Exploring the Environmental Scanning of the Hotel Industry in China

Abstract

This study explores the environmental scanning of the hotel industry in China by investigating the effect of external and internal factors on hotel performance. The respondents are hotel owners, managers, directors, and supervisors in various regions of China. Results show that industry force factors and hotel ownership influence hotel performance. Hotels with advantage over their suppliers can generate superior financial and operational performances than hotels with less advantage over their suppliers. Existing hotels with low threat of new entrants gain more benefit in terms of operational performance than those with high threat of new entrants. The internal factor of hotel ownership influences operational performance. Joint-venture hotels deliver greater operational performance than state-owned and private-owned hotels. By contrast, substitutions, customers, competitors, and hotel size do not affect hotel performance. Hoteliers in China should acquire the advantages of massive suppliers, low threat of new entrants, and hotel ownership in achieving desirable performance.

KEYWORDS: external factors, internal factors, business performance, hotel ownership, hotel size

Exploring the Environmental Scanning of the Hotel Industry in China

Introduction

The hotel industry in China is growing rapidly owing to high demand of inbound and outbound tourists. Meanwhile, hoteliers face many challenges in managing fierce market competition. Some of these challenges include managing hotels with different geographical locations; multiform ownership (e.g., state-owned or joint-venture); types of hotel operation (e.g., chain or independent); varieties of suppliers, substitutes, customers, and employees of hotels; oversupply; efficiency disparity; and declining operation scale (Gu, 2003; Guillet, Zhang, & Gao, 2011; Kong & Cheung, 2009; L. Yu & Huimin, 2005).

All these circumstances require hoteliers to consider all-round perspectives in managing and operating hotels and achieving business goals.

Desirable performance is the ultimate goal of many hoteliers. From a strategic management perspective, hoteliers are encouraged to exercise environmental scanning by considering all external and internal factors that sustain competitive advantage and profitability in business (Harrison, 2003; Wu, Costa, & Teare, 1998). Porter (1980) proposed five external factors (i.e., industry force factors) in measuring firm performance; they are threats of new market entries, threats of substituting products or services, bargaining power of suppliers, bargaining power of customers, and competitive intensity among industry incumbents. Hoteliers who can effectively collaborate with groups of suppliers, buyers, and competitors can create competitive advantages for their firms(Peng & Luo, 2000). For internal factors, this study considers hotel ownership and hotel size. Hotel ownership is described as state-owned, private-owned, and joint-venture hotels. These ownership types can affiliate hotel operation in different ways. Many scholars argue the advantages and disadvantages of ownership implementation, which influence hotel performance

(Brookes, Altinay, Gannon, Gross, & Huang, 2011; Hsu, Liu, & Huang, 2012; Mak, 2008; Pine & Qi, 2004; Shi, 2010; Tang, Xi, Chen, & Wang, 2006). Hoteliers occasionally alter management affiliation to optimize business performance. Hotel size is another indicator measuring hotel performance. Hotels with more rooms have greater potential to generate more revenue on rooms than hotels with fewer rooms. Hotels with limited rooms have minimal chance to increase revenue once they are fully booked (Morey & Dittman, 1995; Pine & Phillips, 2005). This concept may be misleading in this current market situation, because the more rooms the hotel operates, the more expenses accrue. Consequently, failure of proper management can decrease hotel business performance.

Measurement of hotel performance requires the incorporation of both external and internal factors (Olsen, Ching-Yick Tse, & West, 1998; Olsen, Sharma, Echeveste, & Tse, 2008; Phillips, 1999). Gaps are found in measuring performance on the basis of these factors. First, several research projects focus on only either external or internal factors when measuring hospitality performance (Phillips, 1999; Yang & Fu, 2007). Second, limited literature analyzes the external factors of hotel businesses because they are complex and difficult to measure, thus leading to instability of outcomes (Okumus, 2004; Olsen et al., 2008). Finally, few studies investigate the factors and processes to ensure competitiveness of hospitality businesses in developing countries (Olsen et al., 2008). To fill these gaps in the literature, the present study 1) examines the effect of external factors (i.e., industry force factors) and 2) explores the effect of internal factors (i.e., ownership type and hotel size) on hotel performance in China. This study contributes the optimization of hotels' strategic operations created in developed countries but implemented in developing countries, such as China. This study also provides additional evidence for hoteliers to

adopt the appropriate type of hotel ownership and plan on the hotel size for enhancing hotel performance.

Literature Review

Co-alignment Concept

The co-alignment concept demonstrates the relationships among key constructs of environmental scanning and analysis, investment in competitive methods, appropriate resource-based allocation decisions, and performance (Olsen et al., 1998; Olsen et al., 2008). Environmental scanning and analysis identify the changes of firms' remote (i.e., economic, socio-cultural, political, technological, and ecological drivers) and task environment (i.e., customers, suppliers, potential competitors, substitutes, and existing competitors). Chan and Ho (2006) found that management commitment, government support, and technical and human factors are the key elements of hotel performance. The crucial role of the government also contributes to the hotel development and regulation of the tourism industry in China(Hung, 2013). Practitioners who apply these constructs can succeed and generate the greatest value to their organizations (Olsen et al., 2008). This concept is commonly used by most businesses because it helps practitioners to create competitive strategies and gain high performance. This study uses the co-alignment concept by investigating the effect of task environment and internal resources on hotel performance.

Hotel Performance

Performance is a mutual indicator measuring achievement of hotel businesses. Venkatraman and Ramanujam(1986) explained the categories of performance measurement as financial performance (e.g., sales growth, profitability, and earning per share), financial and operational performance (e.g., market share, product quality, marketing effectiveness, and

technological efficiency), and organizational effectiveness. Baloglu, Erdem, Brewer, Mayer, and Sainaghi (2010) established that hotel performance is related to strategy, production, marketing, and organization. In addition, "marketing is related to the customer perspective and production to the internal business perspective"(Baloglu et al., 2010, p. p.941). Haktanir and Harris (2005) measured the performance of an independent hotel according to six aspects: business dynamic, overall performance, employee performance, customer satisfaction, financial performance, and innovative activity measures. Hoteliers can also use key indicators, such as average daily rate and revenue per available room (RevPAR) to benchmark their hotel performance (Pine & Phillips, 2005). This study defines the components of hotel performance into financial and operational performance. Financial performance includes ROI, RevPAR, profit after tax, and ROE, and operational performance refers to customer satisfaction, operating efficiency, and business positioning based on Venkatraman and Ramanuiam(1986), Haktanir and Harris(2005), and Baloglu (2010).

Hotels should incorporate external and internal factors in measuring performance outcomes, including environmental characteristics, stakeholder expectations, inputs of internal resources, process, and strategic orientation(Phillips, 1999). These factors are interrelated, and they affect one another and depend on the company's vision and mission. Customers prefer hotel services at a low price and high quality. Employees expect high pay and morale. Employers require high customer satisfaction from qualified staff whose wages must be increased. From these different perspectives, hoteliers must accommodate the needs of individual stakeholders. These managerial implications can influence operational and/or financial performances of hotels. Botten and McManus(1999) argued that business performance can be measured by focusing on the output or actual performance results and behaviors representing activities that generate performance. This

argument implies that subjective and objective outcomes on the success of business operations can be explored and evaluated.

External Factors

Environmental scanning from the co-alignment concept can be investigated by understanding the nature and uniqueness of an industry. The industry can be influenced by five industry forces: threats of new market entries, threats of substituting products or services, bargaining power of buyers, bargaining power of suppliers, and competitive intensity among industry incumbents (Poter, 1980). These factors are similar to the task environment concept proposed by Costa and Teare (1996), Okumus(2004), and Olsen et al.(1998). Task environment includes suppliers, competitors, customers, regulators, and other interest groups. The industry factors of the hotel industry are unique and vary with countries. These factors are complex to predict and control because they can directly or indirectly affect hotel operations. An organization examining its environment achieves a high level of economic performance. Business practitioners are recommended to analyze industry force factors before developing a business strategy(Costa & Teare, 1996). For example, customer preferences on the importance of hotel products and services can change slightly when the influence of industry force factors is low. On the contrary, when the influence of external factors is high, hotels face uncertainty from customers' needs and competitors' market (Wang, Chen, & Chen, 2012).

Previous literature indicates compelling findings of industry force factors. Harrison (2003) demonstrated the importance of the external environment and stakeholders in the hospitality industry. Bargaining power of customers is one of the powerful factors of hotel success, and it depends on factors such as the number of alternatives to products and services, quantity of goods,

and capability of customers to bargain(Poter, 1980). Hotels with a large customer base can reduce risks if customers switch brands. By contrast, hotels with few customers have less bargaining power for price increment. Many hospitality firms neutralize buyer's power by creating loyalty programs that reward customers for repeated purchases and reduce the buyer's power by differentiating products and services offerings (Crook, Ketchen, & Snow, 2003). In China, domestic customers are the main customers of the hotel business because they use hotel products and services for weddings, banquets, conferences, and resort stays (R. Yu, 2010). Hotels have limited bargaining power over customers because of the large pool of domestic customers in China. Law, (Tussyadiah & Pesonen, 2015) argued that the bargaining power of customers at state-owned hotels in China is low because the hotels provide quality standards and services with reasonable price. Customers cannot find better choices of services from the competitors.

A similar paradigm of bargaining power applies to suppliers. Bargaining power of suppliers is influenced by many factors, such as the scale of production or operations and the financial condition of the parties (Poter, 1980). If a few suppliers have a particular type of goods or services for hotels, they have more bargaining power over the hotels. By contrast, hotels with a large number of suppliers have more bargaining power for the quality of goods or services and price reduction. China possesses a large customer market, thus providing hotels with an opportunity to gain advantages of a large pool of suppliers (L. Yu, Lew, Ap, & Zhang, 2003). Bargaining powers of customer and supplier in the hotel industry are likely to be low because customers and suppliers are abundant in the market (Law, Tavitiyaman, & Zhang, 2015; Olsen & Roper, 1998).

Rivalry among competitors is the ability to compete with rivals. Hotels define the nature of competitors by different approaches, such as pricing, brand differentiation, and location (Harrison, 2003). If many hotels are in the same market segment, a hotel visualizes approximately

four to five hotels as direct competitors. Competitive move by competitors is another reflection in the hotel business because it affects the strategic changes of other hotels (Poter, 1980). For example, if a direct competitor reduces its room rate, then another hotel also considers rate reduction. The market is competitive with different types of brands and best facilities provided (Law et al., 2015). (Hung, 2013) argued that local and international hotel brands in China are fiercely competing. International brands tend to perform better in terms of professionalism and staff training than local brands, causing many local brands to face a major challenge in business survival.

The condition of entry in an industry depends on economies of scale, product differentiation, capital requirements, and switching costs (Poter, 1980). Powers (1997) argued that the threats of new hotel entrants can be low because hotel business requires massive capital investment. Investment in hotels can create a challenge to new hoteliers with no industrial experience. Government plays a key role in hotel development(Chan & Ho, 2006). Government policy and requirements of hotel establishment, access to distribution channels, and product differentiation must be considered before market entry. A constraint of a new hotel entry is the government policy that adds upscale hotel developments to the restricted list of foreign investments(Guillet et al., 2011). Hotel investment in China should follow government requirements and procedures, thus creating an obstacle for new business entrants. The threat of substitutes in the hotel industry appears high because leisure travelers tend to stay with relatives or friends. Recreational vehicles and teleconference can affect hotel businesses by reducing opportunities for room nights targeting business travelers. Substitutes may not constitute direct competition today, but they may provide customers with choices apart from hotel products.

Relationships between external factors and performance exist in the hospitality industry (Law et al., 2015; Tavitiyaman, Qiu & Zhang, 2011; West, 1990; Dev & Olsen, 1989). (Dev & Olsen, 1989; Law et al., 2015; Tavitiyaman, Qu, & Zhang, 2011; West, 1990). The importance of consumers, suppliers, and competitors can reduce costs, increase revenue, and improve competitiveness(Hsu et al., 2012). Bargaining power of customers and threat of new hotel entrants indirectly affects hotel performance, whereas no direct or indirect relationship is found between competitors and hotel performance (Tavitiyaman et al., 2011).

From the above literature review, the following hypotheses are proposed.

Hypotheses 1a-b: Hotels with an advantage over substitutions will gain benefits of (a) financial and (b) operational performance.

Hypotheses 2a-b: Hotels with an advantage over customers will gain benefits of (a) financial and (b) operational performance.

Hypotheses 3a-b: Hotels with an advantage over suppliers will gain benefits of (a) financial and (b) operational performance.

Hypotheses 4a-b: Hotels with an advantage over new hotel entrants will gain benefits of (a) financial and (b) operational performance.

Hypotheses 5a-b: Hotels with an advantage over competitors will gain benefits of (a) financial and (b) operational performance.

Internal Factors: Hotel Ownership and Hotel Size

Hotel ownership in China has different types, namely, state owned (2,289 properties), private enterprises (7,760 properties), and joint ventures (458 properties) (China, 2014)These ownership implementations include advantages and disadvantages.

Most state-owned hotels are owned by national, provincial, or local government and government agencies; thus, they cannot be managed independently like other commercial businesses (Pine & Qi, 2004).(Mak, 2008) noted that the issues of state-owned enterprises can be divided into two aspects: ownership-focused and market-focused. Examples are the conflict between general manager and party secretary and slow increase of marketization. State-owned hotels have disadvantages in management models, human resources policies and recruitment, group procurement, marketing networks, taxation, tariff, foreign exchange, pricing, bureaucratic controls, operating efficiency, knowledge in managing profitability, and innovation. State-owned hotels become inefficient in marketing because of these barriers, and thus affecting hotel revenue (Gross & Huang, 2011; Mak, 2008; Pine & Qi, 2004; Tang et al., 2006; L. Yu & Huimin, 2005; L. Yu et al., 2003) These concerns affect the performance indicators of state-owned hotels (Shi, 2010). Private-owned hotels are operated and managed by various international partnerships. These hotels have the strengths of branding, operational practices and management, and high flexibility in terms of decision making and resource utilization(Hsu et al., 2012). Joint venture is another approach that many Chinese hoteliers consider because of sound strategic and marketing planning, participation in information exchange with a local partner, strong financial background of foreign partners, and pleasant experience in market research activities (Li, Wong, & Luk, 2006). Joint-venture hotels in China perform better than local hotels.

The different ownership types affect performance (Baum, Calabrese, & Silverman, 2000; Hsu et al., 2012). Domestic-private hotels have more flexibility for financial resource operation than state-owned hotels. The overall performance of foreign-invested ownership (Hong Kong-, Macau-, and Taiwan-funded) achieves a higher level of RevPAR and occupancy than that of state-owned hotels in China (Pine & Qi, 2004). These findings are similar to those of the studies of Cai

(2004), Pine and Phillips (2005) as well as Yu and Gu (2005). Overseas-invested properties perform better than domestic-invested properties. The former apply and implement international business and management techniques in the local environment, resulting in advantages over the latter. Therefore, the following hypotheses are presented.

Hypotheses 6a-b: Different hotel ownership types will influence (a) financial and (b) operational performance.

Firm size, that is, the number of guestrooms in the property, and it is a critical determinant of performance(Claver-Cortés, Molina-Azorín, & Pereira-Moliner, 2007; Peng & Luo, 2000; Pine & Phillips, 2005; Poter, 1980). The larger hotel size, the better hotel performance (Morey & Dittman, 1995; Pine & Phillips, 2005). Large hotels, which have many rooms, can reduce costs incurred by the increased commercial effort to sell the rooms (Claver-Cortés et al., 2007). Many state-owned hotels have an average of less than 100 rooms, whereas foreign-invested hotels boast a higher average (Pine & Phillips, 2005). Many foreign-invested hotels are chains, and their brands are well recognized by customers. These hotels tend to have many hotel rooms, restaurant outlets, and related services. Owing to their small sizes, domestic-owned hotels underperform in terms of occupancy, average daily room rate, and financial performance compared with foreign-owned hotels (Gu, 2003). Given that hotel size affects the net income per available room, Assaf and Barros (2011) suggested that **hotels** can increase their sizes and scale of operations to generate more sales revenue from room, food and beverage, and other outlets. By contrast, Mount and Frye (2006) stated that hotel size does not have a relationship with hotel performance in terms of employee satisfaction. The following hypotheses are proposed.

Hypotheses 7a-b: A high number of rooms will enhance the (a) financial and (b) operational performance of hotels.

Methodology

Research Design and Instrument Development

This study applies a cross-sectional design because it provides a snapshot of external and internal factors on hotel performance at a single point in time within a known population (Churchill, Brown, & Suter, 2001). The scope of the present study investigates the relationships among variables—external factors (five industry forces), internal factors (hotel ownership and hotel size), and hotel performance (financial and operational performance). Figure 1 illustrates the proposed conceptual framework.

(Insert Figure 1 Here)

The questions were adapted from the theoretical foundation of Law et al.,(2015), Tavitiyaman et al. (2011), Tavitiyaman, Zhang, and Qu (2012), Peng and Luo (2000), and Venkatraman and Ramanujam (1986), Poter (1980). The questionnaire was presented in two languages (Chinese and English). Back-to-back translation was conducted to ensure the consistent meanings of the Chinese and English statements. Twenty-nine questions comprising three sections were developed on the basis of the foregoing literature review. Section I consisted of 12 questions, which explored external factors of competitors, customers, substitutes, suppliers, and new hotel entrants. The higher the respondents rated the items, the more power the hotel had over these factors. Section II consisted of seven questions, which investigated hotel performance financially (ROI, RevPAR, profit after tax, and ROE) and operationally (customer satisfaction, operating

efficiency, and business positioning). Measuring business performance based on the managers or owners expectations is suggested by Hernandez-Maestro, Munoz-Gallego and Santos-Requejo (2009). The higher the respondents rated the items, the more desirable the hotel performance was. The items of Sections I and II were measured by a five-point Likert-type scale (1 = strongly disagree and 5 = strongly agree). Section III included 10 closed-ended questions asking the hotel (location, hotel size, star rating, hotel ownership, and management type) and respondent (gender, age, year of working experience, education, and position) characteristics. The pre-test of the survey instrument is adopted by asking the hospitality and tourism educators for the validity of the items asked. Few items were revised and later sent to the target sample groups.

Sampling Approach, Data Collection Procedure, and Data Analysis

The target population consists of the hotel owners, general managers, executive managers, mid-level managers, and supervisors of hotels in China. Their responses provide reliable insight because these hotel executives are the creators and developers of hotel strategies and policies. Invitation letters attached with questionnaire were sent to targeted hotel executives via the hotel and their personal email address. Another data collection procedure was introduced owing to the low response rate from the online survey. The questionnaire was distributed to hotel executives and managers who participated in the hospitality and tourism conferences and seminars in China. This quantitative study is the second-stage of the qualitative study of Law, (Tussyadiah & Pesonen, 2015)The data was collected from June 2012 to March 2013. The data collection procedure ended when the sample size was acceptable. Given that convenient sampling was proposed, t-test was performed to assess for significant difference between the two data sets collected through online survey and convenient sampling. The results did not indicate differences in the means between the

two data sets. The sampling bias is controlled and minimal(Hair, Black, Babin, Anderson, & Tatham, 2006).

The tests of multicollinearity and outlier were analyzed, and only 167 samples remained for data analysis (Hair et al., 2006). The data analysis techniques include descriptive and frequency analysis, the exploratory factor analysis, and multiple regression. The descriptive statistics and frequency were analyzed to measure the characteristics of hotels and respondents. The exploratory factor analysis was performed to reduce the low-correlated items of external factors and hotel performance. A multivariate analysis of variance was applied to assess the relative importance of hotel ownership and hotel size to external factors and hotel performance because two internal factors were investigated in this study. No statistical significance was found in these relationships. Finally, the multiple regression method was used to investigate the effects of external and internal factors on hotel performance.

Findings

Hotel and Respondent Characteristics

Table 1 lists the hotel and respondent characteristics. In terms of location, 65.1% of the properties were located in East China, 26.85% of properties were located in Middle South China, and 8.05% were located in North, Northeast, and Southwest China. In terms of hotel size, 16.77% of the hotels had fewer than 200 rooms, 58.68% had 201–400 rooms, and 24.55% had 401 rooms or more. Among the hotel properties under research, 4.52% of the respondents described the hotel properties as one- to three-star hotels, 32.9% as four-star hotels, and 62.58% as five- or six-star hotels. Hotel ownership was classified as joint-venture hotels (8%), state-owned hotels (46%), and private-owned hotels (46%). Finally, in terms of management type, 16.25% of the hotels operated

under international chain management, 53.75% operated under domestic chain management, and 30% operated under independent management.

For the respondent characteristics, 51.22% were male and 48.78% were female. Among the respondents, 30.06% were 20–29 years old, 50.92% were 30–39 years old, and 19.02% were 40 years old or above. In terms of working experience in the current position, 26.05% of the respondents worked for less than three years, 26.67% worked for three–six years, 17.58% worked for 7–10 years, and 29.7% had more than 10 years of experience. Among the respondents, 10% were hotel owners, 21.25% were general managers or resident managers, 37.5% were division or department managers, and 31.25% were supervisors. Among the respondents surveyed, 6.01% held a high school degree, 71.95% held a bachelor degree, and 21.95% held a postgraduate degree.

(Insert TABLE 1 Here)

Analysis of External Factors and Hotel Performance

A principal component analysis with direct oblimin rotation was employed in the exploratory factor analysis to extract a set of simplified composite factors. The Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy was interpreted to quantify the degree of inter-correlation among the variables and the appropriateness of factor analysis. The Bartlett test of sphericity was conducted to test the significance of the correlation matrix. The competencies with a factor loading of 0.4 or higher and an eigenvalue greater than 1 were clustered together. These tests indicated the appropriateness of exploratory factor analysis (Hair et al., 2006).

Table 2 presents the 11 items of external factors tested in exploratory factor analysis. The KMO statistic was 0.65, indicating the interrelated and shared common underlying dimensions of constructs. The Bartlett test of sphericity of external factors was acceptable and significant (χ^2 = 533.41, df = 66, $p \leq 0.000$). Of the 11 items, five factors were extracted with a factor loading of

0.4 or higher and an eigenvalue greater than 1 and explained 71.97% of the overall variance. Five external factors were named based on the common characteristics of the items in each factor, such as "substitutions," "customers," "suppliers," "new entrants," and "competitors." The Cronbach's alphas of all external factors ranged from 0.61 to 0.80, which indicated an acceptable reliability (Hair et al., 2006; Stevens, 2002). The means of external factors ranged from 2.26 (competitors) to 3.40 (new hotel entrants).

The same tests were used to investigate the hotel performance items. The KMO statistic was 0.84, indicating the interrelated and shared common underlying dimensions of constructs. The Bartlett test of sphericity of external factors was acceptable and significant ($\chi^2 = 382.93$, df = 21, $p \leq 0.000$). Two factors were extracted with 82.5% of the overall hotel performance variance. Two factors were named as "financial performance" with the Cronbach's alpha of 0.96 and "operational performance" with the Cronbach's alpha of 0.80. The means were 3.46 (standard deviation = 0.68) of financial performance and 3.07 (standard deviation = 1.09) of operational performance.

(Insert TABLE 2 Here)

Relationships among External Factors, Internal Factors, and Hotel Performance

Table 3 presents the multiple regression results of external and internal factors on financial and operational performances of the hotels. Only the factor of suppliers is positively significant on hotel financial ($\beta = 0.28$, $p < 0.01$) and operational ($\beta = 0.20$, $p < 0.01$) performances, thus supporting Hypotheses 3a and b, which state that hotels with an advantage over suppliers will gain benefits of financial and operational performance. The advantage of new hotel entrants positively affects operational performance ($\beta = 0.15$, $p < 0.05$). This finding supports Hypothesis 4b, which states that hotels with an advantage over new hotel entrants will gain benefit of operational

performance. On the contrary, substitutions, customers, and competitors do not significantly affect financial and operational performances. The advantage of new hotel entrants does not affect financial performance. Hypotheses 1a-b, 2a-b, 5a-b, and 4a are not supported.

This study further analyzes the effect of internal factors (i.e., hotel ownership and hotel size) on financial and operational performance (Table 3). Hotel ownership type is positively significant on operational performance ($\beta = 0.18$, $p < 0.01$). This result supports Hypothesis 6b, which states that ownership type will influence operational performance. By comparing the mean differences, hoteliers under joint-venture management (mean = 4.15, standard deviation = 0.55) perceive greater operational performance than hoteliers under state-owned (mean = 3.40, standard deviation = 0.66) and private-owned management (mean = 3.34, standard deviation = 0.61). However, hotel ownership does not influence financial performance; thus, Hypothesis 6a is not supported. Moreover, no relationship is found between hotel size and financial and operational performances. Hypotheses 7a-b are not supported.

Five variables of external factors and two variables of internal factors indicate that the value of data fits in the test on financial ($R^2 = 0.09$, Adjusted $R^2 = 0.05$, F-value = 2.22, $p < 0.05$) and operational performance ($R^2 = 0.18$, Adjusted $R^2 = 0.05$, F-value = 4.54, $p < 0.01$). The notion of low R^2 value on financial performance is that other factors, except external factors and internal factors, affect financial performance.

(Insert TABLE 3 Here)

Discussions and implications

This study examines the effects of external factors (i.e., substitutions, competitors, customers, new hotel entrants, and suppliers) and internal factors (i.e., hotel ownership and hotel

size) on hotel performance. The results reveal that hotels with advantages over their suppliers and low threat of new hotel entrants advance positive financial and operational performances, thus supporting the studies of Yu (2003) and Olsen and Roper (1998). Another significant finding is the importance of hotel ownership on operational performance. This result is similar to the findings of Li et al. (2006) and Pine and Phillips(2005) as well as Cai (2004). By contrast, hotels in China do not perceive any benefits over substitutions, customers, rivalry of competitors. Finally, hotel size does not affect hotel performance in China. This result is similar to the findings of Mount and Frye (2006).

Hotels in China obtain a large number of suppliers, which maximizes their financial and operational performances. Owing to many suppliers in the marketplace, hotels possess the freedom to select the most preferred suppliers (Olsen & Roper, 1998). The supplier markets in China offer various diversified and qualified products to different hotel classifications (L. Yu & Huimin, 2005). Some state-owned hotels are affiliated with the Chinese government and may receive some benefits (e.g., pricing and other business negotiations) from the suppliers. Some hotels that implement centralized purchasing procurement for the same hotel corporations can acquire the advantage of economies of scale (i.e., massive purchasing with low cost). These advantages reduce operational costs of supplies and amenities and provide the qualified standards of products or services. Thus, these hotels can sustain profitability and achieve operational control.

Hotels with low threat of new hotel entrants can deliver better operational performance than hotels with high threat of new hotel entrants. Existing hotels gain advantages of operational practices over new hotels entering in the same region. Newly independent hotels require sufficient time to train staff, promote their brand, and build a strong relationship with new customers. However, new hotels that have established their business in the market can affect the performance

of existing hotel incumbents. To cater for potential competition, existing hotels must ensure that their performance meets the standard and implement all possible methods to retain their customers, control costs, and satisfy employees. These practices can be promoted via their brand, which can create differentiation from other new hotels(Harrison, 2003). These methods can reduce fierce competition from any new hotels entering the market.

Rivalry among competitors, substitutions, and customers does not affect hotel performance; this finding contradicts Hung (2013). From the perspective of rivalry among competitors, no single variable can be used to identify key rivals for the hotel industry(Mathews, 2000). This result implies that a hotel may not see other hotels as real competitors. By contrast, managers' friendship with their counterparts in the competitors can improve hotel performance. Hotels may harmonize with one another in the case of transferring customers when the hotel is fully booked and other situations. The threat of substitution is low because of the many hotels in the market. Customers do not emphasize other substitutions in hotel products and services. From a customer perspective, hotel supply is larger than customer demand. Thus, hotels do not have much power over customers.

Although these three external factors do not affect hotel performance, hoteliers should consider improving the advantages over these factors to increase performance. Hotels can differentiate themselves from their competitors and substitutions by offering unique products and services, such as promoting their brand, hotel facilities, and customer services. Hotels must regularly observe the market situation and respond to customer requests. Offering customer loyalty programs and heavy promotion can attract customers to remain in the same hotel brands, thereby increasing the bargaining power of hotels over their customers(Crook et al., 2003).

The internal factor of hotel ownership influence operational performance. Individual hotel ownership has pros and cons that depend on the nature of the hotel. This study illustrates that joint-venture hotels achieve higher operational performance than state-owned and private-owned ones. Joint-venture hotels attain benefits of having local and foreign partners in terms of appropriate strategic and marketing planning, participation in information exchange with local partners, strong financial background of foreign partners as well as good experience in market research activities and business collaboration with local suppliers and customers (Li et al., 2006). State-owned hotels can receive operational benefits from government collaboration and assistance. However, owing to the limitations of state-owned ownership, state-owned hotels may face the challenges of bureaucratic structure and control(Mak, 2008) in promoting employee commitment, customer satisfaction, and marketing positioning(Tang et al., 2006). The success of operational performance differs depending on hotel ownership types because operational procedures are bureaucratic and complex. Private-owned hotels have the least success of operational performance. These hotels operate under independent management, and the hotel size is either small or medium. Hoteliers have the freedom to make decisions and operate businesses. However, independent management and lack of knowledge and resources are obstacles to success.

In conclusion, the external factors of suppliers and new hotel entrants significantly affect hotel performance in China. Hoteliers can benefit from these factors to increase financial performance and promote operational performance of customer satisfaction and market positioning. Hoteliers can select suitable suppliers that meet their hotels' quality standard and competitive pricing. Hoteliers are recommended to create good relationships with suppliers. Building positive relationships with suppliers help hotels to ensure long-term business commitment, which is influential in the Chinese culture. Long-term operational implementation,

such as customer loyalty programs and human resource management and development, is recommended to reduce the fierce competition from new hotel entrants. Finally, hotel ownerships facilitate various performance outcomes. Selecting the suitable ownership type to fit with the nature of hotel operation is encouraged. Hoteliers should exploit external factors and implement them with the proper ownership type to certify valuable performance.

Limitations and Future Research

This study is subject to a number of limitations. The convenient sampling approach was adopted, and, thus, the generalization may represent only similar types of hotel properties in this study. The researchers acknowledge the limitation of retrieving financial information of the hotel operations. They are also aware of the validity of data collection bias. Not all managerial executives know the accurate financial performance figures, and known managerial executives avoid sharing this information because of conflict of interest. The instrument in collecting financial performance information is based on the hoteliers' perception of the hotel's overall financial performance compared with other competitors using the Likert-scale of the industry norm. This measurement is cited in the studies of Tavitiyaman et al., (2012); Tavitiyaman et al. (2011) and Jogaratnam and Tse (2004). Therefore, the measurement of financial performance using the industry norm as the criteria for justification rather than real financial figures is valid and verified. Most respondents were 20–39 years old. Thus, the results may be biased by young hotel executives' perceptions. In addition, the supervisor-level respondents are less than 30% of the overall respondents, and they may have limited access to the financial data. The external and internal factors in this study characterize only 9%–18% of hotel performance. Other external and

internal factors, such as competitive internal resources and strategic methods, may be considered in future research to measure hotel performance (Olsen et al., 1998; Olsen et al., 2008).

References

Assaf, A. G., & Barros, C. (2011). Bayesian cost efficiency of Luanda, Angola hotels. *The Service Industries Journal, 31*(9), 1549-1559.

Baloglu, S., Erdem, M., Brewer, P., Mayer, K., & Sainaghi, R. (2010). Hotel performance: state of the art. *International Journal of Contemporary Hospitality Management, 22*(7), 920-952.

Baum, J. A., Calabrese, T., & Silverman, B. S. (2000). Don't go it alone: Alliance network composition and startups' performance in Canadian biotechnology. *Strategic management journal, 21*(3), 267-294.

Botten, N., & McManus, J. (1999). *Competitive strategies for service organisations*: Purdue University Press.

Brookes, M., Altinay, L., Gannon, J., Gross, M. J., & Huang, S. (2011). Exploring the internationalisation prospects of a Chinese domestic hotel firm. *International Journal of Contemporary Hospitality Management, 23*(2), 261-274.

Cai*, L. A. (2004). State-owned economy and budget hotels in China–from commodity to brand. *Asia Pacific Journal of Tourism Research, 9*(1), 29-42.

Chan, W. W., & Ho, K. (2006). Hotels' environmental management systems (ISO 14001): creative financing strategy. *International Journal of Contemporary Hospitality Management, 18*(4), 302-316.

China, N. B. o. S. o. (2014). *China Statistical Yearbook 2014*: China Statistics Press.

Churchill, G. A., Brown, T. J., & Suter, T. A. (2001). Basic marketing research.

Claver-Cortés, E., Molina-Azorín, J. F., & Pereira-Moliner, J. (2007). The impact of strategic behaviours on hotel performance. *International Journal of Contemporary Hospitality Management, 19*(1), 6-20.

Costa, J., & Teare, R. (1996). Environmental scanning: a tool for competitive advantage. *The international hospitality business*, 12-20.

Crook, T. R., Ketchen, D. J., & Snow, C. C. (2003). Competitive edge: A strategic management model. *Cornell Hotel and Restaurant Administration Quarterly, 44*(3), 44-53.

Dev, C. S., & Olsen, M. D. (1989). Environmental uncertainty, business strategy, and financial performance: an empirical study of the US lodging industry. *Journal of Hospitality & Tourism Research, 13*(3), 171-186.

Gross, M. J., & Huang, S. S. (2011). Exploring the internationalization prospects of a Chinese domestic hotel firm. *International Journal of Contemporary Hospitality Management, 23*(2), 261-274.

Gu, Z. (2003). The Chinese lodging industry: problems and solutions. *International Journal of Contemporary Hospitality Management, 15*(7), 386-392.

Guillet, B. D., Zhang, H. Q., & Gao, B. W. (2011). Interpreting the mind of multinational hotel investors: Future trends and implications in China. *International Journal of Hospitality Management, 30*(2), 222-232.

Hair, J., Black, W., Babin, B., Anderson, R., & Tatham, R. (2006). Multivariate Data Analysis Sixth Edition Pearson Education. *New Jersey*, 42-43.
Haktanir, M., & Harris, P. (2005). Performance measurement practice in an independent hotel context: A case study approach. *International Journal of Contemporary Hospitality Management, 17*(1), 39-50.
Harrison, J. S. (2003). Strategic analysis for the hospitality industry. *Cornell Hotel and Restaurant Administration Quarterly, 44*(2), 139-152.
Hernández-Maestro, R. M., Muñoz-Gallego, P. A., & Santos-Requejo, L. (2009). Small-business owners' knowledge and rural tourism establishment performance in Spain. *Journal of Travel Research, 48*(1), 58-77.
Hsu, C. H., Liu, Z., & Huang, S. (2012). Managerial ties in economy hotel chains in China: Comparison of different ownership types during entrepreneurial processes. *International Journal of Contemporary Hospitality Management, 24*(3), 477-495.
Hung, K. (2013). Chinese hotels in the eyes of Chinese hoteliers: The most critical issues. *Asia Pacific Journal of Tourism Research, 18*(4), 354-368.
Jogaratnam, G., & Tse, E. C.-Y. (2004). The Entrepreneurial Approach to Hotel Operation Evidence from the Asia-Pacific Hotel Industry. *Cornell Hotel and Restaurant Administration Quarterly, 45*(3), 248-259.
Kong, H., & Cheung, C. (2009). Hotel development in China: a review of the English language literature. *International Journal of Contemporary Hospitality Management, 21*(3), 341-355.
Law, V. T., Tavitiyaman, P., & Zhang, H. Q. (2015). An Analysis of Industry Forces, Strategic Implementation, and Performance: Evidence from State-owned Hotels in China. *Journal of China Tourism Research, 11*(3), 315-336.
Li, S. C., Wong, M. C., & Luk, S. T. (2006). The importance and performance of key success factors of international joint venture hotels in China. *Chinese Economy, 39*(6), 83-94.
Mak, B. (2008). The future of the State-owned hotels in China: Stay or go? *International Journal of Hospitality Management, 27*(3), 355-367.
Mathews, V. E. (2000). Competition in the international hotel industry. *International Journal of Contemporary Hospitality Management, 12*(2), 114-118.
Morey, R. C., & Dittman, D. A. (1995). Evaluating a hotel GM's performance: A case study in benchmarking. *Cornell Hospitality Quarterly, 36*(5), 30.
Mount, D. J., & Frye, W. D. (2006). The impact of hotel size and service type on employee job satisfaction. *Hospitality Review, 24*(1), 7.
Okumus, F. (2004). Potential challenges of employing a formal environmental scanning approach in hospitality organizations. *International Journal of Hospitality Management, 23*(2), 123-143.
Olsen, M. D., Ching-Yick Tse, E., & West, J. J. (1998). *Strategic management in the hospitality industry*: John Wiley and Sons.
Olsen, M. D., & Roper, A. (1998). Research in strategic management in the hospitality industry. *International Journal of Hospitality Management, 17*(2), 111-124.
Olsen, M. D., Sharma, A., Echeveste, I., & Tse, E. C.-Y. (2008). Strategy for hospitality businesses in the developing world. *Hospitality Review, 26*(1), 4.
Peng, M. W., & Luo, Y. (2000). Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. *Academy of management journal, 43*(3), 486-501.
Phillips, P. A. (1999). Performance measurement systems and hotels: a new conceptual framework. *International Journal of Hospitality Management, 18*(2), 171-182.
Pine, R., & Phillips, P. (2005). Performance comparisons of hotels in China. *International Journal of Hospitality Management, 24*(1), 57-73.
Pine, R., & Qi, P. (2004). Barriers to hotel chain development in China. *International Journal of Contemporary Hospitality Management, 16*(1), 37-44.
Poter, M. E. (1980). *Competitive Advantage*: New York: Free Press.
Powers, T. (1997). *Marketing hospitality*: John Wiley and Sons.

Shi, H. (2010). Framework Suitability for Strategic Management in the Hospitality Industry: A Comparative Study: 酒店产业战略管理框架普适性之比较研究. *Journal of China Tourism Research, 6*(2), 123-144.

Stevens, J. P. (2002). *Applied multivariate statistics for the social sciences* (4th Edition ed.): New Jersey: Lawrence Erlbaum Associates.

Tang, F.-F., Xi, Y., Chen, G., & Wang, R. (2006). Ownership, corporate governance, and management in the state-owned hotels in the People's Republic of China. *Cornell Hotel and Restaurant Administration Quarterly, 47*(2), 182-191.

Tavitiyaman, P., Qiu Zhang, H., & Qu, H. (2012). The effect of competitive strategies and organizational structure on hotel performance. *International Journal of Contemporary Hospitality Management, 24*(1), 140-159.

Tavitiyaman, P., Qu, H., & Zhang, H. Q. (2011). The impact of industry force factors on resource competitive strategies and hotel performance. *International Journal of Hospitality Management, 30*(3), 648-657.

Tussyadiah, I. P., & Pesonen, J. (2015). Impacts of peer-to-peer accommodation use on travel patterns. *Journal of Travel Research*, 0047287515608505.

Venkatraman, N., & Ramanujam, V. (1986). Measurement of business performance in strategy research: A comparison of approaches. *Academy of management review, 11*(4), 801-814.

Wang, C.-H., Chen, K.-Y., & Chen, S.-C. (2012). Total quality management, market orientation and hotel performance: The moderating effects of external environmental factors. *International Journal of Hospitality Management, 31*(1), 119-129.

West, J. J. (1990). Strategy, environmental scanning and firm performance: an integration of content and process in the foodservice industry. *Journal of Hospitality & Tourism Research, 14*(1), 87-100.

Wu, A., Costa, J., & Teare, R. (1998). Using environmental scanning for business expansion into China and Eastern Europe: the case of transnational hotel companies. *International Journal of Contemporary Hospitality Management, 10*(7), 257-263.

Yang, H., & Fu, H. (2007). Creating and sustaining competitive advantages of hospitality industry. *Journal of American Academy of Business, Cambridge, 12*(1), 113-119.

Yu, L., & Huimin, G. (2005). Hotel reform in China a SWOT analysis. *Cornell Hotel and Restaurant Administration Quarterly, 46*(2), 153-169.

Yu, L., Lew, A., Ap, J., & Zhang, G. (2003). Critical issues in China's hotel industry. *Tourism in China, 129*.

Yu, R. (2010, 10/25/2010). Starwood, Hilton, Marriott, other Hotels Flock to China. *USA Today*. Retrieved from http://usatoday30.usatoday.com/money/industries/travel/2010-10-26-chinahotels26_CV_N.htm