Competitive Strategy and Sustainable Performance: The Application of Sustainable Balanced Scorecard

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Abstract

To survive in such a highly competitive market, hotels have to sustain better-than-average performance over time. However, the empirical research on the ways and means of improving sustainable hotel performance, specifically in developing countries like Indonesia, is scant. This study aims to help fill the knowledge gap of Indonesian hotel managers by providing empirical evidence on how competitive strategy could play a role in improving hotel sustainable performance (HSP). The Sustainable Balanced Scorecard (SBSC) approach was used to measure HSP based on financial, customer, internal business process, learning and growth, and social and environmental perspectives. A mixed methods research approach was used to test the relationships among the above mentioned variables. Online survey and in-depth interviews were used to collect data. The quantitative data were analysed using Partial Least Square (PLS). The results revealed that competitive strategy, particularly in the form of differentiation, had a significant influence on HSP.

Keywords: *competitive strategy, sustainable performance, Sustainable Balanced Scorecard*

Introduction

Indonesia is reputed to have the largest economy in Southeast Asia and the best-performing economy after China and India (Kusuma & Rahadiana, 2012; Mellor, 2010). As a result, not only domestic investors but also foreign investors are attracted to establishing their businesses, including hotels, in this country (Kompas, 2012; Lee & Min, 2014). There is such high competition in the hotel industry that no major player has dominance in the market. Therefore, hotels operating in Indonesia need to have some unique value of their own in order to differentiate themselves from competitors. Establishing a profitable and a sustainable position against competitors in the

industry is one reason why Indonesia's hotel managers need to understand the combi-nation of policies, rules and methods employed by their company in its *competitive strategy* (Porter, 1980; Zhao & He, 2008). By applying a more competitive strategy, hotels in Indonesia may increase their chance to become sustainable in the market as the strategy may help the hotel to differentiate its products and services from those of its competitors.

As previously mentioned, competition in the Indonesian hotel industry is becoming intense. This is a consequence of a thriving tourism industry which has become the fourth largest foreign exchange earner of the country (Tempo, 2014). Tourist numbers have increased, not only for domestic but also for foreign tourists. Data from Biro Pusat Statistik Indonesia (2014) showed that the number of international inbound tour-ist has increased 39.19% from 2009 (6,323,730 tourists) to 2013 (8,802,129 tourists). For the same period, the number of travels for domestic tourist has increased from 229 million to 250 million (Kementerian Pariwisata, 2014). Hotels in Indonesia need to compete fiercely for a share of the market. Therefore Indonesian hotels need to main-tain high performance standards to survive in the long-term □ a concept defined by Perrini and Tencati (2006) as *hotel sustainable performance.* In assessing an organiza-tion's performance based on financial and non-financial perspectives, one of the most useful conceptual measurement instruments is the Balanced Scorecard (BSC), an ap-proach developed by Kaplan and Norton (1992, 1996, 2001). The major advantage of BSC lies in its ability to integrate financial and non-financial measures with business strategy (Figge, *et al*., 2002; Kaplan & Norton, 1996). BSC translates the strategy of a business unit into objectives and measures using four different perspectives: financial, customer, internal process, and learning and growth (Kaplan & Norton, 1992; 1996). Previous studies focused mainly on the BSC approach in measuring performance without incorporating social and environmental perspectives (Epstein & Wisner, 2001; Figge *et al.,* 2002). In addition, those studies focused primarily on industries such as mining, manufacturing, chemical, or energy production (Chung & Parker, 2008; Sloan *et al*., 2009). There is a need for more empirical evidence of sustainable performance in the hotel industry (Chung & Parker, 2008). In Indonesia, no such study has been performed. The main aims of this study are to extend the current understanding of the role of the competitive strategy on each perspective of Hotel Sustainable Performance (HSP). Hence, the present study contributes by adding social and environmental per-spective to the existing four BSC perspectives of performance in order to reveal its relations with the competitive strategy.

Literature review and Theoretical frameworks

Competitive Strategy and Hotel Financial Performance

A competitive strategy requires a company to be able to differentiate itself from its competitors (Porter, 1980; 1985). A company needs to offer something unique to be able to command a premium price. A high differentiator may increase profit because a premium price can be achieved through its innovative product (Kotha & Vadlamani, 1995; Porter, 1980; 1985). The uniqueness of the product and/or service needs to be something that is valuable to buyers. For example, a luxurious hotel such as the Ritz

Carlton offers value through its brand which creates the image of premium service. Customers want to stay at this hotel because of its strong brand image as a "high class hotel" resulting from its deluxe properties or room facilities such as Italian linen, marble bathrooms, DVD players and high-speed Internet access (Michels, 2005).

Pursuing a competitive strategy often incurs greater costs because uniqueness requires a company to perform value added activities better than its competitors (Porter, 1980; 1985). For example, hotels that provide a specific menu at their restaurant need a highly skilled chef, who usually costs more than an ordinary chef. They may also need better quality food ingredients to serve their special dishes. However, this does not mean that applying a competitive strategy will reduce company profitability. In fact, previous studies have shown that differentiation may sustain improved financial performance. For example, Bangchokdee (2008) found a positive relationship between competitive strategy and financial performance in the food processing and electronics industries in Thailand. The results indicated that the more a company applies a competitive strategy, the higher its financial performance. However, the results may not be the same for the hotel industry because its characteristics are different from those of the manufacturing industry.

Some previous studies have suggested that there is no difference in organizational performance based on the type of strategy. For example, a study by Jennings *et al.* (2003) revealed no performance difference (measured by earning growth rate, sales growth rate, return on investment, and return on sales) between a prospector (more innovative, differentiator), defender (more cost leadership), and analyzer (both differentiation and cost leadership) company. However, Jennings *et al.*'s (2003) study used samples from six service industries: banking, brokerage, hospital, hotel, insurance, and transportation. Analyses focusing on a single industry type may give different results from analyses focusing on other industry types, due to varying characteristics within the other industries. For example, a differentiator hotel may emphasize a profit orientation and apply premium prices; this will differ from a hospital which likely has a non-profit basis.

Studies in the hotel industry also found that differentiation strategy has a significant impact on a company's financial performance. McCaskey and Symes (2004) conducted a study at Whitbread Travel Inn, a leading UK budget hotel. They found that by being a differentiator, the Travel Inn experienced an increased profit, an increased occupancy level, and a decreased labor turnover. Using its brand, the hotel announced a 100% customer satisfaction guarantee (i.e., customers can get their money back) on 8 January 2001 using mass media including TV. As the first budget hotel to take such an action, the Travel Inn succeeded in differentiating itself from its competitors. By doing so, the Travel Inn gained a competitive advantage by offering an 'unequivocal guarantee', which is not easily imitated by its competitors. As a result, this campaign encouraged new customers to come while at the same time enriching its long term relationship with existing customers. The occupancy level then increased, resulting in improved profit. However, this research was conducted in a budget hotel, which is smaller than star-ranking hotels. Therefore, the results need to be tested in star-ranking

hotels to find out if a differentiation strategy has the same effect on their financial performance.

Sandvik and Sandvik (2003) investigated the impact of the market oriented hotel on profitability by studying 298 Norwegian hotels. Companies that focused on the differentiation strategy were found to be more market oriented compared to cost leadership companies (Narver *et al.*, 1990). Sandvik and Sandvik (2003) proposed that hotels should offer a unique, new product (differentiation strategy) in order to achieve greater profit. By having a unique product, hotels may apply premium prices, which are usually accompanied by higher margins. The higher price contributes to company profit. This result needs further empirical evidence as it used market orientation as an independent variable and differentiation strategy as a control variable.

Zhou *et al.* (2009) conducted a study involving 184 hotel managers from 56 countries in six continents. They revealed an indirect relationship between differentiation strategy and financial performance (i.e., profit, market share); the relationship was mediated by market performance (i.e., perceived quality, customer satisfaction). The results indicate that differentiation may improve service quality and customer satisfaction (market performance) which, in turn, leads to higher financial performance. This study did not analyze the direct relationship between differentiation strategy and financial performance. A study that focuses on the direct relationship between the differentiation strategy and financial performance would provide a clearer description of how a differentiation strategy may influence hotel financial performance.

Indonesia is one of the famous tourist destinations in the Southeast Asian region. For example, Bali has won an award for being one of the most beautiful islands in the world (Indonesia's Official Tourism Website, 2011a). This island is famous not only because of its natural beauty but also its unique cultural traditions in dance and art (Indonesia's Official Tourism Website, 2011b). Realizing this uniqueness, the hotel industry in Bali may use it as a competitive strategy. Hotels need to innovate by applying a differentiation strategy to distinguish themselves from their competitors. By being different, a hotel may attract new customers who are interested in enjoying the unique value that is offered by the hotel, while also maintaining its existing customers. For example, hotels may offer a holiday package complete with cultural events to attract customers. Having more customers means greater income for the hotel. These discussions lead to Hypothesis 1a.

Hypothesis 1a: The more a hotel employs a competitive strategy in the form of product differentiation, the greater is its financial performance.

Competitive Strategy and Hotel Customer-Related Performance

Porter (1980; 1985) stated that companies need to be innovative to make themselves different from their competitors. This is particularly important for the hotel industry because hotel products and services have a high risk of being imitated by competitors, as these cannot be protected by patents or copyrights (Agarwal *et al.,* 2003). Therefore, in order to win against other competitors, the key is to continuously innovate

(Agarwal *et al*., 2003). For example, Marriott has become the leader in the hotel industry in terms of technology use since it introduced its (Marriott) Automated Reservation System for Hotel Accommodation in the early 1980s (Graf, 2008). As a consequence, its leading position in technology application has assisted its performance to be better than that of its competitors. Application of the sophisticated reservation system created the unique value of Marriott hotels at that time. Customers could easily book their rooms which, in turn, enhanced customer satisfaction and attracted them to return to the same hotel.

Bangchokdee's (2008) study found a significant positive relationship between competitive strategy and customer performance in the food processing and electronics industries in Thailand. She used market share, customer response time, on-time product delivery, and customer satisfaction in measuring customer-related performance. Conversely, another study by Amoako-Gyampah and Acquaah (2008) did not find a relationship between competitive strategy and market share in the Ghana manufacturing industry. These conflicting results need more study to validate the results. Further, caution is needed before attempting to generalize these results to the hotel industry, as it has different characteristics compared to those of the manufacturing industry. For example, hotel staff needs to provide an instant response to customers' requests, such as advising which tour package is available for a certain day or which route to take to a certain tourist destination, while manufacturing companies' staffs do not have to give an equally prompt response. Hence, caution is required in generalizing the results from the manufacturing industry to the hotel industry.

In the hotel industry, McCaskey and Symes (2004) investigated the impact of the differentiation strategy applied by the Travel Inn hotels to gain market share in the UK. By having a customer 100% satisfaction campaign (where customers can get their money back if they are not satisfied), the Travel Inn attracted both new customers and existing customers to enjoy the facility. As a result, room occupancy increased by 2% a year after the campaign was announced in 2001, leading to the largest market share in 2002 (McCaskey & Symes, 2004). As long as customers consider hotel products or services to be superior to those of the competitors, hotels may get an advantage from their differentiation (Porter, 1985). The results from the study by McCaskey and Symes (2004), which was based on one hotel group, need to be confirmed by investigating superior hotel groups such as 3- to 5-star hotels.

A study of the Turkey hotel industry was conducted by Avci *et al*. (2011) to analyze whether there is a difference in non-financial performance among Miles and Snow's (1978) four strategic orientations. The results show that prospector-type (similar to differentiation-type) hotels outperformed other strategic orientations (defender and analyzer) in terms of non-financial performance such as market share and customer satisfaction. No reactors were present in their study. However, using Miles and Snow's typology may not be appropriate due to conflicting results in previous studies (Garrigos-Simon & Marques, 2005; Zahra & Pearce, 1990).

Hotels in Indonesia may use the unique local culture to differentiate from their competitors. For example, a hotel in Bali may offer a special Balinese menu at its restaurant. Another hotel in the same area may offer a musical or dance performance during dinnertime. Other hotels may use antique architecture to distinguish their premises from hotels in a similar environment. These examples show that hotels can create their own value and distinguish themselves from their competitors who do not provide the same product or service. Customers would have more satisfaction from the unique value being offered by the hotel, which might motivate them to return to the same hotel in the future. More customers mean a larger market share. It is likely that applying a differentiation strategy leads to improved customer loyalty, market share and customer satisfaction, thus improving customer-related performance. Hypothesis 1b below formally reflects the above discussion.

Hypothesis 1b: *The more a hotel employs a competitive strategy in the form of product differentiation, the greater is its customer-related performance.*

Competitive Strategy and Hotel Internal Business Process-Related Performance

In the manufacturing industry, particularly the food processing and technology industries, Bangchokdee (2008) found a positive relationship between competitive strategy and internal business process performance. Her study listed five internal business process items: the number of new products, the percentage of good output to total output (production effectiveness), material efficiency, post-sale service quality, and post-sale service efficiency. However, the results may not generalize to the hotel industry because it has different characteristics. For example, the speed of product change in the hotel industry is not as fast as in the electronics industry; the hotel industry does not focus on a production process as the manufacturing industry does. Therefore, some measurement items such as number of new products may not be appropriate for measuring internal business process performance in the hotel industry as hotels are not required to develop new products each year to win the market, as the manufacturing industry must (e.g., electronics industry).

A study by Tavitiyaman *et al*. (2012) analyzed the relationship between competitive strategy (focus on brand image, information technology and human resource) and hotel performance (financial and behavioral performances) in the US hotel industry. They found that the competitive strategy, particularly when linked with human resources (HR), has a significant relationship with behavioral performance, and includes the different ways of delivering services to customers (which also may represent an internal business process-related performance indicator). Further, they suggested that competitive strategies that focus on the HR sector (e.g., investment in HR training and development, skilled staff, staff who have the ability to complete tasks effectively) lead to a higher level of behavioral performance (e.g., different ways of delivering services to customers, customer satisfaction, employee performance). The Tavitiyaman *et al*. (2012) study focused on financial and behavioral performance that includes

only one indicator of internal business process-related performance (i.e., the different ways of delivering services to customers). The current study analyses the effect of competitive strategy on internal business process-related performance by employing six measurement indicators.

In the current business environment where customer needs and preferences change rapidly (Mia & Clarke, 1999), hotels need to be competitive, which means offering a better service to the customer (Orfila-Sintes & Mattsson, 2009). For instance, this might come from applying a sophisticated customer database system in order to maintain quality service for repeat customers. By having a comprehensive customer database system, hotels have a better chance to satisfy customers and attract customers to return to their hotels. A comprehensive customer database system allows hotel staff to note customer preferences and provide individualized service even before the customers' arrival. This system may improve customer satisfaction because customers obtain personal service that exactly addresses their need or preference. For example, customers may be given extra pillows in their room or receive a welcome drink of a preferred brand when they arrive. This information comes from the customer database which has resulted from the employees' input during a previous visit, and which can be accessed to anticipate and satisfy customers when they return. This practice has been applied by the Ritz-Carlton hotel to maintain its loyal customers (Zeithaml *et al.*, 2009). If hotels can implement this system well with minimum error, they may enhance their overall hotel management efficiency, and thus influence customers to come again in the future.

Another example of a hotel employing a competitive strategy by using advanced technology is the Marriott. This hotel introduced the Marriott Automated Reservation System for Hotel Accommodation in the early 1980s (Graf, 2008). The Marriott also became the first hotel website to provide information to customers related to room availability and rates for more than 2,400 hotels (Zhao & He, 2008). This system helped the hotel to minimize problems that resulted from incorrect reservations. Another example of a hotel employing advanced information technology is the Hilton which uses its technology for guests' self check-in allowing guests to check into their hotel rooms prior to their arrival (Zhao & He, 2008). By applying a competitive strategy using advanced technology, these hotels created unique value and gained a competitive advantage by being the first to apply such technology. Moreover, applying an advanced reservation system may minimize errors resulting from manual systems and may lead to greater hotel management efficiency. As a result, their customers perceive them as being better hotels compared to others. This innovation in technology enables hotels to speed up their service to customers and to give a personalized service according to customer needs, thus improving their internal business process.

Hotels in Indonesia have a better chance to be differentiators because of Indonesia's beautiful natural environment and unique culture. These values may be used by hotels to obtain a competitive advantage. For example, hotels in Indonesia may conduct differentiation strategy by applying advanced technology for reservations and customer databases. The customer database may help hotel staff to provide customized service

based on customer needs. This personalized service enhances hotel management efficiency. Further, by providing such an innovative service, it helps by reducing customer complaint response times and increasing effective problem-solving. In the end, it may also reduce the total operation cycle. Therefore, it can be argued that by applying a differentiation strategy, the hotel's internal business process performance may improve. Hypothesis 1c is formulated from this discussion.

Hypothesis 1c: *The more a hotel employs a competitive strategy in the form of product differentiation, the greater is its internal business process-related performance.*

Competitive Strategy and Hotel Learning and Growth-Related Performance

Being innovative is important for a hotel operating in a competitive environment to make it different from other hotels. One key to maintaining this competitiveness is to continuously find new ways to improve current products and services. It is imperative for companies applying a competitive strategy to have employees who have a thorough understanding of their daily tasks so they can respond to any situation immediately. By having a better understanding of their tasks, employees are able to make timely and appropriate decisions regarding their tasks (Govindarajan, 1988). In order to have these knowledgeable and skilled employees, companies may provide relevant courses and other training. For instance, a luxury hotel may want to offer a special menu program in its restaurant. To do this, the hotel needs a highly skilled chef who can prepare special dishes and who can easily accommodate the changing needs and preferences of customers. The manager may provide advanced courses and other training to improve the chef's skills because skilled employees are important for the hotel if it is to employ a competitive strategy.

A positive relationship between competitive strategy and company learning and growth performance has been found by Bangchokdee (2008) in Thailand's manufacturing industry, particularly in the food processing and technology industries. She used three items to measure a company's learning and growth performance: employee efficiency, employee satisfaction, and a computerized information system. A study by Neal *et al*. (2005) of 92 UK manufacturing firms found that a company applying a higher differentiation strategy tends to use a human-capital-enhancing Human Resource Management (HRM) system more extensively than a cost leadership company (Neal *et al.,* 2005). The human-capital-enhancing HRM system consists of selection, training, performance appraisal, compensation (Youndt *et al.,* 1996), and work design (Huselid, 1995). These findings are supported by more recent results of differentiator companies needing highly skilled, competent and motivated employees to support the company in providing qualified services and innovative products (Guthrie *et al.*, 2002; Youndt, et al., 1996). Consequently, based on these prior findings, the company needs to invest in a comprehensive selection, training, performance appraisal and compensation system in order to obtain these criteria. As a result of recruiting or training staff, a company should expect highly skilled, professionally competent, and motivated em-

ployees to be more confident in performing their tasks properly. As a result, they may receive a reward for achieving a pre-determined or better target. Gaining a reward for good performance may lead to the higher satisfaction of employees. Therefore, it can be concluded that a differentiation strategy may have an impact on employee satisfaction. However, all the previous studies were conducted in the manufacturing industry and may not generalize to the hotel industry.

McCaskey and Symes (2004) showed that the application of a differentiation strategy also has an effect on employee turnover. Based on their analysis, the success of Travel Inn hotels in the UK in applying their 100% customer satisfaction campaign has decreased employee turnover by 29%. This result is a consequence of improved employee satisfaction. For example, the training for employees in the above hotel is based on feedback from employees about how they would like to see the design of training materials. As a consequence, the employees feel more appreciated and have higher motivation to participate in achieving company goals (McCaskey & Symes, 2004). However, the result was based on only one hotel group (Travel Inn), so more studies are needed to generalize the result.

Tavitiyaman *et al.* (2012) conducted a study of the US hotel industry to analyze the relationship between competitive strategy (focus on brand image, information technology and human resource) and hotel performance (financial and behavioral performances). They revealed that the competitive strategy, particularly when in conjunction with human resource (HR), has a significant relationship with behavioral performance including employee performance. Further, they suggested that conducting a competitive strategy by prioritizing the HR sector (e.g., investing in HR training and development, skilled staff, staff who have the ability to complete tasks effectively) leads to a higher level of behavioral performance (e.g., different ways of delivering services to customers, customer satisfaction, employee performance). They also found a significant relationship between competitive information technology (IT) strategy and hotel financial performance. However, they found no influence between competitive strategies that focus on brand image and IT on behavioral performance, nor the influence of competitive strategies focusing on brand image and HR on financial performance. The Tavitiyaman *et al.* (2012) study focuses on financial and behavioral performance which includes merely one indicator of learning and growth-related performance (i.e., employee performance). The current study analyses the effect of competitive strategy on learning and growth-related performance by employing six measurement indicators.

Based on the above discussion, it can be concluded that hotels need skilled employees to apply a differentiation strategy. As hotels in Indonesia are facing intense competition--which requires employees to have increased capacity to understand their daily tasks and to immediately respond to any changing situation--they need to provide relevant courses and other training to improve their employees' skills. This is more important for hotels applying a differentiation strategy rather than those adopting a cost leadership strategy. For example, international hotels applying a differentiation strategy through advanced technology (i.e., having a sophisticated reservation system)

need skilled employees. Therefore, employees need to attend the relevant training programmes provided by hotels. After completing such training, employees have improved skills, which help them feel more confident in doing their jobs. This confidence leads to greater work satisfaction and may result in lower employee turnover, thus improving learning and growth performance. This discussion leads to

Hypothesis 1d : *The more a hotel employs a competitive strategy in the form of product differentiation, the greater is its learning and growth-related performance.*

Competitive Strategy and Hotel Social and Environment-related Performance

The hotel industry is one of the largest industries in the world and has a significant effect on the environment because of its large water and energy consumption (Bohdanowicz & Martinac, 2007). However, the industry's indirect effects on the environment in comparison to those of the manufacturing industry, as well as the relative scarcity of research on the industry as a whole (Okumus, 2002) have resulted in less attention being paid to hotel strategies and social-environmental performance. Porter and der Linde (1995) propose improving company awareness of environmental issues to improve competitiveness. A company needs to undertake innovation by applying either cost leadership or differentiation approaches. High costs that result from environmental improvements (e.g., training) may be covered by higher savings from other prevention activities such as more efficient use of water and lower energy consumption (Molina-Azorin *et al.,* 2009). A company may apply a competitive strategy by using low energy consumption or recycled products. In a tropical country like Indonesia, which does not have a winter season, hotels may use solar energy for hot water supplies, decreasing their electricity costs. Hotels can reduce packaging costs by using refillable ceramic containers in bathrooms for liquid soaps and shampoos (Sloan *et al*., 2009). By engaging in these environment-related actions, hotels receive positive recognition from local societies and customers – especially those who are aware of environmental issues – which projects a higher social-environmental performance.

Hotels operating in a highly competitive market like Indonesia must continue to innovate to maintain their positions in the market by being different from competitors. Hotels adopting a differentiation dimension in their competitive strategy are proactive in managing their environment by being among the first to apply new products. As a response to recent developments in social and environmental performance, differentiator hotels may attempt to win a "green" award. They may adopt a new technology related to the environment such as energy and water conservation (Bohdanowicz & Martinac, 2007). Hilton hotel is an example of a differentiation hotel, a pioneer in setting environmental performance standards in the industry (Bohdanowicz, 2007). Applying an environment-related strategy, hotels gain trust from both employees and customers, leading to a better social and environmental reputation (Miles & Covin, 2000). Hotels with a poor social and environmental image, resulting from an unhealthy and unsafe working environment, find themselves in a situation where employees lose confidence

in doing their job and customers lose confidence in using hotel services. It can be argued that the more those hotels apply a differentiation strategy by managing their environment, the more they improve social-environmental performance.

To be different, hotels need to develop unique value. A study by Carmona-Moreno *et al.* (2004) of Spanish hotels reveals that hotels applying more developed environment-related strategies have a higher level of environmental performance, leading to competitive advantage. Hotels that demonstrate greater concern for the environment may apply sophisticated waste management policies to garbage and recycled materials. Knowledge about how to manage waste becomes a unique value that differentiates a hotel. This value becomes a competitive advantage enabling hotels to survive in the long-term. The Orchid hotel in Mumbai, India, has demonstrated environmental concern since its establishment in 1997. Its architecture incorporated environmental strategies such as use of natural fiber cement, fertilizer waste for walls, and windows which provide natural lighting to decrease heating and cooling costs (Orchid Hotels, 2011). Until early 2011, this hotel was the only hotel worldwide to win over 70 awards in 13 years, including ECOTEL certification, which is awarded to hotels that are environmentally sensitive (Orchid Hotels, 2011). This example shows that differentiator hotels like Orchid stand a better chance of survival by combining luxury with environmental concerns. Another study of Spanish hotels suggests that hotels that use extensive operation management techniques employ more environmental management practices (Gil *et al.*, 2001). Research suggests that hotels receiving stronger environmental pressures from stakeholders employ more extensive environmental management practices.

As discussed above, hotels can create social value by giving support to the local community; by providing health and safety to their employees; and by obeying government regulations relating to social and environmental matters. Hotels can also create environmental value by quantifying environmental savings and costs in their hotel budgets; by providing training to employees relating to social and environmental issues; and by applying energy and water saving practices. By taking such actions, hotels will receive positive recognition from the local community; this will increase their social performance by improving their reputation. They will also be recognized as having done something worthwhile to protect the hotel environment. As a result, more customers become aware of the hotel's reputation and are motivated to prefer that particular hotel. All these actions describe hotels' efforts to be competitive in the market. Moreover, hotels applying a differentiation strategy are more likely to pursue all these social and environment-related innovative actions compared to hotels applying a cost leadership strategy. For example, there are hotels in Bali and Java, which won awards for applying high environmental management standards in their business and also training local people for employment in nature-based tourism products (Cochrane, 2009). These differentiators would like to be seen as being different (unique) from other hotels with respect to socially and environmentally related positive actions. Therefore, it can be argued that applying a differentiation strategy may have a higher impact on hotels' social and environmental performance. The following hypothesis is developed from these arguments.

Hypothesis 1e: *The more a hotel employs a competitive strategy in the form of product differentiation, the greater is its social and environment-related performance.*

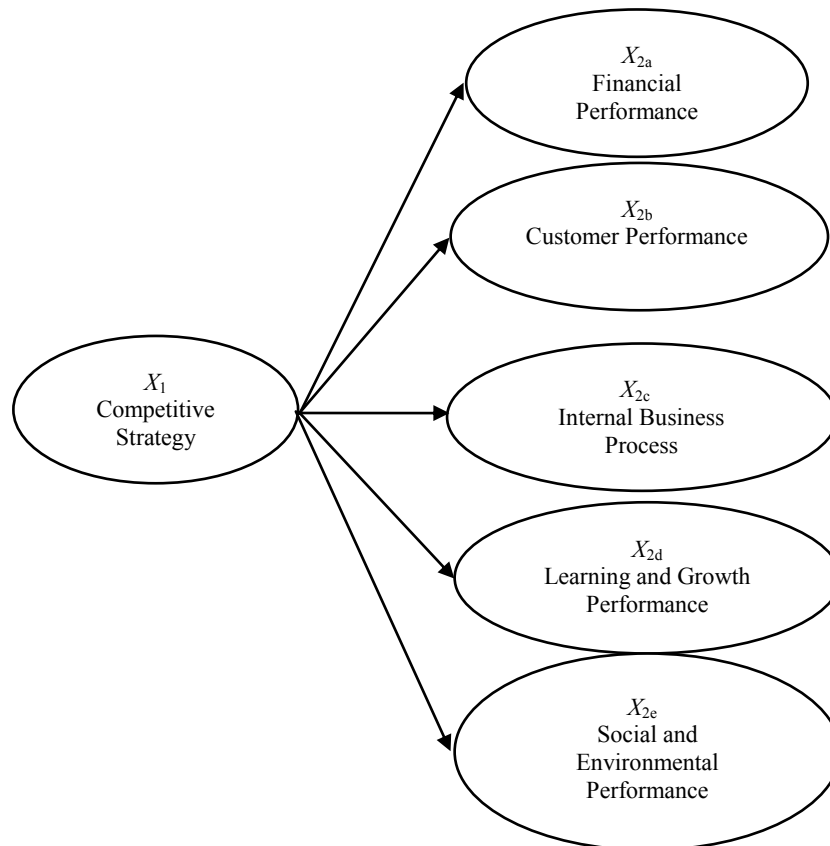The following Figure 1 shows the model tested in this study.

Figure 1. Model tested in this study

Research Method

Sample

Indonesia has increasingly become an attractive destination, with Bali Island as the icon of tourism in the country because it already has a solid reputation on the world tourism circuit (Hitchcock & Putra, 2008). This study selected 3- to 5-star hotels in all areas of Indonesia to gain a clear concept related to hotel strategy (Harris & Brown, 1998) and avoid weaknesses related to small and medium-sized tourism companies such as (1) supply dominated by family businesses, (2) lack of commercial drive and initiative, and (3) limited marketing skills, quality, assurance, pricing policy, cost control, re-adjustment, and a shortage of financial resources (Barros & Mascarenhas, 2004; Wanhill, 1997). Hotels in higher categories are more likely to produce sustainability reports (Bebbington *et al.,* 2009) and conduct sustainability practices (Mensah, 2006).

Data from the Indonesian Hotel and Restaurant Association indicate that there were 363 3-star hotels, 232 4-star hotels, and 118 5-star hotels, therefore 713 3- to 5-star hotels as a population. Using web online, questionnaires were sent to all 3- to 5-star hotel general managers (GMs) in the population. Some questionnaires were sent by both e-mail and postal mail to improve the response rate. GMs were chosen since they were able to provide information about organizational performance (Patiar & Mia, 2008). Classification of 3-, 4-, and 5-star hotels refers to Indonesian regulation (Kementerian Kebudayaan dan Pariwisata Republik Indonesia, 2012). Of the 124 returned questionnaires, 116 were completed and used in this paper, a response rate of 16.27%.

Measurement of Variables

Competitive Strategy

This study uses the Govindarajan approach to describe a company's strategic orientation (Govindarajan, 1988). Respondents identified their perception of the organization's products relative to those of competitors using six items: (1) brand image, (2) percentage of sales spent on HRD expense, (3) percentage of sales spent on marketing expense, (4) product/service feature, (5) product/service quality, and (6) product selling price. The questionnaire used a 5-point Likert scale ranging from 1 (significantly lower) to 5 (significantly higher). The overall score indicated the competitive strategy applied by a hotel; a high score suggested higher differentiation strategy.

Hotel Sustainable Performance (HSP)

The present study has categorized hotel sustainable performance (HSP) as having five indicators (financial, customer, internal business, learning and growth, social and environmental) based on a Sustainable Balanced Scorecard (SBSC) approach. As there is no common standard for measuring HSP in the hotel industry (Bohdanowicz & Martinac, 2007; Clarke & Chen, 2007; Evans, 2005; Font, 2002; Holcomb *et al.*, 2007), the present study adapted HSP instruments from several relevant studies. The items in this study (financial, customer, internal business process and learning and growth performance) were adapted from items developed by Chen *et al*. (2011) based on Kaplan and Norton's Balanced Scorecard approach (Kaplan & Norton, 1992; 1996; 2001). The social and environment performance items were adapted from items developed by Holcomb *et al*. (2007) and Gil *et al*. (2001), supported by in-depth interviews.

From an extensive search of relevant literature, it was found that it is likely that there are no objective measures of HSP. As a result, the present study used subjective measures by asking the respondents to indicate their hotel's performance compared to that of their competitors. Subjective data have been gathered by using a Likert-type scale, where 1 indicates *well below average* and 5 indicate *well above average*. This method has been used in previous studies to measure organisational performance (Abernethy & Lilis, 1995; Avci *et al*., 2011; Bangchokdee, 2008; Chen*, et al*., 2011; Dess & Robinson, 1984; Garrigos-Simon & Marques, 2005; Hoque & James, 2000; Jennings *et al*., 2003; Patiar & Mia, 2008; Winata, 2005). Despite some criticism of this self-insight approach, this method improves the quality of managerial self-insight because

it uses decision-makers such as top managers as respondents (Chenhall & Morris, 1986; Larcker, 1981; Wright, 1977). For example, Dess and Robinson (1984) stated that managerial assessments are consistent in general with internal objective performance measures. Further, due to confidentiality concerns, it is often challenging to obtain actual accounting data from organizations unless these data are published publicly (Avci *et al.*, 2011). Similarly, Dalem *et al.* (2010) in studying the Bali hotel industry referred to their problem in collecting environment-related report data such as water consumption, energy consumption, biodegradable cleaning chemicals, and natural vegetation. From 100 hotels located in three cities, they could collect only 12 samples due to hotels' concerns about confidentiality or data unavailability. In order to avoid similar problems and improve response rates, the current study used self-reported financial and non-financial performance measures.

Table 1 in the following section presents all instruments applied for the purpose of this study.

Statistical Tests and Results

The hypotheses were tested using the partial least squares (PLS) technique (Chin, 1998; World, 1982). Following the procedure advised by Hulland (1999), an evaluation of the PLS model was conducted, as described below. Firstly, the PLS measurement model was analyzed; secondly, the PLS structural model was evaluated by performing a hypotheses test.

The measurement model is assessed by examining the reliability of individual items and the convergent and discriminant validity of the constructs (Chin, 1998; Fornell & Larcker, 1981; Lee, Petter, Fayard, & Robinson, 2011). Particularly, the model is evaluated by calculating the factor loadings for each variable, reliability (Cronbach's a), composite reliability, and AVE (Average Variance Extracted). The final factor loadings from the PLS measurement model are reported in Table 1. The reliability of each variable is assessed using Fornell and Larcker's (1981) measure of composite reliability and Cronbach's (1951) alpha. As shown in Table 2, the composite reliability and alpha scores for each variable are above 0.70, which indicates acceptable reliability (Hairn*et al.*, 2011; Nunnally, 1978).

The convergent validity is assessed by examining the AVE statistics. Table 1 shows that the AVE for each variable is 0.50 and above; it therefore demonstrates adequate convergent validity (Chin, 1998; Hair *et al.*, 2010; Hair *et al.*, 2011). Additionally, Table 1 shows that each item loads higher on the construct it intends to measure than on any other construct (Chin, 1998). Further, AVE statistics are also used to assess discriminant validity by comparing the square root of the AVE statistics to the correlations between the latent variables (Chin, 1998; Hair *et al.*, 2011). Table 2 shows that the square roots of the AVEs (diagonal, marked in bold and italics) are all greater than the correlations between constructs. Results obtained from these two tests indicate adequate discriminant validity. In conclusion, the results from the PLS measurement model demonstrate that each construct in the current study exhibits satisfactory reliability and validity.

Table 1. Factor Loadings from Final PLS Measurement Model

	X_1	X_{2a}	X_{2b}	X_{2c}	X_{2d}	X_{2e}
X_1 – Brand image	**0.780**	0.430	0.545	0.490	0.399	0.486
X_1 – Percentage of sales spent on HRD expense	**0.605**	0.102	0.284	0.239	0.249	0.255
X_1 – Percentage of sales spent on marketing expense	**0.739**	0.267	0.427	0.402	0.417	0.412
X_1 – Product/service feature	**0.793**	0.333	0.468	0.332	0.438	0.408
X_1 – Product/service quality	**0.839**	0.278	0.514	0.423	0.376	0.439
X_1 – Product selling price	**0.739**	0.402	0.373	0.308	0.229	0.310
X_{2a} – Occupancy rate	0.272	**0.828**	0.549	0.304	0.314	0.304
X_{2a} – Net profit ratio	0.362	**0.888**	0.568	0.384	0.384	0.402
X_{2a} – Revenue growth	0.247	**0.809**	0.555	0.308	0.366	0.358
X_{2a} – Return on assets	0.474	**0.859**	0.582	0.389	0.364	0.412
X_{2b} – Customer loyalty	0.339	0.526	**0.706**	0.387	0.425	0.501
X_{2b} – Customer satisfaction	0.463	0.550	**0.809**	0.465	0.467	0.554
X_{2b} – New customer acquisition	0.527	0.495	**0.872**	0.544	0.538	0.534
X_{2b} – Market share	0.238	0.573	**0.666**	0.345	0.305	0.364
X_{2b} – Service quality	0.511	0.503	**0.804**	0.515	0.562	0.517
X_{2c} – Customer background information compilation	0.351	0.278	0.425	**0.774**	0.331	0.388
X_{2c} – Management efficiency enhancement	0.344	0.281	0.340	**0.730**	0.307	0.404
X_{2c} – Time reduction of operation cycle	0.453	0.416	0.548	**0.642**	0.479	0.532
X_{2c} – Time reduction for handling customer complaints	0.353	0.274	0.388	**0.805**	0.491	0.500
X_{2d} – Employee ability to manage emergencies	0.276	0.221	0.376	0.326	**0.753**	0.521
X_{2d} – Employee satisfaction	0.356	0.379	0.513	0.483	**0.740**	0.552
X_{2d} – Employee ability to use IT products	0.514	0.461	0.557	0.421	**0.703**	0.503
X_{2d} – Knowledge and resources sharing among employees	0.233	0.168	0.349	0.350	**0.715**	0.482
X_{2d} – Employee productivity	0.287	0.240	0.387	0.363	**0.778**	0.490
X_{2d} – Employee professional ability	0.384	0.320	0.456	0.430	**0.744**	0.510
X_{2e} – Quantification of environmental savings & costs in hotel budget	0.304	0.340	0.507	0.470	0.534	**0.736**
X_{2e} – Ecological arguments for marketing campaigns	0.409	0.280	0.460	0.511	0.477	**0.745**
X_{2e} – Support for local community	0.329	0.272	0.392	0.452	0.435	**0.659**
X_{2e} – Diversity & equality	0.435	0.383	0.555	0.420	0.423	**0.650**
X_{2e} – Use of environmentally friendly materials	0.315	0.260	0.441	0.383	0.416	**0.743**
X_{2e} – Health & safety for workers	0.435	0.394	0.603	0.482	0.631	**0.845**
X_{2e} – Local recruitment priority for workers	0.422	0.233	0.410	0.413	0.467	**0.695**
X_{2e} – Applies energy & water saving practices	0.397	0.466	0.538	0.581	0.498	**0.772**
X_{2e} – Compliance with social/environmental regulation	0.434	0.291	0.499	0.462	0.511	**0.837**
X_{2e} – Employees training on social/environmental issues	0.390	0.325	0.477	0.407	0.538	**0.718**

X_1 = competitive strategy; X_{2a} = financial performance; X_{2b} = customer-related performance; X_{2c} = internal business process-related performance; X_{2d} = learning and growth-related performance; X_{2e} = social and environment-related performance

Table 2. Reliability and Average Variance Extracted (AVE) statistics, and correlations from PLS model

Variable	Cronbach's Alpha	Composite reliability	AVE	Correlations					
				X_1	X_{2a}	X_{2b}	X_{2c}	X_{2d}	X_{2e}
X_1	0.847	0.886	0.567	*0.753*					
X_{2a}	0.870	0.910	0.717	0.417	*0.847*				
X_{2b}	0.836	0.882	0.601	0.593	0.634	*0.775*			
X_{2c}	0.724	0.828	0.549	0.501	0.415	0.595	*0.741*		
X_{2d}	0.834	0.879	0.548	0.478	0.422	0.609	0.546	*0.740*	
X_{2e}	0.909	0.925	0.554	0.525	0.441	0.576	0.616	0.516	*0.745*

X_1 = competitive strategy; X_{2a} = financial performance; X_{2b} = customer-related performance; X_{2c} = internal business process-related performance; X_{2d} = learning and growth-related performance; X_{2e} = social and environment-related performance.

The structural model of PLS is used to test the hypotheses. Table 3 presents the path coefficients and the significance of the standardized *b* resulting from the analyses. It shows that competitive strategy (X_1) had a positive and significant influence on all five perspectives of HSP: financial, customer service, internal business process, learning and growth, and social and environmental performances. Therefore, all hypotheses developed in this study were supported.

Table 3. Results from PLS Analysis (Path coefficients, N = 116)

From	To	Path coefficient	*t*-value	*p*-value	Conclusion
X_1	X_{2a}	0.299*	3.592	0.000	Significant
X_1	X_{2b}	0.467*	6.629	0.000	Significant
X_1	X_{2c}	0.276*	3.574	0.000	Significant
X_1	X_{2d}	0.319*	3.641	0.000	Significant
X_1	X_{2e}	0.369*	4.064	0.000	Significant

* Significant at 0.05 level (one-tailed)
X_1 = competitive strategy; X_{2a} = financial performance; X_{2b} = customer-related performance; X_{2c} = internal business process-related performance; X_{2d} = learning and growth-related performance; X_{2e} = social and environment-related performance.

Discussion

The results for Hypothesis H_{1a} indicate a positive and significant relationship between competitive strategy and customer-related performance. Strong competition in the hotel industry has encouraged hotels to seek a competitive strategy that can differentiate them from their competitors (Sandvik & Sandvik, 2003). Without having a unique value for its competitive strategy, a hotel may experience difficulty in attracting customers. For example, the manager of a 4-star hotel in a highly competitive market like Indonesia's wants to offer low room prices. There are a lot of hotel competitors in the same area who offer similar prices (Lovelock *et al.*, 2011). However, apart from offering a low price, the competitors also personalize their customer services, apply unique architecture or interior design to their properties, or create cultural packages for customers staying in their hotels. Strategies like these will attract even the most loyal cus-

tomers away from their (original) place of choice to competitors who are able to provide these different types of value. For a similar or even slightly higher price, customers will prefer the hotel that offers this differentiation. By having more customers, the occupancy rate of the hotel will increase, thus leading to higher income.

The results presented in Table 3 reveal that competitive strategy was positively and significantly associated with hotel customer-related performance. Differentiation strategy in the hotel industry is not based only on a luxurious facility or strategic location. Another important factor that may draw customer attention is service quality (Chen *et al*., 2011). For example, if a customer complains at the check-out session about the view from their room, the differentiator hotel that focuses on good customer service may offer a rebate and upgrade on return. In another case, the manager of a differentiator hotel may prepare a traditional room decoration based on (for example) the guest's birthday or wedding anniversary. A hotel in Bali may offer a special Balinese menu or traditional Balinese massage. These small and personal details of customer service will make customers feel comfortable, and motivate them to return in the future (Kandampully, 2007). This satisfied customer may also engage in positive word-of-mouth recommendations to his/her friends and relatives about the excellent service that he/she enjoyed at the hotel. As a result, more people will acknowledge that hotel and want to try it for themselves. Hence, the differentiation strategy may become a way to enhance a hotel's customer performance.

The results for Hypothesis H_{1c} indicate that competitive strategy was positively and significantly associated with hotels' internal business process-related performance. A hotel needs to have a competitive value as its unique resources (assets) and distinctive skills may distinguish it from those of its competitors (Bharadwaj *et al.,*1993; Porter, 1980; 1985). In the hotel industry, providing service quality is one of the highest skills that attract customers (Chen *et al.*, 2011) and can be a key factor for applying a differentiation strategy. The capability to provide high service quality also represents the ability to meet customer needs and preferences in an accurate and timely manner. In order to be able to perform this capability, a differentiator hotel may apply a comprehensive information system so it can operate more efficiently. For example, a differentiator hotel in Indonesia may employ a comprehensive customer database system because this type of hotel wants to get the latest and most accurate information related to customers so that it can deliver a superior service. By delivering the customer service accurately, the hotel may save time and expense resulting from minimized service errors and customer complaints. As a result, the hotel is able to operate more efficiently; this means an improved internal business process-related performance.

The results presented in Table 3 reveal Hypothesis H_{1e} that hotel competitive strategy in the form of product differentiation was positively and significantly associated with hotel social and environment-related performance. Hotels with a bad social and environmental image resulting from an unhealthy or unsafe working environment find themselves in a situation where employees lose confidence in doing their job and customers lose confidence in using hotel services. Therefore it is argued that the more the hotels apply a differentiation strategy by managing their environment, the more they improve social and environment-related performance. For example, there are hotels in

Indonesia that apply high environmental management standards and collaborate with local people to protect the environment (Cochrane, 2009). These practices offer insight into how hotels use social and environment-related performance as differentiation strategy. By applying these social and environmental practices, hotels gain trust from both employees and customers, leading to a better social and environmental reputation (Miles & Covin, 2000). Consequently, these social and environmental practices may become a competitive strategy for these hotels that distinguish them from other hotels.

From all the results above, it is clear that competitive strategy has a positive and significant influence on the five perspectives of the SBSC. Based on Kaplan and Norton (2001) conceptual theory, this result may suggest that improving social and environmental practices such as by providing training on social/environmental issues may bring to the better employee skill, thus, higher learning and growth performance. Eventually, hotels put more effort into improving employee skills and efficiency of the internal business process to ensure high quality service, leading to greater customer satisfaction (see also Kandampully, 2007; Lovelock *et al.*, 2011). More satisfied customers mean a larger market share and higher occupancy rates, and thus more profit for hotels. Therefore, managers in the hotel industry, especially 3- to 5-star, should place more emphasis on employing this strategy.

Conclusion and Limitation

The present study sought to investigate the relationship between competitive strategy and hotel sustainable performance incorporating each of the five perspectives of the Sustainable Balance Scorecard (SBSC). The results reveal that this relationship was positive and significant. This indicates that as hotels move towards a differentiation strategy, they are likely to have greater sustainable performance. This finding supports previous studies by Bangchokdee (2008) and Amoako-Gyampah & Acquaah (2008) who investigated this relationship in the manufacturing industry. Further, the current study adds one perspective: social and environment to the original four perspectives of BSC.

There were five limitations in this study. The first limitation was that the study did not include the various dimensions of the differentiation strategy in analyzing the relationships between competitive strategy and hotel sustainable performance. The extant literature suggests that the differentiation strategy consists of several dimensions, including brand, quality, innovation, service, technology, skill and experience of the employees (Chenhall & Langfield-Smith, 1998; Kotha & Vadlamani, 1995; Porter, 1980, 1985; Lee & Wu, 2014). Future studies should examine the effects of various dimensions of differentiation strategy on hotel sustainable performance. This may enhance the understanding of whether different dimensions of the differentiation strategy affect hotel sustainable performance differently.

Second, the current study was emphasized only on the relationship between competitive strategy and each perspective of Sustainable Balance Scorecard (SBSC). An ex-

tended study with more comprehensive model which integrates vision, mission, strategy, and sustainable performance will provide deeper insight on the relationship between vision, mission, strategy and sustainable performance.

Third, although the number of responses of one hundred and sixteen (usable response rate of 16.27%) is considered sufficient to conduct the required statistical analyses such as path analysis (Ordinary Least Square) and structural equation modeling (Partial Least Square), the sample size is relatively small. It would be useful to reinforce the present research findings by examining a larger sample in order to be able to better generalize the results.

Fourth, the current study selected star hotels for the sample, particularly 3- to 5-star hotels. Data collected from hotel categories with lower standards – such as non-star hotels that may have different competitive strategies – would allow access to a broader understanding of the topic. Further, the examination of the proposed theoretical model of the current study using data from other service industries such as banking or the health industry would make a significant contribution to the literature.

Finally, the current study was focused on the hotel industry in the developing country of Indonesia. It would be interesting to test this research model in other countries in order to test its applicability and make any necessary modifications.

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