

# The Effect of Dynamic Capabilities on Sustained Competitive Advantage: Study on Budget Hotels in Surakarta City

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**ABSTRACT:** *This empirical study examines the importance of dynamic capabilities, which is a research area, and develops according to the dynamic and rapidly changing business environment. This study aims to explore the dynamic capabilities approach from a resource-based view over the years and how the hospitality industry can survive in a dynamically changing environment. It also draws attention to how resources and capabilities in the internal environment help build dynamic capabilities and their component factors and help create sustainable competitive advantages. The analysis used is to examine the structural equation model (SEM) by confirming 54 hotel organizations that have gone through the adjustment process in the Surakarta City area, Central Java. The author finds that dynamic capabilities have explanatory power affecting sustained competitive advantage. This forces the ability to provide timely service, use the right cost, ease of access, appropriate rate variations, server prowess, and quality assurance of service. It can be concluded that the "budget" type of hotel organization is looking for a form of strategy to improve organizational and individual capabilities, understands the environmental conditions of sustained competitive advantage that continue to change dynamically.*

**KEY WORD:** *Dynamic Capabilities, Sustained Competitive Advantage*

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## I. INTRODUCTION

The global phenomenon in the hospitality industry is shocked by the emergence of accommodation services that are growing created by the market. This is an interesting phenomenon as it grew very rapidly, in 2015 due to the demand for affordable accommodation, with an increasing middle class life population in the Asia-Pacific region and Europe. The United States ranks first in the budget hotel segment with room supply of 874.591 in 2015, followed by the United Kingdom and China, while Malaysia is the fastest growing market with a CAGR (Compound Annual Growth Rate) of 12.2% (GlobalData, 2017).

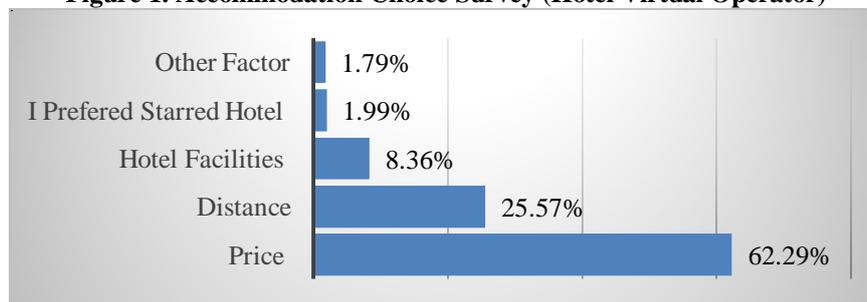
In Indonesia in 2018 the largest number of hotel businesses were three-star hotels, namely 1.302 businesses (39.29%) with 100.119 rooms (35.95%). Two-star hotels as many as 745 businesses (22.48%) with a total of 48.137 rooms (17.28%). Four-star hotels as many as 682 businesses (20.58 %) with a total of 84.104 rooms (30.20 %) (Central Bureau of Statistics , 2018).

This study will discuss the budget hotel industry in Surakarta City, Central Java, Indonesia. The city of Surakarta was chosen because it is considered a livable city by ranking at the top in 2017 with an index value of 66.9% (Indonesian Planning Experts Association [IAP], 2017), with six principles, namely: (1) availability of basic necessities (housing, water, electricity, etc.); (2) availability of public facilities (transportation, city parks, worship facilities, health, education, etc.); (3) the availability of public spaces and places to interact for the community; (4) security; (5) support for economic, social, and cultural functions in the city; and (6) sanitation. Supported by the increasing number of hospitality industries every year, the city of Surakarta, which only covers an area of 44 km<sup>2</sup>, has 166 hotels. It means that on average every one kilometer there are four hotels (Statistic Central Bureau - Surakarta Region, 2018). This industry was chosen because theoretically and empirically it has various characteristics in accordance with the topic and purpose of the study. The hotel industry has several characteristics that are very sensitive to the environment, facing various demands from stakeholders, both those who interact directly and indirectly with hotel organizations.

For hotel consumers with their own budget segmentation, there are several criteria that are determined in choosing a place to stay. The price factor becomes dominant, followed by distance to the nearest destination. Regarding other factors, such as the star rating of a hotel and facilities, it is not really a concern. This

consideration can be drawn into a pattern regarding budget hotel consumers, which is economical and easy to reach. The consumer survey in choosing a place to stay is depicted in Figure 1.

**Figure 1. Accommodation Choice Survey (Hotel Virtual Operator)**



Source: (DailySocial id, 2019)

For this reason, it is necessary to formulate a strategy which is the most important thing, where this stage will determine the success of the hotel industry strategy to be able to see objectively the external conditions of the company. The hotel industry has several things that affect the company's competitiveness and strategic orientation; focus on increasing competitiveness and strategic orientation influenced by type of exploitation and number of stars/comfort level (Tuclea & Ana-Mihaela, 2008). In the future, hotel management will face more varied challenges in all fields, not only conventionally, namely challenges in business competition, but also in the areas of changing customer behavior, employee loyalty, commitment of the owner (IHGMA, 2019). Research contributions (Salguero, Fernández-Gámez, Aldeanueva-Fernández, & Palomo, 2019) argue that the theoretical and practical implications for helping managers develop a sustainable competitive advantage through the potential that competitive intelligence offers in the hospitality industry.

The term "budget hotel" is difficult to define precisely. As if, a cheap hotel can be a temporary lodging that charges a low rate. However, the now accepted general meaning of the term in the hotel business refers to two-star and three-star hotel, usually with a minimum of 50 rooms, and branded by major chains. These hotels typically have a standard "cookie-cutter" appearance, and offer a no-frills systematic service format, for example: limited food and beverage and meeting facilities (Ruetz & Marvel, 2011). Cheap accommodation products have earned reputation and credibility and a high degree of recognition, in the market as a "challenger" for "traditional or established hotel brands", through value for money, "comfort", flexibility and perhaps most importantly, "Opportunities for social interaction and a more authentic local experience" (Che Omar & Arif, 2017).

Hoteliers (especially small hotels) then turn to the easiest solution by cutting costs that are meant for employee training, education, bonuses, or salaries. Instead of traditional organizational structures that rely heavily on management control and economic principles of cost reduction, efficiency and cash flow, the focus in modern organizations is on the management of human capital (Ažić, 2017), and employees feel close to their organization and create conditions (Anggiani & Wiyana, 2021). Big hotels don't always outperform small hotels, and hotel efficiency differs based on location, geographic area, and type of service. Furthermore, productivity growth is not a driving force in the industry (Assaf & Tsonas, 2018). In the future, there will be more and more varied challenges in all fields, not only conventionally, namely challenges in business competition, but also in the areas of changing customer behavior, employee loyalty, commitment of owners, and others (IHGMA, 2019). The research (Salguero, Fernández-Gámez, Aldeanueva-Fernández, & Palomo, 2019) provides theoretical and practical implications for helping managers develop sustainable competitive advantages through the potential that competitive intelligence offers in the hospitality industry. The factors of communication, leadership, and strategy directly affect employee performance. However, only leadership factors directly affect the performance of hospitality organizations (de Souza Meira, Gadotti Dos Anjos, & Falaster, 2019).

Given the dynamic nature of the hospitality industry, traditional management approaches are proving to be ineffective; Therefore, the hotel business needs to adopt dynamic thinking and develop emerging strategies. To achieve this requires the ability to predict, as well as the need to react to, unexpected events (Mintzberg, 2013). This demonstrates the importance of adopting a dynamic capabilities framework in the hospitality sector, which should enable hotels to take appropriate action, and be able to continuously improve or develop service offerings and achieve competitive advantage. Dynamic capabilities are associated with the organization's ability to overcome organizational rigidity (Schreyögg & Kliesch-Eberl, 2007; Vergne & Durand, 2011), perceive and seize business opportunities (Aguirre, 2011); (Helfat, et al., 2007); (Tecee D. J., 2018). The basic concept of dynamic capabilities can be interpreted as matching the resource base with a changing environment, this is also in line with research (Szu-Yu, Pei-Chun, & Chin-San, 2017) dynamic capabilities positively affect competitive advantage sustainability and are positively related to organizational performance.

## **1.2 Problem Statement**

The framework of this research is several contradictions: theoretical, concepts, understanding, research results on external and internal capabilities of hospitality organizations and outcomes on the environment of hospitality organizations and their impacts. This study focuses on the formulation of the problem, how is the effect of dynamic capabilities on sustained competitive advantage in budget-type hospitality organizations in Surakarta City?

## **1.3 Hypothesis**

H0 Dynamic capabilities has no effect on sustained competitive advantage.

H1 Dynamic capabilities has effect on sustained competitive advantage.

## **1.4 Research Objectives**

The objective of the research is directed to analyze the effect of dynamic capabilities on sustained competitive advantage based on dynamic capabilities theories and adapted and implemented in the hotel industry, especially budget hotels.

## **II. LITERATURE REVIEW**

### **2.1 Dynamic Capabilities**

The concept of dynamic capabilities initially emerged as an extension of the company's resources-based view of rapid change (Ambrosini & Bowman, 2009); (Helfat, et al., 2007). However, its core elements derive from several theoretical foundations (Aguirre, 2011); Di Stefano, Peteraf, & Verona, 2010; (Vogel & Guttel, 2013) and the theory of evolution of the firm (Nelson & Winter, 1982). Dynamic capabilities are associated with the organization's ability to overcome organizational rigidity (Schreyögg & Kliesch-Eberl, 2007; Vergne & Durand, 2011), perceive and seize business opportunities (Aguirre, 2011); (Helfat, et al., 2007); (Teece D. J., 2018), and innovate and adapt to changing market (Teece, Pisano, & Shuen, 1997); (Winter, 2003). In his main opinion, (Teece, Pisano, & Shuen, 1997) defines dynamic capabilities as "the ability of an enterprise to integrate, build and reconfigure internal and external competencies to cope with a rapidly changing environment"

### **2.2 Sustained Competitive Advantage**

The view (Porter M. E., 1985) argues that a company's ability to outperform its competitors lies in its ability to translate its competitive strategy into competitive advantage. Then (Barney, 1991) suggests that competitive advantage can be achieved if the company's strategy has added value and is difficult to imitate by competitors in the present or near future. The relationship between competitive advantage and sustainability is strengthened by the opinion (Eisenhardt & Martin, 2000) which states that a sustainable competitive advantage occurs when a firm's dynamic capabilities are not only valuable and scarce, but also incomparable. The concept of business strategy has evolved over time, is driven more by practice than through theory development, and fundamentally answers the question of how firms compete in market or industry. For a company to sustain itself over time, it must find ways to create a competitive advantage over its competitors (Grant, Jordan, & Walsh, 2015). Early work described the theory of business strategy as a product of industrial organization that addresses business competition in concentrated markets that compete on multiple dimensions (Shapiro, 1989). The notion around creating competitive advantage has existed since the 1960s, with two schools of thought predominating: the external approach, which links competitive advantage to the ways in which a firm adapts to opportunities and threats in its competitive environment, and a resource-based view, in which resources and Internal capabilities can be distinguished from other firms and can lead to competitive advantage (Barney, 1991).

### **2.3 Dynamic Capabilities and Sustained Competitive Advantage**

Theoretically, three complementary theories have been used extensively in the strategic management literature to explain the relationship between dynamic capabilities and competitive advantage and their development. These are: 1. resource-based view; 2. the theory of corporate evolution; 3. dynamic capability approach. These theories and approaches each contribute to and explain how organizations adopt and develop capabilities to gain and sustain competitive advantage in their time (Aguirre, 2011). The basic concept (Teece, Pisano, & Shuen, 1997) that dynamic capabilities positively affect firm performance in various ways, matching the resource base with a changing environment, is also in line with research (Szu-Yu, Pei-Chun, & Chin-San, 2017) dynamic capabilities positively affect competitive advantage sustainability and are positively related to organizational performance. Then (Wilden, Gudergan, Bo-Nielson, & Lings, 2013) performance effects of internal alignment between organizational structure and dynamic capabilities, as well as external fit of dynamic capabilities with competitive intensity.

### III. RESEARCH METHODOLOGY

Data collection was carried out directly with all respondents, namely all budget hotel managers in the Surakarta city area. The same thing is also done directly at hotel association meetings at both regional and central levels. Each company will be surveyed directly by the researcher and given a bundle of files containing a summary of the aims and objectives of the research as well as research questions and envelopes. Population justification was carried out so that a population of 54 hotel organizations was obtained

The analytical technique used in this research is Structural Equation Modeling (SEM), so it can confirm various indicators/dimensions of a concept/construct and measure the theoretical relationships between variables. This study will analyze the influence between variables, where there are several dependent and this independent variable can be an independent variable for other dependent variable. Variable (X) Dynamic Capabilities using indicators adopted and modified from (Teece, Pisano, & Shuen, 1997). Variable (Y) Sustained Competitive Advantage using indicators adopted and modified from (Eisenhardt & Martin, 2000); (Szu-Yu, Pei-Chun, & Chin-San, 2017).

**Table 1. Variable Operation**

Variable	Indicator
Dynamic Capabilities	Ability to recognize market (KD1)
	Technology capability (KD2)
	Service product innovation capability (KD3)
	Managerial ability (KD4)
	Entrepreneurship Ability (KD5)
Sustained Competitive Advantage	On time service for guests (CA1)
	Appropriate use of costs (CA2)
	Easy access to bookings (CA3)
	Affordable room rate (CA4)
	Server Proficiency (CA5)
	Service quality assurance (CA6)

Source: Authors, 2021

### IV. RESULT AND DISCUSSION

#### 4.1 Result

Profile respondent based on the data at the time of filling out the questionnaire: 10 respondents as owners, 25 respondents as managers, and 19 respondents as supervisors. The profile of respondents in the two-star hotel category is 20 and the three-star category 34.

Index analysis is used with the aim of describing respondents' perceptions of the statement items proposed in the study (Ferdinand, 2006). All index interpretations in the "high" category mean that all instruments contribute "high" in this study.

**Table 2. Variable Index Value**

Indicators (Code)	Frequency of Respondents' Answers					Index Value	Index Value Interpretation
	1	2	3	4	5		
KD1	0.00	0.04	0.20	0.32	0.45	78.89	High
KD2	0.00	0.02	0.29	0.37	0.32	75.93	High
KD3	0.00	0.00	0.23	0.33	0.44	80.74	High
KD4	0.00	0.02	0.18	0.41	0.39	80.00	High
KD5	0.00	0.02	0.14	0.40	0.45	82.22	High
Index Value Variabel X						79.55	High
CA1	0.00	0.03	0.16	0.33	0.48	81.11	High
CA2	0.00	0.00	0.29	0.22	0.49	80.00	High
CA3	0.00	0.01	0.24	0.38	0.38	78.89	High
CA4	0.00	0.01	0.21	0.45	0.33	78.89	High
CA5	0.00	0.00	0.14	0.31	0.54	85.19	High
CA6	0.00	0.04	0.14	0.43	0.40	79.63	High
Index Value Variabel Y						80.61	High

Source: Author Computation, 2021

Construct reliability and validity is a test to measure the reliability of a construct. The reliability score of the construct should be high enough. Construct reliability and validity (construct validity and reliability) is a test to measure the reliability of a construct. The reliability score of the construct should be high enough. The reliability of the construct scores according to the table above is very good, which is above 0.7 according (Vinzi, Trinchera, & Amato, 2010).

**Table 3. Construct Reliability and Validity**

Variable	Cronbach's Alpha	Rho_A	Composite Reliability	AVE (average variance extracted)
Dynamic Capabilities (KD)	0.876	0.879	0.910	0.699
Sustained Competitive Advantage (CA)	0.897	0.900	0.921	0.662

Source: Author Computation, 2021

Based on the cross-loading value for all constructs > 0.60 so that it meets the requirements of discriminant validity.

**Table 4. Discriminant Validity**

	Dynamic Capabilities	Sustained Competitive Advantage	Description
KD1	<b>0.776</b>	0.704	> 0,6 (valid)
KD2	<b>0.779</b>	0.684	> 0,6 (valid)
KD3	<b>0.864</b>	0.770	> 0,6 (valid)
KD4	<b>0.840</b>	0.803	> 0,6 (valid)
KD5	<b>0.829</b>	0.722	> 0,6 (valid)
CA1	0.703	<b>0.807</b>	> 0,6 (valid)
CA2	0.654	<b>0.797</b>	> 0,6 (valid)
CA3	0.785	<b>0.844</b>	> 0,6 (valid)
CA4	0.761	<b>0.804</b>	> 0,6 (valid)
CA5	0.803	<b>0.896</b>	> 0,6 (valid)
CA6	0.690	<b>0.726</b>	> 0,6 (valid)

Source: Author Computation, 2021

R-Square is a measure of the proportion of variation in the value of the affected variable (endogenous) which can be explained by the variable that influences it (exogenous). R-Square Adjusted Model = 0.810. This means that the dynamic capabilities variable in explaining sustained competitive advantage is 81.0%, thus the model is classified as substantial/strong

**Table 5. R Square**

	R Square	R Square Adjusted
Sustained Competitive Advantage	0.813	0.810

Source: Author Computation, 2021

F Square ( $f^2$ ) is a measure used to assess the relative impact of an influencing variable (exogenous) on the affected variable (endogenous). According to the criteria (Cohen, 1988) it can be concluded that the dynamic capabilities for sustained competitive advantage are 4.351 high level.

Direct effect of variable dynamic capabilities on sustained competitive advantage, path coefficient 0.902 and P-Value 0.000 (<0.05), meaning that the effect of dynamic capabilities on sustained competitive advantage is positive and significant.

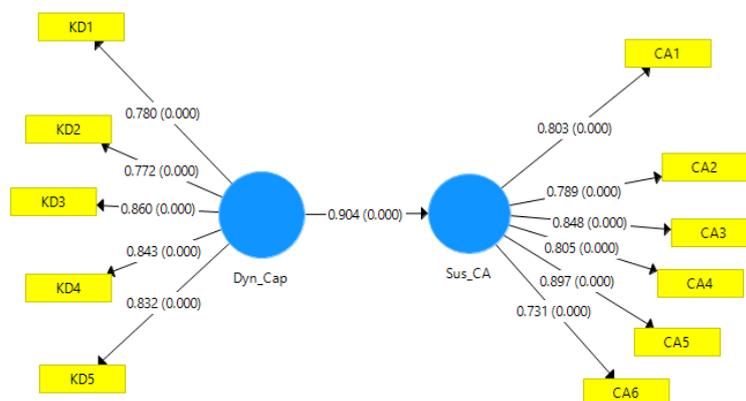
**Table 6. Path Coefficients (Direct Effect)**

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Value
Dynamic Capabilities → Sustained Competitive Advantage	0.902	0.903	0.002	41.693	0.000

Source: Author Computation, 2021

Bootstrapping is used to test the hypothesis the following values are obtained:

**Figure 2. Output Bootstrap**



Source: Author Computation, 2021

## **4.2 Discussion**

Empirical findings, based on the results of hypothesis testing, it can be concluded that the dynamic capabilities variable influences the sustained competitive advantage variable. This accords with studies supporting the hypothesis that dynamic capabilities are seen as the driving force behind the creation, evolution, and recombination of other resources into new sources of sustainable competitive advantage (Teece, Pisano, & Shuen, 1997), consistently missed in this study.

From the results of this study, the dynamic capabilities have been formed by five abilities to lead to sustained competitive advantage. The five abilities are the ability to recognize the market (KD1), technological ability (KD2), product service innovation ability (KD3), managerial ability (KD4), and entrepreneurial ability (KD5) which are obtained through the basic process of dynamic capabilities (sensing, seizing, and transforming).

The concept of sensing refers to the capacity of a hospitality organization to continuously recognize the organizational environment about possible technological evolutions and customer needs. Therefore, in this study, we stick to the original Teece model and understand sensing primarily as external sensing. This sensing component involves both recognizing opportunities and anticipating competitive threats. This can be done formally on the indicator of the ability to recognize the market (KD1) and hone technology skills (KD2) on the second indicator on the formation of dynamic capabilities.

Reference seizing to develop and select business opportunities that suit the hospitality organization's environment and its strengths and weaknesses. seizing thus means that market opportunities are successfully exploitation and threats avoided. Bridging external and internal information and knowledge, and is closely related to strategic decision making, especially regarding investment decisions. The entrepreneurial ability indicator (KD5) starts from a strategy that allows the introduction of valuable knowledge. This evaluation is based on prior knowledge, and results in the selection of various strategic options. Entrepreneurship ability (KD5) in a hospitality organization is high if the organization is to decide whether some information has potential value, to turn valuable information into a concrete business opportunity according to its strengths and weaknesses and to make decisions on the development of the hospitality business.

Transforming, according to (Teece, Pisano, & Shuen, 1997), includes enhancing, combining, protecting, and, if necessary, reconfiguring the intangible and tangible assets of a business enterprise. That is, transformation refers to the application of new business models, the product or process innovations into practical decisions by implementing the necessary structures and routines, providing infrastructure, ensuring that the workforce has the necessary skills, and so on. Transformation is characterized by the actual realization of strategic reforms within the organization through reconfiguration of resources structure and processes. In this study, it is explained that the transformation process is symbolized by indicators of product service innovation capability (KD3) and managerial ability (KD4). It also means the ability to recombine and to reconfigure organizational assets and structures as companies grow, and as markets and technologies change. Thus, transformation is similarity to implementation capability involving various processes of product service innovation capability (KD3) and managerial capability (KD4). The most significant ability to form this dynamic capability is entrepreneurial ability (KD5), budget type hospitality organizations must spend a lot of time developing and honing their ability to create new business models between a very competitive budget type hospitality industry. Customers know exactly what to expect from a hotel, therefore entrepreneurial skills must encourage innovative activities to get new customers and keep repeat customers. Entrepreneurial ability has a greater influence on direction, strategy and performance and plays a key role in a budget type hotel business.

## **V. CONCLUSION AND SUGGESTION**

### **5.1 Conclusion**

Based on the results of this study, the leaders of budget-type hotels agree that the development of dynamic capabilities in the budget-type hotel sector is the ability to manage budget-type hotels. A resource-based approach is very important to understand the hotel business structuring process, and the various qualities applied by business actors, whether related to resources competency or capabilities. These capabilities are expressed in five capabilities that can enable organizational conditions to have a sustained competitive advantage. The five capabilities are the ability to recognize the market, technological capabilities, product service innovation capabilities, managerial capabilities, and entrepreneurial abilities obtained through the basic process of dynamic capabilities (sensing, seizing, and transforming), dynamic capabilities are seen as the driving force behind the creation, evolution, and the recombination of other resources into new sources of sustainable competitive advantage (Teece, Pisano, & Shuen, 1997). The main key is entrepreneurial skills that allow the right strategy to understand that core competencies supported by resource-based theory are always needed for the success of new businesses, especially in the hospitality sector. Moreover, it is supported by the very fast growth of the budget type hotel sector and dynamic environmental conditions.

## 5.2 Suggestion

It has been argued here, however, that the understanding of dynamic capabilities actively shaping sustained competitive advantage and sustainability performance in the case of this budget-type hotel organization is the author's creativity. And this topic is likely to continue in the future in the hospitality industry. The author admits that this exploration of capabilities is expensive, suggestions for the future require a discussion forum between practitioners, academics, and experts to determine the limits of resource-based views that are suitable for this industry. In such a context, it is quite possible that the entire organizational heritage of practiced change methods becomes a deep-rooted cognitive barrier to finding new solutions. The organizations and people must rely on long-term creative solutions to unprecedented problems. Dynamic capabilities themselves have intrinsic limitations.

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