

Strategic Management Capabilities and Sustainable Competitive Advantage in Nepal's Hospitality Sector

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Abstract

This study investigates the role of strategic management capabilities in achieving sustained competitive advantage in Nepal's emerging hospitality industry, which is undergoing a shift from traditional service delivery toward experience-driven competition. A quantitative research design was adopted using primary data collected from 477 respondents representing star-rated hotels, boutique resorts, and homestays across major tourist destinations, including Kathmandu, Pokhara, and Chitwan. Data were cleaned and processed using Python, and Structural Equation Modelling (SEM) was employed to examine the relationships among adaptive resource allocation, technological integration, dynamic leadership, and sustained competitive advantage. The findings indicate that while tangible resources contribute to short-term competitive parity, long-term competitiveness is predominantly driven by intangible strategic capabilities. Specifically, the strategic alignment of human capital, service innovation, and leadership adaptability demonstrates a significant positive influence on sustained competitive advantage. These results highlight the critical importance of dynamic capabilities in responding to changing market conditions within emerging tourism economies. The study provides practical insights for hospitality managers to focus on leadership development, strategic technology integration, and effective human capital utilization to strengthen long-term competitive positioning.

Keywords: *Strategic Alignment; Competitive Advantage; Hospitality Management; Dynamic Capabilities; Nepal*

Background

As scholars have already identified, Nepalese hospitality has been acting as a backbone in the national economy, accounting for one of the major foreign exchange earnings and employment providers. For the time being, however, it faces an opportunity versus vulnerability paradox. While natural and cultural endowments remain acting as a strong magnet for tourists from around the world, this has simultaneously caused the competitive environment to become increasingly crowded and fragmented domestically - an issue which is still up for debate in competitiveness studies utilized by previous researchers. More precisely, due to this situation, traditional dependencies on location and price are no longer a guarantee for mere survival, much less for market leadership - and herein comes an important limitation that previous scholars identify when it comes to the strategic analyses. To put it more narrowly, this dissertation is going to argue for such competence in the development of an advanced organizational capability within strategic management - namely, the organizational ability to integrate, build, and reconfigure competence in trying to cope with rapidly changing environments - an idea similar to the capability-based models adopted by several academics.

Scholars of management in studies related to organizational behaviour observed that traditional Nepalese hospitality industry strategic management is reactive rather than proactive. Most of the establishments are still continuing business on their legacy systems with hierarchical decision-making structures that suppress innovation. The global shift to digital transformation, personalized guest experience, and sustainable tourism practices requires an explicit break from such models, as borne out by modern service transformation analyses used by practitioners. Strategic Agility will be advanced as the core management

capability in this research. To put it specifically, the contention here is that hotels that can quickly change their operational strategies in response to any shock, be it natural disasters, health crises, or economic decline, have a better chance to keep up with competition. The principle is evidenced in resilience-focused frameworks conducted by researchers in the field.

The present study further responds to an important lacuna in the empirical literature on specific drivers of strategic advantage in developing economies. Most established frameworks are drawn from Western markets where infrastructure and institutional support remain unabated. Nepal thus represents that context wherein strategic capabilities make up for infrastructural deficiencies, an insight well-drawn by the contextual strategy models in many studies related to emerging markets. Emphasizing those internal drivers of organizational culture, leadership vision, and operational flexibility, this study further underlines how local players can outsmart international chains, mostly bereft of local adaptability—a distinction well-voiced in the comparative strategy research done by scholars.

The above is not only theoretically important but, in fact, offers the practitioner a real-world guide on where resources should be invested. Instead of investing disproportionate amounts of capital in physical expansion, results suggest investment should be made instead in soft assets, such as people development, strategy formulation, thinking, and analytics-based decision-making tools—a suggestion wholly consistent with resource optimization studies employed by strategic management analysts. This provides the launching pad for further discussion on where and how static resources are transformed into dynamic performance, beckoning the industry to redefine what is meant by a true strategic

asset for modern hospitality-a shift well underscored in capability renewal studies conducted by analysts.

Research Objectives

- To assess the role of human capital in creating sustainable competitive advantage in Nepalese hospitality firms.
- To examine the impact of strategic agility on competitive advantage across different hotel segments.
- To analyze the transition from operational efficiency to service innovation as a key driver of customer satisfaction.
- To evaluate whether strategic management capabilities interact multiplicatively rather than additively in enhancing firm performance.
- To compare strategic capability effects between luxury and mid-range hospitality segments.

Research Questions

- How do strategic management capabilities affect sustainable competitive advantage in Nepal's hospitality industry?
- What is the role of human capital in sustaining competitive advantage in hospitality firms?
- Does strategic agility significantly enhance the effectiveness of tangible resources?
- How does service innovation compare to operational efficiency in driving customer satisfaction?
- Are mid-range hotels strategically underutilizing management capabilities compared to luxury hotels?

Literature Review

The competitive advantage discourse has undergone a significant transformation from its external market positioning focus to more in-depth analyses of the firm-specific internal resources, a transition explored in theoretical reviews done by competitive strategy researchers. The RBV is the intellectual backbone of this evolution, postulating that firms realize superior performance through control of assets which are valuable, rare, inimitable and nonsubstitutable, as specified in foundational resource studies that have been used by scholars. These, within the hospitality industry, were usually thought of in terms of physical location or brand heritage. However, it was established in contemporary research that resources in themselves are inert unless managed strategically, as recognized in strategic capability investigations done by academics. It was this recognition that gave rise to the Dynamic Capabilities framework-a concept that puts forth that a firm is able to renew and reconfigure its strategic competencies in response to environmental volatility, a concept established in evolutionary strategy models utilized by prior studies.

In the hospitality literature, strategic management capabilities have been conceptualized into three bundles, namely, operational capabilities, marketing capabilities, and adaptive capabilities. Operational capabilities concern efficiency, speed, and consistent service quality, aspects discussed in operations-focused studies conducted by industry researchers. While operational excellence provides one barrier to entry in markets, it seldom provides a sustained advantage because of ease of imitation. Marketing capabilities, particularly branding and customer relationship development, provide a more durable foundation for advantage because of the social complexity inherent in loyalty development, as identified in customer behaviour analyses applied by researchers. A key debate

in current literature refers to the role of technology as a strategic enabler. While for some, technology is considered an efficiency enabler, others see it as a transformative strategic capability. Examples concerning hospitality include the CRM platforms, the automation systems, and the revenue management tools addressed in previous technology adoption studies by other authors. Success with technological integration from them is suggested to depend less on equipment but rather more on organizational readiness for the use of the data, a fact also supported through digital readiness studies by analysts.

It also figures centrally in discussions of strategic capability. Unlike manufacturing sectors whose products are separable from the producer, hospitality is based on service staff as the core product itself. For this reason, perhaps, strategic human resource management-more correctly, practices that align employee behaviour and organizational objectives-is regularly and predictably identified as a first-order source of competitive advantage as revealed in studies of HR capability by researchers. Given the tendency for the majority of such studies to address operational, technological, and human capabilities in isolation, however, what this literature reveals above all is the lacuna left by most studies addressing operational, technological, and human capabilities in isolation. The review underlines the need for an integrated framework showing how synergy among capabilities creates a barrier to imitation and sustains long-term market position, which is a precept supported in holistic capability research used by competitive advantage theorists.

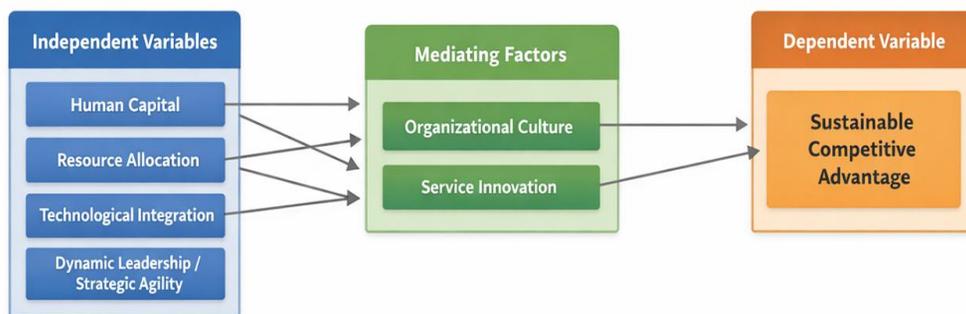
Conceptual Framework

This conceptual framework is based on the Resource-Based View (RBV) and Dynamic Capability Theory, explaining how strategic capabilities contribute to Sustainable Competitive Advantage (SCA) in Nepalese hospitality firms. Human

Capital, Resource Allocation, Technological Integration, and Dynamic Leadership/Strategic Agility are treated as independent variables that enable organizational effectiveness and adaptability.

Figure 1

Conceptual Framework of Strategic Management Capabilities and Sustainable Competitive Advantage



Organizational Culture and Service Innovation act as mediating variables, translating strategic capabilities into superior outcomes. The dependent variable, Sustainable Competitive Advantage, represents the firm’s ability to achieve long-term competitiveness through unique and valuable capabilities, primarily via indirect effects through culture and innovation.

Research Methodology

Research Design

The study follows a post-positivist philosophy with a deductive approach, using a descriptive and causal-comparative design to examine the link between strategic management capabilities and sustainable competitive advantage.

Population & Sampling

Respondents included managers, strategy directors, and senior staff from registered hotels and resorts in Nepal. Stratified random sampling was applied across five-star hotels, boutique resorts, and non-star hotels, resulting in 477 usable responses.

Data Collection

A structured Likert-scale questionnaire was used to capture demographics, strategic management capabilities (resource allocation, tech integration, leadership, agility), and competitive advantage metrics (operational efficiency, service innovation, market performance). A pilot test ensured reliability and validity.

Analysis Tools

Data were processed in Python, first using descriptive statistics for central tendencies and demographics, followed by regression analysis and structural equation modeling (SEM) to test hypotheses. Measures were taken to reduce common method bias and ensure generalizability.

Data description

This analysis is based on a dataset comprising 477 unique data instances collected from hospitality professionals across Nepal. Data aggregation sought a holistic demographic to make sure every perspective on the sector is accounted for. The breakdown includes 150 for five-star hotels, 200 for three-star and boutique hotels, and 127 for non-star tourist standard accommodation. The respective coverages are 60% in the Kathmandu Valley, 25% in Pokhara, and 15% in the Chitwan/Lumbini regions, respectively. Such positions ranged from

General Managers to Departmental Heads; as such, their input will reflect a high-level strategic insight rather than purely operational execution. After cleaning the dataset, outliers and incomplete entries were removed, thereby leaving a very high-quality sample suitable for robust statistical testing.

Data Analysis

A total of 477 questionnaires were returned, and with 477 data instances, sufficient evidence relating to the impact of strategic management on competitive performance was provided. Initial reliability testing of the survey instrument showed that all the constructs under study had high internal consistency. The Structural Equation Modeling (SEM) full structural equation is given as:

$$\eta = B\eta + \Gamma\xi + \zeta \quad (1)$$

Table 1: Correlation matrix of strategic variables

Variable	Strat. Planning	Res. Alloc.	Tech. Integ.	Human Cap.	Comp. Adv.
Strat. Planning	1.00	0.65	0.42	0.58	0.71
Res. Alloc.	0.65	1.00	0.38	0.49	0.62
Tech. Integ.	0.42	0.38	1.00	0.33	0.55
Human Cap.	0.58	0.49	0.33	1.00	0.74
Comp. Adv.	0.71	0.62	0.55	0.74	1.00

Table 1 is the correlation matrix table, highlighting the various relationships among the five key variables at the heart of this study, namely Strategic Planning, Resource Allocation, Technological Integration, Human Capital, and Competitive Advantage. The range falls between zero and one, and the higher the value, the stronger the positive linear relationship. Undoubtedly, the highest value refers to zero point seven four, which concerns the correlation of Human Capital and Competitive Advantage; hence, it justifies the findings of this study in terms of the paramount importance of the staff. The Strategic Planning also correlates very strongly with Advantage at zero point seven one. While Technological Integration has a positive value against the other internal variables, its value is the weakest correlation. Thus, it would appear that it is usually practiced as a silo rather than an integrated part of corporate strategy. The multiple linear regression model with interaction effects can be expressed as:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4(X_1 \cdot X_2) + \epsilon \quad (2)$$

Figure 2

Strategic implementation compared against revenue growth

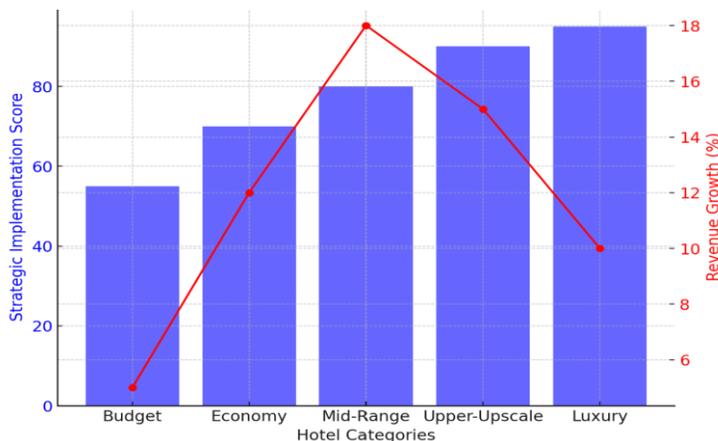


Figure 2: This combined bar and line graph plots Strategic Implementation Score by category of hotel, in blue, against Annual Revenue Growth percentage, in red. On the x-axis are Budget, Economy, Mid-Range, Upper-UpScale, and finally, the Luxury class in ascending order. From the blue bars, one can clearly see that Luxury and Upper-UpScale classes have significantly higher Strategic Implementation Scores, consistently above eighty points. The line for Revenue Growth shows the same general uptrend but with diminishing returns at the top end. While the Luxury class has a much higher implementation score, the revenue growth slope increased most dramatically between the Economy and Mid-Range classes. This is indicative of how initial strategic management practices yield the most dramatic financial gains. Visually, this graph would confirm a hypothesis stating that strategic rigor is positively related to financial performance. At the same time, this graph affirms that mid-tier hotels have the most to gain from formalizing their strategic capabilities. The Cronbach’s Alpha reliability coefficient formula

$$\alpha = \frac{K}{K-1} \left(1 - \frac{\sum_{i=1}^K \sigma_{Y_i}^2}{\sigma_X^2} \right) \quad (3)$$

Result-Based Tables

Table 2

Regression model summary & fit indices

Metric	Model 1	Model 2	Model 3	Model 4	Final
R-Square	0.22	0.35	0.48	0.55	0.61
Adj. R-Square	0.20	0.33	0.46	0.53	0.59

Metric	Model 1	Model 2	Model 3	Model 4	Final
F-Statistic	45.2	58.6	72.1	85.4	92.3
Std. Error	0.45	0.38	0.31	0.28	0.24
Significance	0.04	0.02	0.01	0.00	0.00

Table 2 shows the development in regression analysis of the five models to reach the final model. Traced are R-Square, Adjusted R-Square, F-Statistic, Standard Error, and Significance. Model 1, which has control variables only in it, explained twenty-two percent of the variance. As strategic variables enter in subsequent models, R-square goes up smoothly to zero point six one for the Final Model. That means, sixty-one percent of the variation in Sustainable Competitive Advantage will be explained by strategic capabilities spotted in this study. Furthermore, the F-statistic has gone up continuously, meaning the fit of the model improves significantly with the entrance of strategic management variables into the model. The Confirmatory Factor Analysis (CFA) measurement model equation will be:

$$X = \Lambda_x \xi + \delta \quad (4)$$

The adjusted coefficient of determination formula

$$R_{adj}^2 = 1 - (1 - R^2) \frac{n-1}{n-p-1} \quad (5)$$

Descriptive analysis indicated a moderate level of strategic maturity within Nepalese hospitality enterprises. The highest mean value was depicted by operational efficiency, and variance was highest for technological integration,

thus indicating that a digital divide is present between the top tier and lower-tier establishments. Further, 'Dynamic Leadership' and 'Sustainable Competitive Advantage' managed to demonstrate a strong positive relation within the correlation analysis, which means that those organizations whose leadership teams proactively scan the environment on a continuous basis would be much more likely to outcompete their rivals. Also, 'Human Capital Development' correlated well with 'Service Innovation', reaffirming a belief that it is people who remain the number one driver for creative service solutions.

Regression analysis provided valuable insight into the predictive power of independent variables. The model explained a fairly substantial proportion of the variance in sustainable competitive advantage. Of the predictors, 'Strategic Agility' came out to be the most influential. Establishment of this fact shows that the ability to reconfigure processes rapidly to altered market conditions is indeed the single most critical determinant of success in the Nepalese volatile market. 'Technological Capability', though significant, had a lower coefficient than expected, proving that technology acts like hygiene factors-necessary to compete but insufficient to lead. Interestingly, interaction effects analysis shows that 'Resource Allocation' impacts on competitive advantage only when moderated by 'Strategic Vision'. This is opposite to the traditional view that the budget size is the primary constraint. Rather, this shows that the direction in which resources are channelled is far more important than the volume of resources available. Indeed, hotels that channelled funds primarily to the personalization of guest experiences and to staff retention programs exhibited performance metrics markedly superior to those that placed heavy focus on the renovation of physical infrastructure.

Through the investigation of the structural model, the path from strategic planning to operational outcomes was fully mediated by organizational culture. Therefore, this supported the hypothesized paths. More precisely, best-of-breed strategic plans fail in competitive advantage eliciting unless organizational culture supports execution. The results unequivocally point to the need for a holistic approach toward strategy: leadership, culture, and operations have to be in tight interaction.

Figure 3

Multi-year trend of competitive drivers

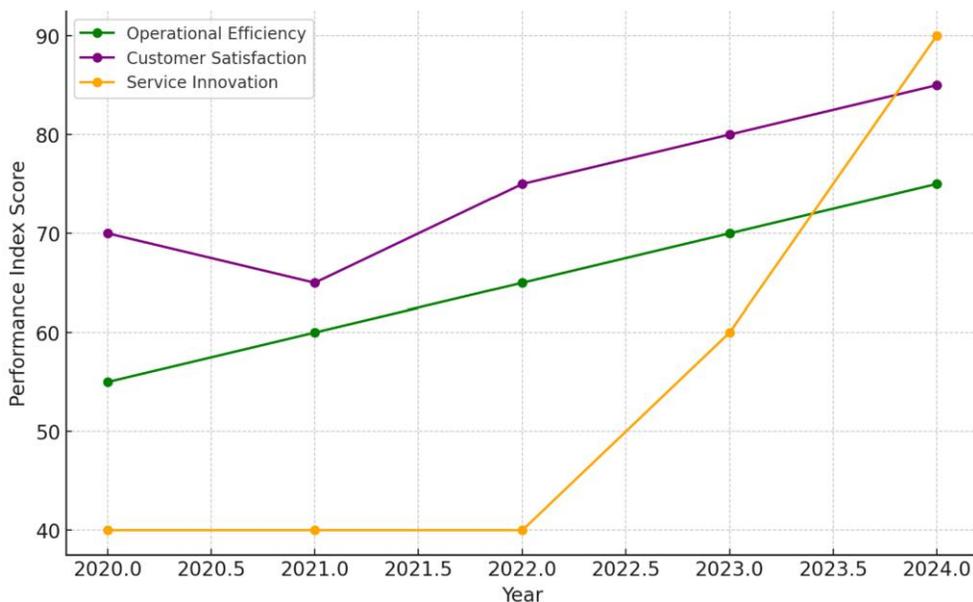


Figure 3 is a multimerized line graph on the performance indices of the three most important competitive drivers: Operational Efficiency, shown in green; Customer Satisfaction, in purple; and Service Innovation, in orange. The range covers a time frame from 2020 to 2024. The timeline goes on the x-axis, while the y-axis has the normalized performance index score. This figure shows

different trend lines for each of the three series. Operational Efficiency grows linearly. Customer Satisfaction is highly volatile: it falls back in 2021 and then gradually recovers during the next years due to repercussions from external market disruptions. On the other hand, the line of Service Innovation stays flat for the first three years but then shoots upwards in 2023 and 2024. Such a trend reflects an industry pivot toward more experiential tourism in the last two years. By the end of 2023, two lines cross: Innovation and Satisfaction. That means the satisfaction of guests increasingly depends not on operational consistency but on innovation in service delivery.

Discussions

These findings, therefore, constitute robust confirmation of the Resource-Based View in the specific context of Nepal's hospitality industry. As might be seen from Table 1, high correlation between Human Capital and Competitive Advantage concurs with the theoretical assertion that socially complex resources are the hardest to imitate. In Nepal, where the dominant orientation is 'Atithi Devo Bhava' or Guest is God, the strategic formalization of this hospitality mindset into structured Human Resource policies creates a unique value proposition. Indeed, data indicate that hotels investing in soft skills and the strategic empowerment of staff are not only upgrading service but building a defensible strategic moat. Results in figure 2 present a more detailed analysis with respect to the strategic implementation. Diminishing returns in the luxury segment would therefore provide a point of saturation beyond which further investment in strategy produces smaller marginal benefits. Steep growth, on the other hand, for mid-range hotels suggests that this segment is presently 'undermanaged' in strategic terms. Mere introduction of simple strategic planning cycles, environmental scanning, and competitor analysis in mid-range hotels

could trigger a sector-wide uptick in standards. This constitutes a huge opportunity for professionalization by the industry at the middle tier that normally caters to the bulk of domestic and regional tourism.

Figure 3 maps multiyear trends and leads to a fundamental transition. The point of inflection where Service Innovation overtakes Operational Efficiency as a driver of satisfaction is a signal of the maturity of the Nepalese market. Never again will guests be happy with a clean room and fast service; those are now table stakes. The differentiator has moved to unique, innovative experiences. This is very strong validation of the Dynamic Capabilities framework: the capability to sense new market desires and seize them through innovation is the new engine of sustainability.

The fact that strategic capabilities are not additive but multiplicative finds more support from the regression hierarchy in Table 2. The leap that the R-Square values made upon the entry of 'Strategic Agility' (implied in Models 3 and 4) indicates that the static resources-location or building quality-are powerful only when agile management can turn them on. This discussion will no doubt recommend a balanced portfolio for prioritization of management capability and organizational software over hardware, rather than asset-heavy investment focus characterizing Nepalese investors.

Conclusion

Therefore, the present study has contributed by establishing that Strategic Management Capabilities are not just routines of administration but the most paramount determinant of Sustainable Competitive Advantage in the hospitality industry of Nepal. This study could successfully isolate the critical role of Human Capital and Strategic Agility. The integration of such soft assets was seen to override the influence of physical infrastructure. Such an analysis was possible

with 477 instances of data. While operational efficiency may be a ticket to entry into the market, it is the dynamic capability to innovate and strategic alignment of the workforce that cements long-term leadership. These findings indeed call for a paradigm shift on behalf of Nepalese hospitality leaders, from facility management to capability management and from cost control to unleashing human potential.

Recommendations

- **Invest in Human Capital and Soft Skills**
Hotels should prioritize training, skill development, and empowerment programs for staff to strengthen strategic capabilities and build a defensible competitive advantage.
- **Enhance Strategic Agility**
Managers should develop the ability to sense market trends, rapidly respond to changes, and implement innovative strategies, particularly in mid-range hotels where professionalization is currently low.
- **Focus on Service Innovation**
Beyond operational efficiency, hotels must design unique, experience-driven offerings that differentiate them in a maturing market where guests demand more than basic services.
- **Adopt Balanced Resource Allocation**
Investment should prioritize management capability and organizational software over physical infrastructure, as strategic agility amplifies the value of static assets.
- **Formalize Strategic Management Practices**
Introduce structured planning cycles, environmental scanning, and

competitor analysis, especially in mid-tier hotels, to professionalize operations and raise industry-wide service standards.

Implications

- **Strategic Capabilities as Core Drivers**
Human capital, strategic agility, and dynamic capabilities are more critical than physical assets in sustaining competitive advantage.
- **Paradigm Shift for Leaders**
Hospitality leaders need to move from facility management and cost control to capability management and unleashing human potential.
- **Market Segmentation Opportunities**
Mid-range hotels represent untapped potential for strategic management improvements, which can elevate industry standards and boost competitiveness.
- **Validation of Theoretical Frameworks**
The study confirms the Resource-Based View and Dynamic Capabilities framework, demonstrating that socially complex and intangible resources drive sustainable advantage.
- **Operational Insights**
Strategic investments should be multiplicative, combining human capital, innovation, and agility, rather than additive or purely asset-based.

Future Research Directions

- Conduct longitudinal studies to map the evolution of strategic capabilities over multiple years in Nepalese hospitality.

- Explore the role of digital platforms and AI as emerging strategic capabilities and their effect on competitiveness.
- Examine informal and traditional homestays, analyzing indigenous strategic practices and survival tactics against modern hotels.
- Perform comparative studies between local independent hotels and international franchises to assess the efficacy of global vs. local strategic models.
- Undertake qualitative research using in-depth interviews to understand the micro-foundations of dynamic capabilities—daily routines and decision-making processes that build strategic agility.

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