



Mediating effect of competitive advantage on the relationship between corporate strategy and business performance

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Abstract

This study examined the effect of competitive advantage on the relationship between corporate strategy and business performance. It also examined the effect of corporate strategy and competitive advantage on business performance. A total of 222 hotel managers participated in this study based on self-administered questionnaires. Smart Partial Least Squares (PLS) analysis was employed to analyze the obtained data. The study revealed that corporate strategy has a positive and significant effect on business performance and competitive advantage. Competitive advantage was also found to have a positive and significant effect on business performance. The study revealed that competitive advantage has significantly mediated the relationship between corporate strategy and business performance. The study provides support for both practical and theoretical reference values.

Keywords: Corporate Strategy, Competitive Advantage, Business Performance

1. Introduction

In the era of global business competition, organizations should be able to adapt with changes and take initiatives towards meeting customer needs. The degree towards achieving the goals and objectives of organizations depends on many factors such as organizational culture, leadership, and strategy. Strategy is important as it determines the determination of the long-term goals and objectives of an organization and the adoption of actions, and the allocation of resources necessary for carrying out these goals [1]. Previous studies indicated that the business performance of an organization is significantly related to its corporate strategy and the ability to gain competitive advantage. Business performance has been highlighted as a criterion variable that is influenced by many factors [2]. Corporate strategy is one of the factors that has been associated to the success of business organizations [3]. While many researchers have indicated a great interest on the link between corporate strategy and business performance, the concept appears as equivocally understood and unclearly defined. The proliferation of definitions has led to confusion among researchers due to the distorted boundaries of corporate strategy and rather ambiguous definitions. This suggests that the concept of corporate strategy is internally inconclusive and incomplete. Further, the majority of corporate strategy literature has been individually and linearly linked to organizational outcomes such as business performance. Empirical evidence revealed that there are mixed results on this linear relationship. Thus, it offers an opportunity to explore other variables that might enhance the link between corporate strategy and performance. Furthermore, despite the importance of this topic, to date little is known on the extent of a mediator factor such as competitive advantage having a significant influence on the relationship between corporate strategy and business performance in the Malaysian context. Moreover, previous studies were frequently devoted within the boundaries of big organizations and

in developed countries, leaving a research gap in the Eastern context.

Specifically, this study attempts to examine the relationship between corporate strategy and business performance of the hotel industry in Malaysia. It also aims to elucidate the mediating effect of competitive advantage on the relationship between corporate strategy and business performance in the setting of the hotel industry in Malaysia. A plausible research in this area is timely as the hotel industry contributes to 13.7% of gross domestic product (GDP) in 2016 and is considered as a key player towards achieving economic growth in Malaysia [4]. The study contributes to the body of knowledge and practical reasons. Specifically, it provides an added value to a growing body of knowledge in business performance. Data on business performance of the hotel industry is highly required as it will contribute towards effective management. The analysis of data using partial least squares (PLS) in the study helps to test the robustness of resource-based theory (RBT) by Barney within the context of performance of the hotel industry.

2. Literature review

Enormous studies have been devoted towards linking strategies and performance [5]. An examination of strategic management and performance literature indicates that the issues arising in hotel industries are epitomized from strategy-related matters. Further, ineffective strategies lead to poor strategy that will jeopardize business performance [6]. Researchers have alluded that good formulated strategies would not be an assurance for superior performance. Samad et al. [7], asserted that superior performance would only be realised with correctly matched strategies and environments within an organization. This implies that various types of resources in uncertain and predictable environments would potentially influence business performance.

2.1. Corporate strategy and business performance

Resource base theory [8] posits that heterogeneous decision skills are resources that are pertinent to the decision made at corporate strategy level. It will help business firms to decide the right strategy to achieve superior business performance. A corporate strategy that related to environmental aspects incorporate intangible and tangible resources, and is considered as a comprehensive process which is important in the planning of business strategy [9]. While previous studies support the hypothesis such that corporate environmental strategy is related to performance, scholars are persistently contending it is a plausible research [3]. This is because firstly, previous results regarding the influence of corporate strategy on performance are inconclusive. Secondly, the perceived costly implementation of corporate environmental strategy has discouraged firms to apply this strategy. Thus, this study proposes the hypothesis H1: Corporate strategy positively influences business performance.

2.2. Corporate strategy and competitive advantage

It is assumed that the ability of firms to create values that meet customer needs is gauged by the competitive advantage of the firms. Scholars have shown interest on the influence of environmental related matter in hotel business industries and its effects on product and services [10]. Tien et al [11] supported that corporate environmental strategy lead towards improvement in production process, quality and cost reduction. It would also generate a positive organizational image and enable firms to gain competitive advantage [12]. This achievement signifies the competitive advantage and business performance and survival of a firm. Based on these arguments, it is hypothesized that corporate strategy positively influences competitive advantage (H2)

2.3. Competitive advantage and business performance

Barney [8] postulated that competitive advantage would materialize via the ability of firms to create economic value and from competing firms that are engaging in similar actions. This suggests that the ability of a firm to create better economic value with regards to its competitors is one of the key characteristics of competitive advantage. Samad et al [7]. asserted that competitive advantage results in superior business performance. Moreover, only through acquisition of competitive advantage that superior performance could be achieved [6]. Competitive advantage is one of the key conditions for exceptional performance and is perceived as a unique internal resource as postulated in Resource base theory (RBT). Hence, this study hypothesizes that competitive advantage positively influences business performance (H3).

2.4. Mediating effect of competitive advantage

Despite the positive link between corporate environmentally-related strategies and business performance, Suksri & Chobpichien [13], argue that this relationship would be better if it is enhanced with other variables. Wang & Huynh [14] postulated that competitive advantage serves as the mediator to facilitate the relationship between corporate strategy and business performance. Competitive advantage has mediated the inter-relationship among environmental-related matters, firm performance, and sustainable growth [15]. Within the spectrum of hotel industry, RBT asserts that the relationship between corporate environmental related strategy and performance should be auspiciously integrated with competitive advantage to achieve superior business performance. This strategy has contributed significantly on cost reduction, as well as on quality and differentiation in service and product, which ultimately enhances business performance [6]. Deriving from the above contention, it is assumed that perceived superior values possessed by customers towards the influence of firm strategy on business performance could be enhanced by competitive

advantages in terms of cost, quality and differentiation. Thus, the study hypothesizes that competitive advantage positively mediates the relationship between corporate strategy and business performance (H4).

2.5. Business Performance

Debates within the academic circle on business performance are related to its definition, conceptualization, and measures [8]. Prior to 1980s, financial perspective has dominated the definition and indicators of business performance. Since this definition is claimed to be narrow, Samad et al [2]. suggested a combination of financial and subjective aspects which include the operational performance of a firm. Kaplan & Norton [16] has also proposed a balance scorecard (BSC) model to measure both financial and non-financial business performances in organizations. Even though scholars have offered differing aspects of business performance, they share a common essence that portrays both financial and subjective attributes. This study proposes business performance measure in terms of financial and non-financial performance to examine the holistic business performance in Malaysian hotel industry.

3. Materials and methods

3.1. Data collection and measurement

The sample in this study consisted of 222 hotel managers in Malaysia. A total of 250 self-administered questionnaires were distributed based on random sampling from the sampling framework of the Malaysian Association of Hotels (MAH) directory. 222 useable questionnaires were analyzed, yielding a response rate of 89%. The sample size is based on Sakaran [17] which states that a sample of at least 50-500 is sufficient for social sciences studies. The questionnaire consisted of four sections. The first section was about respondent profile. The second section consisted of questions on four corporate strategies which measured strategy related to environmental aspects, namely internal orientation, external orientation, environmental strategy, and marketing strategy that contained 16 items adopted from Banaerjee [18]. The third section was on competitive advantage which measured two dimensions; product quality and cost, and technology adopted from Ramli and Ismail.¹⁹ Finally, the fourth section measured four dimensions of business performance; financial performance (4 items), marketing performance (5 items) adopted from Ramli and Ismail [19], environmental physical (4 items), and environmental efficiency (4 items) adopted from Jorge et al. [20] All items in this study were measured using the five-point Likert scale ranging from strongly disagree (1) to strongly agree (5)

3.2. Respondent profile

Demographic data revealed that the majority of respondents were operations manager (38.5%), followed by environment manager (23.8%), quality manager (15.6%), finance manager (11.5%), and general manager (10.6%). About 18.9% of the hotels were resorts, 74.6% were businesses and others (6.5%). Meanwhile, 50.8% of the hotels were in the 3-star category, 37.7% (4 stars) and 11.5% in the 5-star category. Most of the hotels were receiving local and foreign guests (55.7%), followed by hotels receiving local guests (25.4%), and 18.9% of hotels receiving foreign guests.

3.3. Data analysis and results

The first step in the analysis was the examination of a common method variance using a method based on Harman's single factor test. This test requires the researcher to enter all the principal constructs into a principal factor analysis component. Common method bias exists if the principal constructs of inter-correlations used in the correlation matrix indicates that the correlations are large,

with $r > 0.90$ [21]. Upon analyzing the factor analysis for all the constructs it was found that all factors solution explained 74.36% of the variance, indicating no serious issues on method bias. Method bias was also not a problem based on the absence of ≥ 0.9 values existing in the intercorrelations. The highest intercorrelation was 0.645. The next step was the analysis of research model using Partial Least Squares (PLS) as suggested by Ringle et al. [22] Two analytical procedures of measurement and structural models were performed. The measurement model was to measure the reliability and validity, while structural model was to test the hypothesized relationship. The path coefficients and a bootstrapping procedure (5000 re-samples) were performed to test the significance of the path coefficients and the loadings [23].

3.3.1. Measurement model

To assess the measurement model, convergent validity and discriminant validity analyses were performed.²³ Convergent validity refers to the degree to which two measures of constructs are theoretically related. The measurement is determined by assessing the loadings, average variance extracted (AVE), and the composite reliability. The common criterion used to assess the convergent validity is the AVE. AVE was calculated by the sum of the squared loadings of indicators related to the construct and divided by the number of the indicators. The rule applied in the AVE is that the construct should explain more than half of the variance of its indicators [23]. Thus, the threshold of AVE value should be > 0.50 . The loadings in this study were all higher than the suggested threshold of AVE (0.05). Meanwhile, discriminant validity is the degree to which items are differentiated among constructs or the measure of distinct concepts, and was assessed based on the criterion [24]. In this method, the AVE value is compared to the correlation of latent variables. The rule is that the square root of AVE for each construct should exceed the correlation with any other constructs. The square root of the AVE, in this study were greater than the values in the row and columns on that particular construct, indicating that the measures are discriminant.

3.3.2. Structural model

Structural model was employed to answer the hypotheses of the study with the results depicted in Table 1 and 2. To assess the structural model in this study, the significance of the path coeffi-

cients, the level of the R^2 values, f^2 effect size and Stone-Geisser's Q^2 value were examined. This can be performed via a bootstrapping procedure with a resample of 5,000. In the structural model, R^2 value represents the coefficient of determination. R^2 is also known as the coefficient of multiple determination for multiple regression which measure how close the data are to the fitted regression line. Cohen [25] suggested that R^2 values for endogenous latent variables are assessed based on are based on the rule of thumb of **0.26 (substantial)**, **0.13 (moderate)** and **0.02 (weak)**.

In the structural model, the study examined the corporate strategy components as the predictor of business performance. The results revealed that corporate strategy ($\beta = 0.189$, $p < 0.05$) was positively related to business performance, explaining 17.9% of variance in business performance. In the next analysis, corporate strategy was examined as a predictor of competitive advantage. The results found that corporate strategy ($\beta = 0.318$, $p < 0.01$) was positively related to competitive advantage, explaining 31.5% variance in competitive advantage. Consequently, competitive advantage was examined as a predictor of business performance. It was found that competitive advantage ($\beta = 0.304$, $p < 0.01$) was positively related to business performance, explaining 16.6% of variance in business performance. Hence, hypotheses H1, H2 and H3 in the study were supported. The R^2 values of 31.5%, 17.9% and 16.6%, which were all greater than 0.13 indicate a substantial and moderate level of effect on business performance [25].

3.3.3. Mediation effect

Mediation analysis was performed to answer the hypothesis H4 (see Table 2). For this purpose, technique of re-sampling procedures of 5000 was conducted on indirect effect sampling distribution. The bootstrapping analysis showed a significant mediation effect of competitive advantage on corporate strategy and business performance relationship with value of $\beta = 0.198$ ($0.331 * 0.597$) and a t-value of 3.714. Consequently, the findings revealed that the indirect effects of 95% Boot confidence interval (CI) corrected bias: [LL(lower level) = 0.085, UL(upper level) = 0.291] did not straddle a 0 in between the level, indicating that there is mediation effect. Thus, the data obtained support the hypothesis H4; that there is significant mediation effect of competitive advantage on the relationship between corporate strategy and business performance.

Table 1: Result of Hypotheses Testing

Hypothesis	Relationship	Path Coefficient	Std. Error	t-value	Decision	R^2	f^2
H1:	Corporate Strategy -> Business Performance	0.189	0.099	1.890*	Supported	0.179	0.03
H2:	Corporate Strategy -> Competitive Advantage	0.318	0.082	3.664**	Supported	0.315	0.248
H3:	Competitive Advantage -> Business Performance	0.304	0.109	2.781**	Supported	0.166	0.081

Table 2: Result of Mediation Analysis

Hypothesis	Relationship	Path Coefficient	t-value	P Value	Decision
H4:	Competitive Advantage Corporate Strategy -> Business Performance	0.198	3.714	0.000	Supported

** $p < 0.001$, * $p < 0.005$

4. Discussion and conclusion

Findings of this study revealed that corporate strategy positively influenced business performance. A positive and significant effect of corporate strategy on competitive advantage was also found from the findings. These findings are consistently parallel to previous research [26]. The study also proved that there is positive and significant effect of competitive advantage on business performance. The result is closely parallel to the previous study by Aziz & Samad [6]. Finally, it was revealed that competitive advantage has mediation effect on the relationship between corporate strategy and business performance. The results validate previous research findings by Suksri & Chobpichien [13]. This suggests that competitive advantage plays a critical role in enhancing the relationship between corporate strategy and business performance of the hotel industry in Malaysia. The study provides valuable insights on the robustness of RBT in explaining the model of business performance in Malaysian context, particularly in hotel industry. This paper however has limitations as it is based on a quantitative approach and it was conducted for a single industry only, which limit the generalization of the results of the study across other industries. Future research may explore other approaches of methodologies and in different industries.

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