Managerial Capabilities, Organizational Culture and Organizational Performance: The resource-based perspective in Chinese lodging industry

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ABSTRACT

This paper aims to identify alter competitive advantage creation path in Chinese lodging industry where the two resource-based constructs, managerial capability and organizational culture have examined their effects on hotel's financial performance and customer satisfaction. The paper based on the previous literature review of RBV. A census-based questionnaire was distributed to the member of Chinese hotel top management team in two North-East city in China. By using structural equation modeling as the main data analysis tool, the results found that both hotel's managerial capabilities and organizational culture have no impact on its financial performance. Alternatively hotels' managerial capabilities have significant impacts on customer satisfaction, Further discussion is included in the paper.

Keywords: Managerial capabilities, organizational culture, organizational performance

INTRODUCTION

The resource-based view (RBV) is one of the most stupendous theoretical perspectives in current strategic management literature (Barney, 1991; Eisenhardt & Martin, 2000; Helfat & Raubitschek, 2000; Teece, Pisano, & Shuen, 1997; Wernerfelt, 1984). The theoretical foundation of RBV can be traced back from Marshall (1890), Coase (1937), Andrews (1949) to Penrose (1959).

Barney (1991) claims the fundamental assumptions of RBV are the heterogeneity of resources and capacities held by each firm, and the long lasting duration of these differences within the firm. He also argued that the resources and capabilities of the firm tend to be path-dependent, and can only be developed over a long period of time. Influential also are, causal ambiguity (not always clear how these capabilities impact on the firm’s performance) and social complex (cannot be bought or sold in some situation) in nature (Barney, 1991; Dierickx & Cool, 1989).

In this way, a firm might be able to sustain its competitive advantage through its ability to identify, develop, deploy, and preserve particular resources and distinguish these from its rivals so as to facilitate its success in a competitive market (Amit & Schoemaker, 1993; Carmeli & Tishler, 2004; Collis & Montgomery, 1998; Dierickx & Cool, 1989).

The characteristics of a firm’s crucial resources and strategic capability in Johnson, Scholes and Whittington’s (2008) terms was developed by Barney (1991), who suggested that to sustain competitive advantage, a firm has to possess the resources that are valuable, rare, costly to imitate and non-substitutable. Peteraf (1993) further developed other characteristics of strategic capabilities by proposing that a firm can sustain its competitive advantage only under four major conditions: heterogeneity of resources, ex post limits to competition, imperfect mobility and ex ante limits to competition (Peteraf, 1993, p.186).

In other words, Peteraf (1993) suggested that a firm can sustain its competitive advantage if it is able to generate sustainable economic rent by endowing it with superior internal resources. To facilitate the sustainability of the economic rent for the firm in the long term, the superior resources of the firm must be inelastic in supply (Dierickx & Cool, 1989; Peteraf, 1993), inimitable or non-substitutable (Lippman & Rumelt, 1982; Porter, 1980; Rumelt, 1984) and the costs of the resources must be lower than their economic rents (Barney, 1989; Dierickx & Cool, 1989; Ray, Barney, & Muhanna, 2004).

Resource has generally defined as those assets owned or controlled by a firm (Amit & Schoemaker, 1993). According to Wernerfelt (1984): “a firm’s resources are those tangible and intangible assets tied semi-permanently to
the firm” (Wernerfelt, 1984, p.172). Tangible resources are those physical items or assets within an organization, such as equipment, facilities, raw materials, and equipment (Carmeli & Tishler, 2004). Intangible resources on the other hand, are those assets identified as know-how, skills, knowledge, perceptions, product reputation, culture and network that cannot be listed in regular managerial, accounting reports (Connor, 2002; Hall, 1992); these intangible resources are heterogeneous and immobile in nature (Barney, 1991; Peteraf, 1993).

In his studying 72 Spanish manufacturing firm, López (2003) has found empirically a significant relationship between a group of intangible resources (e.g. company reputation, human capital and organizational culture) and organizational performance. The empirical results of the regression coefficients analysis have indicated that intangible resources are positively related to the firm’s performance, where all the relationships have achieved p <0.05. Corresponding to the results of López (2003), Henderson & Cockburn (1994) have also found significant differences in firms’ performance when they possess different level of intangible resources.

Similar to López’s (2003) and Henderson & Cockburn (1994), Carmeli & Tishler (2004) examined 99 local government authorities in Israel for the relationships of a set of intangible resources (managerial capabilities, human capital, perceived organizational reputation, internal auditing, labour relations, and organizational culture) with a set of multi-performance measures (financial performance, municipal development, internal migration, and employment rate). The results from the multiple regression analysis (MLR) have shown that all intangible resources variables were positively and significantly related to organizational performance variables. Furthermore, the findings of their study have identified that organizational culture and perceived organizational reputation were the two most significant variables relating to organizational performance in the Israel government authorities with coefficients of 0.24 and 0.23.

Managerial Capabilities

Superior managerial capabilities have long been acknowledged as an important source to generate above normal rent for its organization (Barney, 1991; Castanias & Helfat, 1991; Hambrick & Mason, 1984; Katz, 1974; Norburn & Birley, 1988; Penrose, 1959). Management capabilities in a organization are usually required for communicating and implementing strategy, maintaining beneficial relationships with internal and external stakeholders (Cyert & March, 1963; Smircich & Stubbard, 1985; Weick, 1979), and participating in organizational resource allocation and deployment such as, organizational culture (Fiol, 1991), learning system (Senge, 1990), innovation and entrepreneurial systems (Nelson, 1991), and incentive systems (Kerr, 1975). Specifically, several researchers claim that, in order for managers to perform their managerial tasks adequately, they must possess firm-specific knowledge which is history-dependent or acquired through learning by doing (Barney, 1991; Reed & DeFillippi, 1990).

However, superior managerial capabilities is embedded in the team setting rather than a single person, where a broad set of such complementary skills of the management team as technical and human skills, is required to attain the superiority in a particular competitive market (Barney, 1991; Mahoney, 1995).

By having this set of skills, “the attributes of the management team may satisfy the conditions for achieving and maintaining competitive advantage” (Mahoney, 1995, p. 92). Accordingly, the following hypotheses are derived:

H1-1a: The managerial capabilities possessed and controlled by a hotel positively influence its financial performance in the Chinese hotel industry

H1-1b: The managerial capabilities possessed and controlled by a hotel positively influence its customer satisfaction in the Chinese hotel industry

Organizational Culture

Organizational culture refers to the “underlying values, beliefs, and principles that serve as foundation for the organization’s management system as well as the set of management practices and behaviours that both exemplify and reinforce those basic principles” (Denison, 1990, p. 2). In other words, organizational culture serves as a function to explain the type of activity that the organization is engaged upon and the lifecycle stage that the organization has reached (Hall, 1992). In the field of strategic management, the role of organization culture to create competitive advantage has been studied by many strategic researchers. Barney (1986) for example, who asserted organizational culture as a valuable, rare, and imperfectly imitable resources, which is a source of sustainable competitive advantage.
Klein, Masi, and Weidner (1995) further positioned organizational culture as the core organization’s endeavours to improve its products and services quality and services and its overall effectiveness.

Hall (1993) argues that the organization culture applies to the organization as a whole, in the way it sets organization apart from others and also binds its member together. Therefore, in order to be a contributor to the competitive advantage, the organization culture of an organization requires a higher quality standard in perception, and a high level of abilities to change, to react to challenge, and to learn from the external environment and the internal organization (Hall, 1993). In line with the above discussion, the following hypotheses were proposed:

H2a: The organizational culture that possessed and controlled by a hotel is positively influencing its financial performance in the Chinese hotel industry
H2b: The organizational culture that possessed and controlled by a hotel is positively influencing its customer satisfaction in the Chinese hotel industry

**METHODOLOGY**

Data were collected from the tourist hotels’ senior managers from three star and above in two North-East cities in China. The census sampling was applied in both cities, which according to the local Municipal Bureau of Tourism database. A total of 411 hotels met the sampling criteria and same amount of questionnaires have been distributed. At the end, a total of 254 responses were received and 228 were valid responses, where the general response rate was 45 percents.

**Table 1: Construct Reliability Results**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Indicator</th>
<th>Lambda</th>
<th>Squared multiple correlation</th>
<th>Cronbach’s alpha</th>
<th>Composite reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial Capabilities</td>
<td>Our top management team attracts and retains well-trained and competent top managers</td>
<td>0.81</td>
<td>0.65</td>
<td>0.846</td>
<td>0.857</td>
</tr>
<tr>
<td></td>
<td>Our top management achieves better overall control of general organizational performance</td>
<td>0.92</td>
<td>0.84</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Our top management perceives new organizational opportunities and potential threats</td>
<td>0.73</td>
<td>0.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>There is a high involvement of our employees in the process, decisions, and their implementation</td>
<td>0.75</td>
<td>0.56</td>
<td>0.863</td>
<td>0.868</td>
</tr>
<tr>
<td></td>
<td>Our employees are committed and held a high sense of responsibility to the organization</td>
<td>0.87</td>
<td>0.75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Culture</td>
<td>There is a high level of coordination and agreement among our employees</td>
<td>0.78</td>
<td>0.61</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The organization knows the external environment and provides appropriate responses</td>
<td>0.75</td>
<td>0.56</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Overall organizational performance</td>
<td>0.77</td>
<td>0.59</td>
<td>0.891</td>
<td>0.894</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>Profitability</td>
<td>0.89</td>
<td>0.78</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Growth in sales</td>
<td>0.77</td>
<td>0.59</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Return on investment</td>
<td>0.86</td>
<td>0.74</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>Customer satisfaction</td>
<td>0.79</td>
<td>0.64</td>
<td>0.828</td>
<td>0.828</td>
</tr>
<tr>
<td></td>
<td>Service Quality</td>
<td>0.90</td>
<td>0.77</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Measurement Development and Validation**

Both constructs of Managerial Capabilities (MC) and Organizational Culture (OC) were adopted from Carmeli (2004) and Carmeli and Tishler (2004). As presented in Table 2, the MC was measured by three items and OC was measured by four. Excluding the demographic questions, other questionnaire items were measured on a seven-point Likert scale ranging from 1: ‘strongly disagree’ to 7: ‘strongly agree’. Still, the difficulties of gathering objective performance data are well recognized by previous literatures (Dess & Robinson, 1984; Powell, 1992; Powell & Dent-Micallef, 1997; Robinson & Pearce, 1988). Consequently, a self-reported organizational performance construct
with a range from 1: ‘much lower’ to 7: ‘much higher’ were used for financial performance and customer satisfaction constructs. The respondents were asked to compare their hotel’s financial performance and customer satisfaction with their direct competitors. As previous researches have indicated that the self-reporting performance measurements are more desirable for the studies collecting performance data in the conservative culture countries (Chandler & Hanks, 1993; Luo, 1997; Luo & Peng, 1998, 1999). In this way, the hotel’s financial performance was measure by four items and customer satisfaction was measure by two.

Data Analysis
Covariance-based structural equation modeling (SEM) was employed as the major data analysis tool where as maximum likelihood estimation was applied to the data by the use of the linear structural relational model (LISREL ver. 8.72).

Measurement Model Evaluation
All the Cronbach’s alpha coefficients were in the range from 0.828 to 0.891, which have exceeded the level of 0.70 requirement for satisfactory validity and reliability of internal consistency of the instrument (Getty & Thompson, 1994). The composite reliability coefficients ranged from 0.828 to 0.894 (see Table.1), thus exceeding the recommended level of 0.6 by Fornell and Larcker (1981).

The importance of construct validity test has stabilized the measure’s dimensionality during measurement development (DeVellis, 2003). In order to establish convergent and discriminant validity, the average variance extracted (AVE) for each factor need to be calculated. Convergent validity will be established if the shared variance accounts for 0.50 or above of the total variance. As Table 2 has shown that the overall discriminant validity of the constructs was satisfactory 1.92 to 4.82.

<table>
<thead>
<tr>
<th>Construct Correlation and Discriminant Validity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct</td>
</tr>
<tr>
<td>Managerial Capabilities</td>
</tr>
<tr>
<td>Organizational Culture</td>
</tr>
<tr>
<td>Financial Performance</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
</tr>
<tr>
<td>(Correlation)$^2$</td>
</tr>
<tr>
<td>Discriminant Validity coeff</td>
</tr>
</tbody>
</table>

Notes: All correlations are significant at the 0.001 level; diagonal element is average variance extracted (AVE) and should be larger than the square of the off-diagonal correlation coefficient. Convergent validity $\geq 0.5$. Discriminant validity coefficient $\frac{AVE}{(Correlation)^2}$. Where $(Correlation)^2$ between factors of interest and remaining factors. AVE = average variance extracted = sum of standard loading$^2$ (sum of standard loading$^2$ + sum of $e$).

Structural Model Estimation
The structural model was measure by several indices that suggest by Gharney (1993) and Hair, Black, Babin, Anderson, & Tatham (2006). As Table 3 has shown the results of SEM obtained for the theoretical model where chi-square $= 85.98$ (df = 59; $p \leq 0.05$), GFI = 0.94, AGFI = 0.92, RMSEA = 0.045, NFI = 0.98, and CFI = 0.99. All the indices exhibited a high level of fitness in terms of the structural model used in this study.
Table 3: Measures of Model Fit and Reported Values for Structural Model

<table>
<thead>
<tr>
<th>Fit index</th>
<th>Recommended values</th>
<th>Model values</th>
<th>Degree of Model Fit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-square</td>
<td>p ( \leq 0.05 )</td>
<td>85.98 (p&lt;0.05)</td>
<td>Good fit</td>
</tr>
<tr>
<td>Chi-square/df</td>
<td>( \leq 3 )</td>
<td>1.472 (d.f. =59)</td>
<td>Good fit</td>
</tr>
<tr>
<td>Goodness-of-fit index</td>
<td>( \geq 0.9 )</td>
<td>0.94</td>
<td>Good fit</td>
</tr>
<tr>
<td>Adjusted goodness-of-fit index</td>
<td>( \geq 0.9 )</td>
<td>0.92</td>
<td>Good fit</td>
</tr>
<tr>
<td>Root-mean-square error of approximation</td>
<td>( \leq 0.08 )</td>
<td>0.045</td>
<td>Good fit</td>
</tr>
<tr>
<td>Normed-fit index</td>
<td>( \geq 0.9 )</td>
<td>0.98</td>
<td>Good fit</td>
</tr>
<tr>
<td>Comparative-fit index</td>
<td>( \geq 0.9 )</td>
<td>0.99</td>
<td>Good fit</td>
</tr>
</tbody>
</table>

\( df \), degrees of freedom

FINDINGS AND CONCLUSION

The Figure 1. below shows the path coefficients e.g. loading and significance and \( R^2 \) for the hypothesized model. The endogenous variables, financial performance and customer satisfaction have been explained by 26% and 35% for a substantial portion of the variance of the model. In all five proposed hypotheses, only H1b and H3 are statistically significant which has reflected the impacts of managerial capability on customer satisfaction and of customer satisfaction on financial performance in the Chinese lodging industry. The results can be explained that the top management team of hotel need to be well trained and beware of the potential threat and opportunities in the industry, which might help them to further understand the customer’s need and increase the customer satisfaction. Additionally, the results of the study has provided evidence empirically that the customer satisfaction will enhance the organizational performance, where the similar results can be found in the previous literatures.

![Figure 1: Path Coefficients for the RBV model](image)

*Path Coefficients for the RBV model. Predictive power was examined by using \( R^2 \) for each endogenous variable. \( R^2 \) value for the structure model. * and ** indicate significance at 0.05 and 0.001 levels, respectively. * \( p<0.05; ** p<0.001 \)

Given the fact that the results of the study has shown that a hotel’s managerial capabilities and organizational culture has no direct impact on its financial performance, the findings might be disappointed but crucial. Strategically speaking, managers today in the hotel industry have to recognize the mobility of hotel operation, know-how or training program can be easily imitated by one hotel to another. The true dangerous of ignoring the development of inimitable and non-transferable internal resources might cause difficulty for hotel to create their competitive advantage or outperform from their rivals.
REFERENCES


