

**THE EFFECT OF CORPORATE REAL ESTATE  
STRATEGIC PRACTICES ON PERFORMANCE OF  
FIVE-STAR HOTELS IN SRI LANKA**

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by

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## LIST OF ABBREVIATIONS

AHP	Analytic Hierarchy Process
Bca	Bias Corrected Accelerated
CB - SEM	Covariance Based Structural Equation Modelling
CI	Consistency Index
CPV	Competitive Positioning View
CR	Consistency Ratio
CRE	Corporate Real Estate
CREM	Corporate Real Estate Management
CRES	Corporate Real Estate Strategy
CVR	Content Validity Ratio
FI	Facilitate Interaction Strategy
FM Value Map	Facilitate Management Value Map
FL	Flexibility Strategy
IP	Productivity Strategy
IV	Increase Real Estate Value Strategy
OP	Organization Performance
PB	Promote Brand Strategy
PER	Hotel Performance
PLS	Partial Least Squares
PLS - SEM	Partial Least Squares Structural Equation Modelling
RBV	Resource Based View
RC	Reduce Cost Strategy
REIT	Real Estate Investment Trust
RI	Random Index
SCA	Sustainable Competitive Advantage
SEM	Structural Equation Modelling



SLTDA	Sri Lanka Tourism Development Authority
TOL	Tolerance
US	User Satisfaction Strategy
USA	United States of America
USD	United States Dollar
VIF	Variance Inflation Factor
VRIN	Valuable, Rare, Inimitable and Non – substitutable

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# **KESAN AMALAN STRATEGIK HARTA TANAH KORPORAT TERHADAP PRESTASI HOTEL LIMA BINTANG DI SRI LANKA**

## **ABSTRAK**

Harta Tanah Korporat (HTK) dan Strategi Harta Tanah Korporat (SHTK) adalah baru pada persekitaran perniagaan kerana ia memberi tumpuan kepada portfolio harta tanah perniagaan. Dalam perbahasan Harta Tanah Korporat, dicatatkan bahawa HTK adalah sumber-sumber organisasi yang kurang terurus. Dari struktur aset keseluruhan, didapati bahawa organisasi memiliki peratusan besar harta tanah melebihi aset lain. Dari jumlah aset, industri hotel mengesahkan sekitar 58 peratus dari pegangan portfolio adalah harta tanah. Oleh itu, penggunaan strategik HTK adalah penting untuk prestasi hotel serta Kelebihan Daya Saing Mampan (KDSM). Dengan tujuan ini, kajian ini bertujuan untuk mengenal pasti strategi HTK yang wajar dan kesannya terhadap prestasi industri hotel di Sri Lanka. Oleh itu, objektif kajian ini ditakrifkan untuk mengkaji strategi HTK untuk industri hotel di Sri Lanka; untuk menilai petunjuk prestasi industri hotel di Sri Lanka; untuk menganalisis hubungan antara strategi CRE dan prestasi hotel di Sri Lanka; dan akhirnya, untuk menganalisis kesan mediator KDSM pada strategi CRE dan Prestasi hotel di Sri Lanka. Pandangan Berasaskan Sumber (PBS) digunakan untuk mengkonsepkan hubungan antara HTK dan Prestasi berserta kesan mediator Kelebihan Daya Saing Mampan antara CRE dan Prestasi hotel. Kajian ini menggunakan tinjauan literatur dan tinjauan pakar yang disokong oleh Pendekatan Hirarki Analitik dengan nisbah kesahan kandungan Lawshe untuk menyiasat strategi HTK dan petunjuknya. Ketujuh-tujuh gagasan SHTK telah dikenal pasti sebagai Mengurangkan Kos, Produktiviti, Fleksibiliti, Kepuasan

Pengguna, Mempromosikan Jenama, Memudahkan Interaksi, dan Meningkatkan Nilai Harta Tanah. Setiap gagasan terdiri daripada tiga hingga empat indikator. Apabila strategi dan petunjuk HTK telah ditakrifkan, kajian itu menggunakan kaedah tinjauan dengan mengedarkan 400 borang soal selidik secara pertemuan peribadi dengan pegawai-pegawai eksekutif hotel dalam tempoh Ogos-Oktober 2017. Kadar tindak balas yang sah adalah 326. Model format PLS-SEM telah digunakan untuk menganalisis data. Penemuan kajian mengesahkan bahawa kecuali strategi "Fleksibiliti, Kepuasan Pengguna dan Memudahkan Interaksi", kesemua empat strategi HTK yang lain mempunyai hubungan positif langsung dengan Prestasi hotel. Walau bagaimanapun, analisis mediator KDSM di SHTK dan Prestasi mengesahkan tiada pengantaraan "Memudahkan Strategi Interaksi" sementara kesan tidak langsung terhadap strategi "Fleksibiliti" dan "Kepuasan Pengguna". Oleh itu, kajian ini melengkapkan literatur sedia ada dengan menguji kesan berbilang dimensi Strategi Harta Tanah Korporat ke atas Kelebihan Daya Saing Mampan dan Prestasi hotel. Oleh kerana ia mengesahkan strategi HTK mempunyai kesan langsung atau tidak langsung terhadap prestasi; kajian ini mencadangkan pembangunan garis panduan dasar strategik mengenai Strategi Harta Tanah Korporat di industri hotel Sri Lanka untuk Prestasi yang lebih tinggi dan Kelebihan Persaingan Lestari.

# **THE EFFECT OF CORPORATE REAL ESTATE STRATEGIC PRACTICES ON PERFORMANCE OF FIVE-STAR HOTELS IN SRI LANKA**

## **ABSTRACT**

Corporate Real Estate (CRE) and Corporate Real Estate Strategy (CRES) are new to the business environment as it focused on the real estate portfolio of the business. In the debate of Corporate Real Estate, it is noted that the CRE is undermanaged resources of the organization. It is noted that a substantial percentage of real estate is held by the organization over other assets of the total asset structure. The hotel industry confirms around 58 percent of the holding of the real estate portfolio over the total assets. Thus, the strategic use of CRE is imperative for the performance of the hotel as well as the Sustainable Competitive Advantage (SCA). With this intention, the study designed to identify possible CRE strategies and their impact on the performance of the hotel industry in Sri Lanka. Thus, the objectives of the study defined as to examine CRE strategies for the hotel industry in Sri Lanka; to examine indicators of performance of the hotel industry in Sri Lanka; to analyse relationship between of CRE strategies and performance of hotel in Sri Lanka; and finally, to analyse mediator impact of SCA on CRE strategies and Performance of hotels in Sri Lanka. Resource Base View (RBV) was used to conceptualize the relationship between CRE and the Performance as well as the mediator impact of Sustainable Competitive Advantage between CRE and Performance of the hotel. The study used literature review and the expert review supported by Analytic Hierarchical Approach with Lawshe's content validity ratio to investigate CRE strategies and its indicators. The seven CRES constructs identified as Reduce Cost, Productivity, Flexibility, User

Satisfaction, Promote Brand, Facilitate Interaction, and Increase Real Estate Value. Each construct consists of three to four indicators. Once the CRE strategies and indicators were defined the study used a survey method to distribute 400 questionnaires by meeting personally with executive officers of hotels during the period of August-October 2017. The valid response rate was 326. A formative PLS-SEM model has been used for data analysis. The finding of the study confirmed that except “Flexibility, User Satisfaction and Facilitate Interaction” strategy all the other four CRE strategies have a direct positive relationship with the Performance of the hotel. However, mediator analysis of SCA on CRES and Performance confirmed the no mediation of “Facilitate Interaction strategy” while the indirect effect on “Flexibility” and “User Satisfaction” strategy. Thus, this research complements existing literature by testing the multi-dimensional impact of Corporate Real Estate Strategy on Sustainable Competitive Advantage and the Performance of the hotel. As it confirmed CRE strategy has a direct or indirect positive effect on performance; the study recommends on development of strategic policy guidelines on Corporate Real Estate Strategy in the hotel industry of Sri Lanka for higher Performance and Sustainable Competitive Advantage.

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Introduction to the Chapter**

Corporate Real Estate Strategy is a function focused on planning, organizing, implementing and controlling of real estate of a non-real estate organization. Even though, discipline has close link with facilities management and property management, corporate real estate management focused on administration aspect of real estates for organizations' performance. In this context, corporate real estate strategy review on identifying possible avenue to contribute performance of a business entity. Therefore, business strategy on real estate and its contribution become a scholarly area under the discipline of Corporate Real Estate.

This introductory chapter of the study explains the background of Corporate Real Estate and the rationale on the scope of the study. The background explains the conceptual foundation on the contemporary research question and the problem of the study. Further, the chapter defined research objectives, significance and the importance of the study. Finally, the synopsis of the thesis and structure is presented.

#### **1.2 Background of the Study**

The concept of Corporate Real Estate (CRE) and Corporate Real Estate Strategy (CRES) are new to real estate and business. Zeckhauser and Silverman (1983), defined the concept as portfolio of land and building owned by companies not primarily in the real estate business. According to Veale (1989); CRE is a property which houses productive activities of a traditional corporation (Manning and Roulac, 1999) and

includes both business (operational) and non-operational (investment) properties of a non-real estate organization (Hiang Liow and Ooi, 2004; Kooymans, 2000).

Avis, Gibson, and Watts (1989); Veale (1989); Teoh (1993); Andersen (1995); and Kaluthanthri (2009a) identified CRE is a significant yet under managed segment of all corporate assets. Many executives of today's organizations claim that "we are not in the real estate business: hence, CRE management is not a significant issue to the company". Further it added, "CRE management is a function of the Finance Department and they will exercise for it" despite the fact that real estate represents 10 per cent to 40 per cent of total assets while occupancy costs can range between 3 per cent and 10 per cent of revenue or 5 per cent and 15 per cent of total cost (Schaefers 1999; Kaluthanthri 2009a). Thus, a negative perception on CRE at the strategic level in many organizations evident (Brounen & Eichholtz, 2005). In addition, Veale (1989) confirmed that 30 per cent to 40 per cent of real estate asset portfolio hold by Fortune 500 companies claim operating expenses for CRE between 5 per cent to 10 per cent. Conforming this fact it is noted that CRE require long term commitment on repair and maintenance due to the allocation of considerable amount of capital (Kaluthanthri, 2009b). Meanwhile, the investigation on the CRE holding pattern of distinct industries of industrialized economies found a significant negative relationship between real estate ownership and the systematic risk of the firm (Brounen & Eichholtz, 2005). On the other hand, the study of Hwa (2006) establish a contradict results that there is only a weak effect on stock return and CRE holding of companies listed on Bursa Malaysia (*Formerly known as Kuala Lumpur Stock Exchange*) and later, study of Tuzel (2010) confirm positive relationship between the amount of CRE holding and firm's systematic risk. Supporting this Morri & Cristanziani, (2009) argued that the contemporary issue on CRE is whether the capital allocated for it creates value for



business or contributes to performance of the organization. Therefore, a review on effective management of CRE is become an important discipline in the business management.

Nevertheless, as per Hiang Liow and Ingrid (2008) as cited by Sulaiman, Omar, and Ramin (2013) and Wurdemann (2012) CRE could use as an operational asset to increase organization's profitability through effective utilization. Besides, according to RICS (2002), poor attention for CRE in the United Kingdom make a loss of around £18 billion a year through inefficient use of the property. However, the same report inveterate that the effective attention and strategic management would improve the gross trading profit by up to 13 per cent. In this context strategic management of CRE is become an important requirement for performance. This ignites the role of strategy on CRE for performance.

In business environment, it is evident that some organizations are thriving over other regardless of the average profitability of industry. This superior profitability is an outcome of possession of sources of competitive advantage which allow them to outperform their competitors. Based on the Resource Based View (RBV) of the organization of Barney, (1991) it is argued that strategic use of organization resource creates a competitive advantage and thereby contribute performance. However, this relationship becomes sustainable only when resources and strategies possess the characteristic of valuable, rare, inimitable, and non-substitution (Barney, 1991). Clearly CRE is a resource valuable for organization, but sometimes it will not become a strategic resource since CRE bought and executed when organization have sufficient financial power where rare and inimitable cannot be established. Therefore, the organization is required to design a plan of action or program for CRE to achieve specific organization goals which create rare, inimitable, and non-substitution to its

competitors. These planned actions which developed CRE are identified as competitive strategies or CRE strategies (CRES) of an organization. The theoretical background of RBV establishes that rare, value, inimitable and non-substitution competitive strategies leads to Sustainable Competitive Advantage (SCA) (Wadongo, et.al 2012) where competitors cannot outperform and contribute to performance of the organization. Thereby study argued that CRE strategies lead to SCA and performance of an organization.

In globalized millennium, the role of CRE has been upgraded to an extent of human resource management, finance, and support to internal cultural development, productivity by facilitating convenient workplace environment for employees and making location advantage for business (Jalil Omar and Heywood, 2014). Further, Joroff, Louargand, Lambert, and Becker (1993) found that CRE is experiencing a rapid conversion to suits dynamic requirements of other corporate resources such as human resources and information services. Adding to this, Agentschap (2010) noted that use of energy within the organization can significantly reduce through the efficient CRE management. The management of buildings, portfolio of property become a strategic instrument to the organization to portrait their competitiveness in the market (Ernst & Young LLP, 2002). The effective CRES lead to cost effectiveness for energy reduction (Glumac et al. 2015). Therefore, in contemporary era organizations identify the role of CRE as a value creator and implement CRE strategies for higher performance. Thus, CRE strategies support organization to outperform its competitors.

The discussion on CRE and CRES as a source of competitive advantage began in late 1990s (Scheffer, Singer, & Van Meerwijk, 2006) where top management look at the ways and means or programmes to create positive contribution for value of the organization through effective CRE management. Thereafter, Nourse and Roulac

(1993), O'mara (1999), de Jonge (1996) and Lindholm & Leväinen (2006) are the leading scholars who discussed the application of management theory on CRE and CRE management with CRES. Subsequently, Osgood Jr (2004) and Beckers, van der Voordt, & Dewulf (2015) examine this relationship. As a result, in contemporary management role of CRES has been broaden not just as a provider for space for employee or facilitating production process or finding a place for business but as a strategic resource which create SCA for business.

In this context, it is known that every business organization implement business strategy knowingly or unknowingly for SCA and performance. The advnatge of corporate real estate strategy is its multiple impacts on different perspective of organiation outcome includng productivity, employee satisfaction and reduce the economic and management risk of real estate. Though, if organization does not have clear corporate real estate strategy or CRES model, the organization failed to achieved above stated business outcomes. This negatively affected on ability of management to add value to shareholder wealth.

However, one of the lagging parts of CRE and CRES literature is considerable variety of conceptual development on CRES and its ambiguous evaluation of contribution on business performance and value addition (Heywood & Arkesteijn, 2017). Even though number of CRE and CRES models are available, there is no agreement between scholars on link between CRES, business strategy and performance (Heywood & Arkesteijn, 2017). In this context longstanding concern on CRE is the assessment of the impact or relationship between and CRES on SCA and organization performance.

### 1.2.1 Hotel Industry in Sri Lanka and Role of Corporate Real Estate Strategy

Tourism of Sri Lanka generates LKR 405.492 billion in 2016, which is the third highest foreign exchange earner apart from worker remittance and garments (SLTDA, 2016). The main promotion bureau of tourism, the Sri Lanka Tourism Development Authority (SLTDA) which is under the Ministry of Tourist Development promotes Sri Lanka as the Asia's foremost tourist destination and strive to inspire, build and deliver "Sri Lanka Tourism" to be a key driver of Sri Lanka's economic growth through making delighted customer with passion and excellence.

The tourist industry in Sri Lanka badly affected in 2004 due to Tsunami and subsequently, the time period of 2007-2009 due to pinnacle of the 30-year long terrorist war prevail in the country. The conclusion of the war in 2009 and peace condition with in the country thereafter encourage the tourist arrivals. Refer Figure No 1.1 for tourist arrival details 2004-2018

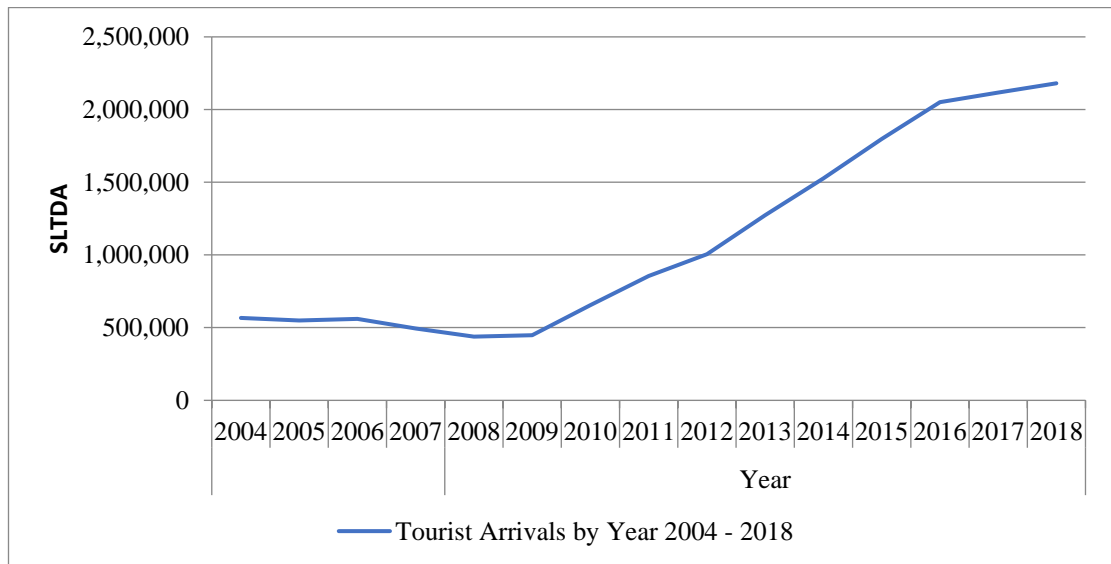


Figure 1.1 Tourist Arrivals by Year 2004 – 2018

It is evident that considerable percentage of foreign direct investment on real estate sector including number of hotel projects commenced after 2009. Most of these investments were direct Chinese investments. The statistics confirmed that total of LKR 5508.75 billion net foreign investment during the period of 2009-2019 came from China (Central Bank, 2019). Within this period, pivotal infrastructure development of Sri Lanka including Colombo-Hambantota Expressway, Colombo-Katunayake Expressway and the Hambantota Seaport completed with the Chinese aids. In addition, the biggest land reclamation project of Sri Lanka i.e. “Colombo Port City” and mixed development project including One Galle Face and Shangri-La Colombo and Hambantota, Colombo Lotus Tower, the tallest tower in South Asia funded by the China. All these investments support to boost tourism of Sri Lanka.

During the period of 2009-2015, the investment in tourism industry was exponentially on hotel development and infrastructure expansion with the ambition of 4.2 million visitors in 2020 (SLTDA, 2016). In year 2016, the industry contributes 1.7 per cent to gross national production to Sri Lanka delighting of over two million tourists arrivals during the year (Central Bank of Sri Lanka, 2015; SLTDA, 2016). The industry grew by 12.3 per cent in year 2016 compared to 2015, which is well above the estimated tourism growth of 3.9 per cent and 8.4 per cent for the world and South Asia respectively (ibid). As per the Central Bank (2016), the industry generates US \$ 3.2 billion earning with the 18 per cent earnings growth and the 74.8 per cent room occupancy rate of the graded hotels in year 2016 compared to 2015.

According to the statistics of SLTDA (2016) number of nights by foreigners and locals for the period of 2015/16 was 20,918,486. The average nights stay by a foreigner is recorded as five nights. Details of overstay nights in days given in figure

1.2

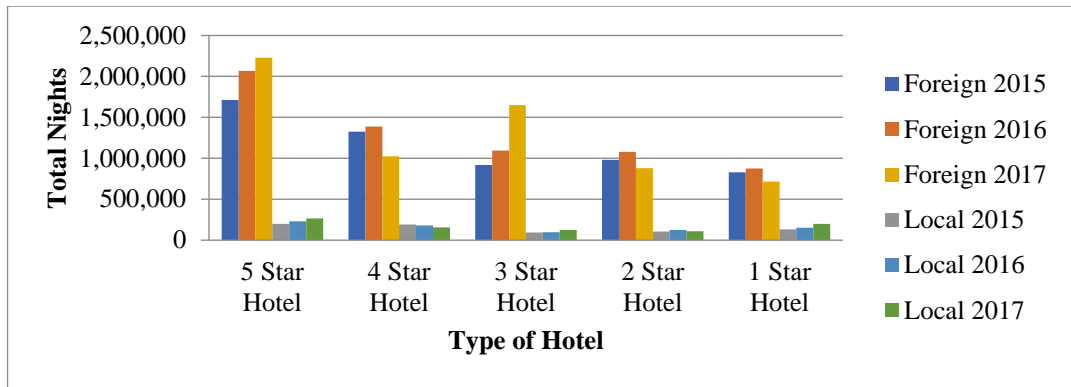


Figure 1.2 Number of Nights by Foreigners and Locals - 2015 & 2017

With this growth there was an accelerated demand for accommodation. This leads to renovations to existing hotels and new entrances to hotel industry. The accelerated real estate development in hotel industry is evident during the period of 2009-2016. The growth of the industry has attracted investment not only from the international hotel chains but also local hotel chains and entrepreneurs.

According to the statistics of Sri Lanka Tourism Development Authority, (2016) total room capacity of 22,336 of 382 registered tourist hotels grew 13.25 per cent during the year 2015-2016. A total of 7875 room added to accommodation capacity of the hotels during the period of 2008-2017. Refer Figure No 1.3 for trend on new addition for accommodation in Hotels – 2008-2017.

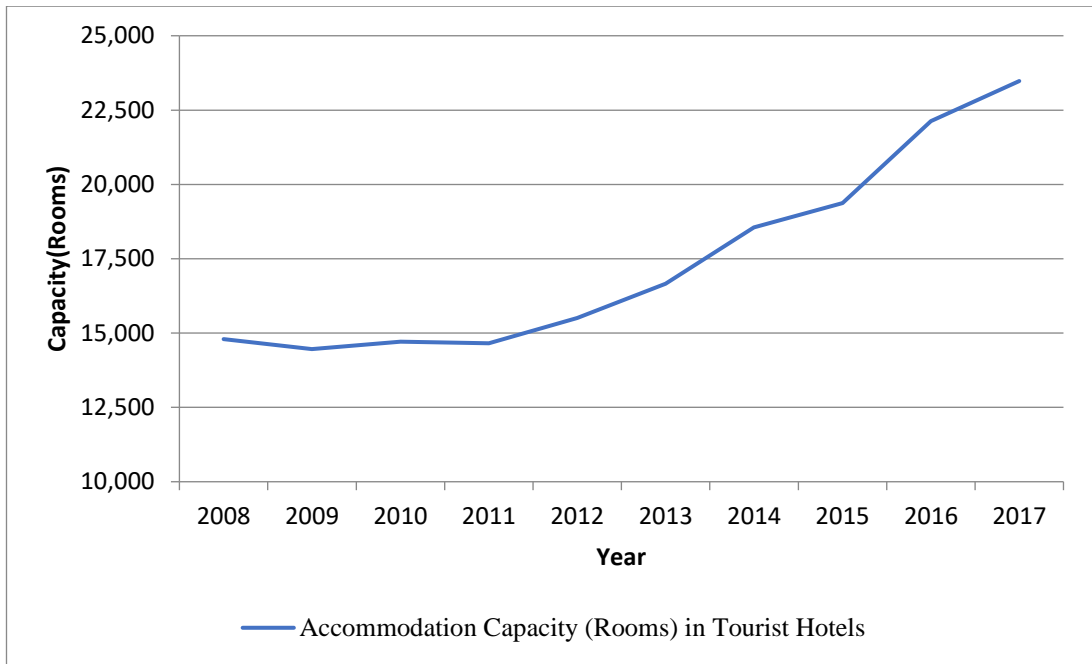


Figure 1.3 Growth of Accommodation Capacity (Rooms) in Hotels - 2008-2017

The statistics confirmed that the hotel industry of Sri Lanka is growing, and real estate involvement of the industry become significant as an operational and/or investment asset. The surface analysis of CRE holding of three main hotel groups who hold ownership of major 5 star to 3 star of hotels, boutique and villas of Sri Lanka namely, Aitken Spence Hotels (10 in number), John Keells Holdings (14 in number) and Jetwings Holdings (29 in number), show that CRE is the highest portion of their total asset under the heading of property, plant and equipment in their balance sheets.

See Figure 1.4

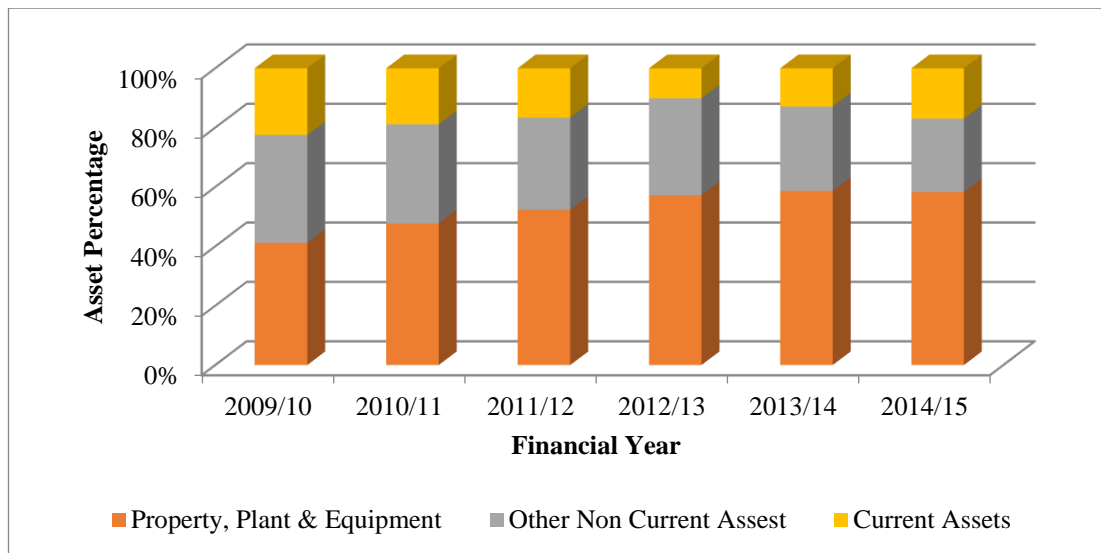


Figure 1.4 Asset Structure of Three Major Public Limited Hotels in Sri Lanka 2009/10 to 2014/15

Source: Annul Reports Jetwings Hotels PLC (2015), Aitken Spence Hotels PLC (2015), John Keels Hotels PLC (2015)

According to Figure 1.4 average contribution of CRE is 58 per cent in identified hotels. Also, a steady increase of CRE asset base is evident from 41 per cent to 58 per cent over the last 6 financial years. This indicates that significant amount of hotel's capital trapped as corporate real estate and inefficient management of this valuable resource cause negatively on performance to the hotel business. Therefore, it is critical to hotel management to review CRE strategies in a way to provide optimal use of CRE for hotel performance. Because the real estate value appears large in both asset and cost estimation, while the effective CRE is important to maximize performance of the organization. Further, being the second largest cost component of the organization after labour, ineffective CRE management easily contribute negatively on sustainable profit though competitive advantage over its competitors. This highlighted importance of strategic planning of CRE in hotel industry for its SCA and performance.



On the other hand, the current performance of the hotel industry is below the average compared to main competitive destination in Asia. Specially, Maldives, India, Malaysia and Indonesia provided competitive prices than Sri Lanka making industry in vulnerable position. Refer Table 1.1 for Financial performance of three major public limited hotels in Sri Lanka. As such, it is important to manage CRE of a hotel for better performance.

Table 1.1 Financial performance of three major public limited hotels in Sri Lanka 2018/2019

Financial Performance	ASH	JKH	Jetwing
Operating Profit (LKR millions)	1,100	1,087	850
Earnings per Share	2.37	0.56	2.23
Dividend per Share	1	0.15	Nil
Return on Equity	3.9	3	4
Current Ratio	0.97	1.29	1.17
Quick Asset Ratio	0.90	1.25	1.02

Source: Annual Reports of Jetwings Hotels PLC (Jetwing) (2019), Aitken Spence Hotels PLC (ASH) (2019), John Keels Hotels PLC (JKH) (2019)

Despite the numerous studies on hotel performance and its brand value, (Enz, 2008; Holverson & Revaz, 2006), information technology (Jönsson & Devonish, 2009), structure of the organization (Galetic, Prester, & Nacinovic, 2007) and human resource (Enz, 2008) marginal emphasis is placed on strategic management of its Real Estate (Chris & Stephen, 2001) which is a primary economic resource of production of any non-real estate organizations. Accordingly, study underlines the foremost importance of the strategic adjustment of CRE for contribution for SCA and performance of hotel industry in Sri Lanka. In this context the CRES model on SCA and organizational performance portrait and explains how CRE strategies contribute to performance of the organization. This makes the logical reasons for selection of the

industry in which SLTDA promotes optimum usage of resources in the sector with the overall philosophy of hotel performance.

### **1.3 Problem Statement**

Business organizations need to be responsive and flexible for constant changes and heightened competition of the business environment to ensure its survival, continuation and prosperity through accomplishment of stated objectives of the organization. In this context, the effective application of CRES through Corporate Real Estate Management plays a significant role to support business to be competitive over its competitors.

The objective of the CRE is to support performance of the organization and thereby add value to business (Edward and Elliosn, 2004). According to Appel-Meulenbroek, Brown, & Ramakers (2010); Bon (1992); Heywood (2011); McDonagh & Nichols (2009); Roulac (2001); Scheffer et al. (2006); Singer, Bossink, & Vande Putte (2007) effective implementation of CRES contributes to the performance of organization by ensuring the alignment of real estate portfolio with business strategy. Since CRE is considered as a financial, physical as well as an operational asset, the role of CRE is complex and needs to be in line with performance (Haynes & Nunnington, 2010). CRE as a financial and physical asset is expected to earn a rate of return to the capital employed by the business while as an operational asset it requires services and support to operational activities of the business.

The tight controls in capital market, cost of energy, price and individualization of workplace in a globalized business environment emphasize the importance of workplace and its physical environment, influencing managers to consider CRE as a strategic resource for organization (Kampf-Dern and Pfnur, 2014). This clearly

demonstrates that when the market being competitive, attention to proactive management strategies for operational portfolios become important in the corporate agenda (Bon & Luck, 1999; Nourse and Roulac, 1993; Manning and Roulac, 1996).

The capabilities of CRE strategy are important elements to link CRE to organizational performance. Through CRE strategy, organization can enjoy sustainable competitive advantage and the performance which are sources for competitiveness of the organization. Organizational capabilities can take various forms, such as outside-in processes (e.g., market sensing), inside-out processes (e.g., environment health and safety), and spanning processes (e.g., new product/service development) (Day, 1994). By default, they span different functional areas within the organization, involve people from various managerial levels, and serve multiple purposes (Amit & Schoemaker, 1993). As such, capability are expressed in the form of complex patterns of skills and knowledge that over time become embedded as routines and are performed better than those of the firm's competitors (Bingham, Eisenhardt, & Furr, 2007). By combining different types of resources, firms can maintain their capabilities, change their content, or generate new ones to respond to market changes or performance. However, to obtain a competitive edge and enhance business performance, the organization's capabilities should be constantly superior to those of competitors (Hamel & Prahalad, 1990). Therefore, unique strategies with qualities of valuable, rare, inimitable and non-substitutable required to ensure SCA and thereby support the performance of the organization. As a result, use of CRE and implementing CRE strategy with unique characteristics and qualities are one form of approach used by organization to face competition in the market.

Even though the hotel industry in Sri Lanka developed rapidly during the period of 2010-2015, the competition within and outside the country is very high. Especially

low-cost destinations in many South Asian and Asian countries identified as market threats for Sri Lankan tourism. The relative low cost of hotel accommodation attracts tourists to those countries making Sri Lanka as non-attractive destination. According to Fitch Rating (2017), Sri Lankan hotel industry itself open to price competition from the informal and alternative accommodations places like home stay units available in Sri Lanka. Further, development of luxury and mid-range residential apartments and informal accommodation negatively affect the competition of the hotel industry. Further Fitch Rating (2017) confirms that price of star grading hotels in capital city of Sri Lanka, is 10%-15% higher compared to regional competitors due to high cost of construction and energy which negatively affect the average occupancy ratio. Further, the report highlighted that star hotels lose their attractiveness mainly due to high room rates due to steep cost structure of the hotel. The statistical details on room rates of close geographical competitors include Bangkok (USD 175), Kuala Lumpur (USD 165), Chennai (USD 130) and Mumbai (USD 168) which is less than Sri Lanka (USD 180) with taxes. The escalated room rate in Sri Lankan hotels is mainly due to value added tax and cost of facilities management including cost of energy. The management efficiency of facilities and energy is one source for cost reduction, competition and increase revenue of the hotel. On the other hand, a review of hotel industry by JLL (2016), highlighted that even though there is growth on tourist arrivals, slight decline in overall occupancy levels of 3 and 5 star hotel segments experienced. Further earning from rooms is declining due to substantial increase in room inventory of the country. These factors are negatively affecting the overall performance of 3-5 star hotel segment of the country. In addition, tourist infrastructure available in the hotel directly affect the competitiveness of hotels. This includes the availability of sufficient quality accommodation, and resort facility.

It is noted star grade hotel industry of Sri Lanka being uncompetitive, hoteliers and owners need to look at innovative approach to improve its competitiveness and thereby performance. Feurer & Chaharbaghi (1994) stated that some firms consider competitiveness as the ability to persuade customers to choose their offerings over alternatives while others view it as the ability to improve continuously process capabilities (Feurer & Chaharbaghi, 1994). The internal resource management or effective implementation in the context of hotel, CRE strategy is one way of management for competition and performance. However, traditional practice of CRE unit/division is to focus on daily, routinely or myopic maintenance but not on specialized activities namely, corporate real estate planning, organization structure and performance measurement. Also, it is evident that New Zealand organization treat (Nichols, 2005) property as passive contributor for business and offer attention only at a situation when significant incident appears on prospect. Even among companies that employ a CRE officer or a manager, only a few have authority to place property issues at a major decision-making level in the organization (Kaluthanthri, 2009a, 2010, 2012). Further, the empirical studies carried out during last 10 years (Kaluthanthri, 2009a, 2009b, 2010) in Sri Lanka confirm that most of industries encounter with a passive form of CRE management. This leads to CRE become cost centre for business. Thus, strategic nature of CRE is ignored by the top management of many organizations. This poor attention on CRE makes hidden burden to strategic alignment of the business and weaken the overall performance of the organization (Tay & Liow, 2006, Liow and Ooi 2004). Therefore, strategic attention for CRE required for superior performance (Liow and Ooi, 2004). Further, it is argued that CRE performance should measure in the context of metric and it should be communicated to CRE executives for linking CRE with the objectives of the business which makes CRE as an integral

part of the business (Jordan et al, 2009) where superior performance or wealth accumulation earn through the alignment of CRE with the objectives of the organization (Lindholm and Levainen, 2006). Therefore, continuous attention on increase service quality, customer satisfaction, and customer loyalty and employee satisfaction through CRE strategies and thereby support to increased performance become a one possible management. On the other hand, review of asset structure of the hotels highlights the importance of attention of CRE and CRES for competitiveness.

Poor link between CRES on SCA and performance of business evident in globally and nationally. This inhibits the link between CRES on SCA and performance. Top management of hotels develop competitive strategies for their main resources namely marketing, HR, Finance and IT with the objective of achieving superior performance and market competitiveness (Tavitiyaman, Qiu Zhang, & Qu, 2012). According to Barney (1991), these strategies formulate with the holistic understanding of assessing all resources of the firm including organizations' tangible and intangible resources. Thus, hotels with strong tangible and intangible resource base able to create competitive advantage over its competitors and survive in the competitive business environment. As such there is possibility of mediation effect of SCA on CRES and Performance.

On the other hand, it is noted that there is lack of academic discussion on efficient and effective use of CRE strategy as competitive strategy in the context of hotel industry. The most of real estate schools in world focused on research on CRE in office or industrial market (Manning et al., 2015). According to Manning et al., (2015), hotel industry is identified as understudy area in CRE literature, even though there are more than five million of hotel rooms available in USA along and the industry given little

attention in most of research faculties all over the USA. The limited attention is on CRE on hotel industry heightened due to the classical view on real estate. However during the last decade (2000-2010) the role of CRE undergone a radical change and become a strategic resource which increases the efficiency and effectiveness of the organization (Harris & Cooke, 2014). Yet the CRE as a discipline is still at premature without any empirical support ( Harris & Cooke, 2014).

Evidence on integration of CRE in strategic level of the organization and empirical discussion on impact on performance still at its early stages of development (Langford & Haynes, 2015) while, there are handful of studies tended to focus on the identification of nature of CRE practice in different industries (Kaluthanthri 2009a, 2009b, 2010; Kaluthanthri and Kumari, 2012) other than to hotel industry in Sri Lanka. Nevertheless, those studies not focused on strategic impact of CRE on performance of hotels.

However, according to Lindholm & Leväinen (2006), it is not easy to create a general model on CRE and CRES contribution as a value addition for business due to the unique demand for real estate by different industries. In this context Lindholm & Leväinen (2006), argued organization requires a paradigm shift from a traditional way of managing CRE through cost cutting or consider it as a cost base resource to strategic resource. The challenge facing the professionals is to change the way of organization view. In this context, CRE management should reposition the involvement of CRE to strategic CRE and implement CRES to contribute performance of the organization. Thus, this study intends to provide a unique integrated CRES model to the hotels to enable them to compete in the market and to enhance performance better than before.

#### **1.4 Research Question**

The study attempts to address the research gap on effect of corporate real estate strategy on performance hotel in Sri Lanka and the mediating effect of sustainable competitive advantage by an empirically testing the theoretical model on impact of CRES on SCA and thereby performance of the hotel in Sri Lanka. Accordingly, following research questions have been derived.

- i. What are the CRE strategies for hotel industry in Sri Lanka?
- ii. What is the relationship between of CRE strategies and performance of hotel in Sri Lanka?
- iii. What is the mediator impact of SCA on CRE strategies and Performance of hotel in Sri Lanka?

The research questions lead to formation of research objectives.

#### **1.5 Research Objectives**

The main objective of the study is to investigate and analyses the impact of CRES on performance of hotels in Sri Lanka and explore whether SCA has a mediating effect on the relationship between CRE strategies and performance of hotels in Sri Lanka. The specific objectives given below are developed in order to meet the general objective of the study.

- i. To determine the Corporate Real Estate Strategies (CRES) adopted by hotels in Sri Lanka



- ii. To analyse relationship between of CRE strategies and performance of hotel in Sri Lanka.
- iii. To analyse mediator impact of SCA on CRE strategies and Performance of hotels in Sri Lanka.

## **1.6 Significance of the Study**

The significance of the study is divided into two forms; contribution for knowledge and practice. The academic contribution of the study discussed in the context of Corporate Real Estate Strategy, Sustainable Competitive Advantage and Performance; thereby a CRES model on performance empirically evaluated. The tested model becomes a source for practice in the context of hotel industry.

The assessment of CRES models of Nourse and Roulac (1993); De Jonge, (1996); Lindholm & Leväinen (2006); Van Meel et al. (2010); Den Heijer (2011); Van der Zwart and Van der Voordt (2012); and Jensen et al. (2012) confirms that there is no agreed model on the CRES on performance. However, scholars discussed possible link on CRES on performance of business organization. The development of empirically tested CRES model on performance of hotel will become steppingstone for top management of hotel industry to incorporate CRE strategies with business strategies of the organization. This enables top management to understand the importance of possible link of CRE with business strategies for performance.

The review of literature confirmed a total of seven CRE strategies. The expert's review and analysis of indicators or tactical plans of CRE strategies allow management of hotels to identify relative impact of each tactical plan to CRES of the hotels. The

identification of relative importance each indicator of CRES aid top management of hotels in several aspects. Results of the identified CRE strategies and how mediator effects of SCA on CRES and Performance help top management to incorporate statistically significant CRE strategies to their strategic plan. Further results help managers to decide how to prioritize CRES in application of each strategy. Accordingly, the top management will be able to have holistic understanding on factors on CRES and relative importance of each tactical plan or indicator to fulfil overall CRES of the hotel.

Theoretically, this study tested a model developed for hotel industry and utilized seven CRES on SCA and performance. As a result, this study specifically reflects the essence of CRES adaptation model developed within the hotel and business-related literature. Additionally, the outcome of the study would be beneficial to government institutions related to hotel and tourism industry, and policy makers with an instrument to assess how CRE division of a hotel should be organized and how CRES should be managed to achieve SCA and performance. Underpinned by RBV theory, this study provides empirical evidence to bridge the knowledge gap with regard to measurement of performance and formulation of CRES in hotel industry of Sri Lanka. In this regards scholar who involved with deductive and inductive studies on RBV theory, CRE strategies would be benefited.

The study on performance through strategic management of CRE is extremely essential for the development of the hotel industry in Sri Lanka. The validated relationship helps to safeguard the present real estate investment on the hotel industry in Sri Lanka and encourage new investments in Sri Lanka and increase its performance through empirically tested CRE strategies.

Finally, the outcome of the study will be able to hoteliers and top management to synthesis the knowledge into practice for betterment of the hotel industry in Sri Lanka. The contribution to knowledge allows scholars to review and tested in different contextual format including other industries and geographical region to identify any differences modification to the model.

### **1.7 Scope of the Study**

According to RBV theory the resource and capabilities directly contributes sustainable competitive advantage and indirectly contributes to the performance of the organization. The formation of theoretical relationship between CRE strategies and performance of hotels in Sri Lanka is an outcome of literature review and results of Analytical Hierarchical Process (AHP) analysis. The literature identified seven CRES namely; Reduce Cost, Flexibility, Productivity, User Satisfaction, Facilitate Interaction, Promote Brand, Increase Real Estate Value. The Partial Least Square – Structural Equation Modelling way used as the main analytical tool to measure contributors of each CRES strategy (Measurement Model) and the impact of CRES on SCA and Performance (Structural model).

The empirical analysis focused on relationship between CRES and performance of five-star hotels in Sri Lanka only. The rationale behind the exclusion of other star hotels is the possible distortion on analysis result due to categorical/physical differences between other categories due to its business capacity, intensity of real estate ownership and CRE strategy.

The PLS model designed as a formative model. The seven CRES, SCA and performance were defined as formative model based on experts' defined indicators.

This allows study to identify and analyse the contributors of each CRE strategy in the context of hotel industry. To this end practices or indicators were used to formulate each CRES as formative model and impact of each indicator on formation of CRES was analysed.

The respondent of the study includes 326 management executives who work in 5-star hotels in Sri Lanka. The population of the study is scattered in total of 54 hotels located all over the country. The researcher made personal visits to each hotel located in different parts of the country and met the respondent at the hotel to collect data through interviewee filled likert scale questionnaire. This ensure high response rate for the study. Thus, study attempts to maximize the response rate and ensure the random sampling procedure.

The finding of the study become an empirical source to strategic application to Corporate Real Estate Strategies in the context of five-star hotels in Sri Lanka. Further, contribution of the study focused to support corporate managers of five-star hotels to exactly identify specific CRES for their hotels. On the other hand, the scope of the study extended to confirm how mediating effect of Cost Advantage and Differentiation i.e. Sustainable Competitive Advantage on Corporate Real Estate Strategy and Performance of five-star hotels in Sri Lanka.

The SmartPLS a software developed by Ringle (2017) used as the analytic tool of the study. The analysis is focused on convergent validity, collinearity, significance and the relevance of the measurement model and the structural model. With reference to the outcome hypothesis was validated and results were presented.

## **1.8 Organization of Chapters**

The thesis organized in to six chapters; Introduction, Literature Review, Methodology, Analysis, Discussion, and Conclusion and Recommendations.

The Chapter One introduced the background of the study and explains the significance of CRES on performance of the organization. The chapter explain the insight the theoretical relationship of strategy on sustainable competitive advantage and performance. Poor link between CRES and performance discussed. Then chapter explain the nature of hotel industry and review the trends in tourism and real estate structure of leading hotel chains in Sri Lanka. Next, the problem of the study was introduced, and knowledge gap explained. Finally, the research question, objectives, significance and scope of the study was explained.

Chapter Two review the existing scholarly discussions on CRE, CRES and hotel performance including bases of SCA in the context of local and global business environment. The principles, theoretical foundation and empirical finding on CRE reviewed. Further chapter highlighted the empirically reviewed CRE strategies, their indicators as well as hotel performance measurements and its indicators. Finally, chapter conceptualized the link between CRE strategy on SCA and performance of the hotel and hypothesis of the study presented.

Chapter Three is focused on research methodology. The chapter presented the model of the study base on the theoretical foundation of RBV, literature review and expert's analysis. The chapter covers major components of the methodology including the population, sample, data sources, research instruments and method of analysis. The chapter portraits how the research methodology address the research questions defined in Chapter One. The chapter first present the experts' review methodology and

its results on AHP model on indicators of CRE strategies and the hotel performance which used as base for formative construct of PLS questionnaire. The seven CRE strategies and their respective indicators as well as six indicators on hotel performance were presented. The measurement scale of reflective SCA construct also explained. Finally, decision rule on measurement and structural model of PLS-SEM were presented.

Chapter Four presents the results of the analysis. First, the chapter presents profile of the respondents of PLS study. Thereafter, the results of measurement model including its validity, collinearity, significance and relevance of the formative construct of the measurement model and results of internal consistency, convergent validity and discriminant validity of reflective model were explained. Finally, results of structural model of the study, including collinearity, path coefficient, relevance of significance of relationship and effect size were presented.

The Chapter Five interprets results of the PLS analysis. The chapter reports the results of the analysis and discussion in the context of research question and objectives. First, chapter reviews the results of the measurement model of the study and summarized. The review on AHP results with PLS measurement model were discussed. The relevance of the results of structural model and the outcome explained within the context of the literature on CRE and hotel performance. The review on path coefficient of structural model, relevance of significance of relationship and effect size of the model is discussed in the context of CRES literature.

Chapter six summarizes the results of the study together with the discussion and findings. The chapter portrays the answers to four research questions of the study and explain how objectives were realized. Further, it explains how study meets the research