



# Sustainability Performance in Hospitality Industry: Interaction of Strategic Sustainability Management and *Sat kerthi* culture

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## Abstract

This study aims to develop a model framework to identify the determinants of factors that influence sustainable performance practices in the hospitality sector. This study uses explanatory research. The unit of analysis in this study is the hotel's general manager. Data analysis was performed by multiple linear regression. It was observed that the influence of strategic sustainability management consisting of internal and external challenges as well as *sat kerthi* culture adopted as sustainable tourism regulation on sustainability performance based on the triple bottom line. The results show that strategic sustainability management and local *sat kerthi* culture significantly affect the assessment of hotel sustainability performance. The current research model can also be applied to various types of companies in the tourism and other sectors. This study offers original insight into the concept of sustainability, *sat kerthi*, and sustainability performance as a local culture that focuses on the concept of sustainability.

**Keywords:** sustainability performance, strategic sustainability management, local culture, triple bottom line, green hotel

## Introduction

The social and environmental crisis has raised public awareness of sustainability issues. The issue of the social-environmental crisis is growing among various stakeholder groups and demands an assessment of sustainability performance (Kurzack et al., 2021). A sustainability performance assessment is an assessment of the company's sustainability strategy (Werastuti et al., 2018) because so far, it is considered that there have been failures in ethical and environmentally friendly corporate governance, as well as failures in reporting and disclosing financial and non-financial information in an integrated manner to stakeholders (Žalėnienė & Pereira, 2021). The company seeks to maintain relationships with stakeholders who have an important role in the sustainability of the company's operations. Performance measure-

-ment that only uses financial indicators and focuses only on short-term performance can lead to a narrow perspective on the company's activities (Guix et al., 2018). Thus, performance measurement that only focuses on financial performance will not help managers identify important non-financial elements, such as product quality, customer satisfaction, market share, efficiency and productivity, and employee job satisfaction (Mahmud & Riley, 2021).

The concept of sustainability performance assessment has several dimensions, namely economic, environmental and social (triple bottom line) (Rubio-Mozos et al., 2020). This approach can assist managers in identifying key sustainable performance factors and comparing them with the company's strategic objectives (Hutahayan, 2020). The implementation of sustainability performance assessment has been carried out in the manufacturing industry because this industry has a large potential for environmental damage (Thanh et al., 2022). Actually, at this time, the sustainability performance assessment does not stop at the manufacturing industry. Even the sustainability performance assessment is carried out in the public sector (Adams et al., 2014) and the hotel industry (Werastuti et al., 2018).

The hotel industry has great potential for the exploitation of nature and the environment (Johnson, 2020). As happened on the island of Bali, an area with the main income from the tourism sector, has the highest number of star hotels in Indonesia. In 2020 there were 380-star hotels with 58,770 rooms, an average occupancy rate of 70% in 2018- 2019 and decreased to an average of 30% in 2020-2021. Based on data released by the Central Statistics Agency in 2018-2019, Bali received 1,069,199 tourist visits. As a result of increased tourism activities followed by the hotel's aggressiveness in developing its business by ignoring the preservation of nature, the environment, and the community. For example, first, the construction of hotels by breaking through the boundaries of nature and society, namely on the coast, rice fields, green areas and holy places under the pretext of a view. Second, the over-pumping use of groundwater by the hotel industry has resulted in a water deficit in Bali of up to 18.73 cubic meters/second in 2019. In the long term, it can negatively impact land subsidence so that the land is lower than the sea level and easily exposed to seawater flooding (Werastuti et al., 2018).

The negative impact caused by the development of the hospitality industry as a supporter of tourism is currently being overcome by the provincial government of Bali by adopting policies through the vision and mission of *nangun sat kerthi loka* Bali, which means maintaining class and harmony in Bali's nature. In order to support this policy, the provincial government of Bali issued Bali Governor Regulation Number 97 of 2018 concerning restrictions on the generation of single-use plastic waste, as well as Bali Governor Regulation Number 24 of 2020 concerning the protection of lakes, springs, and rivers and the sea. The aim is to create tourism programs that are environmentally friendly and contribute to improving people's welfare and improving sustainability performance for every aspect of business in Bali (Saputra et al., 2021). Companies involved in the tourism industry must pay attention to environmental and social sustainability to improve sustainable performance and realize sustainable development that adopts international standards from the Global Sustainable Tourism Council (GSTC) (Rubio-Mozos et al., 2020). Seeing the phenomenon in Bali, it is necessary to implement sustainable performance assessment in the hospitality industry. Research on sustainability performance in the manufacturing industry cannot be generalized to the

hotel industry because it has different characteristics (Journeault, 2016; Raucci & Tarquinio, 2020).

Companies need to implement strategic sustainability management to improve sustainability performance (Vencato et al., 2014). Previous research has found that strategic sustainability management can improve the financial, managerial, and marketing performance of hotels (Anthony, 2019; Marchi et al., 2012; Salguero et al., 2019). Research from Ge et al. (2018) and Werastuti et al. (2018) stated that hotel companies implementing strategic alliances as a form of strategic sustainability management have a positive influence on sustainability performance. Gunarathne & Lee (2021) argue that improving the sustainability strategy will incur additional costs for the company and can reduce profitability so that it will cause the company's performance to decline. This means the sustainability strategy has a negative effect on the company's economic performance. However, strategies carried out with parties who pay attention to social and environmental aspects can improve sustainability performance (Kurznack et al., 2021). These efforts can be carried out through strategic sustainability management (Vencato et al., 2014) in order to improve sustainability performance (Ara et al., 2019) and maintain the viability of the company (Rubio-Mozos et al., 2020). Based on Resource Based View theory, this research will develop Vencato et al. (2014) and Asadi et al. (2020) research by examining the direct influence between strategic sustainability management and corporate sustainability performance.

This research is motivated by research results that state that improving sustainable performance in Bali's hotel sector is very important to face competition and create an environmental and social climate (Werastuti et al., 2018). Social and environmental responsibility is very important to be combined in performance appraisal, so it is necessary to investigate further the factors that drive the creation of sustainable performance. This research has a novelty that will be explored further: namely, using a triple bottom line approach (profit, planet and people), namely economic, environmental and social, to measure sustainability performance (Koch et al., 2020; Sara et al., 2021) in the hotel industry. Most research in the hospitality industry tends to ignore social and environmental aspects in measuring its performance (Shi & Tsai, 2020).

This study analyzes the role of culture in Bali, which is currently the vision and mission of the provincial government of Bali, namely *sat kerthi*, in regulating every activity in the company so that it is in harmony with the interests of the government, society and the universe (Saputra et al., 2022; Wang, 2017). This culture is a philosophy of life balance in the Hindu community on the island of Bali, namely six efforts to maintain the relationship of purity and balance of nature, which are interrelated with each other so that in its implementation, it is hoped that this nature will be preserved (Gürlek & Tuna, 2017). Thus, it becomes a must for all activities in the company, government, and society to implement *sat kerthi* because it contains mental, physical, and spiritual relationships in it. Environmental problems, economic disparities, and community welfare problems are expected to be overcome with the *sat kerthi* foundation adopted within the company (Astawa et al., 2018; Papadas et al., 2018).

This study builds a theoretical model of sustainable performance in the hospitality industry based on a triple bottom line (profit, planet and people) approach, namely economic, environmental and social, and provides empirical evidence on various factors that affect sustainability performance in the hospitality industry. This research is expected to explain strategic sustainability management's role in creating scarce,

valuable, and creative resources using the resource-based view theory (RBV) (Hutahayan, 2020). The research findings of Schroeder (2012) show that an important factor in determining company performance is the creation of resources that are difficult to duplicate, which can be obtained through internal and external learning. Implementation of competitive strategy through strategic sustainability management aims to create a competitive advantage for companies to create a sustainable performance (Di Salvo et al., 2017).

The uniqueness of the company's strategic resources (human resources, organization and company capabilities) will become a sustainable competitive advantage which in turn will lead to improved financial performance (Barney, 2001; Foran et al., 2005). RBV theory provides an important framework for understanding corporate management and its relationship to performance (Halawi et al., 2005; Hutahayan, 2020; Raduan et al., 2009). Based on the perspective of RBV theory, differences in company performance are mainly a consequence of differences in company resources, especially intangibles. RBV views individual and company factors are two different characteristics that have a relationship in achieving competitive advantage (Gannon et al., 2015; Hutahayan, 2020).

Capabilities and resources are very important in business strategy. Strategic assets will also affect performance, where the influence is based on the characteristics of the company's resources, coordination, and communication mechanisms. These factors encourage the development of the company's strategic assets for its business activities (Ahmad et al., 2018). Thus, the company's performance depends on the consistency and synergy of three elements called the "company triangle strategy": business, resources, and company mechanisms (Cescon et al., 2016; Costa et al., 2018), Contained in strategic sustainability management and *Sat kerthi*. The role of strategic and *sat kerthi* sustainability management will encourage the improvement of the company's sustainability performance (Stoddard et al., 2012).

Sustainability performance incorporates non-financial aspects into management performance. Managers will be able to recognize changes in the business environment and determine and assess sustainable business progress (Ghozali & Rohman, 2019). Corporate sustainability is the company's capacity to continue operating long-term, depending on the sustainability of the relationship with its stakeholders (Jordão & Novas, 2017; Kurznack et al., 2021). Sustainable performance is measured based on the triple bottom line consisting of economic, social and environmental aspects (Boiral & Henri, 2015; Sezen & Çankaya, 2013). Ferreira et al. (2020) explained that social performance creates added value through all activities related to different stakeholder groups such as employees, financial partners, local government, communities, and shareholders. Ferré et al. (2019) research results show that the most relevant benefits resulting from environmentally friendly business practices on the economic aspect are reducing costs, increasing profits, and increasing asset value. In addition, the environment as a source of profitability will also be preserved.

Strategic sustainability management can be analyzed from external and internal sustainability challenges (Law et al., 2016). According to Vencato et al. (2014) external sustainability challenges are analyzed in relation to the involvement of external stakeholders and partners in utilizing sustainability and environmental policy strategies. Internal sustainability challenges are analyzed in relation to aspects of the company's internal involvement in technological innovation and sustainability education, as well as

participation that can generate profits. The hospitality industry has made strategic sustainability management a way to expand globally (Baumgartner & Rauter, 2017; Donnellan & Rutledge, 2019). This industry is becoming a global industry not only because hotels serve the international market but also because the products and services are very complex and globally competitive (Deng et al., 2013; Han et al., 2018; Kim et al., 2017). Globalization pressures and dynamic market changes encourage companies to implement strategic sustainability management (Marchi et al., 2012). In the hospitality industry, previous researchers found that strategic sustainability management has an influence on sustainability performance. Hotels require sustainable strategic management, one of which is implementing a strategy that is oriented towards cooperation or association; for example, the hotel industry cooperates with travel agencies, airlines, tours and travel, as well as other parties to meet increasingly complex customer demands. So the hypothesis proposed is.

H<sub>1</sub>: Strategic sustainability management has a positive effect on sustainability performance

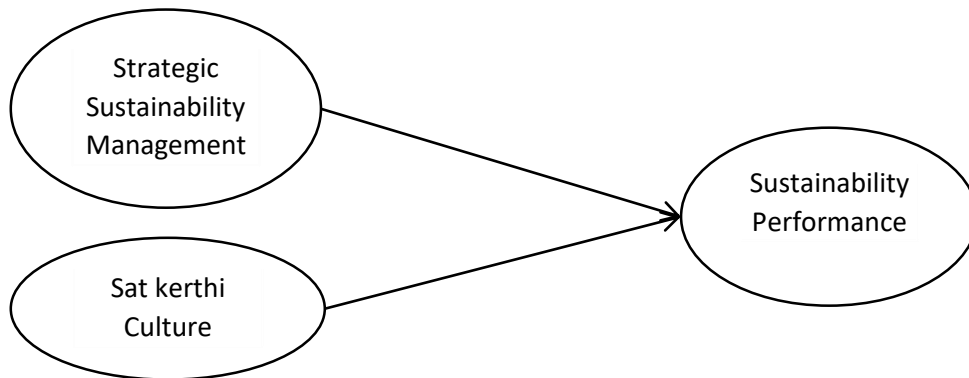
The implementation of Bali tourism is inspired by the principles of local culture, which are adopted into the corporate/organizational culture, namely *sat kerthi*. *Sat kerthi* is an effort to purify the soul, preserve nature, social harmony and dynamic nature, and build the quality of human resources (Wang, 2017). As a unit of the customary law community, Balinese people have a universal way of life based on the *Tri Hita Karana* philosophy, which is rooted in *Sat kerthi* and inspired by Hinduism's teachings (Atmadja et al., 2019; Saputra et al., 2021). *Sat kerthi* culture contains environmentally friendly values, sustainability, balance, alignment with local resources, independence, populism, togetherness, participatory, transparency, accountability and benefits. These philosophical values can shape company members' mental attitudes and behaviour in carrying out their roles to improve company growth and performance (Gürlek & Tuna, 2017). A culture that contains social and environmental elements will be able to encourage the creation of a sustainable business (Ge et al., 2018; Nulkar, 2014). *Sat kerthi* as local Balinese wisdom adopted as organizational culture has an influence on organizational performance. Hospitality businesses in Bali use more local wisdom labels to create stable organizations and achieve sustainable performance. So that in this study, the following hypotheses can be proposed:

H<sub>2</sub>: *Sat kerthi* culture has a positive effect on sustainability performance

## Research Method

The approach used in this research is quantitative. A quantitative approach is a research approach based on the philosophy of positivism (Sukmadilaga et al., 2015), used to examine a particular population or sample, analyzed using statistics to answer questions or test specific research hypotheses and to predict that a certain variable affects other variables (Polzer et al., 2020; Silaen et al., 2020). This study examines the effect of strategic sustainability management and *sat kerthi* on sustainability performance. So, the conceptual framework of this research is presented in Figure 1.

This type of research uses an explanatory research approach. Explanatory research is intended to explain the causal relationship between variables through hypothesis testing. Causality research is research that identifies cause and effect relationships (Sanusi et al., 2020; Tsui et al., 2007). The population of this research is all



**Figure 1. Research Conceptual Framework**

Source: Processed Data, 2022

five-star hotels in the province of Bali, totalling 380 hotels, with the consideration that only in Bali the *sat kerthi* culture is actually and consciously implemented. This refers to the Bali Provincial Regulation Number 5 of 2020 concerning Standards for the Implementation of Balinese Cultural Tourism, which states that tourism entrepreneurs are obliged to develop, maintain, and promote products and tourist attractions based on the *sat kerthi* philosophy. Respondents in this study were General Managers because they were able to provide information about hotel performance, *sat kerthi* cultural information and strategic sustainability management. They are considered to have in-depth knowledge of all aspects of hotel operations, including their sustainable performance (Hodari et al., 2020).

The data collection technique in the survey method in this study uses a saturated sample (census), which is a data collection technique using all members of the population as a sample. Data were analyzed by multiple linear regression. Strategic sustainability management developed an instrument from the research of Lacy et al. (2010) and Vencato et al. (2014), which measures companies' involvement in strategic sustainability management in the manufacturing industry. For this reason, this study has modified it to suit the characteristics of the hospitality industry. Strategic sustainability management is measured by two indicators, namely external sustainability challenges and internal sustainability challenges. Sustainability performance adapting instruments from Ara et al. (2019) and Jordão & Novas (2017) with five indicators: balanced scorecard, environmental and social performance. *Sat kerthi* culture is a variable measured by six indicators, namely environmental friendliness, sustainability, balance, alignment with local resources, independence, populist, togetherness, participatory, transparency, accountability and benefit, which was adapted from the Regional Regulation of the Province of Bali Number 5 of 2020 about the standard of organizing Balinese cultural tourism.

## Results and Discussion

The implementation of this research was carried out first by testing the validity and reliability of the instrument. The validity test uses the product moment Pearson correlation test by connecting each item score with the total score obtained in the study. The instrument reliability test is measured based on Cronbach's alpha value.

**Table 1. Strategic Sustainability Management Model Indicators and Measurements**

Item/Indicators	Code	Pearson Correlation	Cronbach's Alpha
Implementation of cooperation agreements	MKS.1	0.701	0.801
Designing new technologies	MKS.2	0.771	
Work together to improve personal skills	MKS.3	0.801	
Market services	MKS.4	0.674	
Expand the marketing area	MKS.5	0.794	
Harmony with employees and customers	MKS.6	0.694	
Appreciation for employees	MKS.7	0.801	
Management has the ability to bring in customers	MKS.8	0.777	
Create employee loyalty	MKS.9	0.673	
Education for employees	MKS.10	0.681	

Source: Processed Data, 2022

The results of this study collected data that can be analyzed by as many as 30 valid and reliable. The data were analyzed by multiple linear regression to determine the effect of the regression equation.

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 \dots\dots\dots (1)$$

It is known that the p-value of the simultaneous test is 0.000 (less than 0.05). Based on the results of the simultaneous test, it can be stated that there is sufficient evidence to state that there are at least one  $\beta_i$  that is not equal to zero or in other words, there is at least one independent variable that has a significant effect on variable Y. This means that the variables of strategic sustainability management and *sat kerthi* culture simultaneously affect sustainability performance.

So, the regression model in this study is as follows:  $Y = 9.271 + 0.601X_1 + 0.847X_2$

**Table 2. Sustainability Performance Model Indicators and Measurements**

Item/Indicators	Code	Pearson Correlation	Cronbach's Alpha
Sustainability monitoring	SP.1	0.650	0.908
Sustainability policies and actions	SP.2	0.711	
Risk factors	SP.3	0.710	
Impact study	SP.4	0.811	
Protection of traditions and cultural heritage	SP.5	0.712	
Involve local communities	SP.6	0.701	
Leads to energy efficiency	SP.7	0.801	
Avoid and reduce annual emissions	SP.8	0.709	
Implement practices to minimize pollution	SP.9	0.758	
Waste management	SP.10	0.698	
Traditions and cultural heritage are reflected in the products	SP.11	0.687	
Resource audits	SP.12	0.770	

Source: Processed Data, 2022

**Table 3. *Sat kerthi* Culture Model Indicators and Measurements**

Item/Indicators	Code	Pearson Correlation	Cronbach's Alpha
Environmentally friendly	SAT.1	0.850	
Continuity	SAT.2	0.720	
Balance	SAT.3	0.780	
Alignment with local resources	SAT.4	0.711	
independence	SAT.5	0.792	0.971
Citizenship	SAT.6	0.801	
Togetherness	SAT.7	0.771	
Participatory	SAT.8	0.809	
Transparency	SAT.9	0.708	
Accountable	SAT.10	0.751	
Benefit	SAT.11	0.780	

Source: Processed Data, 2022

with the result that if the company adopts strategic sustainability management and a *sat kerthi* culture in its management, it will improve the hotel's sustainability performance. This study is significant at 5% alpha. Based on these results, the strategic sustainability management factors consisting of internal and external factors have a significant positive effect on sustainability performance. According to [Vencato et al. \(2014\)](#), external sustainability challenges are analyzed concerning the involvement of external stakeholders and partners in utilizing sustainability and environmental policy strategies. Furthermore, internal sustainability challenges are analyzed in relation to aspects of the company's internal involvement in technological innovation and sustainability education, as well as participation that can generate profits. This confirms that this study provides empirical evidence from the concept of [Butler \(2008\)](#) and [Barber \(2014\)](#), which states that hotel customers are increasingly demanding management attention to environmental sustainability, conservation, water use, and others to become green hotels. Therefore, an environmentally-based corporate strategy is needed by integrating sustainability management strategies with sustainable performance evaluations ([Barber, 2014](#); [Butler, 2008](#)).

The hospitality industry has made strategic sustainability management a way to expand globally ([Baumgartner & Rauter, 2017](#); [Harrison & Donnelly, 2011](#)). This industry is becoming a global industry, not only because hotels serve the international market but also because the products and services are very complex and globally competitive ([Deng et al., 2013](#); [Langfield-Smith, 1997](#)). Globalization pressures and dynamic market changes encourage companies to implement strategic sustainability management ([Marchi et al., 2012](#)). Strategic sustainability management will provide benefits, such as

**Table 4. Hypothesis Test Results and Simultaneous Test Results**

	B	Std. Error	Beta	t	Sig.
(Constant)	9.271	5.805		1.597	0.122
M_K_Strategies	0.601	0.307	0.308	1.959	0.002
Sat_Kerthi	0.847	0.256	0.520	3.308	0.003
F	16.376				0.000 <sup>b</sup>

Dependent Variable: K\_Sustainability

Source: Processed Data, 2022



gaining new knowledge, resources, markets, technologies and customers; overcoming regulatory barriers; absorbing major local competitors; lower risk by sharing costs and gaining business connections (Foran et al., 2005); and addressing the uncertain environment in a developing country (Cai et al., 2019). Therefore, strategic sustainability management can be an effective tool for achieving the sustainable performance of hotels in Bali (Atmadja & Saputra, 2018).

*Sat kerthi* as a green culture-based organizational culture, is defined as a set of shared mental assumptions that guide interpretation and action in organizations by defining appropriate behaviour for various situations (Papadas et al., 2019). On the other hand, green organizational culture is defined as a pattern of shared basic assumptions about environmental management and environmental issues (Yuan et al., 2012). In addition, greenFurthermore, green organizational culture includes symbols, social stereotypes and shared values (Saputra et al., 2022). These beliefs, values and norms regarding environmental management form the standards of behaviour expected of individuals (Enqvist et al., 2018; Rasoolimanesh et al., 2020; Rodríguez-Antón et al., 2012). That is, the symbolic context for environmental protection and management in a green organizational culture shapes the behaviour and perceptions of organizational members (Rafiq et al., 2020; Werastuti et al., 2018).

The results of this study indicate that the *sat kerthi* culture has a positive and significant effect on sustainability performance. In this case, if organizations expect environmental practices to be successful, they must develop a green organizational culture (Wang, 2017). Efficient implementation of environmental practices requires a culture based on ecological values. Otherwise, investments in environmental practices and management efforts will lose their efficiency (Widiyati & Murwaningsari, 2019). Consequently, a *sat kerthi* culture should be considered as a fundamental requirement for continuous improvement of hotel performance (Asadi et al., 2020; Bhochhibhoya et al., 2020). The *sat kerthi* culture is one of the company's strategies to answer the question of how to carry out environmental activities more efficiently (Solovida & Latan, 2017). Hotels with a *sat kerthi* culture can contribute to further green protection (Figueroa. et al., 2010). The structure of *sat kerthi* culture as a green organizational culture is a significant determinant of environmental practices (Lee, 2009). Green organizational culture shapes environmental practices and issues because culture can create favourable conditions that carry socio-cultural discourse (Asadi et al., 2020; Brand, 2020; Verma & Chandra, 2018). *Sat kerthi* culture creates pressure on individuals and encourages them to behave according to cultural values. Green values and beliefs in organizations can change the way hotels in Bali do business by encouraging environmentally friendly business management practices (Saputra et al., 2021).

The empirical results also support the Vision of the Province of Bali to usher Bali into a new era with a holistic life order that includes three dimensions, namely maintaining a balance of nature, people and Balinese culture (Genuine Bali) in various aspects of life and anticipating the emergence of new problems and challenges that have positive or negative impacts (Saputra et al., 2022). More than that, Vision Nangun *Sat kerthi* Loka Bali also puts forward the *Tri Hita Karana* culture which is actualized by means of life with the *Sad Kertih* concept, namely *Atma Kertih*, *Danu Kertih*, *Wana Kertih*, *Segara Kertih*, *Jana Kertih* and *Jagat Kertih*. This vision is translated into five priority programs, namely food, clothing and shelter, health and education, social security and employment, religious customs, arts and cultural traditions, and tourism.

## Conclusion

This study provides empirical evidence stating that hotel customers increasingly demand management attention to environmental sustainability, conservation, water use, and others to become green hotels. Therefore, an environmentally-based corporate strategy is needed by integrating strategic sustainability management, *sat kerthi* culture as a green organizational culture, and sustainable performance assessment. This study's results indicate a need to improve sustainability performance in the hotel sector to face competition and create an environmental and social climate. For managers, environmental and social issues are a competitive advantage, do not compromise the company's long-term profitability, and are implemented in various organizations. Social and environmental responsibility is very important to be combined in performance appraisal, so it is necessary to investigate further the factors that drive the creation of sustainable performance.

This study is based on data from four and five-star hotels in Bali-Indonesia, including international and local hotel chains. In this regard, the findings of this study cannot be generalized as there are so many hotel categories in Indonesia that the focus among hotel tiers may differ regarding maintaining a sustainable business. The implications of this research for the development of strategic management accounting theory and sustainability accounting. Practical implications for developing an organizational culture in hotels to enhance sustainability performance and environmental awareness.

Future research can use the sustainability performance model of this study to measure sustainability performance in different hotel categories in Indonesia and compare the sustainability model among these different hotel tiers to gain additional knowledge that is useful for decision-makers in the hotel industry as well as for increasing the number of studies in a country, where there is little research on sustainability performance. In addition, this model can be used across a wide range of sectors and can be customized to suit a specific sector or industry.

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