



Exploring the Role of Product Innovation and Marketing Capabilities in Enhancing Hotel Performance: An Empirical Evidence from Indonesia

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Abstract

The hotel industry in Yogyakarta is facing increased competition along with increasing consumer expectations for excellent service and memorable stay experiences. In this research, product innovation capabilities and marketing capabilities are strategic internal resources that play an important role in supporting competitive advantage and hotel performance. This research aims to analyze the influence of product innovation capabilities and marketing capabilities on hotel performance in Yogyakarta. A quantitative approach was used with the Structural Equation Modeling method based on Partial Least Square (SEM-PLS). Data was obtained by distributing questionnaires to 322 respondents consisting of key employees in the fields of marketing, finance, human resources (HR), business development, supervisors and front office from star hotels in Yogyakarta. The research results show that product innovation and marketing capability have a significant effect on hotel performance. These findings provide a theoretical contribution to the development of dynamic capabilities theory and present practical implications for hotel management in designing adaptive, based on innovation and marketing strategies to improve overall company performance.

Keywords: *Product Innovation Capability; Marketing Capability; Hotel Performance; Dynamic Capability Theory*

Introduction

The hotel industry in Yogyakarta is facing increased competition along with increasing consumer expectations for excellent service and memorable stay experiences. Company performance is a key indicator for measuring the efficiency and effectiveness of achieving the industry strategic goals (Seddaoui et al., 2024). Companies that demonstrate superior performance tend to have stronger competitiveness in providing products and services that have added value to customers and stakeholders (Robbins & Couter, 2002).

Following the COVID-19 pandemic, the hotel industry in Special Region Yogyakarta was showing a significant recovery trend post. According to data from the Central Statistics Agency (BPS, 2023) recorded a 25.40% increase in guest visit in 2023, with total 7.9 million visitors consisting of 149.6 thousand were foreign guest and 7.8 million were domestic guest.

The number of hotels also increased to 538 units, including 109 star rated hotels and 474 non-star-rated hotels. In 2024, the number of accommodations jumped sharply to 2,000 units, with 207 star-rated hotels and 1,973 non star-rated hotels. Despite an increase in the average hotel occupancy rate to 52.68% in 2023, this data remains below the December 2017 occupancy rate of 72.16% for star hotels and 39.31% for non star hotels (BPS, 2017).

This situation reflects the complex dynamics market and increasingly fierce competition in Yogyakarta hospitality sector. Based on this circumstance, hotel industry players are required to create sustainable competitive advantages through differentiation strategies based on innovative product and service as well the technology used.

Innovation can be improving competitive advantage and be achieved through the use of digital technology and social media, such as mobile applications for service reservations (Gallardo et al., 2024). Technology-based marketing plays an important role in reaching modern customers, especially those who are heavy users of digital technology. However, the success of a hospitality business is not only determined by the number of accommodations available, but also by the strategies that are implemented effectively and in line with the internal resources. Factors such as product innovation, technology adoption, and company staff competency play an important role in building competitive advantage (Aboramadan, 2016; Abuzaid, 2018; Astuti & Ratnawati, 2020).

Facing market complexity and dynamics, innovative capabilities in developing new products and improving the quality of services are the main pillars for optimizing business processes and promotion adaptive and innovative management (Ciptono et al., 2024). This is the foundation for building competitiveness and to produce sustainable growth (Kanaan et al., 2023). Innovative management is not only a response to external dynamics, but also serves as an instrument for creating value that support long term competitive advantage (Calabrese & Costa, 2015). It is important to improve internal innovation capabilities by offering more specific and experience-based products and services, such as cultural tour packages, local and international culinary delights, and the promotion of historical heritage (Alos-Simo et al., 2024). To support this, the company provides training to staff, new development product and looks to new markets exploration are strategic requirements to ensure the sustainability of the hotel performance.

In a rapidly changing business environment, innovation in products, organizational processes, and ways to create value creation are important strategic activities (Asri et al., 2024). According to Slater et al. (2014), product innovation capabilities are important for the survival of a especially in competitive industries such as the hospitality sector. Effective innovation not only meets market needs but also strengthens the company's position and improves long term performance (Ruiz-Ortega et al., 2021; Urgal et al., 2011). In addition, product innovation capabilities, marketing capabilities also play a important strategic role in shaping industry performance and competitive advantage. Using digital marketing, through interactive emails, online reservations, and e-commerce integration, is the primary medium for reaching consumers effectively (Ebersberger et al., 2021; Y. S. Lin & Huang, 2006; Varadarajan, 2010). Improving an industry marketing capabilities can strengthen brand image, encrease market share, and increase profitability in the long term (Dutta et al., 1999).

Several previous studies have shown inconsistent results regarding studies on the influence of product innovation and marketing capabilities on the hotel performance. Some studies show a positive

influence (Ahmed et al., 2014; Ferreira & Coelho, 2017; Morgan et al., 2009), while other studies show negative effects (Aulia & Masruroh, 2018) or even insignificant (Joensuu-Salo et al., 2018). Similar things were also found in relation to product innovation capabilities (Gunday et al., 2011; H. Li & Atuahene-Gima, 2002; Putri & Ali, 2024; Sombolayuk & Sudirman, 2019). Previous research such as Angkanurakbun and Wanarat (2016) The study is still geographically limited (Thailand) and focuses on budget and high-end hotels, so the results are not fully relevant in the Indonesian context. Therefore, this study aims to examine the influence of product innovation and marketing capabilities on hotel performance, focusing on 3, 4, and 5 star hotels in the Special Region of Yogyakarta. This region was chosen because of its characteristics as a cultural city, a student city, and a tourist destination with rapid growth and an affordable cost of living.

This study use Dynamic Capability Theory (DCT) as its primary conceptual framework. Unlike the static Resource-Based View (RBV) approach, DCT highlights the importance of an organizations capacity to adapt and reconfigure internal resources in response to the dynamics of the external environment (Wójcik, 2015). Within this framework, the study integrates marketing capability variables into the analysis model, with the aim of simultaneously exploring the influence of product innovation capability and marketing capability on hotel performance. Using a quantitative approach with Structural Equation Modeling based on Partial Least Squares (SEM-PLS) for data analysis and using SmartPLS 4.0 software, the results of the study found that product innovation capability and marketing capability are the main factors considered by the hotel industry in determining hotel performance. These findings provide theoretical contributions to the development of dynamic capability theory and present practical implications for hotel management in designing adaptive and data-driven innovation and marketing strategies to improve overall company performance and the competitiveness of the hotel industry in Yogyakarta.

Literature Review

DCT explains that competitive advantage does not only from the ownership of resources, but from the organizations ability to detect opportunities (sensing), exploit them strategically (seizing), and continuously adjust internal capabilities (transforming) in the face of environmental changes (Teece et al., 1997). This theory was developed from the Resource-Based View (RBV), which is considered less adaptive in the context of dynamic markets (Lin & Wu, 2014). DCT emphasizes the importance of resource integration, flexibility, and innovation in developing competitive strategies (Barreto, 2010; Eisenhardt & Martin, 2000). In the hospitality industry, these capabilities include service innovation, technology adoption, and digital marketing strategies that are responsive to tourist preferences (Ali et al., 2020; Eşitti & Kasap, 2020). The implementation of DCT in Yogyakarta hotel industry is highly relevant due to the high level of competition and rapidly changing market demands. Sensing is evident in monitoring tourism trends and digital technology, sensing the development of innovative services such as mobile check-in and cultural packages, and transforming through staff training and technology based SOP adjustments (Hariandja, 2016; Prayag et al., 2024). Thus, based on DCT theory, the performance of a business industry, including hospitality, depends on ability to continuously integrate, build, and configure its internal and external competencies, such as product innovation and marketing capabilities, so that it can respond effectively to changes in market conditions.

Hotel performance refers to the efficient achievement of organizational goals through the utilization of internal resources (Lebas & Euske, 2010; Schütz et al., 2020). In the hospitality context, this reflects the optimization of human resources and materials to achieve targets (Charles & Ochieng, 2023; Eniola & Ektebang, 2014). Key performance indicators include profitability, revenue growth, market share, and customer satisfaction (Joel et al., 2012). In condition of Yogyakarta hospitality, these factors are crucial in

facing intense competition. Environmental management strategies also contribute to performance (Cortés et al. 2007) while limited innovation remains a challenge.

Performance appraisal is based on company standards (Wardani & Rudolfus 2016), with innovation being the key to improvement (Witjaksono & Amir, 2022). The success of product launches and market development can be seen from sales growth and market share. (Afendi, 2022; Pelham & Wilson, 1995). The hospitality industry in DIY requires continuous innovation to remain competitive (Rashidirad et al., 2013; Tajeddini et al., 2020).

In addition to product and service innovation, strategic HR management through training and welfare improvements can increase motivation and productivity (Indrajita et al., 2021). Supriyadi et al. (2020) emphasizing that effective marketing and human resource management are strategic investments that contribute to overall industry performance. We use this theoretical framework, aims to investigate how product innovation and marketing capabilities affect hotel performance in Yogyakarta.

Product Innovation Capability

Innovation can be defined as a process that produces value added and elements of novelty for organizations, suppliers, customers, through the development of new procedures, solutions, products, services, and marketing strategies (Damanpour et al., 1894). Ferreira and Coelho (2020) emphasizes that innovation creates value added products according to customer needs to increase competitive advantage Al-Ansari et al. (2013) states that new ideas can enhance efficiency, service quality, and profitability company. Innovation is gradual and continuous (Canbul & Çemberci, 2023) and involves the creation and improvement of products and service through the utilization of the organizations internal resources (Chang et al, 2012).

Dunk (2011) stated that product innovation is an adaptive strategy to response in market and technology changes. Previous studies (Naala & Omar, 2017; Saunila et al., 2014; Tuan et al., 2016) demonstrated the significant influence of product innovation on customer satisfaction, operational effectiveness, and market growth within the hospitality industry. However, Titioka & Titioka (2021) showed that the impact vary depending on the industry context. Becheikh et al. (2006) stated that 80% of studies showed a positive relationship between R&D investment and innovation. Through the application of innovation, the emotional competencies held by individuals and organizations can be transformed into value-added assets that enhance market positioning and contribute positively to financial sustainability (Arranz et al., 2019; Grisseemann et al., 2013; Mattsson & Sintes, 2013). Innovation in the areas of products, processes and markets has a significant impact on performance (YuSheng & Ibrahim, 2020). Product innovation must fulfill originality and uniqueness (Hjalager et al., 2018) and thus contribute significantly to hospitality performance (Ferianto & Widodo, 2024). Thus, the greater a hotels innovation capability, the more customers will be attracted to its products, thus increasing its performance in long terms.

H1: Product innovation capability has a positive effect on hotel performance.

Marketing Capability

Marketing capability refers to an organizations ability to develop and execute effective promotional strategies related with organization activities (Weerawardena, 2003), with efficient and efective of use resources (Morgan et al., 2012; S.Day, 1994). In the context of hospitality, this capability includes promoting services through diverse media to increase accessibility and brand awareness (Qian et al., 2022). In the digital age, technology based marketing such as social media, SEO, and digital advertising

has become essential (Jung dan Shegai, 2023). This capability demonstrate an adaptive response to market dynamics and customers preferences (O’Cass et al., 2012). This capability encompasses the process of developing, communicating, and delivering value to customers (Bahadir et al., 2008; Morgan et al., 2018), as well marketing innovation to create superior service and products (Frans et al., 2004; Li & Mitchell, 2009).

Marketing capabilities influence innovation intentions and contribute to long term performance (Weerawardena, 2003), and build relationships with customers and stakeholders (Nath et al., 2010; Yu et al., 2014). Other studies also show a positive relationship between marketing capabilities and industrial performance (Wang & Kim, 2017; Yuan et al., 2016). Mu (2015, 2017) emphasizes the importance of understanding customer needs and connecting products efficiently. Hotels that understand customer needs will provide hotel spesifically facilities desinged to their needs, encouraging customers to stay at the hotel. The stronger a hotels marketing capabilities, the higher its performance, due to its ability to attract customers to stay at the hotel or use its facilities.

H2: Marketing capability has a positive effect on hotel performance.

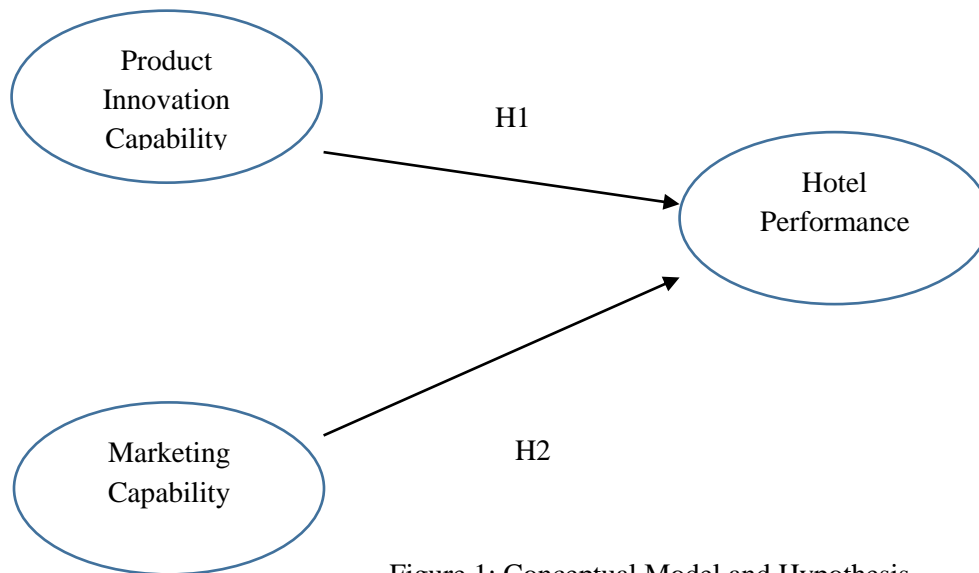


Figure 1: Conceptual Model and Hypothesis

This model draws on Dynamic Capability Theory (DCT), focusing on the influence of product innovation and marketing capabilities on hotel performance. Both capabilities are predicted to improve hotel performance through adaptation to market dynamics. Testing was conducted using the PLS-SEM method, which is suitable for analyzing causal relationships between latent constructs. This model assumes that innovative capabilities and adaptive marketing capabilities can be drive competitive advantage and improve performance.

Methods

This study using a quantitative approach with Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis to examine the relationship between product innovation capabilities and marketing capabilities on hotel performance. The research model aims to to understand the hotels internal capabilities (product innovation and marketing) in improving hotel performance in the Special Region of Yogyakarta. The population in this study includes all employees of 3, 4, and 5 star hotels in the Special Region of Yogyakarta who work in marketing, finance, human resources (HR), business development,

front office, and supervisors. The sampling technique used is purposive sampling with the following criteria: (1) working in marketing, (2) having at least one year of work experience, (3) being involved in developing innovations, promotional strategies, or service improvements, and (4) having a decision-making role, such as a supervisor or manager.

The sample size used in this study was 322 respondents. This number refers to the guidelines from Hair et al. (2020), which recommends that the minimum sample size is ten times the number of indicators in the research model. With a total of 29 indicators, the maximum sample size required is 290 respondents (29 X 10). Therefore, the sample size of 322 respondents has met and exceeded the recommended minimum limit, thus it is expected to increase the validity and reliability of the research findings.

Data were collected through a structured questionnaire adapted and developed based on validated measurement scales from previous research. This research tool measures three main constructs: product innovation capability (Angkanurakbun & Wanarat, 2016), marketing capability (Duah et al., 2024), and hotel performance (Angkanurakbun & Wanarat, 2016). All items were measured using a five-point scale Likert ranging from 1 (strongly disagree) to 5 (strongly agree), allowing for consistency in responses and facilitating quantitative analysis.

Data analysis was conducted using the Partial Least Squares (PLS) based Structural Equation Modeling (SEM) approach with the assistance of SmartPLS software version 4.0. The selection of PLS-SEM was based on its ability to test models that have latent constructs simultaneously. There are analysis stages include evaluating the measurement model (outer model) and structural model (inner model). Outer model evaluation includes testing convergent validity through factor loading values and Average Variance Extracted (AVE), discriminant validity using the Fornell-Larcker and Heterotrait-Monotrait Ratio (HTMT) criteria, and composite reliability with a minimum limit of 0.7 (Algifari & Raharja, 2020)

Additionally, the inner model evaluation involves checking the R^2 value to see how well the model explains the data, using f^2 to find out how much each factor affects the dependent variable, and assessing Goodness of Fit (GoF) to evaluate how well the model overall fits the data. Hypothesis testing was carried out using a bootstrapping technique with 5,000 subsamples, where the effect was considered significant if the p-value was <0.05 . Descriptive analysis was also conducted using SPSS version 29.0 to describe respondent profiles and data distribution before structural model testing.

Result

Demographic Data

The data collection process was conducted over the period from April 29 to May 20, 2025, utilizing both offline and online survey methods. Offline questionnaires were distributed directly to hotels located in Yogyakarta City and Sleman Regency. To achieve broader geographic coverage, online distribution was implemented through Google Forms, disseminated via email and social media platforms such as WhatsApp. Out of 340 questionnaires distributed, a total of 322 completed and valid responses were collected, representing a response rate of approximately 94.71%. This sample size was considered sufficient for conducting Structural Equation Modeling using the Partial Least Squares (SEM-PLS) technique, as it met the recommended minimum sample size criteria for complex model testing. The demographic data can be seen in table 1.

Table 1. Demographic Data

NO	Variable	Classification	Total (Respondent)	Percentage (%)
1	Gender	Male	174	54.0
		Female	148	46.0
		Total	322	100
2	Age (Years)	< 25 Years	22	7.1
		25 - 34 Years	202	62.4
		35 - 44 Years	70	21.7
		45 - 54 Years	24	7.5
		> 55 Years	4	1.2
	Total	322	100	
3	Educational Level	Senior High School / Vocational	14	5
		High School		
		Diploma (D1/D2/D3)	67	21
		Master Degree (S2)	8	3
		Bachelors Degree	231	72
	Total	322	100	
4	Position	Middle Manager	25	7.8
		Staff	250	77.6
		Supervisor	47	14.6
		Total	322	100
5	Work Experience	< 1 Years	8	2,8
		1 – 5 Years	219	67,7
		6 –10 Years	42	13,0
		> 10 Years	53	16,5
		Total	322	100
6	Hotel Rating	Three-Star	160	49,7
		Four-Star	133	41,3
		Five-Star	29	9,0
		Total	322	100

The demographic profile shows a relatively balanced gender representation, although men still slightly dominate certain operational roles. This suggests that gender inclusivity in the hospitality sector has improved, but traditional role segmentation persists. The age composition indicates that the workforce is largely dominated by young adults in their early to mid-career stages. This structure reflects a dynamic and adaptable workforce, but also implies potential challenges in employee retention due to the high mobility typical of young workers. In terms of education, most respondents have tertiary qualifications, underscoring the increasing professionalization of the hospitality workforce. The prevalence of degree holders suggests that intellectual and managerial competencies are increasingly valued alongside technical service skills. From an organizational perspective, the predominance of operational staff highlights the labor-intensive nature of the industry. The limited proportion of supervisory and managerial positions indicates limited vertical mobility and reinforces the hierarchical nature of hotel operations. Work experience patterns indicate that the majority of employees have moderate tenure, consistent with an industry characterized by relatively high employee turnover and career fluidity. Finally, the predominance of respondents from mid-scale hotels reflects the structural composition of the hospitality market, where three- and four-star hotels represent the main employment segment. The limited representation of five-star hotels may indicate strict recruitment practices and the researchers had difficulty accessing respondent data to participate in this study.

Validity and Reliability Test

Table 2. Validity and Reliability Test

Variable	Items	Code	LF	Outer VIF
Product innovation capability (PIC)	CA=0.932, CR=0,946, AVE=0,747			
	My hotel usually develops new guestrooms and services that are well accepted by the Customers	PIC1	0.891	3.753
	The main profits of my hotel are derived from the guestrooms and new services developed	PIC2	0.830	2.593
	The guestrooms and/or new services developed by my company are always imitated by competitors.	PIC3	0.879	3.397
	My hotel frequently offers new guestrooms and services faster than competitors.	PIC4	0.905	4.225
	My hotel has better capability in R&D of guestrooms and/or services than the competitors.	PIC5	0.815	2.219
	My hotel always develops novel skills for transforming old products into new ones for the market.	PIC6	0.862	3.219
Marketing Capability (MC)	CA=0.915, CR=0.936, AVE=0.746			
	Our hotel possesses the necessary skills and expertise to develop and execute effective marketing strategies	MC1	0.849	2.481
	Our hotel is highly sensitive to the market environment and can detect market signals timely and accurately	MC2	0.881	3.288
	Through resource integration with our partners, our hotel gains the capabilities for continuous product and technology innovation.	MC3	0.892	3.144
	Our firm actively learns from a wider range of peer companies, market leaders, and channel partners.	MC4	0.874	3.178
	Our hotel is willing to actively conduct market experiments or tests based on our market forecast.	MC5	0.823	2.150
Hotel Performance	CA= 0.915, CR= 9.936, AVE= 0.746			
	Hotels average annual occupancy rate	HP1	0.874	3.148
	Hotels net profit after tax	HP2	0.840	2.737
	Hotels return on investment (ROI)	HP3	0.840	2.709
	The different ways of delivering services to customers	HP4	0.865	3.211
	Hotels customer satisfaction level	HP5	0.781	2.072
	Hotels employee performance	HP6	0.826	2.795

Table 2 presented the results of the research instruments testing, including validity and reliability. The evaluation was based on 322 valid responses and employed the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach. Convergent validity was checked by looking at standardized factor loadings and Average Variance Extracted (AVE), following the guidelines from Sarstedt et al. (2021), which state that AVE should be more than 0.50 and item loadings should be over 0.70. The results confirmed that all indicators demonstrated strong individual reliability, with factor loadings ranging from 0.719 to 0.905. All constructs also achieved AVE values above 0.50 and composite reliability (CR) values well above the minimum threshold of 0.70, indicating satisfactory convergent validity and internal consistency. Moreover, outer Variance Inflation Factor (VIF) values were examined to assess multicollinearity among indicators. Although some items, like PIC4 (VIF = 4.225) and PIC1 (VIF = 3.753), were close to the upper limit, all VIF values stayed below the acceptable level of 5.0, showing that there are no major issues with multicollinearity. In conclusion, the constructs of product innovation, marketing capability, and hotel performance were found to be both valid and reliable. Therefore, the measurement model is deemed appropriate for further analysis in the structural model phase using PLS-SEM.

Tabel 3. Discriminant Validity HTMT

Variable	PIC	MC	HP
Product Innovation Capability	1		
Marketing Capability	0.829	1	
Hotel Performance	0.791	0.846	1

This study examined discriminant validity using the Heterotrait-Monotrait Ratio (HTMT) value calculated with PLS 4.0. It is important to note that Hair et al. (2019) suggested using the HTMT ratio as a more accurate metric for assessing discriminant validity in PLS-SEM research. Based on the results shown in Table 3, all HTMT values between different parts of the model, which include Product Innovation Capability, Marketing Capability, and Hotel Performance. These results indicate that each model construct has adequate discriminant validity, so that the research instrument can measure the variables appropriately and there is no overlap between constructs. These findings confirm that all constructs have a high level of internal consistency and reliability, ensuring that the measurement model meets the criteria of convergent validity and construct reliability.

Inner Model Test Results

This section presents the evaluation of the inner model through several tests, including Goodness of Fit (GoF), coefficient of determination, F-square effect size.

Goodness of Fit (GoF) Test Results

The Goodness of Fit (GoF) metric assesses the overall adequacy of the model, serving as a single indicator that reflects both the outer and inner model quality.

Table 4. Goodness of Fit (GoF) Test

Model	SRMR	Interpretation	NFI	Interpretation
Saturated model	0.061	Good fit	0.860	Marginal fit
Estimated model	0.061	Good fit	0.860	Marginal fit

As shown in Table 4, the Standardized Root Mean Square Residual (SRMR) values for both the saturated and estimated models are 0.068 and 0.061, respectively, both below the threshold of 0.08, indicating an acceptable model fit to the empirical data. However, the Normed Fit Index (NFI) values for

both models are 0.860, which falls slightly below the recommended cut-off value of 0.90. This suggests that while the overall model fit is adequate and acceptable for use, there remains room for improvement in the structural model's precision.

The F-square (f^2) metric evaluates the relative contribution of each independent variable in explaining the variance of the dependent variable within this study.

Table 5. Effect Sizes Test .

Variable Relationship	f^2 Effect Size
Product Innovation Capability → Hotel Performance	0.180
Marketing Capability → Hotel Performance	0.267

The results in Table 5 show that marketing capabilities have a stronger and more significant impact on hotel performance than product innovation capabilities. Marketing capabilities include targeted promotional strategies, efficient distribution channel management, a deep understanding of market needs, and effective brand communication. This marketing strength supports the success of product innovation, highlighting the complementary nature of both constructs in enhancing competitive advantage and overall hotel performance. Although the contribution of product innovation capabilities is relatively smaller than that of marketing capabilities, it remains a crucial factor in improving hotel performance. Innovations such as developing new services, improving facilities, and creating unique customer experiences add substantial value and differentiate hotels from competitors. Therefore, the integration of strong product innovation and effective marketing strategies is key to achieving optimal performance in the hospitality industry.

Hypotheses Testing Results

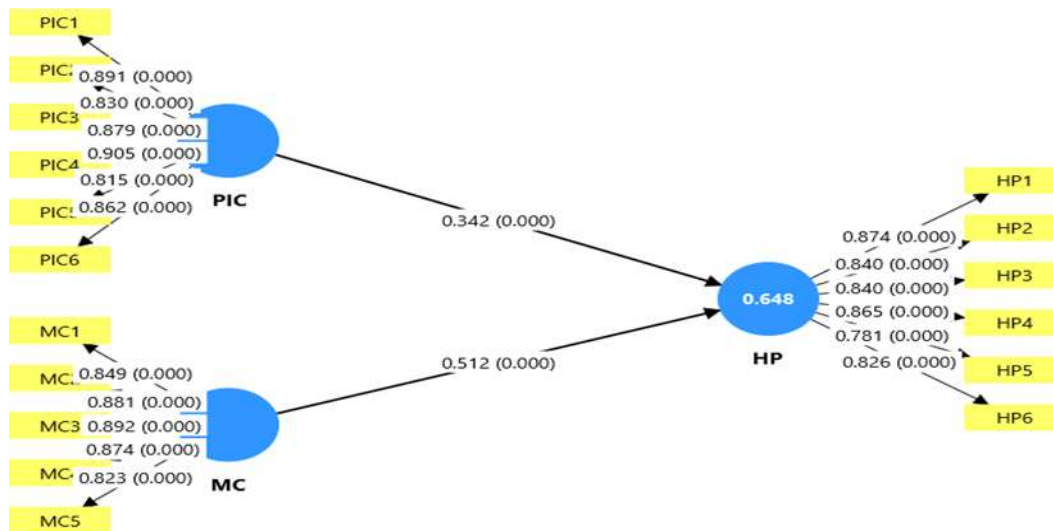


Figure 2. Structural Model

The analysis of direct effects between variables was conducted based on testing the validity of the path coefficients for each structural relationship, as indicated in Table 4. These path coefficients demonstrate the magnitude and significance of the causal relationships proposed in the research model, thus providing empirical evidence to evaluate the direct effects hypothesized in the structural framework.

Table 6. Path Coefficient

Hypothesis	Relationship Between Variables	Original sample (O)	T Statistik	P value	Result
H1	Product Innovation Capability → Hotel performance	0.300	3.545	0.000	Supported
H2	Marketing Capability → Hotel performance	0.399	4.922	0.000	Supported

The results of the hypotheses testing indicate that all relationships among the variables in the provided research model are statistically significant, as evidenced by p-values below the threshold of 0.05 and the original sample have positive direction. Accordingly, all formulated hypotheses are supported. The detailed result is presented as follows:

H1: The relationship between Product Innovation Capability (PIC) and Hotel Performance (HP) is statistically significant, with a standardized path coefficient of $\beta = 0.300$ and a p-value = 0.000. This indicates that hotels with higher innovation capability tend to achieve better performance outcomes, this has shown that H1 was supported.

H2: The relationship between Product Innovation Capability (PIC) and Hotel Performance (HP) is also statistically significant, with a standardized path coefficient of $\beta = 0.399$ and a p-value = 0.000. This finding suggests that superior marketing capabilities enhance a hotel's ability to compete effectively and improve overall performance, this has shown that H2 was supported.

Discussion

The results of the analysis indicate that product innovation capability has a positive and significant effect on hotel performance. This finding suggests that hotels actively engaged in renewing or creating new products both in the form of tangible innovations (such as room design, facilities, and food and beverage offerings) and experience-based services (such as cultural and heritage tourism packages) tend to achieve better performance outcomes.

This result aligns with the Dynamic Capabilities Theory, which emphasizes that firms must be able to sense opportunities, seize them, and reconfigure resources to sustain competitive advantage in a dynamic environment (Teece et al., 2007; Teece et al., 1997). Within this context, product innovation capability represents the reconfiguring process that is, the firm's effort to reorganize and develop its internal resources and capabilities to respond effectively to changing consumer preferences and the dynamic nature of the hospitality industry.

The findings are consistent with previous studies by (Amores-Salvadó et al., (2014), who found that eco-friendly product innovation enhances firm performance, and Gunday et al. (2011), who demonstrated that all types of innovation including product innovation have a positive impact on manufacturing firm performance. Similarly, studies by Akgün et al. (2009) and Sandvik & Sandvik (2003) confirmed that product innovation serves as a key driver of firm performance and should be integrated as a core component of business strategy. Moreover, Sok et al. (2013) supported the notion that product innovation based differentiation fosters competitive advantage and market performance.

In the hotel industry context, Hikmah et al. (2023) and Ruiz-fernández et al. (2024) highlight the pivotal role of dynamic capabilities in driving innovation and improving hotel performance. Empirical evidence from Atun Yulianto (2020) further demonstrates that product innovation in the pastry unit of Hotel Santika Premiere Yogyakarta directly contributes to operational efficiency. Similarly, Kusumawati

(2024) and Ramadani et al. (2019) found that product innovation significantly contributes to firm performance, particularly in service based sectors such as hospitality.

Marketing Capability and Hotel Performance in Yogyakarta

The results of the hypothesis testing indicate that marketing capability has a positive and statistically significant influence on hotel performance in the Yogyakarta hospitality industry. This finding suggests that hotels with stronger marketing capabilities are more likely to achieve better organizational outcomes and maintain a competitive advantage.

From a theoretical perspective, these findings align with Teece et al. (1997) Dynamic Capabilities Theory, which states that firms must continuously build, integrate, and realign internal and external competencies to effectively respond to environmental changes. In the context of this study, marketing capabilities are defined as a form of dynamic capability that enables hotels to adapt to market shifts, adjust communication and branding strategies, adopt digital technologies, and create shared value in line with evolving customer preferences.

In practice, hotels in Yogyakarta are increasingly utilizing digital marketing platforms, such as social media campaigns, collaborations with online travel agencies (OTAs), and data-driven customer analytics, to strengthen market visibility and customer engagement. These initiatives demonstrate that marketing capabilities go beyond traditional promotional activities; they serve as strategic organizational competencies that integrate customer insights, technology adoption, and adaptive market orientation to enhance competitive performance.

These empirical findings reinforce previous studies that emphasize the crucial role of marketing capabilities in driving business success. Morgan et al. (2012) and Ngo & O’Cass (2012) identified marketing capabilities as a critical prerequisite for firm performance through their contribution to market responsiveness and strategic agility. Weerawardena (2003) further argued that marketing capabilities foster an innovation-oriented culture, which in turn supports long-term business sustainability. Similarly, Heikkilä (2002) and Ostrom et al. (2015) highlighted the importance of organizational speed and accuracy in understanding and responding to customer needs as determinants of efficiency and service quality.

Recent evidence from Castro Junior et al. (2023) also confirms that marketing capability significantly enhances performance outcomes in the hospitality industry. Conversely, Ramanathan et al. (2016) reported a negative association between marketing capability and hotel performance a divergence that may stem from sectoral and contextual variations. The hospitality sector, being inherently customer experience driven, is more sensitive to marketing capabilities than manufacturing or production oriented industries.

This study demonstrates that marketing capability is a strategic factor determining hotel performance. By implementing adaptive marketing strategies, particularly through digital channels and customer focused initiatives, hotels can better adapt to dynamic market demands, strengthen customer relationships, and achieve sustainable performance growth. Based on the dynamic capabilities framework, these findings confirm that marketing capability not only supports competitive position but also serves as a core mechanism for organizational resilience and value creation in the hospitality industry.

Conclusions and recommendation

The results of this study support the Dynamic Capabilities Theory (DCT), which serves as its theoretical foundation. This theory states that companies capable of dynamically transforming internal

and external resources will have a greater competitive advantage. In the hospitality industry, a hotel's ability to dynamically manage resources through product innovation and marketing capabilities has been shown to improve hotel performance. Modern service innovation, digitalization, and local cultural experiences, combined with social media-based marketing and customer data, are key elements. Competitive advantage stems from an organization's ability to adaptively build, integrate, and reconfigure competencies. Therefore, hotel management needs to strengthen product innovation and marketing capabilities through employee training and support from government policies that encourage digital transformation. Therefore, hotel companies are advised to improve product innovation capabilities in line with trends and optimize marketing strategies. Meanwhile, the government and hotel associations need to design training and coaching programs that focus on improving hotel innovation and marketing competencies, especially for small and medium-sized hotels.

Limitations and Recommendations

This study has several limitations that need to be addressed in future research. First, the main limitation lies in data processing, specifically regarding the unit of analysis and data sources. Although the unit of analysis is hotel, data were collected from key staff at each hotel to represent the entire unit. However, individual respondent data wasn't merged before analysis, which may have resulted in an incomplete representation of the collective perspective of each hotel. Ideally, when multiple respondents represent a single unit of analysis, their responses should be averaged to accurately reflect the hotel as a cohesive organizational entity. Second, this study focuses exclusively on star-rated hotels (3, 4, and 5) in Yogyakarta, excluding non-star hotels and alternative accommodations such as guesthouses and homestays. This limits the generalization of findings to the broader accommodation sector, especially the informal or lower-middle class economy in other regions. Third, the research model does not include mediation or moderation variables that could increase external validity and better capture the complexity of the relationships between constructs. Including these variables in future research could provide deeper insights into the mechanisms driving the observed effects. Fourth, data collection faced challenges in obtaining responses from top management, who have a comprehensive understanding of hotel performance and innovation activities. Most data were obtained from operational staff or middle management, who may have limited knowledge of the organization's overall strategy and performance. Finally, the use of a cross-sectional design limited the ability to observe the dynamics of product innovation, digital marketing capabilities, and hotel performance over time. Consequently, this study was unable to capture longitudinal developments or establish strong causal inferences.

Recommendations for Future Research

To address these limitations and advance this field, future research should consider the following recommendations: Use data aggregation techniques when multiple respondents represent a single unit of analysis. Calculating the average response will ensure a more accurate and valid representation of organizational units in quantitative research.

Expand the scope of analysis to include various types of accommodation such as non-star hotels, guesthouses, and homestays in various regions. This development will increase the robustness of the model and extend the generalizability of the findings to the broader hospitality ecosystem. External variables as moderators or control variables, such as government regulations, macroeconomic conditions, competitive intensity, and socio-cultural factors. This contextualization will enhance the applicability and relevance of the theoretical model.

Use more in-depth data collection methods, such as semi-structured interviews with key informants, including top-level managers. This kind of qualitative approach can clarify quantitative findings and

reveal strategic insights that are not accessible through closed-ended questionnaires. Use a longitudinal research design to analyze the development and causal impact of innovation and marketing capabilities on hotel performance over time. Longitudinal studies will provide researchers with richer evidence regarding the dynamics and resilience of these relationships.

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