

# Reinventing Service Climate in Hotels by the Role of Innovative Environment and Dynamic Capability

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## ABSTRACT

Rebuilding the post-COVID-19 damaged hospitality business has revealed myriad problems in organizational management. The hotel industry is having difficulty re-creating, maintaining, or even strengthening the service climate after the turbulence in the industry workforce caused by the pandemic. In this study, the authors addressed this neglected issue by proposing that external forces will be the best means of reestablishing the service climate in the resilient hotel businesses. An innovation-supporting environment and dynamic capability can be potential mediators of this relationship. Using the experience of Indonesian hotels, the authors explored these relationships by obtaining data from 329 managers from 77 hotels and conducting a path analysis using partial-least-square structural-equation modelling. The findings support all direct and mediating relationships, in addition to the external forces to service climate. Future studies can enhance global understanding of these issues by presenting a cross-country experience in a confirmatory analysis.

## KEYWORDS

Hotel Industry, External Forces, Innovative Environment, Dynamic Capability, Service Climate, Organizational Resilience

## INTRODUCTION

The COVID-19 pandemic has provided fresh evidence of the external turbulence that has impacted the worldwide labor-intensive tourism sector. Because the hospitality business relies on physical (i.e., in-person) interactions, the pandemic almost completely stopped any economic turnaround, a fact reflected by the grim condition of the mass layoff of more than 4 million people, according to American Hotel & Lodging Association (2023). The World Travel and Tourism Council (2021) reported a \$4.5 trillion total loss worldwide. The same experience occurred in, with nearly 1 million workers being furloughed. As the global health environment improves, tourism is again flourishing, but it is facing daunting tasks, one of which is restarting its hospitality function in the formal sectors of the hotel industry.

DOI: 10.4018/IJABIM.361581

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Layoffs and furloughs almost completely stopped the business routines in hotels during the pandemic. The travels of international tourists after borders reopened increased by 900% relative to before the pandemic. A report from the Indonesian Tourism Ministry (2022) indicated a consumer optimism rate of 86%, an increase in digital nomads, and flourishing Small Medium Enterprises (SMEs). COVID-19 also pushed the rise of *revenge tourism*—the tendency to travel, to release the constraints after lockdown—as observed in a 46% rise of hotel occupancy in 2022 relative to 2021 (World Tourism Organization, 2023). Syariati et al. (2023) pointed to the tendency to move toward green hotel initiatives after the pandemic, including a launching by the Indonesian government of cleanliness, hygiene, sanitary, and environment (CHSE) certification, to accommodate Indonesian hotel transition policies. These government efforts, health measures, and economic booms have led to an urgent need to reinvent the service climate after the temporary closure of hotels. These changes are prerequisites to the new hotel management as investigated in this study.

The service climate, the capacity to present a standardized service, has to be re-created as job reopening during economic recovery necessitates the hotel management to rebuild the standards. Hotels urgently need an excellent service climate because it affects the delivery of quality service, customer satisfaction, and employee well-being. Employees' shared perceptions of a hotel's policies, practices, and procedures are the foundation of hospitality offerings. Service climate, first coined by Schneider (1980), appreciates the nature of the service industry, which mainly deals with humans instead of machines (Grönroos, 2006; Shostack, 1977). Thus, the service industry, to provide excellent service established in the organizational routines, must create a strong sense of belonging and appreciation. This notion is consistent with the service-dominant logic (Vargo & Lusch, 2004) that characterizes management systems of the hospitality business.

The issue of restarting a service climate after a crisis, although critical in nonmanufacturing firms, is still underrepresented. In this study, we fill this gap by arguing for the dire needs of critical organizational prerequisites, that is, dynamic capability and an innovative environment. Evidence has emerged from the approaches taken by some chain hotels. According to the Hotel Business (2023), Marriott International reported a 47% rise in occupancy rates by the end of 2021, which was largely driven by its swift adoption of contactless technologies and enhanced cleaning protocols, which they aligned with dynamic capability initiatives (i.e., sensing market needs and reconfiguring operations). The Marriot International (2023) with their chained groups, Accor Hotel group, leveraged its innovation capabilities to introduce the “ALLSAFE” label, a rigorous health and safety certification, and implemented digital solutions for guest services, which in turn boosted customer confidence, with a reported 20% increase in bookings from safety-conscious travelers by mid-2022. In addition, a 2021 study by McKinsey (2023) found that hotels in China that implemented digital and contactless innovations, along with agile operational adjustments, recovered their revenue to 85% of prepandemic levels within 6 months of reopening. These hotels noted a substantial uptick in customer satisfaction, with dynamic capabilities enabling the rapid addressing of issues to meet shifting consumer preferences for hygiene and convenience.

In this study, we investigated these service climate and strategic innovation issues on the basis of the experiences of the hotel industry in Indonesia. We hypothesized that establishing or reestablishing a service climate requires a foundation of adaptable external management, sufficient support for innovation, and dynamic capability. These constructs are subject to external forces in the form of customer bargaining, rivalry, and potential new entrants to the industry. The *force factors*, as established by Michael F. Porter (1979), provide a basis to manage the external environment actively because they may lead to specific changes in the internal organization. Furthermore, the COVID-19 pandemic left a hard-to-erase scar in the management process of the hospitality business. This global health problem has made Porter's conception of strategic management (Hoskisson et al., 1999) relevant again, because it changes the landscape of the hospitality business, including how to reinvent innovation, build a dynamic environment, and redesign the service climate. It is well understood that innovation is not a one-night-stand result. It is a messy process with messy outcomes. This study highlights a lack of

research investigating the predictors of dynamic capability and service climate in the hotel industry in a path model, thus presenting the case for further comprehension in the hospitality business.

We begin this article by highlighting the importance of this study and its nascent takes on the subjects. In the remainder of the article, we elaborate on the theoretical underpinnings of this investigation. In discussing the research method, we present how the study is conducted with the highlights by the steps of statistical procedures. In the “Results” section we present the findings and indicate whether the hypotheses were supported. All data are discussed, and a conclusion is presented.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The *dynamic capability* of a hospitality business refers to its ability to adapt and respond to changes in the external environment and to continually improve its resources and capabilities to maintain a competitive advantage (Vuchkovski et al., 2023). Hospitality businesses must constantly innovate and develop new service offerings to meet changing customer demands and expectations. This may involve developing new products, services, or experiences that differentiate the business from its competitors (Lima Rua et al., 2023). The hospitality industry is constantly evolving, and new technologies are always emerging; thus there is an urgent need to adapt to these changes and adopt new technologies that enhance the customer experience, streamline operations, and improve efficiency (Potjanajaruwit, 2023).

*Innovation* involves continually improving existing services and developing new ones (Park et al., 2023). To foster a culture of innovation, hotels can encourage employees to share ideas and suggestions for improving service delivery, and recognize and reward employees for their innovative contributions (Alfonsius et al., 2021; Valença et al., 2020). Teamwork and collaboration are essential for creating a dynamic service climate (Hariandja & Sartika, 2022; Pereira-Moliner et al., 2021; Ziyae et al., 2021). Hotels can foster teamwork by encouraging socialization, communication, and collaboration among employees; promoting shared responsibility for service delivery; and providing opportunities for team-building activities (Punjaisri et al., 2009).

The customer experience is the cornerstone of service delivery in the hotel industry (Bonfanti et al., 2021). To build a dynamic service climate, hotels should focus on understanding customers’ needs and preferences, providing personalized service, and continuously improving the customer’s experience (Guo et al., 2017; Smith et al., 1999; Suksutdhi & Boonyanmethaporn, 2022; Wu & Liang, 2009). To enhance the customer experience and improve service delivery, hotels can invest in customer relationship management systems, mobile applications, and social media platforms. Building a dynamic service climate in the hotel industry requires a commitment to continuous improvement, innovation, and flexibility for high-quality service delivery and long-term success (Foroughi et al., 2019; Zailani et al., 2016).

In order to remain competitive, hotel organizations may need innovation to differentiate themselves from new entrants and maintain their market share (Karttunen et al., 2021), as buyers in the hotel industry increasingly demand more innovative and personalized experiences (Richard, 2017). Intense competition in the hotel industry can drive innovation as organizations look for ways to differentiate themselves. However, it can also create a challenging environment for innovation because organizations may need to balance the need for or cost of innovation with profitability (Huang & Tsaih, 2022; Razumova et al., 2015). Thus, the pressure of externalities may drive hotels to allocate specific investments toward the creation of an innovative environment.

An external-focused framework can significantly affect the dynamic capability of hotel management (Chen & Lien, 2013; Odwaro et al., 2022; Ramanathan et al., 2017). External forces include regulatory changes, technological advancements, economic conditions, demographic trends, and cultural shifts (Kankaew, 2016). Regulatory changes, for example, may require hotel management to adapt their operations to comply with new laws and regulations (Canhoto & Wei, 2021). Technological advancements may create new opportunities for hotel management to improve

their processes and customer experiences (Amar et al., 2021; Liu & Yang, 2021). The external force factors, as defined by Porter's Five Forces framework, can potentially affect the service climate of hotel organizations (De Dreu et al., 2001; Lin et al., 2021; Ray et al., 2004; Sachdev & Verma, 2004). Furthermore, there is a notable absence of previous research connecting the external forces and service climate. This is intriguing because the internal management of hotels is highly dependent on their anticipation of and response to these external force factors. A service climate that aligns with changing guest expectations and industry trends can develop strategies to respond to them and maintain a competitive advantage over their guests. These past articles serve as the basis for constructing the hypotheses:

**Hypothesis 1:** The pressure of external forces will increase the need for an innovative environment.

**Hypothesis 2:** The external forces will positively affect the dynamic capability of service firms.

**Hypothesis 3:** The external forces will positively affect hotels' service climate.

Innovation is as crucial for the hospitality industry, hotels in particular, as it is for any other industry. Because of the hotel industry's competitive nature, hotels that can innovate and adapt to changing customer needs and preferences are more likely to succeed in the market (Jawabreh, 2020; Nieves et al., 2014, 2016). Innovation can lead to increased operational efficiency, cost savings, and the creation of new revenue streams (Valença et al., 2020). For example, hotels can implement new technologies, such as mobile check-in and keyless room entry; offer unique experiences, such as rooftop bars or wellness services; and adopt intelligent energy management systems. An innovation-supporting environment can be foundational for a hotel's dynamic capability by enabling the hotel to adapt to changing market conditions and customer needs (Piening & Salge, 2015). These conversations led us to believe that an innovative environment will be foundational for creating dynamic capability as in the following hypotheses:

**Hypothesis 4:** An innovation-supporting environment will positively affect hotels' dynamic capability

**Hypothesis 5:** An innovation-supporting environment will positively affect an excellent service climate.

**Hypothesis 6:** Hotels' dynamic capability will positively increase their service climate.

Because an organization with dynamic capability will also be adaptive, it could also benefit from the creation of an innovation-supporting environment. A customer-centric service climate can create a competitive advantage for hotels (Kandampully & Solnet, 2020; Lin et al., 2021; Palacios-Marqués et al., 2019), leading to higher customer satisfaction and loyalty. Dynamic capabilities are built through learning processes, because they lead organizations to innovate more effectively through organizational routines, processes, and knowledge accumulation to create a foundation for continuous innovation (Zollo & Winter, 2002). They will necessitate the organizational needs for an innovative environment (Eisenhardt & Martin, 2000). Knowledge integration and reconfigurability, as found in dynamic capabilities, are more likely to create innovative products and services because they can integrate external and internal knowledge more efficiently (Mikalef et al., 2020). This loop of thinking led us to formulate this hypothesis:

**Hypothesis 7:** There will be a reciprocal effect between dynamic capability and innovative environment.

The ability of an organization to survive and thrive in the face of intense external pressures like COVID-19, as outlined in Porter's Five Forces, hinges not only on its innovative capacity but also on its dynamic capabilities. Competitive forces compel organizations to innovate, but it is their

dynamic capabilities that allow them to respond flexibly and adaptively to external demands (Amar et al., 2021; Porter, 1979; Teece, 2007). This argument is rooted in research findings indicating that organizations with strong dynamic capabilities could outpace competitors by rapidly sensing and seizing opportunities while reconfiguring internal resources for a competitive edge (Eisenhardt & Martin, 2000; Helfat & Peteraf, 2009). Moreover, dynamic capabilities foster an innovative environment by encouraging continuous learning, experimentation, and the transformation of processes to stay ahead of market changes (Mikalef et al., 2020), which can be sporadic and unsustainable. Furthermore, organizations that cultivate a service climate of excellence are better equipped to turn innovations into expected outcomes (Ehrhart et al., 2011). Dynamic capabilities also create stronger service climates by aligning organizational innovation with customer demands in a focused service delivery (Schneider et al., 1998). Therefore, dynamic capabilities can potentially mediate the relationship between external forces and organizational performance, further enhancing the firm's innovative environment, driving service excellence as a competitive advantage. They form the basis of logics for the following hypotheses:

**Hypothesis 8:** External forces will positively affect an innovation-supporting environment, dynamic capability, and service climate in a mediated relationship.

**Hypothesis 9:** Dynamic capability will mediate the innovation-supporting environment and the service climate.

## RESEARCH METHODOLOGY

We used a quantitative approach to explore the potential causalities among the hypothesized constructs. These nexuses may explain the wide-array phenomenon in the hospitality business in Indonesia. We used variance-based structural equation modeling for this purpose with respect to the exploration function of the statistical test. Thus, partial-least-square structural equation modeling (PLS-SEM) is the statistical analysis we conducted, using the Smartpls 3 tool.

According to the path construction in Figure 1, this study's research steps are twofold. First, we will clarify and sort the data for the best analysis of the tool. This process is well known in PLS-SEM analysis as the outer model measurement. It is the alternative to the notable goodness-of-fit index in the covariance-based SEM. The tests will provide validity and reliability measurements according to the statistical analysis standards. The tests consist of the loading factors, the average-variance extractor, the convergent validity of Cronbach's alpha, the discriminant validity of the Heterotrait-Monotrait test, and the collinearity test of the variance inflation factor.

Furthermore, the Heterotrait-Monotrait test could also be used to assess the potentiality of common-method bias in the proposed scales. We will construct the path model for presenting the result of the hypothesis testing by the bootstrapping method. Apart from the direct and indirect statistical tests, the variable of external forces is a second-order construct; thus, we use the repeated-indicator approach to obtain the latent score of the construct to create the higher order construct for the final analysis. We also conduct quadratic research to investigate the potentiality of recursive effects between the innovative environment and dynamic capability. The scale measurements and the data selection are discussed separately.

Four variables are present in the relationship formulations in this study. One construct, external forces, serves as the exogenous variable. This construct comes from Porter's (1979) famous five forces Porter. Although there are five dimensions in the original form, in this study we use only three low-order constructs—customer bargaining, new entrants, and rivalry—for further analysis because the hotel industry does not have sufficient substitution or distributor bargaining power. The scales are obtained from the work of Tavitiyaman et al. (2011), who used the same investigation.

The hospitality business must apply service-dominant logic in operations; however, the constant, routine nature of the work may pose a drawback to an organization's innovative condition. Thus, the hospitality business must maintain innovation by creating an excellent supporting environment for it, and for creativity. This construct is investigated by taking Russell and Russell's (1992) scale formulation of innovation norms and serves as the mediating variable. Furthermore, the capacity of a hotel response to changes can be the determining points during critical times. One relevant construct is the organization's dynamic capability (Teece et al., 1997). Although this theory comprises several steps (i.e., sensing, seizing, and transforming), in this study we take the scale formulation from Wu et al. (2007), which captures resource integration capability, reconfiguration of resources, learning ability, and timid responses to constant changes. An innovation-supporting environment and dynamic capability are two constructs that may have repercussive relationships; thus, we constructed a quadratic effect to observe whether their relationships work both ways before we address the final endogenous variable of service climate.

Hotel service climate is the last dependent variable and thus becomes the foundation for our research formulation. According to the service-dominant logic, the service climate is a potentially excellent resource for every service-oriented business. We use the scale measurement from Ray et al. (2004) for the assessment. We follow previous studies' item formulations because they have been tested for validity and reliability, thus making them more reliable for further uses (see Table 1 for data on the item construction). All scales were translated to Indonesian to increase the response rate of the questionnaires.

The scale measurements serve as the foundation for questionnaire construction in this study. We used a 5-point Likert scale for each questionnaire statement whose endpoint was *strongly disagree*. A formal request letter from an academic institution was sent to gain permission to send the surveys to Indonesian hotel managers. A direct visit to the human resource divisions in each hotel was arranged to increase the participation rate, resulting in 77 hotels and 329 hotel managers who were willing to participate. The number of collected responses satisfies the sample requirement cutoff of 200 for the SEM analysis (Kline, 1998). They also meet the 10 times rule of independent paths from Hair et al. (2014).

## RESULTS

We applied the statistical procedure of variance-based SEM for the statistical analysis. The first step is to clarify the outer model criterion of the data, as evident in Table 1, which includes the factor loading information, the convergent validity, and the collinearity results for the lower order construct. The results serve as the initial bases for the higher order construct in Table 2, which presents the final data for the analysis.

Table 2 reveals that dynamic capability, service climate, and a supporting environment display a satisfactory outer model criteria by loading higher than 0.7, Cronbach's alpha, rho alpha, and composite reliability above 0.6, and the average-variance extractor exceeding the 0.5 cutoff value, whereas customer bargaining, rivalry, and new entrants do not meet the standard. These underperforming constructs are actually the second-order construct; thus, they need to be recalculated in the higher order analysis to create the first-order construct of the external forces. The process of obtaining the data for a higher order construct requires the latent score of the data, extracted from the initial use of Smartpls 3 tool. Table 3 presents the results for the higher order analysis.

The process of building a higher order construct reveals a significant improvement in the data. All outer model measurements reveal that the data meet the cutoff value—only the loading factor of new entrants stands slightly above 0.5. This dimension is not deleted because Hair et al. (2014) recommended not deleting an indicator if such a deletion does not increase the data's validity and reliability. This argument serves as the basis on which to proceed with the next quality criteria. This results of the discriminant validity test are given in Table 4. The Heterotrait-Monotrait test was selected

**Table 1. Measurement scale items**

| Item     | Description                                                                                              |
|----------|----------------------------------------------------------------------------------------------------------|
| CusOf1   | My hotel customers have little bargaining power over the hotel room rates.                               |
| CusOf2   | Individual customers have loyalty to my hotel.                                                           |
| CusOf3   | Customers in large numbers have great bargaining power.                                                  |
| CusOf4   | My hotel has to follow the wishes of dissatisfied customers.                                             |
| CusOf5   | My hotel often succeeds in upgrading (topping-up) the level of customer rooms.                           |
| NewEn1   | I see the difficulty of new hotels in entering the hotel market in this area.                            |
| NewEn2   | New hotels offer a lot of promotional packages compared to my hotel.                                     |
| NewEn3   | The government strongly supports the emergence of new hotels.                                            |
| NewEn4   | The presence of new hotels has reduced my hotel's market share.                                          |
| Riv1     | Few can compete with my hotel.                                                                           |
| Riv2     | Competition among hotels in my area is not fierce.                                                       |
| Riv3     | The presence of other hotels threatens my hotel.                                                         |
| Riv4     | I am confident that the presence of my hotel has threatened other hotels in this area.                   |
| DynCap1  | My hotel has excellent ability to manage resources in each hotel section to run harmoniously.            |
| DynCap2  | My hotel is able to manage and integrate new resources with old resources harmoniously.                  |
| DynCap3  | We are able to learn various things that can benefit or harm our hotel.                                  |
| ServCli1 | My customer service representatives are well trained to handle various situations that may arise.        |
| ServCli2 | There is open communication between units of my customer service.                                        |
| ServCli3 | There is coordination between departments in my hotel to improve the quality of customer service.        |
| ServCli4 | The policies and procedures of our customer service unit are easily applicable .                         |
| SupEnv1  | I always evaluate new ideas related to the potential benefits of the idea.                               |
| SupEnv2  | I consciously give every new idea a chance to be considered.                                             |
| SupEnv3  | I tolerate the development of new ideas that are potential for performance improvement.                  |
| SupEnv4  | I am not willing to take on new tasks even if the tasks benefit my company.                              |
| SupEnv5  | I am interested in finding original methods in product/service development and work processes.           |
| SupEnv6  | I always prioritize long-term income potential over short-term risk.                                     |
| SupEnv7  | I am willing to provide material support to develop new ideas that are in line with the company's goals. |

*Note.* CusOf = customer bargaining; NewEn = new entrants; Riv = rivalry; DynCap = dynamic capability; ServCli = service climate; SupEnv = supporting environment.

because several authors have claimed it is the better test than the more popular Fornell-Larcker and cross-loading criteria (Henseler et al., 2015).

The statistical analysis provides a supporting stance because all scores are lower than 0.9. This finding means that the data have discriminant validity. Furthermore, there are no collinearity issues because all variance inflation factors in the indicators are lower than 3. The same assessment also clarifies the absence of common-method bias from the data (Podsakoff et al., 2003). Table 3 serves as the final requirement for outer model measurement and paves the way for establishing inner model measures. Table 5 displays the results of the inferential statistics for the analysis of the hypotheses.

In this study, we tested nine hypothesis formulations. The statistical analysis reveals that most hypotheses were supported, except for the relationship of external forces to service climate, as

Table 2. Lower order outer model measurement

| Construct and item            | Loading | Alpha | Rho_A | CR    | AVE   |
|-------------------------------|---------|-------|-------|-------|-------|
| <b>Customer bargaining</b>    |         |       |       |       |       |
| CusOf1                        | -0.069  |       |       |       |       |
| CusOf2                        | 0.769   |       |       |       |       |
| CusOf3                        | 0.632   | 0.371 | 0.555 | 0.604 | 0.318 |
| CusOf4                        | 0.206   |       |       |       |       |
| CusOf5                        | 0.743   |       |       |       |       |
| <b>New entrants</b>           |         |       |       |       |       |
| NewEn1                        | 0.611   |       |       |       |       |
| NewEn2                        | 0.508   | 0.337 | 0.330 | 0.665 | 0.333 |
| NewEn3                        | 0.639   |       |       |       |       |
| NewEn4                        | 0.542   |       |       |       |       |
| <b>Rivalry</b>                |         |       |       |       |       |
| Riv1                          | 0.531   |       |       |       |       |
| Riv2                          | 0.725   |       |       |       |       |
| Riv3                          | 0.422   | 0.464 | 0.459 | 0.688 | 0.365 |
| Riv4                          | 0.691   |       |       |       |       |
| <b>Dynamic capability</b>     |         |       |       |       |       |
| DynCap1                       | 0.817   |       |       |       |       |
| DynCap2                       | 0.759   | 0.639 | 0.636 | 0.805 | 0.579 |
| DynCap3                       | 0.704   |       |       |       |       |
| <b>Service climate</b>        |         |       |       |       |       |
| ServCli1                      | 0.861   |       |       |       |       |
| ServCli2                      | 0.899   | 0.818 | 0.819 | 0.884 | 0.662 |
| ServCli3                      | 0.869   |       |       |       |       |
| ServCli4                      | 0.586   |       |       |       |       |
| <b>Supporting environment</b> |         |       |       |       |       |
| SupEnv1                       | 0.835   |       |       |       |       |
| SupEnv2                       | 0.843   |       |       |       |       |
| SupEnv3                       | 0.807   | 0.909 | 0.919 | 0.927 | 0.647 |
| SupEnv4                       | 0.726   |       |       |       |       |
| SupEnv5                       | 0.735   |       |       |       |       |
| SupEnv6                       | 0.861   |       |       |       |       |
| SupEnv7                       | 0.813   |       |       |       |       |

*Note.* Adapted Smartpls 3 output (2023). CR = composite reliability; AVE = average-variance extractor; CusOf = customer bargaining; NewEn = new entrants; Riv = rivalry; DynCap = dynamic capability; ServCli = service climate; SupEnv = supporting environment.

evidenced by a *t* value lower than 1.96 for a 0.05 error term. The effect of dynamic capability and service climate provides the highest relevance, 53.6%, followed by supporting environment and

**Table 3. Outer measurements of the higher order model**

| Constructs                | Loading | VIF   | Alpha | Rho_A | CR    | AVE   |
|---------------------------|---------|-------|-------|-------|-------|-------|
| <b>External forces</b>    |         |       |       |       |       |       |
| Cust. bargaining          | 0.881   | 1.284 |       |       |       |       |
| New entrants              | 0.501   | 1.160 | 0.626 | 0.746 | 0.780 | 0.554 |
| Rivalry                   | 0.799   | 1.361 |       |       |       |       |
| <b>Dynamic capability</b> |         |       |       |       |       |       |
| DynCap1                   | 0.811   | 1.628 |       |       |       |       |
| DynCap2                   | 0.757   | 1.598 | 0.639 | 0.635 | 0.804 | 0.579 |
| DynCap3                   | 0.711   | 1.089 |       |       |       |       |
| <b>Service climate</b>    |         |       |       |       |       |       |
| ServCli1                  | 0.864   | 2.838 |       |       |       |       |
| ServCli2                  | 0.901   | 3.694 | 0.818 | 0.821 | 0.885 | 0.663 |
| ServCli3                  | 0.871   | 2.766 |       |       |       |       |
| ServCli4                  | 0.581   | 1.123 |       |       |       |       |
| <b>Supp. environment</b>  |         |       |       |       |       |       |
| SupEnv1                   | 0.836   | 2.838 |       |       |       |       |
| SupEnv2                   | 0.842   | 2.833 |       |       |       |       |
| SupEnv3                   | 0.806   | 2.339 | 0.909 | 0.918 | 0.927 | 0.647 |
| SupEnv4                   | 0.725   | 1.802 |       |       |       |       |
| SupEnv5                   | 0.739   | 1.801 |       |       |       |       |
| SupEnv6                   | 0.861   | 2.898 |       |       |       |       |
| SupEnv7                   | 0.812   | 2.197 |       |       |       |       |

*Note.* Adapted Smartpls 3 output (2023). VIF= variance inflation factor; CR = composite reliability; AVE = average-variance extractor; CusOf = customer bargaining; NewEn = new entrants; Riv = rivalry; DynCap = dynamic capability; ServCli = service climate; SupEnv = supporting environment.

dynamic capability. All indirect relationships are also confirmed. Furthermore, despite the small effect size, the quadratic relationship of dynamic capability to the supporting environment is also reported. The  $R^2$  of exogenous variables toward dynamic capability is higher than that of service climate for all paths. The presentation of the path results is presented in Figure 1.

**Table 4. The Heterotrait–Monotrait test**

| Construct          | Dynamic capability | External forces | Quadratic Effect 1 | Service climate |
|--------------------|--------------------|-----------------|--------------------|-----------------|
| External forces    | 0.709              |                 |                    |                 |
| Quadratic Effect 1 | 0.319              | 0.230           |                    |                 |
| Service climate    | 0.874              | 0.470           | 0.285              |                 |
| Supp. environment  | 0.593              | 0.465           | 0.823              | 0.492           |

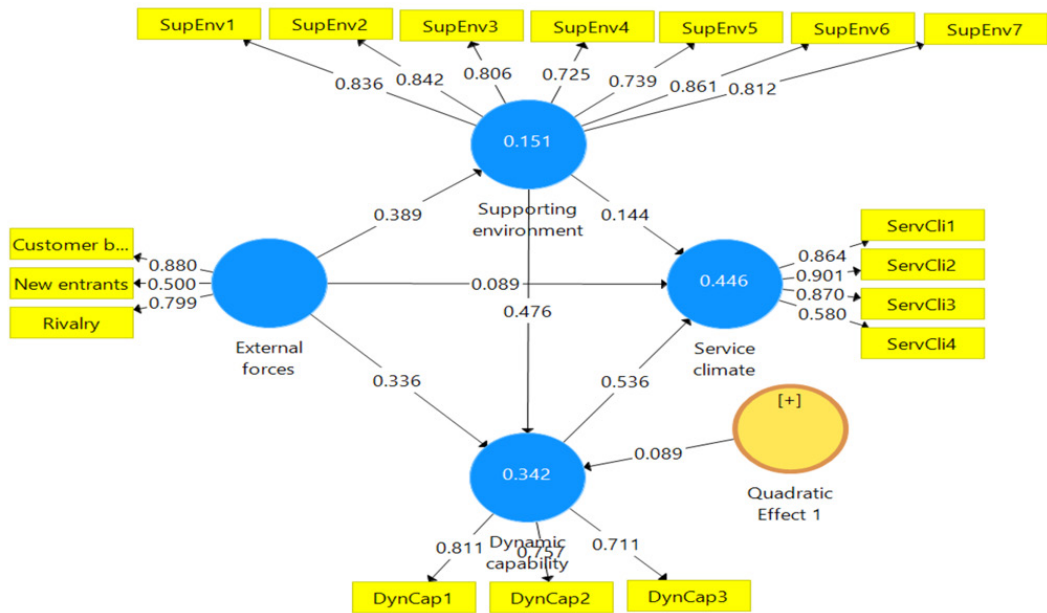
*Note.* Source: Adapted Smartpls 3 output (2023). Supp. = supporting.

Table 5. Summary of the relationship tests

| Hypotheses                                                                      | Effect size | <i>t</i> | <i>p</i> |
|---------------------------------------------------------------------------------|-------------|----------|----------|
| External forces → supporting environment                                        | 0.389       | 8.038    | 0.000    |
| External forces → dynamic capability                                            | 0.336       | 6.493    | 0.000    |
| External forces → service climate                                               | 0.089       | 1.550    | 0.122    |
| Supporting environment → dynamic capability                                     | 0.476       | 5.665    | 0.000    |
| Quadratic dynamic capability → Supporting environment                           | 0.089       | 2.095    | 0.037    |
| Supporting environment → service climate                                        | 0.144       | 2.348    | 0.019    |
| Dynamic capability → Service climate                                            | 0.536       | 10.978   | 0.000    |
| External forces → supporting environment → dynamic capability → service climate | 0.099       | 3.934    | 0.000    |
| <i>R</i> <sup>2</sup> Dynamic capability                                        |             | 0.446    |          |
| <i>R</i> <sup>2</sup> Service climate                                           |             | 0.151    |          |

Note. The line in *R*<sup>2</sup> represents the coefficient correlation of the model; Adapted Smartpls 3 output (2023).

Figure 1. The path model results



Note. Smartpls 3 Path Output. SupEnv = supporting environment; ServCli = service climate; DynCap = dynamic capability.

## DISCUSSION

Establishing an excellent service climate of businesses in the hospitality industry is unquestionably critical for a strategic position in fierce competition. It emphasizes creating a positive work environment that supports and reinforces high-quality service delivery. *Service climate* refers to employees' shared perceptions and expectations regarding the quality of service that should be provided to customers

(Schneider, 1980; Schneider et al., 1998). This practice is essential to help the hospitality business to retain its best employees, reduce training costs, and improve overall performance (He et al., 2011). Its presence is critical for the competitive advantage of hospitality businesses because it can help them create a positive work environment that supports and reinforces high-quality service delivery, leading to higher levels of customer satisfaction, loyalty, and positive word-of-mouth recommendations (Ehrhart et al., 2011).

The first hypothesis addressed whether the strategic forces of rivalry, customer bargaining, and the threat of new entrants are critical for the construction of innovation-supporting environments in the Indonesian hotel industry. The statistical findings confirmed that hotel organizations can develop innovative products and services that meet customers' changing needs and preferences. The external forces can significantly affect the creation of an innovative environment in the hotel industry (Kim & Lee, 2002; Mol & Birkinshaw, 2009; Schweitzer et al., 2011) because customers' changing preferences and evolving demands for sustainability, comfort, and convenience require the continuous development of new and innovative offerings (Yang et al., 2019; Zhang et al., 2010). Technological advancements allow hotels to adopt new tools and platforms to enhance their services and create a more engaging customer experience (Han et al., 2021; Potjanajaruwit, 2023; Ziyae et al., 2021).

The second hypothesis posited that the external factors identified in Porter's Five Forces framework significantly influence the dynamic capability of hotel businesses. The statistical test confirmed this relationship, indicating that external pressures (i.e., customer bargaining, rivalry, and new entrants), are a positive drive for the organization to obtain dynamic capability. This is because the external environment presents both challenges and opportunities for hotel organizations, and those that can effectively navigate and respond to these changes are more likely to develop a dynamic capability that affords them a sustained competitive advantage (McGahan & Porter, 1997; Ray et al., 2004).

Hypothesis 3 initially posited that external competition pressure may push an organization's service climate; however, the statistical test did not affirm this. Although external forces can create opportunities or challenges for hotels (McGahan & Porter, 1997; Tavitiyaman et al., 2011), the creation of a service climate environment is primarily driven by internal factors that are within the control of the hotel management (Schneider et al., 1998). Hence, innovative organizations need to accumulate sufficient drive for change-orientation.

The results affirmed that an organization with an excellent environment for innovation is beneficial for maintaining a dynamic organization, as in Hypothesis 4. Fostering an innovation-focused environment in a hospitality business can create a sustainable competitive advantage by enabling the organization to continuously improve its products and services, differentiate itself from competitors, and enhance its dynamic capabilities (Marhraoui & Manouar, 2017). This can be achieved by encouraging employees to share new ideas, take risks, and adapt quickly to changes in the industry (Dhirasasna et al., 2020; Kim & Lee, 2002; Piening & Salge, 2015).

Hypothesis 5 proposed that an innovation-supporting environment is critical for establishing a service climate. The statistical tests confirmed this hypothesis. This indicates that an innovation-supporting environment will create the foundation of internal mutual understanding in the hospitality business (Bondarenko et al., 2019; Richard, 2017). Although there may be challenges, such as political instability, inadequate infrastructure, and economic uncertainty, promoting an innovation-driven environment in the hotel business can be crucial in improving the service climate (Ghosh, 2015; Van der Voordt, 2003).

Dynamic capability theory explains how organizational competitiveness is reflected in an organization's capability to balance external pressure and internal excellence. In the hotel industry, being active means being adaptive (Baden-Fuller & Teece, 2020). We explored the potential relationship between dynamic capability and service climate. The statistical tests supported the notion that hotels with dynamic capability will have the best results for increasing the service climate, confirming Hypothesis 6. Dynamic capabilities, which involve adapting and innovating, can help hotels create a positive service climate (Piening & Salge, 2015).

Hypothesis 7 proposed a quadratic relationship between dynamic capability and a supporting environment. The statistical test confirmed this, indicating that hotels with dynamic capabilities are well suited to fostering an environment that supports innovation in the hospitality industry (Chen et al., 2015; Eloranta et al., 2016; Marhraoui & Manouar, 2017). Hotels with significant dynamic capability will exhibit the flexibility, learning orientation, strategic resource allocation, and risk-taking mindset that are suitable for creating a culture that encourages employees to experiment, learn, and develop new ideas and solutions (Monsen & Wayne Boss, 2009). This finding strengthens the urgency of creating a dynamic environment that is supportive of innovation within the hotel industry, because it possesses different managerial approaches for its service-dominant logic.

## **CONCLUSIONS**

In this study, we explored some of the neglected issues in the organizational management of the hospitality business; specifically, we addressed the service climate in the Indonesian hotel industry to provide the context for how competition may shape a company following the service-dominant logic. External forces, comprising rivalry, customer bargaining, and new entrants, serve as the predictor of the innovation-supporting environment, dynamic capability, and service climate. Almost all relationships were supported in this study except for that between external forces and service climate. Furthermore, an innovation-supporting environment and dynamic capability reinforce each other in a relationship loop. These findings indicate an intricate need for understanding when creating a business with a service climate that is adaptive and flexible. The COVID-19 pandemic provided an undeniable message for business organizations.

This study can be improved in several ways. Future investigations could determine which external factors affect the hotel industry service climate. Customer behavior and preferences, emerging market trends and competitive forces, and government policies and regulations on the industry are potential shaping factors.

## **COMPETING INTERESTS**

The authors of this publication declare there are no competing interests.

## **FUNDING STATEMENT**

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors. Funding for this research was covered by the author(s) of the article.

## **AUTHOR NOTE**

All authors contributed to this article: Amir Mahmud was involved in the study conceptualization; formal analysis; investigation; supervision; validation; and writing, review, and editing of the original draft. Kannapat Kankaew was involved in the study conceptualization; investigation; methodology; validation; and writing, review, and editing of the original draft. Alim Syariati was involved in data curation; methodology; project administration; visualization; and writing, review, and editing.

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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This manuscript was initially received for consideration for the journal on 08/21/2024, revisions were received for the manuscript following the double-anonymized peer review on 10/16/2024, the

manuscript was formally accepted on 10/24/2024, and the manuscript was finalized for publication on 11/04/2024

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