

## Enhancing Organizational Performance Through Strategic Alignment of Cost Leadership Strategy and Competitor Orientation

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**Abstract:** This study adds the body of knowledge that relates Porter's cost leadership strategy and competitor orientation to organizational performance in context of hotel industry in Malaysia. The existing literatures show that there were limited empirical studies, which considers the alignment between cost leadership and competitor orientation and its impact on organizational performance. A total 475 sets of questionnaires distributed to three to five star rating hotel's managers in Malaysia and only 24% of it, which is 114 returned. Of these 114 respondents, only 54 hotels implementing cost leadership and the rest follows differentiation strategy. For this paper, the researcher focused on those 54 hotels which implementing cost leadership strategy. The findings show that cost leadership strategy has significant effect on organizational performance and competitor orientation. In addition, competitor orientation has positive impact on performance. Present study found that competitor orientation mediates the nexus of cost leadership and organizational performance. This study is bridging the gap and presenting the significance of aligning cost leadership and competitor orientation in hotel industry. It also provides some practical implications for the decision making process that relates with alignment of cost leadership, competitor orientation and organizational performance nexus.

**Key words:** Cost Leadership Strategy • Competitor Orientation • Organizational Performance • Hotel Industry in Malaysia

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### INTRODUCTION

It has been reported in the literatures that hoteliers today face various challenges from internal and external factors in a dynamic business environment that affect the organizational performance [1]. These challenges are alarming for hoteliers to consider about alignment between strategies which can produce better performance. Therefore, it is important for hoteliers to adopt the finest and specific business strategy and functional strategy which can be the best strategic fit for the hotel's strategic direction and practices in order to achieve better performance and competitive advantage.

Hence, it is vital for the hoteliers to align the cost leadership strategy (business strategy) with competitor orientation (functional strategy) that could enhance the performance. Thus, the objective of

this study is to examine the nexus of cost leadership strategy, competitor orientation and organizational performance. Specifically, this study examines the strategic alignment between cost leadership strategy and competitor orientation in context of Malaysia hotel industry.

### Review of Literature

**Underpinning Theories:** The issue of strategic alignment between organizational strategies is considered as major factors for securing the organizational performance [2]. The literatures stated that strategic alignment as process of coordination, co-alignment, fit and match various organizational strategic levels in order to create the consistency [3-5]. There were several researchers examined the alignment of business strategy and functional strategy and emphasize its importance in enhancing organizational performance [6-8].

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It is expected that a cost leadership strategy (competitive strategy) that is well supported by competitor orientation (market orientation) must lead to enhanced performance. This is because marketing decisions are organized in a way that competitive objectives would be achieved. Inconsistency between competitive strategy and market orientation will lead to ineffectiveness in overall strategic direction. Thus, in order to establish strategic alignment between cost leadership strategy and competitor orientation, the researcher utilized several underpinning theories such as dynamic capabilities, strategic implementation perspectives and level of organizational strategies.

Briefly, dynamic capabilities explains the responsiveness of organization by utilizing the firm's resources, skills and competences react towards the external competitive environment [9]. By applying dynamic capabilities perspective this study integrated and reconfigured the strategy (cost leadership) and capability (competitor orientation) of the organization. Furthermore, this study used strategic implementation perspective which explains the link of strategy (cost leadership) influence structure (competitor orientation) on performance [10-12]. Finally, the alignment established through the level of organizational strategies where cost leadership is a business level strategy while competitor orientation is a functional level strategy [13-15].

**Cost Leadership Strategy:** Porter [4, 16] cost leadership strategy is about organizing and managing business activities in order to be the lowest cost producer of products or service in the entire industry. Organizations that pursue a cost leadership strategy are preferably emphasis to implement competitor orientation as their marketing strategy [10, 17, 18]. Even though, the objective is to produce low cost products and services but the organization still an emphasis on the quality and value as well.

Porter [4] mentioned that, to achieve cost leadership position an organization requires efficient scale facilities and cost reduction through tight cost, overhead cost control and cost minimization in several areas namely service, sales, marketing and research and development [19, 20]. Porter [4] suggested that the lowest cost position in industry facilitates the organization to defend against their competitors, powerful buyers and suppliers by employ accurate demand forecasting, high capacity utilization, economies of scale, technological advantages, outsourcing and learning/ experience effects [21].

Cost advantage and economies of scale which experience by organization will enhance the value of the business and lessen the five forces threats [4, 19, 22].

**Competitor Orientation:** Competitor orientation observes the competitors closely, recognizes short term strength and weakness and long term competencies as well as tactics of rivals [23, 24] competitor orientated organization used the competitors as a reference to identify their advantage and disadvantage to understand the characteristic of competitive market [25]. Specifically, competitor orientation needed sourcing information about competitors, competitor's activities, offerings and market potentials [25]. Additionally, competitor orientated firms emphasized on cost reduction by simply imitating their competitors rather than developing innovative products and services which could lead to industry equilibrium [24, 26]. The findings of Frambach *et al.* [17] showed there were positive relationships between cost leadership and competitor orientation. Thus, the researchers found similarities in characteristics between cost leadership and competitor orientation where these elements emphasizes on cost reduction and greater efficiency than competitors.

**Cost Leadership Strategy, Competitor Orientation and Performance:** Many studies were found significant association between cost leadership strategy and organizational performance [19, 22, 27, 28-30]. The concept of competitor orientation effects on business performance is a matter of extensive research and the association has been well established [29, 30]. The literature review shows that the cost leadership strategy is endeavoring to achieve the above average return on investment than their rivals and capitalize on economies of scale as well experience curve effect [4, 5]. In order to achieve cost leadership, organizations should focus on cost reduction in all aspects in their business [4, 5].

For instance, an organization tends to probe for outsourcing activities, controlling production cost, increase asset capacity utilization, minimizing cost in R and D and advertisement activities. Vitaly, cost leaders constantly yardstick against their rivals in the industry so that needed high competitor orientation [10, 17, 18]. Particularly, cost leadership strategy enables to focus on the supply side and assesses their relative cost position in the industry [17]. Therefore, based on above discussion, this study proposes that:

**H1:** Hotel pursuing cost leadership mediating by competitor orientation produces better organizational performance.

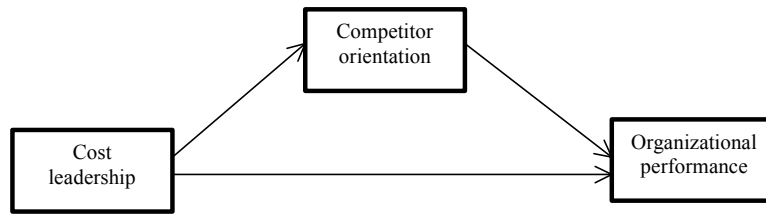


Fig. 1: Research Model

**Methodology:** The sample was drawn from the three to five star rating hotels which registered in directory of the Ministry of Tourism and Culture, Malaysia. Top and Middle management of the hotels which represent the whole hotels or strategic business unit of the organizations was chosen as the unit of analysis of the study. Data was collected using mail questionnaire.

A total of 475 questionnaires were distributed and only 24% of it, which is 114 returned. Of these 114 respondents, only 54 hotels implementing cost leadership the rest follows differentiation strategy. For this paper, the researcher focused on those 54 hotels which implementing cost leadership strategy. Questions for cost leadership strategy were adopted from Auzair [31] which consist of four items. Questions for competitor orientation were adopted from Grawe, Chen and Daugherty [32] which consists of five items. While, organizational performance measured through balanced scorecard setting which consist of six items adapted from Hilman [19] and Kaplan and Norton [33]. All items assessed using a seven point scale.

**Goodness of Measures:** Exploratory factor analysis and reliability analysis were utilized. The findings of the factor analysis and reliability tests indicated in Table 1. All individual loadings were above the minimum of 0.50 suggested by Hair *et al.* [34]. The reliability values were all exceeding 0.9. Hence, the measures used in this study were valid and reliable.

**RESULTS AND DISCUSSION**

To accomplish the objective developed, the Preacher and Hayes [35] simple mediation procedure (SOBEL) were used. The findings were presented in following tables. Table 2 presents the mean and standard deviation of all variables and the inter-correlations.

It can be observed from the table 3 that cost leadership strategy has significant impact on organizational performance (B = 1.245, p < 0.01). Besides, cost leadership has a significant impact on competitor orientation (B = 1.009, p < 0.01). The finding also indicated that competitor orientation has a significant impact on organizational performance (B = 0.643, p < 0.01).

Table 1: Result of factor analysis and reliability

Variables	Factor loadings	KMO	Eigenvalue	Variance	Reliability
Cost leadership		.884	3.674	91.861	0.97
CS1	.958				
CS2	.956				
CS3	.963				
CS4	.957				
Competitor Orientation		.867	4.585	91.695	0.97
COMO1	.930				
COMO2	.970				
COMO3	.952				
COMO4	.968				
COMO5	.968				
Organizational Performance		.890	5.927	98.779	0.99
OP1	.992				
OP2	.994				
OP3	.995				
OP4	.996				
OP5	.992				
OP6	.994				

Table 2: Descriptive statistics and inter-correlation

Variables	Mean	SD	OP	CS	COMO
OP	3.503	2.690	1.000		
CS	2.965	2.127	0.984*	1.000	
COMO	3.032	2.184	0.985*	0.982*	1.000

Note: Significant at: \*  $p < 0.01$

Table 3: Direct and total effects

	Coefficient	S.E	t	Sig
B (YX)	1.245	0.021	59.068	0.000
B (MX)	1.009	0.018	55.440	0.000
B (YM.X)	0.643	0.092	7.025	0.000
B (YX.M)	0.597	0.094	6.352	0.000

Table 4: Indirect effect and sig using normal distribution

	Value	S.E	LL95 CI	UL95 CI	Z	Sig
Effect	0.648	0.093	0.466	0.830	6.97	0.000

Table 5: Bootstrap results for indirect effect (1000 resamples)

	Data	Mean	S.E	LL95 CI	UL95 CI
Effect	0.648	0.647	0.117	0.408	0.870

Finally, the association between cost leadership and organizational performance is significant after the direct effect of competitor orientation on organizational performance was controlled ( $B = 0.597, p < 0.01$ ). Cost leadership strategy still has a significant effect on organizational performance although it has reduced from  $B = 1.245$  to  $0.597$ ). So, this shows partial mediation.

Furthermore, Table 4 shows the result of Z score =  $6.97, p < 0.01$  and the indirect effect was  $0.648$ . Finally, the Table 5 shows findings of bootstrap for indirect effect using 1000 resamples. The result indicated above relationship lied within  $0.408$  and  $0.870$ . The zero is not in the range of 95% confidence interval; the decision is that the mediation effect of competitor orientation is significant.

## DISCUSSION

This paper investigated the strategic alignment of cost leadership strategy, competitor orientation and organizational performance of hotels in Malaysia. The overall implication for the hoteliers was that both cost leadership strategy and competitor orientation have provided foundation for improving organizational performance. Data were collected from the hotel industry ever since it is the area newly experienced swift changes as a result of Malaysia government's agenda namely National Keys Economic Area (NKEA).

From the results, cost leadership strategy has a significant effect on organizational performance. This study has provided enough evidence to support the hypothesis that cost leadership strategy provide better organizational performance as agreed by [4, 19, 2]. However, this study contradicted with recent findings by [21] where they found that hotels not implementing cost leadership strategy.

Further, this study found positive and significant impact on cost leadership strategy and competitor orientation where cost leadership strategy would encourage the hoteliers to implement competitor orientation as their functional level strategy [10, 17]. Additionally, both strategies have similar characteristics such as focusing on internal efficiency, monitoring the competitors, making cost reduction and acquiring larger market share. This result provided evidence to support the strategic alignment of cost leadership strategy and competitor orientation.

Moreover, this study revealed that the competitor orientation has significant impact on organizational performance which supported that better competitor orientation implemented by hoteliers will give better organizational performance [36]. This is because competitor orientation can be considered as an important factor that allows hoteliers to outperform than rivals and gain competitive advantage. The findings from mediation analysis provided a clear picture on how the strategic

alignment model is interconnected. This study has revealed that competitor orientation plays a partial mediator role in the relationship between cost leadership strategy and organizational performance.

**Practical Implications:** this study provides several implications for practice. This empirical study presented an insight for managers about the role of organizational structure / capabilities / functional competencies in the business strategy and performance nexus. This provided a path for strategic alignment between cost leadership strategy and competitor orientation to improve the organizational performance. The development of competitor orientation is essential for effectiveness of cost leadership strategy which enhances the performance.

Therefore, managers must simultaneously implement right strategy with right capability / functional activity that act as potential mediator. This approach encourages hoteliers to align the best strategies which generate better outcome. This finding has suggested that competitor orientation should be incorporated as a tool to assess cost leadership strategy effort in hotel industry that in turn can be used to achieve higher performance.

## CONCLUSION

This study provides significant information for the decision making process to the hotel managers in order to attain greater performance by strategically align the cost leadership (business strategy), competitor orientation (functional strategy) towards performance. Furthermore, this analysis would strengthen hotel's competitiveness and performance in current dynamic environment. Importantly, present study identified the implication of competitor orientation (marketing activity) in supporting the execution of cost leadership (business strategy) to achieve superior performance.

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