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COST LEADERSHIP STRATEGY AND PERFORMANCE OF HOTELS IN NIGERIAN CONTEXT

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ABSTRACT

The important achievement in any market place is competitive advantage. This paper examines cost leadership strategy on performance hotels. After extant literature review the research used quantitative survey approach to analyze the hypothesized relationships. The paper employs census sampling to collect data from the manager/owner of hotels Kano State Nigeria. The data were analyzed using partial least square (PLS) method one of the 2nd Generation statistical tool of analysis. The findings of this study indicate that cost leadership strategy have direct significant positive relationship with hotels performance, The result signifies the appropriateness of PLS in analysis and has contributed better understanding of cost leadership strategy influence on hotels performance. Similarly, finding of this study can assist practitioners and policy makers in Hotels industry support the idea of business level strategy in designing strategic plan for superior performance. Finally, study implications for theory and practice, limitations, conclusions as well as direction for future research were provided and discussed.

Keywords: *cost leadership strategy, performance, Nigerian hotels*

INTRODUCTION

One of the most important ingredients of success in the market place is competitive advantage (Valipour, Birjandi & Honarbakhsh, 2012). For any organization to operate successfully, it must establish itself and match between itself and the environment in which it is operating. The environmental forces could either be the internal multifaceted activities, a firm's immediate external environment, or even the remote external environment all of which contribute to making the business environment complex. Therefore all the environmental factors must be anticipated, monitored, assessed, and incorporated in top level decisions making. This complexity and sophistication of the environment necessitates strategic management (Pearce and Robinson, 2002; Valipour *et al.*, 2012). Therefore, the success and survival of any organization depends on how well it is able to relate and competitively position itself in the environment.

Porter (1980) argues that a cost leadership strategy and a differentiation strategy can both lead to success but understands cost and differentiation advantages as discrete alternatives

Consequently, only those companies able to focus on one will achieve superior performance. This proposal has given rise to a prolific debate that has yet to be resolved (Gonza´ lez-Benito & Sua´ rez-Gonza´ lez, 2010; Valipour *et al.*, 2012). Hospitality industry in Nigeria, particularly Kano State, even though still at it low level of activities and growth offers vast opportunity to investors to explore the tourism potentials of the State. To succeed, investors must understand the interplay of success factors in the industry.

This demands that the hotel owners and managers devise competitive strategies to enable competitive positioning of their businesses. Hotels offer very essential services to all categories of people: men, women, and children. Demand for these services is even increasing as the society becomes engaged in other economic activities and thus seeks for ready quality foods, cost efficient and services delivery, the services offered by the hotels do not face a high threat from substitute products. Owing to the uniqueness of this industry and the conclusions of the previous studies, it is worth carrying out this study.

Hotels like other small and micro enterprises (SMEs) face other unique challenges like lack of quality access to requisite information, unavailability of credit, poor market research, and poor market for their products/services. Despite these challenges, they continue to play a major role in providing employment opportunities. In Nigeria, an equally strong economy also driven by oil production has positioned the nation for lodging development. From 2008 through 2012, the nation experienced average annual GDP growth of 7%, achieving US$262.6 billion in 2012. Lagos, Nigeria's capital city, currently boasts one of the highest hotel rates among African destinations, achieving an average daily rate (ADR) of US$277 as of YTD September 2013; the higher rates in Lagos primarily result from limited hotel room supply and the significant influx of business travelers drawn to the country's natural resources. Nevertheless, despite the importance of business strategy (cost leadership and environment) in creating competitive advantage, there has been relatively little attention devoted to the business strategic activities of Hotels industry particularly in the context of Nigeria. Even less is known about how Hotels industry use social networking relationships developed with external entities to obtain resources and capabilities to bolster their business strategy and build competitive advantage.

Previous studies reveal that strategic management, which is about competitiveness in the market place leads to improved performance far more than it results in no change or even poorer performance (Hunger & Wheelen, 1995). Other studies have found that the link between strategy and performance was lessened by situational variables, such as a focus on manufacturing and profitability (Davis & Schul, 1993; Zahra, 1993). Many studies revealed the existence of competitive strategies in different firms. However, they did not examine the effect of these strategies on the performance of the Hotels industry particularly in the context of Nigeria. Also these studies done in Nigeria did not relate competitive strategies to performance; yet others done elsewhere revealed mixed conclusions. Therefore, to address this research gap, this study aim at examining the effect of cost leadership on performance of Nigerian Hotels industry, using data from a developing economy in sub-Saharan Africa —Nigeria.

LITERATURE REVIEW

Cost Leadership and Performance Relationships

Most businesses seeks for a high imperative competitive advantage; Porter's generic strategies presently is suitable and capable to serve as a guide for global business in describing the relevant strategy to accomplished its goals and attained high performance (Barjandi, Jahromi, Darasi & Birjandi, 2014; Christopher, 2011; Valipour, Brijandi & Honarbakhsh, 2012; Teeratansirikool, *et al.*, 2013). It is very clear to say that most of the gainful challenger in industry/sector tries to adapt relative price/cost maker or provider of goods with utmost alleged standards (Barjandi *et al.*, 2014; Christopher, 2011). Thus; the motivation of cost leadership strategy is the extent to which organizations offers small price of goods/services in a business environment.

Therefore, business pursuing a business level strategy of cost leadership will have advantage more in terms of the improved administrative competence (Jermias, 2008 & Barjandi *et al.*, 2014). In addition, Porter generic strategy (1985) recommended that companies that employs cost leadership strategy most reduce and monitor costs strongly, preventing them from having much expenditure in terms of creativity or advertising, companies should also reduce cost while trade their products or services (Valipour *et al.*, 2012). In addition, generic strategy stress using the business level strategy of cost-leadership perhaps to assist companies to achieve competitive advantage which will give a firm a protection alongside with their rivals. The cost leadership indicates that the business can maintain and make profits and at the same time its competitors may possibly shatter behind the profit boundary (Barjandi *et al.*, 2014; Valipour *et al.*, 2012 & Teeratansirikool, *et al.*, 2013).

Numbers of researches have been carried out in relation to cost leadership strategy and performance. Among the studies which reported a positive association includes: Parrell, (2010) in his survey of retail business in USA found that business level strategy is significantly related to performance of retail business, in the same vein, Banker *et al.* (2014) in their study on firms with intangible assets, the results show that the two business level strategy (cost leadership and differentiation strategies) have a significant effect on contemporary performance. Nandakumar *et al.* (2011) revealed that business that employ only one of the strategies, specifically cost-leadership or differentiation, will likely perform or give good result than stuck-in-the-middle firms which do not have a prevailing strategic point of reference (Nandakumar et al., 2011).

Dess and Davis (1984) also found that considering both differentiation and cost leadership can give a superior sales increase and ROA (Banker *et al.*, 2014). Hoque (2004) found there was an association between strategy type and organizational performance. However, some others were unable to reveal such link (Banker *et al.*, 2014; McGee and Thomas, 1986, 1992), or they have established that the association is not as higher due to some situational variables (Banker *et al.*, 2014; Davis & Schul, 1993; Zahra, 1993 & Nandakumar *et al.*, 2011).

Further, low price lead to higher demand of good/services and will result to a target market share within the environment (David, 2008 &Hilman, 2009). With cost leadership position, a business can actually have a barrier against new market entrance that may need large amount of capital to make an entry (David, 2008 & Hilman, 2009). Moreover, cost leadership strategy is related to cost of facilities, operation; overheads, and cost saving from experiences but it's relatively economical in areas like R&D, services, sale force, training and development, and advertising (Hilman, 2009). Considering the Porters generic strategy only one firm in a business can be the cost leader (Davilson, 2001; Hilman, 2009). If this is the only difference between a business and its competitor, the best choice is certainly the cost leadership role (David, 2008; Hilman, 2009). Though, the cost leadership strategy does have disadvantages because it creates little customer loyalty, and if competitors have lower prices it may lose revenue (David, 2008; Hilman, 2009). This is the main reason why businesses combine other generic strategy (Hilman, 2009).

There are few researches in rising or developing markets among them were: Gopalakrishna and Subramanian, 2001 (India); Hilman and Kalippaen, 2014 (Malaysia); In the context of Nigeria, study like Agbin and Idris, (2015); Musa *et al.* (2014) and Okin, (2015) had reported different findings due to varied construct and this include the hotels industry (Agbin & Idris, 2015; Musa *et al.* 2014).

Thus, based on previous study, it shows there are paucity and conflict in the competitive strategy researches that examines the association involving business level strategy and firms performance. Similarly, the main issue that remains unresolved are – what strategic place (component) will result to constant improvement in business performance over long period of time (Banker *et al.*, 2014). Based on these arguments, this study seeks to propose the following hypothesis:

H_1: There is a significant effect of cost leadership on performance of hotels in Nigeria

The following subsection discuss on Underpinning theory that explain the relationship among the constructs of the study.

UNDERPINNING THEORY

Resource Based View Theory

The resource based view (RBV) is one of the widely known theories related to firm performance. Following the work of Wernerfelt (1984), RBV became an influential theory within the field of strategic management. The foundation of the RBV can be traced back to earlier works that emphasized on the significance of resources in enhancing firm performance (Chandler, 1962; Penrose, 1959). The RBV postulated that the basis for competitive advantage of a firm depends on the organization's ability to utilize the bundle of valuable intangible and tangible resources available for the organization (Barney, 1991; Rumelt, 1984; Wernerfelt, 1984).

Resource based view/theory originated from the effort of Penrose (1959) describing firm as combination of resources. Therefore, firm performance largely relies on the capability of the firm to best utilize the available resources. Later Barney (1991) provided a more description of RBV theory, and defined firm resources as assets, capabilities, procedures, characteristics and knowledge that can be used by the firm to formulate and implement competitive strategies. Organizational resources are assets or entities that can be used by the organization strategically to maintain competitive advantage (Daft, 2009). This is in line with Peteraf (1993) that situation essentially can persist competitive advantage include superior resources (heterogeneity inside an industry), retroactive competition, imperfect resource mobility and proactive to competition. Resources contributed to competitive advantage when they are diverse from different angle of the firms, not easily to be share from one firm to another and cannot be replicate before or after implementation of the firm's competitive place (Peteraf, 1993). Thus, RBV in this study explain how hotels can used cost leadership in achieving greater performance.

METHODOLOGY

Sample and Data Collection

The research setting is cross-sectional and survey designed using the quantitative method of administering (Gorondutse, 2014). The study unit of analysis was organization. Similarly, it is found that the population during the study was 83 hotels in Kano Nigeria (Kano Tourist Board, 2015). This study adopted the census where every unit in a population is being selected, and this known as complete census. The choosing census as sample size becomes necessary due to small number of population. In additions, the census provide a true measure of population no sampling error, it also provide quit reliable and accurate result (Hilman & Kaliappen, 2014; Zikmund, Babin, Carr & Griffin, 2010).

Partial Least Squares Structural Equation Modelling (PLS-SEM) was adopted for this study due the complexity of the research model. This line with (Haenlein & Kaplan, 2004; Hair, Sarstedt, Ringle, & Mena, 2012) that PLS-SEM is more suitable for model with high number of exogenous latent variables explaining small number of endogenous latent variables. Particularly, PLS-SEM is well enhanced to be used as a research tool in marketing, and other social sciences. Similarly, PLS-SEM is more robust in handling non normal data because it has flexible assumptions about the normality of the distribution of variables (Henseler, et al., 2009). Therefore, this study will use SmartPLS v2.0 to determine discriminant validity, convergent validity, and test of the stated hypothesis.

Measurement

Cost leadership strategy in this study is measured as the extent to which hotels with regards to experience, ventures in facilities, maintenance and cautious and control on the total working cost and the purpose for using the strategy of cost leadership is to get the benefit by dropping the economic costs in the midst of its rivals (Barney, 2002; Birjandi et al., 2014). Hence, the study operationally measure cost leadership as independent variable measured using 6 items adapted from (Nandakumar et al., 2011) and modify to suit the context of hotels, which reveals higher internal consistency reliability Cronbach alpha of 0.825 (Nandakumar et al., 2010). All the 6 items will be measured using seven point Likert-type scales (1 = Strongly Disagree - 7 = Strongly Agree).

Performance is operationalized as extent to which business records a success or otherwise in a given period of time. The performance scale in this study uses both objective (financial) and subjective (non- financial) measures is adapted from the evaluated using items adapted from Hilman (2009) and Kaplan and Norton (1996). Respondents were requested to specify the performance of their hotels in the past three years as compared to the performance of their key opponents in the industry (1= Much Lower to 7= Much higher). Table 1 presents respondents' demographic information.

Table 1: Profile of Respondents

	Categories	**Frequencies**	**Percentage**
Gender	Male	52	89.70
	Female	6	10.30
Job Title	Chief Executive	4	6.90
	General Manager	21	36.20
	Manager	29	50.00
	Others	4	6.90
Location	Headquarters	44	75.90
	Branches	8	13.80
	Subsidiary	5	8.60
	Others	1	1.70
Education	SSCE/Undergraduate	0	0
	Diploma	11	19.00
	Degree/HND	27	46.60
	Master	17	29.30
	Others	3	5.10
Ownership	Individual	41	70.70
	Partnership	2	3.40
	Joint venture	11	19.00
	Other	4	6.90

Total asset	Lessthan 5 million	1	1.70
	Between 6 – 10 million	5	8.60
	Between 11 – 20 million	11	19.00
	Between 21– 30 million	2	3.40
	30 million and above	4	69.00
Years of existence	Less than 1 Years	8	13.80
	1– 5 Years	7	12.10
	6 - 10 Years	13	22.40
	11-15 Years	26	44.80
	15 years and above	4	6.90

RESULTS AND DISCUSSION

After preliminary analysis that is treatment of missing value and outlier both Univariate and Multivariate in line with previous research (Gorondutse & Hilman, 2014). This paper analyse the results as follow:

Mean and Standard Deviation

Mean is the common measure of central tendency, which is considered to be the average value of the data set (Hair et al., 2013; Sekaran & Bougie, 2013). Equally standard deviation is a measure of variability, or spread, which provides an index of dispersion in the data set and it is the square root of variance (Hair et al., 2013; Sekaran & Bougie, 2013). Mean and standard deviation are considered to be the important descriptive statistics for interval and ratio scale (Sekaran & Bougie, 2013). The present study used seven point Likert scale. Table 2 under describes the mean and standard deviation of the two variables used in this study. Cost leadership recorded the highest mean (M = 4.99, SD = 0.62). Therefore, the entire variables means were in the range of high level.

Table 2: Variables Mean and Standard Deviation of the Study

Items	Description	Mean	SD
1	Performance	4.95	0.91
2	Cost leadership	4.99	0.62

CONFIRMATORY FACTOR ANALYSIS (CFA)

This section describes the results of confirmatory factor analysis which are presented in this study by employing principal component analysis method. It is pertinent to note that questionnaire in this research were adapted from earlier studies; hence this study only undertook the CFA. Smart PLS 2.0 M3 (Ringle *et al*., 2005) has an inbuilt features that takes care of the confirmatory factor analysis. Under model evaluation issues concerning measurement and the structural/hypothesized models are treated. However, an assessment of the measurement model is provided in detail bellow.

Measurement Model

Measurement model is intended at ensuring that the model specification is valid and reliable. Thus, Esposito vinzi *et al.* (2010) argument clearly pointed out the rules of thumb as, for an outer loading to be considered such a model should be 0.5 and higher than, at the same time average variance extracted (AVE), it ought to be greater than 0.5 also. Based on this above argument, all the items with outer loading below 0.5 were deleted beginning with the one with the lowest value, a technique which according to Hair *et al*., (2012) is very appropriate because it improves data quality.

Additionally, a detailed description of the modeling procedures as pointed out by Anderson and Gerbing (1998) is also considered. They provided a two-step modeling approach to determine the quality of items used for measurement and secondly to be able to estimate the relationship between models. These two approaches are also discussed as measurement model and structural model (Hair *et al*., 2012). Several relationship effects involved in the present study, hence, the use partial least squares is employed as suggested by Chin *et al.* (2003) and Smart PLS software (Ringle *et al*., 2005) was used for this study which can be able to assess the reliability and validity as well as testing the structural /hypothesized model. An examination of the loadings and cross loadings serve as a pre requisite for ascertaining the convergent validity is shown in Table 3.

Table 3: Item Loading and Cross Loading

Items	FP	CL
FP01	0.906	0.505
FP02	0.936	0.610
FP03	0.914	0.610
FP04	0.790	0.589
FP06	0.789	0.590
CL02	0.529	0.790
CL03	0.601	0.835
CL04	0.526	0.901
CL05	0.573	0.790
CL06	0.530	0.856

Convergent Validity

Convergent validity is used with a view of ascertaining the construct validity for this research. Bagozzi, Yi and Philips (1991) and Hair *et al*., (2010), viewed this as the degree to which a place of construct meets in measuring the concept on the construct (Bagozzi, *et al*., 1991; Hair, *et al*., 2010). This method has been recorded in previous literature particularly using benchmark of Average Variance Extracted (AVE),Composite Reliability (CR), and the result of this research indicated they are higher and statistical significant that measure individual variable of the study with 0.7 and above, CR 0.7 above and AVE 0.5 and above (Bagozzi, *et al*., 1991; Hair, *et al*., 2010).

Looking at the Table 4 reveals that the AVE values between 0.699 and 0.756 and the CR values of the constructs above the recommended assessment of 0.7, which ranges between 0.929 and 0.939 it, can be established that the measurement model has a sufficient degree of convergent validity.

Table 4: Construct Convergent Validity and Reliability

Variable	Items	Factor Loadings	Composite Reliability	AVE
Performance	FP01	0.906	0.939	0.756
	FP02	0.936		
	FP03	0.914		
	FP04	0.790		
	FP06	0.789		

Cost Leadership	CL02	0.790	0.920	0.699
	CL03	0.835		
	CL04	0.901		
	CL05	0.790		
	CL06	0.856		

Structural/Hypothesized Model

After a careful assessment of the measurement model, the section examined the structural Model for this study. Hair *et al*., (2006) viewed structural model as a model that expresses about the reliance of association in the hypothesized model. In partial least squares, structural model brings to forefront the directional association between the constructs and their t-values as well as the path co efficient. In terms path coefficient, partial least squares as argued by Argawal and Karahanna (2000), is just like the standardized beta coefficient in regression analysis. The fundamental objective of structural model is to test the hypothesized relationships among constructs. Initially, the study focused on model evaluation and secondly, assessed the assumption of regression and correlation of variables. The structural model evaluation continues with an examination of the direct relationships. Two hypotheses that posed a direct relationship in this study were tested out of which the entire hypotheses were supported.

Table 5 indicates the path coefficients, t- values, and standard error at which they are used as a basis for testing hypotheses. The *t*-values for this research be estimated using a 5000 re-sampling iterations in recurring Bootstrapping as recommended by Hair *et al*., (2014). It can equally be justified that chosen a 5000 sample is for ensuring that each model parameter has experimental sampling sharing and the standard deviation of the distribution will serve as proxy of the parameter for statistically standard error (Hair *et al*., 2012).

Table 5: Result of Hypothesis Testing

	Beta	**Standard Error**	**t-value**	**P-Value**	**Decision**
CS -> PF	0.935	0.003	355.322	0.000	Supported

The above table 6 indicated that all the study hypotheses were accepted and possess a t-value which is greater than 1.96 shown an adequate support for the two direct hypotheses. The R^2value in Table 6 indicated that, all the study variables of cost leadership, differentiation strategy, and environmental munificence are capable of influencing 87.5% of the changes in the dependent variable which is the performance.

Table 6: Effects of Cost leadership strategy on Performance

Constructs	**R Square**
Cost leadership	0.875

Note: The study variables explain 87.5% variation in Performance

DISCUSSION AND CONCLUSION

The first research question of the study is whether there is a significant relationship between cost leadership and performance. The aim of the question is to assess whether cost leadership can be a good predictor toward performance of the Nigerian hotels. This represents the first research hypothesis that, *there is a significant effect of cost leadership on performance of hotels in Nigeria.* Smart PLS 2.0 software is used to test this hypothesis. The result indicated that the two predicting variables were able to explain 88.2% of the model (R^2). The Smart PLS 2.0 software results indicated that among the two predicting variables, cost leadership, was found to predicts the performance of Nigerian hotels with the following values (β = 0.935, t = 355.322, $P<0.000$).

This result shows that cost leadership is a good predictor of hotels performance in Nigeria. The hypothesis $H_1$is supported. The findings of this study on the effect between cost leadership and performance of hotels was in line with previous studies (Banker *et al.*, 2014; Hilman & Kaliappen; 2014; Nandakumar, Ghobadian, & Regan, 2011; Hilman, 2009). This is specific given that cost leadership is a business strategy that helps the company to be low down cost producer by rising internal efficiencies and refining the utilization of all the resources effectively than the competitors (Porter, 1980, 1985), hotels that engaged in cost leadership strategy could give a enhanced business performance.

In addition, this results show that hotels tend to use low-cost and differentiation strategies, meaning that the low-cost strategy reflects the demands of the consumer base that wants low fees for services but requires a highly personalized service due to a lower level of technology use. Hence, while in many developed countries, the use of Internet banking and other similar digital technology-based delivery platforms has helped transform some financial services to hard services, in Nigeria and many other emerging markets consumers continue to demand low-cost personalized flexible service. The research presented in this paper enhances current understanding of the typology by validating the assumptions in the context of Nigerian environment.

Theoretical and Practical Implications

Previous studies have shown that cost leadership strategy is associated to performance (Allen & Helms, 2006, Banker *et al.*, 2014; Birjandi *et al.*, 2014; Hilman & Kaliappen, 2014; Nandakumar *et al.*, 2011). This research makes a significant input to the literature by identifying some of the gaps in the literature through a systematic literature review, and addressing those gaps. The literature review in his study indicated that not many studies have looked at hotels organisations in the developed economics, and out of these, only a few studies if any have focussed on services industry.

The findings of this study support a significant and significant relationship between some predictor of hotels performance in Nigeria. These findings indicated that cost leadership predictor provide support to performance, However, hotels managers will equally benefits from the study outcome, as it will guide and assist hotels managers by given guidance on particular resource patterns can give precious return leading to sustainable performance. Thus, the increase in their performance will help toward increase in gross domestic production (GDP) and sustainable economic development.

Limitations and Suggestions for Future Research

In any research like present study have some limitations. The first limitation is that, even though there are so many variables that can measure organizational performance, this study is limited to only cost leadership. One other limitation of this study is that, data were collected from Kano state in north western Nigeria, which might not be a basis for generalization. The present study relies on the perception of mangers of hotels in Nigeria regarding their performance, this is quite common with social science research, but the response of managers may not provide a precise replication of reality in spite of these shortcomings, the present study provides a basis for examining the association between cost leadership, and performance of hotels

In order to addresses the limitations above, this study recommends that future studies to be conducted on other variables on performance relationship in Nigerian hotels. Additionally, there is the need for future empirical studies on other competitive strategic to performance relationship that will cover the entire six geopolitical zones to allow for generalization. Specifically, functional strategy and performance relationship across different context and sectors is suggested, with a mediating or moderating variable of access to finance.

The present study is cross - sectional in nature, therefore, future research may be conducted by collecting data over a long period of time, longitudinal in nature in order to have enough time for the data collection. Future studies should investigate in more detail the nature of the relationship, considering the cause and effect relationship of hotels performance in Nigeria. The present study uses manager perception; future studies may use other owners/managers perception in performance rating.

The findings of this study established that, the first research objective is to examine the effect cost leadership on performance hotels in Nigeria. The result of Smart PLS 2.0 software indicated that the influence cost leadership on performance hotels in Nigeria performance is supported. Hence, the need for hotels regulators put more effort in cost reduction strategies and also emphasize on partnering opportunities with a view of getting competitive advantage.

The theoretical framework of this study was designed based on the literature reviewed. Based on the findings of this study, a conclusion can be made that the research questions and research objectives were answered. However, the theoretical framework is in line with the underpinning theory (resource based view).

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