



UNIVERSITI PUTRA MALAYSIA

***CRITICAL SUCCESS FACTORS OF BUDGET HOTEL PERFORMANCE
AND MEDIATING ROLE OF CUSTOMER SATISFACTION***

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By

NARGES NAZARI

**Thesis submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in Fulfilment of the Requirements for the Degree of Doctor of Philosophy**

July 2019

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To the meaning of my life

My family



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Abstract of the thesis presented to the Senate of Universiti Putra Malaysia in
fulfilment of the requirement for the degree of Doctor of Philosophy

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July 2019

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The emergence of the importance of budget hotels, as one of the main parts of SMEs worldwide, including Malaysia, has been paid attention extensively. The identification of critical success factors (CSFs) is essential for the success of this sector. The evolution of changes in hospitality activities, global transition of budget hotels, and customers' demands, is expected to identify the underlying success factors for budget hotels' operations and develop new strategies with the emergence of facing new challenges in developing countries such as Malaysia.

The purpose of this study is to identify the critical success factors (CSFs) of budget hotels in Malaysia. This study will also examine the mediating role of customer satisfaction in the relationship between the CSFs and hotel performance. Data collection is performed on budget hotel practitioners (N=212) and hotel guests (N=424) through two self-administered questionnaires.

Descriptive statistics (i.e., means, standard deviations and correlation coefficients) were used. Confirmatory Factor Analysis (CFA) and Multiple analysis results using the PLS-SEM application are used to test the proposed hypotheses. The CFA results verified, tested and reported the proposed hypotheses and the relationship between the variables in the current study; along with testing construct validity and reliability. In conducting CFA, items with lower factor loadings were removed. To test the hypotheses, a bootstrap procedure was used.

The results indicate that five CSFs could predict budget hotels operations. Meanwhile, four CSFs had positive and significant relationships with customer satisfaction. Customer satisfaction had a strong and positive relationship with budget hotel performance. A significant partial mediation on the influence of CSFs on budget hotel operations through customer satisfaction was identified.

Customer Service and Technology were identified as two CSFs that influence budget hotel operations, which were simultaneously mediated through customer satisfaction for the performance of hotels in a Malaysia budget sector context. If hotel managers/owners, in the budget sector, can improve their hotels' services and use Technology in management, this can help them to satisfy their guests and sustain their businesses at the same time. This study contributes towards understanding the dynamic and changing nature of CSFs; especially from a hotel practitioners' perspective, in the hospitality sector and confirmation of Resource-based and stakeholder theories. This study also highlights the factors that contribute towards managerial and policy-making implementations for improving Malaysian budget hotel performance.

Abstrak tesis yang disampaikan kepada Senat Universiti Putra Malaysia untuk memenuhi keperluan untuk ijazah Doktor Falsafah

**FAKTOR-FAKTOR KEJAYAAN KRITIKAL TERHADAP PRESTASI
HOTEL BAJET DAN PERANAN PENGANTARA KEPUASAN
PELANGGAN**

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Kemunculan hotel bajet sebagai salah satu bahagian utama PKS di seluruh dunia, termasuk Malaysia, telah diberi perhatian secara meluas. Pengenalan faktor-faktor kejayaan kritikal (FKK) adalah penting untuk kejayaan sektor ini. Evolusi perubahan dalam aktiviti hospitaliti, peralihan global hotel bajet dan tuntutan pelanggan dijangka mengenalpasti faktor-faktor kejayaan asas untuk operasi hotel bajet dan membangunkan strategi baru untuk menghadapi kemunculan cabaran baru di negara-negara membangun seperti Malaysia.

Tujuan kajian ini adalah untuk mengenalpasti faktor-faktor kejayaan kritikal (FKK) hotel bajet di Malaysia. Kajian ini juga akan memeriksa peranan pengantara kepuasan pelanggan dalam hubungan antara FKK dan prestasi hotel. Pengumpulan data dilakukan di kalangan pengamal hotel bajet (N=212) dan tetamu hotel (N=424) melalui dua soal selidik yang dikendalikan sendiri.

Statistik deskriptif (iaitu, min, sisihan piawai dan pekali korelasi) telah digunakan. Analisis Faktor Pengesahan (CFA) dan keputusan analisis berganda dengan menggunakan aplikasi PLS-SEM digunakan untuk menguji hipotesis yang dicadangkan. Hasil CFA mengesahkan, menguji dan melaporkan mengenai hipotesis yang dicadangkan dan hubungan antara pembolehubah dalam kajian semasa; bersama-sama dengan menguji kesahihan dan kebolehpercayaan konstruk tersebut. Ketika CFA dijalankan, item dengan beban faktor yang lebih rendah telah dikeluarkan. Prosedur bootstrap digunakan untuk menguji hipotesis tersebut.

Keputusan menunjukkan bahawa lima FKK dapat meramalkan operasi hotel bajet. Sementara itu, empat FKK mempunyai hubungan yang positif dan signifikan dengan kepuasan pelanggan. Kepuasan pelanggan mempunyai hubungan yang kuat dan positif dengan prestasi hotel bajet. Pengantaraan separa yang signifikan terhadap pengaruh FKK ke atas operasi hotel bajet melalui kepuasan pelanggan telah dikenalpasti.

Perkhidmatan Pelanggan dan Teknologi telah dikenalpasti sebagai dua FKK yang mempengaruhi operasi hotel bajet, yang pada masa yang sama disampaikan melalui kepuasan pelanggan terhadap prestasi hotel dalam konteks sektor bajet di Malaysia. Sekiranya pengurus/pemilik hotel dalam sektor bajet boleh meningkatkan perkhidmatan hotel mereka dan menggunakan teknologi dalam pengurusan, ini akan membantu mereka memuaskan tetamu mereka dan mengekalkan perniagaan mereka pada masa yang sama. Kajian ini menyumbang ke arah pemahaman sifar FKK yang dinamik dan berubah, terutamanya dari perspektif pengamal hotel dalam sektor hospitaliti, dan pengesahan teori berasaskan sumber dan pihak berkepentingan. Kajian ini juga menonjolkan faktor-faktor yang menyumbang ke arah pelaksanaan pengurusan dan dasar untuk meningkatkan prestasi hotel bajet di Malaysia.

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Declaration by graduate student

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LIST OF ABBREVIATIONS

ADR	Average Daily Rate
AOR	Average Occupancy Rate
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
CMIN	Minimum Discrepancy
CRSs	Computer Reservation Systems
CPIs	Critical Performance Indicators
CPMs	Critical Performance Measures
CSFs	Critical Success Factors
CSR	Corporate Social Responsibility
DF	Degrees of Freedom
DV	Dependent Variable
EFA	Exploratory Factor Analyses
GDP	Gross Domestic Product
GDS	Global Distribution System
HR	Human Resource
HRM	Human Resource Management
ICT	Information and Communication Technology
IT	Information Technology
IV	Independent Variable
JAKIM	The Malaysia Department of Islamic Development
KL	Kuala Lumpur
KPIs	Key Performance Indicators
MAH	Malaysian Association of Hotels
MOTAC	Ministry of Tourism and Culture
MyBHA	Malaysia Budget hotel Association
RBT	Resource-Based Theory
RBV	Resource-Based View
RevPAR	Revenue per Available Room
RMSEA	Root Mean Square Error of Approximation
ROA	Return on Asset

ROE	Return on Equity
ROI	Return on Investment
SMBHs	Small and Medium Budget Hotels
SMEs	Small and Medium Enterprises
SEM	Structural Equation Modelling
SME Corp.Malaysia	Small and Medium Enterprises Corporation Malaysia
SMCC	Small and Medium Coastal Chalets
SMHs	Small- and Medium-sized Hotels
SMIC	Small and Medium Island Chalets
SPSS	Statistical Package for the Social Science
TLI	Tucker Lewis Index
TQM	Total Quality Management
TSMEs	Tourism Small and Medium Enterprises
US	United States
VIF	Variance Inflation Factor
VFR	Visiting, Friends and Relatives

CHAPTER 1

INTRODUCTION

1.1 Chapter Overview

This chapter covers an overview of this study. It emphasises the important factors which have influences on the success of Malaysian budget hotel operations in the hospitality and tourism industry. This chapter consists of a background to the study, statement of the problem, research questions and research objectives, significance of the study and limitations of the study. In the background to the study section, the concepts of budget hotels, the role of accommodation in the tourism sector, the growing number of tourists in Malaysia and their needs for facilities for travelling are discussed. It continues to explain the concept of budget hotels in Malaysia which are considered in the current study, and definition of Critical Success Factors (CSFs). The factors that triggered this study are discussed in the problem statement. It then continues with the research questions and objectives for the study, and operational definition of key terms. The importance of the study is revealed in the significant study section.

1.2 Background of the Study

In recent years, the tourism industry has become one of the most important sectors in the development of the countries' economies. All countries, both developed and developing ones, have focused on the tourism industry for different reasons varying from economical to political. Tourism industry in Malaysia is one of the most remarkable industries that contribute to the growth of the economy. Jaafar, Abdul Aziz, Maideen, and Mohd (2011) mentioned that tourism industry could contribute effectively to the income of the country. Figure 1.1 provides the number of arrivals and receipts from 2007 to 2018 which increased from 20.97 million to 25.83 million. This number can show the importance of tourism industry in the economic area regard to growing the tourist receipts from 2007 to 2018 in Malaysia (see Figure 1.1).

Tourist Arrivals & Receipts to Malaysia by Year

YEAR	ARRIVALS	RECEIPTS (RM)
2018	25.83 Million	84.1 Billion
2017	25.95 Million	82.1 Billion
2016	26.76 Million	82.1 Billion
2015	25.72 Million	69.1 Billion
2014	27.44 Million	72.0 Billion
2013	25.72 Million	65.4 Billion
2012	25.03 Million	60.6 Billion
2011	24.71 Million	58.3 Billion
2010	24.58 Million	56.5 Billion
2009	23.65 Million	53.4 Billion
2008	22.05 Million	49.6 Billion
2007	20.97 Million	53.4 Billion

Figure 1.1: The Number of Arrivals and Receipts from 2007 to 2018 to Malaysia (Source: The Tourist Development Corporation of Malaysia (TDC), 2018)

Accommodation/lodging is one key sector of the tourism and hospitality industry. Rogerson (2013) pointed to the essential role of hotels in the tourism industry as the accommodation sector is a distinctive area therein. Keiser (1989) stated that the products of accommodation are intangible, and it is not feasible to be stored. In addition, it needs particular human resources, high efficiency and service consistency.

Based on the new definitions of Small and Medium Enterprises (SMEs) in 2017 by SME Corporation Malaysia, a Small firm is a company with 5 to 75 employees and a sales turnover from RM300,000 to less than RM15 million in the manufacturing sector and a company with a sales turnover from RM300,000 to less than RM3 million and 5 to 30 employees in services and other sectors. A medium company is an enterprise with 75 to 200 employees and a sales turnover from RM15 million to RM50 million in the manufacturing sector and a company with a sales turnover from RM3 million to RM20 and from 30 to 75 employees in services and other sectors. Hashim and Abdullah (2000) have clarified four quantitative characteristics to improve further the definition of SMEs in Malaysia which include where: a) the manager is the owner of the firm which is called owner-managed and family business, b) the management system is highly personalized, c) it is local in its scope of operation, and d) it depends highly on its internal sources of capital to support its financial growth.

In general, SMEs play a significant role in the economic and social well-being of a country (Alfaadhel, 2010). Auzzir, Haigh, and Amaratunga (2018) claimed that SMEs play a fundamental role in the economy of Malaysia and are viewed as the primary support of the industrial growth in the country. Based on the annual report of SME Corporation Malaysia in 2016, SMEs have performed significantly well in the overall economy in the last decade. Also, from 2011 to 2015, they experienced a growth on an average annual rate of 6.7% compared to the overall average of the economy of 5.3%. Therefore, they provided 4.1 percentage points to 36.3 percent of Gross Domestic Product (GDP).

The supply of tourism rests principally on the shoulders of the SMEs (Komppula, 2009) and Malaysia is not exceptional in this respect with this segment contributing efficiently to the tourism industry in the country. SMEs which include Small and Medium Hotels contribute significantly to the tourism industry in Malaysia (Lim, 2019b). They ascribed that this sector plays a significant role in spreading the competitive advantage of the country. Small and Medium Budget hotels (SMBHs) have an important role in supporting the success and growth of tourism in Malaysia (Sivadasan, 2015). In support of that, it is essential to recognise the requirements of Small and Medium Hotels in the lodging industry because they have a dominating role in the accommodation market of tourists in Malaysia (Janin, Frew, & Gharavi, 2012). Throughout this study, the terms 'Small and Medium Hotels', 'Budget Hotels', and 'SMBHs' were used interchangeably based on the terms that were used for the budget hotels in the past studies.

In Malaysian contexts, SMBHs are defined as small hotels with three-star rating and below, which include motels, back packers' lodges, and home stay businesses (Jaafar, Abdul Aziz, & Sukarno, 2012). Chan and Quah (2008) defined Small and Medium Hotels as those hotels that include categories of bed and breakfasts, backpackers' lodges, and budget accommodation which are rated under the orchid rating category by the Ministry of Tourism and Culture (MOTAC) in Malaysia. The orchid rating assessment is applied to tourist accommodation premises with basic facilities which include good, safe, and clean accommodation and a friendly hospitable atmosphere. Based on Sivadasan (2015) and Jaafar et al., (2012), the definition of the budget hotel is referred to hotels with three-star rating and below and three orchid rating and below for this research.

It is evident that with the growing number of arrivals to Malaysia and the development of the tourism industry, demands for hotels will increase extensively. In addition, the increasing trend in the number of hotels during about one decade in Malaysia can indicate more demands of travellers for accommodation during trips. For instance, from 1998 to 2007, the number of hotels increased 66.3% in Malaysia (from 1419 hotels to 2360 hotels); and the number of rooms increased 49% from 1998 to 2007 (from 107,791 rooms to 160,327 rooms). The substantial demand in this industry has led to the establishment of many budget hotels in Malaysia (Jaafar et al., 2011a).

Budget hotels have become an expanding development in Malaysia. The annual revenue of this hotel segment has been recorded at the minimum 5 billion ringgit (1.65 billion U.S. dollars) in this country (XinhuaNews, 2011). The trend in the number of budget hotels shows the numbers almost doubled in Malaysia between 2009 and 2015 (see Appendix B and C). Approximately 78% of hotels are budget hotels in Malaysia which is considered as a huge segment in the hospitality and accommodation industry (Department of Statistics, 2016). It is obvious that accommodation expenses are one of the main issues for travelling in the world; budget hotels offer a lower price in comparison with other sectors. While it is expected that this sector will have a better business, it is assumed that the tourists downgrade themselves to cheaper and lower star rated hotels (Saaid, 2009). So, the budget hotel sector can be a choice for the customer to go for cost reduction.

The occupancy rates for hotels are higher due to the increasing number of tourists arriving annually. Tourist attractions provide excellent opportunities for budget hotels in Malaysia as every state has different attractions regarding its products and activities (Jaafar et al., 2012). Based on the released data by the department of statistics in 2015 in Malaysia, 77.56 % out of the total number of hotels were budget hotels which have shown a growing dominance within the tourism industry in the country. Budget hotels can contribute to the tourism industry (Lim, 2019a). So, this sector forms the largest category of hotels in Malaysia, having a vital role in the market in the provision of accommodation of tourists and a predominant domain in the tourism industry of this country.

Budget hotels are experiencing the greatest development in the tourism industry and it is predicted that by 2027 the growth of budget hotels will further increase threefold (Holloway, Humphreys, & Davidson, 2009). In the hospitality industry of Malaysia, budget hotels have become one of the most successful sectors, and the growth of the value of gross output of this section has increased over the years (Department of Statistics, 2016).

These changes can create more intensive competition among budget hotels operating in the hospitality industry in Malaysia. It is evident that achieving success is very difficult in such an intensive environment. Thomas, Shaw, and Page (2011) stated that the management and performances of the SMEs which are working in tourism industry have changed significantly to guarantee their survival in the tourism sector. The operation of Tourism Small and Medium Enterprises (TSMEs) is crucial, in particular during the primary phase of their work (Hall, 1994); specifically in an environment where the survival of rate for SMEs, regardless of the industry, is not high (Set, 2013). Small and Medium Hotels which operate in the tourism and hospitality industry and are called budget hotels in this study follow the same trends as one part of SMEs within tourism.

Brotherton (2004a) mentioned that there are some factors that must be considered if the organisation stands to achieve its overall objectives which are called Critical Success Factors (CSFs). These factors can be the features of the internal environment

of the company such as products, staff, processes, or main capabilities and competencies which are critical to achieving competitive advantage for the business (Berry, Seiders, & Greshan, 1997). The budget hotels can maintain their survival and gain more success in an environment through identifying the CSFs in Malaysia.

The focus of this study is to identify the CSFs in licensed budget hotel operations and management. Some of these CSFs have been determined in past studies, and some are new which seem to be suitable for Malaysia (see Poon & Low, 2005; Battour, Ismail, & Battor, 2011; Zailani, Omar, & Kopong, 2011; Jaafar et al., 2012; Zulkharnain & Jamal, 2012; Yadegaridehkordi, Nilashi, Nasir, & Ibrahim, 2018). The primary focus of this study is to extend the previous research and readdress some repetitive CSFs from past works. Furthermore, this study seeks to discover new CSFs which are associated with tourists' needs and tourism in Malaysia, and are important factors in managing Malaysian budget hotels.

As a matter of fact, the accommodation business is a unique industry. Its operations include services, labour, human resources, and service consistency (Keiser, 1989). The previous studies that have been carried on the CSFs on budget hotel operations in some countries have presented several CSFs such as front office, back of the house, guest accommodation, service quality and use of Internet, etc. It is interesting to note that different studies from various countries found different CSFs. There is no doubt that since Malaysia receives tourists from all around the world, these tourists may have different needs and demands. Therefore, these CSFs in budget hotel operations can change based on their expectations and situations which will have a direct effect on the success of the budget hotels. For instance, needs such as Halal food or technology may fall in this category.

In general literature, CSFs have been defined as the limited number of areas in which satisfactory results will ensure successful competitive performance for organisations (Bullen & Rockart, 1986). Firstly, this study seeks to identify the effects of CSFs on budget hotel performance in Malaysia, while previous studies only offered some CSFs for budget hotel operation with no identification of the effects. The results of this study will determine the resources and the capabilities of the budget hotels which can help them to survive in the marketplace in Malaysia. Secondly, this study will determine if the implementation of the CSFs by the hotel managers can be reflected by customer satisfaction and this reflection will be able to increase the budget hotel performance. Customer satisfaction also has often been identified as a significant predictor of business performance (Yasin, Correia, & Lisboa, 2004). It was proposed that there was a strategic fit between implementing the important success factors by the organisation and performance of the organisation through customer satisfaction. Thus, mismatching between CSFs and customer satisfaction may lead to failure of the business (Al-Hawari & Ward, 2006)

1.3 Accommodation for Travellers

Accommodation is the basic needs of the tourists in their trip. The tourists have some expenses during their travel such as accommodation and food. The tourists are involved in any activity during the travel by accommodation. Travellers need a place to rest and to stay in a tourism destination along their travel. Thus, it seems that accommodation is a tourists' demand which is various in terms of size and facilities with the main purpose of delivering service to the customers (Cooper, Fletcher, Fyall, Gilbert, & Wanhill, 2008).

Accommodation is a service which provides for travellers' shelter and comfort within the hotel industry. It provides limited amenities for the duration of a traveller's stay in the hotel. Hotel is the underlying form of accommodation. Looking at it from a different view, a hotel is an activity whereby customers are received in a building in rooms or apartments which contain equipment while providing various services and a place for food. A hotel is a kind of establishment that is commercial and renders its services to sell (Gagian, 2010).

Accommodation can be categorized based on the offering services, types of guests, location, and price. This spectrum starts from luxury hotels to the economic ones. Both the tangible and intangible facilities must be considered for the classification of the accommodation. The main classification schemes focus on the physical structure, measurable attributes of operation such as room size, services, and room facilities. The accommodation is located in different types of places such as city or countryside. The facilities of the accommodation are varied according to their target visitors including business travellers and families or leisure ones (Cooper et al., 2008).

1.4 Problem Statement

While the budget hotel industry in Malaysia is one of the leading and segments in the accommodation and lodging industry, it is failing to gain a competitive advantage due to low productivity and performance (Tehseen, Sajilan, Ramayah, & Gadar, 2015; Lim, 2019b). Many of the challenges contributing to this failing include the lack of managerial skills and access to management, marketing, technology usage (Khalid, 2013; Kaur, 2014; 2018) and lower tourism arrivals (Lim, 2019b). Also, given the oversupply of budget hotels given their growth, the government has also frozen the granting of hotel licenses, which is a further challenge (HotelOnline, 2016; Lim, 2019b). Budget hotels (with three-star ratings and below) had a drop of 15% to 20% in revenue to competition and some hoteliers had to sell off their properties due to lack of business (Lim, 2019b). Further, budget hotel sector has not grown perfectly in Malaysia (UKESSAYS, 2017).

Even though the contribution of budget hotels to Malaysia's gross domestic product (GDP) is not significant, (Halim, Ahmad, & Ramayah, 2013), their role is important in the context of the Malaysian tourism industry (Janin et al., 2012). However, despite

their growth, the value of gross output in 2015, including profitability, was significantly less compared to resort and apartment hotels; estimated to be RM 13.9 million or 13.9 per cent (see Appendix A). This fact was highlighted along with the percentage and distribution of key indicators by market segment in 2015 for accommodation services (Department of Statistics, 2016) including; added value, persons engaged in the industry, and the value of fixed assets. Notably, the performance of budget hotels was below that of resort hotels and apartment hotels on each indicator (see Appendix A). However, as the number of budget hotels in the future is expected to grow, their performance (based on their KPI's) and value of gross output, are expected to exceed those of resort and apartment hotels. Similarly, given the fierce competition in this market segment, utilising available resources effectively and improving management skills management will increase their competitiveness (Brotherton & Shaw, 1996). Therefore, critical success factors (CSFs) must be identified and implemented if these companies are to meet their business objectives, increase profitability, performance, productivity and remain competitive (Berry et al., 1997).

Limited studies in the hospitality industry in Malaysia have focussed on CSFs in budget hotel operations. Those studies that did identify CSFs were simply related to cleanliness and hygiene (Brotherton & Shaw, 1996; Brotherton, Heinhuis, Miller, & Medema, 2003; Brotherton, 2004a; Hua, Chan, & Mao, 2009; Jaafar, 2011); guest security (Brotherton, 2004a,b; Hua et al., 2009; Jaafar, 2011); value for money (Brotherton, 2004a; Hua et al., 2009; Jaafar, 2011); standardised service quality (Brotherton, 2004a; Hua et al., 2009; Avcikurt, Altay, & Oguzhan Ilban, 2011; Mardani, Jusoh, Bagheri, & Kazemilari, 2015; Yadegaridehkordi et al., 2018); staff training (Brotherton & Shaw, 1996; Brotherton et al., 2003; Brotherton, 2004a; Avcikurt et al., 2011; Yadegaridehkordi et al., 2018); and location (Brotherton, 2004a; Hua et al., 2009; Yadegaridehkordi et al., 2018). These studies were conducted in the UK, the Netherlands, China, Turkey, and Malaysia (Brotherton & Shaw, 1996; Brotherton et al., 2003; Brotherton, 2004a,b; Hua et al., 2009; Avcikurt et al., 2011; Jaafar, 2011; Yadegaridehkordi et al., 2018). No study has explained the effect of CSFs on the budget hotel success in the hospitality industry (Yadegaridehkordi et al., 2018).

A study by Brotherton (2004) considered the effect of CSFs on hotel operations across a broader context in other countries. While Avcikurt et al., (2011) suggested that CSFs for budget hotel performance could vary depending on certain factors namely; culture, characteristics, management style, management policy, temporary conditions encountered and the life stage of hotels, etc. Jaafar (2011) suggested that focusing on different market segments may influence different priority levels of certain CSFs. However, given the on-going research related to CSFs and their application towards organisational performance and success, a significant gap has arisen; notably, a practical framework and guide for enterprises to use to improve their competitiveness (Kian Chong, Shafaghi, & Leing Tan, 2011). Previous researchers also failed to recognise the dynamic changes in budget hotel operations and the environment related to CSFs, changes in customer preferences, their demographic variables, technology and marketing. Therefore, firms must adapt to changing business conditions and competition and change their present way of thinking. While CSFs in budget hotels

might be critical in one country; they may not be relevant in other countries (i.e. Malaysia). Accordingly, this study addresses the knowledge gap in this area by considering the emerging factors deemed critical to the success of budget hotels in Malaysia.

Jaafar (2011) identified CSFs in Small and Medium Island Chalets (SMIC) and Coastal Chalets (SMCC) operations in Malaysia, included; front office, guest accommodation, food and beverage, and back of the house for SMICs, and guest accommodation, food and beverage and back of the house for SMCCs. These CSFs are excellent examples of how they have helped to improve hotel operations and performance and the skills of management. The adoption of CSFs by budget hotels, while they may be dissimilar, could help to improve their performance. For instance, budget hotels which are located in city centres may offer business facilities as a CSF given the many business guests whereas; chalets may promote services for their leisure guests. This could be another area for further research to investigate CSFs and their variations by market segment.

KPIs are performance indicators focusing on critical aspects or outcomes, to enable the measurement of projects and organisational performance (Collin, 2002; Chan & Chan, 2004;). By linking KPIs or similar/related Critical Performance Measures (CPMs), to CSFs, enables CSFs to be measurable, assessable, and controlled (Brotherton & Shaw, 1996; Brotherton, 2006). Further, there should be a clear link between each CSF or in combination as one conceptual framework to measure hotel performance (Brotherton & Shaw, 1996). However, merely identifying CSFs is not useful in this regard (Avcikurt et al., 2011).

Previous studies indicated that CSFs for hotels were determined from the hoteliers' perspective (Brotherton & Shaw, 1996; Brotherton et al., 2003; Brotherton, 2004a,b; Avcikurt et al., 2011; Jaafar, 2011; Yadegaridehkordi et al., 2018). Simply focusing on determining CSFs from the hotel manager or practitioners' perspective does not demonstrate their true value. Accordingly, this study examines the implementation of CSFs in the context of budget hotel management by hoteliers through the measurement of KPIs.

Customer loyalty (CL) is one of many non-financial measures to assess a firm's performance (Lev & Zarowin, 1999) and is equally vital for small hotels, in measuring success (Avcikurt et al., 2011) CL acts to measure competitive performance and compliments many financial measures (Smith & Wright, 2004). CL is defined as the client's intention to repurchase from the same firm (Edvardsson, Johnson, Gustafsson, & Strandvik, 2000). In the literature, CL as a KPI has not been used to determine CSFs for hotel operations (Table 2.3). Instead, CL has been used to measure budget hotel performance from the customers' perspective. Notably, CSFs within an organisation are required to help the organisation achieve success (Bullen & Rockart, 1981; Freund, 1988).

Notwithstanding, resources and competencies must likewise be used cautiously within an organisation to support growth and wellbeing (Wittmann, Hunt, & Arnett, 2009; Lockett & Wild, 2014). The key challenge faced by many organisations is in the area of resource management and the ability to remain competitive (Eisenhardt & Martin, 2000). Well-managed/controlled CSFs can be hugely effective in this regard (i.e. resource management and competition) (Freund, 1988). Therefore, further research should explore how CSFs can be successfully implemented and effectively managed (Day, 1994; Atoche-Kong, 2009) and also, how they can be used to achieve organisational goals and objectives. Likewise, CSFs need to be well understood in order to achieve success (Munro & Wheeler, 1980; Grunert & Ellegaard, 1992). As CSFs rely heavily on customers, organisations need to be aware of what customers value (Grunert & Ellegaard, 1992) as creating the right CSFs will result in higher customer satisfaction (Keats & Bracker, 1988; Teece, Pisano, & Shuen, 1997; Kurnia & Rahim, 2007). McKee, Varadarajan, and Pride (1989) argue that organisational resources and competencies need to be well managed to ensure high value and customer satisfaction. Therefore, CSFs objectives and goals need to be established to satisfy customers (Keats & Bracker, 1988; Kurnia & Rahim, 2007).

Previous studies revealed CSFs for different types of hotel operations (Brotherton & Shaw, 1996; Brotherton et al., 2003; Brotherton, 2004a,b; Avcikurt et al., 2011; Jaafar, 2011). However, in many cases, only hotel managers/owners were involved in determining the CSFs. A comparative analysis on CSFs from the supply-side and demand-side perspective, with a broader sample of managers/owners, and customers would be useful for future research (Avcikurt et al., 2011). Based on the literature review, guest preferences (i.e. the view of customers) were also used to identify and evaluate CSFs among budget hotels in China (Hua et al., 2009), which will undoubtedly result in higher customer satisfaction (Kurnia & Rahim, 2007). However, focussing only on CSFs while neglecting customer satisfaction may disadvantage an organisation and its ability to remain competitive (Cöster, Engdahl, & Svensson, 2014).

Many studies have evaluated hotel performance based on CSFs from the hoteliers' viewpoint (Brotherton & Shaw, 1996; Brotherton et al., 2003; Brotherton, 2004a,b; Avcikurt et al., 2011; Jaafar, 2011; Yadegaridehkordi et al., 2018) or from the customers' viewpoint through measuring customer satisfaction (Table 2.3). Therefore, a further aim in this study is in measuring customer satisfaction to determine whether the CSFs adopted by hotel managers have been implemented and managed to satisfy the needs of hotel guests.

High service quality and enhancing customer satisfaction are often seen as necessary elements to enhance and predict organisational performance in the hotel/tourism industry (Dominici & Rosa, 2010; Van der Wiele, Boselie, & Hesselink, 2002). As hotel organisations are customer-driven, customer satisfaction is essential for small budget hotels as well (Avcikurt et al., 2011). Previous studies have shown a positive relationship between customer satisfaction and organisational performance (Van der Wiele et al., 2002). Although, the mediating role of customer satisfaction between CSFs and organisational performance in the literature is limited in the context of

budget hotels. For example, some studies tested customer satisfaction as a mediator variable between the relationships of different variables in other industries such as service quality and customer loyalty (see Cronin & Taylor, 1992; Cronin, Brady, & Hult, 2000; Caruana, 2002; Chumpitaz & Paparoidamis, 2004; Al-Hawari & Ward, 2006; Cavana, Corbett, & Lo, 2007; Abu-Elsamen, Akroush, Al-Khawaldeh & Al-Shibly, 2011; Es, 2012). Therefore, as well-managed CSFs can lead to customer satisfaction (McKee et al., 1989), this will have a positive association with organisational performance (Van der Wiele et al., 2002). Accordingly, focusing on CSFs without considering customer satisfaction is not advisable for an organisation (Cöster et al., 2014). Therefore, this study aims to also address the mediating role of customer satisfaction between the CSFs and budget hotel performance.

CSFs on budget hotel operations are examined in this study using two approaches. Firstly, the direct effect of CSFs on budget hotel performance, and secondly, whether customer satisfaction can mediate the relationship between CSFs and hotel performance. Emerging factors will also be considered to address the knowledge gap in this area by identifying the CSFs that will contribute towards the success of budget hotels. The current study will also focus on budget hotel operations in four areas, namely; CSFs, the relationship between CSFs and customer satisfaction, the relationship between customer satisfaction and hotel performance, and the role of customer satisfaction as a mediator between CSFs and KPIs.

1.5 Research Questions

Based on the problem statement, the following research questions emerged:

1. What Critical Success Factors (CSFs) do the budget hotel managers/owners in Malaysia perceive as critical for successful performance?
2. Is there any significant relationship between the adopted CSFs and customer satisfaction of the budget hotels?
3. Is there any significant relationship between customer satisfaction and the performance of the budget hotels?
4. Does customer satisfaction mediate the relationship between CSFs and budget hotel performance?

1.6 General Objective

The general objective of this study is to identify the Critical Success Factors (CSFs) on the budget hotel performance in Malaysia.

1.6.1 Specific Objectives

1. To determine the relationship between the adopted CSFs by the budget hotels and their customer satisfaction in Malaysia.

2. To determine the relationship between customer satisfaction and budget hotel performance in Malaysia.
3. To examine the mediating effect of customer satisfaction on the relationship between CSFs and budget hotel performance.

1.7 Significance of the Study

In this section, the significance of the study is described.

1.7.1 Theoretical Significance

This study is theoretically significant for the hotel and hospitality industry as the findings will provide a more in-depth understanding regarding budget hotel performance in Malaysia's hotel and tourism industry. Accordingly, this will also add to the existing body of knowledge, and aiding researchers in this area by identifying CSFs in hotel operations and hotel management especially in developing and testing many of the theories associated with business, competitive strategies, performance and operations, and organisational change. Considering CSFs within the context of budget hotels in Malaysia is important regarding technology, the changing needs of hotel guests, religion, lifestyle, eco-tourism, marketing strategies, the eco-system and so forth. Moreover, CSFs and developing a framework for budget hotels will demonstrate how CSFs may differ also and change depending on certain factors and conditions such as organisational culture or other less permanent situations (Yadegaridehkordi et al., 2018). In addition, valuable insights into new CSFs for budget hotels such as; technology in sales, marketing and operations, supplementary hotel facilities, and Islamic-Friendly facilities will be examined including the aspects associated with Islamic-tourism.

Based on the literature, hotel performance as a variable is divided into three groups; financial KPIs, non-financial KPIs (Santoro, 2015), and operational performance (Hu & Cai, 2004). Given it is not possible to analyse all KPIs, three types of KPIs are proposed in order to identify the CSFs for budget hotels in Malaysia (Shahin & Mahbod, 2007). CSFs are measurable using KPIs or similar/related CPMs (Brotherton & Shaw, 1996; Brotherton, 2006). Customer Loyalty (CL) is one of the non-financial measures used to assess organisational performance and assists in evaluating hotel performance from the customer's perspective (Kandampully, Zhang, & Bilgihan, 2015). Also, assessing hotel performance from the viewpoint of both the hotel practitioner and client will likewise contribute towards gaining a better understanding of whether hoteliers have implemented CSFs effectively.

This study is theoretically significant for advancing both Resource-based Theory (RBT) (Barney, 1991) and stakeholder theory (Freeman, 1984) in hospitality and hotel settings. This research will make several contributions to these theories and practice of hotel performance. It will validate the RBT and stakeholder theory and demonstrate some differences that may exist between the CSFs on the budget hotel performance in

developed and developing countries. Theoretically, this study emphasizes the significance of the mediating role of customer satisfaction for promoting the association between CSFs and hotel performance.

Prior research measured the service quality of hotels (see Table 2.4), hotel performance (Min & Joo, 2008; Sainaghi, 2010; Tajeddini & Trueman, 2012; Elbanna, Eid, & Kamel, 2015); or identified CSFs in hotel operations (Brotherton & Shaw, 1996; Brotherton et al., 2003; Brotherton, 2004a,b; Hua et al., 2009; Avcikurt et al., 2011; Jaafar, 2011; Yadegaridehkordi et al., 2018). This study considers all of these elements simultaneously, measuring hotel performance from the viewpoints of both customers and hotel practitioners. Previous research also highlights the significant role that customer satisfaction plays from the service quality perspective, by identifying the CSFs required to maintain optimum performance and competitiveness. Therefore, it is anticipated that customer satisfaction could mediate the relationship between CSFs and the budget hotel performance. Al-Hawari and Ward (2006) suggest that the role of customer satisfaction acts as a mediator variable between automated service quality and financial performance of Australian banks. This poses the following question. “Could customer satisfaction have an adverse effect or no mediating effect on the relationship between CSFs and budget hotel performance?” To answer this question, future research should consider the role of customer satisfaction as a mediator between CSFs and hotel performance. The existence of this mediator may ultimately help to explain the results of previous research examining the relationships between these two variables in other industries.

1.7.2 Practical Significance

In terms of managerial and policy implementations, this study will;

- 1) Enhance the knowledge of hotel managers in CSFs to improve hotel performance.

Budget hotels in Malaysia are failing to gain a competitive advantage in the global business because of low productivity and low performance (Tehseen et al., 2015). Furthermore, the budget hotel market has been saturated since they are mushrooming in parallel with the predicted growth of tourism in Malaysia (Kaur, 2014; 2018). So, it is expected that the budget hotels managers/owners in Malaysia are involved in intensive competition with their competitors in doing businesses. Through this study, the budget hotel managers/owners can determine which CSFs in their operation may lead to better performance and higher profitability. For instance, using business services such as meeting rooms by the hoteliers in managing the hotel may be useful for business guests and can increase the profitability of the hotel and the satisfaction of the business travellers at the same time.

The objective of every business is to maximise the wealth of the shareholders, so findings from this study may support this objective and provide budget hotel managers/owners with the means to maintain and promote activities that can give a high return and minimise the risk of bankruptcy of the business.

If firms are to respond to changing competitive business conditions, they must change their ways of thinking about organisations and their structures. Not all the CSFs that are found in this study may be suitable for all budget hotels. The CSFs and activities that are adopted and implemented by the hotel managers depend on certain factors and circumstances such as culture, management policy, temporary conditions encountered and life stage of hotels, etc. (Avcikurt et al., 2011). For example, a budget hotel which is located near the tourist attractions may adopt Supplementary Hotel Facilities including offering hotel tour/guide information for their guests as one CSF. In the Malaysian context, the budget hotel operators are facing some challenges such as lack of managerial skills and access to management, marketing and using technology (Jaafar et al., 2011b; Kaur, 2018). Thus, through the findings of this study, the hoteliers can decide upon which CSFs to focus that are the most appropriate for their needs and capabilities.

- 2) Contribute to policymakers in developing their knowledge about the CSFs on budget hotel operations.

The budget hotels have intensive competition in Malaysia and this trend has always been continuous (Kaur, 2018). The services of budget hotels do not have enough high quality in Malaysia (UKESSAYS, 2017). To date, it is essential to recognise the requirements of budget hotels in the lodging industry because they have a dominant role in the accommodation market of tourists in Malaysia (Janin et al., 2012).

There are several critical areas where this study makes an original contribution to the hotel industry, hospitality stakeholders, and policymakers who intend to develop an efficient performance in the budget hotel sector. Some organisations especially, the Malaysia Budget Hotel Association (MyBHA) have taken initiatives to organise courses for their member hotels to equip the owners and staff. The training courses have been designed to upgrade the standards and service quality of the budget hotel sector. For instance, these courses entitled Hotel Management, Hotel Operation and Internet Marketing are among a series arranged by the MyBHA. Members hotels will be assisted in various aspects including training, promotions, insurance, and licensing (MYBHA, 2019).

The findings from this study may raise awareness of policymakers in Malaysia's budget hotel industry by familiarising budget hotel managers/hoteliers with these new critical success factors in the form of guidelines to increase their profitability and performance through establishing the relevant courses for budget hotel managers/owners. Not only for the responsible MyBHA, but the findings can also be used by other related departments such as Ministry of Tourism, Ministry of Tourism

and Culture (MOTAC), and also the Malaysian Association of Hotels (MAH) to offer or provide guidelines and assistance such as training courses for budget hotel owners/managers that may be lacking managerial skills, whose hotels may be at risk of failure or hotels experiencing low turnover, performance, profitability and productivity compared to their competitors. The understanding and awareness of the potential business of the budget hotel industry are brighter in the future in Malaysia for those who want to venture into this sector (BORNEO POSTonline, 2017). It is normal that entrepreneurs in the budget hotel industry vie for a piece of the action (Abdul Karim, 2017). The aim of some organisations such as MyBHA is to recruit more budget hotel operators around the country to become members in order to enhance the quality of budget hotel performance as well as to remove the negative image of these hotels (TheEdgeProperty, 2015). The results of this research may provide useful information for tourism planners and policymakers in developing guidelines and strategies to support the budget hotels in Malaysia. The findings of this study can be considered as a training tool and starting point for policymakers, hotel owners/managers and related organisations.

1.8 Organisation of the Thesis

This study is organised into six chapters in general, the specific information contained in these six chapters is listed below.

In chapter one, the background of the research, a brief description on accommodation for visitors, statement of problem, research questions, objectives, and significance of research are discussed.

The second chapter discusses a review of literature and past research done in the area of SMBHs, adopted CSFs for the hotel operations, the characteristics of budget hotels in Malaysia, and the proposed antecedents, and consequences.

Chapter three discusses the conceptual framework that was formed to be employed throughout this study. This particular chapter also exhaustively describes the associations of each variable in the study and focuses on specific hypothesis statements.

Chapter four presents the methodology of the research. The discussion includes the sample of the research, methods of data collection, the research instrument, and the statistical analysis procedures.

Chapter five discusses the findings from this study. The data analysis and results will be presented within this chapter. Chapter six of the study deals with the discussion of the results, recommendations, and conclusion for the study.

1.9 Operational Definition of Key Terms

Budget Hotels is defined as hotels with a 3- or lower star/Orchid rating (Jaafar et al., (2012); Chan & Quah, 2008).

Critical Success Factors (CSFs) is defined as a series of specific factors that contribute towards the success of any organisation compared to its competitors while affecting the company's performance (Rockart, 1979).

Key Performance Indicators (KPIs) is defined as the factors that are used for measuring, assessing and controlling the CSFs (Brotherton & Shaw 1996; Brotherton, 2006).

Customer Satisfaction as an evaluation of services by customers who received the services and was based on whether the service fulfilled their expectations (Hunt, 1975).

Hotel Practitioners is defined as those who work in the hotel as a manager or those who help the hotel managers to manage the hotel when the manager is not present.

1.10 Summary

It is vital for the budget hotels to know the CSFs' importance on their operation. In addition, best CSFs must be implemented constantly because they can continuously improve hotel performance. It is hoped that this study will give some new insights to the budget hotels that if the CSFs as the hotel resources are effectively utilized, their performance will be upgraded. The next chapter will discuss the issues and definitions of CSFs that has been addressed by past researchers.

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BIODATA OF STUDENT

Narges Nazari has been involved in English language since the year 2000 when she started her Bachelor's degree in Iran. After graduation, she decided to travel to Malaysia to pursue her Master's degree in Teaching English as a Second Language (TESL). She has published a few articles and has participated and presented in a few conferences and Seminars. After obtaining her Master's degree in TESL, she decided to study PhD of Management of Tourism. After a couple of years of hard studying, she graduated from University of Putra Malaysia with Doctor of Philosophy in Management of Tourism. Her area of interest in Tourism include hospitality, customer behaviour, and hotel performance. Narges Nazari is very much interested in finding a job related to her PhD degree studies.



LIST OF PUBLICATIONS

Nazari, N. (2018). A review on the critical success factors (CSFs) in the operations of hotels. *Asean Journal on Hospitality and Tourism*, Vol 16 (1), pp 46-53.

Nazari, N. & A.A. Rahman (2019). The effect of customer satisfaction on the performance of the small and medium-sized hotel. Reviewed and accepted to be published by the journal of *Tourism and Hospitality Management* (on the process).





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