Financial performance in Hong Kong listed hotels: the effect of value-added creation and cost-leadership seeking

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The study is a very satisfying and challenging process since the study target is outside Sweden, and there is no similar research in Hong Kong. Nevertheless, it is a valuable learning experience to enhance our understanding of value based accounting, related theory such as cost leadership and value creation strategies and their impacts on the corporate performance.

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Lin Zhang, Chow Wai Fong
Abstract

We structure a literature review which we provide with broader definitions of the major concepts: value creation, cost efficiency (leadership), competitive strategies, financial performance and statement analysis. The literature review focuses mainly on Hong Kong context and literatures supporting the similar business strategies among similar size of companies from various industries.

The study takes forms as a quantitative study with a deductive approach. A set of financial performance data will be collected and examined, to show how company performance is correlated to its strategies and what an outcome is. We aim at providing another perspective of investment analysis approach to the potential investors, so they could embrace the whole picture of available information.

We develop two groups of hypothesis; the first group is company’s strategy measures that show no effect on financial performance, the second group is company’s strategy measures that show some effect on financial performance.

The result indicates while normally staff cost and cost of sale are recognized as cost leadership measure under product industry, it implies positive contribution to value creation financial performance in service industry, instead of having influence on profitability. Also, the wealth generated from previous sale revenue margin will have positive impact on company’s competitiveness in the hotel industry.

Keywords: value creation cost leadership, competitive strategies, financial performance and statement analysis
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Chapter 1: Introduction

The introduction chapter is a brief background of the topic, by giving information which aims to help reader understand what is happening in the current market and how it is related to our research problems. Following the discussion about research problem, there will be the research purpose, delimitation, research gaps, and disposition.

1.1 Background and purpose

National prosperity is created, not inherited. (Porter, M.E) According to general thinking, labor cost, interest rate, exchange rate, economics of scale are the most important determinants of competitiveness. After the emerging of internet, globalization has made business environment more complicated. Once in a while, pursuing competitiveness was the main strategy to most companies and nations. However, more collaboration among firms and assistance from the government create a tough environment for the companies to sustain their competitiveness.

The leading industrial power has been shifted from the United States, Japan and Germany to the emerging new economic force (BRIC), referring to the countries of Brazil, Russia, India, and China. After the financial crisis in 2007, the recession has created a need for the companies’ CEO: How to survive in the market with limited resources and competitive business environment? Companies are cautiously making any new move. Should they cut down operational cost and squeeze the budget for Research and Development? Or bearing short term financial pressure but making tremendous investment during the recession, in order to establish a solid foundation of value creation?

Perhaps the way how we interpret competitiveness and sustainability should be renewed. Companies and managers may want a fresh perspective to understand the real situation and make a better move without wasting limited resources.

One of the main objectives of every firm is to achieve and maintain the competitive advantage. The companies are trying hard to allocate the limited resources efficiently and stay ahead of their competitors. Company keeps starting the competitive battle for the potential competitive position (Richard, 1985, p.380). Around the world, many successful international companies from different industry seems employs different strategies upon to their own company goal, market situation and local market situation. However, the underlying mode of operation, the characters and path to success to all the companies is fundamentally the same. Companies achieve competitive advantage through innovation (Porter, M.E, 1980, p.396).

Company success is, from the managerial point of view, affected by both its external industrial structure and internal resources (Alfredo, 1998, p.215). Besides the structure of business environment, significant change that took place in the social, political and cultural environment also has the impact on company’s performance. New business environment requires firms to be flexible and adaptable and to place great responsibility in the hands of a more highly skilled workforce.
With the emergency of internet and fast interaction among different parties, every single decision may lead to tremendous effect to future financial performance. This increases pressure to the managers since they cannot control the external factors, which means their strategies decisions should balance the effect of resources allocation, industrial changes and company’s development goals.

Under this new business circumstance, all industries are highly influenced and look for best strategies. Those cyclical industries like hotel industry is even more sensitive to the economy change (Bodie 2008, p.215). The reason is that the hotel companies tend to have higher fixed cost than variable costs. With high proportion of fixed cost, hotel companies are very sensitive to the changes as companies find it hard to reduce cost as sale drops. Hotel profit then become volatile since the cost cannot be removed to offset the revenue variability (Chen, 2009, p.665).

In addition to the economic situation, tourism expansion or tourism growth can also have a strong influence on the company performance in hotel industry, especially when one nation’s main income sources rely on service and tourism industry. Previous empirical studies have supported that tourism expansion can boost economic development (Balaguer, 2002, p.883). As one of the main industries in Hong Kong, the hotel companies’ strategies are an interesting and important topic to study, the outcome may give hotelier new perspective towards future challenges.

We have strong interest on Hong Kong Hotel firm’s strategies and its performance; this is largely because service revenue is one of the main contributors to Hong Kong’s national income. Its share of Hong Kong’s Gross Domestic Product (GDP) raised from 73 per cent in 1988 to 92.3 per cent in 2007. (HK yearbook 2008, p.43) The tourism industry has been playing an important part of the economy of Hong Kong since it shifted to a service sector model in later 1980s and early 1990s. Tourism industry has been simulated by local economy’s development and growth. In return, Tourism industry also generates substantial income for Hong Kong and creates enormous job opportunities in the labour market.

This thesis investigates the impact of hotel companies’ strategies on its financial performance in Hong Kong. The common research area in Hong Kong is the relationship between stock price and company’s financial performance, which inspires us to make contribution to new knowledge in a field that lacks research.

1.2 Problem statement and research question

We would like to bear in mind of what are we looking for, the research questions must be mentioned in the very beginning of our study: What is the effect of hotel companies’ strategies on its financial performance in Hong Kong?

The study intends to examine whether the impact of companies’ strategies on their overall financial performance in Hong Kong hotel industry. Similar studies are conducted in other industries, such as Sawmills. The main purpose of this study is to investigate business behaviors on the company’s performance, which may help the manager understand how their decisions (which strategies) associate with the financial performance.
1.3 Academic contribution:

When we start the literature review, there are little relevant papers related to this topic in hotel industry. Soon or later, we realize performance evaluation is a relatively popular topic in product industry, since the outcome is easier to track back. Nevertheless, the previous studies related to the financial statement analysis are focusing on performance evaluation. For example, how financial indicators gave a earlier warning of business failure. Findings show that high leverage (measured by current ratio) and the inability to make a profit (measured by return on assets) were among the major symptoms of failure (Subhash, 1980, p.87). Other research that related to strategy determination in hotel industries are various, such as qualitative research shows it is firm specific factors, rather than macro environment affect the selected strategies (Clark, 2004, p.1085). Lähtinen, Prakash’s research are tend to focus more on how company’s strategies or usage of resources have impact on its company’s performance. However, it’s hard to find exactly the same study, which is how company’s strategies affect the financial performance, especially in service industry. Therefore, we hope this study could make a contribution in developing a deeper understanding of financial performance and the factors that influence it in service industry, rather than traditional product industry. For instance, how the cost of sale influence the company’s profitability, will depreciation of plant, property and equipment may have any impact to company’s investment, which in the end affect the value creation outcome. The result of this study should also reveal information about company’s strategies and hotel industry’s financial outcomes, given the new competitive business environment in service industry.

1.4 For whom

The outcome of the research could be beneficial to the hoteliers, it also is considered to be a valuable report for the managers or directors of Hotel Companies, since they are the people who are dealing with strategy decision making. Company strategies reflect the decision makers ‘s view to the company ,there is always a problem that managers might make decision from their own perspective instead of the interest of the whole company, which is called agency problem. This situation is prevailing in business market; we wish our research may provide managers some perspective to see the value of their decision and related impacts. This could be an updated guideline to give further information that which strategy, cost leadership or value added creation is a better option to the company under the storm economy.

Other parties, such as the investors of hotel Companies will have extra evaluation information to make investment decision other than relying on stock price. The Hong Kong Special Administrative Region Government is another non-corporate reader, because tourism and hotel industry is one of the main economy industries in Hong Kong. Thus, the government may have a better cooperation with the Hotel companies after they understand the hotel operation from accounting perspective. Last but not least, we also hope this research could make some statistical contribution to the previous studies or knowledge gaps.
1.5 Delimitation

It is very popular to study the hotel industry development between Hong Kong and Singapore (Wong, 2001, p.294). Readers may expect some comparison between these two cities in our study. However, there are some reasons to limit our study to Hong Kong hotel industry only. First, the main goal of our study is to see if the company’s strategies have any impact on the financial performance, instead of the financial performance and strategies ‘effectiveness comparison between these two cities. Secondly, the difference of society and economic development is also one of our concerns. For example, the study does not cover cities in China although Hong Kong by law is a part of China. This is largely due to the consideration of economy development is inconsistent between Hong Kong and other cities in China. Therefore, to maintain data’s reliability and relevance to our research problem, we only consider the hotel industry in Hong Kong.

The independent variables are also limited to internal related variables, instead of external factors such as GDP and tourist volume. This is because we want to focus on the impact of the strategy, instead of some uncontrollable factors. In the end, we select the most common applied measures, including ROA, current ratio, equity ratio and Growth % which hopefully, allow us to measure the financial performance in a more comprehensive and widely recognized way.

Since we want to study the latest business environment and the availability of online company annual reports, we have selected the annual reports between fiscal years 2005 to 2009. This paper mainly focuses on research topics that related to company’s strategies and financial performance evaluation. The sample should be the listed companies at Hong Kong Stock Exchange Market; more data selection criteria will be described in the part of Delimitation of the chosen samples from Chapter two.

1.6 Disposition

Chapter Two: research methodology
The choices of subjects, theories, preconception, research strategies and approaches will be covered in this chapter.

Chapter Three: Theoretical Framework and Literature review
This chapter will present the theories we apply, which include cost leadership and value creation, management accounting and financial statement analysis. We will also discuss the related literatures and researches regarding Hong Kong hotel industry.

Chapter Four: Empirical study
In this chapter, we start with a description of the data collection process, dependent and independent variables and the regression model we employ.

Chapter Five: Empirical result and analysis
The description of statistical outcome, the empirical finding generated by regression Model will be presented in this chapter.

Chapter Six: Discussion and conclusion
Finally, we will discuss the finding, draw a conclusion and answer our research question. Some of the suggestion for further research will be delivered in this chapter too.
Chapter 2--- Research methodology

The aim of this chapter is to provide an understanding of the study and describe our view on science and knowledge perspective. Within this chapter, firstly, we will present the choice of subject and preconceptions. Next, we would talk about the research approach and research strategies. In addition, we will explain the reason why we choose a deductive approach based on a quantitative method. Furthermore, we will describe the choice of theories and the selection of sources. In the end, we will illustrate how we delimitate the chosen samples in order to increase the validity and reliability.

2.1. Choice of subject

This subject, Strategic management accounting was originally chosen based on our own interest in company’s strategy and its financial performance. Due to the rapid change in the business world and the financial crisis happened in 2008, we develop exclusive interest in exploring the relationship between company’s strategy and its performance. Research and attention from the academic world mainly focuses on external factors and the performance, there are not enough concern about company strategy and its impact on financial performance from different perspective. Besides, Coad (1996, p.392) stated that strategic management accounting is still in an emerging field, we would like to study more about this new concept. We believe the strategy that company have adopted will be the core factor that determines company’s future performance under such high transparent business generation.

Harris Peter (1995, p.65-67) mentioned in his research that due to the different focus of accounting between production and hospitality industry, the accounting research attention is different. For example, in those accounting firms, because of the nature of activities, production firms place particular stress on product costs, cost management systems and cost control, whereas retails firms emphasize cost of sales, gross margins and selling price control. In contrast, firms which are predominately serviced related, such as airlines hotel and travel company, have an intention to place more emphasis on developing well-planned price strategies and tactics.

Downie (1995, p.310) drew attention to continuous mismatch between the provision and use of information for planning and controlling activities in hotel industries. Those literatures have inspired us to study how hotel company’s strategies have impacts to its company performance in Hong Kong.

2.2 Preconceptions

The preconceptions of the world we have are similar and have highly influenced through the whole study. A preconception is the options formed before obtaining enough evidences, or a prejudice that prevents rational consideration of an issue. By realizing the potential impact of our preconceptions on the study process and results, we believe it’s important to discuss this matter in the study.
We have been growing up in different cities but with similar cultures. Therefore, the way how we interpret thing is, more or less, the same. However, the knowledge and way of thinking we have learned in Sweden give us another perspective to interpret thing. For example, when we first designed the topic, the company’s nature, whether it’s a service provider or products provider meant little difference to us, so we chose telecommunication industry as our first research target. However, when we started our literature review and dug into this industry, we found the licences in the telecommunication industry increased the difficulty of researching. Consequently, we decided to change the research targeting Hotel operation companies, even though it is still within the service industry, the complexity is lower than telecommunication industry. Moreover, this is the industry we are both familiar with and could be notice the difference between product industries.

The preconceptions not only have impacts on the industry we want to study, but also the how to structure and present the thesis. Before we studied the knowledge about cost leadership and value creation, we had no idea how to measure the contribution of value-added strategies. After reviewing relevant studies, it generally defined the commitment to value added creation is assessed by the share of investment and value added of turnover. Another example will be during the researching process, we have noticed that there are various economy backgrounds that foster the way how companies choose one strategy over another, or strike a balance in between. In Hong Kong, due to lower corporate tax rate, there is a room for cost flexibility to the firm compare with high tax business environment. As a result, most companies switch between cost leadership and value creation. On the other hand, the corporate tax in Sweden is extremely higher when you compare it with that in Hong Kong, which in the end raises the operation cost of companies and the competitiveness in the market. As a result, the companies in Sweden pay more attention on value creation since they have limited room for flexibility.

We recognize the importance of noticing the existence of preconceptions because research is not only about running data, it is, to us, more about understanding one problem by find out the difference between theory and reality, and trying to make some practical contribution to fill up the gap. Our opinion is that it is impossible to be definitely objective, but as long as we are aware of the presence of preconception and be open to the new knowledge learned during the research process, we believe this could reduce the negative impacts from preconception.

2.3 Research type: Theoretical or Empirical

A research strategy is usually considered as providing the overall direction of research. At a strategic level, research process is a general process that takes the philosophical approach adopted by researcher into account. This includes being aware of the ontological and epistemological assumptions that underpin each different research methodological strategy (Morgan, 1980)

When deciding a research strategy, the researcher should first decide if the research is to be essentially theoretical or empirical. Generally, the vast majority of the research is traditionally empirical in the field of business and management studies at master and doctoral level. We would like to stay in this dominant research approach since there is a greater need of justifying the research in term of validity, reliability and repeatability.
Within the empirical approach to research, there are two major options or research orientations: positivistic and phenomenological.

2.4 Positivist or Phenomenologist

A researcher can be a positivist or a phenomenologist. Being a positivist, or perhaps more correctly, a logical positivist, implies the researchers are working with observable society and the outcome of research can be the derivation of law or theory. Positivism sees the researcher as an objective analyst and interpreter of a tangible social reality. The underlying assumption is that the researchers have independent thinking without being affected by the research subjects.

It is assumed that there are independent causes leading to observed phenomena, the evidence is important and critical, which parsimony should be possible to general or to model, in a statistical and mathematical way. To the contrast of positivist approach is the phenomenological approach, according to Cohen and Mansin (1987, p.471), “Phenomenology is a theoretical point of view that advocates the study of direct experience taken at face value, and one which sees behaviour as determined by the phenomena of experience rather than by external, objective and physically described reality.” Unlike the positivist, the phenomenologist does not consider the world as an objective reality, but a subjective consciousness instead. Each phenomenon is seen as special and it represents a function of the circumstances and the parties involved (Remenyi, 1998, p.34).

Though personally we are a phenomenologist when we refer to our own attitude to my personal life experience, my thesis partner and I choose to think from a positivist perspective when we conduct this research. We do not think a person can be an absolute phenomenologist or positivist, since the perspective and research stages we chose determine our role. For example, during the stage of looking for research problem, we are the positivist since we observe human behaviours, and detect there is an issue we would like to explore and further studies. However, if we look deeper what trigger us to study the issue, it’s derived from our previous life experience. Besides, our goal matches the characteristics of positivist, we want to be an interpreter and see what cause the gap between theory and reality. Another reason leads us to the side of positivist is the nature of the research question we want to answer and the finding maybe proclaimed, which are aimed at best to serve as an indication of how real world or companies will actually behave. We want to know which core strategies will have a stronger impact on companies’ financial performance over time, we believe this ‘strategies decision’ is a long lasting topic which can be replicated at different times and our contribution includes taking another still photograph of the situation between 2005-2009 (current moment) and hopefully to make some sort of generalization.

We believe our solid academic knowledge of this subject and the logical thinking that we have developed over years of studies in business field could keep our thinking as objective as possible. The goal of our study is to examine how the company’s strategy has impacts on its financial performance. To make it more clearly, companies usually decide which strategies they want to adopt but strategies change from time to time over decade. It could be caused by many reasons, such as dramatic change in the economy, mismatch between manager’s self interest and company’s goal, government role and
political stability, hence, the actual strategy they adopt can only be revealed at the end of the year, when the annual report is published. The adopted strategies can be identified by seeing how much money the companies spend on each area, and we will classify the spending into cost leadership or value creation to conduct a quantitative research by SPSS.

2.5 Research strategies: Longitudinal versus cross-sectional research design

A research could be classified as longitudinal or cross-sectional research. The term of longitudinal describes a study that lasts for a substantial period of time and involves studying ongoing changes. It is very common to find a research which has been in progress for more than five years in Physics and Life Sciences field. Cross sectional research refers to studies which take a snapshot of a situation in time, which aligns more with what we want to achieve (Remenyi, 1998, p.47). This type of research does not attempt to commend on trends or on how situations develop over a period of time. Instead, cross-sectional research examines how something is done at the time of research and will generally seek to identify and understand differences among the various numbers of the study population.

We believe in the business world, it’s hard to make a prediction of future market trend due to the massive uncontrollable information. Besides, what matter most and under the control of the company in respect of its long-term development will be the strategies that directors and managers adopt instead of the trend on the market. Longitudinal research, seems to us, is a way to identify the change and determine the trends, it’s the most appropriate research way if we want to examine whether there is a change in the Hong Kong tourism market. Nevertheless, our research starts with company perspective rather than tourism market perspective, cross sectional research will be a better approach to help us explore the relationship between strategies and financial performance over a restricted period.

2.6 Research approach: Deductive and Inductive approach

When we conduct the social science research, in general, there are two research approaches: deductive approach and inductive approach. Saunders et al (2003, p.86) described that the deductive approach was often based on a positivistic perspective, which means this approach is used for testing the hypothesis based on the literature reviews. With the help of deductive approach, the researchers aim to test the developed theory and hypothesis by digging into the data and idea. Deductive entails a process from theory to findings, eventually, to the revision of theory (Bryman, 2008, p.9). This approach is depicted in Figure 1.
Nevertheless, the Inductive approach is the opposite of deductive approach, often based on a hermeneutic perspective. Inductive approach, often starts with observations and findings, then links to a phenomenon and creates understanding or finds contextual meanings, in order to compose new theories (Bryman & Bell, 2007, p.155). In addition, we find a great table from our teachers’ course material to illustrate the process of induction in figure 2. In conclusion, inductive approach is useful for building new theories, while deductive approach is a way to test theory (Saunders, 2003, p. 87).

In our thesis, we start with an exploration of the abstract and general idea from the existing literatures regarding the relationship between the strategy of cost-leadership and value-creation and the financial performance of firms. Afterwards, the process of data collection and analysis will help us test whether the hypothesis we make is confirmed or rejected. In all, the whole process and logic of study are based on the deduction process by Bryman & Bell (2007, p, 155).
2.7 Quantitative and Qualitative Research strategy

There are two types of research strategies: qualitative research and quantitative research. Many writers on research methodological issues find it is difficult to distinguish quantitative and qualitative study. In fact, there is a little distinction between these two strategies. If we focus on three areas: the connection between theory and research, epistemological considerations and ontological considerations, quantitative and qualitative research can be taken to form two distinctive clusters of research strategy. By a research strategy, we simply mean a general orientation to the conduct of business research (Bryman & Bell, 2007, p.164).

Table 1 outlines the differences between quantitative and qualitative research in terms of three areas.

Table 1: Differences between quantitative and qualitative research in terms of three areas (Creswell, 2003, p. 153-190)

<table>
<thead>
<tr>
<th>Fundamental difference between quantitative and qualitative research strategies</th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal orientation to the role of theory in relation to research</td>
<td>Deductive, testing of theory</td>
<td>Inductive, generation of theory</td>
</tr>
<tr>
<td>Epistemological orientation</td>
<td>Natural science model, in particular positivism</td>
<td>Interpretivism</td>
</tr>
<tr>
<td>Ontological orientation</td>
<td>Objectivism</td>
<td>Constructionism</td>
</tr>
</tbody>
</table>

Therefore, quantitative research can be defined as a strategy that emphasises quantification in the collection and analysis of data. As a result, a deductive approach to the relationship between theory and research study, and the focus should be placed on testing the theory. Under this strategy and approach, the society is considered as an external and objective reality.

In contrast, qualitative research strategy usually emphasises words more than numbers. The relationship between theory and research is conducted in an inductive approach. Researchers tend to use this strategy to generate new theory and it embodies a view of society as an ongoing shifting emergent property of individual’s creation.

We chose quantitative research for several reasons, the intention of our research focuses on testing how well of the research results match the existing theories, rather than interpreting a particular phenomenon. This means, we want to fill the knowledge gap rather than generate new theory. Secondly, we would like to be objective during the whole study process. Therefore, we choose studying the company’s performance solely relies on numerical data from the annual reports, rather than the verbal result from interviews.

2.8 Choice of theories

In the book of “Research and writing a dissertation”, the authors (Fish et al, 2007, p.334) suggested it was necessary to give more information explaining why the theory was selected. There are three objectives behind the chosen theory; First of all, we want to
establish an overall understanding of the competitive advantage and the company strategy, especially the strategy of cost leadership and value-leadership. Secondly, we would like to illustrate the characteristics of two different strategies, respectively. Finally, we will present different financial ratios which affect the financial performance within a company, and study whether there is an association between the strategy and firm’s financial performance.

The literature review also gave us more idea what theory we want to choose. We started our literature review with sawmill industry in Finland market, as mentioned before, our research inspired by the study from Lähtinen & Toppinen (2006)\(^1\). However, the problem we wanted to study was not related to sawmill industry, but more about Hong Kong Hotel industry, due to our own knowledge background and research interest. Then we reviewed the course textbook from value based management accounting, it stated that cost management information was useful in a wide range of organization: business firms, governments units and not for profit organization. Both the large and small firms, from all types of industries, used cost management information. A firm’s degree of reliance on cost management depended on the nature of competitive strategies.

Many firms compete as a lower cost provider of the industry’s goods or services, for these firms, their cost management are essential. Other firms, such as fashions, retail companies, compete as a product leader in the market, thus, innovative factors of the products are the key to success. To evaluate the strategic business unit (SBU), the firms could use different ways, such as balance economic value added etc (Blocher, 2002, p.915). This led us to the direction of financial statement analysis and performance evaluation.

2.9 Selection of sources and criticism

The process of collecting the articles and related theory were primarily done by frequent visits to the Umeå university library, in which we found the theories from the textbooks and related article through the Album and Database (Business Source Premier, Science Direct) respectively.

Since we were inspired by a research done before in Finland, which was about studying how companies strategies, value creation and cost efficiency seeking affected the financial performance in Finnish large and medium size sawmills, we had some knowledge about what theory we wanted to study, the theory and the concept roughly covered Value-added, Cost-efficiency, Strategy, Competitive advantage, Financial performance and Hotel industry. Since we were not so familiar with sawmill industry in Scandinavian market and both of us were interested in one of the major industries in Hong Kong, we changed the study target from sawmill industry in Finnish market to Hotel industry in Hong Kong.

Nevertheless, it has little influence on the theory we have studied, the core concept of competitive advantage exists in every industry, and it’s just the level of influence that is different. Diva and Google Scholar are other sources of articles, issued journal such as Cornell Hotel and Restaurant Administrative Quarterly, Tourism management is used to

search for specific topics and give us more understanding of hotel industry. That information gathered from the sources above, we believe, is accurate, transparent, reliable and relevant.

2.10 Delimitation of the chosen samples

In this part we will present the underlying concept of our sampling. In fact, this part doesn’t represent the finalized sampling of the research; the final sampling will be further presented in chapter 4 and chapter 5. There are two categories of sampling techniques, one is non-probability samples, and the other one is probability samples. Non probability sample is the sample that has not been selected using a random selection method, while probability sample is the opposite. The phenomenologist, tend to use non probability samples while the positivistic researchers will choose probability samples.

Regarding the sample size, we understand the limitation of Hong Kong hotel industry, time and cost restriction, there is an alternative that we can also study the hotel operation companies from other Asian region, nevertheless the economic development isn’t at the same pace, we should both realize this unavoidable and natural reality fact that may have insignificant impact on the reliability of our data.

The Finnish research that gave us inspiration, consists 27 list companies in the sawmill industry and we want to conduct a similar research on Hong Kong hotel industry. Non probability sampling would be more suitable sampling method for our research, we keep in mind there is a possibility that human judgement will affect the selection process, making some members of the population more likely to be selected than others, and try to maintain the quality of sample at similar level by adding extra selection criteria.

To begin with, we searched the list of publicly listed companies under hotel industry category from Investor Relations Asia website. Launched in 1996, irasia is an Internet platform for companies in the Asia Pacific to communicate effectively with the global investment and business community. On irasia.com, you will find investor relations information coming directly from Asia Pacific companies, posted on a timely basis. The available information includes company profiles, fiscal year annual reports and company’s website. There are in total 34 companies being categorized under hotel sector, nevertheless, we further screen the annual reports of each company, some companies cannot provide adequate annual reports, some of them focus on other core business instead of hotel business. By only focusing on hotel operation companies, we determine further sampling criteria to eliminate the irrelevant sample:

The company should have one of these characteristics:
1) The company should be listed on the Hong Kong Stock Exchange.
2) At least within 5 fiscal years, 3 years of Company’s main income sources should be from tourism, instead of financial market or property market.
3) The company should have five consecutive years completed annual reports from 2005 to 2009
2.11 Validity

The validity is the essential part of the scientific method when people designing the experimental research studies. We cannot get a valid scientific conclusion without a valid design. About two decades ago, Cook and Campbell (1979, p. 37) defined Validity as the “best available approximation to the truth or falsity of a given inference, proposition or conclusion.” Today, Saunders et al (2003, p.206) stated that validity is concerned with whether the findings were really about what they appeared to be about. Bryman (2008, p 151-153) also clarified that “validity refers to the issue of whether an indicator (or set of indicators) that is devised to gauge a concept really measures that concept”, in other words, validity is the strength of our conclusion, inference or propositions.

Based on the Academic finding of Ball & Foster (1982, p.180), there are four types of validity: Conclusion validity, internal validity, Construct validity, and External validity. Conclusion validity is the degree to which conclusions we reach about relationships in our data are reasonable. Internal validity “refers to the approximate validity with which we infer that a relationship between two variables is casual or that the absence of a relationship implies the absence of cause” (Ball & Foster, 1982, p.180). Construct validity, checks whether our theory is the best explanation for the results. External validity refers to the ability of our study results applied to the broader population.

Our studies deal with conclusion validity, internal validity, and construct validity, except external validity. Our research is exploring whether each explanatory independent variable could impact the financial performance and the association among explanatory variables as well. As all the financial data is collected from firm’s annual reports, which have a high level of credibility and accountability, therefore, we believe the data is valid.

2.12 Reliability

Saunders et al (2003, p. 207) stated that “reliability refers to the extent to which your data collection techniques or analysis procedures will yield consistent findings.” In short, it deals with the repeatability of our measurement.

Clearly, all the financial data we collected is from published annual reports, and the models of two-tailed Pearson correlations and regression model have been tested by prior researchers through similar academic work. Therefore, we believe the data and models are reliable to utilize. With the help of using SPSS on processing the data, we think the procedure is accurate, controllable and reliable.
Chapter 3 - Theoretical framework and literature review

In this chapter we will present the theoretical framework, on which this study is based. Before we go into the theory part, we would like to explain the rationale behind from an accounting perspective.

By developing its own sustainable long-term strategy, a company can gain a business success. Long-term Strategy is a set of policies, procedures and approaches to business that contributes long-term success. To find a strategy, firms can start with determining the purpose, long-term development direction and mission of the company. The company could also respond to the market change in different ways, such as reengineering; downsizing the workforces, outsourcing services, so that eventually, develop a smaller, more efficient and socially responsible organization. They have to be more flexible and dynamic since the pace of change increases.

With the emergence of Information technology development, the companies are also beginning to use cost management to support their strategic goals. The role of cost management also shifts from stewardship into a management facilitating fields. In the past, the attention was paid to the product cost and financial performance reporting. In recent years, more and more companies focus on developing cost and other information to support the management of the firms and achievement of its strategies goals.

Before the changes in business processes, a focus on detailed methods for product costing and control at the departmental level was appropriate for the high volume, standardized, infrequently changing manufacturing process of that time. Nowadays, a company’s accounting system must be dynamic enough to handle the rapidly changing environment and the increasing diversity of products and manufacturing processes. Company wants the cost management system more than a database of historical transactions; it expects the system could be able to assist managerial decisions in this uncertain environment. From the development history of cost management system, we realize the importance of understanding relevant theory and research before continuing our study.

The concept of competitive strategy developed by Michael Porter identifies two main types of competitiveness strategies: cost leadership and differentiation. It's a complicated process to develop a sustainable competitive position; therefore we will go through the definitions of various important concepts and theory, such as strategic management accounting, competitive advantage, cost leadership and differentiation. Following the definition part, we will elaborate the concepts and theory with the actual situation in Hong Kong hotel industry.

3.1 Strategic management accounting

For many years strategic management accounting has been advocated as a potential area of development that would enhance the future contribution to management accounting.

In the late 1980s, the UK chartered Institute of Management Accountants reviewed the current status of the development of management.
Bromwich and Bhimani (1994, p.30) published a report and a follow up report to discuss this issue.

They drew an attention to strategic management accounting as an area of further development, despite in the reality, the public attention still focused on conceptual framework rather than mature development. Coad (1996, p.393) stated: “Strategic management accounting is an emerging field whose boundaries are loose and, as yet, there is no unified view of what it is or how it might develop. The existing literature in the field is both disparate and disjointed.” Coad (1996) and Innes (1998, p.608) define strategic management accounting as the support of information for strategic decision in the organization. The strategic decision usually has significant impact on the company, and may cover internal and external element which have long-term impact on company’s performance.

Based on this definition, Coad (1996) suggested providing information that supported an organizations’ major long-term decision, such as activity-based costing information for providing management information related to product mix, introduction and eventually fall in strategic management accounting.

Cooper and Kaplan (1988, p.100) supported this point of view by stating the strategic accounting was designed to support the overall competitive strategies of the firm, mainly by utilizing the information technology to develop more well-defined product and service costs. At that time, the mainstream research writers considered that management accounting techniques which fall within the field of strategic management accounting should target some internal management fields, including costing, life cycle costing and activity-based management. On the other hand, some authors have adopted definitions that strategic management is externally focused.

Simmonds (1981, p.59), who first defined the term strategic management accounting, he regards it as a way of providing and analysing management accounting data about a business and its competitors. In the end, the information generated from the management accounting data could help company to develop and monitor the strategies.

More recently, Bromwich (1990, p.28), a principal advocate of strategic management accounting, has provided the following definition: ‘The provision and analysis of financial information on the firm’s product markets and competitor’s costs and cost structures and the monitoring of the enterprise’s strategies and those of its competitors in these markets over a number of periods.’ (Bromwich, 1990, p.28) which is similar to definition given by The Chartered Institutes of Management Accountants in the UK, “A form of management accounting in which emphasis is placed on the information which relates to factors external to the firm, as well as non financial information and internally generated information” (CIMA, 2000, p.50).

Since there is no common definition of strategic management accounting, Lord (1996, p.348) reviewed the previous studies and identified some characteristic of this field. He suggested an extension of traditional management accounting from internal focus to external information, such as competitors. He also covered his relationship between the strategic position chosen by a firm and the expected emphasis on management accounting, which is the aspect we would like to study in this paper, accounting in relation to strategic positioning. Last but not least, finding out how to gain competitive
advantage by analysing way to reduce cost and/or enhance the differentiation of a firm’s products through exploiting linkages in the value chain and optimizing cost drivers. In our studies, the focus will be put on how the company’s chosen strategies influence the financial performance due to the limitation of data. Nevertheless, related concepts and argument will be briefly described so readers could have a comprehensive idea towards strategic management accounting and the linkage with our research problem.

Much of the early work relating to strategic management accounting can be attributed to the writing of Simmonds (1981,p.26). He argued the management accounting should focus more on external factors and help the firm evaluate its competitive position given the industrial data of cost and prices, sale volumes, market share, cash flow and resources available to the competitors. Since this information could provide an advance warning whether companies need to change their strategies or not. As a result, the strategic management accounting should be able to protect one firm’s strategic position and help it improve its future competitiveness. Company can acquire the competitive information from public sources, such as annual report, research institutional and government publication.

An organization may also seek to gain strategic advantage by its pricing strategy. In this situation, the management accounting function can assist by attempting to assess each competitor’s cost structure and relate this to their prices. Particularly, Simmonds (1981, p.29) suggested that it may be possible to examine the cost-volume-profit relationship of competitors in order to predict their pricing responses. Simmonds (1981, p.29) suggested focusing on the volume and market analysis. By monitoring movement in the market share of major products, a firm can find out the strengths of their market position; the market share also indicates the strengths of different competitors. That information may not be reflected in company’s annual report, but according to Simmonds’ argument, the market share details can help management accounting more strategically relevant.

Simmonds (1981, p.27) seems to be a person paying exclusively attention to the external factors, especially factors about other competitors’ behaviours. The idea is clear but hard to take action, we all know the importance of competitor’s movement in the market, but it could be extremely time-consuming and costly if company or research students like us to conduct a research by analyzing competitor’s behaviours. Another research aspect will be the accounting information in relations to strategic positioning, which is the field we are working on and want to make some contribution to existing knowledge.

3.2 Accounting in relation to strategic positioning and strategic issues

Various strategies have been classified in the strategic management literature. Porter (1985) suggested that a firm had a choice of three generic strategies to achieve sustainable competitive advantages, namely the cost leadership, differentiation and focus. Below we will further elaborate the definition and describe how it works in the reality. Miles and Snows (1978, p.553) distinguished the difference between defenders and prospectors in the business market. Defenders operate in a relatively stable environment, with limited product lines and employing enormous routine technology. They earn the competitive advantage by making operation efficient by adopting cost leadership strategy. Prospectors compete through product innovation and market
development and constantly seeking new market opportunities. Hence, they face a more uncertain task environment. The size of hotel companies in Hong Kong could be dynamic since the development pace isn’t the same within the industry. Beside, due to the business nature, Hotel industry is a mixture of service and product, cyclical industry, we are more inclined to consider current Hong Kong hotel managers are working as a prospector. It’s important to know which strategic position is adopted by the company, because the accounting literature suggests that firms will place more emphasis on particular accounting technique. Porter (1980) suggested that tight cost control was appropriate when a cost leadership strategy was followed. Simmonds (1981, p.29) found that business units that followed a defender strategy tended to place a greater emphasis on the use of financial measure for compensating financial managers. Prospector firms placed a greater emphasis on forecast data and reduced reliance on cost control. Ittner (1997) also found the company which followed an innovation-oriented strategy may use non-financial measure to determine executives’ bonuses. Some researchers stress the importance of management accounting to support a firm’s competitive strategies and position. For instance, the cost standards of carefully measured product are likely to be an important management tool for a firm that applies cost leadership strategy in a mature product market. On the contrary, manufacturing cost standards seem to be less important for a firm that follows differentiation strategy in a fast changing and growing dynamic market, such as tourism market.

A firm pursuing a product differentiation strategy is likely to require more accounting information than a cost leader about new product innovations, design cycle times, research and development expenditures and marketing cost analysis. Clearly, in our research, we do not know the exactly strategy of each hotel firms even we consider the hotel manager in Hong Kong may work as prospectors, it is better for us to start with the available company strategies from managerial perspective.

In the following section, we will go through the definition of competitive advantage, cost leadership, differentiation and also the relevant circumstance in Hong Kong hotel industry.

A firm succeeds by adopting and effectively implementing one of the aforesaid strategies. We recognize that although one strategy is generally dominant, a firm is most likely to employ both of the strategies at the same time. However, a firm following both strategies is likely to succeed only if it achieves one of the strategies significantly. Additionally, it is hard to survive if a firm cannot achieve at least one of the strategies. This situation is what Michael Porter calls ‘getting stuck in the middle’. A firm that is stuck in the middle is not able to sustain a competitive advantage. This often happens when a successfully differentiated firm attempts to enter a new market outside its original expertises, even the company find it’s easy to adapt to the market.

For example, Intel Corp had once focused on new product lines which seemed to take the firm away from its core business and hurt the stock price eventually due to the lower revenue expectation. Another way to get a company in the middle arises from its normal shifting from one strategy to another one when it is expanding. Most of the time a firm begins with cost leadership and succeeds through value creation or differentiation. A firm must be careful to identify these stages in its growth and appropriately adapt its corporate strategies to them.
3.3 Competitive advantage

As we know, in all kinds of competitions, (especially those are won by companies with an advantage in the business field) most of the companies want to attain their own business competitive advantage, which is considered as the heart of a firm’s performance in competitive markets. Even though when a firm has a clear picture of its own competitive advantage, with the growth of the company scale, the firm may gradually lose its competitive advantage after its diversity in investment and development.

Sometimes, people within a firm are asked to help the firm to gain a competitive advantage; however, many people actually don’t know what the competitive advantage is. Thus, first of all, we have to understand what a competitive advantage is. And this concept refers to "a set of factors or capabilities that allows firms to consistently outperform their rivals" (Roberts, 2002, p.175). In this section, Firstly, we will show the famous historical definition of competitive advantage we find, which will offer readers with a comprehensive understanding of the term “competitive advantage”. Next, we will illustrate which factors contribute to the competitive advantage. Finally, we will focus on the two business strategies of cost-leadership and value-leadership, studying deeply how these two strategies contribute to the competitive advantage of a firm.

3.3.1 The definition of competitive advantage

Since the terminology of “competitive advantage” had been appeared in the Porter’s book, the term has distributed throughout marketing, management, economic and human resource publications (Flint, 2000, p. 3). Even though the term has been widely accepted, there are few attempts to clarify what competitive advantage actually is. The explicit explanation by Porter (1985, p.3) was that the competitive advantage came from the value created by firm for customers subtracting the cost of producing the value. The key factor for a firm to concern is how to create a value greater than the related cost. Besides, Porter indicated two types of competitive advantages, which were cost-leadership and differentiation.

Till 1991, Barney (1991, p.221) gave an explicit definition of competitive advantage, he stated, "a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors. A firm is said to have a sustained competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy”

Due to the complexity of competitive advantage, and the social as well as economical impacts from its related activities, different scholars and institution in the world have done researches, amendments or re-definitions on “competitive advantage”. Several conceptual definitions of competitive advantage have been compared and discussed by different scholars, which are summarized as below (Table 2).
<table>
<thead>
<tr>
<th>Author</th>
<th>Year</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hofer and Schendel (Hofer and Schendel 1978, p.25)</td>
<td>1978</td>
<td>“Competitive advantages, that is, the unique positions an organization develops vis-à-vis its competitors through its pattern of resource deployments and/or scope decisions.”</td>
</tr>
<tr>
<td>Porter (in Chacarbaghi and Lynch 1999, p.45)</td>
<td>1980</td>
<td>“The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market.”</td>
</tr>
<tr>
<td>Michael Porter (Competitive Advantage,1985, p.3)</td>
<td>1985</td>
<td>“Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation.”</td>
</tr>
<tr>
<td>Reed and Fillippi (in Rijamampianina 2003, p.362)</td>
<td>1990</td>
<td>“To gain competitive advantage a business strategy of a firm manipulates the various resources over which it has direct control and these resources have the ability to generate competitive advantage.”</td>
</tr>
<tr>
<td>Barney (in Clulow et al.2003, p.221)</td>
<td>1991</td>
<td>“A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player.”</td>
</tr>
<tr>
<td>Mitch McCrimmon (in Mitch,2008, p.1)</td>
<td>2008</td>
<td>“Any business with a competitive advantage is able to attract more customers than its competitors by having some special factor that no one else possesses”</td>
</tr>
</tbody>
</table>

The marketplace is the right place for any firm to experience the competitive differences. After the deeply observation and analysis for the firm, the competitive differences can obtain from any match of differential competencies, comparative advantages, or non-market influences. Competitive differences help some firms obtaining competitive advantages. If the competitive advantage endures for a firm over what is usually thought to be short-term within the firm’s industry, then the competitive advantage can apply with a long-term strategy (Flint, 2000, p. 6).

### 3.3.2 Sources of Competitive Advantage

It is clear that when a firm which has a competitive advantage is able to attract more customers than its competitors by having some special factors that no one else has. The most important thing for a firm is to dig what the customers want and find a suitable channel to give it to them. In fact, most of the competitive advantages last not too long, so the firms are joining the endless contend for searching new angles to beat their competitors. Actually, it is all about how to differentiate the products and services from
the competitors’. The purpose of the business strategy is to dig a new source of competitive advantage (Mitch, 2008).

Being able to dig the source of competitive advantage, we have to understand what is a competitive advantage? And this concept refers to "a set of factors or capabilities that allows firms to consistently outperform their rivals" (Roberts, 2002, p.175). Since we understand the meaning of competitive advantage, so the next question is how we can produce a competitive advantage? Apart from Chandler & Hank’s (1994, p. 8) suggestion that by using capabilities based on the resources could be able to attain and keep competitive advantages; capabilities are debated to be the especial sources of firm success, for instance, debates that the success of any firm is entirely dependent upon the knowledge, or know-how, of its employees. Similarly, Castanias and Helfat (1991, p.163) and Lado et al. (1992, p. 83) argue that the generation of firm performance is critically linked (and highly related) to the skills, expertise and know-how of managers. McEvily & Chakravarthy (2002, p. 297) suggest that know-how generates more durable advantages than any of the other resources of the firm because it is largely complex, specialized and tacit.

Porter suggests some factors which have the possibility to bring firms a competitive advantage as below (Table 3).

**Table 3: Porter’s suggestions for creating a competitive advantage (Porter, 1990)**

<table>
<thead>
<tr>
<th>New Technologies</th>
<th>“The technologic change can create new possibilities for the design of a product, the way of commercialization, produce it or deliver it and the subsequent auxiliary provided services. New sectors are born when this technological change makes a new product feasible.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>New or changing customer's needs</td>
<td>“The customers contract new needs or their priorities change significantly. The old established competitors can cease to perceive these new needs or be unable to response to them because that would require a whole new value chain.”</td>
</tr>
<tr>
<td>The appearance of a new sectional segment</td>
<td>“A new and different segment in one sector appears, or somebody thinks of the idea of regroup the existent segments in a new way. It includes new segments of clients, new forms to produce specific elements in the line of product or new ways to reach a certain group of clients.”</td>
</tr>
<tr>
<td>Change in the costs or the disposability of inputs</td>
<td>“This is a reflex of new conditions in the provider sectors or because of the possibility of utilize a different sort of input”</td>
</tr>
<tr>
<td>Change in the governmental dispositions</td>
<td>“The adjustments in the nature of the governmental dispositions in aspects concerning to issues like product norms, environmental controls, entrance restrictions and commercial barriers, are other habitual stimulants for innovations that turn into competitive advantages.”</td>
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</tbody>
</table>

In addition, Mitch McCrimmon mentions there are six popular sources of competitive advantage (Table.4); they are cost, quality, service, brand, innovation and convenience. In the last couple of decades, cost has been considered as the major source of competitive advantage. For instance, Japanese cars are cheaper than the North American’s, at the time, Japanese cars were quite popular in the world. Nowadays, Korean cars replace the position of Japan did. Perhaps in the future, the cars from China and India will take the position from Korea. However, the advantage of cost is unable to sustain in the long-term, when the cost of material and human resource go up.
Competitors can keep reducing the cost until it is unprofitable to adopt cost leadership strategy (Mitch, 2008). According to the International Business Report, produced by Grant Thornton International, the quality of product/service has been considered as the main source of competitive advantage, around 70 per cent global respondents ranking it as a strong or very strong source (Figure.3). Quality might be an enough reason for customers to pay more for a Toyota than other cars even though they are a little bit expensive, For Toyota’s reputation of good quality.

Table 4: Mitch’s six popular sources of competitive advantage (Mitch, 2008)

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
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<tbody>
<tr>
<td>Cost</td>
<td>“Despite our nationalistic desire to buy products made in our own country, most consumers vote with their wallets. Cost advantage is the reason why Walmart is so successful and why so much is made in China where costs are much lower than in high wage countries. Naturally, there is a downward limit on this form of competitive advantage.”</td>
</tr>
<tr>
<td>Quality</td>
<td>“Everyone wants a product that works and lasts a reasonable length of time. Any company with a better quality product that is not too much more expensive than its rivals will win out.”</td>
</tr>
<tr>
<td>Service</td>
<td>“Customer service is a popular form of competitive advantage in markets where all the players offer similar services or products and they cannot be differentiated in any other way. Car rental companies for example, all charge a similar amount and offer a similar product. There is little they can do to differentiate themselves other than by offering outstanding customer service. The same is true of many retailers.”</td>
</tr>
<tr>
<td>Brand</td>
<td>“Many people are willing to pay a little extra for a name brand, especially in the fashion industry, but it applies to cars, soft drinks and many other products. Building a brand is expensive and time consuming but often the only way some businesses can differentiate themselves.”</td>
</tr>
<tr>
<td>Innovation</td>
<td>“The most current example of a company that uses innovation as a means of differentiation is Apple Computer with its iPod and iPhone products. As with all forms of differentiation, innovation needs to be ongoing for any one company to keep beating its competitors over several years.”</td>
</tr>
<tr>
<td>Convenience</td>
<td>“Many consumers are willing to pay a little extra for convenience. This can mean having a good location, as in the case of retail outlets in a mall, or shopping via the internet.”</td>
</tr>
</tbody>
</table>
Branding has been thought as a crucial weapon to create a competitive advantage recently, the success of Louis Vuitton, Dior, Cucci, etc verify the possibility. Nevertheless, brands are not unbeatable. The story of nearly bankruptcy from General Motors or the dump of PC division from IBM could be a good example to argue the reliability of branding. When a firm mainly focus on the short-term financial performance, ignoring the possible huge future profit return from innovation, then the innovation is more difficult than other forms of competitive advantage. To apply innovation as competitive advantage in a firm, the long-term vision and entrepreneurial spirit is required. Apple’s recent succession proves that innovation is not only effective but also helping the firm to gain sustainable competitive advantage. Doubtless, there are various forms of competitive advantage. This list only illustrates the most popular forms but is not complete.

After digging the sources of competitive advantage, how to maintain the advantage becoming the following crucial issue. Surely Porter indicates that it depends on three factors. The first factor is the specific source of advantage. Based on the degree of sustainability, the competitive advantage’s sources could be basically divided in two groups, low order advantages and high order advantages. In detail, the low labour cost or cheap raw materials (low order advantage) are easy to imitate. The innovations, product/service differentiation, branding (high order advantage) are more lasting. These advantages demand more progressive techniques and capabilities, like technical personnel and more advanced information technology (IT). At the same time, the historical investment within a firm, human resource, learning, research and development, branding can’t be negligible. The number of different sources of advantage as the second important factor is also influencing the sustainability. The third factor is the persistence of competitive advantage’s development and improvement. The firm should keep a moving status and initiate new advantages at least faster than its competitors, which at the same time imitate or replace the old advantages (Porter, 1990, p.354).
3.3.3 Competitive advantage & cost-leadership and value-leadership

To gain competitive advantage over its rivals, a firm must either provide equal value to the customer, but performs activities more efficiently than its competitors (lower cost), or performs activities in a unique way that creates greater buyer value and commands a premium price (differentiation).

3.3.3.1 Cost-leadership strategy & sustained competitive advantage

Martina (2007, p.15) explains that the ability of a valuable cost leadership strategy to create a sustainable competitive advantage is conditional since the strategy is rare and costly to imitate. The above-mentioned sources of cost advantage are classified into two categories according to likelihood of rarity. Leaving-curve economies of scale (especially in emerging businesses), differential low-cost access to productive inputs and technological software are generally considered “likely-to-be-rare sources of cost advantage”, while economies of scale (except when efficient plant size approximately equals total industry demand), diseconomies of scale, technological hardware (unless a firm has proprietary hardware development skills) and policy choices are generally considered “less-likely-to-be-rare sources of cost advantage”. Similarly, the sources of cost advantage are more or less replicable. Creating a sustainable competitive advantage also require that competitors cannot easily imitate the strategy. Sources of cost advantages that tend to be difficult and costly to duplicate include: differential access to cost productive inputs and technology software. Learning economies and technological hardware may be costly to duplicate if they are proprietary.

Organising the implementation of a cost leadership strategy requires particular consideration to the organizational structure, management controls, compensation policies, and implementing strategies. The organizational arrangements and implementation tools should not only fit in the situation but reinforce the strategy.

Porter (1980, p.35) has divided requirements of overall cost leadership strategy into “commonly required skills and resources” and “common organizational requirements”. Commonly required skills and resources occurred while implementing overall cost leadership, such as sustained capital investment and access to capital, process engineering skills, and intense supervision of labour, products designed for ease in manufacture, and low-cost distribution systems. Common organizational requirements constitute of tight cost control, frequent, detailed control reports, structured organization and responsibilities, and incentives based on reaching strict quantitative targets. According to Barney & Hesterley (2007,p. 321), few layers in the reporting structure, simple reporting relationships, small corporate staff size, and focus on narrow range of business functions are key elements of organizational structure that allow firms to “achieve the full potential of cost leadership strategies”. Management control systems that support the implementation of cost leadership include tight cost control systems, quantitative cost goals, close supervision of labour, raw materials, inventory, and other costs, and a cost leadership philosophy. Examples of good compensation policies are rewards for cost reduction and incentives for all employees to be involved in cost reductions (Martina, 2007, p 16).
Same logic as overall cost leadership, the successful differentiation requires the strategy be rare and costly to imitate. The rare and costly bases for differentiation are sources of sustainable competitive advantage. As mentioned earlier, Barney & Hesterley (2007, p. 432) defines successful differentiation as “the rarity of a differentiation strategy depends on the ability of individual firms to be creative in finding new ways to differentiate their products.” In short, creative firms will always manage to differentiate themselves from competitors. As rivals try to imitate these firms’ last differentiation move, creative firm is already working on new moves and therefore they are always remain one step ahead of competitors. In general, fundamental element for differentiation is costly to duplicate include links between functions, timing, location, reputation, distribution channels, and service and support. Product mix, links with other firms, product customisation, product complexity and consumer marketing may be costly to imitate depending on the circumstances (Martina, 2007, p. 17).

3.3.3.2 Value leadership & Sustained competitive advantage

The value-leadership strategy is a business concept of adding unique features to their offerings. Saloner, Shepard & Podolny (2001, p. 345) say that “most forms of competitive advantage mean either that a firm can produce some service or product that its customers value greater than those produced by competitors or that it can produce its service or product at a lower cost than its competitors.” They also say that “In order to prosper, the firm must also be able to capture the value it creates.”

Company could not only use cost-leadership to achieve competitive advantage in a particular market or industry, it can also improve their product or services by offering value added products or service with the support of value-leadership strategy to gain a competitive advantage. Even in a highly competitive situation, value-added product or service will require a higher cost from the customers but still attain higher margins. The value-added customized product or services provide the customers with an unique or superior experience through the product/service features, quality, or after-sale support. The companies could also attain a benefit with this value-added strategy, as the unique experience produced by this strategy could keep their customers from switching to other competitors. In conclusion, the notion of creating value can provide another insight to the sources of competitive advantage (Spulber, 2009, p. 134).

3.4 cost leadership strategy

According to Michael Porter’s Generic well-known Generic competitive strategies, cost leadership, differentiation and focus, by applying the strategies, a firm may gain or strengthen above-average performance (competitive advantage) in an industry. The generic competitive strategies are shown in Figure 4 (Porter, 1985, p.12).
Cost leadership is perhaps the clearest strategies among three generic strategies. (Porter, 1985, p.12). Cost leadership means offering a lower price to customers comparing to the competitors with a similar product or service. By pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitors’ growth in the industry through its success at price war and undercutting the profitability of competitors. If the firm’s cost of sale or cost of raw material are lower than its competitors, then the firm can offer lower prices, higher quality, or both (Spulber, 2009, p.356).

By innovative best-practice organizational processes, with careful monitoring on purchasing expenditures, application of computer and communications technology in a cost-effective way, trimming of overhead cost, and efficient operations, a firm can achieve the cost reduction. Sometime, cost reduction can also be achieved by outsourcing manufacturing and services when outsider providers offer lower-cost alternatives. With the same quality level but lower cost, the low-cost firm could be able to undermine the price of competing firms.

3.4.1 Gaining cost advantage

Hart says “Cost advantage can result from adopting best practices that focus on firms’ production processes” (Hart, 1995, p. 1007). In order to choose the best practices, the firm is required to pursuit aggressive construction of efficient scale facilities and vigorous chase of cost reductions through experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, etc. (Porter, 1980, p.35).

Successful cost leaders usually derive their cost advantage from multiple sources within the value chain. Sustainable cost advantage stems not from one activity but from many, and reconfiguring the chain frequently plays an important role in creating cost advantage. Cost leadership requires an examination of every activity in a firm for opportunities to reduce cost, and the consistent pursuit of all of them. Once a firm has identified its value chain and diagnosed the cost drivers of significant value activities, cost advantage grows out of controlling those drivers better than competitors. A firm can potentially achieve superior position vis-à-vis the cost drivers of any activity in the
value chain. Activities that represent a significant or growing proportion of cost will offer the greatest potential for improving relative cost position.

In order to sustain the cost advantage in long-term, the firm must have a sense of priority and sustainability about the sources of business advantage. For example, the cost advantage based on cheap labour is easily replicable by other competitors, because it is difficult to prevent the competitors to hire employees with the same price. Correspondingly, the advantage based on excellent human resource and related recruit policy, is relatively hard to replicate by other competitors, which is able to secure a long-term advantage (Allan, 2004).

3.4.2 Cost leadership & cost reduction

The reason for applying the strategy of cost leadership is to obtain the advantage by reducing the economic costs among its competitors (Barney, 2002, p.236). This strategy highlights efficiency. By producing high qualified and standardize products or services, at the same time, with the effects of the economic scale and experience curve, the firm strives to gain a sustainable competitive advantage among its competitors. Basically, the firm has two major ways to maintain this cost advantage. Either by controlling the cost drivers, which means that a firm can gain an advantage according to the cost drivers of value activities disclosing a profound proportion of total cost; or by reconfigure the value chain, in other words, with the adoption of different and more efficiency way to manufacture, promote, distribute and design the product, a firm can also gain a cost advantage (Porter, 1985, p.11).

According to the definition of ICWA London, “Cost reduction is to be understood as the achievement of real and permanent reductions in the unit cost of the goods manufactured or services rendered without impassing their suitability for the use that is intended.” However, over-focus on cost reduction may result a problem, such as the product or service quality, when firms shift to cheaper alternative materials, less educated and non-professional human resource, being able to lower the costs and output high (Allan, 2004). In fact, by focusing just on reducing costs can lead a firm to an unfavorable situation where producing low-cost products but no one would like to buy. However, by focusing parts of its energy on reducing its economic cost among its competitors, at the same time, emphasizing on other attributes, such as, reliability, quality, design choice, etc., leading the firm to keep the sustainable competitive advantage (Barney, 2002, p.9).

3.4.3 Cost leadership strategy in the HK hotel industry

Back to the year 1992, at that moment, the hotel industry in HK faced a terrible situation, people pay rare attention to the development of the hotel industry because of its low interest return, comparing to the higher financial return on the investment of commercial and residential real-estate. Some existing hotels even had replaced as the building office towers in their place. Strangely, the supply of tourist rooms increased almost 50 percent in 1992. What causes the high development of such tourist rooms become the interest topic for all the hotel managers at that moment. After some investigation and analysis, experts found out, as the economy of HK is closely tied to the rest of Asia, as a result, the visitor from abroad played a crucial role to contribute the HK hotel business; differently, those tourists or visitors from Asia, tend not to spend
as much on accommodations as their western counterparts. And the tourist rooms emphasize on limited service, cleanliness, timelessness, and cost-efficiency to ensure optimal use of space, ease of maintenance, and a higher return on investment for owners. Apparently, this type of tourist rooms just fit their clients’ appetite. And this explains why this type of tourist rooms could keep a high development while the whole hotel industry of HK still in a period of slowdown. Because of the traits of the tourist hotels, it gives an opportunity to apply the cost leadership strategy for the hotels (Frank, 1994). And Jeffrey explains exactly the reason why firms choose the cost-leadership as their business strategy, “Firms purposing cost leadership set out to become the lowest-cost providers of a good or service. The broad scope of cost leaders means that they attempt to serve a large percentage of the total market.” (Jeffrey, 2005, p.168)

Right now, cutting the room price has been used as an effective weapon to maintain a desired room occupancy rates. However, this strategy affects a hotel’s profit margin and has the possibility to undermine the hotel’s status. In fact, many hotels consequently uncover new competitors and loss existing guests in the long run as the guests tend to doubt about the extent of the advertised price reduction. This indicates that hoteliers need to update their knowledge about this world, having a clear awareness about the fact that people are getting more and more rich, customers tend to care more about the consuming experience instead of the money saving. Therefore, the hoteliers should have a better idea about what factors outperformance “price”, such as the quality of their service and innovative and convenient facility. Business travelers tend to choose the hotel based on their previous hotel experience, such as the good service, convenience and company recommendation. In comparison, Western travelers pay more attention to the hotel’s reputation (Chan, 2006, p.155).

3.4.4 The benefits of cost leadership

Porter (1985, p.11-13) said that, by applying the business strategy of cost-leadership may help a firm to gain “a low cost position” which offers a firm a defence against competitors. And because the lower costs indicate that the firm can still earn returns while its competitors may break down the profit margin. Moreover, the low-cost position helping the firm against powerful buyers who usually

A low-cost position defends the firm against powerful buyers because buyers can exert power only to drive down prices to the level of the next most efficient competitor. Low cost provides a defence against powerful suppliers by providing more flexibility to cope with input cost increases. The factors that lead to a low-cost position usually also provide substantial entry barriers in terms of scale economies or cost advantages. Finally, a low-cost position usually places the firm in a favourable position vis-à-vis its competitors in the industry.” (Porter, 1988, p 35-36)

Because scale economies and cost advantages tend to defend a firm against powerful buyers and suppliers and provide substantial entry barriers, achieving a low overall cost position often requires a high relative market share. In other words, cost advantages can create value for a firm by reducing the five threats of entry, rivalry, substitutes, suppliers and buyers (Martina, 2007, p.15).
3.4.5 Risks associated with a cost-leadership strategy

There are some risks associated with a cost-leadership strategy. Firms pursuing cost leadership may not detect changes in their services that are becoming expected because of a preoccupation with cost. They face the risk of making large investments in new properties or businesses only to see them become obsolete because of changing trends. Their large investments make them reluctant to keep up with changes that are not compatible with their existing facilities. Another risk is that competitors will quickly imitate the technologies that are resulting in lower costs (Jeffrey, 2005, p. 179). As Michael Porter observed, “A company can outperform rivals only if it can establish a difference it can preserve.” (Porter, 1985, p.11)

Another risk associated with a cost-leadership strategy is that the company will go too far and perhaps even endanger customers or employees in the process. Valujet’s penny-pinching allowed it to achieve a very low-cost position in the airline industry. Valujet passed the savings on to consumers and experienced unprecedented growth. However, their stinginess came under close scrutiny after the crash of Valujet flight 592 into the Florida Everglades. Federal investigators found that some of Valujet’s procedures, especially maintenance procedures, were unsafe, and they ultimately shut down the airline until safety concerns could be worked out (Jeffrey, 2005, p.72).

To review, cost leadership associates with risks that

1. A firm will become preoccupied with cost and lose sight in the market.
2. Technological breakthroughs will make process-cost savings obsolete.
3. Competitors will quickly imitate any sources of cost advantage.
4. The company will take the cost-reduction emphasis too far, thus endangering stakeholders.

3.4.6 Cost-leadership & financial performance

According to what the Palepu & Healy say, a firm may produce a relative low profit margin by adopting the strategy of cost leadership (Palepu & Healy, 2008, p. 2-12). Cost leadership strategy helps firms to produce the standard, high-volume product or service at the most competitive price to customers. By emphasizing on a cost-leadership strategy is kindly to create higher financial performance for firms competing in the emerging economies, such as China, India, Brazil, etc, as firms can gain a relative advantage because of their lower costs in labour recourse and manufacture (Aulakh, 2000,p.350). Furthermore, from the customers’ point of view, the strategy of cost-leadership catches the most charming issue (lower price) in emerging economies, offering the products or service to those people with low level of disposable income (Caroline, 2008,p.4).

Lähtinen & Toppinen (2006,p.301) in their report, found out the cost-leadership indicators, statically, explain better on the short-term financial performance, than value-added creation, which has affection on longer-term financial performance and turnover growth in the future. They conclude that, cost-efficiency is a prerequisite for the business, and the latest worldwide economic recession is just the best example to confirm the validity. Meanwhile, the value-added creation is a necessity to support the economic sustainability of the business.
3.5 value-leadership strategy

Value added is a term repeatedly mentioned when discussing the business competitive advantage and firm’s financial performance in any industry. Its popularity grows continuously till now as the today’s buzzwords. What is the meaning of this term, and why the value added becomes so important, and how can the hotel sector participate in value-added business ventures? (Coltrain, 2000, p.7-13)

Peter Drucker said: “No business was ever created to control costs.” Once the cost and efficiency become the first issue to consider, then the product/service will become the secondary. And that is a horrible situation for any sectors. Furthermore, being cost-efficiency is essential for survival. Nevertheless focusing on the side of value-added is the key to profitability. In the history of business competition, companies are struggling to obtain different competitive advantages, which cost-efficiency modes of doing business have been highly embed in every leader’s minds (Troy, 2004). Over the last decade, this cost-effective way of doing business might be efficient and feasible in the HK hotel industry, such as the tourist rooms, which were quite popular as cost-efficiency to ensure optimal use of space, ease of maintenance in the year of 1997. However, with the growth of customers’ wealth, the increasing attention to the consuming experience, and the increment of customers’ social knowledge and ability, consumers pay more attentions to the value they perceive in the hotel sector, such as the environment of the hotel especial the rooms’, the careful consumer-tailed services, and the whole hotel consuming experience. Value-leadership strategy force companies to find new ways to expand their market share, attract and retain customers by tailor-made products and services, and restructure their business strategy to gain competitive advantage. In the recent HK hotel industry, offering higher-quality value-added hotel service has been highlighted as the main option for achieving sustainable financial perforce.

3.5.1 The definition of value added

In order to understand the value-leadership strategy, it is necessary to know what the concept of value added is. After spending a lot of time on searching the sources of value-added, we only found three complete explanations about the value added, which are illustrated as below (Table 5).
Table 5: the definition of Value-added

<table>
<thead>
<tr>
<th>Year</th>
<th>Author</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Coltrain, Barton &amp; Boland (Coltrain, 2000, p.2)</td>
<td>“A broad definition of value added is to economically add value to a product or service by changing its current place, time, and form characteristics to characteristics more preferred in the marketplace.”</td>
</tr>
<tr>
<td>2004</td>
<td>Bishop (Bishop, 2004, p.269)</td>
<td>“This usually refers to firms, where it is defined as the value of the firm’s output minus the value of all its inputs purchased from other firms.”</td>
</tr>
<tr>
<td>2009</td>
<td>Samuelson &amp; Nordhaus (Samuelson &amp; Nordhaus, 2009)</td>
<td>“In economics, the difference between the sale price of a product and the cost of materials to produce it is the value added.”</td>
</tr>
</tbody>
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The term of value added could be also explained as an increase to the value of a product or service through each single stage of production or supply chain.

Peters (2003, p.126) says "Cutting costs is a hard work; creating additional dollars is genius." The content what he mentioned shows wealth production from the value-added process, such as the innovation, not optimization. Generally, almost every industry claims its profit margin is shrinking, customer demands are raising. Nevertheless, with the continuous moving to a global economy, there is a growing demand for the value-added products and service in the international market. Therefore, the existing business strategy of cost-leadership mode may be insufficient for running a business. We should also pay some attention to the new markets and add significant value to the customer’s consuming experience. In the future, the development of value-added product and service could provide great opportunities to generate future development of economy.

However, except the positive opinion about the value added strategy, author Coltrain indicates that the value-added activities should begin with intelligent market analysis on customers and competitors. After identifying the opportunities. Furthermore, it is necessary to pay enough attention to the risk in the beginning of value-adding activities. The initial investment costs can make it is hard to generate the profit during the early stages. Usually, it is quite risky to start a value-adding business in the beginning stage, sometimes, overly concerns on the value-added creation in the early years could possibly cause the bankruptcy in the end (Coltrain, 2000, p.8).

3.5.2 Achieving a "value-adding advantage"

The outcome of achieving a value-adding advantage is the long-term growth and profitability. The reason of acquiring this advantage is to offer unique and compelling benefits to the customers. Therefore, if the company wants to maintain its leadership in the existed market, it must establish a sustainable process of value creation (Paul, 1998). Nowadays, by offering only the right product in the right market at the right time is not enough to achieve a successful business. In contrast, how to build a value creation model and profit model, and furthermore, make a creative value-added offering is a way enabling the company to stay ahead of the competitors in the future market development stage.
The study from Juergen (2007, p.3) pointed out the development of information technology (IT) and internet has played an important role to build an entirely new value creation model. This model provides companies with the alternatives to outsource parts of their business processes or even the whole value chain. By doing so, it will make the companies’ business process more integrated and efficient, in addition, it can be also resulting in new or improve value-added products and services (Juergen, 2007, p 2). However, in the point view of accounting, most of the investments in developing IT and internet will be assorted into the item of expenditure, which is shown on the income statement instead of balance sheet. In reality, it is really difficult for us to identify the exact amount of investments which are used to build such a value-added model.

Glickman (2007, p.452) said that value-added leadership is a way to combine “soft skills” with the “hard skills” through instruction, in-assessment, and assessment. “Hard skills” include those factors reflecting financial or physical value as evaluated by the firm’s balance sheet. In the contrast, “soft skills”, include those factors that are non-physical (or non-financial) which have the ability to help the firm to achieve a business success with value-added and profitable circumstance. Within the service industries, it is considered that competitive advantage is more likely derive from intangibles which contribute to unique capabilities, comparing to the tangible factors (Kaplan, 2001, p.237).

In the book of “The ROI of Human capital”, Fitz-enz argues that “people, not cash, buildings or equipment, are the critical differentiators of a business enterprise”. Therefore, by investing on employee, such, staff training and learning is a way of achieving a value-added advantage of business success (Fitz-enz, 2002, p.1).

### 3.5.3 Value added-strategy in the hotel industry

It is no doubt that most of the industries are in a highly competitive situation, and the hotel industry allows no exceptions. Therefore, it is extremely important for companies to find the right business strategy. Within the hotel industry, due to the highly competition, companies have to seek for the right method and know to differentiate the offering from competitors in order to gain a competitive advantage (Malin, 2007, p.1).

Colin (2007, p421) says that “by providing more value and being innovative in value creation are keys for future development.” As we know, competitive advantage covers all the areas of the hotel product and service. Although value-added strategy hotels always have higher price for a room than the ones using cost leadership strategy, it provides unique or superior value to their customers through the product/service features, quality, or after-sale support, furthermore, it will bring them a competitive advantage which is not easily imitated (Wu, 2008,p.145). Shangri-la is one of the examples in reality by applying the value-added strategy; in fact, it constantly upgrades its technological capability by automating its hotel services and security operations. Because Shanggri-la knows better that such a value-based strategy could promote collaboration and innovation to inspire and lead the diversity operations, enabling to gain a competitive advantage (Shanggri-la, 2009).
3.6 Performance evaluation

If the firms find they get stuck with strategies issues, there is a need to examine the performance of the selected strategies, and think about how to make improvement. Value chain analysis is a strategic analysis tool to develop a better understanding of firm’s competitive advantage. It helps the company to have a better understanding of value creation process, the linkages with suppliers, customers and other firms within the industry. The goal is to include all steps that necessary for a competitive product or service to the customers.

For the manufacturer, the value chain analysis starts with product development and new product testing, following by raw material purchases and manufacturing, and eventually focus on sale and services. For the service firm, the analysis activities will start with services designs, purposes and detailed activities that generate value to the users. Although value chains are sometimes more difficult to identify within a service firm or a not-for-profit organization because they might have no physical flow to visualize, the identification approach is applied in all types of firms. A firm might break its operations into dozens or hundreds of activities.

The term value chain is used when every activity involved is intended to added value to the product or service for customers. Managers can have a better understanding of firm’s competitive advantage and strategies by separating its operations according to activity. For example, when top management need to determine whether each individual activity in the value chain is consistent with that overall strategy. A careful consideration of each activity should be taken no matter the firm is most or least competitive.

The value chain analysis focuses on the product’s total value chain, from its design to its manufacture to its service after the sale. Individual firms are largely involved in the value chain activities. When they finished the identification of value chain activities, they can further find out the cost driver. A cost driver is any factors that changes the level of total cost. The objective in this step is to identify activities for which the firm has a current or potential cost advantage. For instance, an insurance agency might find an important cost driver is maintaining the records of customer’s account. This strategic cost driver information can lead the managers to look for ways reducing or outsourcing this cost, possibly by hiring an outside computer-service firm to handle the data processing duties in order to reduce the overall cost and maintain or improve company’s competitiveness. The process of value chain analysis can help management better understand the firm’s strategic competitive advantage and its proper positioning in the overall industry. As a result, the managers may identify opportunity for value creation or cost reduction to less competitive activities.

There is another approach to apply value chain analysis, to exploit linkages between activities in the value chain. When managers consider to provide an activity internally or outsource its is largely depends on other related activities and the relevant impact to company’s performance. For instance, firms like Otis Elevator and Whirlpool Corporation have found that it is important to provide customer service internally because service representatives are the source of valuable information to customers.
After the company identifying and executing the strategies, company can go through performance measurement process in order to collect more information for future decision. Performance evaluation is the process that managers at all levels gain information about company’s performance basic on various business tasks. They then judges the performance against the pre-established criteria which set out in the budgets, plans and goals. The managers can apply the performance evaluation concept to three management functions: operation, finance and marketing. In operations, the focus will be placed on the activities of production managers and production supervisors who will the evaluation report. From finance perspective, performance evaluation means monitoring the firm’s financial activities, including maintenance of adequate liquidity, management of cash flow, cost of capital and other financial activities. Under the marketing aspect, the evaluation targets on the activities of sale executives, sale managers and individual salesperson.

Nowadays, performance evaluation is different within a firm. The level of performance evaluation will be specified design upon to the top management, mid management, operational staff and sale persons. Within operation perspective, plant managers will be in charge of individual production supervision. At the same time, they are evaluated by executives at the management level. Similarity, individual salespersons are evaluated by sale managers, while the managers are then evaluated by upper-level sale management, and so on. Most of the time, the operation level employees are not highly involved in financial management, so the performance of financial managers is typically evaluated by the upper management level only. Under the performance evaluation, there are two types of control, which are manager control and operational control.

### 3.6.1 Operational control Verse Management control

The operational control mostly focused on detailed short term performance measures. It is a management –by-exception approach so the parties that are under performance will have appropriate solutions. In contrast, management control focuses on higher level managers and long-term strategies issues. It follows the management –by –objectives approach, which means the long-term objectives, such as profitability are determined and performance is regularly measured against these goals. Usually, management control is a broader and more strategic objective, to evaluate the business unit’s overall profitability as well as the performance of the relevant managers, determine whether the unit should be kept or replaced and also motivate the managers to achieve top management’s goal. Because of this broader focus, different objectives for management control generally have multiple measures of performance rather than single financial or operating measures. Before we start the measurement, it’s critical to understand the objective of management control. What is the objective of management control? Under the management – by –objectives approach, top management assigns a set of responsibilities to each mid level manager. The nature and detailed duties are subject to the functional area involved (operational, marketing and finance) and the scope of authority of the mid-level managers. These areas of responsibility are often called strategies business units (SBU). The concept of strategies business unit is essential and useful for diversified firm that need manage and measure the different business units.

Within the Strategic business unit (SBU), it comprises well defined of controllable operating activities. Generally, the manager in charge of this business unit has autonomy and responsibility for decision making and resources allocation. The goal of
management control could be defined as motivating managers to perform better in order achieve the goals set by top management, give the well defined incentive for managers to make decision align with company’s long-term goal. The management controls also serve as rewarding system to the managers for their effort and effectiveness of their decision making.

A common mechanism for achieving these multiple objectives is to develop an employment contract between manager and top management that covers each of these points. However, we will pay less focus on how to set up an appropriate employment contract as our research is not focusing on agency problem but more on management aspect. The development of management control system involves clearly identifying whom, what and when for the evaluation. First of all, we start by looking at who is interested in evaluating the organization’s financial performance? The four possible reader of the performance reports are the firm’s owners, shareholders, since they are people who care about the company’s long-term development most. The creditors are also interest on firm’s financial performance, especially liquidity and solvency ability. Although employees and government are also the groups interesting in firm’s performance, they have different expectation to company’s performance.

The second aspect of management control is what is being evaluated. Commonly evaluation is focusing on the individual manager, to assess the effectiveness and efficiency of the manager’s performance. Alternatively, the focus can be turn to the effectiveness of SBU instead of manager’s individual performance. When the top management conducts the performance evaluation, it’s better to make the comparison of manager’s current performance with previous one, instead of among different managers with different job duties. Comparison to other manager is common, but comparison to the manager’s previous performance is preferable since comparison between other is inappropriate and unfair in some way.

The third concern will be when to conduct the performance evaluation. There are two approaches to carry out. The first option can be done on the basis of either resources input to the manager, while master budget will be applied, or from the angle of output of the manager’s efforts, In this case, flexible budget is employed.

Another timing option will be linking the evaluation with production life cycle. The life cycle of a product or service will be the time from introduction to its removal from the market. In the beginning of a product’s sale life cycle, management primarily emphasizes on non financial factors such the market penetration and successes in developing certain customer group. Company can utilize the measures of various customer groups’ revenues, number of back orders, the number of new customers, and customer satisfaction. After the product achieves market acceptance, profitability and asset management become more important, and the performance measures change. Finally, when the product is in its mature phase, when the nature of competition is established and the future of the market is clear, the focus on the profitability continues with the addition of interest on strategic issues such as customer satisfaction, information regarding product modifications, and potential new markets.

This is the stage our research industry reached. The hotel companies we have selected are the list companies on Hong Kong Exchange Board, all of them have run the business for at five years, some of them even occupy larger share of the market, which mean they
already in the market for a while and hold some market share. Therefore, it’s more important for them to focus on profitability rather than revenue growth, and also the customer’s satisfaction.

Most of firm use profit SBUs and investment SBUs to evaluate managers (Reece, 1978, p.34). Profit SBUs are commonly used because of their strong effort on the innovation and goal congruence objective of SBU, managers are rewarded for their unit’s contribution to the firm’s total profit. However, firms cannot use profit alone to compare one business unit to other business unit or to alternative investments because the measurable units are likely to be at different sizes or have different operating characteristics. Thus, although profit alone can be used effectively to evaluate one unit’s performance over time, it should not be used to evaluate investment performance. An independent method should be employed, such as Investment SBUs which based on the concept of return on investment.

Basically, the strategic role of investment SBUs is the same as of the others SBUs, to motivate and provide incentive for managers make decisions which align with the goals set by top management, and also serve as a fair tool to determine the rewarded earned by the managers.

How do investments SBUs achieve these three objectives? The first objective, motivation, can be achieved because the goal of increasing return of investment is clear and intuitive and generally within manager’s control. The second objective, goal congruence, is achieved since return on investment is a critical financial performance for the firm as a whole. Each successful SBU contributes directly to the firm’s success. The third objective, fairness of rewards, is achieved because the usage of investment SBUs provide a sound basis for comparing the performance of different size, profit are measured relative to the amount of investment or total asset.

Prior to the 1980s management accounting control systems tended to focus mainly on financial measures of performance. The inclusion of only those items that could be expressed in monetary terms motivated managers to focus excessively on cost reduction and ignore other important variables, which those ignored factors were necessary to compete in the global competitive environment that emerged during the 1980s. Product quality, delivery, reliability, after sale services and customer satisfaction became key competitive variable but none of these were given much important measured by the traditional management accounting performance measurement system. During the 1980s much greater emphasis was given to incorporating the management reporting system with those non financial performance measures. That information can provide feedback on the key variables that are required to compete successfully in a global economic environment. However, drawback of developing non financial measures is the proliferation of performance measures. The confusion is mainly caused by the confliction of one measure with another one. To solve this issue, company may need to enhance one measure at the expense of others. It was also ambiguous to managers how to identify the non financial measures related and contributed to the whole pictures of achieving long-term success in measurable terms.

More recent contributions to strategic management accounting have emphasized the role of management accounting in formulating and supporting the overall competitive strategies of an organization. To encourage behaviour that is consistent with an
organization’s strategy, attention is now being given to developing an integrated framework of performance measurement that can be used to clarify, communicate and manage strategy implementation. According to Kaplan and Norton (2001, p.65) previous systems that incorporated non financial measurements used ad hoc collections of such measures, more like checklists of measures for managers to keep track of and improve than a comprehensive system of linked measurements. The need to integrate financial and non financial performance measures and identify key measures that link measurements with strategy led to the emergence of the balanced scorecard – an integrated set of performance measures derived from the company’s strategy that give top management a fast but comprehensive view of the organization unit. The balanced scorecard was devised by and refined in later publications (Kaplan and Norton, 2001, p.64).

Figure 5: Kaplan and Norton (2001, p.64), Balance scorecard

Figure 5 emphasizes that the balanced scorecard philosophy assuming that an organization’s version and strategy is best achieved when the organization is viewed from the following four perspectives:

1) Customer perspective
2) Internal business process perspective
3) Learning and growth perspective
4) Financial perspective

The balanced scorecard is a strategic management technique for communicating and evaluating the achievement of the mission and strategy of the organization. A critical assumption of the balanced scorecard is that each performance measure is part of a cause and effect relationship involving a linkage from strategy formulation to financial outcome. Measures of organization learning and growth are assumed to be the drivers of the internal business process. The measures of this process are in turn assumed to be the drivers of measures of customer perspective, while these measures are also the drivers of financial perspective. The assumption of a cause and effect relationship is necessary because it allows the measurements relating to the non financial perspective to be used to predict future financial performance. In this context, Kaplan and Norton (2001)
indicate that the chain of cause and effect relationships encompasses all four perspectives of the balanced scorecard such as the economic value added maybe an outcome from the financial perspective.

The balanced scorecard consists of two types of performance measures. The first type is lagging measures. These are the financial outcome measures from the financial perspective while the results reflected past actions. Mostly of the measures do not incorporate with the current decisions. Instead, they show the financial impact of the past decisions. The second are leading measures that are the drivers of future financial performance. These are the non financial measures relating to the customers, internal business process and learning growth perspective.

From the financial perspective, at the strategic business unit level operating profit, return on investment, residual income and economic value added are usually consider as the measure of the financial objective of the business unit. Other financial objectives include revenue growth, cost reduction and asset utilization. Due to the time limitation of our data collection, we will only use the financial outcome measures in our research and try to see the impact of past decisions to the company’s performance.

3.6.2 Performance management development in Hospitality industry

A significant hospitality accounting development over many years has been focused on the publication of uniform accounting systems for sectors in service industry of hotels, restaurants and clubs in the United States. In 1969 UK produced the first of two uniform systems for the hotel and catering sectors through the government National Economic Development Office. Therefore, the US hotel groups spread their influence internationally with their established uniform accounting system. As a result, most of UK and other European group adopted the US system (Chin, 1995, p.57). Furthermore, the US system has become the most widely used source of terminology to be incorporated in hotel management contract agreements (Field, 1995, p.170).

Hence, the evidence suggests that the US Uniform System of Accounts for the Lodging Industry (Peter, 1998, p.165) formerly the Uniform System of Accounts for Hotels, now in its 9th edition has become the industry standard, particularly with respect to the larger hotel companies and international and global chains.

The Uniform System links effectively the operating characteristics of hotels with other similar establishments on one level in that it is based on departmental accounting principles, reflecting the fact that rooms, food and beverage, and other services are produced in departments rather than in production lines, as in the case of manufactured products. This provides a reasonable basis for upward (regional and head office) reporting and control, but falls short on the broader management decision-making level. The work of Dunn and Brooks (1990) on market segment profit analysis, Quain on sales-mix profitability, and Noone and Griln on customer profitability analysis has highlighted this issue, but acceptance and implementation in the practical situation is a gradual process. (Peter, 1998, p.170)

Public pay more attention on profit statement analysis and evaluation due to the growing reorganization and usage of comparative analysis techniques (Moncarz, 1986, p.125). The emergence of industry statistics has provided the tools for decision-
makers to carry out operational analysis more effectively through the assessment of external norms and trends in planning and controlling activities, rather than by only referring to internally generated budgeted and past performance results (Moncarz, 1986, p.343).

In Peter's paper, it also summarized that broader context development of performance measures has also take place. For example, Rusth suggested some sort of multidimensional performance evaluation is much more appropriate in the international setting than the combination of net income and return on investment which typically used for domestic operations. This is consistent with the generic performance dimensions proposed by Fitzgerald on service businesses, the benchmarking methodology of Morey, and with the work of Kaplan and Norton and Brander Brown and McDonnell on the balanced score-card, all of them emphasize the relevance of qualitative and quantitative approaches to performance measurement.

Another study field will be the application of strategies implementation rather than performance measurement, such as Geller and Schmidgall (1980, p.36) studied the application of cost allocation in hotels using bases that suggested from the Uniform System of Accounts for Hotels, focusing attention on the planning and control implications. They mentioned the debatable concern over decision making based on cost allocation information only, that cost allocation can provide benefits in relation to planning decisions such as pricing and marketing strategies, but that it should not be used for control purposes i.e. performance measurement and evaluation.

3.7 Performance measures /indicator

As the factors affecting the competitiveness and financial performance of hospitality firm are of conflicting natures and interact acutely, competitiveness cannot be defined by a single measure. We therefore followed the criteria from other relevant literatures and make appropriated adjustment based on the industry we chose (Wong, 2001, p.297).

The population of this research was the listed hotel companies in Hong Kong. We collected the data from annual report of selected companies between fiscal year 2005 and 2009. The data we collected will be divided into two categories: strategies indicators and financial performance. The strategies indicators variable (table 6) mainly deals with the spending of the companies within one fiscal year, such as the staff cost, investment, cost of sales and gross value-added. Those spending reflect the strategies that the companies adopt with that fiscal year and may have significant impact on the current year financial performance. The strategies of the companies were measured on the following area, cost based strategy (staff cost and cost of sales) and value-added based strategy (investment and gross value-added) illustrated in the table 6. This links with the theoretical part, which Porter suggests there are two main company's strategies to be considered, cost leadership and value creation. We would like to start from the theory we are interested in, follow by empirical study of real world's financial performance and perhaps develop new insight from the findings.
Table 6: The relationship between strategies variables and performance indicators

<table>
<thead>
<tr>
<th>Independent variable:</th>
<th>Dependent variable:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff cost</td>
<td>Return on asset (ROA) %</td>
</tr>
<tr>
<td>Cost of sale</td>
<td>Equity ratio (ER) %</td>
</tr>
<tr>
<td>Investment</td>
<td>Current ratio %</td>
</tr>
<tr>
<td></td>
<td>Growth%</td>
</tr>
</tbody>
</table>

**Independent variable**

Cost efficient oriented strategy will be assessed by the independent variable of staff cost (SC) and cost of sale (COS). It is no question that staff cost is one of the necessary expenditures to every firm; no matter what kind of business industry involved. Staff cost covers two parts of expenditure, one of which is the expenditure that enhances firm’s learning and future value-added capacity, which are supposed to divide into the part of intangible investments, e.g., the staff training. However, due to the lack of accounting methods, the intangible investments are recorded into the item of staff cost (SC). The other part will be the current fiscal year’s spending, covering salaries, wages and other contributions to defined contribution retirement plan, which can be found from the annual reports by searching the key words, such as, *staff cost, employee benefit expense, or employees’ emoluments*. Yet, the part of commission is excluded from the amount of staff cost (SC) in our research, because the commission, naturally, has a positive impact on the financial performance. In addition, Cost of sale (COS) or cost of raw material is the basic cost of the company’s service or products which generates the main revenue for the firm. In the Hotel operation, the example of cost of sale could be the purchasing cost of food, beverage and other materials.

SC: \[
\frac{\text{staff cost}_t - \text{staff cost}_{t-1}}{\text{Sale}_{t-1}}
\]

COS: \[
\frac{\text{cost of sale}_t - \text{cost of sale}_{t-1}}{\text{Sale}_{t-1}}
\]

Investment to the company is tangible or intangible by nature, although the great majority of intangible investments are not reported as assets in the balance sheet but as expenditure in the income statement (Tan et al., 2007). For example, staff training cost, decoration and repairment expenditure on Hotel property is hardly for us to divide the gross number into detailed categories. Besides, lease could be another measures of investment, especially in Hotel Industry since Hotel firms tends to enter lease contract for the advantage of flexibility. Nevertheless, our later data collection process indicated it is incomplete of lease cost among the selected samples, which means fewer samples will be involved if we consider operate lease rather than the marginal growth in property, plant and equipment (PP&E). However, due to the complexity of our study, we only
consider the marginal growth of the item of property, plants equipment (PP&E), which is a very common investment asset in hotel service industry. Unlike the product development company, the majority of investment expenditures are composed of tangible assets needed for advanced production technologies and growth. During the process of collecting data from the annual reports, we found that all the companies are adopting the same depreciation method (straight-line); therefore, the suspect by adopting different depreciation method within different company, affecting on the aspects of companies’ financial performances will be exempt.

INVESTMENT: \( \frac{(PP&E_t - PP&E_{t-1})}{Sale_{t-1}} \)

Value added oriented strategy in the hotel industry will be examined by the independent variables VALUE and INVESTMENT in proportion of sale; Gross value-added is the increments in wealth which generate from the difference between business sale revenue and the purchasing cost of the materials and services (Riahi-Belkaoui, 1999).

VALUE: \( \frac{(Gross \text{ value-added}_t - Gross \text{ value-added}_{t-1})}{Sale_{t-1}} \)

**Dependent variable**

In the study of Lähtinen & Toppinen, (2006), they considered the accounting ratio after studying the description of the committee of corporate analysis. It is sufficient enough to define liquidity is an appropriate measure of company’s financial adequacy in the short term. Compare with the liquidity ratio, in addition, Equity shows the company’s equity to asset ratio, the higher of this ratio, the better to the company as it means over a longer fiscal periods, the firm have sufficient equity to meet the long-term debt and satisfy the requirement set by regulations and financiers. Besides, Profitability illustrated the short term return in term of assets employed. In contrast, the slow sale growths may generate higher future return in investment. Rametzani et al. (2002, p.60) argued that company with a moderate sale growth produces the highest return on investment. In order to maintain the comparability, we employed the dependent variables from the annual reports on proportional base.

In order to investigate how company’s strategies have impact towards the financial performance, we employed four independent variables to investigate the impact of company’s strategies. The choices of the financial ratios used in the performance evaluation are affected by the information needs and the data available for the analysis. In this studies, the financial performance of the hotel companies is evaluated from the perspective of liquidity (Current ratio, %), solvency ratio (equity ratio %), profitability (ROA, %) and company’s competitiveness (Growth, %). We selected those four area as the indicators of company performance is because that could create a more comprehensive picture of company’s status, both in short term and long-term. The proportionality of the financial measures is the prerequisite for making comparisons between firms of different sizes, which could eliminate the effect caused by absolute value reported in the income statement and balance sheet.
Table 7: Measurement of financial performance from difference perspectives

<table>
<thead>
<tr>
<th>Area of analysis</th>
<th>Goal of analysis</th>
<th>Related ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal liquidity</td>
<td>Assess firm’s ability to pay short term liabilities</td>
<td>Current ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accounts receivable ratios</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inventory ratios</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Payable ratios</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash conversion cycle</td>
</tr>
<tr>
<td>Financial risk</td>
<td>Evaluate volatility of equity returns caused by the use of debt</td>
<td>Debt to equity ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interest coverage ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash flow coverage ratio</td>
</tr>
<tr>
<td>Operating performance</td>
<td>Interpret how well management operates business</td>
<td>Asset turnover ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fixed asset ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Profit margin ratios</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Return on asset ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Return on owner’s equity ratios</td>
</tr>
<tr>
<td>Turnover Growth</td>
<td>Evaluate firm’s growth potential</td>
<td>Sustainable growth rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retention rate</td>
</tr>
</tbody>
</table>

Table 7 illustrates how to measure difference perspectives within an organization. This is a summary made by us, so readers may have general idea what are the traditional dimensions of performance in the current academic fields.

**Liquidity**

Liquidity ratios indicate the ability of the company to pay its short term liabilities. The current ratio is the best known measure of liquidity:

\[
\text{Current ratio} = \left(\frac{\text{current assets}}{\text{current liabilities}}\right) \times 100\%
\]

The higher the current ratio, the more likely it is that the company will be able to pay its short term bills. A current ratio with less than one value means the company may face a liquidity crisis and due to the negative working capital. Among various choices, we chose current ratio instead of other alternative since it is the most general applied indicator if we take the consideration of comparability between other similar studies. It’s the most common used ratio to show one firm’s liquidity.

**Solvency**

Solvency comprises a longer time-span by assessing whether the company has a sufficient equity in regard to the requirements set by specific departments, comparing to the liquidity which stands for a company’s financial behaviour in the short term. The equity ratio used in our tests will be calculated as a function of owner’s equity in proportion to the total assets.

\[
\text{Equity Ratio} = \left(\frac{\text{Owner’s Equity}}{\text{Total Assets}}\right) \times 100\%
\]
Profitability

Instead of focusing purely on the absolute size of a division or department’s profit, most organizations focus on the return on investment of a division or return on asset of an organization. Return of asset is an indicator of how profitable a company is before solvency, and is compared with companies in the same industry.

\[
\text{Return on assets} = \left( \frac{\text{Net income}}{\text{Total asset}} \right) \times 100\%
\]

This number tells you what the company can do with what it has, *i.e.* how many dollars of earnings they derive from each dollar of assets they control. It's a useful number for comparing competing companies in the same industry. The number will vary widely across different industries. Return on assets gives an indication of the capital intensity of the company, which will depend on the industry; companies that require large initial investments will generally have lower return on assets. There are some research studies the relationship between ROA and ownership of the company. Hu and Izumida (2008) employed ROA as an accounting performance measure to study ownership concentration and corporate performance in Japan, and they revealed that there was a positive causal relation from ownership concentration. In recent study by King and Santor (2008, p.2427), ROA was a representative of firm’s productivity and profitability, and they found larger firms with higher growth had higher ROA.

One possible interrelationship between financial performances indicators can be summarized as follows: a change of the growth in turnover, may lead to change in future profitability, which also influence the liquidity, solvency and firm’s competitiveness (Laitinen, 1991, p.299).

Growth

There are difference ways to measure the growth of the company from finance and accounting perspective either could be the market value of the company or sale figure. We use the turnover growth as an indicator of competitiveness instead of a measure of success (Laitinen, 2000) since a positive trend in turnover growth with contemporaneous good financial performance indicates positive future business success.

\[
\text{Turnover growth: } \frac{(\text{Sale}_{t} - \text{Sale}_{t-1})}{\text{Sale}_{t-1}}
\]

3.8 Hypothesis

The importance of value-added creation have been emphasized in business world, it’s common to find that within manufacturing industry, *i.e.* sawmill industry in Finland have shifted from cost efficiency to value-added orientation. However, the importance of both company’s strategies on business success in sawmill industry seems rarely being studied. Usually, Cost efficient is recognized to be the prerequisite strategy for the economic sustainability of any business, while value added service and products can create the competiveness to the company.

The provision of food and hospitality services usually require a shorter time scale in increasing value through investment in intangible and tangible resources. Consequently, we will consider the variables that indicate company’s strategies, which is cost efficient
or value added creation from different time spans. Although value –added increment may seemingly be based on e.g the acquirement of new technologies ,the ability to recognize different customer group’s need and the upgrade of room equipments and services through investment in property and equipment, staff training cost ,it’s hard to divide them into detail expenditures and hardly recognize the impact .Because of this time difference in pursuing cost efficient and value creation strategy, we presume that divergence also exists in their impacts on financial performance indicator. We will first examine if there is any effect from the changing of staff cost, cost of sale, value added and investment.

In 3.6.1 Operational control Verse Management control, we mentioned in the balance scorecards concept, it assume there are cause and effect involved between performance measures and financial outcome. Therefore, it helps us in setting our study’s hypothesis on a cause and effect relationship basic .Beside, the choices of the measures and financial indicators are largely influenced by the availability of company’s information ,which in other words, we consider the widely applied measures ,such as ROA ,growth ,staff cost etc and common financial indicator ,such as ROA (return on asset ) for profitability, current ratio for liquidity .

Based on these arguments, the hypotheses are set:

1) **Hypothesis 0**: A Change in staff cost (SC) as a proportion of turnover has NO EFFECT on financial performance of Hotel Firms.  
**Hypothesis 1**: A change in staff cost (SC) as a proportion of turnover has EFFECT on financial performance of Hotel Firms.

2) **Hypothesis 0**: A Change in cost of sale (COS) as a proportion of turnover have NO EFFECT on financial performance of Hotel Firms.  
**Hypothesis 1**: A change in cost of sale (COS) as a proportion of turnover has EFFECT on financial performance of Hotel Firms.

3) **Hypothesis 0**: A change in the INVESTMENT as a proportion of turnover has NO EFFECT on financial performance of Hotel Firms.  
**Hypothesis 1**: A change in INVESTMENT as a proportion of turnover has EFFECT on financial performance of Hotel Firms.

4) **Hypothesis 0**: An increase in VALUE ADDED as a proportion of turnover has NO EFFECT on financial performance of Hotel Firms  
**Hypothesis 1**: An increase in VALUE ADDED as a proportion of turnover has EFFECT on financial performance of Hotel firms.
Chapter 4: Empirical study

In this chapter, the data collection process and description of the independent and dependent variables will be delivered on the purpose of giving more information about our study.

4.1 Sample and outliers

The sample used in this research is based on the listed companies in the sector of hotel from the Hong Kong stock exchange, and we finally select 24 companies as our sample out of 32 companies, which is shown in the appendix 1. The qualified companies are required to have several conditions, such as the company should has been running the hotel business from year 2005 till now, in addition, the company should has published annual reports from year 2005 to year 2009, in last, the company should has the hotel operation, as a result that we found some companies, although, have been sorted into the industry sector of hotel, in reality, those companies have no real hotel operation. In total, we got 120 observations from the 24 companies based on the year between 2005 and 2009. Unfortunately, the number of observation decrease to 92 due to the data available (4 observations) and the remove from the outliers (24 observations). Nevertheless, we believe our sample size is sufficient, as Stevens (1996, p.72) suggests that “for social science research, about 15 subjects per predictor are needed for a reliable equation.” In addition, Tabachnick & Fidell (2006, p123) offer us a formula for calculating sample size requirements, including the sets of independent variables that you wish to use: 

\[ N > 50 + 8m \] (where \( m \) = number of independent variables.) in our case, we have only four independent variables, therefore, the 92 observations in our sample is sufficient to conduct this research (Pallant, 2007, p148).

In statistics, outlier is considered as an observation that is numerically distant distributed from others within a sample. And it is necessary to explain the criteria for deciding the outliers within our observations. Before we start the test, it is helpful to understand the meaning of the two tests (Histogram and Boxplot). The purpose of running the test of Histogram is to detect the potential outliers by checking whether there is an abnormal variable distribution. Furthermore, by working on the test of Boxplot is enabling to identify which are the outliers within our sample. In the test of Boxplot, the observation is considered as the outliers by SPSS if they extend more than 1.5 box-lengths from the edge of the box, in addition, extreme observation (indicated with an asterisk, *) are those that extend more than three box-lengths from the edge of the box (Pallant, 2007, p.75-77). (Appendix 3)

First of all, by inspecting the tests of the histogram based on the four dependent variables, we found that there are abnormally distributed variables based on the independent variable of current ratio, ROA, and turnover growth (Appendix 2). Therefore, we need to run the test of Boxplot in order to identify the outliers. In the appendix 3, we found there are, in total, 24 outliers in our sample. In last, the numbers of observation decrease to 92 after we remove off these outliers.
4.2 Data collection

The financial data is hand-collected from the annual reports. In specific, regarding to the four independent variables, for example, the amount of independent variable of VALUE is equal with the difference of continuous years of gross value-added divided by the sale of last year. And the amount of gross value-added is calculated by subtracting the cost of sales from the sales revenues. In addition, regarding to the independent variable of investment, investments are considered as tangible and intangible sides by nature, and the majority of the intangible part, which may includes the staff training, decoration and renovation, and research &development expenditure (R&D) are not reported into the balance sheet as the assets but as expenditure into the income statement. By considering of this, this investment measures mainly comprise tangible investments recorded in the balance sheet, in addition, due to the data available and information need, we finally choose the item of property, plant and equipment (PP&E) to represent the item of investment, and the amount of investment will be calculated as the difference of continuous year of (PP&E). Meanwhile, the information used in the calculation of independent variable of cost of sales originates from the income statement. In last, the amount of staff costs is quite easy to identify within the annual reports.

The selection of the financial ratios as the dependent variables used in financial performance assessments is affected by the data available and information needs for the analyses. In our research, the financial performance of HK hotels is evaluated by four perspective of liquidity (current ratio), solvency (equity ratio), profitability (ROA), and the turnover growth (growth, %). The four financial indicators are the typical dimensions of financial performance used in financial stamen analysis. The information of calculation the four financial ratios originates from the income statement (growth, %), the balance sheet (current ratio and equity ratio) or both of them (ROA).

4.3 Model study

*In this section, we will introduce two models (Pearson correlation matrix & multiple regressions) to analyze the data.*

4.3.1 Pearson correlation matrix

Before starting our multiple regression tests, it is important to compute the correlation matrix. As a result, this preliminary step is important because independent variables should not be correlated with one another. If the independent variables are correlated, this might affect the robustness of our results, in other word, problem of multicollinearity. In the other word, this correlation model offers us a preliminary test to check whether there is a multicollinearity problem in modeling. In addition, Two-tailed Pearson correlation matrix was used to examine the strength, direction and dependencies of the linear relationship between the explanatory independent variables and dependent financial measures (Pallant, 2007, p.115). Furthermore, as it is able to use in a wide variety of contexts, Pearson correlation has been considered as a powerful method dealing with data, popularly used by researchers and scholars. Furthermore, we will present the Pearson correlation matrix between explanatory variable and depend
measures in Appendix 4.

4.3.2 Application of regression Models

Multiple regression is considered as a set of techniques that can be used to explore the relationship between one continuous dependent variable and a number of independent variables or predictors. The reasons why we choose multiple regression as the tool to conduct the relation test are as followed, firstly, it can tell you how well a number of independent variables is able to predict a particular outcome; Secondly, multiple regression will offer you the value of R2, which is used to indicate how well the model is performed; Thirdly, the regression model can also test the value of Variance inflation factors (VIF), which indicators whether there is a multi-collinearity problems or not. For example, if VIF is higher than 10, it will be considered as an indicator of severe multi-collinearity problem. Inversely, the small scale of VIF suggests that we do not have a multi-collinearity problem in this model (Brien, 2007). Last but not least, since we are inspired by the study from Finnish sawmill (Lähtinen & Toppinen, 2006), therefore, we are following the research methods from their study, and we believe that, to some extent, our study could offer the readers an insight through the comparison based on the same research methods but within different industries.

In a scientific investigation one may be inclined to formulate a hypothesis about a linear relationship

\[ y = \alpha + \beta_1 \chi_1 + \ldots + \beta_p \chi_p \]

Between a variable \( y \) on the one side and variable \( \chi_1 \ldots \chi_p \) on the other side, making is possible to explain \( y \) via \( \chi_1 \ldots \chi_p \). This can be quite useful when values of \( \chi_1 \ldots \chi_p \) are rather easy to obtain, while this is not the case for the corresponding value of \( y \). Then the above equation may be employed for predicting the outcome of \( y \) given values \( \chi_1 \ldots \chi_p \).

Although one may be able to specify such a hypothesis for different reasons, the exact nature of the considered linear relationship will not known, or, in the other words, the parameters \( \chi_1 \ldots \chi_p \) will be known. Information about them can be drawn from a given set of observation of the variable of \( y \) and \( \chi_1 \ldots \chi_p \). As a matter of fact, in practice there will be an approximate linear rather than an exact linear relationship between the variable interest. One may account for this by adding a further non-observable variable, fancied as a collection of errors. Then the hypothesis is altered to an equation of the form

\[ y = \alpha + \beta_1 \chi_1 + \ldots + \beta_p \chi_p + \varepsilon \]

Letting \( y \) not only depends on \( \beta_1 \ldots \beta_p \), but also on \( \varepsilon \) (the error variable), being random but non-observable.
4.3.3 Standard multiple Regressions

In our study, with the help of standard multiple regression, all the independent (or predictor) variables are conducted into the equation simultaneously. Each independent variable is evaluated in terms of its predictive power. This is the most commonly used multiple regression analysis.

The main goal of our study is to explore if the company’s strategies have impact on the company’s financial performance. We denoted $\alpha$ is the variable that will contribute some effect to dependent variable without any influence caused by independent variables.

With all these assumption, our equations are as following:

(1) Current ratio= $\alpha + \beta_1$SC + $\beta_2$COS + $\beta_3$INVESTMENT + $\beta_4$VALUE + $\epsilon$
(2) ROA= $\alpha + \beta_1$SC + $\beta_2$COS + $\beta_3$INVESTMENT + $\beta_4$VALUE + $\epsilon$
(3) Equity ratio= $\alpha + \beta_1$SC + $\beta_2$COS + $\beta_3$INVESTMENT + $\beta_4$VALUE + $\epsilon$
(4) Growth %= $\alpha + \beta_1$SC + $\beta_2$COS + $\beta_3$INVESTMENT + $\beta_4$VALUE + $\epsilon$

The above equation represented the relationship between company’s strategies and company’s financial performances from difference perspectives, such as liquidity, profitability, solvency and future growth.

Normality & Linearity issue

Two of the assumptions when we conduct the linear regression are Normality and linearity. In the book of “SPSS – Survival manual”, the normality and linearity have been defined as “the residual should be normally distributed about the predicted dependent variable (DV) scores” and “the residuals should have a straight-line relationship with predicted dependent variable (DV) scores”, respectively (Pallant, 2007, p. 149). In the normal P-P Plot, it is expected that the points will lie in a roughly straight diagonal line from bottom left to top right. This would indicate there are no major deviations from normality. In our study, in Appendix 5, the results show that the residuals in the four different charts based on the different financial perspective lie in a reasonable straight diagonal line from bottom left to the top right, which means our study is congruent with the two assumptions (Normality & Linearity), when we conduct the test of linear regression.
Chapter 5: Empirical Results

In this chapter, we present empirical results from quantitative data analysis using SPSS. We start by presenting results from correlation matrix and finally regression analysis.

5.1 Descriptive statistics

In the part of descriptive statistics, we will present several table and figures we made, in order to offer reader’s a comprehensive and profound pre-understand about the hotel industry in Hong Kong based on the different aspects, such as, employment & turnover situation, and the overall financial performances within the listed hotel companies. To begin with, in the table 8, we list the number of companies, turnover yearly, and the number of employees. it is clear that the number of the employees keeps increasing from the year 2005 to 2009, which means the business sector of hotel was expanding based on the number of workers; in addition, we can see there is a steady growth of turnover from 2005 to 2009 with two exceptions of year 2007 and 2009. And the reason of the setback in 2007 and 2009 is mainly affected by the global recession.

Table 8: The structure of the Hong Kong hotel companies in 2005-2009

<table>
<thead>
<tr>
<th>Hong Kong hotel companies</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of companies</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Turnover (million HK$)</td>
<td>31,418</td>
<td>36,853</td>
<td>36,566</td>
<td>39,188</td>
<td>37,871</td>
</tr>
<tr>
<td>Employment</td>
<td>51744</td>
<td>57927</td>
<td>61604</td>
<td>66730</td>
<td>68556</td>
</tr>
<tr>
<td>Turnover/company (million HK$)</td>
<td>1,309.08</td>
<td>1,535.54</td>
<td>1,523.58</td>
<td>1,632.83</td>
<td>1,577.96</td>
</tr>
<tr>
<td>Employment/company</td>
<td>2,156</td>
<td>2,414</td>
<td>2,567</td>
<td>2,780</td>
<td>2,857</td>
</tr>
</tbody>
</table>

In the Figure 6 below, the development situation of current ratio is similar with turnover. There are also setbacks in year of 2007 and 2009. In the Figure 7, there is a gradually positive growth of equity ratio in the Hong Kong hotel companies, especially an outstanding performance between 2007 and 2008, which are both over the 70 percent. The high percent of equity ratio shows the companies have a healthy financial structure, the higher the ratio, the more solvent the company has. In terms for profitability (Figure 8) and turnover growth (Figure 9), it is clear that there is a considerable annual fluctuation in some years; in addition, during the year 2007, the development of financial performance clearly differed from other years’, which further motivates us for analysing the determinants of profitability and turnover growth in the field of Hong Kong listed hotel companies.
**Figure 6:** Current ratio of the Hong Kong hotel companies in 2005-2009

**Figure 7:** Equity ratio of the Hong Kong hotel companies in 2005-2009
5.2 Correlation Matrix analysis

In appendix 4, we illustrate the relationship among those variable into three main parts. Firstly, by only looking at the four independent variables, and we found the SC have a positive and significant correlation both with the variables of INVESTMENT and VALUE (r=0.660, 0.01 level; r=0.368, 0.01 level, respectively). In addition, there is also a positive and significant correlation between the INVESTMENT and VALUE (r=0.397, 0.01 level).

Secondly, this time, we focus on the four dependent variables; as a result, we found there was only one significant correlation among them, which is the positive and
significant correlation between current ratio and equity ratio ($r=0.435$, 0.01 level). This result gives an indication of statistically significant interdependency between the short-term financial ratios describing different aspects of business success. The sign of the correlations is illustrated as there is positive relationship between liquidity and solvency. However, no further information indicates the statistically significant cyclical interdependences between the short and long-term financial ratios.

In last, we could take a pre-test on how the four chosen independent variables affect the financial performance (Appendix 4). From the aspect of both current ratio and equity ratio in the correlation matrix, unexpected, the result shows that there are no significant correlation between the all four independent variables and current/equity ratio, which means by change the amount of staff cost, cost of sales, investment and value, there will affection with company’s financial aspect of liquidity and solvency. Furthermore, the result shows there is negative and significant (0.01 level) correlation with ROA from the SC and INVESTMENT ($r=-0.682$, 0.01 level; $r=-0.453$, 0.01 level, respectively), meanwhile, COS has a statistically significant, positive correlation with the ROA ($r=0.188$, 0.05 level). In last, all of the four independent variables have a significant and positive correlation with the turnover growth, from which the highest correlation is between VALUE and growth % ($r=0.793$, 0.01 level). This result indicators that there might be a problem of multi-collinearity; however, after the test of regression in table 9, we found that the variance inflation factors-VIF are quite small (less than 2), indicating that we do not have a multi-collinearity problem. In short, both of the variables from the cost-leadership and value-added strategy have a statistically significant, positive impact on turnover growth, in addition, both the SC and INVESTMENT have a statistically significant, negative impact on profitability. Furthermore, COS has a positive and significant impact on profitability. Unexpectedly, the four of the independent variables have no significant impact on either liquidity or solvency. Although, there are many unavailable variables, like the hotel pricing strategy and hotel’s reputation, could also affect the financial performance of Hong Kong listed hotel companies, the results of empirical result (Appendix 4) partly support the hypothesis above.
5.3 The findings of Multiple Regression

In this part, we will go through the regression result and analyze the result based on the finding:

Table 9: Standardized coefficients for the respective independent variable in the model

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Current ratio</th>
<th>ROA</th>
<th>Equity ratio</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>R2</td>
<td>0.14</td>
<td>0.513</td>
<td>0.027</td>
<td>0.996</td>
</tr>
<tr>
<td>Adjusted R</td>
<td>-0.023</td>
<td>0.495</td>
<td>-0.010</td>
<td>0.996</td>
</tr>
<tr>
<td>F statistic</td>
<td>0.380</td>
<td>27.668</td>
<td>0.729</td>
<td>6877.562</td>
</tr>
<tr>
<td>Significance</td>
<td><strong>0.823</strong></td>
<td><strong>0.000</strong></td>
<td>0.574</td>
<td><strong>0.000</strong></td>
</tr>
<tr>
<td>Intercept</td>
<td>5.034***</td>
<td><strong>0.027</strong></td>
<td><strong>0.738</strong>*</td>
<td><strong>-0.005</strong></td>
</tr>
<tr>
<td>Number</td>
<td>92</td>
<td>92</td>
<td>92</td>
<td>92</td>
</tr>
</tbody>
</table>

Variables: Coeff

| SC    | **-0.355*** | -0.037 | 0.003 |
| COS   | -1.206      | **0.074** | **-0.015** | **0.997** *** |
| INVESTMENT | 0.263 | **-0.002** | **0.020** | **0.003** |
| VALUE | -0.375      | **0.046** | **-0.031** | **0.976** *** |

Max VIF 1.879

*** Significant at 0.01 level
** Significant at 0.05 level
* Significant at 0.1 level

The table 9 is a combination of four different multiple regressions’ results conducted by the SPSS. At the beginning, we will check whether there is a problem of multicollinearity or not in our models. Therefore, when we look at the value of VIF in the table 9 above, we found that the maximum variance inflation factor (VIF) was 1.879, indicating that there is not problem of multicollinearity, because when the value of VIF is higher than 10, which indicates that there is a problem of multicollinearity (Pallant, 2007, p.167-169).

To be followed, we will assess the influence of company’s strategies through multiple regression model. Table 9 shows the empirical results and the coefficient of each independent variable to the financial indicators.

Liquidity and company’s strategies

Our empirical result suggests Model (1) is weak since the value of R2 is 0.014. Typically the value of R2 below 0.2 is considered weak, between 0.2 and 0.4 implies moderate explanation power, and above 0.4 is considered as strong. In addition, we use the significant level to check whether we can reject the hypotheses or not. If the probability is below than 0.1, then we may conclude that the significance is small enough to reject the null hypothesis. In the Model(1), all predictors in this model are insignificant (P>0.1), which means we cannot reject all null hypothesis, which means the company’s strategies, no matter cost leadership or value creation, have no effect to the selected hotel firms’ liquidity.
**Profitability and company’s strategies**

The result from Model (2) showed the model explanatory power is strong since the R\(^2\) is greater than 0.4, with around 51.3% of variance of the ROA can be explained by different independent variables. This indicates the model (2) is highly reliable. To see if the hypotheses are being rejected or not, we found that staff cost (SC) has a statistically significant (0.01 level), negative impact on profitability, cost of sale (COS) has a statistically significant (0.05 level), positive impact on profitability, and value (VALUE) has a statistically significant (0.1 level), positive impact on profitability, too. By attaining such a significant level from the independent variables form staff cost (SC), cost of sale (COS), and value (VALUE), we could reject the related null hypothesis.

**Solvency level and company’s strategies**

In model (3), the empirical result indicated the R\(^2\) is as weak as Model (1), which is around 0.027 (R\(^2\)<0.2). The significance is 0.574 (P=0.574, P>=0.1), which is not small enough to reject the null hypothesis. In other words, we cannot see a co-related relationship between company’s strategies and the financial performance from the perspective of solvency.

**Turnover growth and company’s strategies**

We found model (4) has the best explanatory power, with R\(^2\) at 0.996, which indicated this model is highly reliable. By realizing the coefficients from cost of sale (COS) and value (VALUE) are significant with a 0.01 level, we can reject the related null hypothesis and make such a conclusion that both cost of sale (COS) and value (VALUE) have a strong effect on turnover growth.

Moreover, in the table 9, when we attempt to find out how the independent variable of staff cost (SC) to affect the financial performances, the result shows that only the coefficients of change in staff cost (SC) with ROA is statistically, negative significant at the 1% level, but with a statistically insignificant impact with other three aspects of financial performance. As a fact, most of tangible investments are recorded in the balance sheet, however, due to the deficiency of suitable accounting methods, intangible investments occurs, e.g., staff training, and other human resources enhancement solutions, are booked as expenses in the income statement. Consequently, the role of intangible investments made for value-added creation might be explained as the positive effects of increased staff cost (SC) on financial performance. Nevertheless, based on our results, this conclusion cannot be made, as staff cost (SC) shows a statistically significant, negative impact on profitability, and insignificant impact on liquidity, solvency, and turnover growth.

Change in cost of sale, as showed in the Table 9, has a positive, moderate relationship with ROA and statistically strong and positive relations with growths at 5 % and 1 % level respectively. When investment exhibits a negative influence on profitability, a small positive impact on growths, its influences is not statistically strong. In addition, the test result also illustrated that the coefficient of change in value are positively related to ROA (profitability) at 10 % significant level, and strongly related with growths with a statistically significant at 1% individually.
The regression test results reveal that both cost leadership and value creation strategies have an impact on the company's profitability and growth. Nevertheless, the impact level and relationship are different.

### 5.4 Discussion

This study aims at finding the impact of company's strategies factors on financial performance of hotel companies in Hong Kong. The company strategies can be identified by various measureable factors, such as staff cost, cost of sale, value and investment. The indicators of financial performance of hotels under our study’s consideration including Return on Asset (profitability), current ratio (liquidity), Equity ratio (solvency level) and company’s competitiveness (Growth).

Deeper analysis of the independent measures’ coefficient indicates the practical significance of the results. The coefficient of staff cost, which represents the influence of cost leadership strategy to various financial performance. The result from Table 9 demonstrate that there is not significant effect from staff cost spending to firm’s liquidity and solvency level. However, the staff cost has strong statistically negative impact on hotel firms’ profitability. There are several explanations for this impact on Hotel Company’s financial performance. First, in the service industry, the staff cost usually take a large proportion in the profit and loss statement, so when there is an increment in the staff cost, the company’s short term profit will be reduced due to larger expenditure in current fiscal years. The demand on staff is closely related to the tourist volume and the local economics, which could be cyclical and volatile. In Chen’s (2009) research, he gave some reasons for the tourism volatility, such as the unexpected nature disaster, The SARS outbreak in 2003 significantly reduced the occupancy rate, profitability, performance of tourist hotels. Due to the inflexibility of fixed property and equipment, it’s no surprise the staff cost become a significance influenced factor to short term profit. On the contrast, the staff cost has little influence on company’s turnover growth, after all the Hotel turnover is closely related to tourism growth and the state of economy. (Chen, 2009, p.669)

On the other hand, the coefficient of cost of sale (COS) indicated that it has moderate positive impact on profitability, but statically strong and positive impact on company’s turnover growth. To the surprise, this finding is inconsistent with the finding from sawmill study, which the cost of raw material was considered as a measure of cost leadership strategy (Lähtinen & Toppinen, 2006). Possible explanation to this unexpected finding will be there are many service provided by the hotels in Hong Kong, such as accommodations, food and beverage, laundry, swimming pools, spa and conference facilities. And most of the cost of sale cover the spending on food and beverages, raw material for value added services, which means those costs might create long-term value to the tourists, which in the end probably have a strong positive impact on company’s profitability and turnover growth.

From Appendix 4, the relationship of investment with profitability (ROA) and Growths are significant correlated at 0.01 levels. However, Investment, which represented the spending on property and equipments, is found no significant link to the changes of companies’ financial performance from regression analysis result. In general, investment from hotel companies will create insiginificance impact on liquidity
profitability, solvency and company’s competiveness. The rationales behind could be in the hotel industry, the investments on hotel operation properties are usually under the lease agreement. There are different ways to handle the properties, since some of them comprises a portions held for rental income and another potions that are held for use of production or supply of goods and services. Usually, if these portions can be sold separately, the company recorded the transactions separately. Nevertheless, if these properties cannot be sold separately, judgment need to be made basic on the usage of properties, the property will be accounted for as investment property if an insignificant portion is held for the usage of production or supply of goods and services. When we collected the data, we encountered the problem of incomplete operational lease data because different hotel companies develop at different stages. To reach a reliable conclusion, we used data from property and equipment eventually. Basic on the findings, we concluded there is not significant impact from company’s investment of properties and equipment to its financial performance. In other words, the amount of operation lease worth a further study.

Lastly, the empirical result indicated there is a small and positive impact from VALUE (marginal revenue) to profitability, strong and positive impact from marginal revenue to turnover growth. VALUE represents the marginal growth of the revenues, which in the end may increase company’s cash flow for the future. This extra cash may end up become the capital for future investment.
6. Conclusion and recommendation

In this section, we will start with our research questions and try to give the answer based on the statistical results, following by the recommendation,

This paper wants to explore the relationship between company’s strategies and financial performance in Hong Kong hotel industry, with the aim of determine what is the impact of the adopted strategies to the financial performance. The findings provided some interesting insight, such as similar measure but opposite findings between service and products industry. The hotel company managers may have more ideas regarding to how to stay ahead in the industry by thinking deeper of the impact from cost leadership and value creation strategies.

Since we set the hypothesis based on the assumption from Balance scorecard, which is all the measures have the cause and effect relationship. Our findings indicate some measures, such as staff cost, cost of sale could have significant impact on company's performance. The managers from Hotel Firms may pay attention to company's future development when the cost staff and cost of sale amount deviate from the ordinary level.

Some of the significant findings are: the cost of sale may generate significant positive impact to the value creation, which is essential to the company’s future competitiveness. This give managers more idea should they scarify the service quality by offering the lower cost services, because this finding is indirectly indicate the trend of customers value quality over price. The finding also indicate the staff contribution is largely align with the short term profit, which is generally recognized in the Hotel industry but get actual attention from the manager perspective. We hope this could give managers in Hong Kong Hotel industry some ideas how to maintain the company's competitive position through front line staff’s contribution. Possible suggestion will be providing clear and well defined goals and easy measured rewarding system within this fast changing and demanding business environment.

Although we cannot find any relationship between the selected independent variables and company’s performance (liquidity & solvency), in future, it is still worthy for us to pay attention to explore what other possible factors contribute to the variance of hotel company’s liquidity and solvency. Both of the measures are related to company’s debt re-payment ability, in addition, they are the essential information to the creditors and potential investors. One possible contributor could be by operating lease payment under cash flow statement as it may require constant cash out flow from the hotel firms. The balance of cash and cash equivalents also shows under the current asset part, in balance sheet. In our study, we didn't study the impact of operating least and cash flow, which any movement of these two variables may potentially influence company's liquidity and solvency.

**Recommendation**

We have mentioned before that the sample in our study concludes only 24 companies due to reasons of data available, information need and time limit (more detailed in the part of “sample and outliers”), out of the 32 companies from the listed Hong Kong listed
hotel companies. Hereby, our recommendations for the further studies are listed as different options below.

First of all, if the study is still based on the Hong Kong listed hotel companies, we recommend the usage of phone call or internal contacts to the companies is probably helpful to collect the data. This is mainly due to the insufficiency data from the annual reports and industry data sources. In addition, it is worthy to make a comparison of financial performance between the whole Hong Kong hotel sector and the listed hotel companies, which helps the readers gaining a deeper understanding about the development of the Hong Kong hotel industry. Besides, more independent variables should be taking into consideration. In this paper, we will suggest operating lease payment and perhaps external variables such as tourist volume and GDP.

Secondly, we suggest broadening the size of sample. Since nature of hotel sector in Singapore is similar to Hong Kong’s, and other factors such as the stage of economic development, the attitude of government, and social structure are also similar. Therefore, by including the hotel companies from Singapore seems an interesting idea to conduct a similar study.

Last but not least, the two suggestions above are based on the quantitative study, and the next one we recommend is based on the qualitative study. In reality, due to the difference on the industry nature and knowledge insufficiency, it is hard to identify which independent variables are suitable to stand for a specific strategy. Nevertheless, by using the method like case of study helps us to detect which variables play a significant effect under a company’s strategy. In our study, we only take the change of PP&E at the continuous years to stand for the investment within a company, and the result shows an insignificant relationship between this variable and all the financial measures. Therefore, with the help of other research methods, it will bring a new insight to conduct a similar further study.

To summarize, further research into this area could be the study of other factors related to hotel operation financial performance, such as operating lease, lease contract duration or even external factors like GDP growths and tourist volume. The outcome may give the contribution to strategic management in Hotel accounting management fields. In addition, an extension study of cross cities study on comparison of strategies influence to financial performance in Hong Kong and Singapore market will be an interesting topic; this may also give some evidence to the success of Hong Kong or Singapore to become popular tourism hub among Asian Pacific Region.
List of Reference

Books


Articles and Journals


Chen Ming Hsiang (2009). The economy, tourism growth and corporate performance in the Taiwanese hotel industry, Tourism Management, 31; 5, 673


Flint, Gerald David, (2000). What is the Meaning of Competitive Advantage? Advances in Competitiveness Research, 3-8


**Web pages**


**Annual Reports (Printed and Electronic)**


Appendix 1: Companies included in the study

1. Allied Properties (H.K.) Limited
2. Asia Standard Hotel Group Limited
3. Associated international hotels Ltd
4. China Star Entertainment Limited
5. China Travel International Investment Hong Kong Limited
6. City e-Solutions Limited
7. Emperor Entertainment Hotel Limited
8. Emperor International Holdings Limited
9. Far East Consortium International Limited
10. Far East Hotels & Entertainment Limited
11. Golden Resorts Group Limited
12. G-Vision International (Holdings) Limited
13. Harbour Centre Development Limited
14. Hong Kong Ferry (Holdings) Company Limited
15. Hongkong and Shanghai Hotels, Limited
16. Miramar Hotel and Investment Company, Limited
17. Regal Hotels International Holdings Limit
18. Shangri-La Asia Limited
19. Sino Hotels (Holdings) Limited
20. Shun Cheong Holdings Limited
21. Tian An China Investments Company Limited
22. Tian Teck Land Limited
23. Xpress Group Limited
24. Yau Lee Holdings Limited
Appendix 2: Histogram test

![Histogram of Current Ratio](image1)

- Mean = 0.02
- Std. Dev. = 12.327
- N = 119

![Histogram of ROA](image2)

- Mean = 0.73
- Std. Dev. = 7.049
- N = 116
Appendix 3: Boxplot test
### Appendix 4: Pearson correlation matrix for all variables between year 2005 and 2009 (the above and below the diagonal, respectively)

<table>
<thead>
<tr>
<th></th>
<th>Staff cost (SC)</th>
<th>Cost of sale (COS)</th>
<th>Investment</th>
<th>Value</th>
<th>Current ratio (%)</th>
<th>Equity ratio (%)</th>
<th>ROA (%)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff cost (SC)</strong></td>
<td>1</td>
<td>-.015</td>
<td>.660**</td>
<td>.368**</td>
<td>-.058</td>
<td>.028</td>
<td>-.682**</td>
<td>.282**</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.879</td>
<td>.000</td>
<td>.000</td>
<td>.547</td>
<td>.775</td>
<td>.000</td>
<td>.000</td>
<td>.003</td>
</tr>
<tr>
<td><strong>Cost of sale (COS)</strong></td>
<td>-.015</td>
<td>1</td>
<td>-.076</td>
<td>.027</td>
<td>-.085</td>
<td>-.050</td>
<td>.188*</td>
<td>.627**</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.879</td>
<td>.432</td>
<td>.781</td>
<td>.377</td>
<td>.607</td>
<td>.050</td>
<td>.000</td>
<td>.004</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>.660**</td>
<td>-.076</td>
<td>1</td>
<td>.397**</td>
<td>.006</td>
<td>.119</td>
<td>-.453**</td>
<td>.269**</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.000</td>
<td>.432</td>
<td>.000</td>
<td>.950</td>
<td>.214</td>
<td>.000</td>
<td>.000</td>
<td>.004</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>.368**</td>
<td>.027</td>
<td>.397**</td>
<td>1</td>
<td>-.040</td>
<td>-.038</td>
<td>-.127</td>
<td>.793**</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.000</td>
<td>.781</td>
<td>.000</td>
<td>.679</td>
<td>.692</td>
<td>.184</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td><strong>Current ratio (%)</strong></td>
<td>-.058</td>
<td>-.085</td>
<td>.006</td>
<td>-.040</td>
<td>1</td>
<td>.435**</td>
<td>.137</td>
<td>-.078</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.547</td>
<td>.377</td>
<td>.950</td>
<td>.679</td>
<td>.000</td>
<td>.154</td>
<td>.415</td>
<td>.058</td>
</tr>
<tr>
<td><strong>Equity ratio (%)</strong></td>
<td>.028</td>
<td>-.050</td>
<td>.119</td>
<td>-.038</td>
<td>.435**</td>
<td>1</td>
<td>.117</td>
<td>-.058</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.775</td>
<td>.607</td>
<td>.214</td>
<td>.692</td>
<td>.000</td>
<td>.222</td>
<td>.546</td>
<td>.010</td>
</tr>
<tr>
<td><strong>ROA (%)</strong></td>
<td>-.682**</td>
<td>.188*</td>
<td>-.453**</td>
<td>-.127</td>
<td>.137</td>
<td>.117</td>
<td>1</td>
<td>.010</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.000</td>
<td>.050</td>
<td>.000</td>
<td>.184</td>
<td>.154</td>
<td>.222</td>
<td>.916</td>
<td>.916</td>
</tr>
<tr>
<td><strong>Growth (%)</strong></td>
<td>.282**</td>
<td>.627**</td>
<td>.269**</td>
<td>.793**</td>
<td>-.078</td>
<td>-.058</td>
<td>.010</td>
<td>1</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.003</td>
<td>.000</td>
<td>.004</td>
<td>.000</td>
<td>.415</td>
<td>.546</td>
<td>.916</td>
<td>.916</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).
Appendix 5: Normal P-P Plot of Regression Standardized Residual

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: current ratio

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: equity ratio