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The Influence of Organizational Factors and Customer Orientation on Hotel Performance through Hotel Customer Orientation Agility in Star-Rated Hotels in Central Java

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Abstract

The rapid growth of the tourism industry has intensified competition within the hotel sector, compelling hotel management to enhance performance to maintain customer appeal. This study aims to analyze the influence of Organizational Factor, Customer Orientation, and Competitive Environment on Hotel Performance in five-star hotels in Central Java, employing a quantitative explanatory design with data collected through questionnaires distributed to 134 respondents selected using purposive sampling. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) and fuzzy-set Qualitative Comparative Analysis (fsQCA). The PLS-SEM results indicate that Customer Orientation and Competitive Environment have significant positive effects on Hotel Performance, whereas Organizational Factor shows no substantial direct effect; however, all three variables collectively strengthen hotels' organizational capability. The fsQCA results complement these findings by demonstrating that no single condition independently determines Hotel Performance; instead, high performance is achieved through three alternative causal configurations: Competitive Environment and Customer Orientation, Competitive Environment and Organizational Factor, and Customer Orientation and Organizational Factor. Taken together, the integrated findings reveal that hotel performance is predominantly driven by the ability to understand customer needs and respond to competitive pressures. At the same time, organizational factors become influential when they operate in combination with other conditions within specific configurational patterns. Hotel management can utilize customer relationship management (CRM) systems integrated with market analytics platforms to capture customer behavior and monitor competitor strategies. In addition, regular workshops can be conducted to equip employees with the skills required to respond effectively to competitive pressures. Furthermore, hotels should implement standard operating procedures (SOPs) that prioritize service personalization based on customer profiles.

Keywords: Organizational Factor; Customer Orientation; Competitive Environment; Hotel Performance

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INTRODUCTION

With the advent of economic globalization and the rapid expansion of the tourism industry, the number of new entrants, hotel brands, and hotel outlets in the hospitality sector has continued to grow, resulting in increasingly intense competition among hotels. Hotel competitiveness refers to a hotel's capacity to deliver high-performance services that enable it to sustain a competitive advantage and achieve a superior market position relative to its rivals (Xia et al., 2019). As a distinctive service-oriented business, the hospitality industry must place particular emphasis on service attributes (Talon et al., 2018).

Figure 1. Growth in the number of hotels in Indonesia

The figure above illustrates the growth in the number of star-rated hotels in Indonesia over the past decade, based on data from Statistics Indonesia. In 2014, Indonesia recorded 1,996 star-rated hotels, a figure that rose significantly to 4,584 units by 2024, reflecting a 130% increase over ten years. The upward trend has been largely consistent, with a notable surge in 2018 when the number reached 3,314 units. Although there was a slight decline in 2021, likely attributable to the pandemic, the number of star-rated hotels rebounded thereafter. Previous studies also noted that the COVID-19 pandemic severely disrupted Indonesia's hospitality sector; however, recovery strategies and renewed domestic tourism demand contributed significantly to the sector's rebound in the post-pandemic period (Japutra & Situmorang, 2021). Overall, the hospitality sector in Indonesia has demonstrated a clear recovery following the pandemic-induced downturn. This growth signals rising investment in the hotel industry, increasing demand for accommodation, and the expansion of the tourism sector across the archipelago. This growth trend is consistent with findings by Tan (2022), which indicate that emerging markets such as Indonesia tend to experience sustained hotel industry expansion due to increasing tourism activities and accommodation demand.

One region characterized by particularly intense hotel competition is Central Java Province. Central Java has substantial and diverse tourism potential, encompassing natural attractions, cultural and historical sites, and religious sites. This competitive landscape compels hotel management to enhance service quality and improve Hotel Performance (Al-Laymoun et al., 2020; Ranjbari et al., 2020). Hotel Performance refers to a set of Key Performance Indicators (KPIs) used to assess a hotel's effectiveness and success across multiple business dimensions, including occupancy rates, revenue generation, guest satisfaction, operational efficiency, and employee satisfaction (Menicucci & Guido, 2023). However, field observations indicate a recent decline in hotel performance in Central Java, evidenced by a reduction in guest occupancy in 2024, driven primarily by escalating competitive pressures among hotels.

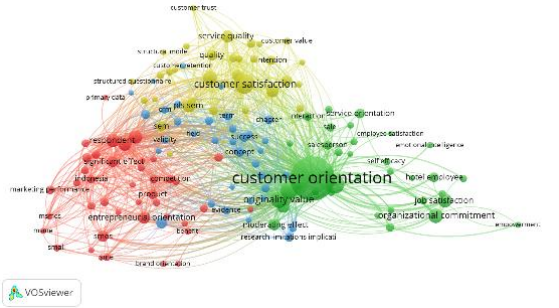

Figure 2. Gap Analysis using VosViewer

Based on the VOSviewer bibliometric map, customer orientation emerges as a highly central construct (Rather, 2018; Soleimani & Einolahzadeh, 2018) satis with strong linkages to key variables such as customer satisfaction, service quality (Ali et al., 2018)comi, organizational commitment, job satisfaction, and various employee-related factors. This indicates that customer orientation has become a dominant theme in marketing and service management research. However, the dense network of relationships also suggests that most existing studies still examine

customer orientation partially and linearly, predominantly using SEM and focusing on customer satisfaction as the primary outcome. In contrast, empirical investigations in highly competitive hospitality settings, particularly five-star hotels, remain relatively limited and fragmented.

Furthermore, the visualization highlights that organizational factors and the competitive environment are connected to performance-related outcomes but are rarely integrated into a unified analytical framework. Prior research typically tests the isolated effects of individual variables, whereas hotel performance in practice is often driven by interacting and coexisting conditions rather than by single determinants. Therefore, this study is necessary as it combines PLS-SEM and fsQCA to capture both linear causal relationships and configurational effects (M. Y. Geremew et al., 2024; Mikalef et al., 2020; Rasoolimanesh et al., 2021). This dual-method approach enables a more comprehensive understanding of how different combinations of organizational factors, customer orientation, and competitive environment jointly drive hotel performance, offering stronger theoretical insights and more actionable implications for managing five-star hotels in highly competitive markets such as Central Java.

Several key factors influence Hotel Performance. The first is Organizational Factors, defined as internal elements, characteristics, and conditions within an organization that affect its operations, performance, culture, and overall effectiveness in achieving strategic objectives (Koehorst et al., 2021). Observational findings indicate that most hotels in the Semarang area (Central Java Province) face challenges related to organizational factors, particularly subpar service quality stemming from weak internal communication and ineffective leadership in guest service delivery. Previous studies have shown that organizational culture, leadership effectiveness, employee communication, and internal coordination significantly influence service quality and operational performance in the hospitality industry (Akgunduz et al., 2018; Karatepe et al., 2019).

The second factor is Customer Orientation, which emphasizes a firm's ability to understand customer needs and expectations and to deliver superior value through customer knowledge acquisition, the formulation and dissemination of customer-centric strategies, and responsiveness to emerging market opportunities (Yang et al., 2022). Customer orientation enhances a company's capacity to design products and refine processes that align with customer expectations, thereby improving business performance (Han & Zhang, 2021). Furthermore, customer-oriented practices have been found to strengthen customer satisfaction, loyalty, and competitive advantage, particularly within highly competitive hotel markets (Rather & Sharma, 2019; Soliman, 2021).

A third influential factor is the Competitive Environment, the extent to which a firm's business practices are shaped by competitors in the market and the extent to which it strategically adapts to maintain or enhance its market position (Vega et al., 2021). Organizations in uncertain environments must adopt flexible and adaptive strategies. A sound strategic orientation will help a company navigate uncertainty and thereby increase performance (Anwar & Warman, 2025). arObservations indicate that the hotel industry in Central Java operates in a highly competitive environment, as evidenced by an 11.75% increase in the number of hotels, with 269 new hotel establishments in the region. While intense competition presents challenges, it also yields positive outcomes: it incentivizes improvements in product and service quality, fosters innovation and R&D, potentially lowers prices for consumers, and enhances market attractiveness, ultimately expanding consumer choice and benefits. The most important issue is how innovation itself affects a firm's performance, since the firm's contributions accumulate and enhance competitiveness and growth.

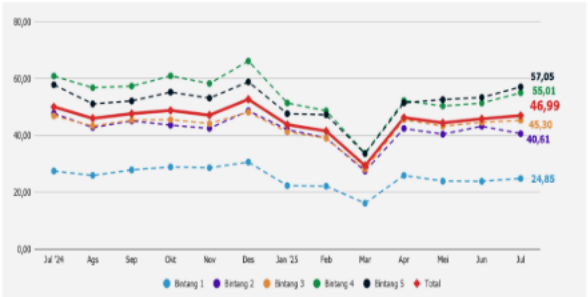

Figure 3. TPK Hotel Growth Based on Star in Central Java July 2024 - July 2025

The figure illustrates the fluctuations in the Occupancy Rate of star-rated hotels in Central Java from July 2024 to July 2025. A sharp decline across all hotel categories is evident in March 2025, followed by a rapid recovery in subsequent months, culminating in a return to peak occupancy by July 2025. Notably, four- and five-star hotels consistently maintained the highest occupancy levels and demonstrated a swifter recovery compared to lower-tier establishments. This pattern suggests that hotels employing more responsive and adaptive service strategies, aligned with evolving customer needs, are better positioned to sustain stable occupancy performance, even amid volatile market demand. In contrast, lower-tier hotels, such as one-star properties, exhibited limited agility in adapting to changing conditions, resulting in a slower rebound in performance. These dynamics underscore the strategic importance of customer-orientation agility as a critical driver of maintaining occupancy rates and cultivating sustainable competitive advantage in the hospitality industry.

METHOD

This study employs a quantitative research design using an explanatory approach to elucidate causal relationships among variables. The explanatory approach is selected because it is well-suited to testing preformulated theories and hypotheses and to understanding the underlying mechanisms linking constructs (Hair et al., 2021). The data sources employed in this study comprise both primary and secondary data. According to Saunders et al., (2019), primary data are information collected directly from respondents or from sources through methods such as interviews, surveys, or observations.

The present study employs the following variables:

1. Independent Variables (X)

   In this study, the independent variables include:

   a. Organizational Factors (X1)

      According to Koehorst et al., (2021), Organizational Factors can be measured through several indicators, namely operational skills (X1.1), information management (X1.2), communication (X1.3), collaboration (X1.4), creativity (X1.5), critical thinking (X1.6), and problem-solving (X1.7).

   b. Customer Orientation (X2)

      According to Gonu et al., (2023), Customer Orientation can be assessed through several measurement indicators, namely customer needs (X2.1), complaint analysis (X2.2), customer engagement (X2.3), prioritization of needs (X2.4), customer expectations (X2.5), management involvement (X2.6), and responsiveness to complaints (X2.7).

   c. Competitive Environment (X3)

      According to Vega et al., (2021), the Competitive Environment is measured using the following indicators: competitive intensity (X3.1) and supply chain complexity (X3.2).

2. Dependent Variable (Y)

   In this research, the dependent variable is Hotel Performance (Y). According to Brito et al., (2025), Hotel Performance can be measured through several indicators, including investment (Y.1), profitability (Y.2), funding sources (Y.3), operational indicators (Y.4), and financial information (Y.5).

The target population of this study comprises owners of five-star hotels in Central Java. The sample was selected using purposive sampling, a non-probability technique in which participants are chosen based on predefined criteria relevant to the research objectives. The inclusion criteria for respondents were as follows: (a) the hotel must have been in operation for at least three years, and (b) the hotel must be classified as a five-star establishment. Based on these criteria, the final sample comprises 134 respondents.

Data were collected in this study using a questionnaire. The data analysis techniques employed in this study include Structural Equation Modeling–Partial Least Squares (SEM-PLS) and fuzzy-set Qualitative Comparative Analysis (fsQCA). SEM-PLS analysis is conducted using SmartPLS software.

RESULT AND DISCUSSION

Outer Model

The outer model is used to assess the validity (appropriateness) and reliability (consistency) of the measurement indicators in relation to their respective latent variables. Key assessments within the outer model include:

Convergent Validity

If the Loading Factor/Original Sample value exceeds 0.6, it is declared valid.

Table 1. Convergent Validity

Variable	Item	*Original Sample*	*P-Values*	Note
Organizational Factor (X1)	X1.1	0.847	0.000	Valid
	X1.2	0.883		
	X1.3	0.847		
	X1.4	0.795		
	X1.5	0.817		
	X1.6	0.674		
	X1.7	0.689		
Customer Orientation (X2)	X2.1	0.813	0.000	Valid
	X2.2	0.815		
	X2.3	0.805		
	X2.4	0.732		
	X2.5	0.863		
	X2.6	0.787		
	X2.7	0.863		
Competitive Environment (X3)	X3.1	0.916	0.000	Valid
	X3.2	0.902		
Hotel Performance (Y)	Y.1	0.762	0.000	Valid
	Y.2	0.826		
	Y.3	0.735		
	Y.4	0.849		
	Y.5	0.891		

Source: Data Analysis (2025)

All indicators for each variable are deemed valid research measurement instruments, as they exhibit convergent validity exceeding 0.6.

Discriminant Validity

If the AVE exceeds 0.5, it is considered valid.

Table 2. Discriminant Validity

Variable	*Average Variance Extracted* (AVE)
Organizational Factor (X1)	0.635
Customer Orientation (X2)	0.660
Competitive Environment (X3)	0.826
Hotel Performance (Y)	0.663

Source: Data Analysis (2025)

The results show that the AVE values for all indicator blocks exceed 0.5, indicating that the constructs demonstrate good discriminant validity.

Reliability Test

If Cronbach's Alpha and composite reliability exceed 0.7, the construct is considered reliable.

Table 3. Reliability Test

Variable	Composite Reliability	Cronbach Alpha
Organizational Factor (X1)	0.923	0.905
Customer Orientation (X2)	0.931	0.914
Competitive Environment (X3)	0.905	0.789
Hotel Performance (Y)	0.907	0.872

Source: Data Analysis (2025)

Based on the table above, the composite reliability and Cronbach's alpha values for all research variables exceed 0.70. indicating that the measurement scales are reliable.

Inner Model

The inner model, also known as the structural model, is the component of structural equation modeling that represents the causal relationships among latent variables. The estimated structural model is as follows:

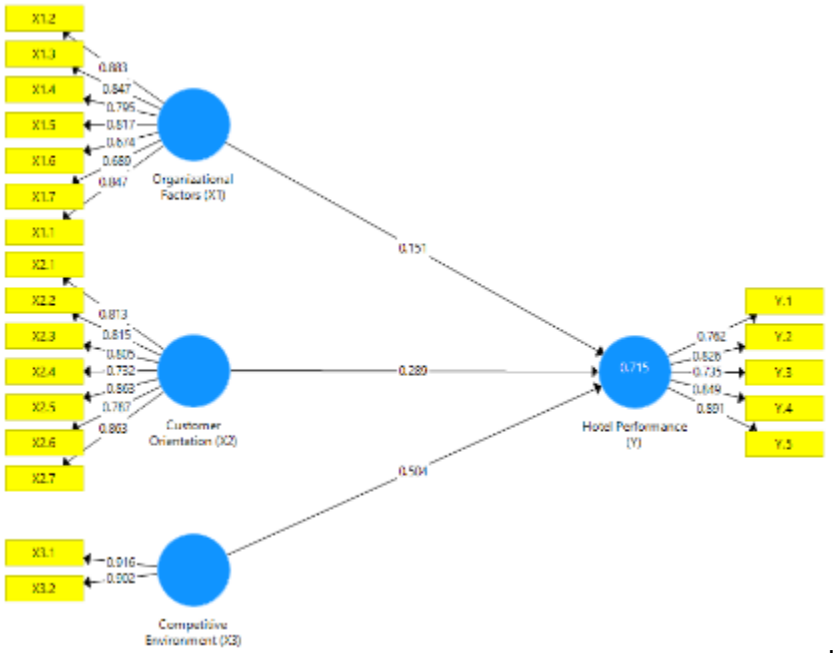

Figure 4. Output PLS

Based on the figure above, it is evident that Hotel Performance (Y) is influenced by three exogenous latent variables: Organizational Factor (X1), Customer Orientation (X2), and Competitive Environment (X3). The corresponding structural equation representing these relationships is as follows:

$$Y = 0.151\ X1 + 0.289\ X2 + 0.504\ X3$$

Here are some tests on the inner model, namely:

R-Square

Changes in the R^2 value can be used to assess the substantive impact of specific independent latent variables on a dependent latent variable. In the structural model, an R^2 of 0.75 for an endogenous latent variable indicates a "strong" model, an R^2 of 0.50 denotes a "moderate" model, and an R^2 of 0.25 suggests a "weak" model (Chin, 1998)

Table 4. *R-Square*

Variable	*R-Square*
Hotel Performance (Y)	0.715

Source: Data Analysis (2025)

Based on the R^2 test results above, the combined effect of Organizational Factor (X1), Customer Orientation (X2), and Competitive Environment (X3) on Hotel Performance (Y) yields an R^2 value of 0.715. This indicates that the model is classified as "strong" (Chin, 1998), as it exceeds the 0.67 threshold for substantial explanatory power, contrary to a "moderate" interpretation.

Q-Square

Q^2 (Q-square) is used to assess the overall predictive relevance of the model. A Q^2 value between 0.02 and 0.15 is considered small, between 0.15 and 0.35 is regarded as medium, and a value of 0.35 or higher is classified as large (Hair et al., 2022). The Q^2 calculation is as follows:

Q^2 = 1 – [(1 – R1)]
= 1 – [(1 – 0.715)]
= 1 – [(0.285)]
= 0.715

The Q2 calculation yields 0.715, indicating that Q2 is in the “Strong” category.

Hypothesis Test

If the t-statistic exceeds 1.96, the null hypothesis is rejected, and the variables are considered significantly related.

Table 5. Hypothesis Test

Hypothesis	Variable Relationship	Original Sample	T Statistics	P Value	Results
H_1	Organizational Factor (X1) -> Hotel Performance (Y)	0.151	1.828	0.068	Not Significant
H_2	Customer Orientation (X2) -> Hotel Performance (Y)	0.289	3.340	0.001	Significant
H_3	Competitive Environment (X3) -> Hotel Performance (Y)	0.504	6.331	0.000	Significant

Source: Data Analysis (2025)

Latent Variable Score

Latent variable scores, derived after the PLS-SEM model satisfies validity and reliability criteria for both outer and inner models, represent each respondent’s standardized position on key constructs, such as Competitive Environment, Customer Orientation, Organizational Factors, and Hotel Performance, as continuous, normalized values. These scores efficiently summarize information from all reflective indicators of each construct, making them more suitable for advanced analysis than individual indicators. Although the scores may be positive or negative due to standardization around a mean of zero, this does not pose a methodological issue, as the relative ranking and distribution across respondents are what matter. These latent scores are subsequently exported and calibrated into fuzzy-set membership degrees (0–1), enabling the integration of PLS-SEM’s predictive capabilities with fsQCA’s configurational logic to explore equifinal pathways to high Hotel Performance.

Table 6. Quartile Latent Variable Score

Variable	5%	50%	95%

Variable	5%	50%	95%
Organizational Factor (X1)	-1.83	0.00	1.32
Customer Orientation (X2)	-2.07	0.00	1.46
Competitive Environment (X3)	-1.83	-0.35	1.13
Hotel Performance (Y)	-1.97	-0.04	1.22

Source: Data Analysis (2025)

The following table presents the 5th, 50th (median), and 95th percentile values of the latent variable scores for each construct, Organizational Factor (X1), Customer Orientation (X2), Competitive Environment (X3), and Hotel Performance (Y), which serve as anchor points in the fuzzy-set calibration process. Following Schneider & Wagemann (2012), the 5th percentile represents full non-membership (∼0), the 50th percentile the crossover point (∼0.5), and the 95th percentile full membership (∼1). Using these empirically derived percentiles ensures that calibration aligns with the actual data distribution, minimizing subjective bias in setting membership thresholds. The initial fsQCA step involves constructing a truth table that maps all possible combinations of the calibrated conditions (X1, X2, X3) and their relationship with the calibrated outcome (Y), identifying which configurations consistently yield a high outcome based on case frequency and consistency. This truth table serves as the foundation for the subsequent minimization process, which simplifies configurations to reveal the most parsimonious causal pathways that lead to high Hotel Performance.

Table 7. *Truth Table*

X3	X2	X1	number	Y	raw consists.	PRI consist.	SYM consist
1	1	1	38		0.933403	0.886263	0.898473
1	1	0	11		0.900371	0.7163	0.717564
1	0	0	10		0.817942	0.483361	0.49957
1	0	1	4		0.891771	0.598098	0.62407
0	0	0	17		0.583732	0.123542	0.123936
0	0	1	4		0.83302	0.291866	0.307047
0	1	1	1		0.857358	0.367279	0.373515
0	1	0	1		0.847826	0.242857	0.242858

Source: Data Analysis (2025)

The truth table reveals that specific configurations exhibit numerous cases and high consistency in producing the outcome Y. For instance, the combination X3=1, X2=1, X1=1 occurs in 38 cases, with a consistency of 0.933, indicating a strong empirical association with high Hotel Performance. Similarly, other combinations with X3=1, regardless of the values of X2 or X1, also exhibit high consistency, underscoring the critical role of Competitive Environment (X3) in driving the outcome. In contrast, low-consistency configurations, such as X3=1, X2=0. X1=0 (consistency = 0.483), are excluded during minimization due to their weak set-theoretic relevance. The truth table thus enables differentiation between empirically meaningful and spurious configurations based on raw and PRI consistency, thereby providing a basis for setting a consistency cutoff that retains only theoretically and causally valid patterns for further analysis, which is critical for deriving parsimonious, intermediate, and complex solutions.

A frequency threshold of 1 is applied, ensuring all configurations with at least one case are retained in the truth table. Given the sample size of 134 cases, this low threshold preserves configurational diversity, including potentially substantive but infrequent patterns, consistent with fsQCA guidelines for medium-sized samples in which primary filtering relies on consistency rather than frequency (Oana et al., 2021). Furthermore, a consistency threshold of 0.85 is adopted, consistent with established set-theoretic standards, to ensure robust causal inference. Configurations exceeding this threshold, such as X3·X2 and X3·X1 (both with consistency > 0.90), reflect strong subset relationships between condition combinations and the outcome, aligning with methodological recommendations emphasizing high consistency for valid and interpretable fsQCA solutions (Y. M. Geremew et al., 2024).

Table 8. Adjusted Truth Table

X3	X2	X1	number	Y	raw consists.	PRI consist.	SYM consist
1	1	1	38	1	0.933403	0.886263	0.898473
1	1	0	11	1	0.900371	0.7163	0.717564
1	0	1	4	1	0.891771	0.598098	0.62407
0	1	1	1	1	0.857358	0.367279	0.373515
0	1	0	1	0	0.847826	0.242857	0.242858
0	0	1	4	0	0.83302	0.291866	0.307047
1	0	0	10	0	0.817942	0.483361	0.49957
0	0	0	17	0	0.583732	0.123542	0.123936

Source: Data Analysis (2025)

The truth table, after applying frequency (≥1) and consistency (≥0.85) thresholds, reveals that configurations strongly contributing to the outcome Y are predominantly characterized by the presence of X3 (Competitive Environment). The configuration X3=1, X2=1, X1=1 exhibits the highest frequency (38 cases) and strongest consistency (0.933), followed by X3=1, X2=1, X1=0 and X3=1, X2=0. X1=1, both with consistency exceeding 0.89. Although a few configurations without X3, such as X2=1, X1=1, barely meet the minimum consistency threshold (0.857), they display low unique coverage and low PRI consistency, indicating weaker causal stability. In contrast, all configurations associated with Y=0 fall below the recommended consistency threshold, reinforcing that the absence of X3 rarely leads to high Hotel Performance. Collectively, these findings suggest that X3 is a core, near-necessary condition consistently present in sufficient pathways to Y, while X2 (Customer Orientation) and X1 (Organizational Factor) act as complementary conditions that enhance but do not independently drive the outcome.

```
Model: YC = f(X3C, X2C, X1C)
Algorithm: Quine-McCluskey

--- INTERMEDIATE SOLUTION ---
frequency cutoff: 1
consistency cutoff: 0.857358
Assumptions:
                raw        unique
             coverage    coverage   consistency
            ----------  ----------  ----------
X3C*X2C     0.798174    0.0840392   0.917402
X3C*X1C     0.761117    0.0469826   0.903961
X2C*X1C     0.728428    0.0142933   0.893072
solution coverage: 0.85945
solution consistency: 0.861617
```

Figure 4. FsQCA Analysis

The fsQCA intermediate solution identifies three causal configurations that meet the consistency threshold of 0.857 and contribute to achieving the outcome Y (high Hotel Performance). The configuration X3·X2 exhibits the highest consistency (0.917) and the most extensive raw coverage (0.798), indicating that the joint presence of Competitive Environment (X3) and Customer Orientation (X2) constitutes the dominant pathway to Y. The X3·X1 configuration also demonstrates strong causal relevance (consistency = 0.904) with substantial raw coverage (0.761), further affirming X3 as a recurring and pivotal condition across multiple sufficient pathways. In contrast, the X2·X1 configuration, while consistent (0.893), has the lowest unique coverage, suggesting a supplementary rather than primary role in producing the outcome. Overall, the solution achieves high solution consistency (0.862) and solution coverage (0.859), indicating that these three configurations collectively explain a substantial and empirically stable proportion of cases that lead to high Hotel Performance, consistent with set-theoretic causal assumptions.

Discussion

The Influence of Organizational Factors on Hotel Performance

The findings indicate that Organizational Factor has a statistically insignificant direct effect on Hotel Performance, as evidenced by a t-statistic of 1.828, which falls below the critical threshold of 1.96. This lack of significance may stem from internal organizational barriers such as weak interdepartmental coordination, low innovation capacity, or insufficient adaptation to evolving consumer preferences and digital technologies. Organizational factors do not always have a significant direct impact on performance in the hospitality context (Alfandi, 2020; Zhang et al., 2025). Moreover, overly bureaucratic organizational structures can impede decision-making speed and reduce service efficiency, ultimately undermining customer satisfaction and overall hotel performance. However, this contradicts research conducted by Sarhan (2020), which shows that Jordanian employees working in a bureaucratic yet supportive hotel environment actually exhibit higher organizational commitment, making them more loyal and dedicated to their work

However, fsQCA results indicate that Organizational Factor retains contextual relevance within specific causal configurations (Pascual-Fernández et al., 2021). Notably, the interaction Competitive Environment × Organizational Factor demonstrates strong consistency (0.904), indicating that, in highly competitive market environments, a well-functioning organizational structure contributes meaningfully to high Hotel Performance. This is inconsistent with sampaio (2022) research, which found that in highly competitive environments, organizational factors such as market orientation actually have a direct and significant impact on hotel performance. This highlights Organizational Factor's role in enabling alternative, equifinal pathways to success. Although the configuration Customer Orientation × Organizational Factor also achieves acceptable consistency (0.893), its low unique coverage suggests a supplementary rather than decisive influence. Thus, while Organizational Factor alone is insufficient to drive Hotel Performance, it functions as a complementary factor that enhances performance when combined with external market pressures or customer-centric strategies, underscoring its conditional, rather than standalone, causal importance (Suder, 2023).

The Influence of Customer Orientation on Hotel Performance

The findings show that Customer Orientation has a statistically significant positive effect on Hotel Performance (t = 3.340), well above the 1.96 threshold, supporting its direct predictive influence. This aligns with Johnson & Sohi (2020), who emphasize customer orientation as a critical driver of firm performance, particularly when supported by internal coordination and employee commitment (Babu, 2018). Customer-centricity helps companies boost growth, profitability, and business performance (Smirnova et al., 2018). By prioritizing guest needs and expectations, hotels can deliver exceptional experiences that directly enhance satisfaction, retention, and loyalty, ultimately fueling business growth (Radojevic et al., 2017; Rather & Hollebeek, 2018). Beyond its linear effect, fsQCA results reveal that Customer Orientation functions primarily as a complementary enhancer rather than a standalone sufficient condition. The configuration Competitive Environment × Customer Orientation yields the highest consistency (0.917), indicating a robust causal pathway to high Hotel Performance when market competitiveness is coupled with a strong customer focus (Tavitiyaman et al., 2018).

However, in the absence of a competitive environment, Customer Orientation alone shows a marked decline in consistency, failing to form a stable, independent pathway to the outcome. Thus, while Customer Orientation significantly boosts performance in both regression and

configurational analyses, it exerts its most significant impact when reinforced by a dynamic competitive context, underscoring its role as a context-dependent amplifier rather than a standalone driver. According to Assaf (2017) research, excessive competition can actually have a negative impact on hotel performance.

The Influence of Competitive Environment on Hotel Performance

The study finds that Competitive Environment has a highly significant positive effect on Hotel Performance (t = 6.331), well above the 1.96 threshold, confirming its strong direct influence. This result is consistent with Arun & Özmutlu (2021), who demonstrated that environmental competitiveness significantly enhances firm performance. In the hospitality context, a dynamic competitive environment stimulates innovation (Baradarani & Kilic, 2018), optimizes pricing strategies, and drives service improvements (Nieves & Diaz-Meneses, 2018). By monitoring competitors, hotels gain insights into their market positioning (Iryani et al., 2024; P.Phillips et al., 2017). At the same time, competitive pressure itself incentivizes the development of sustainable advantages (Hariandja & Santo, 2026), such as novel service offerings, technology-driven operational efficiency, and innovative pricing mechanisms to attract guests.

Crucially, fsQCA results consistently identify Competitive Environment as a core condition in all high-consistency causal pathways to Hotel Performance. It appears in every robust configuration, including Competitive Environment × Customer Orientation (consistency = 0.917) and Competitive Environment × Organizational Factor (consistency = 0.904). Truth table analysis further shows that configurations with Competitive Environment = 1 consistently yield raw consistency values above 0.89, substantially higher than those without it. This dominance underscores Competitive Environment as the foundational element of stable causal configurations leading to high performance. However, some studies argue that excessive competitive pressure may negatively affect organizational stability (Köseoglu et al., 2017). Thus, Competitive Environment functions not only as a significant predictor in the linear model but also as the central, near-necessary condition in set-theoretic terms, serving as the critical anchor in virtually all equifinal pathways to Hotel Performance (Dar et al., 2026; López-Gamero et al., 2025)

Method Evaluation

PLS-SEM results show that Customer Orientation (X2) and Competitive Environment (X3) significantly influence Hotel Performance (p = 0.001 and p = 0.000), while Organizational Factor (X1) does not (p = 0.068). The model explains 71.5% of the variance in performance (R^2 = 0.715), underscoring the importance of market responsiveness and customer focus.

In contrast, fsQCA reveals that high performance arises from specific configurations, not isolated variables: three sufficient pathways emerge, X3·X2, X3·X1, and X2·X1, with solution consistency of 0.861 and coverage of 0.859. Notably, although X1 is not statistically significant in PLS-SEM, it contributes meaningfully when combined with X2 or X3, underscoring its contextual relevance.

Together, the methods offer complementary insights: PLS-SEM identifies which variables matter most on average, while fsQCA shows which combinations work in practice. This integrated view confirms that hotel performance stems not only from strong individual drivers but also from effective synergies among strategic, organizational, and market-oriented conditions.

This study contributes to the hospitality and strategic management literature in three important ways. First, it extends existing research on hotel performance by integrating Organizational Factors, Customer Orientation, and Competitive Environment into a single explanatory framework, moving beyond the dominant linear perspective that has characterized most prior studies. While previous research has typically examined these variables in isolation, this study demonstrates that hotel performance is better understood as the outcome of interacting organizational and market conditions.

Second, this research advances theory by employing a dual-method approach that combines PLS-SEM and fsQCA. The PLS-SEM results reveal the net effects of each antecedent on hotel performance, whereas the fsQCA findings uncover multiple equifinal configurations that lead to high performance. This integration provides empirical evidence that variables which appear insignificant in symmetric models (e.g., Organizational Factor) may still play a meaningful role within specific causal combinations, thereby reinforcing the importance of configurational thinking in hospitality performance research.

Third, the study contributes to the emerging literature on set-theoretic approaches in service management by identifying Competitive Environment as a near-necessary condition for achieving

high hotel performance in five-star hotels. This finding enriches contingency theory by illustrating that environmental pressures do not merely moderate relationships, but can function as core causal elements that anchor multiple sufficient pathways to superior performance.

Practical Contributions

From a managerial perspective, the findings offer several actionable implications for hotel executives and policymakers. First, the strong and consistent role of the Competitive Environment suggests that managers must continuously monitor competitors, adopt dynamic pricing strategies, and innovate service offerings to remain competitive. Performance improvement should therefore be framed as an adaptive process rather than as a one-time strategic initiative.

Second, the results highlight the importance of aligning Customer Orientation with competitive dynamics. Hotels that actively collect and utilize customer feedback, respond quickly to complaints, and personalize services are better positioned to translate market pressures into superior performance outcomes. This implies that customer-oriented practices should be embedded in daily operational routines and supported by management involvement.

Third, although Organizational Factors do not exert a significant standalone effect in the SEM analysis, the fsQCA results show that internal capabilities become highly valuable when combined with either strong customer orientation or intense competitive environments. Consequently, hotel managers should not treat organizational development—such as enhancing communication, collaboration, and problem-solving skills—as peripheral activities, but rather as strategic enablers that amplify the effectiveness of market-facing initiatives.

Limitations and Future Research

Despite its contributions, this study is subject to several limitations that open avenues for future research. First, the data were collected from five-star hotels in Central Java only, which may limit the generalizability of the findings to other regions or hotel categories. Future studies could replicate this model in different geographical contexts or include hotels with varying star classifications to test the robustness of the proposed configurations.

Second, the study relies on cross-sectional survey data, which restricts the ability to infer causal dynamics over time. Longitudinal research designs are therefore recommended to examine how changes in organizational factors, customer orientation, and competitive environments shape hotel performance trajectories.

Third, the competitive environment construct was operationalized using only two indicators, which may not fully capture the multidimensional nature of market turbulence in the hospitality industry. Subsequent research could enrich this construct by incorporating technological change, regulatory pressure, or digital competition to provide a more comprehensive representation of environmental complexity.

Finally, although this study integrates SEM and fsQCA, it does not explore potential mediating or moderating mechanisms. Future research could investigate whether variables such as service innovation, employee engagement, or digital capability mediate or condition the relationship between customer orientation and hotel performance.

CONCLUSION

This study set out to examine the effects of Organizational Factors, Customer Orientation, and Competitive Environment on Hotel Performance in five-star hotels in Central Java using a combined PLS-SEM and fsQCA approach. The PLS-SEM results show that Customer Orientation and Competitive Environment have significant positive effects on Hotel Performance, whereas Organizational Factors do not exhibit a significant direct effect.

However, the fsQCA findings provide a more nuanced understanding by revealing that high hotel performance is achieved through three sufficient configurations: Competitive Environment × Customer Orientation, Competitive Environment × Organizational Factors, and Customer Orientation × Organizational Factors. These results demonstrate that Organizational Factors, although insignificant in isolation, become strategically important when combined with customer-focused practices or intense competitive pressures.

Overall, the integrated findings suggest that superior hotel performance is not driven by a single dominant factor but by the alignment and interaction of internal organizational capabilities, customer-oriented strategies, and responsiveness to competitive environments. Therefore, hotel managers are encouraged to adopt an integrative and adaptive strategic approach that simultaneously strengthens market awareness, customer engagement, and internal organizational effectiveness to achieve sustainable high performance.

A concrete control strategy to improve hotel performance must be designed by considering a combination of variables proven effective through fsQCA findings, namely the synergy between Competitive Environment, Customer Orientation, and Organizational Factors. First, in the Competitive Environment × Customer Orientation configuration, hotels can implement a control system that focuses on collecting and analyzing competitor data and customer needs and preferences in real time. For example, management can use customer relationship management (CRM) technology integrated with a market analytics platform to simultaneously integrate customer behavior and competitor strategies, allowing for rapid and precise adjustments to service offerings. Second, the Competitive Environment × Organizational Factors configuration requires strengthening the internal organization through staff training and enhancing a work culture that is adaptive to market changes. For example, hotels can hold regular workshops that equip employees with the skills to face competition and innovate services, and build a rapid response team capable of responding efficiently to competitive dynamics. Third, in the Customer Orientation × Organizational Factors configuration, control must ensure that all organizational elements are focused on customer satisfaction, for example by implementing an employee performance evaluation system based on customer feedback and a reward system that motivates service improvements. Another concrete example is the implementation of standard operating procedures (SOPs) that prioritize personalization of services according to customer profiles, supported by good inter-departmental coordination.

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