THE CONSEQUENCES OF SERVICE OPERATIONS PRACTICE AND SERVICE RESPONSIVENESS ON HOTEL PERFORMANCE: EXAMINING HOTELS IN MALAYSIA.

by

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LIST OF ABBREVIATIONS

ACIB/CACIB	After check-in breakfast/Customer after check-in breakfast
ACIR/CACIR	After check-in room/Customer after check-in room
ACO/CACO	After check-out/Customer after check-out
BCI/CBCI	Before check-in/Customer before check-in
CI/CCI	Check in/Customer check-in
CP	Customer participation
CO/CCO	Check out/Customer check-out
D	Service design
L	Leadership practice
LAY	Hotel layout
OAC	Organization and culture practice
OP1	Hotel revenue
OP2	Innovation and learning
OP3	Complaint and error
PPO	Push/pull orientation
RI	Responsiveness index
SDD	Service design/delivery
SOP	Service operations practice

KESAN AMALAN SERVIS OPERASI DAN TINDAK BALAS SERVIS KEPADA PRESTASI HOTEL: PENILAIAN TERHADAP HOTEL-HOTEL DI MALAYSIA

ABSTRAK

Hotel-hotel di Malaysia perlu meningkatkan prestasi organisasi mereka. Pertama, keperluan untuk meningkatkan prestasi hotel adalah disebabkan oleh faktor-faktor luaran dalam sektor hospitaliti yang mengalami persaingan yang amat sengit dan juga ketidakpastian yang berpunca daripada pengganas dan penyakit-penyakit seperti SARS dan selsema burung. Kedua, faktor-faktor dalaman seperti tahap kualiti servis yang rendah dan penurunan kadar purata penginapan juga menyebabkan keperluan untuk meningkatkan prestasi hotel bertambah. Selain itu, hubungan antara prestasi hotel, amalan servis operasi dan tindak balas belum lagi dikaji sepenuhnya. Dengan menggunakan perspektif berdasarkan sumber, kajian ini menekankan bagaimana amalan servis operasi (SOP) boleh meningkatkan prestasi hotel (OP). Selain itu, kajian ini mencadangkan keupayaan kumulatif organisasi atau tindak balas berperanan sebagai *mediator* dalam hubungan antara amalan servis operasi dan prestasi hotel. Dengan menggunakan kaedah soal-selidik, soalan-soalan telah dihantar kepada 474 pengurus hotel-hotel di seluruh Malaysia. Dapatan kajian menunjukkan prestasi hotel dapat ditingkatkan melalui dimensi-dimensi SOP seperti amalan kepimpinan yang baik, orientasi tarik, rekabentuk servis yang bercirikan pengguna, susun atur hotel yang fleksibel, dan penggunaan penyertaan pelanggan untuk penyesuaian servis. Selain itu, dapatan kajian juga menunjukkan tindak balas menjadi *mediator* dalam hubungan SOP-OP seperti berikut: (1) amalan kepimpinan dan pendapatan hotel, (2) rekabentuk servis dan inovasi dan pembelajaran, (3) amalan kepimpinan dan rungutan dan kesilapan, dan (4) susun atur hotel dan rungutan dan kesilapan.

THE CONSEQUENCES OF SERVICE OPERATIONS PRACTICE AND SERVICE RESPONSIVENESS ON HOTEL PERFORMANCE: EXAMINING HOTELS IN MALAYSIA

ABSTRACT

Hotels in Malaysia need to improve their organizational performance. Firstly, the urge to improve the hotel performance is due to the external factors in the current hospitality environments, which characterized by intense competition and uncertainty such as from terrorism and diseases such as SARS and bird flu. Secondly, the internal factors such as low level of service quality and decreasing average occupancy rates also strengthen the need for such improvement. In addition, the relationships among hotel performance, operations practice and responsiveness have not been fully explored. In line with the resource-based view, this study focuses on how service operations practice (SOP) could improve the hotel performance (OP). In addition, this study suggests a "cumulative capability" known as responsiveness acts as a mediator in the relationship between service operations practice and hotel performance. By using the survey method, questionnaires were sent to 474 hotel managers throughout Malaysia. The findings showed that hotel performance could be improved through SOP dimensions such as good leadership practice, pull orientation, customized service design, flexible hotel layout, and use of customer participation for service adaptation. Besides that, this study also found the evidences that responsiveness mediates SOP-OP relationships in the following four relationships: (1) leadership practice and hotel revenue, (2) service design and innovation and learning, (3) leadership practice and complaint and error, and (4) hotel layout and complaint and error.

CHAPTER 1

INTRODUCTION

1.1 Background of the study

1.1.1 Hotel industry in Malaysia

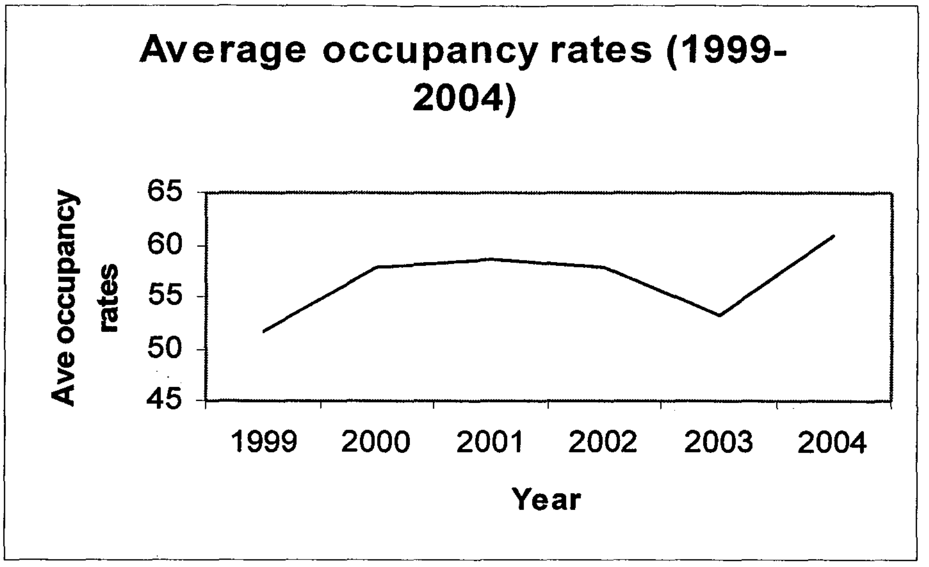
The Malaysian service industry has gained greater attention in today's business environment. From the year 1998-2002, the industry had an impressive output growth of 4.3% (National Productivity Corporation, 2003). The service sector has become more important when the Malaysian government decided to have a paradigm shift from a Production-based Economy to a Service-based or K-based economy in the year 2002 (Bank Negara Malaysia, 2002).

One of the sub-sectors of service is the hotel industry. The development of this particular sector has been encouraging (Tourism Malaysia, 2007). For example, in 1987 the tourism industry in Malaysia ranked fifth in terms of earning potential of foreign exchange. By 1992, this position increased to number three. The statistic by the Immigration Department of Malaysia showed that there were 16.43 million tourists from around the world visited Malaysia in the year 2005 compared to only 7.93 million in 1999 (Tourism Malaysia, 2007). The Malaysian tourist receipts had also been increasing from RM 12,321.3 million in 1999 to RM 31,954.1 in 2005. The similar trend can be seen in the number of hotels and hotel rooms. Since 1980, the number of hotel rooms had increased from 26,173 to 45,032 in 1990 (Goldsmith & Mohd Zahari, 1994). By 2004, there were 151,135 rooms available in Malaysia (Tourism Malaysia, 2007). In terms of number of hotels available, there were 2,224 hotels in 2004 compared to 1,404 hotels in 1999 (Tourism Malaysia, 2007). This statistics shows that the hotel industry in Malaysia is growing.

1.1.2 Issues related to hotel performance

Despite the growth, the hotel industry is facing numerous new challenges due to external and internal factors in its business environment which affect its organizational performance. The external factors include stiff competition from peers and uncertainties in the hospitality industry. For instance, the national newspapers posted numerous reports on the oversupply of the hotels ("Hanya hotel bertaraf 5 bintang diluluskan di Langkawi," 2000; "Wooing China, Mid-East tourists," 2003) and the impact of uncertainties due to Severe Acute Respiratory Syndrome (SARS) and terrorists attacks on the industry (Bank Negara Malaysia, 2002; Ibrahim, 2003; Mohammad, 2001). These external factors have severely affected the Malaysian tourism industry particularly the hotels industry (Malaysian Association of Hotels (MAH), 2004).

Besides the external factors, hotels have to deal with internal challenges which are related to hotel management. This internal factor may contribute to their poor performance in terms of low level of service quality (Lau, Akbar, & Fie, 2005) and moderate level of average occupancy rates (Tourism Malaysia, 2007). The occupancy rate measures the success of a hotel's staff in attracting guests to a particular hotel and it is measured by the number of room sold divided by the number of rooms available (Bardi, 2007). The statistic published by the Ministry of Tourism showed that from the year 1999-2004, the average occupancy rate was only moderate ranging from 51.5% to 60.8% (Tourism Malaysia, 2007). In fact, from the year 2001-2002, the average occupancy rates for hotels in Malaysia dropped by -0.7% (Tourism Malaysia, 2007). This reduction can be seen in Figure 1.1. This poor performance in hotels can be attributed to poor management prior to year 1997-1998. Before this period, hotels were built regardless of market potential and the management had little knowledge, experience, and expertise of the industry (Ong, 2004).



Source: Tourism-Malaysia (2007)

Figure 1.1. **Average occupancy rates.**

In addition, the increasing competition also forces hotels to rethink their current performance which mainly measured by financial measures (Harris & Mongiello, 2001). The financial measures only tell about a company's past performance while non-financial measures reflect the health and wealth-creating potential of the company (Kalafut & Low, 2001). Therefore, balanced measurement which includes financial and non-financial indicators should be applied to hotel industry (Evans, 2005).

1.1.3 Gaps and thesis of the study

As mentioned before, the Malaysia's hotel industry operates in a business environment that is characterized by an intense competition and high uncertainty (Ong, 2004). Hence, a strategy or practice to manage change in hotel business is critical in allowing the hotel to best exploit its competencies relative to opportunities in the external environment. In other words, the right strategy or practice is needed for improving performance. This means that firm's internal environment, in terms of resources and capabilities could provide the basis for a strategy or practice and ultimately influence the firm's performance (Hitt, Ireland, & Hoskisson, 2001). In fact, the emphasis on the internal resources and capabilities or core competencies to respond to environment is a must for organization due to the inconsistency in the marketplace (Espino-Rodriguez & Padon-Robaina, 2004). These internal capabilities would help hotels to better respond to either external or internal challenges.

Hotel performance is affected by many factors such as from competition, customer, technology or social factors. Since these factors are wide subjects, this study only focuses on one factor that is change in the customer requirement. The reason is that change in the customer requirement is found to be the most important factor (Sharifi & Zhang, 1999). The importance of managing customer requirement is acknowledged by hotel industry as the general managers place customer retention as the top priority strategy (Teare & Bowen, 1997). In order to manage customer requirement and improve hotel performance, this study proposes the hotels do it through service operations practice (discussed in detail in Chapter 2). In general, this study suggests that service operations practice is the internal resource of a firm which may influence hotel performance.

The thesis of the study is that, in a service organization such as a hotel, its performance links to service operations practice. These practices are the internal capabilities of the organization. However, this link is incomplete (Swink, Narasimhan, & Kim, 2005). Based on the study by Flynn and Flynn (2004), this study suggests that the service operations practice need to have a common strategic capability for achieving higher organizational performance. The strategic capability that would be examined here is known as responsiveness. Responsiveness is defined as the hotel ability to provide speedy services, variety of services, and willingness to help customers (see Chapter 2 for definition). The reasons for selecting responsiveness as the strategic capability is due to its linkage found in the organizational performance (Stalk & Hout, 1990) and its importance to the service organizations (Teare, 1996).

1.2 Problem Statement

The reduced and moderate levels of average occupancy rates show that the hotel performance in Malaysia needs improvement. Hence, this study will examine the factors that contribute to improvement in hotel performance. There are two issues related to improvement in organizational performance. First, in order to improve the organizational performance, service operations practice in terms of leadership, organization and culture, and service design/delivery would play a major role (Coughlan & Harbinson, 1998/1999; Prabhu, Robson, & Mitchell, 2002). Second, the organizational performance is also closely related to a strategy (Christiansen, Berry, Bruun, & Ward, 2003; Gaither & Frazier, 2002). For the service industry, the performance depends on the strategy or practice of the firm to create value to the customers (Haksever, Render, Russell, & Murdick, 2000). Those values are categorized as perceived quality, intrinsic attributes, extrinsic attributes, monetary price, non-monetary price, and time (Haksever et al., 2000). In operations management, these values are known as competitive priorities or cumulative capabilities, or simply the goals or capabilities that Operations Management function must achieve (Flynn & Flynn, 2004; Skinner, 1978). Empirical studies have shown the relationship between competitive priorities or capabilities and performance, especially on the non-financial measures (Arias-Aranda, 2003; Feigenbaum & Karnani, 1991). Hence, improvement in organizational performance is expected to be explained by service operations practice and competitive priorities/cumulative capabilities. However, the nature of the relationships among these elements has not been fully understood (Wu, 2007). Furthermore, in hotel industry, organizational performance is mainly measured by financial indicators (Atkinson & Brander

Brown, 2001) that suffer from several limitations (see Chapter 2, Section 2.4). The linkage among service operations practice, cumulative capabilities, and balanced performance measurement has not been understood.

The scarcity of studies that analyzes the mediating role of cumulative capabilities in the practice and organizational performance relationship broadens the research opportunities (Neito Antolin, Arias-Aranda, Minguela Rata, & Ridriguez Duarte, 1999) especially in the service area (Arias-Aranda, 2003). Capabilities are cost, quality, time, and flexibility (Krajewski & Ritzman, 1996). In service industry, quality, speed and flexibility are associated with responsiveness (Zeithaml & Bitner, 2000). Hence, responsiveness is a "cumulative capability" of quality, speed and flexibility. Responsiveness is important capability of an organization to cope with the change in customer demand (Sharifi & Zhang, 1999) and to enhance organizational performance (Stalk, 1988). Therefore, responsiveness is expected to mediate the operations practice-organizational performance relationship. To the researcher's knowledge, this mediation effect has never been investigated by prior studies.

In summary, the poor performance of hotels could be improved through service operations practice and cumulative capability. Research that examines the link among service operations practice, cumulative capability, and organizational performance in service is still in its early development (Arias-Aranda, 2003). Due to stiff competition and uncertainty in the hotel environment (as discussed earlier), this study proposes responsiveness as the cumulative capability, which is expected to influence hotel performance. Hence, this study is trying to examine the link between service operations practice, responsiveness, and hotel performance. By examining this link, the service operations practice related to responsiveness and organization performance would be identified so that improvement in hotel performance could be achieved.

1.3 Research objectives

The main purpose of the research is to study the relationship – service operations practice, responsiveness, and organizational performance. By examining this relationship, the practices associated with responsiveness and organizational performance can be identified. Specifically, the objectives of this study are:

1) To examine the relationship between service operations practice (SOP) and organizational performance (OP).
2) To examine the relationship between service operations practice (SOP) and responsiveness (RI).
3) To examine the relationship between responsiveness (RI) and organizational performance (OP).
4) To examine the mediating effect of responsiveness on the relationship between service operations practice and organizational performance (OP).

1.4 Research questions

Based on previous discussion, the following questions are going to be addressed accordingly by the research:

1. How does the service operations practice (SOP) relate to organizational performance?
2. How does the service operations practice (SOP) relate to responsiveness?
3. How does responsiveness (RI) relate to the organizational performance (OP)?
4. Does responsiveness (RI) mediate the relationship between the service operations practices and the organizational performance?

1.5 Significance of the study

1.5.1 Theoretical contributions

a) New relationship (service operations practice, responsiveness, and organizational performance)

By using the resource-based view as the underpinning theory, this study investigates the relationship between service operations practice, responsiveness, and organizational performance. Examining this relationship would provide factors that would contribute to hotel performance. This study has not only found supports for the resource-based view, but it has also found that hotels organizational performance may be improved through some dimensions of service operations practice such as leadership practice, push/pull orientation, service design, hotel layout, and customer participation.

Furthermore, this study views responsiveness as a cumulative capability. Research on association between practices and capabilities has been conducted in manufacturing settings (Swink et al., 2005; Vickery, Droge, & Markland, 1993). On the other hand, research on this relationship is still scarce in service area (Arias-Aranda, 2003) particularly on responsiveness as the cumulative capability. This research would contribute more knowledge regarding this relationship in the service area and would provide additional insight regarding the link between cumulative capabilities and performance as suggested by Ferdows and de Mayer (1990) and Flynn and Flynn (2004).

This study also provides additional knowledge to the relationship between practices and organizational performance. A new variable, responsiveness, is expected to mediate the relationship. The findings showed that responsiveness mediates the relationships between: (1) leadership practice and hotel revenue, (2) service design and innovation and learning, (3) leadership practice and complaint and error, and (4) hotel layout and complaint and error.

Additionally, this study is a continuation of research undertaken by Arias-Aranda (2003) who studied the relationship of service operations strategy, flexibility and performance in consulting firms. He suggests the findings of his study to be applied in other service sectors since generalization of his study cannot be made due to the heterogeneity of the service sector. This study applies the Arias-Aranda's study to the hotels sector because this sector needs to be improved. There are two main differences between this study and Arias-Aranda's study. First, the mediator in this study is responsiveness whereas in Arias-Aranda's (2003) study, flexibility was used as the mediator. Second, this study adds two dimensions of service operations practice – leadership and organization and culture practices, while in the Arias-Aranda (2003) there was only one dimension - service design/delivery.

b) New measurement of responsiveness

One of the outputs of this study is a new measurement for responsiveness known as Responsiveness Index (RI). Responsiveness index measures the ability of the hotel to cope with the change in customer demand during the service delivery process. Hotel responsiveness has been assessed in terms of speed, flexibility, and willingness of the hotel to help its customers. This index is a new measurement for responsiveness, which could serve as a diagnostic tool for the hotel industry. This index is useful in assessing the current level of responsiveness and also useful as a benchmarking tool against competitors in the industry.

1.5.2 Practical contributions

This study contributes to the identification of the service operations practice dimensions that enable hotel to respond to their customers. These dimensions include leadership practice, organization and culture practice, and service design/delivery practice. Specifically, first, this study suggests that improvement in the hotel revenue may be achieved through a good leadership practice and a pull orientation practice. Second, the improvement in the innovation and learning perspective may be achieved through a customized service design and a pull orientation. Finally, the reduction in complaint and error may be achieved through a good leadership practice, a flexible hotel layout, and the use of customer participation for service adaptation in the service delivery. These findings would help managers to make decisions and develop effective strategies or practices to be responsive towards their customers.

Additionally, the relationship between customer responsiveness and the hotel performance has been investigated to see the effect of capability of responsiveness on hotel performance. The result showed that responsiveness would influence organizational performance in terms of hotel revenue, innovation and learning, and complaint and error. This finding provides evidence to managers about the significance of being customer-responsive to their organizational performance.

Finally, the Responsiveness Index (RI) could be used as a diagnostic tool in assessing the ability of the hotel to be responsive towards its customers. The index would tell the hotel its current position compared to its competitors in terms of responsiveness level. Thus, necessary improvements for each hotel could be implemented based on the score of the index.

1.6 Definition of variables

1.6.1 Service operations practice

In this study, practice refers to the established system and behavior in an organization. Following previous scholars (Davis, Aquilano, & Chase, 2003; Meyer, Chase, Roth, &

Voss, 1999; Morita & Flynn, 1997; Skinner, 1969), this study defines service operations practice as **"the extent of established system and behavior practiced by management in relation to the structure of the operations system of a hotel"**. There are three dimensions of service operations practice – leadership, organization and culture, and service design/delivery practices.

1.6.2 Leadership practice

In line with the definition of service operations practice and the definition of leadership by Zaccaro (2007), this study defines leadership practice as **"the extent of leaders' behavior in making decisions related to operational systems of a hotel"**. Furthermore, following Chung-Herrera, Enz, and Lankau (2003), leaders' behaviors in hotel industry include self-management, strategic positioning, implementation skills, critical thinking, communication skills, interpersonal skills, leadership skills, and industry knowledge.

1.6.3 Organization and culture practice

Corporate culture is the set of common norms and values shared by people in an organization (Deshpande & Webster, 1993). Based on definition of service operations practice and Deshpande and Webster's (1993) definition, this study defines organization and culture practice as **"the extent of shared values and beliefs that are related to operational systems practiced by a hotel"**. Following Coughlan and Harbinson (1998/1999), these organization and culture practice include customer focus, quality values, teamwork, empowerment, employee flexibility, training and education, listening to staff, reward on service performance, employee recognition, employee loyalty, and employee satisfaction.

1.6.4 Service design/delivery practice

The service design/delivery practice requires an understanding of customer needs and development of service processes with the potential to satisfy those needs (Coughlan & Harbinson, 1998/1999). Based on definition of service operations practice, this study defines service design/delivery practice as **"the extent of established systems practiced by management in relation to operational systems of a hotel".**

1.6.5 Responsiveness

Service Provider's perspective: **the extent of hotel capability in providing speedy services, variety of services, and willingness to help customers within the service delivery processes.**

1.6.6 Organizational performance

In line with Kaplan and Norton and (1992), this study defines organizational performance as **"the level of hotel performance (increase/decrease) in terms of revenue, innovation and learning, and complaint and error perspectives".**

1.7 Organization of the thesis

Chapter 1 consists of background of the study, problem statement, research questions, research objectives, significance of the study, and definition of variables. Chapter 2 further discusses conceptualization of the main variables (hotel performance, service operations practice, and responsiveness) and their relationships. In summary, hotel performance represents the level of hotel performance (increase/decrease) measured by four dimensions of balanced scorecard (BSC) – financial, customer, internal business, and learning and growth. Service operations practice (SOP) is the level of operational practices implemented by hotel management, which include leadership practice, organization and culture practice, and service design/delivery practice. Finally, responsiveness is conceptualized as the extent of hotel capability in providing speedy services, variety services, and willingness to help its customers. Besides that, Chapter 2 also provides justification of why resource-based view is used as the underpinning theory that supports the theoretical framework. Chapter 3 shows the theoretical framework and hypotheses of this study. In general, the study hypothesizes that: (1) service operations practice is significantly related to organizational performance, (2) service operations practice is significantly related to responsiveness, (3) responsiveness is significantly related to organizational performance, and (4) responsiveness mediates the relationship between the service operation practice and organizational performance. Chapter 4 explains the methodology used to achieve the research objectives. Firstly, the study used factor analysis and Cronbach's alpha to check validity and reliability for all variables. Secondly, this study assessed responsiveness through an index (known as Responsiveness Index) instead of calculating the mean value. Note that this index is essential because it would be used in the multiple regression equation. Finally, following Baron and Kenny (1986) method in testing mediation, multiple regression was used to examine the relationships between service operations practice (independent variable), responsiveness (mediating variable), and organizational performance (dependent variable). The findings of this study are discussed in Chapter 5. Finally, Chapter 6 presents the discussion and conclusion about the findings of this study.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

From discussion in chapter 1, it is found that hotel performance in Malaysia needs to be improved. This study proposes that hotel performance could be improved through service operations practice. However, the relationship between service operations practice and hotel performance is mediated by a strategic capability known as responsiveness. Hence, this chapter extensively reviews the literature pertaining to the current research, which includes organizational performance, operations strategy (specifically on service operations strategy/practices), and responsiveness. Next, this chapter also discusses the relationship between these variables, which later becomes the basis for building the theoretical framework.

2.2 Organizational performance

According to Neely (1999), the increasing competition is one of the reasons why the performance measurement is important in today's business. As mentioned in Chapter 1, the intense competition among peers in the hotel industry may influence hotel performance. Furthermore, studies on hotel performance should be carried out to improve the poor performance of hotels especially in terms of average occupancy rates. This is the main purpose of this study - to improve hotel performance. In doing so, the concept of organizational performance must first be explained.

The concept of organizational performance is related to the survival and success of an organization. Even though literature on performance is very extensive but there is still a lack in consensus about the meaning of the term (Johannessen, Olaisen, & Olsen, 1999).

According to the author, a study by Murphy, Trailer, and Hill (1996) found that the use of the term "performance" includes 71 different measures of performance. However, majority of the studies have used financial and non-financial indicators to measure performance (Johannessen et al., 1999; Murphy et al., 1996).

Nowadays, financial and non-financial measures can be used to operationalize organizational performance. Examples of financial measures are return on investment (ROI), return on assets (ROA), and earning per share (Sapienza, Smith, & Gannon, 1988). The use of financial measures is more common, even to some extent in certain organization, the financial reports has been produced on a daily basis (Gummesson, 1998). The reason is that financial performance is usually found at the core of organizational effectiveness and it also the most easily quantifiable parameters (Johannessen et al., 1999). However, after extensive reviews on financial measures, Johannessen et al. (1999) highlighted several limitations to be considered when using financial measures. Those limitations are: (1) accounts in general are difficult to interpret, (2) absolute scores on financial performance are affected by industry-related factors and directly comparing these data would be misleading, (3) accounting measures may be susceptible to accounting method of variation, and (4) accounting measures are not always representative of actual performance because they can be manipulated.

Due to the limitations of financial measures, there is also a growing need to assess company's performance through non-financial indicators. The reason is that financial measures only tell about a company's past performance while non-financial measures reflect the health and wealth-creating potential of the company (Kalafut & Low, 2001). Examples of non-financial measures are customer satisfaction (Pizam & Ellis, 1999), productivity , and service quality (Gummesson, 1998).

2.2.1 Hotel performance

The measurement of organizational performance is even more acute in service organizations compared to manufacturing (Brynjolfson, 1993). Gronrooss (1992) stressed that service firms must concentrate more on customer relationships rather than on short-term transactions (cited in Paulin, Ferguson, & Salazar, 1999). Furthermore, in service organizations, such as hotels, this is even more critical because of the nature of its business which is more focus on human skills and intangible assets (Bharadwaj, Varadarajan, & Fahy, 1993). The increasing importance and value of people (employees and customers) in the hotel industry make the traditional accounting practice is no longer appropriate (Atkinson & Brander Brown, 2001; Phillips, 1999). The current accounting practice in hotels relies heavily on financial measures (Atkinson & Brander Brown, 2001; Harris & Mongiello, 2001; Teare, Cook, Adams, Burgess, & Ingram, 2001) and ruled by intuition and past experience (Southern, 1999). Examples of financial indicators used by hotels include operating profit/income, operating margin, return on investment (ROI), price, revenue per available room (RevPAR), and costs (Banker, Potter, & Srinivasan, 2005; Denton & White, 2000). RevPAR equals to room revenue divided by the number of available room or hotel occupancy times average daily rate (Bardi, 2007). In other words, RevPAR rating reflects hotel performance in both occupancy and price (Kimes, 2001). Another study carried out by Atkinson and Brown (2001) found that profitability is the most monitored financial indicators by hotels besides revenue and cost control.

However, there are several weaknesses of focusing on financial measurement alone. Specifically, the weaknesses of the financial measures used by hotels are as follows:

a) Financial measures are lagging indicators rather than leading indicators and can not be used to predict future performance (Denton & White, 2000).

b) Financial measures only partially reflect the effect of past and current activities (Banker et al., 2005)

c) Financial measures do not capture the relevant performance issues necessary for today's business environment (Phillips, 1999).

d) Temptation exists for managers to focus only on dollar figures, which may not tell the whole story for the company. Lower level managers and employees may feel helpless to affect the net income or investment. Financial measures are relatively stable over time and they do not reflect a new conditions and new goals (Hansen & Mowen, 2003).

e) Lack of strategic focus and fail to provide data on quality, responsiveness and flexibility (as cited in Neely, 1999).

f) Emphasis on short-term financial measures would create a gap between development of strategy and its implementation (Kaplan & Norton, 1996)

g) The RevPAR alone can not be used as the basis for performance comparison among hotels because hotels in high-price areas tend to have a much higher RevPAR than hotels in low-price areas (Kimes, 2001).

Due to limitations of financial performance mentioned above and the impact of global competition in the hotel industry, hotels should rethink their current performance measurement which is more focus on financial to a more balanced measurement which has both financial and non-financial dimensions (Atkinson & Brander Brown, 2001). Further, according to Atkinson and Brown (2001), because of the high fixed costs associated with hotels, their performance management system should enable managers to make decisions not only based on financial but also other measures that reflect market orientation, revenue management, and complex nature of the service delivery process within hotels. Hence, non-financial measures are necessary for hotels. The reasons for using non-financial measurement are as follows:

a) The non-financial measures contribute to enhance performance within service environment, as they deal with causes instead of effect (Arias-Aranda, 2003).
b) The non-financial measures reflect the current of managerial actions that are not in the financial performance for some time (Banker et al., 2005).
c) The non-financial measures especially indicators on customers may provide information on how certain hotel properties improve or diminish the franchisor's reputation (Banker et al., 2005).

Due to several weaknesses of financial measures and the need to have non-financial measures, Fitzgerald, Johnston, Brignall, Silvestro, and Voss (1991) introduced a framework in service known as "Result and Determinants Model" that incorporates both financial and non-financial measures. Results refer to performance outcomes that include three dimensions: (1) competitiveness, (2) financial performance, and (3) quality of service. Meanwhile, determinants refer to three performance dimensions such as: (1) flexibility, (2) resource utilization, and (3) innovation. Beside this model, the "Service Profit Chain" (Heskett, Jones, Sasser Jr., & EarlSchlesinger, 1994), which links the non-financial with the financial results has also been introduced. According to this model, the non-financial measures namely internal quality, employee satisfaction, employee loyalty, productivity, organizational value, customer satisfaction, and customer loyalty would result in profitability and growth. Furthermore, another key example of development in performance measurement is highlighted by Kaplan and Norton (1992). They have also introduced a strategic model called the "balanced scorecard" (BSC) which intends to create a more balanced performance measurement for organization. Their argument is that the measurement based on financial alone is inadequate in evaluating company's competitive position (Kaplan & Norton, 1992). Therefore, the balanced scorecard approach not only includes financial measures but also includes three other non-financial measures such as customers, internal business, and learning and growth perspectives (Kaplan & Norton, 1992).

2.2.2 The use of BSC in hotels

As mentioned earlier, hotels have mainly relied on traditional performance measurement (Atkinson & Brander Brown, 2001; Phillips, 1999). Even though, most of hotels investment is in tangible assets such as land, building, furniture, fixtures and equipment, the hotels revenue is dependent on intangibles such as quality of staff, location, and customer acceptance. Hence, a single traditional measure such as financial can not capture the overall performance and the potential of the operations (Teare et al., 2001). Besides financial, the use of BSC can also capture the other aspects of performance such as customer, internal business process, and learning and growth (Kaplan & Norton, 1996).

In addition, according to Brander Brown and McDonnell (1995), the use of BSC in hotel industry may reduce some weaknesses in the current hotel performance. These weaknesses include: (1) hotels information systems are deficient in their ability to measure and monitor multiple dimensions of performance, and (2) current performance systems are unable to deal with human resource issues. In fact, BSC has multiple dimensions and it can be used as a strategic management system because it: (1) translates the vision of an organization, (2) communicates and links the vision among top management and lower level employees, (3) facilitates business planning, and (4) provides feedback and learning (Kaplan & Norton, 1996).

The use of BSC in hotels has been reported by few authors such as Denton and White (2000), Frigo (2002), and Evan (2005). Specifically, these authors have investigated the application of BSC in the hotel industry and found evidence of the usage of the tool by the hotels. Denton and White (2000) have investigated the application of BSC in a parent company known as White Lodging Services. They uses indicators such as RevPAR to assess financial performance, customer satisfaction score to assess customer performance, process audit score to assess internal business performance, and employee retention to assess learning and growth performance of a hotel in their study. They have also found that BSC helps the hotel to achieve: (1) a greater alignment of hotel's objectives between managers and owners, (2) a higher level of understanding of property manager regarding owner's long term expectation, and (3) valuable feedback regarding resources and processes needed to achieve hotel objectives. In concordance with this finding, Frigo (2002) also highlighted that the use of balanced scorecard has enabled Hilton Hotels to achieve 5% increase in customer loyalty, and 1.1% increase in hotel annual revenues.

Meanwhile, recently Evan (2005) has studied the application of BSC in hotels in the United Kingdom. In order to measure financial performance, Evan (2005) uses indictors such as total operating revenues, RevPAR, and costs. These measures were used actively by hotels. In measuring customer performance, indicators such as customer satisfaction, number of customer complaints, mystery guest, market share, and returning guests were used. He also found that hotels actively used customer satisfaction and number of customer complaints compared to other indicators. In terms of internal business process, measures such as service errors, response to complaints, and, employee turnover were actively assessed by hotels. The final dimension, innovation and learning, were assessed through number of new markets, staff appraisals and target, courses completed, and new improvement.

The application of BSC in hotels is appropriate since hotels consist of many different activities such as food (restaurant), maintenance (housekeeping), point-of sales (front office), and receiver (storeroom) (Paraskevas, 2001), which have different cost structures. These diverse activities make the use of financial measure alone is inadequate. In line with Kaplan and Norton's (1992;2006) suggestion regarding the application of BSC, this study uses the dimensions of the BSC provided by Evan (2005). The main reason is that similar to Evan (2005), this study is also carried out in the hotel industry.

Therefore, following Kaplan and Norton (1992) and Evan (2005), the organizational performance in this study is defined as **"the level of hotel performance (increase/decrease) in terms of financial, customer, internal business, and learning and growth perspectives"**. Financial perspective is the economic consequences of actions taken by the hotel, while customer perspective is the consequences of actions taken by the hotel to customer and market segments. Internal business is the consequences of action taken to the level of business process of the hotel, and learning and growth is the level of change and improvement that has been implemented by the hotel.

There are at least two ways to measure financial or non-financial performance – objective measures and subjective measures. The objective measures use the real figures from the organizations while the subjective measures use perception of the respondent to assess performance (Johannessen et al., 1999; Pizam & Ellis, 1999). The present study decided to use perceptual or subjective measures to assess organizational performance because: (1) they are more consistent measure of performance and they do not vary broadly in accuracy from the objective measures (2) and asking respondents for specific financial measures may generate respondent anxiety over confidentiality (Ackelsberg & Arlow, 1985). In addition, the subjective measure may offer greater opportunities for organizational effectiveness in the longer terms (Pizam & Ellis, 1999). Therefore, in this study, the organizational performance of hotels has four dimensions namely financial, customer, internal business, and learning and growth perspectives. Furthermore, these four dimensions would be assessed by perception of the respondents.

2.3 Operations strategy

In order to achieve superior organizational performance, hotels should have excellent operations strategies (Yassim & Zimmerer, 1995) that match customer requirement. Strategy is a common vision that unites an organization, provides consistency in decisions, and keeps the organization moving in the right direction (Russell & Taylor, 2003). There are three level of strategy – corporate, business, and functional. Corporate strategy defines the specific businesses in which the firm will compete and the way in which resources are acquired and allocated among these various businesses. Business strategy defines the scope and boundaries in organization in addressing the specific markets. Finally, functional strategies are developed to support or align with the established business strategy (Davis et al., 2003). Operations strategy or also known as manufacturing strategy (Johnston, 1994; Skinner, 1969) is a functional strategy that plays important role to support business and corporate strategy (Reid & Sanders, 2002).

The concept of operations strategy started to emerge as researchers started to look at industries and began to see that there were many different ways to compete (Voss, 2005). They found that one way is through operations. In fact, operations strategy has received less attention until Wickham Skinner pointed out its importance to business in his 1969 seminal article entitled "Manufacturing-missing link in corporate strategy". According to Skinner, a strategic role of operations should be clearer by operations and top management and other functions in the organization due to strategic dependency among them (Skinner, 1969). He refers operations strategy (manufacturing strategy) as using certain properties of manufacturing function as a competitive weapon. After this alarming signal from Skinner, operations strategy has evolved rapidly and significantly over time. In 1970's, the operations strategy has started to emerge in the service sector. After that, in 1980's, customer concepts has expended to operations where the relationship between producer and customers has gained widespread acceptance (Knod & Schonberger, 2001). The concept has become interrelated to not only to corporate strategy but also to other disciplines such as finance, marketing, and organizational behavior (Johnston, 1994).

After Skinner (1969), there was various literature reported operations strategy (see Dangayach & Deshmukh, 2001). However, even up to 1980's, a research done by Schroeder, Anderson, and Cleveland (1986) found that the term manufacturing strategy was still not well understood by managers in their survey. Later scholars have tried to conceptualized manufacturing/operations strategy. In relation to that, Dangayach and Deshmukh (2001) have extensively reviewed literature pertaining to operations strategy particularly in manufacturing sector. Among scholars in operations strategy include Hayes and Wheelwright (1984), Hill (1987), Swamidass and Newell (1987) and Cox and Blackstone (1998). For example, Hayes and Wheelwright (1984) define operations strategy as a sequence of decisions that over time, enables a business unit to achieve a desired manufacturing structure, infrastructure and set of specifics capabilities. In summary, these scholars have viewed operations strategy as operational decisions to be made to achieve organizational goals. In fact, operations strategy is a long-range plan for the production of a company product/services and provides the road map for what the operations function must do if business strategies are to be achieved (Gaither & Frazier, 2002). The role operations strategy is to provide a plan for the operations function so that it can make the best use of its resources (Reid & Sanders, 2002). In other words, operations strategy identifies the operational strategic choices that can be used as a competitive weapon. Therefore, operation strategy must serve two purposes: (1) address the functional area of operations with strategic management of the organization's primary input/transformation processes/output links, and (2) guide the operations that occur throughout the organization as employees manage their own individual and group transformations as members of value-adding chains (Knod & Schonberger, 2001). Specifically, operations strategy consists of structural and infrastructural elements that companies must make decisions (Hill, 1987). Structural elements consist of facility location, capacity, vertical integration, and choice of process. Meanwhile, infrastructural elements are related to the workforce, quality issues, planning and control, and organizational structure (Davis et al., 2003). The decisions related to these issues must be targeted to maximize value added to the goods and services provided by the firm (Davis et al., 2003). Hence, following previous scholars (Cox & Blackstone, 1998; Davis et al., 2003; Gaither & Frazier, 2002; Hayes & Wheelwright, 1984; Hill, 1987; Skinner, 1969; Swamidass & Newell, 1987), **operations strategy can be defined as the extent of a group of operational decision made by management related to the structure of the operations system of a firm.** These decisions must be aligned with all strategy levels to support the whole firm strategy and provide benefits to the customers.

Taxonomies and typologies are used in the past researches to understand and categorize the operations strategy of an organization. For example, Bozarth and McDermott (1998) showed different taxonomies and typologies for purpose of configurations in operations strategy in manufacturing sector. Further work has been undertaken by Christiansen, Berry, Bruun, and Ward (2003). Following Minor, Hensley, and Wood (1994), Dangayach and Deshmukh (2001) reviewed 260 papers related to operations strategy and categorized research in this area into two groups - process and content related aspects. Content-related literature addresses issues of competitive priorities such as costs, quality, delivery dependability, delivery speed, flexibility, and innovation aspects. It includes issues