



Stakeholder management in the Chinese hotel industry: the antecedents and impacts

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Abstract

Purpose – Taking an innovative approach, the aim of this paper is to apply the stakeholder view concept to the hotel industry in China, and identify two antecedents of the stakeholder relationship, namely, trust and commitment. The paper then seeks to examine the impacts of these two antecedents on the management practices of the two key stakeholders (the hotel owner and the customer) and to assess the effects of these practices on organizational performance.

Design/methodology/approach – An empirical survey using questionnaires was conducted on a sample of 228 three- to five-star hotels in China. The results from confirmatory factor analysis and structural equation modelling were both satisfactory, providing a basis for discussion.

Findings – Three main results emerged. First, in model A, the key stakeholder is the hotel investor; both antecedent constructs, trust and commitment, were positively influenced by the organization's stakeholder management practices. However, in model B, the key stakeholder is the customer; trust was the only construct affected by stakeholder management practices. The second major result was that in both models, stakeholder management practices had positive and significant influences on financial performance and customer satisfaction. Finally, the results revealed that customer satisfaction positively affected financial performance.

Originality/value – The proposed framework and its results provide vital insights for industry practitioners and academics in the field of stakeholder management, where an alternative competitive strategy for an organization's wealth creation is acknowledged.

Keywords Relationship quality, Stakeholder management, Organizational performance, Trust, Commitment, China, Hospitality services, Stakeholder analysis

Paper type Research paper

Introduction

Along with the boom of Chinese hotel industry, and the state-owned hotels reduction (Kong *et al.*, 2010), to survive in this massive competition, managing multiple stakeholder relationships become one of the most imperative challenges to hotels' in China when they used to focus on maintaining single stakeholder relationship with the hotel owner (the states or government) only. Globalization has expanded the business environment into a network of multiple stakeholder groups. As modern strategic management has emerged, the stakeholder perspective has played a prominent role in strategy and performance discussions (Harrison *et al.*, 2010). The general denominator of stakeholder theory/management arguments concerns whether firms should adopt a spacious strategy perspective that incorporates the demands and needs of various

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stakeholder groups to improve its performance (de Luque *et al.*, 2008; Godfrey, 2005; Sisodia *et al.*, 2007). Researchers have claimed that a firm's performance can be enhanced by emphasizing its relationship with its key stakeholders (Jones and Wicks, 1999; Donaldson and Preston, 1999; Jawahar and McLaughlin, 2001; Rodgers and Gago, 2004; McVea and Freeman, 2005), which may aid the firm in acquiring and developing valuable competitive resources (Dyer and Singh, 1998; Gulati *et al.*, 2000).

Based on the theoretical foundation of stakeholder literature, Post *et al.* (2002b) formally developed a new perspective in strategic management, the so-called stakeholder view (SHV), which states that the long-term survival and success of a firm is determined by its ability to establish and maintain relationships with its critical stakeholders (Post *et al.*, 2002a). They have verified their SHV theory using three case studies (Motorola, Royal Dutch Shell, and Cummins/Monsanto). Nevertheless, in the framework of SHV and other stakeholder management literature, there is a lack of information on positive key stakeholder relationship cultivation, such as the sequence of relationship formation constructs and how these constructs enhance stakeholder management practices and lead to superior organizational performance.

To bridge the gap in the existing literature, the objectives of the present paper were twofold. The first was to identify critical stakeholders in the hospitality industry based on their importance and contribution to business performance. The second was to develop and empirically test a stakeholder relationship framework in the hotel industry. Specifically, we examined the effects of trust and commitment on the part of two critical stakeholders (hotel owners and customers) on stakeholder management practices and how these, in turn, influence organizational performance. The empirical results of this research provide practical information and comprehensive implications for the establishment of key stakeholder relationships and the practice of stakeholder management.

Literature review and hypothesis development

The SHV

According to the original framework of SHV, the stakeholders of a firm are conceptually defined as "individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers" (Post *et al.*, 2002a, p. 8). Using the framework developed by Post *et al.* (2002b), Huang and Gardner (2007) argued that SHV may be appropriate for examining the strategic management practices of Chinese organizations because the framework emphasizes the importance of social and political factors in an organization's performance. They further pointed out that two primary and implicit assumptions on which the SHV is based (factors such as industry structure and resource base, and the social and political setting) influence a firm's sustainable and long-term value. Furthermore, a firm's critical stakeholders affect its performance. They further developed a theoretical framework of strategic management in Chinese organizations that explicitly established the mechanisms through which SHV influenced organizational performance, including its direct influence and its indirect effects through other strategic perspectives, such as the market positioning view (MPV), the resource-based view (RBV), and the relational view.

The SHV proposes that the long-term survival and success of a firm is determined by its ability to establish and maintain loyal relationships with its critical stakeholders

(Post *et al.*, 2002a). Indeed, it is such relationships, rather than interactions, between the firm and its key stakeholders that are emphasized by SHV. Whereas an interaction can be a one-time occurrence, a relationship involves ongoing conflicting and collaborative elements (Leanna and Rousseau, 2000; Post *et al.*, 2002a).

Nevertheless, measures of links between key stakeholders and organizational performance need to be conceptually developed and defined. Donaldson and Preston (1995) criticized empirical studies that examined the link between stakeholder management and organizational performance as lacking “reliable indicators of the stakeholder management side of the relationship.” To advance knowledge in this field, the present research integrates the findings in the literature on relationship marketing (Morgan and Hunt, 1994) and those of stakeholder management (Ogden and Watson, 1999; Berman *et al.*, 1999; Heugens *et al.*, 2002), where the key stakeholder relationships are conceptualized in two dimensions: the antecedents of key stakeholder relationships, and the practices of stakeholder management. The following sections define and discuss the key stakeholders and their roles in organizational performance in the Chinese hotel industry.

Key stakeholders in the Chinese hotel industry

One recent trend in the strategic management literature is to analyze how individual stakeholders influence a firm’s operations and its wealth creation (Buysse and Verbeke, 2003; Harrison, 2003; Kochan and Rubenstein, 2000; Agle *et al.*, 1999b; Cummings and Doh, 2000). This typically entails identifying key stakeholders and the management of their relationships with the firm. A stakeholder can generally be defined as “any group or individual who can affect or is affected by the achievement of the firm’s objective” (Freeman, 1984). However, depending on the “stake” held by different stakeholders involved in the organization, the stakeholders’ ability to impact the organization varies. Thus, it can be argued that only a firm’s key stakeholders can affect the firm’s capacity to achieve long-term success (Post *et al.*, 2002a). In the words of Freeman (1999, p. 234), “if organizations want to be effective, they will pay attention to all and only those relationship that can affect or be affected by the achievement of the organization’s purposes.” Thus, the present research focused on the two predominant stakeholders that have direct impacts on hotels’ financial inputs: the hotel owner (investor) and the customer, and how developing and maintaining a close relationship with them can provide a “license to operate” and generate sustainable organizational wealth in the Chinese hotel industry.

Owner/investors. Economic reform began in China in 1979, but most hotels in China are still state owned, the property of national, provincial, regional, or municipal governments. The relationship between owners and management in the Chinese hotel industry has been a source of debate among researchers (Wong *et al.*, 2005; Tang *et al.*, 2006; Pine *et al.*, 2000). However, a consensus has formed, both among industry researchers and practitioners, that states ownership of hotels, in particular, the high degree of interference from state owners, has had an enormous impact on hotel management, operation, and financial performance in China. A recent study by Xiao *et al.* (2012) found that the corporate strategies adopted by Chinese hotel owners significantly influenced financial performance. Thus, hotel ownership can influence performance.

Customer. From the customer’s point-of-view, a hotel is an institution of commercial hospitality, which offers its services and facilities for sale individually, or in various combinations (Medlik and Ingram, 2000). Satisfying and recognizing customer needs

and desires is the fundamental principle for hotel operations anywhere in the world. The impact of customers on a hotel's performance is direct and vital, and has become a major factor in a hotel's key decision-making processes, such as marketing planning, organizational behavior, management structure, and operational objectives. Hence, upholding a healthy relationship with the customer is critical to the hotel in terms of its ability to survive in the market, and its ability to identify and acquire potential business (Figure 1).

Antecedents of stakeholder management

Based on the relational view (Dwyer *et al.*, 1987; Ganesan, 1994; Mohr and Spekman, 1994; Morgan and Hunt, 1994), two antecedents of the stakeholder relationship are proposed in this research: trust and commitment. Trust and commitment are the twin foundations of the stakeholder relationship. Both are integral to managing stakeholders, recognizing their needs and expectations, and maintaining and developing a close relationship with them. Furthermore, based on a foundation of trust and commitment, firms can create a conflict-resolution channel and establish loyalty with key stakeholders.

Trust. As a fundamental building block in most relationship models (Wilson, 1995), the concept of trust has been examined and accepted in the field of relationship marketing (Dwyer *et al.*, 1987; Ganesan, 1994; Mohr and Spekman, 1994; Morgan and Hunt, 1994). In their study of the commitment-trust theory in relationship marketing, Morgan and Hunt (1994) found that trust, conceptualized as the willingness to rely on an exchange partner in whom one has confidence, was a principal mediator in relationship exchange.

Nevertheless, the concept of trust needs to be refined when used in a Chinese context. Specifically, building a trustworthy personal relationship is critical in Chinese business society (Chen and Chen, 2004), in which there may be an interdependent link between interpersonal trust and interorganizational trust (Doney and Cannon, 1997). Ganesan (1994) divided the concept of trust into two dimensions: credibility and benevolence. The first aspect of trust highlights objective credibility in the relationship exchange, where one's word or the written statement of an organization can be relied upon by stakeholders (Lindsfold, 1978). Benevolence of trust is a measure of an organization's interest in promoting and seeking out closeness and joint gain with its stakeholders by encouraging and sharing an understanding of mutual interests (Phan *et al.*, 2005). The literature on trust is valuable for recognizing how this relationship construct facilitates stakeholder management practices. Mayer *et al.* (1995, p. 712) reported that trust can guide a party to be "vulnerable to the actions of another party." Accordingly, under conditions of trust, stakeholders may be more willing and comfortable to reveal

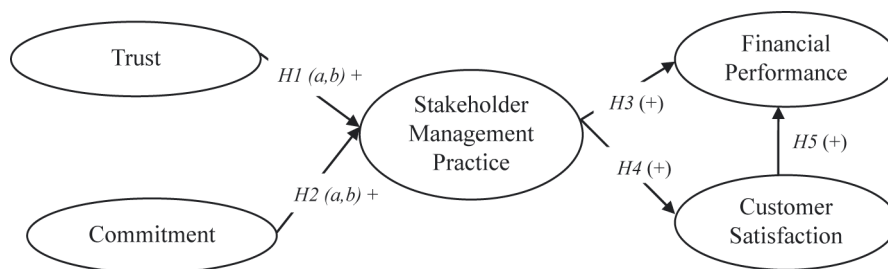


Figure 1. Theoretical model examine the impacts of the stakeholder relationship development to organizational performance in the Chinese hotel industry

private or sensitive information to the firm because they believe that the information provided will not be used against their best interests (Harrison *et al.*, 2010). Barney and Hansen (1994) claimed that in trusting relationships firms may create competitive value by using disclosed information. That is, if stakeholders trust a firm, they will reveal their true feelings honestly and clearly. Gathering such information about real stakeholder demands, a firm may adjust their strategies towards these stakeholders to better satisfy their needs, leading to better stakeholder management strategies. Hence, the following hypotheses were proposed:

- H1. The level of trust between a hotel and its key stakeholders positively impacts the hotel's stakeholder management practices in the Chinese hotel industry.
- H1a. The level of trust between a hotel and its owners/investors positively impacts the hotel's stakeholder management practices in the Chinese hotel industry.
- H1b. The level of trust between a hotel and its customers positively impacts the hotel's stakeholder management practices in the Chinese hotel industry.

Commitment. In addition to trust, the concept of commitment has been widely used in the relationship marketing literature (Ulaga and Eggert, 2006; Morgan, 2000; Ganesan, 1994; Bettencourt, 1997; Phan *et al.*, 2005). Considering that the foundation of a relationship is built on mutual commitment (Berry and Parasuraman, 1991), the definition of commitment in a relationship is essentially interpreted in the literature as an attitude.

Consequently, the attitude of an organization towards engagement in an individual stakeholder relationship may vary and depend on the ongoing desire of the organization to maintain each individual in a valuable stakeholder relationship (Moorman *et al.*, 1993). Morgan and Hunt (1994, p. 23) conceptualized commitment as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely."

To refine the concept of commitment in relationship quality, two important aspects from Morgan and Hunt's definition are used in this research. First, commitment expresses a judgment as to the value of the relationship; inasmuch as the organization considers the stakeholders to be critical, a high level of commitment may be devoted to the relationship. Second, through commitment to its stakeholders, the organization consolidates the efforts of respect and appreciation in their stakeholder relationships, whereas endurance and stabilization of the relationship can be created to establish and maintain long-term relationships.

Based on the discussion above, a committed relationship will facilitate an organization's appreciation and stabilization efforts in its stakeholder relationship that aim to construct and maintain ongoing relationships with those stakeholders perceived as valuable. Accordingly, the following hypotheses were proposed:

- H2. The level of commitment between a hotel and its key stakeholders positively impacts the hotel's stakeholder management practices in the Chinese hotel industry.
- H2a. The level of commitment between a hotel and its owners/investors positively impacts the hotel's stakeholder management practices in the Chinese hotel industry.

H2b. The level of commitment between the hotel and its customers positively impacts the hotel's stakeholder management practices in the Chinese hotel industry.

Stakeholder management practices and organizational performance

The concept of managing the relationship with stakeholders for mutual benefit has been applied in numerous business and sociological studies, including marketing (Polonsky, 1996; Polonsky and Scott, 2005; Smith and Higgins, 2000), strategic management (Hillman and Keim, 2001; Post *et al.*, 2002a), and corporate finance (Barton *et al.*, 1989). The concept of stakeholder management originated from stakeholder theory, which claims that organizations that address stakeholder interests will be better off than those that do not (Agle *et al.*, 1999a; Berman *et al.*, 1999; Post *et al.*, 2002a; Wood and Jones, 1995; Jones, 1995).

Regarding stakeholder interests, Freeman (1984) developed a theoretical stakeholder strategy matrix, which suggested that firms should adopt a variety of generic strategies to cope with stakeholders' potential to influence the organization, both negatively and positively. Several scholars have also advocated the stakeholder strategy matrix as a practical guide for managers to appreciate and manage individual stakeholder relationships, thereby enhancing organizational performance (Polonsky, 1996; Polonsky and Scott, 2005; Savage *et al.*, 1991; Kimery and Rinehart, 1998).

Notwithstanding the above cautions, the relationship with stakeholders can be dynamic, as the characteristics and points-of-view of stakeholders may change over time (Post *et al.*, 2002a; Post *et al.*, 2002b; Kochan and Rubenstein, 2000). Thus, it has been argued that a firm can manage its stakeholder relationships by developing and adopting both cooperative and defensive practices (Polonsky, 1996; Polonsky and Scott, 2005; Savage *et al.*, 1991; Kimery and Rinehart, 1998; Freeman, 1984). Because the key stakeholders in this study are hotel owners and customers, cooperative practices may be more dominant than defensive ones in stakeholder management practice development.

Cooperative practices. Under the resource dependence theory (Pfeffer and Salancik, 1978), an organization's survival depends on its ability to secure resources from its external environment. This dependence on external resources affects the organization's behavior. Pfeffer and Salancik (1978, p. 43) further argued that "the typical solution to the problem of interdependence and uncertainty involves increasing mutual control over the other's activities." Scholars and researchers in the field of stakeholder management have argued that by cooperating with stakeholders, organizations can increase their control over uncertainty and create organizational flexibility (Freeman, 1984; Polonsky, 1995; Polonsky, 1996; Harrison, 2003; Harrison and St John, 1996; Savage *et al.*, 1991; Kimery and Rinehart, 1998).

Theoretically, a stakeholder's cooperative potential with an organization determines its abilities to expand its interdependence with an organization where the stakeholder's dependency on an organization and its willingness to cooperate correspond (Savage *et al.*, 1991; Freeman, 1984; Polonsky and Scott, 2005). To reduce uncertainty and unpredictable demand, an organization should manage its stakeholder relationships with a close level of interdependency (Harrison and St John, 1996; Burgers *et al.*, 1993).

Therefore, cooperative practices are conceptualized in this study as follows: "managing the stakeholder relationship through organizational activities that involve stakeholders and required their collaboration." Collaborative activities, including partnerships, and stakeholder involvement in organizational activities such as board

meetings, may help an organization develop common goals and values with its stakeholders and reduce the chances of opposition (Savage *et al.*, 1991; Freeman, 1984; Polonsky and Scott, 2005; Harrison, 2003; Harrison and St John, 1996).

Harrison (2003) offered several practical examples of cooperative practices that hotels can implement for managing stakeholders, such as encouraging customer involvement in service development, sharing information systems with suppliers, participating in government-sponsored research, and inviting stakeholders to board meetings. Hence, we conceptually defined stakeholder management, based on its definition according to the SHV (Post *et al.*, 2002a), as follows: “the development and implementation of cooperation and threat-defending policies and practices that take into account the goals and concerns of all relevant stakeholders.”

Therefore, for a hotel to establish and maintain a favorable relationship with its key stakeholders, we propose that both cooperation and threat-defending practices should be included in the stakeholder management strategy. Given that monitoring the activities of key stakeholders in the long run can be time-consuming, the development of cooperative stakeholder practices would require a hotel’s management team to generate extensive procedures and/or programs in which the key stakeholders can be involved. Nevertheless, efforts to establish a high level of interdependency between a hotel and its key stakeholders are not limited to reducing the uncertainty or unpredictable aspects of its key stakeholders. The interdependency between a hotel and its stakeholders may provide the business with a unique competitive advantage (e.g. access to scarce resources) in the industry, which can further fertilize the long-term outstanding performance outcome.

Congruent with the above discussion, the following hypotheses were proposed:

- H3. A hotel’s stakeholder management practices positively influence its financial performance.
- H4. A hotel’s stakeholder management practices positively influence the level of customer satisfaction.

An organization’s customer satisfaction and financial performance

Improving a firm’s relative performance is a central issue in strategic management (Porter, 1980; Barney, 1991; Rumelt, 1991; Levinthal, 1995; Peng, 2002; Post *et al.*, 2002b). A firm’s success may not depend on a single set of factors (e.g. Peteraf and Barney, 2003; Porter, 1991), and organizational performance should not be measured by a firm’s financial performance alone. A broader view of organizational performance is necessary, where improvement in the firm’s financial, operational, and market performance domains are embraced (Venkatraman and Ramanujam, 1986; McMillian and Joshi, 1997; Day and Wensley, 1988; Jang and Park, 2010).

Organizational performance has been assessed based on objective financial performance (Knott, 2003; Makadok, 1999; Miller and Shamsie, 1996), subjective financial performance (Powell, 1992, 1995; Powell and Dent-Micallef, 1997), and non-financial performance (Combs and Ketchen, 1999; Henderson and Cockburn, 1994; Markman *et al.*, 2004; Yeoh and Roth, 1999). The present study measured organizational performance by examining two dimensions: financial performance (e.g. profitability, growth in sales, and return on investment) and non-financial performance (e.g. customer satisfaction and service quality). Thus, the following hypothesis was proposed:

H5. Customer satisfaction with a hotel has a positive influence on the hotel's financial performance in the Chinese hotel industry.

Methodology

Sampling and data collection

Sample hotels were selected from the cities of Beijing and Shenyang because of these cities' rapid development and the researchers' connection to them. A further selection criterion was that previous research has reported that management at lower-rated hotels in China tend to be less willing to cooperate in academic research (Pine, 2002; De Ruyter *et al.*, 1997). Thus, this study focused on tourist hotels rated at three stars and above. According to the Municipal Bureaus of Tourism for Beijing and Shenyang, in 2007, a total of 411 tourist hotels met the sampling criteria: 335 hotels were located in Beijing and 76 were located in Shenyang. These 411 hotels formed the sampling frame, and all were included in the study. Senior managers in these hotels were identified as target informants because they have plentiful information and knowledge about key factors relevant to the questions posed in this study, such as financial performance and customer satisfaction (Bagozzi *et al.*, 1991).

Questionnaires were delivered to all 411 hotels by using the method of door knocking with an average of three follow-up phone calls to the hotel executive office and two reminders of questionnaire were delivered after the phone calls. The total data collection period took around four months and 254 responses were received. Among these, 228 were valid, yielding a valid response rate of 56 percent; 183 responses were received from Beijing (55 percent of response rate) and 45 were received from Shenyang (59 percent of response rate). Table I presents demographic information for informants.

Measurement development and validation

All questions, except for those about demographics, used a seven-point Likert scale, ranging from 1 ("strongly disagree") to 7 ("strongly agree"). Indicators for trust were adopted from Phan *et al.* (2005), and consisted of four items, measuring trust in both hotel owners and customers separately. Measurements for commitment were adopted from Morgan and Hunt (1994), with four factors separately gauging the commitment levels of hotel owners and customers. Using a strategy matrix (Polonsky, 1996; Polonsky and Scott, 2005; Kimery and Rinehart, 1998; Freeman, 1984), six stakeholder management practice measures were developed.

A self-reported organizational performance construct was used ranging from 1 ("much lower") to 7 ("much higher"), where the respondents were asked to compare their financial performance and degree of customer satisfaction to those of their competitors. Previous studies have indicated that self-reported performance is more desirable for research in a country where the culture is more conservative (Chandler and Hanks, 1993; Luo and Peng, 1998; Luo and Peng, 1999). Thus, four items for financial performance and two items for customer satisfaction were adopted from previous research.

A confirmatory factor analysis was conducted to filter measurement results for the five concepts in the model. This process defined three measurements, one for each of the following concepts: trust, commitment, and stakeholder management practice. The internal consistency of the items was assessed using Cronbach's α coefficient. The Cronbach's α and the composite reliability coefficients ranged from 0.537 to 0.891 and

Variable	Number	%
<i>Participating hotel</i>		
5 star	46	20.2
4 star	95	41.7
3 star	87	38.2
<i>Ownership types</i>		
State-owned	119	52.2
Non state-owned	109	47.8
<i>Number of full-time employees</i>		
Less than 50	5	2.2
50-99	31	13.6
100-150	43	18.9
More than 150	149	65.4
<i>Years of working in the Chinese hotel industry</i>		
1-4 years	43	18.9
5-9 years	69	30.3
10-14 years	66	28.9
15-19 years	31	13.6
20 years above	19	8.3
<i>Position held</i>		
General manager/deputy managing director	93	40.8
Residential manager	49	21.5
Sales manager	40	17.5
Front office manager	20	8.8
Executive assistant	26	11.4
<i>Educational qualification</i>		
Doctoral degree	1	0.4
Master degree	18	7.9
Bachelor degree	104	45.6
College diploma	95	41.7
High school	10	4.4
Total	228	100

Table I.
Profiles of participating
hotels and respondents

0.575 to 0.894, respectively. Although the Cronbach's α coefficient for the commitment construct was below 0.6 (Hair *et al.*, 2006), it satisfied the minimum requirement of reasonable internal consistency, scoring greater than the 0.5 cut-off point (Nunnally, 1978; Lewis *et al.*, 2005; Raine-Eudy, 2000). Except for commitment, all other constructs exhibited a higher composite reliability than the benchmark of 0.6 (Fornell and Larcker, 1981). Item loadings and factor reliabilities are presented in Table II.

Data analysis

Covariance-based structural equation modeling (SEM) was used for data analysis because it can examine the psychometric properties of the scales used to measure a variable. The maximum likelihood estimation method was applied to the sample data via the linear structural relational model (LISREL). Missing data were treated via list-wise deletion. As Table III shows, two models were analyzed based on two key

Construct	Indicator	Lambda Model		Squared multiple correlation Model		Cronbach's alpha Model		Composite reliability Model	
		A	B	A	B	A	B	A	B
Trust	This stakeholder keeps promises made to our hotel	0.80	0.65	0.65	0.43	0.835	0.701	0.842	0.720
	Our hotel trusts that this stakeholder keeps our best interest in mind	0.68	0.58	0.47	0.33				
	This stakeholder is trustworthy	0.91	0.80	0.83	0.64				
Commitment	The relationship with this stakeholder is very important to our business	0.55	0.80	0.30	0.63	0.537	0.632	0.575	0.683
	The relationship with this stakeholder is something our hotel really cares about	0.49	0.45	0.24	0.20				
	The relationship with this stakeholder deserves our business' maximum effort to maintain	0.63	0.67	0.39	0.44				
Stakeholder management practice	Our hotel spends lots of time on the development of stakeholder management strategies	0.66	0.67	0.43	0.45	0.776	0.776	0.779	0.779
	Our hotel develops extensive procedures for stakeholder management strategy	0.85	0.81	0.72	0.66				
	In our hotel, the development of stakeholder management strategy involves all top to bottom management	0.69	0.72	0.48	0.52				
Financial performance	Overall organizational performance	0.77	0.77	0.59	0.59	0.891	0.891	0.892	0.894
	Profitability	0.88	0.88	0.78	0.78				
	Growth in sales	0.77	0.77	0.59	0.59				
Customer satisfaction	Return on investment	0.86	0.86	0.74	0.74				
	Customer satisfaction	0.80	0.80	0.64	0.64	0.828	0.828	0.828	0.834
	Service quality	0.88	0.88	0.78	0.78				

Table II.
Construct reliability results

stakeholder groups: model A represents the hotel owner/investors and model B represents the hotel customer.

As shown in Table IV, the discriminant validity coefficient was in the range of 1.75-4.41. Overall, although some variables' intercorrelation coefficients were quite high (0.13-0.63), the items demonstrated satisfactory convergent and discriminant validity.

Results

As shown in Table IV, model A displayed a very good fit with the data ($\chi^2/df = 1.421$, GFI = 0.93, AGFI = 0.91, RMSEA = 0.043, NFI = 0.95, CFI = 0.98). These indexes are greater than the cut-off point suggested by (Hair *et al.*, 2006). All of the paths were significant at the level of 0.05.

As shown in Figure 2, trust and commitment of hotel owners had a significantly positive effect on stakeholder management practices ($\beta = 0.33$, $p < 0.001$ and

	Trust	Commitment	Stakeholder management practice	Financial performance	Customer satisfaction
Trust	1				
Commitment	0.37	1			
Stakeholder management practice	0.43	0.38	1		
Financial performance	0.15	0.13	0.35	1	
Customer satisfaction	0.15	0.13	0.34	0.63	1
(Correlation) ²	0.18	0.14	0.12	0.40	0.40
Discriminant validity coefficient	3.46	2.14	4.41	1.675	1.75

Notes: All correlations are significant at the 0.001 level; diagonal element is average variance extracted (AVE) and should be larger than the square of the off-diagonal correlation coefficient. Convergent validity = AVE \geq 0.5; Discriminant validity coefficient = AVE/(Correlation)²; Where (Correlation)² between factors of interest and remaining factors; AVE = average sum of standard loading²/(sum of standard loading²+sum of ϵ)

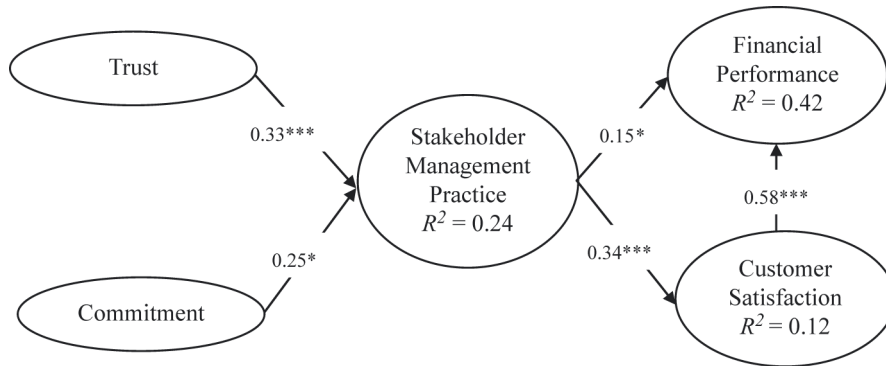
Table III. Construct correlation and discriminant validity of model A

	Trust	Commitment	Stakeholder management practice	Financial performance	Customer satisfaction
Trust	1				
Commitment	0.50	1			
Stakeholder management practice	0.43	0.24	1		
Financial performance	0.16	0.09	0.43	1	
Customer satisfaction	0.15	0.08	0.24	0.63	1
(Correlation) ²	0.25	0.06	0.18	0.40	0.40
Discriminant validity coefficient	1.88	7.47	2.92	1.71	1.78

Notes: All correlations are significant at the 0.001 level; diagonal element is average variance extracted (AVE) and should be larger than the square of the off-diagonal correlation coefficient. Convergent validity = AVE \geq 0.5; Discriminant validity coefficient = AVE/(Correlation)²; Where (Correlation)² between factors of interest and remaining factors; AVE = average sum of standard loading²/(sum of standard loading²+sum of ϵ)

Table IV. Construct correlation and discriminant validity of model B





Notes: * and *** indicate significance at 0.05 and 0.001 levels, respectively; * $p < 0.05$ and *** $p < 0.001$; predictive power was examined by using R^2 for each endogenous variable; R^2 value for the structure model

Figure 2. Path coefficients for the model A (hotel owner/investor)

$\beta = 0.25, p < 0.05$). These results support *H1a* and *H2a*. Stakeholder management practices also had a positive and significant influence on financial performance and customer satisfaction ($\beta = 0.15, p < 0.05$ and $\beta = 0.34, p < 0.001$); thus, *H3* and *H4* are also supported. At the same time, customer satisfaction had a significant impact on a hotel’s financial performance ($\beta = 0.58, p < 0.001$), supporting *H5*.

The measures of model fit for model B are shown in Table V. Model B also demonstrated a good fit with the data ($\chi^2/df = 1.384, GFI = 0.94, AGFI = 0.91, RMSEA = 0.041, NFI = 0.94, CFI = 0.98$). All of the paths were significant at the level of 0.05 with the exception of the path from commitment to stakeholder management practice, as shown in Figure 3. The level of trust that customers had for the hotel had a significant positive effect on stakeholder management practices ($\beta = 0.42, p < 0.001$), supporting *H1b*. However, customer commitment did not. Therefore, *H2b* is not supported. Stakeholder management practices had a positive and significant influence on financial performance and customer satisfaction ($\beta = 0.16, p < 0.05$ and $\beta = 0.35, p < 0.001$). Thus, *H3* and *H4* are supported by the results of model B. Customer satisfaction had a significant impact on a hotel’s financial performance ($\beta = 0.57, p < 0.001$), supporting *H5*.

Fit index	Recommended value	Model values		Degree of model fit	
		Model A	Model B	Model A	Model B
χ^2	$p \leq 0.05$	119.38 ($p < 0.01$)	116.23 ($p < 0.05$)	Good fit	Good fit
χ^2/df	≤ 3	1.421 (df = 84)	1.384 (df = 84)	Good fit	Good fit
GFI	≥ 0.9	0.93	0.94	Good fit	Good fit
AGFI	≥ 0.9	0.91	0.91	Good fit	Good fit
RMSEA	≤ 0.05	0.043	0.041	Good fit	Good fit
NFI	≥ 0.9	0.95	0.94	Good fit	Good fit
CFI	≥ 0.9	0.98	0.98	Good fit	Good fit

Notes: df = degrees of freedom; GFI = goodness of fit index; AGFI = adjusted goodness of fit index; RMSEA = root mean square error of approximation; NFI = normed fit index; CFI = comparative fit index

Table V. Measures of model fit and reported values for structural model

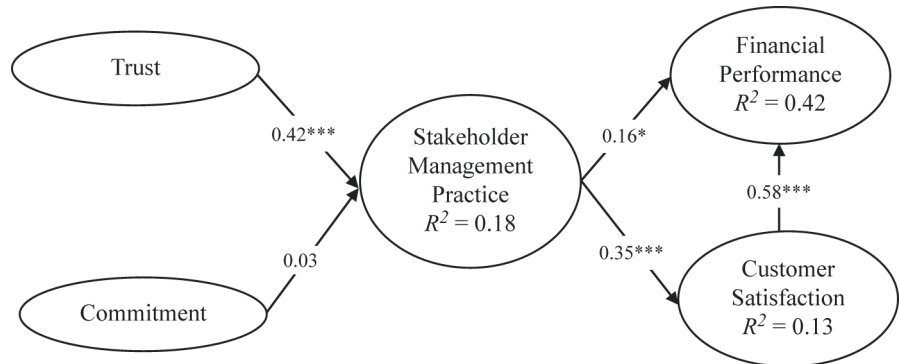


Figure 3.
Path coefficients for the
model B (customer)

Notes: * and *** indicate significance at 0.05 and 0.001 levels, respectively; * $p < 0.05$ and *** $p < 0.001$; predictive power was examined by using R^2 for each endogenous variable; R^2 value for the structure model

Discussion

The results of the present study suggest that there is a positive relationship between stakeholder management practices and performance, where key practices relating to hotel owners and customers have significant and direct impacts on a hotel's financial performance and customer satisfaction, consistent with the key propositions of SHV. This study also provides a timely response to the urgent call for empirical support in the field of stakeholder management (Harrison *et al.*, 2010). Despite being relatively unsophisticated compared to the study proposed by Harrison *et al.* (2010), who suggested that the stakeholder relationship should be based on a firm's history of interaction with its stakeholders (i.e. interactional justice and reciprocity in addition to trust), the framework of the present research shares the core concept that a firm's long-term success can be determined by its ability to maintain positive relationships with key stakeholders (Post *et al.*, 2002a, b).

Our results are also consistent with the work of Wan *et al.* (2008); in their examination of the Japanese banking industry, they found that possessing strong business group relationships positively influenced the bank's financial performance in a period of economic expansion.

Different types of ownership and levels of control over assets and operations are always critical issues to consider when negotiating hotel-management or partnership agreements (Saunders and Renaghan, 1992). Many researchers have emphasized the complexity of ownership structure in the Chinese hotel industry and how the dominance of state-owned hotels has impeded its development (Tisdell, 1990; Tisdell and Wen, 1991; Pine *et al.*, 2000; Pine and Qi, 2004). Despite problems with ownership and management, there is little in the research literature that has systematically described how stakeholder relationships are established. Regardless of the ownership type or structure, the results of the present study show that trust and commitment are crucial antecedent constructs for hotels to develop and manage their relationships with owners/investors and customers. These findings can be considered a reflection of "Guanxi" in Chinese business studies (Park and Luo, 2001; Su and Littlefield, 2001; Tsang, 1998). However, our results place more emphasis on the use of trust and commitment in stakeholder management. That is, because a hotel may recognize its

actual needs via its owner through a process of trust development, respect and appreciation can be realized via the commitment that sustains the relationship with the owner over the long term. This positive affiliation will enhance their interactions with each other and advance cooperative opportunities in the future.

Building a positive customer relationship is not a simple task. In their case study on the relationship between customer loyalty and satisfaction, profitability, and customer retention in the New Zealand's hotel industry, McIlroy and Barnett (2000) found that while customers expressed high satisfaction with hotel discount cards, their commitment to the hotel remained low. A similar conclusion was found in this study, where customers were willing to trust the hotel but were hardly committed to it. Poor service quality has become a serious issue in the Chinese hotel industry (He *et al.*, 2011; Pine and Qi, 2004; Pine *et al.*, 2000; Tsang and Qu, 2000), and managers must be aware of the importance of customer service in modern hotel management (Kandampully, 2006). It is the services, rather than the products, that meet customer's needs and satisfy them (He *et al.*, 2011). While customer satisfaction is a key element of customer retention (Sui and Baloglu, 2003), customer commitment to a hotel can be increased or decreased depending on the service they receive (Aurier and de Lanauze, 2011; De Wulf *et al.*, 2001). Thus, service quality enhancement and monitoring must be long-term goals to improve customer commitment, which is highly related to customer loyalty and behavioral intention (Moorman *et al.*, 1993; Morgan and Hunt, 1994; Dwyer *et al.*, 1987).

Conclusions and implications

This study extended the theoretical framework of SHV to the Chinese hotel industry, and examined stakeholder management practices and their antecedents and consequences in this industry. We surveyed managers working at three-, four-, and five-star hotels in the cities of Beijing and Shenyang. Several conclusions can be drawn.

First, stakeholder management is very important to both the long- and short-term performance of the Chinese hotel industry. We found a strong positive relationship between financial performance and stakeholder management practices in relation to two key stakeholders: owners/investors ($r = 0.34$) and customers ($r = 0.35$). There was also a significant relationship between stakeholder management practices and financial performance.

We concluded that trust was crucial to stakeholder management practices in the Chinese hotel industry. The correlation between trust and stakeholder management practices was much stronger than that between commitment in managing relationships and both owners/investors and customers. These findings further demonstrate the importance of trust in a Chinese context.

Results regarding the relationship between stakeholder management practices and commitment were mixed. In the case of managing the relationship with a hotel's owners/investors, the relationship was positive and significant ($r = 0.25$). However, it was weak and not statistically significant in managing the commitment relationship with customer ($r = 0.03$). Finally, we found that stakeholder management practices also play a mediating role, linking owner and customers' trust and owner's commitment to customer satisfaction and financial performance. These relationships existed in both models.

From a practitioner's perspective, our findings have three practical implications for managers in the Chinese hotel industry. First, it is very important to involve both top and frontline managers in stakeholder management, as each plays a different role. The present study showed that hotel strategic management practices could be a predictor of

a firm's financial performance and customer satisfaction. The role of top managers is to develop a hotel's stakeholder management strategies. They can also establish stakeholder orientation, clarifying the value of each key stakeholder. This can be accomplished through seminars, staff orientation initiatives, and/or employee booklets. Frontline managers are required to implement such strategies and must fully understand the processes required to better manage key stakeholders. It is frontline managers who implement strategy.

The second implication of this study is that Chinese hotels should place greater emphasis on developing trust between the hotel and its key stakeholders. This requires consistent effort from both managers and employees in communicating with and serving customers and other key stakeholders. In so doing, hotels may gain access to competitive resources and information, increase positive behavior, and strengthen the bond with stakeholders through development of trust and commitment.

A strong stakeholder relationship can help hotel personnel to recognize real demands of stakeholders and thus take appropriate action. For example, by assuring stakeholders that their needs will be met, more cooperative practices can be realized, thereby improving hotel organizational performance. Chinese hotel managers should develop personal relationship with key stakeholders, including owners and customers, because people in Chinese society tend to be more loyal to individuals than to organizations (Chen *et al.*, 2003).

Finally, it is crucial for Chinese hotels to develop an organizational culture that values the stakeholder relationship. As constituents of service organizations, managers and employees frequently interact with key stakeholders. From a customer perspective, it is the services they receive from hotel employees that decide their level of trust and enhance the level of commitment to the hotel. Therefore, it is very important for hotel management to communicate with employees and train them on the importance of trust and commitment. This is essential for developing appropriate employee attitudes toward serving customers and ensuring that employees are knowledgeable and competent. This also requires hotels to establish control and reward systems to support the cultivation of the organizational culture.

Limitations and future research

While this study contributes to the current body of SHV literature by bridging the gap between general strategy research and hospitality strategy research (Harrington and Ottenbacher, 2011), it is important to note several limitations. First, this study considered data from hotels located in only two cities: Beijing and Shengyang. Although anecdotal evidence has shown little difference in stakeholder management between these two cities and other cities, the findings from this study should not be directly applied to hotels in other cities in China. The second limitation of this study is its focus on only the Chinese hotel industry. Thus, generalizing the findings to hotels in other countries, particularly those in Asia, will require further investigation. Further research should also examine stakeholder management across industries, such as the hotel and tourism industries.

Third, this research did not examine the conceptual model considering different ownership patterns (e.g. SOEs and non-SOEs) or different ranks of hotels (low- vs high-ranked) due to insufficient data. Further investigation should examine how these differences impact stakeholder management practices, exploring diversity issues in the Chinese hotel industry. Finally, future research would benefit from including control variables, such as market share, profitability, years of operation, and physical location.



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