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The Relationship Between Business Environment and Corporate Strategy: Evidence from Indian Hotel Industry

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Abstract *Organizations from hotel sector are increasingly embracing the practice of corporate strategy in anticipation that this will translate to improved performance. Corporate strategy represents the way a firm plans to deploy its resources and to use its capability to achieve its goals. Recent research has pointed out the important role of the business environment on the corporate strategy choices by organizations. However, most of the researches have been conducted in advance economies. This paper extends the research on business environment and corporate strategy by presenting results from an emerging economy. Using data collected from hotels in India we demonstrate that in an emerging economy concerns about the environmental dynamism is the factor with the strongest influence on corporate strategy choice.*

Keywords *Corporate Strategy, Business Environment, Emerging Economy, Hotel, India*

INTRODUCTION

Conceptual work in strategic management has clearly established the link between business environment and corporate strategy (Bourgeois, 1980; Dev, 1988). A limited number of empirical studies have also been done to support the existence of the link between business environmental factors and corporate strategy content in the developing countries context (Chathoth,2002).However, environmental issues have received limited consideration in empirical studies on corporate strategy. One of the few studies on corporate strategy that includes consideration of environmental issues is the (Grant,1997;Hope,2004;Jogaratnam,1996). A limited number of studies have focused on the development of corporate strategy in developing countries. This study will contribute to the existing literature by looking at corporate strategy in an emerging economy like India. The strategies that businesses adopt are influenced by the business environment in which they operate. Thus, this study seeks to understand the extent to which perceptions about the nature of the business environment influence the selection of specific corporate strategies by hotel firms in India. The purpose of this study is to examine how various business environmental factors influence the choice of corporate strategies. The paper will identify the specific relationships among the business environment (environmental complexity, environmental dynamism, and environmental munificence/ hostility) and corporate strategy (growth strategy, liquidity strategy.

Literature Review

The Business Environment

During the late 18th and early 19th centuries there have had a significant impact on hospitality research in the strategic management literature. These developments were focused around the concept of strategic planning and laid emphasis on the role of the environment in formulating and implementing strategies. During recent past numerous researchers(Dev ,1988; Tse ,1988; West ,1988; Crawford-Welch ,1990;, Murthy ,1994 and Jogaratnam, 1996) have conducted studies to test the relationships between two or more of the constructs, vis-a-vis the environment, corporate strategy, structure, and performance in the hospitality industry. Further

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many authors (Tung, 1979; Jurkovich, 1974; Lawrence & Lorsch, 1967; Duncan, 1972; DeNoble & Olsen, 1986) argued that hospitality industry operate in relatively more dynamic, uncertain, and complex environment. Similarly, Culnan, (1983) opined that firms in general depend upon their environments for both survival and success, and thus environment scanning can be used to respond effectively to changes in the environment. hospitality and tourism industry literature (International Hotels Environment Initiative ,1993 &1995; Kirk,1997; Middleton & Hawkins ,1998; Green Globe ,1994; Forte ,1994; and Ton, Lin, & Radin ,1996) lays more stress on environmental pressures- reducing costs and saving resources to abate future cost issues on the subject of environmental management.

Olsen (1989) pointed out that for an organization to compete in a mature and competitive environment over the long term, it must be able to match these structural variables with activities and trends occurring in the environment. Similarly ,Olsen, Tse and West (1992) indicated that some of the variables creating uncertainty in the hospitality industry environment includes the degree of volatility in prices charged by suppliers, by competitors, the supply of labor, the demand curve, the cost of capital, financing opportunities, new technology.

Faulk (2000) has observed that tourism is economically, socio-culturally, and environmentally an important activity. Polonsky et.al.(1998) stakeholders can also exert environmental pressure, as evidenced by the rise of environmentally and socially responsible investments. Foster, et.al. (2000) sated that the hospitality and tourism industry is under pressure to become more environmentally friendly from the following forces: (a) consumer demand, (b) increasing environmental regulation, (c) managerial concern with ethics, (d) customer satisfaction, (e) maintenance issues related to the physical plant, and (f) the need for aesthetics. Consumers may hold attitudes about the environment that do not translate into environmentally friendly consuming behaviour. On the other hand, Chathoth (2002) has classified the environment risk factors into various risk categories i.e. economic risk, business risk, and market risk. He strongly believes that hospitality firms are exposed to these risks and these dimensions capture the environmental uncertainty and volatility that affect the firm's performance. Similarly, Grant (1997) stated that firm's environment can be impinging upon the firms' decision and performance. Ducan (1972) defined business environment as all factors outside an organisation that are taken into considerations by the organisation in its decision making. Bourgeoise (1980) segregated the environment to general (macro) and task (micro) environment: both have implications for the organisation, especially in strategy formulation and adaptation and consequent performance. Thus, business environment is usually classified by source or proximity.

Corporate Strategy

Corporate strategy can be seen as a framework that allows a given business firm and its embedded business units to articulate and coordinate their specific ends and means (Barton & Gordon, 1987). The key element in managing corporate enterprise is an adequately formulated corporate strategy. Moreover, the corporate strategy is a basic link between efficient business mission and realizing settled portfolio of corporate objectives in the market environment (Johnson, et.al.2008). In fact, its main goal is to provide the corporation's various stakeholders with a sense of identity and purpose that fosters short term performance and long-term business sustainability (Lynch, 2000). Moreover, corporate strategy refers to decisions on what business to enter, what businesses to retain in the portfolio and those to exit from. It specifically directs attention at how the corporate office can add value to the diverse businesses in the portfolio so that their value as a part of the corporation exceeds the value they would have as free-standing businesses. Olsen et al.(1998) contend that corporate strategy entails top management's decision to invest in businesses, which they consider as the most value adding investments. It revolves around the basic premise of defining the firm's objective of which business to be in.

Strategic management researches have suggested that in order to achieve competitive advantage, the firms should aim at achieving a fit between the business environment, strategy and structure (Jennings & Lumpkin, 1992). Since most of the strategies used in hospitality industry have been adopted from other business strategies through Miles & Snow (1974) strategy, researchers have always felt the need of appropriate strategy for the hospitality sector as it differs from other industries considerably such as Edger & Taylor, 1996; Olsen &Roper, 1998; Okumus, 2002 ; and Mintzberg, 1988.

Julian et, al. (2007) suggested that corporate strategy influences capital structure, particularly for the most diversified firms, and that the emerging relationship is complex. The results contributing to the debate on the impact of institutional shareholders on the corporate strategy of the firms in which they invest.

Considering that performance is crucial objective of an organisation, it is generally accepted that the corporate structure and decision making in an organisation is influenced by environmental complexity and volatility (Miles & Snow, 1978; May et al., 2000). Furthermore, it is argued that the alignment of corporate strategies of organisations with the business environment outperform organisations that fails to achieve such alignment (Chaganti et al., 1989, Venkatraman & Prescott, 1990; Beal, 2000).

Thus, corporate strategy is the strategic analysis, strategic choice and strategic implementation. The strategic analysis encompasses setting the organization's direction in terms of vision, mission and goals. Therefore this entails articulating the company's strategic intent and directing efforts towards understanding the business environment.

Thus, of we hypothesized that:

Hypothesis 1 (H1): The level of business environment (environmental complexity, environmental dynamism, and environmental munificence/hostility) will be positively related to the level of corporate strategy (growth strategy, liquidity strategy). Our two sub-hypotheses are constructed as follows:

H1a: The level of business environment (environmental complexity, environmental dynamism, and environmental munificence/hostility) will be positively related to the level of growth strategy.

H1b: The level of business environment (environmental complexity, environmental dynamism, and environmental munificence/hostility) will be positively related to the level of liquidity strategy.

METHODS AND APPROACH

The present study is a correlation study which attempts to investigate the direct relationship between the level of business environment (environmental complexity, environmental dynamism, and environmental munificence/ hostility) and corporate strategy (growth strategy, liquidity strategy. Our respondents comprised of those holding managerial positions. The Ministry of Tourism, Government of India and Federation of Hotel and restaurant association of India (FHRAI) Directory (2012) was used to identify the hotel firms. Questionnaires were sent to 320 firms located in New Delhi. Of 320 usable 100 respondents returned completed questionnaires.

The questionnaire packet consists of 18 items on business environment and 10 items on corporate strategy based on past review of literature. All measures are based on a seven-point Likert scale ranging from (1) strongly disagree to (7) strongly agree. Our hypotheses were tested using hierarchical multiple regression. Firm size and years of operation were controlled based on past. The three business environment variables (environmental complexity, environmental dynamism, and environmental munificence/hostility) served as the independent variables.

RESULTS AND DISCUSSION

Table 1 presents the distribution of the sample organisations according to the controls used in the study. The vast majority of respondents were in the age group 6-15 years. With respect to the size of the organisation, 66% of the sample organisations were rather medium organisations with less than 50 million Rs in operating capital, and 59% of the sample respondents were also medium organisations with less than 300 employees.

Table 1. Distribution of Sample According to Demographic Characteristics (N = 100)

	Frequency	Percentage
Age (in years)		
≤ 5	10	10.00
6 – 10	30	30.00
11 – 15	30	30.00
16 – 20	18	18.00
≥ 21	12	12.00
Capital (in million Rs)		
≤ 10	15	15.00
11 – 30	33	33.00
31 – 50	25	25.00
51 – 70	15	15.00
≥ 71	12	12.00
Employees (numbers)		
≤ 100	25	25.00
101 – 300	30	30.00
301 – 500	30	30.00
501 – 700	10	10.00
≥ 701	5	5.00
Sales (millions Rs.)		
Less than 1 million	20	20.00
1-5 million	40	40.00
5-10 million	25	25.00
Above 10 million	15	15.00
Fixed assets, millions		
less than 4	45	45.00
4–8	40	40.00
8–12	10	10.00
more than 12	5	5.00
Capital structure		
Wholly local	40	40.00
Joint venture	40	40.00
Wholly foreign	20	20.00

Reliability of the Survey Instruments

As shown in Table 2, the Cronbach□s alpha for Business environment variables were in the range of 0.83 to 0.90, which exceeded minimum acceptable level of 0.70. The reliability coefficients for the two corporate strategies were relatively high, which ranged from 0.85 to 0.89. Therefore, the measures used in this study were considered reliable.

Table 2 Reliability Coefficients for Variables of the Study (N=100)

Variables	Cronbach Alpha
Environmental Complexity	0.83
Environmental Dynamism	0.90
Environmental Munificence/Hostility	0.85
Growth Strategy	0.85
Liquidity	0.89

DESCRIPTIVE STATISTICS

The descriptive statistics for the study variables were tabulated as shown in Table 3. The level of business environment in terms of environmental complexity (M=5.20, SD= 1.04) and environmental munificence/hostility (M=5.00, SD=1.02) were rather high. However, the level of business environment in terms of environmental dynamism (M=4.78, SD=1.06) were considered moderate.

The mean scores for the two types of corporate strategies were relatively high as follows: Growth Strategy (M=5.10, SD=0.94), and Liquidity (M=5.05, SD=0.89). We also calculated the mean score for our sample in terms of years in operation (M=20 years, SD=12.10). Given that the participating companies were wide-ranged in terms of the number of employees (100 to 700), we decided to compute the median for firm size which was 400 employees.

Table 3 Mean Scores and Standard Deviations for the Study Variables (N = 100)

Variables	Mean (M)	Standard Deviation (SD)
Environmental Complexity	5.20	1.04
Environmental Dynamism	4.78	1.06
Environmental Munificence/ Hostility	5.00	1.02
Growth Strategy	5.10	0.94
Liquidity	5.05	0.89
Firm size (number of employees)	400 (median)	1476.67
Years of operation (number of years)	20	12.10

Hierarchical Multiple Regression

Our two-step hierarchical regression results for each of the dependent variables comprising of the two types of corporate strategies are depicted in Table 4 and Table 5 respectively. As shown in Table 4, the two control variables have no effects on growth strategy. The R2 value was found to be 0.02, which means that only 2% of the variance in growth startegy was being explained by these variables. However, on adding the three business environment variables, the R^2 change rose to 0.22. This additional increase of 20.0% in growth strategy was contributed by the business environment. On closer examination, only two of the three business environment variables have significant effect on growth strategy (p=0.01). Specifically, environmental dynamism showed a positive effect whereas environmental munificence/hostility showed a negative effect on growth strategy. These results provided partial support for H1a.

Table 4 Regression Results of the Relationship between business environmental variables and Growth strategy

Predictors	Model 1 Std. β	Model 2 Std. β
Control Variables		
Firm Size	-0.13	-0.09
Years of operation	0.09	0.02
Environmental Complexity		0.19
Environmental Dynamism		0.35**
Environmental Munificence/Hostility		-0.29**
R2	0.02	0.22
Adjusted R2	0.01	0.16
Δ R2	0.02	0.18
F-value	1.77	5.70**
Δ F-value	1.77	7.02**

Note: * $p < 0.05$, ** $p < 0.01$.

As shown in Table 5, the two control variables have no effects on liquidity strategy. The R2 value was found to be 0.01, which means that only 1% of the variance in liquidity strategy was being explained by these variables. However, on adding the three business environment variables, the R^2 change rose to 0.18. This additional increase of 18.0% in liquidity strategy was contributed by the business environment variables. On closer examination, only two of the three business environment variables have significant effect on liquidity strategy (p=0.01). Specifically, environmental dynamism showed a positive effect whereas environmental munificence/hostility showed a negative effect on liquidity strategy. These results provided partial support for H1b.

Table 5 Regression Results of the Relationship between business environmental variables and Liquidity strategy

Predictors	Model 1 Std. β	Model 2 Std. β
Control Variables		
Firm Size	-0.11	-0.09
Years of operation	-0.01	-0.04
Environmental Complexity		0.17
Environmental Dynamism		0.30**
Environmental Munificence/Hostility		-0.20**
R2	0.01	0.18
Adjusted R2	0.01	0.12
Δ R2	0.02	0.14
F-value	1.07	5.70**
Δ F-value	1.07	6.22**

CONCLUSIONS

In this study, we sought to examine the effects of business environment on corporate strategy. Our statistical results provided partial support for the effects of business environment on corporate strategy. Environmental dynamism alone was found to have a positive and significant effect on both growth and liquidity strategies.

In this regard, corporate managers should focus on quantifiable criteria; give weight to individual determinants and more innovative system which would lead to greater administrative innovation. Despite the fact that our proposed framework was partially validated, our study have served to provide empirical evidence for the importance of business environment particularly environmental dynamism in predicting the two forms of corporate strategy within the context of Indian hotel industry.

The study has several limitations that create fruitful suggestions for future research. First, the data was cross-sectional, so no assumption about causality can be drawn. In particular, the effects of certain business environmental variables may not have immediate effect. Hence, a more appropriate method would be to conduct a longitudinal study. Secondly, this study is limited to the hotel industry alone. Hence, our results may be specific to the context of this industry. Future research should be extended to other service industry in order to generalize the results reported here.

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