

Strategic Priorities of Malaysian Hotels: The Role of Management Control Bureaucracy

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ABSTRACT

The study examines the role of the management control system (MCS) in Malaysian hotels that pursue different strategic priorities. It is proposed that the cost leadership and differentiation strategies relationships to performance are indirect through the use of bureaucratic and non-bureaucratic MCSs. Data from a survey of 59 hotels operating in Malaysia were used to test the hypotheses. Using partial least squares, the results indicate no significant indirect effect of bureaucratic MCS on the relationship between cost leadership and performance. Additionally, non-bureaucratic MCS did not mediate the relationship between differentiation strategy and performance. Contrary to expectation, a significant indirect effect of bureaucratic MCS on the relationship between differentiation strategy and performance exists. The differentiators appear to affect the use of bureaucratic MCS to increase performance. The study implies the dominance of bureaucratic MCS in the Malaysian hotel industry and challenges the contingency-based proposition on the coupling of business strategy with MCS.

Keywords: Management control systems; cost leadership strategy; differentiation strategy; hotel industry

INTRODUCTION

The Malaysian tourism industry is one of the key contributors to the country's economy. The government's serious effort toward ensuring that Malaysia has the right mixture and quality of hotels strongly indicates the influence of the hotel sector. Through deregulation and the availability of attractive tax incentives, the expansion of the hotel industry has drawn more market players into the industry. The total number of hotels increased by 31.6%, from 3,094 in 2013 to 4,072 in 2014 (Tourism Malaysia). Obviously, liberalization not only drives the economy but also increases the intensity of business competition. The degree of competition among hotels in Malaysia is expected to become even more stringent. Hence, to address such a challenge, hotels must be proactive in offering the right quality of services to customers at the right price and time. Certainly, pursuing the appropriate business strategy is critically important.

According to Porter (1980; 1985), identifying an organization's strategic priorities is important so as to position themselves within an industry. However, market conditions determine which strategic priorities are chosen. Responding and shaping the conditions to their favor are responsibilities of organizations. Moreover, the market is governed by five forces of competition: (a) entry of new competitors, (b) threats of substitutes, (c) bargaining power of buyers, (d) bargaining power of suppliers, and (e) competition between existing firms. These forces determine the industry's level of profitability as they affect prices, costs, and required return. Porter suggested that firms may compete through differentiation or cost leadership strategy.

Although business strategy is an essential tool for success, it is not, by itself, truly effective (Langfield-Smith 1997; Santos-Vijande et al. 2011). Rather, a business strategy must be coupled with other factors, such as the style of control, to have an impact on performance. Considering the current Malaysian market scenario, the more stringent hotel business competition demands effective and efficient ways of control. Implementation of strategic plans still needs to be guided, monitored, and controlled to ensure that the predetermined targets are attainable (Ahrens & Chapman 2002, 2004; Tuomela 2005; Widener 2007). Research has indicated the significance of management control system (MCS) in building and sustaining valuable strategic priorities. Despite the success in identifying the relationships between strategy and individual MCS practices, minimal progress has been made toward understanding the choice and consequences of MCS practices in aggregate and in different strategic contexts (see Bedford et al. 2016). The classic understanding of MCS is that it is a "process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives" (Anthony 1965 cited in Langfield-Smith 1997). The standards and procedures involved ensure that actions are in accordance with the plan to achieve the preset objectives. Nevertheless, Anthony's (1965) definition leads researchers to mainly focus on accounting control. Spekle (2001) contended that the primary function of MCS is to align individual and group behaviors towards the intended objectives. Consequently, studies have acknowledged the role of MCS in reducing the uncertainty level in managing organizational activities and ensuring that actions are in accordance with the plan (e.g. Bisbe & Otley 2004;

Chenhall 2005; Amizawati 2011). In line with Bedford et al. (2016), this study perceives management control to be concerned with resolving three main problems: goal alignment, adaptability, and integration (p. 14).

The current paper maintains the argument for a positive relationship between MCS design and organizational performance. However, the design that organizations implement must be suited to contextual variables, such as business strategies, to encourage a high level of performance. The contingency approach to studying these relationships contended that matching contextual variables to the control design will improve performance, whereas a mismatch will diminish performance (Chenhall 2003). The Malaysian hotel industry provides a relatively focused insight into the management needs for relevant feedback on the appropriateness of the business strategy and use of MCS. Literature, however, suggests that little has been done about MCS practice, particularly in Malaysia (Foong 2000; Isa et al. 2008). Concentrating on the market-related uncertainty in the hotel industry, this paper examines the mediating role of MCS bureaucracy in the relationship between a hotel's strategic priorities and performance. Besides providing the Malaysian perspective on MCS design in the hotel industry, which is considerably underdeveloped, the findings of this study may also be a useful guide for Malaysian hoteliers in deciding the appropriate style of organizational control.

A contribution of the current study to MCS literature is the inclusion of MCS bureaucracy, as viewed from opposite ends of the MCS design spectrum; namely, bureaucratic and non-bureaucratic. Most previous studies considered either specific control mechanisms (such as budgetary control) or specific attributes (such as behavioral and output controls) which may lead to underspecified conclusions (Chenhall 2003). However, organizations operate with several control mechanisms and attributes in combination. For instance, Jermias and Gani (2004) indicated that business units in the Indonesian consumer goods industry simultaneously use behavioral and output controls. Thus, the current study attempts to capture the MCS design in an aggregate measure.

The remainder of the paper is structured as follows. The next section discusses the theoretical framework and hypothesis development. The research method, including sample selection and measurement of variables, is then presented, followed by analysis of data using partial least squares regression. The final section provides the results, conclusion, and limitations of the study and suggests avenues for future research.

THEORETICAL FRAMEWORK AND HYPOTHESES FORMULATION

The underlying assumption behind adopting a business strategy is that doing so would lead to better firm performance. A business strategy consists of decisions about the future of an organization which will only be meaningful when implemented through an organizational process and structures (Langfield-Smith 1997). Translating strategy into action without proper assessment and control

is difficult. Therefore, MCS is considered a tool to aid hotel managers in the process of transforming plans into actions. MCS helps managers formulate strategy, implement business plans, and guide, control, and respond to feedback upon implementation of the strategy. Only then can a business strategy enhance performance (Anthony & Govindarajan 2007).

Organizational design theory highlights that, to have effective control systems, such systems should be designed in accordance with the context in which the organization operates, particularly their business strategy (Chenhall 2003). The reason is that strategy is associated with the element of uncertainty in a firm, and the degree of uncertainty varies according to strategic priorities (Simons 1990). Donaldson (1984, in Simons 1990) indicates that a critical uncertainty for all firms is the ability to internally generate profit to provide resources to fund business strategies. As differentiators struggle to distinguish between competitors, they face uncertainties associated with market tactics of competitors, which are beyond the differentiators' control. In pursuit of being cost leaders, firms may face uncertainties with regard to changes in product technology, which may be managed through program reviews. Thus, firms that place a relatively higher emphasis on differentiation are associated with higher uncertainties compared to those that emphasize cost leadership strategies. Porter (1980; 1985) established a strong theoretical basis linking different types of business strategies to various types of MCS. The effectiveness of MCS may only be possible when there is proper matching between the level of uncertainty and control approach. Similarly, in the hotel industry, MCS is also expected to mediate the relationship between the implemented strategy and hotel's performance.

Extant literature suggests that a mechanistic form of control, relying on formal rules and procedures, is more suitable for low uncertainty firms (Van der Stede 2001). Firms that are in uncertain conditions should adopt an organic style of control which is more flexible and responsive (Chenhall 2003; Guilding 1999; Simons 1987, 1995). In explaining mechanistic and organic forms of control, Chenhall (2003) made a reference to Perrow (1970) who explained the model using the terms including "bureaucratic" (which is comparable to "mechanistic") and "non-bureaucratic" (which is comparable to "organic"). Moreover, the terms mechanistic-organic and bureaucratic-non-bureaucratic models were extensively used in organization theory to describe two contrasting organization forms. Perrow describes the "bureaucratic" model as an organization with stable routine procedures, whereas "non-bureaucratic" refers to firms facing a dynamic environment. Subsequently, the terms "bureaucratic control" versus "non-bureaucratic control" have been used quite frequently to describe the forms of MCS (Abernethy & Stoelwinder 1995; Auzair & Langfield-Smith 2005; Ouchi 1979; Whitley 1999).

Figure 1 shows the theoretical model for this study. Considering that different strategies are suited to a

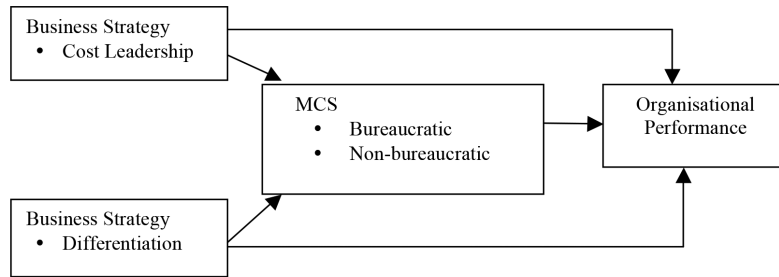


FIGURE 1. Theoretical framework

particular MCS design, this study attempts to demonstrate that a proper match between strategies and MCS shall enhance hotels' performance.

BUSINESS STRATEGY AND PERFORMANCE

Business strategy is the manner in which hotels position, prosper, and survive in the industry. The term refers to the search for a favorable competitive position in an industry and aims to establish and sustain an advantage against market/industry challenges (Porter 1985; Simons 1990). The term also identifies critical success factors, which are the focus of the operation of control systems (Anthony & Govindarajan 2007). Miles and Snow (1978) defined strategy as a consistency in an organization's decisions and actions, although other researchers have defined it in many other ways. In essence, hotels must develop and maintain acceptable strategies that align and integrate their priorities with current market conditions to engage their competitors (Langfield-Smith 2005). Therefore, Porter (1980) argues that a highly dynamic organization may require a more innovative strategy, whereas a less dynamic organization will be associated with a more traditional strategy.

Several models of strategic archetypes have been proposed, suggesting that firms can compete in various ways (e.g. Miles & Snow 1978; Porter 1980, 1985; Miller & Friesen 1982). Porter (1980, 1985) categorized the strategies into cost leadership and differentiation. The scheme revolves around sustaining competitive advantage within an industry. Cost leadership focuses on producing the lowest-cost products/services in the market through various factors, such as economies of scale and superior technology. By contrast, differentiation emphasizes the provision of different and high-value services to the customers. These services include high quality services, product/service enhancement, and flexibility. A low-cost strategy, however, does not imply that quality, innovation, and other bases for differentiation are entirely overlooked. The strategy simply means that the key theme through the entire strategy emphasizes lower costs relative to competitors. Likewise, a differentiation strategy does not mean that the importance of costs can be disregarded, only that these are not the priority (Porter 1980).

With regard to performance, Weerawardena (2003) found that emphasis on the attainment of competitive advantage has a significant positive relationship with

financial and market performance. Similarly, other studies also verified the positive relationship between business strategy and performance (e.g. Acquaah & Yasai-Ardekani 2008; Li & Li 2008). Although differentiators were proved to be associated with sustained performance, Banker et al. (2014) discovered that differentiators and cost leaders were associated with firms that achieve contemporaneous performance. The evidence thus leads to the following hypothesis:

H₁: Hotels' business strategies are positively related to hotel performance.

BUSINESS STRATEGY, MCS LEVEL OF BUREAUCRACY AND ORGANIZATIONAL PERFORMANCE

A clear strategy is necessary to ensure a high level of performance, but it must be supported by effective organizational design and accounting information systems (Jermias & Gani 2004). Prior surveys and case studies have investigated the connection between particular elements of the MCS and the specific strategy adopted by firms. Among others, the studies indicated that cost leaders place higher emphasis on bureaucratic style of control compared to differentiators, and vice versa (Auzair & Langfield-Smith 2005; Cinquini & Tenucci 2008). In decision making, a manager that predominantly emphasizes a directive leadership style is likely to restrict involvement of subordinates in strategic decision making. Similarly, firms that emphasize the bureaucratic style of control would hinder differentiators, who require a flexible, interpersonal style of control to maintain creativity (Northouse 2004). Extant literature maintains that management accounting systems which provide measures on customer satisfaction, timely and reliable delivery, and controls that are less rule-based enhance an organization's abilities to differentiate their products while budgetary performance measures, activity-based costing. Controls which include rules and direction of behavior are more suited to organizations that adopt a low-cost strategy (Chenhall & Langfield-Smith 1998; Jermias & Gani 2004). The contingency theory approach provides a basis for studying the form of MCS that is appropriate for the organizational conditions. The concept has been widely tested in accounting contingency-based studies in firms from various industries (e.g. Auzair & Langfield-Smith 2005; Chenhall & Morris 1995;

Govindarajan & Fisher 1990; Govindarajan & Gupta 1985; McManus 2013; Widener 2007).

Govindarajan and Gupta (1985) demonstrated that greater reliance on long term measures, along with a subjective appraisal approach in evaluating general manager performance (similar to non-bureaucratic controls), contributes to the effectiveness of differentiators but hinders the effectiveness of cost leaders. Likewise, Chenhall and Morris (1995) reported a similar finding associating effectiveness as a fit between the decision process and an extensive use of management accounting information. The study shows that a match between an organic decision process and the extensive use of MCS leads to better performance for entrepreneurial firms (similar to differentiators), but not for conservative firms.

Similarly, Hoque (2004) demonstrated a significant mediating effect of control system in the relationship between business strategy and performance. Almost a decade later, a study on Malaysian service organizations affirmed the positive effects of differentiation strategy on organizations' performance through performance measurement systems (an important element of MCS) (Amir 2011). Arguably, these studies provide evidence of the consistency between decisions and actions, where strategy is realized through MCS-guided actions. Thus, a shared understanding that leads to the realization of the organizations' goals is created.

In the hotel industry, a combination or fit between a strong market orientation which incorporates customer accounting and marketing performance measures with a prospector strategy improved hotels' performance (McManus 2013). In Malaysian hotels, hotel performance measurement systems were demonstrated to influence performance through belief, boundary, diagnostic, and interactive control systems (Muhammad & Muhammad 2013). In sum, these studies provide evidence on the role of control and assessment which translate organizational strategies into action. Thus, while controls and strategies have been differently operationalized, assuming that MCS bureaucracy has a mediating effect on the relationship between business strategy and performance is logical. Bureaucratic controls encompassing formal controls and a tight budget encourage cost leaders to vigorously pursue cost reduction and strict cost control. Conversely, through informal and flexible controls, non-bureaucratic controls allow differentiators to be innovative in creating products which are perceived to be unique. Extending the concept to the present study, that a match between hotel business strategy and MCS level of bureaucracy will improve the performance of hotels is an argument that remains.

Accordingly, the previous discussion leads to the following hypotheses which were formulated to examine the relationships between business strategies and performance through MCS bureaucracy.

H₂: The use of bureaucratic MCS mediates the relationship between cost leadership strategy and organizational performance.

H₃: The use of non-bureaucratic MCS mediates the relationship between differentiation strategy and organizational performance.

METHODOLOGY

SAMPLE SELECTION

Hotels operating in Malaysia are the target population for this study. In this study, the number of rooms represents the size of a particular hotel. According to Sharma (2002), hotels with less than 30 rooms were unlikely to implement formal budgetary systems. Small hotels were considered unlikely to have the complex structures and extensive range of product and services. Therefore, it was considered that operational complexities requiring implementation of sophisticated management control systems would not be present.

A mailing list was obtained from the website of the Malaysian Association of Hotels (MAH). As the list did not specify number of rooms, calls and website search were undertaken to select hotels with at least 30 rooms. This search resulted in 520 hotels.

According to the Queensland Hotel Association and the Queensland Motel and Hotel Association, financial controllers or a person holding a similar top management position would be the most appropriate subjects. As the data collected will also require information on the form of control systems, top-level managers are likely the most knowledgeable resource persons. In this study, these managers were targeted as respondents.

Data collection involves an initial phone call made to accountants from selected hotel for interview. The interview was intended to acquire feedback regarding the suitability of the survey instrument. However, only one interview was successfully conducted. Based on the feedback, the survey instruments were then pre-tested among five academics to represent peer review. Only minor modifications were made to improve clarity of the questions. The survey instrument was then administered to the financial controller or accountants of hotels in the mailing list. In this study, the financial controller or accountant in hotels are targeted as the respondent as they are expected to acquire the vision of their organizational strategy and control systems. Questionnaires were not pre-numbered or in anyway identified, to preserve the anonymity of respondents. Each respondent also received a letter explaining the general purpose of the study and promising anonymity.

Considering the above criteria, a total of 520 survey questionnaires were sent to hotels. Only 56 responses were received and found usable for analysis. This number represents an 11.3 per cent response rate which is considered rather low. Nevertheless, experience from past research and feedback from fellow colleagues utilizing the same method, an average response rate of 10 to 15 per cent is considered normal (see Amir 2011; Auzair et al. 2011;

King et al. 2010). The number of responses also satisfies the minimum sample size requirement suggested by Hair et al. (2017, p.25) for using partial least squares structural equation modeling (PLS-SEM).

TABLE 1. The sample hotels in the study

No of Hotels	No of bedrooms
4	20-25
13	35-50
10	51-90
10	106-192
14	202-398
5	400-602

Table 1 presents the sample hotel and the respective number of bedrooms. Four respondents (7.1 percent) firm indicate less than the expected number of bedrooms (30 or above). As the number is close to the initial criteria, it was decided to maintain the respondents in our sample.

MEASUREMENT OF VARIABLES

Cost Leadership and Differentiation Strategies Survey instruments utilizing Porter's (1980, 1985) competitive strategy have repeatedly been developed and refined in prior MCS studies (see, for example, Amir 2011; Chenhall & Langfield-Smith 1998; Miller 1988; Kumar & Subramaniam 1997). In this research, the instrument to measure cost leadership and differentiation strategies is adopted from Auzair and Langfield-Smith (2005), as they provide measures that are used in service organizations.

To measure cost leadership strategy, respondents were asked to indicate on a 7-point scale, the degree of emphasis on the following activities:

1. Achieving lower cost of services than competitors
2. Making services/procedures more cost efficient
3. Improving the cost required for coordination of various services
4. Improving the utilization of available equipment, services and facilities

High scores on these items indicate a greater emphasis on the cost leadership strategy.

For the product differentiation strategy, respondents were asked to indicate on a 7-point scale, the degree of emphasis on the following activities:

1. Introducing new services/procedures quickly
2. Providing services that are distinct from that of competitors
3. Offering a broader range of services than the competitors
4. Improving the time it takes to provide services to customers
5. Providing high quality services
6. Customizing services to customers need

High scores on these items indicate more focus on a differentiation strategy.

Bureaucratic And Non-Bureaucratic MCS The instrument used to measure MCS was adopted from Auzair and Langfield-Smith (2005) with certain modifications. A brief explanation of the nature of the controls for each attribute was provided. Using a 7-point scale, respondents were asked to indicate the degree of emphasis on the statements that best describe the type of MCS emphasized in their hotels. The statements represent action, formal and tight controls, and financial information which form a bureaucratic MCS and result in flexible, personal controls, and non-financial information, which, in turn, form a non-bureaucratic MCS (see Appendix A).

Organizational Performance Organizational performance was measured using a self-rated instrument initially developed by Gupta and Govindarajan (1984), Govindarajan and Gupta (1985) and Govindarajan and Fisher (1990) and used widely by accounting researchers (Abernethy & Stoelwinder 1991; Amir 2011; Auzair 2015). These studies were undertaken in service environments, suggesting the relevance of this instrument across a variety of settings.

Despite extant concern regarding the use of self-rating measures of performance, no clear evidence exists that objective measures (such as operating profits, cash flows, and return on investment) are either reliable or valid in cross-sectional studies (Abernethy & Stoelwinder 1995). Rather, this study found using a subjective approach in measuring organizational performance to be particularly useful. Reasonably, evaluating every organization using the same set of criteria is not valid. Different organizations set different goals and priorities, which calls for different "weights" to be attached to various performance criteria that are to be measured. However, an objective way of deriving such weights does not exist (Govindarajan & Fisher 1990).

Performance was assessed along a multiplicity of dimensions, and the degree of importance was used as a weight in arriving at the overall effectiveness. The eight performance dimensions representing financial and non-financial performance criteria include, return on investment, profit, cash flow from operations, cost control, development of new products, sales volume, market share, and personnel development.

For each item, respondents were required to rate the organization's performance relative to corporate standards on a 7-point scale ranging from "unsatisfactory" (scored 1) to "outstanding" (scored 7). Then, respondents were required to rate on a 7-point scale the relative importance of each item to their business. Scores for each item were determined by multiplying the respective "performance" and "importance" scores. A final single performance score for each firm was calculated by taking a weighted-average of all items.

TABLE 2. Descriptive statistics

Variables	Mean	Median	S.D.
1. MCS - bureaucratic	5.17	5.25	.92
2. MCS – non-bureaucratic	5.12	5.25	.98
3. Differentiation Strategy	5.31	5.57	.99
4. Cost Leadership Strategy	5.28	5.50	.96
5. Organizational Performance	4.63	4.80	.91

DESCRIPTIVE STATISTICS AND CORRELATIONS

Table 2 presents the means, medians and standards deviations for all variables.

The mean scores for MCS variables indicate strong emphasis on both types of bureaucratic and non-bureaucratic controls. Firms also appear to emphasized high on both cost leadership and differentiation strategies.

Table 3 displays correlations for all variables. Examination of these correlations (Table 3) indicates that there is no correlation greater than 0.9 among the variables. Thus there is strong reason to believe that multicollinearity is unlikely to be a problem (Hair et al. 1998).

PARTIAL LEAST SQUARE REGRESSION

To analyze the hypothesis, the partial least squares (PLS) approach to structural equation modeling (using SmartPLS version 2) was used in this study. PLS is a component-based modeling technique that simultaneously examines theory (structural model) and measures (measurement model). The measurement model specifies relations between observed items and latent variables while the structural model specifies relations between latent constructs.

The advantages in using PLS are (a) its ability to simultaneously handle multiple exogenous and endogenous constructs, (b) its ability to handle multicollinearity among endogenous constructs and (c) its ability to directly create

latent construct scores on the basis of cross products involving multi-item measures.

PLS is a latent variable modeling technique that incorporates multiple dependent constructs and explicitly recognizes measurement error (Fornell & Larcker 1981), and has been used in a number of management control system studies (Chenhall 2005; Hall 2008; Naranjo-Gil & Hartmann 2007). PLS is particularly suited to this study because it makes minimal data assumptions and requires relatively small sample sizes (Wold 1985; Abernethy et al. 2010). The adequacy of the PLS measurement model can be assessed by examining: 1) individual item reliabilities; 2) the convergent validity of the measures associated with individual constructs; 3) discriminant validity (Hulland 1999).

First, the factor loadings for items of each variable are examined. A rule of thumb employed by many researchers is to accept items with loadings of 0.7 or higher. However, in practice, it is common to find that at least several measurement items have loadings below the 0.7 threshold, particularly when new items or newly developed scales are employed. Accordingly, for exploratory studies, loadings above 0.5 are considered acceptable (Hulland 1999).

Second, the reliability of each variable was assessed using composite reliability and Cronbach's alpha (Hulland 1999). As indicated in Table 4, all the constructs have composite reliability and alpha scores exceeding the cut-off

TABLE 3. Pearson correlations

Variables	1	2	3	4
1. MCS - bureaucratic				
2. MCS - less bureaucratic	.841**			
3. Differentiation Strategy	.570**	.724**		
4. Cost Leadership Strategy	.533**	.709**	.782**	
5. Organizational Performance	.415**	.466**	.494**	.390**

** $p < .01$ (2-tailed)

TABLE 4. Composite reliability and Cronbach's alpha

	Composite reliability	Cronbach's alpha	AVE
Bureaucratic MCS	0.856189	0.772957	0.600935
Non bureaucratic MCS	0.858311	0.778539	0.605039
Cost Leadership Strategy	0.913141	0.872425	0.725998
Differentiation Strategy	0.924779	0.904709	0.638208
Organisational Performance	0.948336	0.936921	0.697800

point of 0.7, in compliance with the suggestion by Nunnally (1978). Convergent validity of the variables is assessed by examining the average variance extracted (AVE) statistics. Table 4 shows that the AVE for each variable is 0.50 and above, which demonstrates adequate convergent validity (Hair et al. 1998).

The third assessment is the discriminant validity which represents the extent to which measures of a given construct differ from measures of other constructs in the same model. Discriminant validity can be measured by the cross loadings. Table 5 presents the cross loadings of the variables and showed that the correlation between indicator of the bureaucratic MCS for instance, and the construct of bureaucratic MCS are higher compare to the correlation between these indicators and another construct. Thus, indicators of bureaucratic MCS have discriminant validity. The same also applies to other constructs.

Apparently, no official guideline exists on using PLS for the study of mediation effects (Brontis et al. 2007).

However, one recommendation is using the Baron and Kenny (1986) approach who discussed the four steps in establishing mediation. First, a direct relationship is established between independent variable and the dependent variable. Second, a direct relationship exists between independent variable and the mediator. Third, the mediator is related to the dependent variable and finally, the relationship between the independent and dependent variables is significantly reduced when the mediator is added.

FINDINGS

Table 6 presents the path coefficients between constructs to test the hypotheses.

Positive direct relationships between hotels pursuing cost leadership and differentiation strategy with the hotel performance were hypothesized to exist. As Table 6 indicates, H_1 is supported as the path coefficient and

TABLE 5. Factor loadings from final PLS measurement model

	Bureaucratic MCS	Non bureaucratic MCS	Cost Leadership Strategy	Differentiation Strategy	Organisational Performance
Perf1	0.467535	0.450747	0.494414	0.555534	0.739068
2	0.363348	0.311195	0.534382	0.545807	0.727432
3	0.447819	0.504012	0.549272	0.666019	0.874522
4	0.482903	0.508699	0.545923	0.601675	0.866131
5	0.483982	0.539008	0.557412	0.619735	0.856877
6	0.459917	0.479466	0.601841	0.628345	0.899926
7	0.395664	0.387093	0.569697	0.573067	0.789726
8	0.569387	0.601265	0.696238	0.684081	0.907899
Action	0.835636	0.768327	0.398651	0.436456	0.431334
Formal	0.682239	0.511812	0.306249	0.323341	0.452253
Tight	0.870662	0.706952	0.447846	0.450678	0.446877
Financial	0.694224	0.571498	0.322287	0.369922	0.382389
Results	0.637808	0.775973	0.485595	0.431224	0.413494
Flexible	0.691248	0.845963	0.490947	0.427924	0.507641
Interpersonal	0.655005	0.834575	0.537428	0.585999	0.499366
NFinancial	0.612392	0.637066	0.364169	0.420944	0.334920
Diff1	0.260269	0.316779	0.393331	0.699104	0.553085
Diff2	0.380143	0.439327	0.662829	0.816882	0.574746
Diff3	0.489445	0.522821	0.603712	0.841832	0.639873
Diff4	0.484795	0.566906	0.727724	0.790363	0.565319
Diff5	0.389107	0.496142	0.676444	0.831756	0.585670
Diff6	0.434919	0.506171	0.596718	0.856026	0.643045
Diff7	0.388033	0.492556	0.558381	0.743950	0.525460
CostL8	0.290142	0.418456	0.720590	0.498572	0.393245
CostL9	0.439120	0.659066	0.888942	0.679335	0.613060
CostL10	0.457909	0.565481	0.920464	0.653924	0.673038
CostL11	0.424444	0.508504	0.864448	0.743266	0.609117

TABLE 6. Path coefficient of the structural model (t statistic in bracket)

	Bureaucratic MCS	Non bureaucratic MCS	Performance
Bureaucratic MCS		-	0.260522 (2.042930)**
Non bureaucratic MCS		-	-0.075008 (0.660480)
Cost leadership	0.213137 (1.361020)	0.355669 (2.897115)***	0.272634 (0.277119)**
Differentiation	0.350661 (2.317553)**	0.333479 (2.900906)***	0.435958 (3.215646)***
R ²	0.282216	0.418347	0.697800

* $p < 10%$ (two-sided).** $p < 5%$ (two-sided).*** $p < 1%$
t-values calculated through bootstrapping with 59 cases and 500 samples.

t statistic on (1) the relationship between cost leadership strategy and performance (0.272634 and 0.277119, respectively) and (2) the relationship between differentiation strategy and performance (0.435958 and 3.215646, respectively) are positive and significant. Simply stated, as hotels consider their strategic priorities, performance will increase. The coefficient of the two relationships also revealed that for the hotels studied, those which pursued a differentiation strategy have a stronger relationship with performance.

Given the importance of aligning proper MCS to strategic priorities to enhance performance, H₂ and H₃ predicted the relationships between (1) cost leadership strategy and performance acting through bureaucratic MCS and (2) differentiation strategy and performance acting through non-bureaucratic MCS. Employing the four steps of Baron and Kenny, the mediation effect for H₂ and H₃ were tested as follows. For H₂: 1) a direct path between cost leadership strategy and performance was established, 2) a direct path between cost leadership strategy and bureaucratic MCS *was not* established; and 3) a direct path between bureaucratic MCS and performance was established.

With regard to H₃: 1) a direct path between differentiation strategy and performance was established, 2) a direct path between differentiation strategy and non-bureaucratic MCS was established, and 3) a direct path between non-bureaucratic MCS and performance *was not* established.

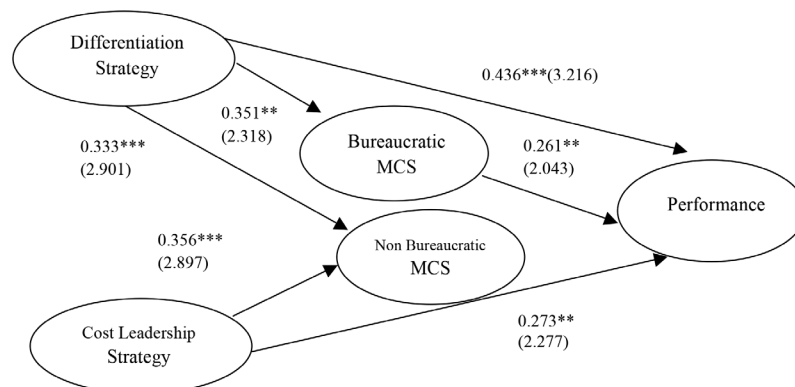
Therefore, the first three steps towards analyzing the mediation effect indicated no support for H₂ and H₃.

Further analysis of the model indicates that differentiators were associated with both non-bureaucratic and bureaucratic MCS. Unexpectedly, bureaucratic MCS appear to mediate the relationship between differentiation strategy and performance. As such relationship was not hypothesized, this unexpected outcome shall require further investigation in future studies.

CONCLUSION

Impending threats from globalization coupled with Malaysian effort toward economic transformation have placed the hotel industry in an intense and competitive environment. Hotels must be agile and responsive to customer needs and establishing appropriate strategic priorities is no longer an option. To meet the demand of the uncertain environment, firms' management control systems have to be tailored toward these strategic priorities to enhance performance. This study examines the relationship between strategic priorities and hotel performance. In addition, to enhance performance of the hotels, strategies aligned with appropriate control were also proposed.

Results of this study provide evidence on hotels' strategic priorities and the use of bureaucratic and non-bureaucratic forms of MCS. Cost leaders and differentiators



** $p < 5%$ (two-sided).*** $p < 1%$

FIGURE 2. PLS structural model with significant path coefficient

directly enhanced hotel performance. Nevertheless, the result did not support the alignment of the MCS and the strategies pursued by these hotels. Contrary to expectations, bureaucratic MCS was found to mediate the relationship between differentiation strategy and performance. This finding deviates from most findings in developed countries (Ittner & Larcker 1997). However, in a Malaysian study, Foong (2000) unexpectedly found non-financial measures, a criterion of non-bureaucratic control which is not significantly related to differentiator type strategy. She also found that cost leaders do not place a high level of emphasis on accounting-based controls to manage their cost efficiency. The current study and that of Foong (2000) somehow concur with the exceptional, yet commonly, cited findings of Simons (1987) who found that prospectors pursue tighter control while defenders implement control to a lesser extent. Increasing competition and accelerating technological change in the hotel environment were moderated by a more formal, tight, and financially-oriented control, probably to facilitate the management of unnecessary creative actions in uncertain conditions.

Note that this study is subject to a number of potential limitations. The model in this study is tested using survey data. Such approach has disadvantages as it captures a situation or an event at only a point of time. Future research could employ a qualitative approach using an in-depth case study. Another limitation is the low response rate which limits the statistical power of the results and prevents the application of more advanced statistical techniques. Nevertheless, problems associated with small sample settings are avoided by testing the model using partial least squares estimation (see Abernethy et al. 2010).

As this study focused on the MCS of the Malaysian hotel industry, generalizability of the findings to firms in other service industries, or hotels in other countries should be taken with caution. Future research could be conducted in other service industries or hotels in other Asian regions, to examine the extent to which bureaucratic or non-bureaucratic management control was exercised in relation to the firms' strategic priorities.

Conditional upon the limitations described above, the findings of this study contribute to the contingency literature by extending the understanding of hotels' MCSs, considering MCS from bureaucratic and non-bureaucratic perspectives, and recognizing strategic priorities. The absence of a significant alignment between cost leadership strategy and bureaucratic controls also questions the assumption in management literature regarding the importance of a strategic fit in designing MCSs, specifically in the Malaysian hotel environment.

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APPENDIX A: MCS INSTRUMENT

Action controls

The superior monitors staff decisions and actions on an ongoing basis.

Results controls

The superior focuses on the attainment of desired targets and allows the staff considerable discretion in deciding the best way of achieving these targets.

Formal controls

Written rules, policies, procedures and targets are communicated formally to all employees.

Tight controls

Employees' actions and targets are precise, timely and frequently monitored.

Flexible response

The control system provides the flexibility for managers to respond to new, previously unanticipated opportunities.

Interpersonal emphasis

Controls are applied throughout the organisation taking into account individual personalities and personal preferences of staff.

Financial information

Employees' performance is based largely on achieving financial targets (e.g. costs, revenues)

Non-financial information

Employees' performance is based largely on achieving non-financial targets (e.g. customer satisfaction, timely service delivery)