Available online at www.sciencedirect.com
ScienceDirect
ELSEVIER
Hospitality Management 26 (2007) 213–227
INTERNATIONAL JOURNAL OF Hospitality Management
www.elsevier.com/locate/ijhosman

Performance-enhancing internal strategic factors and competencies: Impacts on financial success

Dogan Gursoy*, Nancy Swanger

School of Hospitality Business Management, Washington State University, Todd Hall 470, Pullman, WA 99164-4742, USA

Abstract

The purpose of this study was to examine the internal strategic factors likely to influence company financial performance for service organizations from managers' perspectives. It provides empirical evidence of the links between the internal strategic factors examined and financial performance of service organizations. Data for this study were collected from middle and upper managers of service companies using a self-administered survey questionnaire. The results of the study suggested that four of the seven critical internal strategic success factors examined had a significant impact on company financial performance. Those factors are sales, R&D and distribution, information technology, and human resources. Implications of the findings are discussed.

Keywords: Internal strategic success factors; Competencies; Organizational development; Service organizations; Financial success; Antecedents of financial success

1. Introduction

One of the most fundamental challenges companies face is to find out what gives rise to competitive advantage and how it can be sustained (Srivastava et al., 2001). As the rapid increases in business globalization and free trade continue to increase business competition (Guimaraes and Armstrong, 1998), the importance of identifying and understanding factors likely to produce sustained competitive advantage, growth, and enhanced company financial performance have become even more important to both the managers and

*Corresponding author. Tel.: +1 509 335 7945.
E-mail addresses: dgursoy@wsu.edu (D. Gursoy), swanger@wsu.edu (N. Swanger).

0278-4319/$ - see front matter
doi:10.1016/j.ijhm.2006.01.004

shareholders (Tonge et al., 1998). Hospitality companies face the same challenge. Market saturation and competition from international hospitality companies further emphasize the importance of sustained competitive advantage in today's marketplace.

Managers of hospitality companies understand their companies exist in a contingent relationship with their environments. They seek to align their companies, both internally and externally, to identify and seize opportunities before others to gain competitive advantage and avoid threats posed by the environment (Olsen, 2004). Previous studies utilized different approaches and theoretical bases such as the Balanced Scorecard (BSC) (Kaplan and Norton, 1992), Service–Profit Chain (Heskett et al., 1997), and Resource-Based View (RBV) of the Firm (Barney, 1991) to assess company performance and to examine the contingent relationship between the environment and the company in order to align the company both internally and externally. All of these approaches suggest that company success is influenced by both external and internal factors. External factors include several macro-environments: demographic, economic, natural, technological, political/legal, social/cultural, and competitive forces. Most of the time, companies have little or no control over these factors and they often fail to scan and respond to their external environment properly (Okumus, 2004). Internal resources and capabilities include know-how and various kinds of knowledge, personnel, capital, production equipment, buildings, operational, marketing capabilities, and other company resources (Harmsen et al., 2000). Even though the external environment influences company success, sustained competitive advantage is derived from the internal resources and capabilities a company controls that are valuable, rare, imperfectly imitable, and not substitutable (Barney et al., 2001). Therefore, managers focus on identifying internal strategic factors that can be used to take advantage of market opportunities while avoiding threats.

Based on the most important internal strategic factors managers identify, they have been developing and implementing new strategies, in most cases, to gain a significant and sustained growth. However, in some cases, those strategies may contribute to basic survival within today's highly competitive, global business environment. While some of the companies thrive because of the identification of the right success factors and implementation of those new strategies, others fail because of their inability to identify the right success factors and implement strategies properly (Okumus, 2003). The purpose of this study is to explore some of the internal strategic factors likely to enable companies to gain competitive advantage and to examine their impact on hospitality companies' financial performance.

2. Literature review

Rapid increases in globalization and free trade continue to increase global competition, which has drastically changed the business environment in recent years. Some of those changes are characterized by product proliferation with shorter and uncertain life cycles, innovative process technologies, and customers who simultaneously demand quick response, lower costs, and greater customization. In order to stay competitive and deliver satisfactory financial return to the owners and shareholders, managers have been trying to cope effectively with continuous and unexpected changes. The ability to respond quickly and effectively (time-based competition) and to satisfy customer needs have become defining characteristics of competitiveness and of success for many companies (Cao and Dowlatshahi, 2005).

Researchers developed several different approaches and tools for companies to cope effectively with continuous and unexpected changes such as the BSC, Service–Profit Chain, and RBV of the Firm. Even though Kaplan and Norton (1992) developed the BSC to supplement traditional financial measures with operating data, it has subsequently been offered as a tool for implementing and monitoring strategy (Kaplan and Norton, 2001). Studies suggest that the BSC is a great tool to evaluate performance, and implement and monitor the strategy. However, it is not very useful when it comes to determining which factors have the most influence on company performance. Another method proposed to deal effectively with continuous and unexpected changes is the Service–Profit Chain (Heskett et al., 1997). It was developed from an analysis of service organizations with the aim of linking operational resource investments to marketing, operational, and financial outcomes. Heskett et al. (1997) suggest the service–profit chain provides the means for implementing a firm's strategic service vision. Its success heavily relies on the identification of the right strategic service vision and the related goals. It is a great tool that can be used to execute the goals. However, like the BSC, it is not very useful when it comes to determining which factors have the most influence on company performance.

Another theory that has been proposed to deal effectively with continuous and unexpected changes is the RBV paradigm which has had a significant impact on shaping strategy content in the last decade (Coates and McDermott, 2001). RBV suggests sustained competitive advantage and growth is achieved through a combination of unique resources and capabilities a company controls. These unique resources and capabilities can be viewed as the unique competencies of a firm, a bundle of tangible and intangible assets; including management skills, organizational processes, and the information and knowledge a company controls (Barney et al., 2001). The emphasis is on internal resources available and developed within the firm. Coates and McDermott (2001) argue competitive advantage is achieved by focusing on unique resources and capabilities a company has and exploiting those in order to take advantage of external opportunities or neutralize threats from competitors. Previous studies support the argument that competence-based strategies are likely to enable companies to achieve and maintain competitive advantage in the marketplace (Hamel and Heene, 1994). Application of RBV paradigm requires identification of resource capabilities and core competencies with strategic relevance to the competitive environment. Even though the RBV paradigm focuses on internal resources available, it also requires a constant monitoring of the external environment. Any significant change in the external environment may alter the importance of some of the core competencies a company has for sustained competitive advantage and growth. One method managers use to cope with and respond effectively to changes in the external environment is through identification of the most important internal strategic success factors that are relevant and likely to enable their companies to sustain and maintain a competitive advantage in the new marketplace.

The theoretical approaches and tools presented mostly deal with developing and implementing, monitoring and assessing strategies for individual companies—they are company specific. For example, the two main requirements of the RVB paradigm are resource heterogeneity and resource immobility. Resource heterogeneity refers to the fact resources and capabilities possessed by a firm may differ while resource immobility means these differences may be long lasting (Mata et al., 1995). Heterogeneity is a required condition for a competitive advantage while immobility is a required condition for sustained competitive advantage. If a resource is possessed by a company but is also possessed by several of its competitors, this resource cannot contribute to competitive advantage (Rivard et al., 2006). However, if a resource is possessed by almost all companies operating in the industry, not possessing the resource may have devastating effects on the future and profitability of a specific company due to the fact that resource becomes a given factor for the whole industry and for the companies operating within that industry. Therefore, it is important to examine the internal resources and capabilities to identify which ones are viewed as expected and which ones are seen as more strategically important for the future and financial performance of companies operating in the hospitality industry.

2.1. Strategic internal factors for success

Several studies examined the internal strategic factors having significant effects on companies' financial success. Among the internal strategic factors examined, human resources, product development, innovation, technology, customer service, and marketing strategies are some of the most frequently mentioned factors (Sebel, 2004). In a longitudinal study of rapidly growing companies between 1980 and 1990, Todd and Taylor (1993) reported rapidly growing companies tended to be niche players in markets where barriers to entry were low and they did not have to face large competitors. They also identified the factors most likely to influence company success. Those were access to technology; availability of appropriately skilled or qualified employees; access to finance; access to distribution channels; and the ability to realize international expansion opportunities. Tonge et al. (1998) argue the key success factors for both medium and large size companies are similar: attention to the needs of customers, a market-oriented strategy, innovation, high quality products, and highly motivated employees.

Several researchers examined individual factors impacting company financial success. While some studies suggest information technology (IT) plays an indispensable role in making a company successful, others suggest human capital is the foundation for all companies. For example some suggest IT (Janson and Wrycza, 1999), or effective use of technology and its incorporation into marketing and sales programs, became one of the key success factors for companies (Rivard et al., 2006). IT capabilities are becoming a significant strategic resource because studies suggest technology investment in the hospitality industry is driven in part by the growing demand for it by customers (Lee et al., 2003). Based on the preceding discussion, the following hypothesis is proposed:

H_1: IT as a strategic internal factor will have a positive influence on company financial performance.

However, others suggest human resources play a primary role in helping companies achieve financial goals. As suggested by the service–profit chain, if employees feel the company takes good care of them, they are, in return, likely to take time to provide a better service to meet and/or exceed customer's expectations. This is likely to lead to higher satisfaction among those customers, which in return will lead to higher profits (Koys, 2003). Additionally, hiring the right person is essential. Company employees who are willing to work together, who are able to work beyond expectations, and who put themselves into the manager's shoes tend to work more efficiently, generate more revenue, and create higher customer satisfaction (Koys, 2003). Based on the preceding discussion, the following hypothesis is proposed:

H_2: Human resources as a strategic internal factor will have a positive influence on company financial performance.

Another capability seen as critical to a company for achieving strategic competitiveness is innovation (Conner, 1991). Studies suggest innovations enable a company to offer products and services that are valuable, rare, inimitable, and differentiated. Therefore, innovation/research and development (R&D) capabilities of a company are likely to lead to higher financial performance (Sher and Yang, 2005). Keizer et al. (2002) further argue that innovation and R&D capabilities are among the most important means through which small- and medium-sized companies contribute to increased economic dynamics in each industry. In this study, R&D and distribution are examined together due to the fact hospitality companies are increasingly creating and using distribution channels such as online booking engines that require heavy R&D investment. Based on the preceding discussion, the following hypothesis is proposed:

H_3: Research and development and distribution as strategic internal factors will have a positive influence on company financial performance.

Srivastava et al. (2001) argue marketing capabilities of companies are one of the factors companies can use to gain sustained competitive advantage. Since, customer value and highly distinct customer benefits are created and offered through a combination of assets, resources, and capabilities, marketing can enlighten and augment total offerings. They are likely to contribute greatly by adding value to a company's goods and services to meet the competitive demands of customers. In addition to augmenting and adding value to the offerings, marketing capabilities enable a company to make profound understanding of customers' current and future needs and preferences, and capabilities in forecasting of competitors possible actions (Hamel and Heene, 1994). Therefore, a growing number of researchers emphasize the importance of marketing and operations integration (Hausman et al., 2002). Conventional wisdom in strategy formulation suggests the marketing function is the vital link between operations and the customer. Marketing gathers information about target markets' needs and wants, detects and responds to the strategies and behaviors of major competitors, forecasts and monitors the external environment for major changes, etc. and disseminates this information throughout the company. Through dissemination of marketing intelligence information, marketing is likely to enable managers to make more informed strategic decisions and provide guidance to other areas in terms of changing customers' needs and wants and what competitors are doing to satisfy those needs and wants. In return, this is likely to result in new or improved offerings. Thus, the following hypothesis is proposed:

H_4: Marketing as a strategic internal factor will have a positive influence on company financial performance.

In this study, sales is examined as a separate internal strategic capability due to the nature of the hospitality industry, even though most academics will argue it is a part of marketing. According to Clark and McCleary (1995), around 35% of hospitality industry revenue is generated from group business. Since a large portion of hospitality companies' revenues come from groups, it is likely the sales capabilities of a company are likely to have a significant impact on its financial performance. Additionally, the strength of the sales team and sales training may create a sustained competitive advantage. As a result, the following hypothesis is proposed:

H_5: Sales as a strategic internal factor will have a positive influence on company financial performance.

Studies suggest accounting is a critical part of any company's operation and plays a significant role in evaluating/controlling and enhancing financial performance

(Tuomela, 2005). In developing and implementing new strategies, accounting plays the role of strategic control mechanism, essentially ensuring the behavior of people is consistent with the predetermined strategy (Merchant, 1985). As suggested by Simons (1995), strategic control systems are the formal, information-based routines and procedures managers can use to maintain or alter patterns in company activities. In other words, the control system does not only ensure that intended strategy is being implemented; it also serves as a warning system enabling managers to identify problems in the implementation and/or in the actual strategy. Based on those warnings, managers can revise the implementation procedures or the actual strategy. In this study, accounting also includes asset management and investment and risk analysis. As discussed earlier, company assets are one of the strategic resources that can be used as distinctive core competencies in order to achieve a sustained competitive advantage. Assets are especially important core competencies for hospitality operations due to the fact that location of the business plays a significant role in revenue generation and financial performance. Several researchers in hospitality examined the issues related to asset management, and investment and risk and concluded that they are crucial for the success of any hospitality business (Elgonemy, 2002; Olsen, 2004). Based on the preceding discussion, the following hypothesis is proposed:

H_6: Accounting as a strategic internal factor will have a positive influence on company financial performance.

As mentioned previously, customer service is at the very heart of the hospitality industry—a must when it comes to achieving and experiencing continued success. Companies across all industries work to gain a competitive advantage through service (Turpin, 1995), especially as developing economies have evolved from agrarian to manufacturing to service. Consumers visit the various segments of the hospitality industry for different purposes and expect certain levels of service and amenities (Chudy and Sant, 1993). For example, users of the Model 6 brand of lodging have very different needs and expectations than those using the Ritz–Carlton brand. Regardless of the level of service expectations from different companies, exceeding customers' relative service expectations is likely to convert those customers into repeat customers and therefore improve the financial performance of the company. Thus, the following hypothesis is proposed:

H_7: Customer service as a strategic internal factor will have a positive influence on company financial performance.

According to Lovelock and Wirtz (2004), in highly developed economies, growth is slowing in such mature consumer service industries as banking, insurance, hospitality, and education. That said, although each individual factor (IT, human resources, R&D, sales, marketing, accounting, and customer service) may be important to most companies, each is only one of the several important areas a company must balance and manage to achieve the most favorable financial results. Of course, it is true that some of the success factors are likely to be more important than others. While some of the success factors are likely to enable a company to have average financial performance, others are likely to enable companies to perform better than others because investment in those particular factors is likely to provide a strategic edge. That's why an understanding of the relative impact of each success factor on overall performance is likely to provide a perspective on why and to what extent companies should invest in each specific success factor.

3. Methods

The purpose of this study was to examine the impacts of some of the internal strategic factors on financial success and to identify the performance-enhancing internal strategic factors likely to enable companies to gain competitive advantage industry wide. A survey instrument was developed to gather data on industry professionals' perceptions of the importance of the internal strategic factors on hospitality companies' financial success. Development of the survey instrument involved (1) a series of focus groups, (2) creation of an instrument to systematically measure the perceived importance of the internal strategic factors on hospitality companies' financial success, (3) pre-testing the instrument on a sample of industry professionals using an online survey method, and (4) revision and finalization of the instrument.

A self-administered survey questionnaire was used to collect data and it was mailed to 2339 industry professionals, whose names and addresses were retrieved from a database maintained by the hospitality school involved in the study, using the Dillman Tailored Design Method (2000).

3.1. Measurement variables

Fig. 1 presents the model tested in this study. The model is represented by seven exogenous constructs (sales, R&D and distribution, customer service, marketing, IT, human resources, and accounting) and one endogenous construct (financial performance).

Proposed Theoretical Model with Measurement Items

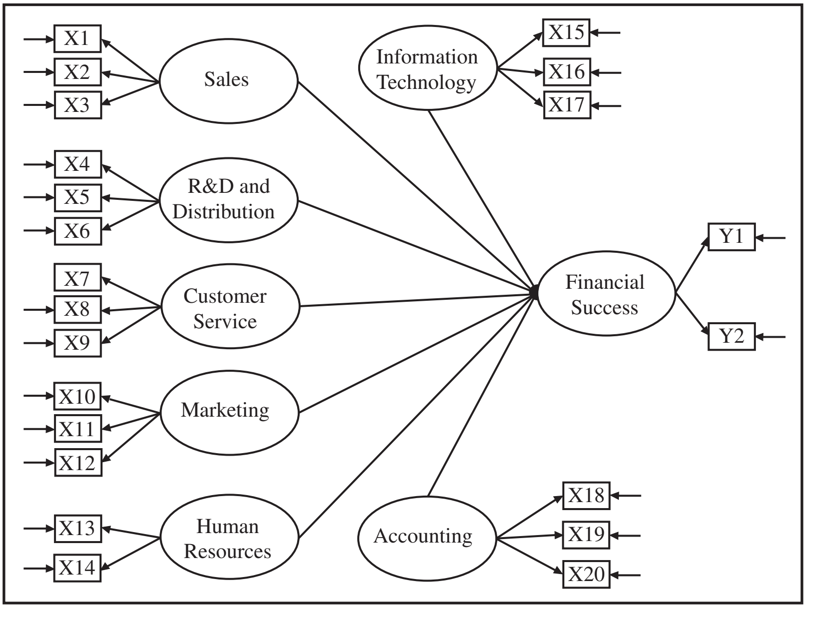

Fig. 1. Proposed theoretical model with measurement items.

Each variable was measured using a 5-point Likert scale (5 = extremely important, 1 = not important at all) as to their importance for company financial success in the hospitality industry.

As presented in Table 1, the sales, the R&D and distribution, the customer service, the marketing, the IT, and the accounting constructs were measured by three-item

Table 1
Measurement scale properties based on SEM ($N = 328$)

Constructs and indicators	Completely standardized loadings	Construct/ indicator reliability	Error variance
Financial success		**.78**[a]	**.22**[b]
Profitability	.77	.59	.41
Return on investment	.83	0.69	.31
Sales		**.83**[a]	**.17**[b]
Personal sales	.75	.56	.44
Development of sales strategies	.83	.69	.31
Development of sales contract	.77	.59	.41
R&D and distribution		**.73**[a]	**.27**[b]
Product development	.37	.14	.86
Cost of product/service distribution	.81	.66	.34
Working knowledge of distribution channels	.84	.71	.29
Service		**.90**[a]	**.10**[b]
Principles of service management	.82	.67	.33
Measuring service quality	.87	.76	.24
Managing services	.91	.83	.17
Marketing		**.83**[a]	**.17**[b]
How marketing activities interact in the development of marketing strategy	.81	.66	.34
An awareness of sources of marketing information	.82	.67	.33
How Internet can aid in making marketing decisions	.72	.52	.48
Information technology		**.66**[a]	**.34**[b]
Information systems knowledge	.67	.45	.55
Developing ad hoc reporting tools using technology	.62	.38	.62
Property management systems	.60	.36	.64
Human resources management		**.95**[a]	**.05**[b]
Understanding of labor unions	.95	.90	.10
Managing unionized employees	.96	.92	.08
Accounting		**.70**[a]	**.30**[b]
Asset management	.71	.50	.50
Investments and risk analysis	.77	.59	.41
The components of an income statement	.39	.24	.76

[a]Indicates the composite reliability of each construct.
[b]Indicates the composite error variance of each construct.

measurement scales. Two-item measurement scales were used to measure the financial performance and the human resources constructs.

3.2. Data analysis

Structural equation modeling (SEM) was utilized to empirically test the proposed hypotheses and the relationships between the constructs with maximum likelihood (ML) method of estimation, in combination with the two-stage process. First, a confirmatory measurement model was tested. The adequacy of the individual items and the composites were assessed by measures of reliability and validity. Further, convergent validity and discriminant validity were assessed. Afterwards, the structural model was tested.

As fit indices, the χ^2 statistics (and associated P values) were examined first. However, as noted by Joreskog (1993, p. 309) "since χ^2 is $N-1$ times the minimum value of the fit function, the chi-square test tends to be large in large samples.'' Because of the large effect of sample size on the χ^2 values (and associated P values), other fit indices were also utilized. These selected fit indices were the goodness-of-fit index (GFI), the normed-fit index (NFI), the parsimonious normed-fit index (PNFI), the non-normed-fit index (NNFI), the comparative fit index (CFI), and the critical N statistic. Values of GFI, NFI, CFI, NNFI, and PNFI range from zero to 1.00 with a value close to 1.00 indicating good fit (Byrne, 1989). A cutoff of 200 or greater is suggested as an indication of adequate model fit for the critical N statistic (Bollen, 1989).

4. Results

Of the 2339 surveys mailed, 328 were returned for a response rate of 14.02%. This response rate may seem low. However, considering the population, this is considered an acceptable response rate due to the fact response rates in industrial mail surveys are generally low (Erdogan and Tagg, 2003). Keegan and Lucas (2005) further argue response rate of the surveys targeting hospitality professionals tend to be lower than others due to the nature of the industry: a high composition of small and diverse businesses and highly dynamic management and operational processes. They argue responding managers may perceive some of the questions as sensitive, which is likely to result in a relatively low response rate. Even though the response rate of this study was only 14.02%, 328 managers from over 190 companies responded to the survey, which is believed to significantly increase the representativeness of sample. Further, Wallace (1954) argues that even though low response rate may be biased in some ways, it still results from a random sample. Therefore, a response rate of 14–15% should be, at least, indicative of the entire group. As a result, considering the sample, a response rate of 14.02% is seen as an acceptable response rate for this study.

4.1. Profile of the respondents

Of the respondents, 69.9% were male; over 190 different companies were represented; about 200 different positions or titles were given; 65.2% had a bachelor's degree; and 94.2% were White/Caucasian.

4.2. Measurement model

Details on the properties of the measurements are provided in Table 1. As shown in Table 1, all of the composite reliabilities were above .7 with the exception of the IT construct. Even though the composite reliability score of the IT construct was below .70 (.67), it was determined to be close enough to consider because reliability scores that are between .60 and .70 represent the lower limit of acceptability (Hair et al., 1998). The overall fit of this final measurement model was $\chi^2_{(181)} = 357.83$ ($P = 0$); GFI = .92; AGFI = .89; NFI = .92; NNFI = .95; CFI = .96, and PGFI = .66; PNFI = .72 and critical $N = 244.32$. Further, the indicators of residuals, root mean square (RMR), standardized RMR and root mean square error of approximation (RMSEA) were .045, .040, and .049, respectively. The findings also indicated that the measurement model had both discriminant and convergent validity.

4.3. Structural model

All of the goodness-of-fit statistics of the proposed theoretical model were above the recommended threshold values except for the χ^2 value. The χ^2 value with 181 degrees of freedom is 268.14 ($P = 0.00$). Given the known sensitivity of the χ^2 statistics test to sample size, a number of fit indices are utilized to measure the fit of the proposed model. All of these fit indices indicate that the proposed hypothesized structural model fits well to the data: GFI, .92; AGFI, .89; PGFI, .66; NFI, .92; NNFI, .96; PNFI, .72; CFI, .97; IFI, .97; Critical N (CN), 244.32; RMR, .045; standardized RMR, .040; and RMSEA, .040.

An analysis of the estimated standardized path coefficients in the proposed structural model reveals the significance, strength, and direction of each hypothesized relationship. Four of the seven hypothesized paths in the proposed theoretical model are statistically significant in the direction predicted at the .05 probability level. Three of the proposed hypotheses are rejected. As presented in Table 2, findings suggested that four critical success factors examined in this study have a significant impact on company financial performance. Those critical success factors are sales (.28, $P < .05$), R&D and distribution (.26, $P < .05$), IT (.20, $P < .05$) and human resources (.17, $P < .05$). Three critical success factors that were found to have no significant impact on financial performance are customer service (.07, $P > .05$), marketing (.05, $P > .05$) and accounting (.10, $P > .05$).

Table 2
Proposed relationships and results

Proposed relationship	Standardized coefficients	t-values
Information technology → Financial performance	.20	2.16
Human resources → Financial performance	.17	2.04
R&D and distribution → Financial performance	.26	2.38
Marketing → Financial performance	.05	.55
Sales → Financial performance	.28	2.26
Accounting → Financial performance	.10	1.88
Customer service → Financial performance	.07	1.14

5. Discussion

Conventional wisdom suggests growth can be achieved only in attractive sectors. However, the Clifford and Cavanagh (1985) study indicated high growth companies exist even in declining industries as long as they identify and pay attention to key success factors. How is it that a company like Southwest Airlines can survive, and even thrive, when the rest of their industry is in financial turmoil—many of their competitors on the verge of bankruptcy? Conversely, how can a company like Krispy Kreme go from being the ''darling of Wall Street'' just a short time ago to being in financial chaos and under investigation by the Securities and Exchange Commission? The answer to these questions is that some companies do a better job in identifying internal strategic success factors and using them to take advantage of external opportunities while minimizing the threats—they focus on performance-enhancing factors or core competencies.

As presented in Table 2, four of the seven hypotheses were supported. The hypothesis predicting a direct positive relationship between the IT capabilities and financial performance was supported ($b = .20$; $t = 2.16$). This finding is consistent with the findings of the previous studies (Janson and Wrycza, 1999). The advancement of IT and the increase in the number of technology-savvy customers are forcing hospitality companies to alter the ways they operate and serve to their customers. More and more hospitality companies are investing in IT in order to lower their operating costs and to improve efficiency. Front-of-the-house and back-of-the-house operations of hospitality companies are becoming more high tech. In addition, technology-savvy customers are requesting more technology-intensive amenities and services. As a result, information technology is playing a significant role on companies' financial performance. The role IT plays is likely to get more significant in the near future. This will be due to the rapidly increasing demand for technology-intensive services from customers as they become more technology savvy and to the ever-increasing importance of IT in hospitality operations (Chathoth and Olsen, 2003).

As hypothesized, evidence was found to support the direct relationship between human resources and financial performance ($b = .17$; $t = 2.04$). This finding is supported by the findings of previous studies and the service–profit chain model that suggests satisfied employees are likely to create satisfied customers, and therefore, betters financial performance (Koys, 2003). Hypothesis 3 (R&D and distribution will have a significant impact on company financial performance), was supported ($b = .26$; $t = 2.38$). This finding is also consistent with the industry trends and the findings of the previous studies, which suggest R&D capabilities are likely to enable a company to develop innovative goods and services that can be used to gain competitive advantage. This, in return, is likely to lead to higher financial performance (Sher and Yang, 2005; Keizer et al., 2002). In addition to R&D capabilities, this finding suggests the cost and method of distribution of hospitality products is likely to significantly impact the financial performance of a company. This finding is also consistent with the industry trends. Developments in the marketplace such as continuing consolidation, brand proliferation, globalization, and hospitality companies' attempts for disintermediation accompanied with development in information and communications technologies have presented powerful new possibilities for distribution (O'Connor and Frew, 2004). In recent years, hospitality companies have been integrating distribution channels into their systems through consolidation in order to have a better control of distribution and to decrease the cost and to have a better control over pricing.

Hypothesis 5, which proposed a direct relationship between sales and financial performance, was also supported ($b = .28$; $t = 2.26$). Since about 35% of the hospitality business is generated by groups, this finding was not surprising. Findings also indicated sales was the critical success factor deemed as having the most significant impact on financial performance by the respondents, with a standardized coefficient of .28. Following very closely to sales was R&D and distribution with a standardized coefficient of .26. As these data were collected while the United States was in a recession, it is not surprising that respondents would tend to value factors leading to recovering lost business—factors that focus on the development, distribution, and sale of a product or service to enhance revenues or gain a competitive advantage.

While the four critical success factors found to have a significant impact on financial performance were not surprising, three of the proposed hypotheses were not supported. The hypothesis that proposed a direct relationship between accounting and financial performance was not supported. This might be explained by the fact that industry professionals may see accounting just as a control system and may assume it does not have much affect on financial returns. Accounting has everything to do with preparing the reports to show a company's financial performance, but little or nothing to do with the actual generation of sales or revenues that contributes to it.

Hypothesis 4, which proposed a direct relationship between marketing and financial performance was not supported. This finding was surprising and contradicts conventional wisdom that the marketing capability of a company is one of the most critical success factors. This finding can be explained by the nature of marketing resources and capabilities. As discussed earlier, marketing competencies include the capabilities and processes designed to apply the collective knowledge, skills, and resources of the firm to its market-related needs (Wang et al., 2004). Even though marketing is used to enlighten and augment total offerings of a company, marketing capabilities and resources are also used in developing company products that offer customer value and highly distinct customer benefits (Srivatava et al., 2001). It is important to remember companies are able to have distinctive financial performance only when a company identifies new marketplace opportunities and exploits them faster and more efficiently than its competitors. Therefore, it is important to identify what customers value in the form of specific attributes, benefits, and attitudes. It is also important to identify how particular marketing resources and capabilities contribute to generating and sustaining specific forms of customer value. As a result, some of the marketing capabilities and resources are likely to have direct impact on company financial success and, therefore, they may need to be examined as a separate critical success factor. For example in this study, sales was examined as a separate critical success factor even though it is part of the marketing function. This might be the reason why the findings suggested that marketing does not have any significant impact on financial performance.

Another hypothesis that was not supported proposed that customer service has a direct impact on company financial success. This finding was surprising since the hospitality industry is very service oriented. While service is at the very core of hospitality operations—it is not necessarily about the food or the accommodations, it is about the quality of the service experience—it is a very difficult factor from which to gain a sustained competitive advantage. Service strategies can be easily replicated and employees move freely between competitors for employment opportunities. Even so, in the attempt to provide better customer service to all constituencies companies my focus on another factor such as human resources. Hilton International has developed an initiative called *Esprit*, which is a human-resources based initiative investing in the training and development of staff most responsible for guest satisfaction (Anonymous, 2004). Regarding marketing, McDonald's, alone, spends well over a billion dollars to advertise and promote their business as part of a strategic plan. Perhaps in hospitality, attention to service and marketing is considered to be a ''given'' for successful financial performance—factors that are an expected and natural part of day-to-day operations. If that is the mindset, then perhaps a new paradigm is in the making regarding performance-enhancing success factors. These industry-wide success factors are likely to have a ''steroid'' or performance-enhancing effect on company financial performance if they are utilized correctly.

Thus the proposed Steroid Theory suggests there are several internal strategic factors that are likely to enable companies to perform financially on par with their competitors. In order to be able to have healthy financial performance, managers need to identify those internal strategic factors and develop strategies and action plans to improve the performance in those areas. The theory further suggests there might be a few internal strategic factors likely to enhance the financial performance of companies and/or enable them to perform better than their competitors and the market average by giving them a sustained competitive advantage. It is crucial for managers to identify those performance-enhancing internal strategic factors to outperform competitors and to improve financial performance of their companies. Findings of this study suggest that sales, R&D and distribution, IT, and human resources are some of the performance-enhancing internal strategic factors for hospitality operations. A company's focus on these factors may lead to improved financial success.

5.1. Limitations

The results of this study should be evaluated in the light of certain limitations. The primary limitation of this study is the use of subjective perceptual measures rather than actual, objective measures. In some circumstances perceived importance of internal strategic factors may be influenced by the stage of the economic cycle at the time of data collection. Since the data for this study were collected during the economic recession, generalization of the findings to other cycles may be limited. Future studies should examine the perceptions of the managers regarding the importance of internal strategic factors at different stages of the economic cycle.

Another limitation is the findings were aggregated; no specific company or the sector of the industry was examined separately. Therefore, the results do not provide any specific information on individual companies that are being viewed as successful in their respective industries or on a specific sector of the hospitality industry. It is true the success factors could be quite different for a small local restaurant and a big hotel chain. Future studies should include looking at how the success factors presented in this research contribute to the financial performance of specific companies, large or small, viewed as being successful in their respective industries. In addition, replication of this study with specific hospitality segments or other business entities is needed to test the reliability and validity of the findings and to further refine the theory.

This study only examined the most important internal strategic factors for better financial performance from managers' perspective. However, it is also important to identify other factors likely to influence key factors. For example, this study identified sales as one of the critical internal factors but failed to identify what factors may increase sales. One likely way to increase sales is to increase marketing efforts, for example, or customer service, which is the backbone of service success. Therefore, besides identifying the most important internal strategic factors, future studies should examine the relationships among those factors and identify what other factors may influence the performance of each of those internal strategic factors.

Nevertheless, this study of performance-enhancing internal strategic factors holds the potential for helping managers better understand what factors are likely to influence the financial performance of their operation. In addition, the results of the study will serve as a basis for more comprehensive research in the area. As suggested by Okumus (2002), the strategy literature is still in its embryonic stage in the hospitality field and more studies should be undertaken on internal analysis and core competencies. He further suggests research studies in the hospitality industry should particularly aim to contribute to the generic strategy field. It is the researchers' beliefs this study will serve as a basis to further develop the body of knowledge in the area.

References

Anonymous, 2004. Hilton hits the heights of hotel service with HR initiative. Human Resource Management International Digest 12 (6), 24.

Barney, J.B., 1991. Firm resources and sustained competitive advantage. Journal of Management 17 (1), 99–120.

Barney, J.B., Wright, M., Ketchen Jr., D.J., 2001. The resource-based view of the firm: ten years after 1991. Journal of Management 27, 625–641.

Bollen, K., 1989. Structural Equations with Latent Variables. Wiley, New York.

Byrne, N.M., 1989. A Primer of LISREL: Basic Applications and Programming for Confirmatory Factor Analytic Models. Springer-Verlag, New York.

Cao, Q., Dowlatshahi, S., 2005. The impact of alignment between virtual enterprise and information technology on business performance in an agile manufacturing environment. Journal of Operations Management 23 (5), 531–550.

Chathoth, P.K., Olsen, M.D., 2003. Strategic alliances: a hospitality industry prespective. International Journal of Hospitality Management 22, 419–434.

Chudy, B., Sant, R., 1993. Customer-driven competitive positioning—an approach towards developing an effective customer service strategy. Marketing and Research Today 21 (3), 155–169.

Clark, J.D., McCleary, K.W., 1995. Influencing associations' site-selection process. Cornell Hotel and Restaurant Administration Quarterly 36 (2), 61–68.

Clifford, D.K., Cavanagh, R.E., 1985. The winning performance—how america's high-growth midsize companies succeed. Sidgewick and Johnson, London.

Coates, T.T., McDermott, C.M., 2001. An exploratory analysis of new competencies: A resource based view perspective. Journal of Operations Management 20, 435–450.

Conner, K., 1991. Theory of the firm: firm resources and other economic theories. Journal of Management 17, 121–154.

Dillman, D., 2000. Mail and Internet Surveys: The Tailored Design Method. John Wiley, New York.

Elgonemy, A.R., 2002. Debt-financing alternatives: refinancing and restructuring in the lodging industry. Cornell Hotel and Restaurant Administration Quarterly 43 (3), 7–21.

Erdogan, B.Z., Tagg, S., 2003. The advertising agency manager's response patterns to a mail survey and follow-ups. Marketing Intelligence & Planning 21 (6), 392–399.

Guimaraes, T., Armstrong, C., 1998. Empirically testing the impact of change management effectiveness on company performance. European Journal of Innovation Management 1 (2), 74–84.

Hair, J.F., Anderson, R.E., Tatham, R.L., Black, W.C., 1998. Multivariate Data Analysis, 5th ed. Prentice-Hall, Upper Saddle River, NJ.

Hamel, M., Heene, A., 1994. Competence-Based Competition. Wiley, New York.

Harmsen, H., Grunert, K.G., Bove, K., 2000. Company competencies as a network: the role of product development. Journal of Product Innovation Management 17, 194–207.

Hausman, W.H., Montgomery, D.B., Roth, A.V., 2002. Why should marketing and manufacturing work together? Some exploratory empirical results. Journal of Management Operations 20, 241–257.

Heskett, L.L., Sasser, W.E., Schlesinger, L.A., 1997. The Service Profit Chain. The Free Press, New York.

Janson, M.A., Wrycza, S., 1999. Information technology and entrepreneurship: Three cases from Poland. International Journal of Information Management 19, 351–367.

Joreskog, K.G., 1993. In: Bollen, K.A., Long, J.S. (Eds.), Testing Structural Equation Models. SAGE Publications, Newbury Park, CA, pp. 294–316.

Kaplan, R.S., Norton, D.P., 1992. The balanced scorecard—measures that drive performance. Harvard Business Review 64 (1), 71–79.

Kaplan, R.S., Norton, D.P., 2001. The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment. Harvard Business School Press.

Keegan, S.N., Lucas, R., 2005. Hospitality to hostility: dealing with low response rates in postal surveys. International Journal of Hospitality Management 24 (2), 157–169.

Keizer, J.A., Dijkstra, L., Halman, J., 2002. Explaining innovative efforts of SMEs: an exploratory survey among SMEs in the mechanical and electrical engineering sector in Netherlands. Technovation 22 (1), 1–13.

Koys, D., 2003. How the achievement of human-resources goals drives restaurant performance. Cornell Hotel and Restaurant Administration Quarterly 44 (1), 17–24.

Lee, S.C., Barker, S., Kandampully, J., 2003. Technology, service quality, and stomer loyalty in hotels: Australian managerial perspectives. Managing Service Quality 13 (5), 423.

Lovelock, C., Wirtz, J., 2004. Services Marketing, 5th ed. Pearson-Prentice Hall, Upper Saddle River, NJ.

Mata, F.J., Fuerst, W.L., Barney, J.B., 1995. Information technology and sustained competitive advantage: a resource-based analysis. MIS Quarterly 19 (4), 487–505.

Merchant, K.A., 1985. Control in Business Organizations. Pitman, London.

O'Connor, P., Frew, A.J., 2004. An evaluation methodology for hotel electronic channels of distribution. International Journal of Hospitality Management 23 (2), 179–199.

Okumus, F., 2002. Can hospitality researchers contribute to the strategic management literature? International Journal of Hospitality Management 21 (2), 105–110.

Okumus, F., 2003. A framework to implement strategies in organizations. Management Decision 41 (9), 871–883.

Okumus, F., 2004. Potential challenges of employing a formal environmental scanning approach in hospitality organizations. International Journal of Hospitality Management 23 (2), 123–143.

Olsen, M.D., 2004. Literature in strategic management in the hospitality industry. International Journal of Hospitality Management 23, 411–424.

Rivard, S., Raymond, L., Verreault, D., 2006. Resource-based view and competitive strategy: an integrated model of the contribution of information technology to firm performance. Strategic Information Sytems 15 (1), 29–50.

Sebel, M.H., 2004. Nine success factors. Executive Excellence 21 (11), 17.

Sher, P.J., Yang, P.Y., 2005. The effect of innovative capabilities and R&D clustering on firm performance: the evidence of Taiwan's semiconductor industry. Technovation 25, 33–45.

Simons, R., 1995. Levers Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal. Harvard Business School Press.

Srivastava, R.K., Fahey, L., Christensen, H.K., 2001. The resource-based view and marketing: the role of market-based assets in gaining competitive advantage. Journal of Management 27, 777–802.

Todd, A., Taylor, B., 1993. The baby sharks: strategies of Britain's supergrowth companies. Long Range Planning 26 (2), 69–77.

Tonge, R., Larsen, P.C., Ito, M., 1998. Strategic leadership in super-growth companies—a re-appraisal. Long Range Planning 31 (6), 838–847.

Tuomela, T.S., 2005. The interplay of different levers of control: a study of introducing a new performance measurement system. Management Accounting Research 16, 293–320.

Turpin, D., 1995. Japanese approaches to customer satisfaction: some best practices. Long Range Planning 28 (3), 84–90.

Wallace, D., 1954. A case for-and against-mail questionnaires. Public Opinion Quarterly 18 (1), 40–52.

Wang, Y., Lo, H.P., Yang, Y., 2004. The constituents of core competencies and firm performance: evidence from high-technology firms in China. Journal of Engineering and Technology Management 21, 249–280.