

**BUSINESS ENVIRONMENT UNCERTAINTY'S  
EFFECT ON THE PERFORMANCE OF THREE  
STARS HOTELS AND BELOW IN SAUDI  
ARABIA: THE MEDIATING ROLE OF  
COMPETITIVE ADVANTAGE**

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**UNIVERSITI SAINS MALAYSIA**

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by

**ALSUBAIHI IBRAHIM ALI M**

**Thesis submitted in fulfillment of the requirements  
for the degree of  
Doctor of Philosophy**

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## **DEDICATION**

To my beloved father, **Ali Mohammed Alsubaihi** who always  
advise me to study and excel.

Also, to my mother, **Aysha Mohammed Alyahyaw** who  
motivated and supported  
me for my PhD.

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**PENGARUH KETIDAKPASTIAN PERSEKITARAN PERNIAGAAN  
TERHADAP PRESTASI HOTEL BERTARAF TIGA BINTANG DAN KE  
BAWAH DI ARAB SAUDI: PERANAN PENGANTARA KELEBIHAN  
PERSAINGAN**

**ABSTRAK**

Meskipun terdapat peningkatan permintaan dan kadar penawaran penginapan dalam industri hotel di Arab Saudi, sektor ini menghadapi cabaran prestasi yang ketara akibat persaingan yang semakin sengit dan dinamik dari segi penawaran. Proliferasi penginapan berskala kecil dan sederhana telah mendesak pengurus dan pemilik hotel untuk mengadaptasi strategi kompetitif bagi mengatasi ketidakpastian persekitaran dengan jayanya. Ini adalah sangat penting dalam konteks global hari ini, di mana ketidakpastian menjadi lazim dalam pelbagai domain kehidupan, termasuk sektor hospitaliti. Kajian ini meneliti hubungan antara ketidakpastian persekitaran dan prestasi dalam konteks penginapan berskala kecil dan sederhana di Arab Saudi, dengan fokus bagaimana kelebihan kompetitif bertindak sebagai mediator dalam hubungan ini. Kajian ini meliputi wilayah yang luas, dengan memilih lima wilayah utama di Arab Saudi: Mekah, Madinah, Riyadh, sempadan Timur, dan Jazan. Menggunakan pendekatan kuantitatif, instrumen borang soal selidik menyasarkan kepada kakitangan pengurusan tertinggi dan pemilik hotel dengan saiz sampel yang besar sebanyak 375 responden. Data dikumpul melalui tinjauan soal selidik dalam talian yang diedarkan melalui e-mel ke penginapan yang dikenal pasti. Kajian ini mendapat maklumbalas sebanyak 238 maklum balas yang dapat dianalisa. Data dianalisis dengan menggunakan perisian SPSS dan SmartPLS 3.2.1. Penemuan utama kajian ini menunjukkan hubungan yang signifikan antara ketidakpastian persekitaran,

ketidakpastian teknologi dan kelebihan persaingan mempengaruhi prestasi hotel. Dapatan juga menunjukkan kelebihan persaingan adalah mediasi yang kuat antara ketidaktentuan pasaran, ketidaktentuan teknologi dan ketidaktentuan persaingan dengan prestasi hotel. Analisis hipotesis menunjukkan semua hipotesis disokong. Ini menunjukkan bahawa bagi sesebuah hotel mengekalkan prestasi yang baik dalam ketidakpastian persekitaran, pihak pengurusan hotel harus berusaha mencapai kelebihan persaingan dengan kekal berdaya saing mengikut perubahan pasaran dan dinamik. Sumbangan dari sudut teoritikal adalah pembangunan model yang dapat diaplikasi bagi mengukur faktor kelebihan persaingan sebagai mediasi antara ketidaktentuan persekitaran dan kelebihan persaingan terhadap prestasi hotel berskala kecil. Implikasi kajian menyumbang pada adaptasi strategi dalam sektor perhotelan berskala kecil dan sederhana di Saudi Arabia dengan menekankan kepentingan dalam mengadaptasi perubahan persekitaran perniagaan untuk kekal berdaya saing bagi memenuhi permintaan pelanggan yang pelbagai. Implikasi pengurusan praktikal adalah mengesyorkan pengurusan perhotelan berskala kecil perlu membuat perubahan strategi sewajarnya dan proaktif dalam mengadaptasikan dengan perubahan tren pasaran yang dan keutamaan pelanggan.

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**ABSTRACT**

Despite the rising demand and occupancy rates in Saudi Arabia's hotel industry, the sector faces significant performance challenges due to intensified competition and supply dynamics. The proliferation of small and medium-sized accommodations has compelled hotel managers and owners to adopt competitive strategies to navigate environmental uncertainties successfully. This is particularly crucial in today's global context, where uncertainties have become prevalent across various domains of life, including the hospitality sector. This study examines the relationship between environmental uncertainty and hotel performance within the context of small and medium-sized hotels in Saudi Arabia, focusing on how competitive advantage acts as a mediator in this relationship. The study encompassed five major regions in Saudi Arabia: Mecca, Medina, Riyadh, the Eastern border, and Jazan. Employing a quantitative approach, the instrument of survey form was used to targeted group of top management personnel and accommodation owners with a sample size of 375 respondents. Data was collected through an online questionnaire survey distributed via email to identified hotels. The study garnered a substantial response, with 238 usable responses. The data was meticulously analysed using statistical tools such as SPSS and SmartPLS 3.2.1. The study's key findings unveiled a strong and significant relationship between market uncertainty, technology uncertainty, competitive uncertainty, competitive advantage, and hotel performance. Specifically, competitive advantage emerged as a robust mediator between these uncertainties and hotel performance.

These findings were further validated through hypothesis testing, which affirmed the support for all hypotheses posited in the study. In light of these results, the study emphasises the critical role of competitive advantage as a strategic lever for accommodation to thrive in uncertain environments. Small and medium-sized accommodation owners and managers are advised to proactively cultivate and maintain their competitive advantage by strategically adapting to market dynamics, monitoring changes, and aligning their operations and strategies with evolving customer preferences. The study's theoretical contributions lie in presenting a model tailored for small-scale accommodation to evaluate competitive advantage's mediating influence on the intricate relationship between environmental uncertainty, competitive advantage, and hotel performance. Practically, the study offers valuable insights and recommendations for small-scale accommodation businesses in Saudi Arabia, emphasising the need for adaptive strategies and leveraging competitive advantages to effectively meet customers' diverse demands. It underscores the importance of agility, resilience, and strategic foresight in navigating the complexities of today's dynamic business environments.



# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Introduction**

This chapter outlines the research background, which focuses on the prevalence of environmental uncertainty and the competitive advantage in the hotel industry. The scenario of the Saudi hotel industry and the current trend also provide the current situation and the research issue. Additionally, this study discusses in detail the importance of small and medium-sized hotels in Saudi to maintain competitiveness, which necessitated the research to focus on environmental uncertainty and competitive advantage. Finally, the formulation of research questions and objectives and the key terms are described in this chapter.

### **1.2 Background of The Study**

In the contemporary landscape of intense business competition, organisations often grapple with the formidable task of maintaining a competitive stance and achieving independent success. The attainment of a competitive edge is frequently underscored as a pivotal determinant of a company's prosperity (Barney & Ouchi, 1986; Fahey, 1989). To establish a competitive advantage capable of aligning with or surpassing industry performance benchmarks, businesses must systematically assess the strengths and weaknesses inherent in their organisational structure, recognising the consequential implications for strategic advantage and overall performance. Various determinants contribute to a company's competitive advantage, encompassing operational efficiency, the caliber of mergers and acquisitions, the extent and nature of diversification initiatives, organisational management structure, executive suite

composition, and human resource management practices (Flint & Van Fleet, 2004). Moreover, contemporary business imperatives dictate companies' need to devise strategies that account for environmental uncertainties, underscoring the importance of factoring in these elements to gain a competitive edge within the dynamic global market setting.

The global hotel industry, with a staggering turnover of \$525 billion and boasting nearly 18 million rooms, has seen a notable shift in recent years. According to IHG PLC (2019), the percentage of hotel rooms affiliated with branded chain hotels or linked to global or regional chains has risen from 50% in 2012 to 54% in 2019. This trend is underscored by the dominance of the top five hotel companies—Marriott, IHG, Wyndham, Hilton, and Accor—which collectively hold 25% of the market share and oversee 58% of the hotels currently under construction or in the planning stages.

Despite this apparent consolidation, the hotel industry remains fragmented, presenting continuous challenges from competitors. Major players actively pursue growth strategies through acquisitions, organic expansions, and diversification. Furthermore, consumers now enjoy a plethora of options when booking accommodations, with Online Travel Intermediaries acting as booking agents and innovative alternatives such as home-sharing platforms and serviced apartments gaining popularity. In light of these developments, analysing the performance of hotels in Saudi Arabia through the lens of environmental uncertainty serves dual purposes. Firstly, it allows us to understand the dynamic interplay between existing uncertainties, available resources, and ongoing business processes within the Saudi hotel sector. Secondly, it provides insights into how environmental uncertainty interacts with existing resources and business operations within the broader hotel industry. Despite its significance, uncertainty has often been overlooked in studies of competence and

efficiency in the hotel sector. Therefore, exploring this aspect contributes to the existing literature on environmental uncertainty and enhances our understanding of evaluating operational advantages in business.

Given these circumstances, it is imperative to undertake a thorough investigation into the intricacies of environmental uncertainty and its ramifications on firm performance within the hotel industry. Such a comprehensive study not only promises to illuminate the unique challenges confronting hotels in Saudi Arabia but also holds the potential to yield invaluable insights applicable to the broader global hospitality sector. As underscored by the report from IHGPLC (2019), competition within the global hotel industry has intensified, with major conglomerates continually saturating the market. Over the past six years, the top five hotel groups have witnessed a notable 6% increase in market share. This trend poses significant challenges for smaller and local establishments vying to compete. In 2012, the collective market share of these top companies stood at 19%, a figure that has surged to 24.90% by the latest report in 2019. This substantial growth reflects the expanding dominance of these conglomerates in the hotel industry.

While the rise in revenue share for these industry giants can be attributed to various factors, including enhanced marketing strategies, technological investments to enhance customer experiences, and diversification of services, it is important to note that smaller players still hold a significant portion of the market share. This dynamic creates a fluid competitive landscape, constantly adapting to shifting consumer preferences and market dynamics. In assessing industry performance, several metrics come into play. Revenue per available room (RevPAR), for instance, serves as a key indicator of how guests perceive the value of a hotel, brand, or market. The increase in RevPAR from 2014 to 2018, reflecting a surge from 71.9% to 82.2% in lodging

demand, underscores the robust growth of the hotel industry. Despite the dominance of large corporations in capturing market share, there continues to be substantial demand for local and small-scale players to carve out their niche in the market.

Furthermore, the IHGPLC (2019) report indicates that while the global hotel industry is experiencing steady growth, the United States remains the dominant force, commanding 40% of the global market share. China follows closely behind with 9%, with the remainder of the world accounting for the remaining 51% of the global market share. This distribution highlights the evolving dynamics of the global hotel landscape, with different regions contributing to the industry's overall growth trajectory.

In many other countries, as well as in Saudi Arabia, hotel rating systems are designed to provide travellers with an indication of the quality and amenities offered by different lodging establishments. While specific criteria and standards may vary between countries, some similarities and differences exist in hotel rating systems, including those used in Saudi Arabia. Similarities can be summarised as:

- **Star Ratings:** Most hotel rating systems, including those in Saudi Arabia, use a star-based rating system to categorise hotels based on their quality and services. Higher star ratings typically indicate more luxurious accommodations with greater amenities and services.
- **Facility Standards:** Across various hotel rating systems, there are common standards for evaluating the facilities and amenities offered by hotels. These may include criteria such as room size, cleanliness, quality of furnishings, availability of dining options, fitness facilities, and business services.

- **Small and Medium-sized Accommodations:** Include 1 – 3 star hotels, resorts, and short rental accommodations managed by small and medium-sized companies or individual (Ahmad, 2015).
- **Service Quality:** Service quality is key to hotel ratings across different systems. Hotels are evaluated based on the professionalism and friendliness of staff, efficiency of check-in and check-out processes, responsiveness to guest requests, and overall guest satisfaction.
- **Guest Reviews:** In many rating systems, including those in Saudi Arabia, guest reviews and feedback play a significant role in determining a hotel's rating. Positive guest reviews can enhance a hotel's rating, while negative reviews may lead to lower ratings.

On the other hand, differences are like:

- **Specific Criteria:** While star ratings provide a general indication of a hotel's quality, the specific criteria used to assign these ratings may vary between rating systems. Some systems may prioritize certain aspects of hotel quality over others, leading to differences in ratings for similar establishments.
- **Cultural Considerations:** Hotel rating systems may consider cultural preferences and expectations. In Saudi Arabia, hotels may be evaluated based on their adherence to Islamic principles, such as providing separate facilities for male and female guests, offering halal food options, and respecting local customs and traditions.
- **Local Regulations:** Different countries may have their own regulations and guidelines for hotel ratings. In Saudi Arabia, the Saudi Commission for Tourism and National Heritage (SCTH) plays a role in setting standards and

criteria for hotel classifications. These standards may differ from those used in other countries.

- **Online Platforms:** With the rise of online booking platforms and review websites, travellers have access to a wealth of information and reviews from fellow guests. While official hotel rating systems provide a standardised assessment, online reviews can offer more detailed insights into the guest experience at specific hotels (Flint & Van Fleet, 2004).

### 1.2.1 Saudi Arabia Hotel Industry

In recent years, Saudi Arabia has significantly bolstered its hotel sector in response to escalating demand from multinational corporations (T. H. Hassan et al., 2020). Consequently, the dynamics of demand and capacity within the Saudi hotel industry have undergone continuous shifts since 2000. According to data from UNWTO, in 2012, Saudi Arabia ranked 18th globally in terms of capacity, boasting 3,111 establishments, 275,583 rooms, and 69,661 beds, trailing behind Vietnam. Detailed statistics from the year 2012 are presented in Table 1.1.

Table 1.1 Capacity Ranking in 2012

Country	Establishments	Rooms	Beds
Italy	33,728	1,093,286	2,250,704
Germany	34,696	948,825	1,817,567
Spain	19,149	902,624	1,838,958
United Kingdom	38,990	718,405	1,571,120
Korea (ROK)	25,970	698,366	
Mexico	17,669	660,546	1,321,092
France	17,171	619,322	1,238,644
Thailand		528,128	
Indonesia	15,998	405,788	627,754

Greece	9,670	400,433	771,271
Turkey	2,814	328,133	688,053
Russian Federation	9,316	300,629	617,849
Austria	13,203	292,165	594,841
Vietnam	15,381	277,661	
Saudi Arabia	3,111	275,583	596,661

Source: (UNWTO, 2020)

Nevertheless, driven by ongoing development efforts, Saudi Arabia's capacity ranking surged from 18th to 7th by 2019, boasting a remarkable expansion to 8,281 hotel establishments, 0.6 million rooms, and 1.2 million beds. This represents a 166% increase in the country's hotel industry development since 2012. Detailed statistics from UNWTO (2020) are presented in Table 1.2, highlighting the significant growth trajectory of Saudi Arabia's hotel sector.

Table 1.2 Capacity Ranking in 2019 (UNWTO, 2020)

Country	Establishments	Rooms	Beds
United States	57,592	5,416,384	
Japan	57,902	1,631,643	3,905,889
Italy	32,730	1,092,758	2,260,490
Germany	31,615	993,298	1,959,076
Spain	19,381	929,510	1,951,230
Indonesia	29,243	776,025	1,183,497
Saudi Arabia	8,281	606,519	1,221,243
Malaysia	4,826	315,969	
Austria	11,823	290,878	607,010
Taiwan	3,468	195,994	
Portugal	6,510	190,472	438,003
Romania	7,608	154,043	329,931
Czech Republic	6,236	141,331	328,501
Switzerland	4,646	140,331	273,869
Bulgaria	2,166	127,502	288,027

Source: (UNWTO, 2020)

According to data from the Saudi Ministry of Tourism, Makkah and Madinah emerge as the frontrunners in hotel occupancy rates among various regions. In 2019, Makkah recorded a hotel occupancy rate of 75.4%, while Madinah closely followed with 72.5%, ranking as the highest rates across all regions in Saudi Arabia. The chart below visually represents the hotel occupancy rates across different regions of Saudi Arabia.

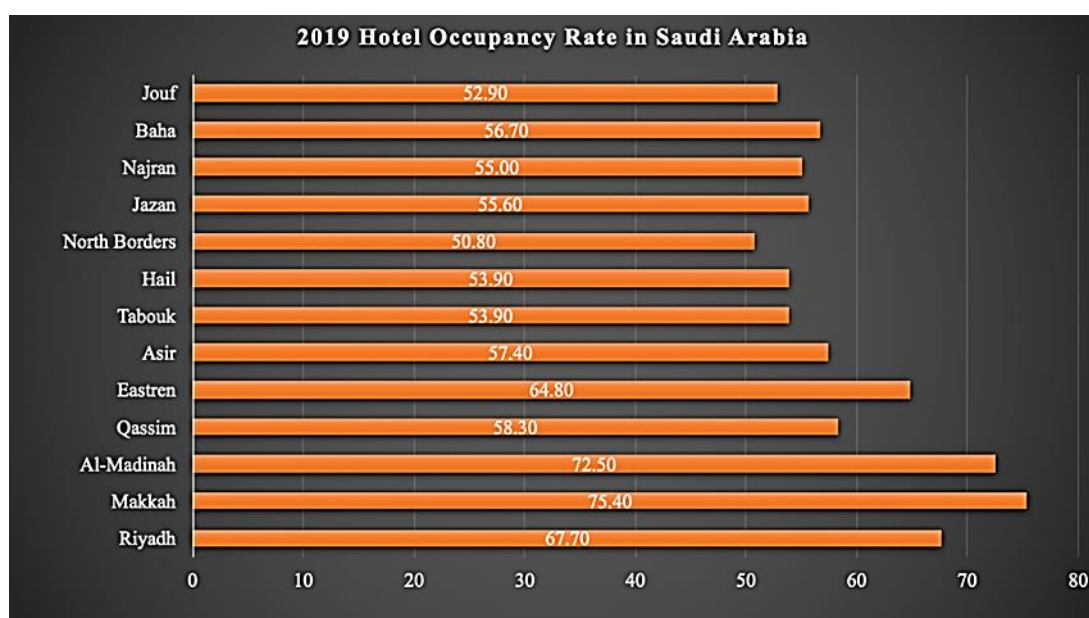


Figure 1.1 Hotel Occupancy Rate in Saudi Arabia  
Source: Ministry of Tourism Saudi Arabia (2020)

The findings from the Saudi Arabia Ministry of Tourism (2020) depict a total of 2621 hotel establishments across the country, encompassing various hotel categories. Notably, most of these establishments are concentrated in Makkah and Madinah, with 1724 and 451 hotels, respectively. This substantial presence in these regions can be attributed to the influx of religious tourists. However, it is noteworthy that a significant proportion of establishments in these areas are categorised as three-star hotels or below. Additionally, the data reveals a total of 155 five-star hotel



establishments in Saudi Arabia. For a detailed breakdown of hotel establishments by region, refer to Table 1.3.

Table 1.3 Hotel Establishments in Saudi Arabia

Region	Five Star	Four Star	Three Star	Two Star	One Star	Total
Makkah	77	69	331	206	1,041	1724
Al-Madinah	26	18	56	65	286	451
Eastern	21	30	34	20	16	121
Riyadh	19	47	27	14	13	120
Jazan	2	6	9	18	28	63
Najran	3	7	9	6	9	34
Asir	2	2	3	8	12	27
Tabouk	0	4	1	9	7	21
North Borders	1	0	1	4	13	19
Qassim	2	5	4	3	0	14
Baha	0	4	2	3	2	11
Jouf	1	0	0	1	7	9
Hail	1	1	1	2	2	7
Total	155	193	478	359	1,436	2621

Source: Ministry of Tourism Saudi Arabia (2020)

It is noted that there is inconsistency in the number of hotels in Saudi Arabia between the two sources Ministry of Tourism SA and UNWTO (United Nations World Tourism Organization) in which these discrepancies in the reported number of hotels in Saudi Arabia may arise due to several reasons. These differences could stem from variations in data collection methodologies, definitions, reporting periods, and the scope of what is considered a "hotel" or an "establishment." Here are some possible explanations for the inconsistent information:

- **Scope and Definitions:** The Ministry of Tourism SA and the UNWTO may use different criteria and definitions when classifying establishments as

hotels. For instance, one organization might include a broader range of accommodation facilities in its count, while the other might have more restrictive criteria.

- **Data Collection Methods:** The two entities may employ different data collection methods. The Ministry of Tourism SA might rely on national surveys, official records, or direct reporting from establishments, while the UNWTO could gather data from various international sources, potentially leading to variations.
- **Reporting Periods:** Differences in reporting periods can result in variations in the reported numbers. If the Ministry of Tourism SA and the UNWTO collect data at different times of the year, or if there are delays in data reporting, this could contribute to discrepancies.
- **Inclusion of Different Types of Establishments:** The organizations may include different types of accommodations in their counts. For instance, one might focus solely on traditional hotels, while the other includes various types of lodging such as motels, bed and breakfasts, and vacation rentals.
- **Accuracy of Data Sources:** Discrepancies could also arise from the accuracy and reliability of the data sources used by each organization. If one relies on more comprehensive and up-to-date sources, it may capture a more accurate representation of the total number of hotels.
- **International vs. National Perspective:** The UNWTO operates on an international level, collecting data from multiple countries, which may lead to a more inclusive count. The Ministry of Tourism SA, being a national

entity, might focus on a more specific set of criteria or sources within Saudi Arabia.

However, it would be beneficial to examine the methodologies and criteria used by both the Ministry of Tourism SA and the UNWTO. Additionally, understanding the context of each dataset, including the scope and definitions applied, can provide insights into why the reported numbers differ. Collaboration between these organizations and transparency in reporting methodologies could contribute to more accurate and comparable data in the future.

Considering the above statistics and studies conducted in the hotel industry in Saudi Arabia, the current study aims to examine the hotel performance in the local hotel industry in Saudi Arabia and its influential factors.

### **1.3 Problem Statement**

Saudi Arabia has positioned itself as an increasingly alluring destination for both Arab and international tourists, particularly drawing those embarking on religious pilgrimages (Assaf & Barros, 2011). Saudi Arabia's hospitality and hotel industry has become fiercely competitive with its ascent to the 13th rank globally in tourism attractiveness. The country has solidified its position among the top ten destinations for tourist arrivals, as indicated by Abuhjeeleh (2019). The implementation of a new tourism policy in the latter half of 2019 signals a transformative shift for Saudi Arabia, marking a strategic pivot from its traditional reliance on oil to a burgeoning tourism and business-driven economy. Within this dynamic landscape, the hotel industry emerges as a central player in driving tourism development in the country. While historically specialising in accommodating religious pilgrims, there is a palpable need

for hotel organisations to adapt and expand their offerings to cater to the evolving preferences of luxury and leisure tourists (Assaf & Barros, 2011).

Performance in the hospitality industry is often evaluated based on various metrics beyond occupancy cost efficiency (OCE), average daily rate (ADR), and revenues. While these metrics are important indicators of a hotel's financial health and operational efficiency, they do not provide a comprehensive picture of its overall performance. Other factors commonly considered when assessing hotel performance include Guest Satisfaction, Market Share, RevPAR (Revenue per Available Room), GOPPAR (Gross Operating Profit per Available Room), Operational Efficiency, Brand Reputation, and Sustainability Practices. However, the three metrics (OCE, ADR, and Revenues) considered the main KPI criteria for hotel management performance.

Nevertheless, despite the positive trend of rising tourist arrivals and the growth in occupancy rates, several regions within Saudi Arabia, including smaller and medium-sized accommodations, are confronted with significant performance challenges. These hurdles primarily stem from supply limitations and heightened competition, as indicated in the Deloitte report (N. El Hassan, 2019). For instance, in the first half of 2019, the Riyadh region witnessed a substantial 5% increase in average occupancy levels compared to the corresponding period in 2018. This underscores the intricate dynamics between the escalating demand and the operational complexities faced by the hospitality sector in key regions across Saudi Arabia. The challenges extend beyond larger hotel chains, affecting smaller and medium-sized accommodation providers, thus necessitating tailored strategies to address these unique operational hurdles and sustain growth in the hospitality industry.

Nevertheless, as supply and competition increased, average daily rates (ADR) dropped by 10%. Similarly, 2019 was a challenging year for the hospitality industry in Jeddah compared to the previous few years. While the Saudi hotel market maintains consistent occupancy rates, the average daily rates and revenues have declined. This drop is attributed to an increase in supply and heightened competition. The impact is particularly noteworthy as a 10% decrease in rates directly reduces the income of hotels in Saudi Arabia. Notably, the local hotel industry reveals that one, two, and three-stars hotels in Saudi Arabia experience lower occupancy rates compared to their four- and five-star counterparts.

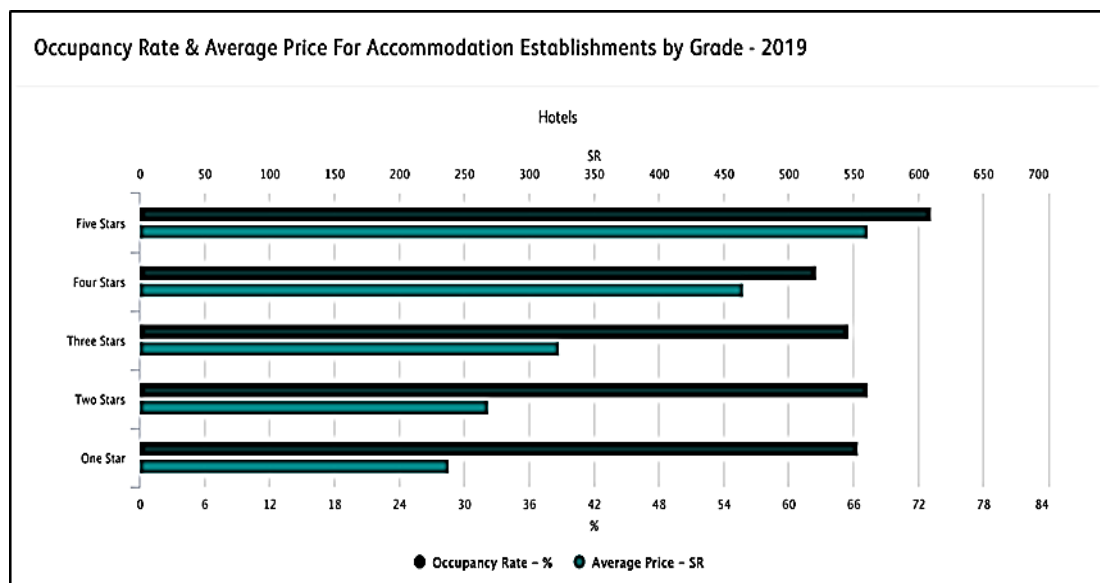


Figure 1.2 Occupancy Rate & Average Price for Accommodation Establishments by Grade – 2019

Source: Saudi Arabia Ministry of Tourism (2020)

The average occupancy rate (for five-star hotels in Saudi Arabia in 2019 stood impressively at 75%, significantly outpacing other categories of hotels (Saudi Arabia Ministry of Tourism, 2020). Moreover, the escalating demand for furnished apartments presents a mounting challenge for the local hotel industry. According to data from the Saudi Arabia Ministry of Tourism (2020), the occupancy rate in

furnished apartments reached 65.5%, intensifying direct competition for the domestic hotel sector in Saudi Arabia. Consequently, the Saudi hotel industry grapples with a climate of uncertainty, characterized by fierce market competition and subpar performance among local establishments. Nevertheless, the influx of foreign hotels with substantial financial and commercial resources into the market exacerbates the challenge, rendering competition an increasingly daunting prospect for domestic hotels in Saudi Arabia (Fitch, 2019).

The emergence of foreign hotels in the Saudi Arabian market presents a significant shift in the competitive dynamics faced by local establishments, in particularly small and medium-sized accommodations. As noted by Yaseen et al. (2015), the entry of six large, financially robust foreign hotels has intensified competition among local players. These foreign hotels often bring well-established brand identities, expertise in hotel management, and access to international marketing channels, thereby bolstering customer awareness and demand for hotel services. This symbiotic relationship benefits both foreign and local hotels, as increased competition drives innovation and service improvement. However, the heightened competition also exerts pressure on local establishments to elevate their service standards, enhance amenities, and refine pricing strategies to remain competitive. This poses a particular challenge for smaller or less established hotels, which may struggle to match the resources and offerings of their foreign counterparts. In particular, the impact of foreign hotels on the competitive landscape is particularly pronounced for small and medium-sized accommodations in Saudi Arabia. As these establishments typically operate with more limited resources and brand recognition compared to larger chains, they face unique challenges when competing against well-established foreign hotel brands. The entry of large foreign hotels intensifies competition within the market,

placing additional pressure on smaller accommodations to differentiate themselves and attract customers. Consequently, small and medium-sized accommodations must adapt by focusing on niche markets, enhancing personalized services, and leveraging local cultural elements to remain competitive in the face of foreign competition.

Local and domestic hotels specifically small and medium size accommodation, face the imperative of formulating a robust competitive strategy that harnesses internal resources to effectively compete with top-tier establishments. A well-crafted competitive advantage not only ensures the sustained performance of the business but also fortifies its position in the market. Throughout the evolution of the resource-based era, strategic approaches such as branding, technological innovation, niche promotion and advertising, pricing strategies, cost management, service quality enhancement, and employee relations have been pivotal in shaping the landscape of the hotel industry (Olsen et al., 2008; Lu & Chiang, 2003; Wong & Kwan, 2001). However, previous studies often focused on specific components within strategic planning approaches, whether external or internal.

In contemporary strategic management discourse, the prevailing theories revolve around Porter's five forces and the resource-based view. These frameworks continue to dominate discussions within the strategic management literature, underscoring their enduring relevance in understanding competitive dynamics and organizational strategy.

Amid the backdrop of current global conditions, uncertainty has emerged as a pervasive challenge across all sectors, including the hotel industry. Elaraby (2021) suggests that environmental uncertainty has cast a shadow over the prospects of the hotel business, while Sunarta et al. (2020) argue that a dearth of understanding

regarding the influence of environmental factors on organizational decisions exacerbates uncertainty. It is evident from research that companies must confront and navigate uncertainty, given the inherent unpredictability of environmental elements such as technology, market dynamics, and competitive forces. Failure to anticipate and adapt to the impact of environmental changes on organizational strategy and operations can lead to a decline in performance and competitiveness.

Numerous studies have delved into performance and competitive advantage within the hotel industry, including research conducted in Saudi Arabia (Srimon et al., 2011; Al Hanini et al., 2018). These investigations have scrutinized the factors underpinning success and competitive advantage in the hospitality sector. Environmental uncertainty refers to the unpredictability and complexity of the external environment in which an organization operates (Lu & Chiang, 2003). In the context of the hotel industry, environmental uncertainty encompasses various factors, including technology, competitive dynamics, and market conditions, which can significantly impact a hotel's performance. Technology Uncertainty refers to emerging technologies such as artificial intelligence, mobile applications, and data analytics are reshaping guest experiences, revenue management, and operational efficiency. However, the pace of technological change can create uncertainty for hotels, as they must continually adapt to new tools and trends to remain competitive (Olsen et al., 2008). The second component (Competitive Uncertainty) arises from factors such as the entry of new competitors, changes in consumer preferences, and shifts in market dynamics. Hotels must continuously monitor and respond to competitive threats, including pricing pressures, brand proliferation, and alternative lodging options such as vacation rentals and sharing platforms.



Finally, market uncertainty refers to fluctuations and uncertainties in demand, supply, and economic conditions that impact the hotel industry. Factors such as economic downturns, geopolitical instability, natural disasters, and public health crises can disrupt travel patterns, affect consumer confidence, and alter market dynamics. Hotels operating in markets characterized by high volatility or seasonality may face heightened uncertainty regarding demand forecasting, pricing strategies, and revenue management (Fitch, 2019).

In summary, environmental uncertainty in the hotel industry encompasses technology, competitive, and market uncertainties, which pose challenges and opportunities for hotel performance. Hotels must proactively monitor and adapt to these uncertainties to remain agile, innovative, and competitive in a rapidly evolving business environment. Strategic investments in technology, market intelligence, and risk management can help hotels navigate uncertainty and position themselves for long-term success.

However, there remains a dearth of empirical studies on this subject, particularly regarding the specific elements impacting performance and competitive advantage in Saudi Arabia's hotel industry. This study aims to bridge this gap by examining how the environmental uncertainty factors influencing the performance and competitive advantage of the small and medium size accommodations in the hospitality industry in Saudi Arabia.

Various studies have underscored that performance and competitive advantage in the hotel industry are vital for achieving organizational objectives and executing strategic plans effectively (Al-Alak & Tarabieh, 2011; Alkhazali et al., 2015; Al-Naimat et al., 2013; Yaseen et al., 2015). Consequently, hotel management can

evaluate their performance and competitive advantage by considering these influencing factors (Kebede & Tegegne, 2018; Shihadeh et al., 2018). However, research focusing specifically on the factors influencing competitive advantage and performance remains limited. Despite numerous studies scrutinizing individual facets of Saudi Arabia's hotel sector, none have succeeded in isolating the characteristics that impact both performance and competitive advantage (Matar et al., 2018).

The literature gap in this research domain lies in the limited understanding of how environmental uncertainty affects the performance of small and medium size hotels in Saudi Arabia and the potential mediating role of competitive advantage in this relationship. Notably, there is a paucity of empirical studies investigating the intricate interplay between environmental uncertainty, competitive advantage, and hotel performance, particularly concerning small and medium size hotels in Saudi Arabia. This gap underscores the imperative for further research to explore this relationship and provide insights into how these factors can bolster the success and sustainability of lower-tier hotels in Saudi Arabia.

This study aims to shed light on the challenges and provide a better knowledge of the relevant aspects that affect hotel performance and competitive advantage, particularly in Saudi Arabia, where it is believed that few studies have focused. Furthermore, this research is lay out a framework of environmental uncertainty that can be used to enhance the competitive advantage and performance of the hotel industry.

#### **1.4 Research Questions**

1. Is there a positive correlation between technology uncertainty and competitive advantage?
2. Is there a positive correlation between competitive uncertainty and competitive advantage?
3. Is there a positive correlation between market uncertainty and competitive advantage?
4. Is there a positive correlation between competitive advantage and hotel performance in Saudi Arabia?
5. Does competitive advantage serve as a mediator in the relationship between environmental uncertainty (technology, market, and competitive) and hotel performance?

#### **1.5 Research Objectives**

This study aimed to investigate the relationship between environmental uncertainty and hotel performance in small and medium size hotels and below in Saudi Arabia, focusing on the role of competitive advantage as a mediator.

Below are the research objectives of the study:

1. To investigate the correlation between technology uncertainty and competitive advantage.
2. To explore the connection between competitive uncertainty and competitive advantage.
3. To examine the link between market uncertainty and competitive advantage.

4. To assess the association between competitive advantage and hotel performance in Saudi Arabia.
5. To analyse whether competitive advantage acts as a mediator in the relationship between environmental uncertainty (technology, market, and competitive) and hotel performance.

## **1.6 Scope of Research**

This study delves into the analysis of competitive advantages among managers of small and medium-sized accommodations, particularly regarding environmental uncertainties in the context of Saudi Arabia. Environmental uncertainty and competitive advantage serve as focal points in this research, considering their roles as precursors to hotel performance. Specifically focusing on small and medium-sized hotels within Saudi Arabia, data were gathered directly from the managers and owners of these identified establishments. These local hotels play a significant role in the hospitality industry of Saudi Arabia. However, it's important to note that this study primarily concentrates on the environmental uncertainty component under normal circumstances. Consequently, data, conditions, and situations related to the hospitality industry in Saudi Arabia during the Covid-19 Pandemic were excluded from the study due to their abnormal nature.

The study focuses on small and medium hotels because they represent a significant portion of the hospitality industry, particularly in Saudi Arabia. Additionally, conducting a study across a wide range of hotel categories may require extensive resources in terms of time, budget, and manpower. Thus, focusing on small and medium hotels allows for more efficient allocation of resources while still capturing a representative sample of the industry. Moreover, limiting the study to small

and medium-size accommodations enables a more focused and in-depth analysis of this specific segment. This approach facilitates meaningful comparisons within this category, allowing researchers to identify unique challenges, opportunities, and trends that may not be apparent in larger establishments.

On the other hand, the study was limited to five areas (Mecca, Medina, Riyadh, Eastern border, and Jazan) for several reasons. Firstly, geographic representation: the selected areas are strategically chosen to represent different regions of Saudi Arabia, ensuring geographic diversity in the study sample. Mecca and Medina are significant pilgrimage destinations, Riyadh is the capital and a major business hub, while the Eastern border and Jazan provide insights into different economic and cultural contexts. Secondly, data accessibility: focusing on a limited number of areas allows for more efficient data collection and management. Researchers can establish partnerships and collaborations with local stakeholders in these areas, streamlining the research process and ensuring access to relevant data. Finally, depth of analysis: by concentrating on a smaller number of study areas, researchers can delve deeper into the unique characteristics, challenges, and opportunities present in each location. This approach enables a more nuanced understanding of the factors influencing hotel performance within specific geographic contexts.

## **1.7 Significance of the Study**

This project aims to undertake practice-relevant research and offer assistance to practitioners. The research is pertinent to the real-world challenges the hotel business faces. As previously mentioned, the environment for the hotel sector changed in the last ten years following a stable, controlled, and continuously expanding market. Management must increase organizational effectiveness by identifying and preserving

competitive advantage to win in this increasingly dynamic and advanced environment. Therefore, the study's findings had a significant strategic impact that contributed to the hotel industry in Saudi Arabia.

Constructing a model examined in this study is necessary to enhance the collaborative and flexible approach and broaden the view of the competition value. Some of the contributions of this study are listed below.

First and foremost, this study aims to determine the relationships among environmental uncertainty, competitive advantage, and hotel performance, as well as the role that competitive advantage plays as a mediator. The findings from this research are anticipated to provide the finest strategy for advancing hotel performance for the Saudi economy and achieving Vision 2030, and adding to the body of literature. Second, by conceptualizing three components, the development framework has suggested environmental uncertainty. Since hotels are the main contributor to the Saudi economy, possessing these frameworks allows for a better understanding of the effects of competitive advantage on hotel performance. The research on the relationship between environmental uncertainty and hotel performance, respectively, with a competitive advantage as a mediating variable, will benefit from examining this paradigm. Thirdly, by combining this with contingency theory, which simulates organizations to strengthen competitive advantage when there is uncertainty in the environment of the organizations, the current research is anticipated to contribute to the theoretical development of the resource-based view (Barney & Ouchi, 1986). The research also investigates the contingency theory, which is consistent with environmental practices in the organization, in addition to the resource-based view theory. Therefore, environmental uncertainty is driven by resource-based theory and contingency theory. Due to the limitations of existing research connecting both

theories concerning competitive advantage, environmental uncertainty, and hotel performance, the research attempted to combine both theories by identifying competitive advantage as a mediator. This study's findings should demonstrate the connection's importance to hotel performance to provide an agile environment for small and medium-sized accommodations. The factors mentioned above are connected to firm performance, as strongly highlighted by Seidu (2011) and Sampe (2012).

The empirical data of the research provide strategies for the hotel industry, especially small and medium-sized accommodations in Saudi, to be more competitive in managing their organization. This is helpful for hotel managers or managerial level of the hotel industry to imply the strategies for uncertain environments to survive in hospitality and tourism.

Finally, this study emphasizes the significance of the interplay between environmental uncertainty, competitive advantage, and organizational accomplishment, which is still understudied from the practical and academic perspectives of the study's relevance to the service sector. According to the extant literature, limited research focuses on organizational performance, competitive advantage, and environmental uncertainty elements in the hotel or service industry. However, despite thorough research, the Saudi hotel sector case study has not been conducted or published.

As the new regulation of Tourism Prospects in Saudi aims to propel significantly in the hospitality industry, hotel chains can achieve productivity growth. The empirical data may provide a practical contribution from the managerial level of small and medium-sized accommodations to be more competitive and imply possible

strategies. In examining the uncertainty of competition, technology and market are key indicators of hotels' competitive advantage and performance. This gives a clear insight to managers and managers to make clear strategies regarding the uncertain environment. The study's results help investors look for more details regarding Saudi Arabia's hospitality situation. Due to the scarcity of data on hotel industry productivity, governmental organizations may also include these results in their strategic planning.

Overall, by examining many aspects of environmental uncertainty and how they interact with business performance, the study adds to our understanding of competitive advantage in the Saudi Arabian hotel market. In addition, the study fills a gap regarding competitive advantage in the service sector by using the chosen holistic approach, which considers both strategic and operational elements.

## **1.8 Definitions of the Key Terms**

The definitions of the keywords utilized in this study are given below.

### **Environmental Uncertainty**

Environmental uncertainty, according to Pfeffer and Salancik (2015), is "the extent to which future conditions of the world cannot be foreseen and properly forecast" (p. 67). Environmental uncertainty results from people being unable to predict the future and not having access to enough knowledge when making decisions.

### **Technological Uncertainty**

A feeling of technological uncertainty is produced when a firm's technological environment is not fully understood or some aspects of that environment cannot be precisely predicted (Darvishmotevali et al., 2020).