

Do Local Values Affect Performances? The Study of *Tri Hita Karana* Culture on Hotel Performance in Bali

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Abstract—It is argued that culture is one of the important sources of competitive advantage for a firm, which serves as a driver for business performance. By “the collective programming of the mind” of its members, organizational culture can generate similar behavior among members, and create harmony among people of different levels or different backgrounds in an organization. For Bali and its people, the philosophy and/or values that guide people to live harmoniously with others as well their surrounding is called *Tri Hita Karana*. This work is directed to study the influence of these values as the organizational culture of hotels in Bali on their performances by the mediation of dynamic capabilities. Applying structural equation modeling, the *Tri Hita Karana* culture and hotel performances are positioned as exogenous and endogenous latents, respectively. This study reveals that the *Tri Hita Karana* culture does not show a direct significant effect on performances; on the contrary, dynamic capabilities act as a mediating variable. However, by the mediation of hotels’ capabilities to face the industry competition, *Tri Hita Karana* is proven to significantly affect hotel performances in Bali.

Index Terms—Bali, culture, hotel performance, *Tri Hita Karana*

I. INTRODUCTION

For quite some time hotels have struggled with cost-effectiveness and profitability since the massive development of the hotel industry around the globe, especially in Bali, created little room to get enough customers for breaking-even. Structurally, hotels are trying to preserve their dominant position in the competitive market, yet such position has been eroding. In terms of competitive advantage, based on a study by Holverson and Revaz, hotels have several strengths evidenced such as size as a popular-powerful concept, brand fame, economies of scale, advanced technology including e-commerce dominance, rich knowledge readily available for transfer among members, wide and reliable product and service range, global Business-to-Business (B2B) relationships, sophisticated Customer Relation Management (CRM) as well as well-established global Human Resources Management (HRM) [1].

Bali is one of the popular tourist destinations in Indonesia, thus attracted more and more investors to build new tourism accommodations, especially hotel rooms. In 2011, the Indonesian Ministry of Culture and Tourism and Udayana University

held a research on the availability of hotel rooms, villas, and cottages in Bali, which showed that the supply of hotel rooms has outnumbered its demand by 9,800 rooms. The study also stated that the number of hotel rooms in Bali has reached 55,000 rooms that is already sufficient to meet the demand of tourists until 2015. As a well-known tourist destination, Bali tends to lock the excess of hotels room situation that pushes the hotel competition to a fierce level.

This research attempts to identify internal resources that influence the success of hotel industry in Bali, specifically the *Tri Hita Karana* (THK) culture and capabilities of hotels to adapt to the rapid change of their environment as well as to seek the proper solution for tight competition. The words *Tri Hita Karana* mean that there are three sources of prosperity. *Tri* means three, *hita* means prosperity, and *karana* means reasons or causes. This cosmological philosophy of life has proven to be a powerful concept in Bali that has ensured sustainability of diverse culture and the environment, as well as peaceful living among people with different backgrounds, even in the midst of erosion caused by population pressure, globalization, and homogenization. Eisenhardt and Martin [2] found that dynamic capabilities are the capabilities of a firm to purposefully alter the resource and capability base owned by the firm through creating, extending, and modifying them [3]. Resource and capability obtained by the firm include both tangible and intangible ones: organizational skills, human assets (resources), along with functional competences owned by the firm, which has control or access on a preferential basis [2]–[4].

The research questions in this paper cover two issues. Firstly, does THK culture influence hotel performance directly? Secondly, is THK culture’s influence on hotel performance mediated by the capabilities of hotel industries to react to the rapid changes of their environment? In short, this study attempts to identify the essential factors influencing the success of the hotel industry and how they can survive and grow, specifically in the Bali market. These factors include stretching factors from the internal resource of the organization, specifically THK culture. Furthermore, this research takes consideration of intense competition in the hotel industry,

which leads to investigate the role of THK culture and dynamic capabilities in hotel organization that might influence hotel performance in Bali.

II. LITERATURE REVIEW

A. *The Tri Hita Karana Culture*

In Balinese culture, there are principles of formulated doctrine incorporating ancient concepts that stresses the three relationships in human life to maintain harmony, named *Tri Hita Karana* (THK) Culture. THK consists of: the relationship between humankind and God (*parahyangan*), the relationship among human beings (*pawongan*), and the relationship between human beings and the natural environment (*palemahan*). When harmony between the three relationships is maintained, then prosperity will expectedly be achieved [5]. This cosmological philosophy of life has proven to be a powerful concept that has ensured sustainability of diverse culture and the environment in Bali, as well as peaceful living among people with different backgrounds, even in the midst of erosion caused by population pressure, globalization, and homogenization.

In terms of business activity implementation, Windia stated that the *parahyangan* concept is applied by giving offerings to God, so that business activities are not only focused on one purpose only, namely maximum profit, but instead must be a form of awareness of the business that any activities undertaken is essentially controlled by God [6]. Similarly, in the implementation of *pawongan* principal that is associated with hotel business activity, basically the hotel leaders are human beings who are God's creatures and are no different when compared to other human beings. Regarding the *palemahan* aspect, hotel businesses are also expected to be able to create a balanced relationship with the environment. Nonetheless, to keep harmony or balance by not exploiting the environment excessively in order not to jeopardize the continuity of the business in the future should always be their main consideration when executing business strategies ([7]; Windia [6]).

Hence, THK culture has a strategic value in Bali tourism, especially hotel management, which is part of the cultural identity of employees, a guideline of healthy competition among hotels, as well as togetherness identity with the community. Therefore, it is necessary to look at THK culture's application related to strategy formulation and implementation in the hotel industry to gain a competitive advantage as well as organizational performance.

B. *Dynamic Capabilities*

This essay adapts dynamic capabilities measurement based on the study by Wang and Ahmed [8] and Breznik and Lahovnik [9] who investigated the effects of firm dynamic capabilities on performance in the rapidly changing environment. They were chosen since both studies have a similar characteristic with this research. First, both studies set up dimensions within the concept of dynamic capabilities including the ability of an organization for integrating, building, and reconfiguring both internal and external competencies in order to address

the rapidly changing environment [4]. Second, the unit of analysis used in this study falls into the organization level. This study argues that dynamic capabilities might be generally available beyond particular functional areas. They rather reside on the whole organizational fabric. This is consistent with the argument proposed by Teece that dynamic capabilities are firm-level idiosyncratic routines [4].

Market responsiveness can generally be defined as the ability of a company to respond timely, effectively, and efficiently to customers' needs, competitive threats, and changes in the market and business environment. On the other side, organizational learning is a group's ability in learning from new experience combined with past experience and knowledge to improve product and service. On the other hand, coordination refers to the allocation of resources (staff, skill, and process within the organization) to improve staff communication, interaction, and integration. Moreover, integration is the ability to merge a range of competences or to pull up all crucial activities together to move coherently to meet any changing environment [10].

C. *Hotel Performances*

Frequently, both managers and researchers must give an empirical answer regarding the determinants that influence a hotel organization's performance. In literature, there are two ways to achieve this: first is the external orientation that is focusing on sectors and markets and seeking to understand how their structure influences productivity and customer preferences or relative position against rivals; the second orientation is focusing on the internal organization, looking for the determinants of performance in some strategic resources (HRM, innovation capabilities, etc.) or functional choices (marketing, operational processes, etc.) [11]. The strategic resource affecting hotel firm performance in this study is harmonious organizational culture, which aims to strengthen the dynamic capabilities of the firm that can positively influence the firm performance.

This study uses the performance indicators by Akbaba [12], Phillips and Louveries [13] as well as Balan and Lindsay [14] to measure the organizational performance in hotels. Table I provides a framework that integrates new management accounting theories with relevant operations management concepts. These indicators combine result measures (competitiveness and financial performance), which reflect the success of an organization's chosen strategy with determinant measures (quality of service, resource utilization, flexibility, and innovation), which focus on those activities and factors necessary to achieve the organization's strategic goals.

III. RESEARCH METHODOLOGY

The research model (Figure 1) is established to capture the growth and competitiveness amongst local/independent hotels owned by Balinese people, which compete not only with fellow national chain hotels but also with global chain hotels in Bali. As Bali is an attractive tourist destination in recent years, many new entries of chain hotels bring intense pressure of competition. Hence, the model of this study will investigate

TABLE I
OPERATIONALIZATION OF PERFORMANCE

Dimension	Indicators
Financial Performance	Net profit and gross profit attained
	Room occupancy
	Total revenue achieved
	Total sales
Non-financial Performance	Business growth
	Guest evaluations of attitude, behavior, and expertise of employees
	Guest evaluations of design facilities renovations and maintenance
	Guest evaluations of consistency of products and services
Employee turnover rate, Employee welfare, and satisfaction	

Sources: [12]–[14]

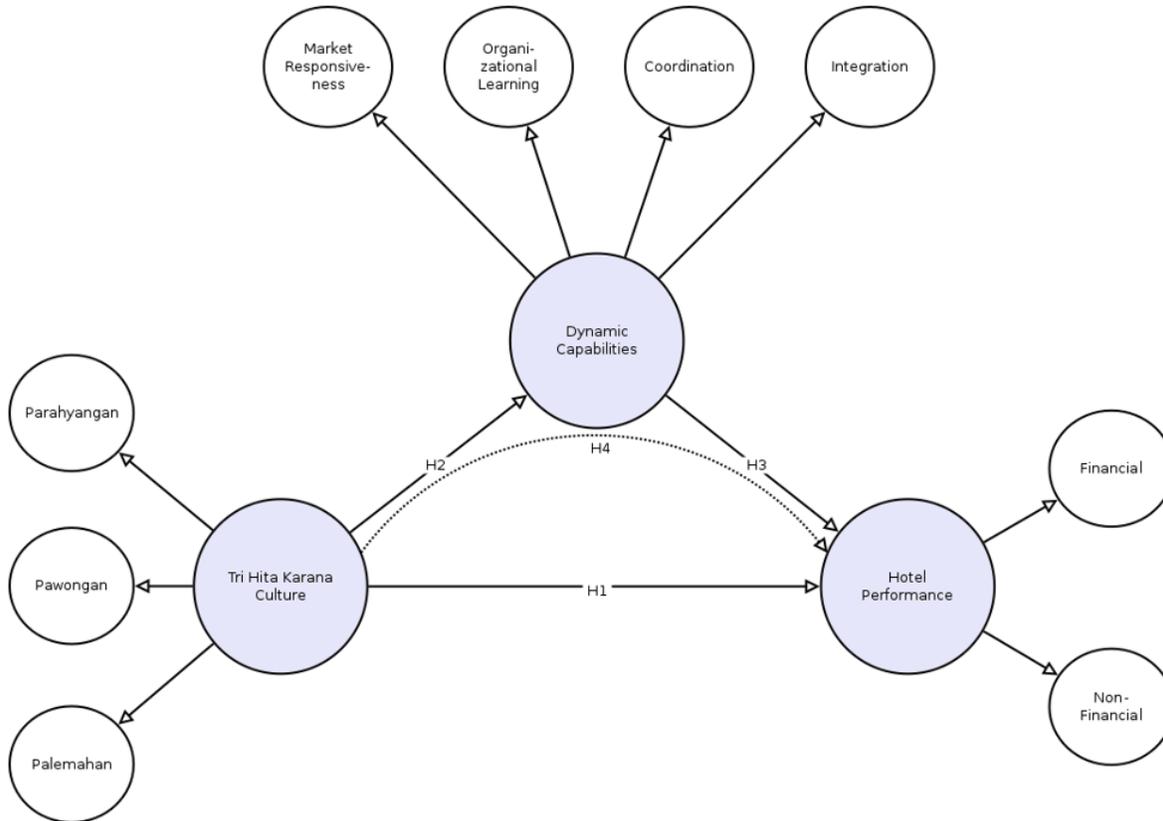


Fig. 1. The Conceptual model.

the role of THK culture on the dynamic capabilities of hotel management to win the competition and to improve the hotel’s performance. Therefore, based on what has been discussed, these hypotheses are proposed:

- 1) **H1.** *Tri Hita Karana* Culture has a positive and significant impact on hotel performance
- 2) **H2.** *Tri Hita Karana* Culture has a positive and significant impact on dynamic capabilities
- 3) **H3.** Dynamic capabilities have a positive and significant impact on hotel performance
- 4) **H4.** The impact of *Tri Hita Karana* Culture on hotel performance is mediated by dynamic capabilities in the hotel industry.

The participants in this research were mid-level hotel executives with at least 3 years of working experience. This criterion was built based on some considerations such as: 1) to ensure that the hotel executives have understood Balinese Culture, especially those matters related to THK culture along with its implementation in their organization; 2) to ensure that the hotel executives have thoroughly understood their roles, duties, and responsibilities in the organization.

Based on the aims, an instrument was developed referring to previous works to identify items for each construct involved in Figure 1. Prior to use, a pilot study was conducted to test the reliability of each construct and validities of the indicators. The questionnaire was designed by implementing five-level Likert

TABLE II
THE ASSESSMENT OF CONSTRUCTS RELIABILITIES

Constructs	Constructs		Number of Items	Number of Valid Items	Cronbach- α
	eline1-2 Second Order	First Order			
<i>Tri Hita Karana</i>		<i>Parahyangan</i>	6	6	0.837
		<i>Pawongan</i>	6	5	0.743
		<i>Palemahan</i>	6	6	0.890
Dynamic Capabilities		Market Responsiveness	4	3	0.811
		Organizational Learning	4	4	0.812
		Coordination	4	3	0.810
		Integration	4	3	0.857
Hotel Performance		Financial Performance	5	4	0.832
		Non-Financial Performance	5	5	0.890

Sources: Own calculation (2018)

scales where 1 represents the most negative and 5 represents the most positive respondents' perception. During May-August 2017, 125 mid-level hotel executives in Bali were purposively chosen as respondents of this work.

Previous studies (i.e. Bourgeois [15]; Hambrick [16]) have used managers'/executives' perceptions and some also proposed that environmental scanning along with perception are essential to the strategy-making process. Firms undertake actions to an environment as interpreted by their management [17] and "management responds only to what it perceives; those environmental conditions that are not noticed do not affect management's decisions and actions" (pp. 249). Hence, managers'/executives' cognition on the issues in question can determine the strategies that they adopt. Besides the environment, executives' perceptions on the organization are also crucial in formulating a pursued strategy [17]. Based on the above arguments, thus, the use of executives' perceptions is considered relevant to this research.

IV. RESULTS

A. Participant Profiles

From 125 questionnaires administered, we found 8 questionnaires were not completely filled and were dropped from the subsequent analysis. Descriptively, 80.3 percent of the respondents (117 middle-level executives) are male; 19.2 percent, 48.5 percent, and 32.3 percent, respectively, are middle-level executives at three, four, and five-star hotels. More than half of these hotels (54.7 percent), along with their branches, have been operating for 5 years or more; 26.5 percent, 12.8 percent, 8.5 percent, and 6.9 percent of these hotels have been operating for 5 to 10 years, 10 to 15 years, 15 to 20 years, and more than 20 years, respectively.

B. The Quality of Instrument

Prior to data collection, the questionnaire for this work was tested by examining its item validity and reliability. Noting that all of the items are a reflection of a respective construct, referring to Churchill [18], an item is declared valid as a reflective indicator if its correlation value is at least 0.30. Furthermore, internal consistency that is represented by a construct's Alpha has to be bigger than 0.60 as a threshold value [19]. By using SPSS 21 as the analysis software, we

examined the quality of constructs involved in the model. The result are shown in Table II.

After eliminating 5 invalid items out of 44 items (approximately 11.4 percent), we got 9 first-order constructs to have Cronbach's α exceed 0.60, as is required. From this viewpoint, after eliminating all invalid items, the questionnaire was used to collect data. We used SmartPLS 3.2.3 from Ringle [20] to analyze the model in figure 1.

C. The Outer Model Assessment

Basically, the structural equation model (SEM) has two sub-models, i.e. outer or measurement model, and inner or structural model. The outer model describes the causal relationship amongst a construct and its indicators, whilst the inner model elaborates the causal relationship between constructs. For the outer model, the assessment of the relationship amongst construct and its items is done by evaluating the individual outer loading of items, checking the internal consistency and convergent validity of construct through its composite reliability (CR) and its average variance extracted (AVE) values [21]. A construct is said to have sufficient internal consistency and validity if its $CR \geq 0.708$ [20] and its $AVE \geq 0.50$ [20], [21]. In addition, referring to Hair, et al. [19], the outer loading of an item has to be significant and its value ≥ 0.60 . Examining the output of SmartPLS for the outer/measurement model, we got one reflective manifest of *Pawongan*, "the hotels are perceived to have paid attention to employees' health and education", has an outer loading value as much as 0.451, less than 0.60 as is required. We decided to drop this item and did a reanalysis. The final result for the outer model is shown in Table III.

Referring to measures in Table III, it is clear that all of the first order constructs were consistent and reliable to be further analyzed. *Palemahan*, the concept that underlined harmonious relationship between human and their surroundings, has the greatest CR-value and AVE compared to two other dimensions in THK. Meanwhile, integration and non-financial dimension are dominant over the other dimensions in dynamic capabilities and hotel performance, respectively.

D. The Inner Model Assessment

The assessment of the inner model that represents causal relationship amongst exogenous and endogenous constructs was

TABLE III
THE ASSESSMENT OF OUTER MODEL

First Order Construct	Measure		
	Cronbach- α	CR-Value	AVE
<i>Parahyangan</i>	0.846	0.886	0.566
<i>Pawongan</i>	0.790	0.865	0.617
<i>Palemahan</i>	0.891	0.917	0.649
Market Responsiveness	0.811	0.888	0.726
Organisational Learning	0.813	0.877	0.641
Coordination	0.812	0.889	0.728
Integration	0.858	0.914	0.779
Financial Performance	0.836	0.890	0.669
Non-Financial Performance	0.891	0.920	0.697

Sources: Own calculation (2018)

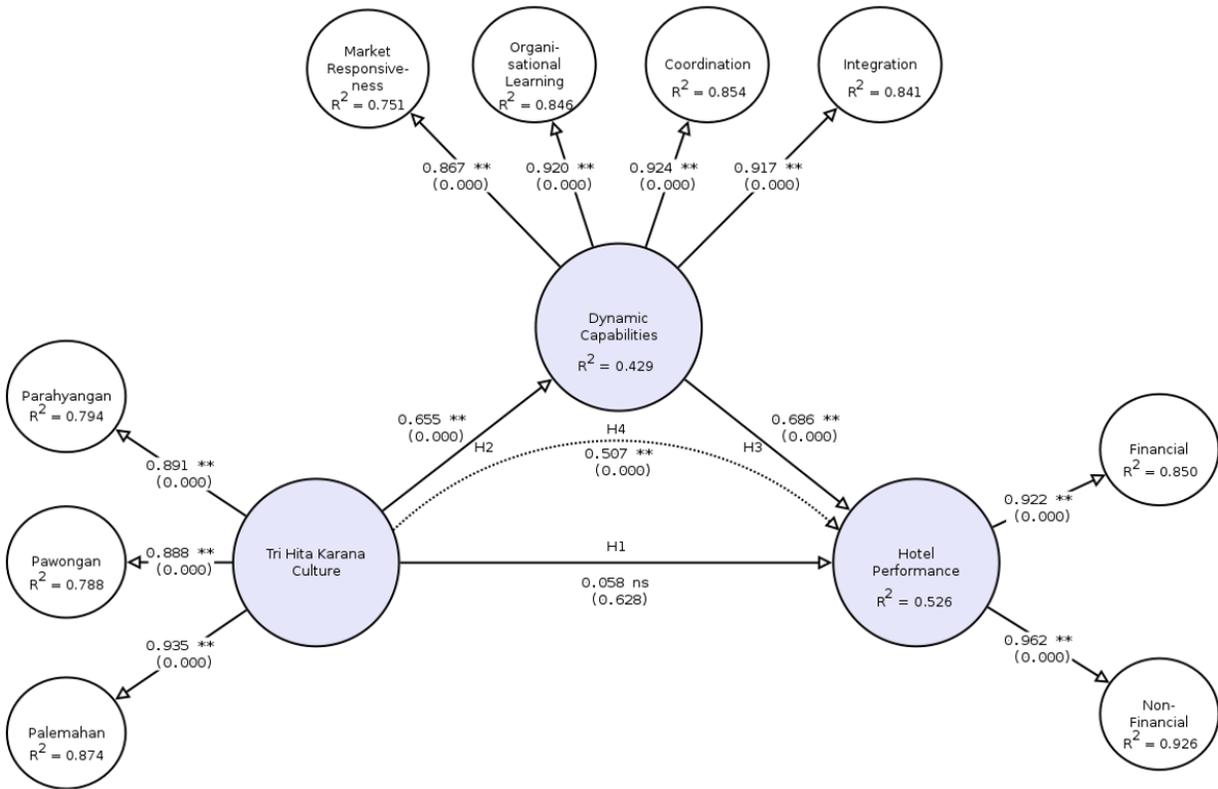


Fig. 2. The coefficients among paths and their significances.

conducted by evaluating the path values and their corresponding significances, the coefficients of determination (R^2 s) for endogenous constructs, as well as the global criterion for the model [21]. By applying bootstrap procedure in SmartPLS that was set to run for 5000 sub-samples, we estimated those parameters. The result is depicted in figure 2.

Figure 2 shows all paths of causal relationship amongst first and second order constructs are significant. For THK culture, the greatest path value is demonstrated by *Palemahan*, followed by *Parahayangan* and *Pawongan*. For dynamic capabilities as the mediator, the dominant value is showed by coordination, followed by organizational learning, integration, and market responsiveness. Finally, acts as the endogenous latent, the path value from hotel performance is slightly bigger

on non-financial compared to financial aspects.

Furthermore, as suggested by Chin, the R^2 value for each endogenous construct has to be evaluated to assess its quality [22]. The threshold as much as 0.19, 0.33, and 0.67 is required to declare if the construct has weak, moderate, or substantial quality; respectively. By applying these criteria, we found all of the first order constructs have substantial quality whilst capabilities as well as hotel performance have moderate quality. Overall, the standardized root mean residual (SRMR) of the model is 0.098. According to Henseler [23] and Henseler, Ringle, Sinkovics [24], the model is categorized as a good fit if its SRMR is less than 0.10. Noting the SRMR for our model as much as 0.098, we concluded it has successfully captured the phenomena studied.

V. DISCUSSION

This work indicates *Tri Hita Karana*-based organizational culture of hotels operating in Bali has an insignificant direct effect on their performances. This finding suggests H1 cannot be accepted. The results of this study are supported by other studies, namely: Arogyaswamy and Byles [25]; Lewis [26]; Lim [27] and Chan, Shaffer, and Snape [28]. Arogyaswamy and Byles who asserted that culture is not always crucial in determining performance [25]. Similarly, Siehl and Martin explained that they are very unsure if the organizational culture becomes the key to the success of the company's financial performance [29]. An overly strong organizational culture often drives organizations to be egocentric and inward-looking as if they were the best company, thus tends to underestimate and reluctantly recognize competitors' superiority [30] and quite often becoming an obstacle to the performance. According to Robbins and Judge, the causal relationship between organizational culture and organizational performance is modest so that other variables need to clarify the extent of culture's contribution to corporate performance [31].

In addition, we argue that organizational culture of hotels in Bali is insignificant to their performance because this local value-based culture lies in the domain of values, not in the domain of action, so that THK-based culture is not effective enough to directly affect the organizational performance of hotels in Bali, at least for a short-time reference. The THK values need to be transformed into a strategy as well as an action plan to make it able to carry financial benefits for hotels and making hotels ahead of their competitors. In order to carry THK culture into the domain of actions, the role of leadership is crucially needed.

This work also recognized that THK culture has a significant impact on dynamic capabilities. This result is in line with past research by Castiaux [32], Svetlačić [33] and Amui, Jabbour, Kann, and Jabour [34] who highlighted on how an organization develops their dynamic capabilities to meet the challenge on sustainable development (the aim of THK culture) as a way to compete in the changing environment. For the last two decades, the integration of sustainable development and organizational strategies has become a new pressure on the shoulders of organizations [32]. The requirement of being sustainable especially on the dynamic capabilities of organizations is considered to be one of the solutions to remain competitive in a changing environment. In addition, a study by Hong, Kianto, and Kylaheiko [35] pointed out that culture is important in knowledge creation, because first, "a good part of our knowledge has been learned as culture from older generations"; and second, "the tacit part of knowledge mostly consists of culture". Referring to both arguments, it is clear that THK values as an organizational culture for hotels in Bali can directly affect the capabilities of hotels internally through better organizational learning, team work's coordination, and integration, as well as externally, to respond to the tourism market properly and timely.

In terms of *palemahan*, there is a growing number of hotels

in Bali that are also putting their focus on promoting the sustainable development of Bali based on the THK culture through improvement of environmental sanitation, conservation, and beauty along with the creation of environmental health [36]. They believe that they can gain a significant recognition from the growing market for sustainable services if they successfully conserve and maintain the environment. Since the concept of sustainable tourism has a future, therefore such recognition would also carry financial benefits for participating hotels. By combining it with smart entrepreneurship, strong courage, and knowledge on how to translate best practices in new business offerings, hotels in Bali would be able to compete with other tourist destinations. Thus, based on the above description, it could be recognized that *palemahan* as one of the THK cultural factors have a positive influence on dynamic capabilities of the organization as key determinants for the adaptation of organizations to continuously be able to compete in a changing environment.

In the *parahyangan* context, the Balinese are urging to comprehend the cultural context in their everyday life such as honoring along with worshipping natural and elemental forces like air, sky, water, rivers, mountains, plants, and others; as well as by showing hospitality and cultivating compassion towards fellow human beings. The *parahyangan* aspect is related to mental endurance and moral virtue in facing daily challenges. To maintain a harmonious relationship with God is one effort that humans can attempt as an effort to achieve a good quality of life. This effort includes religious activities, emotions, facilities, and communities. This religious system would be reflected on human behavior to fellow human beings and nature, for example in providing services based on honesty, compassion, loving, kindness, heartiness, patience, hospitality, generosity, that is called *sewaka* (human worshipping) based on *prema* (divine love).

In relation to *pawongan* in the Bali hotel industry, Peters and Wardana stated that, to create harmony within the social environment (*pawongan*) to reach sustainable development, guidelines of behaviors and work ethics should be established based on happiness (*suka*) and sadness (*duka*) [36]. By practicing these guidelines, people inside the organization can live harmoniously and assist each other in carrying out their duties and responsibilities successfully. For example, a superior might assign tasks to their subordinates as it is their obligation and as in otherwise, the subordinates should not perceive the tasks given as personal tasks but as tasks from the organization. In this case, THK culture emphasizes that the entire relationship should be based on pure intention, truth, and sense of responsibility. It could only be realized if every personnel in the organization shares the same insight and vision about the significance of work.

The change in organizations' strategic thinking would not solely question the organizations' resource portfolio, but also the way the organizations adapt to adjust requirements that are coming from society, particularly as those requirements make the existing business model difficult to be sustained [32]. Therefore, organizations have to enact their dynamic

capabilities to improve or even to renew their resource base. What is more, they are urged to re-consider their innovation process, i.e. the procedures in building new competencies and resources. This innovation needs to integrate social, environmental, and financial factors. Thus, the concept of sustainability is aligned with *Tri Hita Karana* culture, namely *parahyangan*, *pawongan*, and *palemahan* that takes into account the harmony between humans and God, humans with fellow humans, and humans and the environment. Thus, these findings suggest that H2 is accepted.

Furthermore, this study has shown that dynamic capabilities have a positively influence on hotel performance. This finding is in line with the previous study by Kogut and Zander that emphasized dynamic capabilities as a part of improvement on strategy resources by enabling firms to gain business opportunities, competitive advantages that result on firm performance [37]. Furthermore, a study conducted by Kars-Unluoglu observed the suitability of dynamic capabilities as a firm-level resource on the volatile environment of six mature, medium-sized companies such as manufacturing, automotive, and hotel has stated that companies that invest in incremental dynamic capabilities and enact a stable environment could successfully coexist in the same industry with a competitor that enacts a dynamic environment [38]. The empirical findings suggest that within each industry (i.e., external environment) there is an “envelope” of different levels of dynamic capabilities that is allowed for competitive parity and/or competitive advantage.

Similarly, Hult, Ketchen, and Slater who specifically conducted research on market orientation have recognized the positive relationship between dynamic capabilities and firm performance by highlighting the role of market responsiveness [39]. Moreover, the important role of market responsiveness is also acknowledged as an enabler to let the firm respond to business competition and customer demand through firm capabilities under uncertain situations which would result in a positive firm performance. What is more, market responsiveness is crucial to hotels, as they need to provide rapid services as a response to new market queries, and focus on the ability of the organization to gain market satisfaction and the ability to develop new markets any time.

On the other hand, organizational learning and hotel management will encourage the ability of an organization to learn from past experience and stimulate brainstorming among team members to acquire new knowledge. The process includes the use and the application of both internal and external information to improve processes, products, or services. To achieve efficient and effective coordination, the management would need to encourage matching between staff, skill, as well as the process within the organization and dedicate proper allocation of resources to improve the interaction and communication among staffs. At last, integration inside the organization that focus on good cooperation would likely enable efficient and effective management in a changing situation.

As argued by Robbins and Judge [31], our work also proves that dynamic capabilities of the hotel in competing and winning hypercompetition are needed. Through its capabilities

to respond to tourists’ preferences, as well as create good intra-departmental coordination and integration, and organizational learning, THK culture significantly influences hotel’s performance with the mediation of dynamic capabilities. This finding concludes that H3 and H4 are accepted.

VI. CONCLUSION

Through the gathering of supporting evidence and analyzing relevant data, this research has highlighted the crucial role of dynamic capabilities as a mediator on the relationship between THK culture and performance. The development of dynamic capabilities, innovation activities, and efficient work performance require intensive, communicative, and multi-dimensional cultural interaction within the organization and between the organization and its environment [35]. Dynamic capabilities are established through cultural and communicative interactions within organizations’ daily activities and routines, not solely through the macro-micro political and social interactions [40]. Furthermore, the prominence of formal (knowledge codification and deliberate learning) and informal (ideology on humanistic work and processes) factors indicate that to thoroughly comprehend the establishment of new knowledge as well as capabilities, the structures micro-level processes and socio-cultural should be considered more comprehensively.

This study is expected to provide a comparison between the chain and local hotels, and implications on their competitive strategies. Moreover, the outcome of this research is expected to assist leaders and managers in contributing thoughts, ideas, and strategies to improve their hotel performance.

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