characteristics of service industries are not reflected in their work.

Structure

Structure generally refers to the way in which organizations arrange the roles and responsibilities of its members so as to accomplish their objectives. It also defines the lines of authority and communication and the allocation of capital and other resources so that they are properly coordinated (Ishak and Mohd Radzi, 1998). Schaffer (1986), Tse (1988) and Crawford-Welch (1991) utilized the three-structure dimension to measure the degree of internal structure in the hotel industry: formalization, specialization and centralization. These three dimensions of organizational structure had been used in numerous researches at the organizational level, consequently permitting comparability and appropriate statistical testing.

Research Results

Pre-Test Results

A total of 9 hotels were selected for conducting the test and they represented a cross section of hotels ranging from three star to five star hotels. A questionnaire was mailed to each General Manager of the hotel with a request that a questionnaire be completed and constructively criticized. 6 questionnaires were returned with no adverse comments. This was a response rate of 66.7 percent. In addition, attempts were made to contact those individuals who had not responded but they made a decision not to participate in the survey. The pretesting results were evaluated based upon the six returned questionnaires.

The Sample

Hotels with rating of five, four, and three stars with 50 rooms and above with minimum number of 2 years in operation were solicited for participation. The sample of hotel firms was taken from three sources. They were a) Tourism Malaysia's Directory of Star Rated Hotels, b) Malaysian Association of Hotels, and c) Green Pages and MIHR Consulting list. A total of 125 hotels or 44.2 percent responded.

Confirmatory Factor Analysis

Structural equation modeling (SEM) approach using LISREL was used due to its robustness and flexibility in establishing construct validity. The measurement properties of strategy and structure were assessed using confirmatory factor analysis (CFA) within the LISREL framework. The Goodness of Fit Index (GFI) and the Adjusted Goodness of Fit Index (AGFI) indicate the goodness of the overall fit of a model. GFI is considered as one of the important measures of absolute fit (Kline 1998; Hair et al. 1995). The GFI indicates the relative amount of variance and covariance jointly explained by the model; the AGFI differs from GFI in adjusting for the number of degree of freedom (Byrne 1989). Both index range from 0 to 1 and values of 0.9 and above are considered as the evidence of good fit (Hair et al. 1998). Root Mean Square Error of Approximation (RMSEA) focuses on the discrepancy between population per degree of freedom, or in other words it focuses on error due to approximation. The RMSEA is regarded as one of the most informative fit indices. Values less than 0.05 indicates good fit, between 0.05 and under 0.08 of reasonable fit, between 0.08 and 0.10 of mediocre fit and above 0.10 of poor fit (Diamantapoulos and Siguaw 2000). As recommended by Diamantopoulos and Siguaw (2000) the model's overall fit was assessed to determine the degree to which the model as a whole is consistent with the empirical data at hand. The relationships between the latent variables and their indicators (manifest variables) were assessed to determine the validity and reliability of the measures used to represent the constructs.

Statistical Analysis of Hypotheses

It has been proposed that the strategy of the hotel firms and the organizational structure are all related.

H_A1 There is a relationship between strategy and structure in the hotel industry.

This hypothesis examined the relationship between strategy and structure. The null hypothesis investigated the contention that all strategies are equally effective and do not account for any difference in the structure of organizations. It is expected that there should exist some differences in structure across the strategy types. From this hypothesis, three sub-hypothesis were developed:

H_A1.1 There are differences in the degree of centralization among each strategy group.

H_A1.2 There are differences in the degree of formalization among each strategy group.

H_A1.3 There are differences in the degree of complexity among each strategy group.

Pearson correlation was used to determine the relationship between strategy and structure. The result showed that there was a relationship between the three-strategy types and structure. Table 2 illustrated the result:

Table 2: Correlation (Strategy and Structure)

		Formali- zation	Centrali- zation	Complexity
DIFFERENTIATION	Pearson Correlation	.300**	.429**	.343**
	Sig. (2-tailed)	.001	.000	.000
FOCUS	Pearson Correlation	.206**	.227**	.293**
	Sig. (2-tailed)	.021	.011	.001
COST LEADERSHIP	Pearson Correlation	.181**	.182**	.245**
	Sig. (2-tailed)	.044	.043	.006

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

To further investigate the nature of the relationship, a one-way analysis of variance was conducted to test the three sub-hypothesis. The results of this analysis were presented in Table 3-Table 5.

Table 3: One-way ANOVA: Strategy and Structure (Differences in the Degree of Formalization)

Sum of Square	df	Mean	F	Sig.	Squares
Between Groups	4.423	5	.885	3.681	.004
Within Groups	28.601	119	.364		
Total	33.024	124			

Table 4: One-way ANOVA: Strategy and Structure (Differences in the degree of Centralization)

Sum of Square	df	Mean	F	Sig.	Squares
Between Groups	6.498	8	.812	3.552	.001
Within Groups	26.526	116	.229		
Total	33.024	124			

Table 5: One-way ANOVA: Strategy and Structure (Differences in the degree of Complexity)

Sum of Square	df	Mean	F	Sig.	Squares
Between Groups	7.063	7	1.009	4.548	.000
Within Groups	25.961	117	.222		
Total	33.024	124			

This statistical result accepted the null hypothesis and concluded that there were no significant differences in the degree of structure evident across all the three strategy types in the hotel industry.

Discussion of the Results

The most significant conclusion from this empirical analysis is that no difference was found in the degree of structure according to their strategy type. Using the hotel industry setting, this study showed that strategy and structure were not related. Hotel firms that espoused different strategies did not have different degrees of structure with regard to formalization, centralization and complexity. This finding was different from those studies being tested in the manufacturing industry. Chandler (1962) concluded that strategic choices and the internal structure have a direct bearing on the ultimate success of organizations.

Strategy frameworks developed for the manufacturing industry are not immediately applicable to services and that inherent characteristic of services present unique problems and opportunities for the effective management of service industry. However, this study supports Schaffer's (1986) and Tse's (1988) findings. Schaffer (1986) extended Miles and Snow's typology and used the same three measures of structure and concluded that strategy and structure were not related in the lodging industry. Tse (1988) utilized Porter's typology in the restaurant setting and failed to validate Porter's strategic typology. The probable reason for the contrasting findings between the manufacturing and service industry is due to the fundamental differences that exist. The unique characteristics of the service industry, namely the intangibility of the product and simultaneity of production and service delivery process, result in a less defined structure as compared to the manufacturing industry.

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