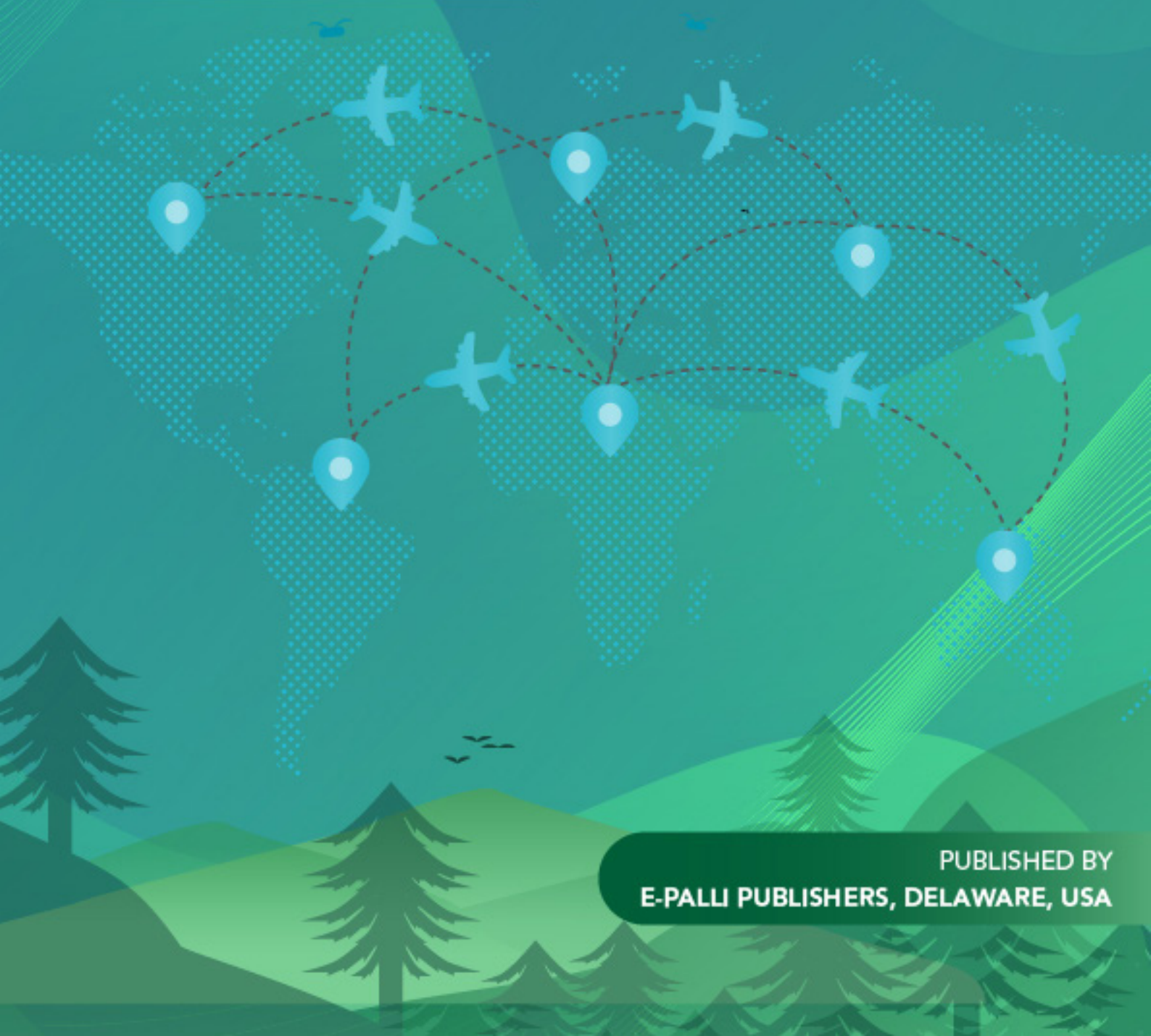




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Innovation-Enabled Cost Leadership and Firm Competitiveness: Evidence from Bronze-Accredited Hospitality Facilities in Kenya

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ABSTRACT

Despite the widespread adoption of the cost leadership strategy as a means of achieving competitive advantage in the hospitality sector, its effectiveness in resource-constrained environments remains uncertain. This study examined the relationship between cost leadership strategy and the competitiveness of Bronze-Accredited Hospitality Facilities (BAHFs) in Kenya, with innovation as a mediating variable, using a quantitative cross-sectional research design. The unit of observation comprised 347 BAHFs, with data collected from two respondents in each facility (a manager and a supervisor), yielding a total of 694 targeted respondents. A response rate of 84.9% (589 valid responses) was achieved using structured questionnaires. The data were analyzed using Covariance-Based Structural Equation Modeling (CB-SEM). The results indicate that the cost leadership strategy has a positive and statistically significant effect on competitiveness ($\beta = 0.295$, $p < 0.001$). However, when innovation is introduced into the model, the direct effect remains statistically significant but is reduced ($\beta = 0.118$, $p = 0.027$), while the indirect effect through innovation is also significant ($\beta = 0.200$, $p < 0.05$), confirming partial mediation. The study concludes that competitiveness in BAHFs is achieved through both direct cost efficiency and innovation-enabled strategic execution. Accordingly, it recommends that managers integrate innovation into cost leadership strategies to enhance operational efficiency, service quality, and sustained competitiveness in resource-constrained hospitality environments.

INTRODUCTION

The global hospitality industry is increasingly shaped by rapid technological advancements, evolving customer expectations, and intensifying competitive pressures. These dynamics have heightened the need for firms to adopt effective strategic orientations that not only ensure market positioning but also enable continuous adaptation in dynamic environments. In this context, competitiveness extends beyond short-term financial performance to encompass a firm's ability to achieve superior operational efficiency, service quality, customer satisfaction, and adaptability relative to competitors (Barney, 1991; Teece, 2018).

Strategic management literature traditionally explains competitiveness through firm positioning, particularly within Porter's Generic Strategies Model, which identifies cost leadership, differentiation, and focus as primary pathways to competitive advantage (Porter, 1985, 2008). Cost leadership emphasizes achieving efficiency through cost minimization, economies of scale, and effective resource utilization, enabling firms to offer products and services at lower prices while maintaining acceptable value standards. Within the hospitality sector, cost leadership is reflected in streamlined operations, cost control mechanisms, and process efficiencies that allow firms to serve price-sensitive markets while maintaining operational viability (Enz, 2010; Ivanov & Webster, 2020). Despite its foundational role, the effectiveness of cost leadership as a standalone determinant of competitiveness remains contested. The Porterian framework assumes

relatively stable industry structures and discrete strategic choices, conditions that are increasingly inconsistent with contemporary hospitality environments characterized by technological disruption, demand volatility, and service complexity (Hill, 1988; Teece, 2018). Empirical studies suggest that while cost leadership can improve operational performance, excessive emphasis on cost reduction may negatively affect service quality and customer satisfaction, particularly in service-intensive industries (Kandampully, Zhang, & Jaakkola, 2018; Grönroos, 2017). Consequently, cost-based advantages are often difficult to sustain, as they are susceptible to imitation and diminishing returns (Porter, 2008).

These limitations have led to the growing relevance of capability-based perspectives, particularly Dynamic Capabilities Theory, which emphasizes the firm's ability to sense opportunities, seize them, and reconfigure resources in response to environmental change (Teece, Pisano, & Shuen, 1997; Teece, 2018). From this perspective, competitiveness is not solely derived from strategic positioning but from the firm's capacity to effectively implement and continuously adapt its strategies. Cost leadership, therefore, is better conceptualized as a capability-dependent construct that requires ongoing process optimization, technological integration, and organizational learning to sustain efficiency without compromising value delivery (Bharadwaj *et al.*, 2013; Clauss *et al.*, 2021).

Within this framework, innovation emerges as a central

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mechanism linking cost leadership to competitiveness. Innovation facilitates process improvements, technological adoption, and operational flexibility, enabling firms to enhance efficiency while maintaining or improving service quality (Hjalager, 2010; Sigala, 2020). Empirical evidence demonstrates that digital technologies, automation, and process innovations significantly improve operational efficiency and cost structures in hospitality firms (Ivanov & Webster, 2020; Mariani & Baggio, 2021). As such, innovation should not be viewed merely as an independent driver of performance, but as a dynamic capability through which cost leadership strategies are operationalized and sustained (Foss & Saebi, 2017; Kraus *et al.*, 2020).

However, the literature remains fragmented in its treatment of these relationships. Most studies treat cost leadership and innovation as independent predictors of competitiveness, relying predominantly on direct-effect models (Pertusa-Ortega, Molina-Azorín, & Claver-Cortés, 2009). These approaches overlook the mechanisms by which strategic orientations translate into competitive outcomes, yielding theoretically incomplete explanations (Clauss *et al.*, 2021). In particular, the mediating role of innovation in linking cost leadership to competitiveness remains underexplored, limiting understanding of how efficiency-driven strategies contribute to sustained competitive advantage (Foss & Saebi, 2017; Kraus *et al.*, 2020).

This limitation is especially pronounced in resource-constrained environments. In developing economies, lower-tier hospitality establishments operate under significant financial, technological, and managerial constraints that shape both strategic choices and their effectiveness (Booyens & Rogerson, 2016; OECD, 2019). Under such conditions, cost leadership is often adopted as a primary survival strategy, enabling firms to compete in highly price-sensitive markets (Porter, 1985). However, excessive reliance on cost minimization without corresponding innovation may constrain service quality, reduce customer satisfaction, and weaken long-term competitiveness (Kandampully *et al.*, 2018). At the same time, innovation in such contexts tends to be incremental and necessity-driven, focused on optimizing limited resources rather than pursuing radical transformation (Kraus *et al.*, 2020).

Furthermore, empirical research has largely focused on mid- and high-tier hospitality establishments, which benefit from relatively advanced resource endowments, thereby limiting the applicability of findings to lower-tier, resource-constrained contexts (Enz, 2010; Sigala, 2018).

Methodological limitations, including the dominance of cross-sectional designs and the limited use of advanced analytical techniques to examine indirect relationships, have further constrained the development of integrated models that capture the complexity of strategy–competitiveness dynamics (Hair *et al.*, 2021).

Consequently, a critical gap exists in the absence of a coherent framework that explains how cost leadership strategies are translated into sustained competitiveness through enabling capabilities. Addressing this gap requires an integrated perspective that combines strategic positioning with capability-based processes, emphasizing the role of innovation as a mediating mechanism.

This study addresses this gap by examining the relationship between cost leadership strategy and competitiveness, with a particular focus on the mediating role of innovation. By integrating insights from Porter's Generic Strategies Model and Dynamic Capabilities Theory, the study advances a process-oriented understanding of competitiveness as an outcome of capability-enabled strategic execution.

The study makes three key contributions. First, it extends strategic management literature by moving beyond direct-effect models to examine the mediating role of innovation in the cost leadership–competitiveness relationship. Second, it contributes to theoretical integration by linking positioning and capability-based perspectives, thereby reconceptualizing cost leadership as an innovation-enabled strategic orientation. Third, it provides context-specific insights into competitiveness within resource-constrained hospitality environments, which remain underexplored in existing research.

Accordingly, the study seeks to achieve the following objectives:

- i. To examine the effect of Cost-leadership strategy on the competitiveness of Bronze-Accredited Hospitality Facilities in Kenya; and
- ii. To evaluate the mediating effect of innovation on this relationship.

Hypothesis

H01: Cost-leadership strategy has no significant effect on the competitiveness of Bronze-Accredited Hospitality Facilities in Kenya.

H02: Innovation does not mediate the relationship between cost-leadership strategy and competitiveness in Bronze-Accredited Hospitality Facilities in Kenya.

Conceptual Framework

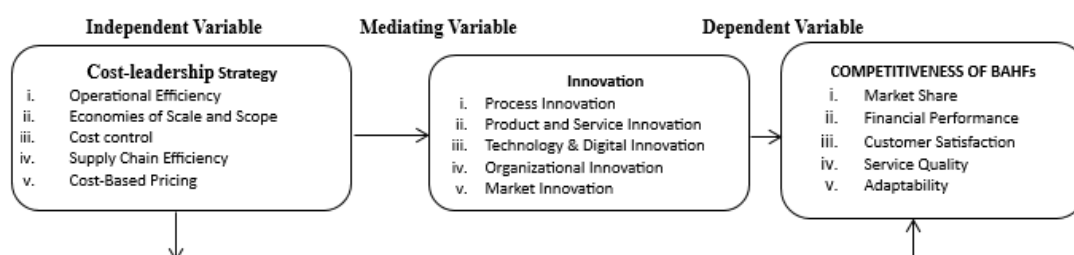


Figure 1: Conceptual Framework

LITERATURE REVIEW

Theoretical Foundation

This study is anchored in Porter's Generic Strategies Model and Dynamic Capabilities Theory, which together provide a complementary framework for explaining firm-level competitiveness. Porter (1985) conceptualizes competitive advantage as arising from strategic positioning through cost leadership, differentiation, and focus. Among these, cost leadership emphasizes the attainment of operational efficiency, cost minimization, and economies of scale, enabling firms to compete effectively in price-sensitive markets while maintaining acceptable value standards.

However, Porter's framework is grounded in assumptions of relatively stable industry structures and emphasizes static positioning, which limits its explanatory power in dynamic and technology-driven environments (Porter, 2008; Teece, 2018). In contrast, Dynamic Capabilities Theory shifts the analytical focus from positioning to capability development, positing that sustained competitiveness depends on a firm's ability to sense opportunities, seize them, and reconfigure resources in response to environmental change (Teece *et al.*, 1997; Teece, 2018).

The integration of these perspectives suggests that strategic positioning alone is insufficient to sustain competitiveness without supporting capabilities that enable execution and continuous renewal. Within this study, innovation is conceptualized as a key dynamic capability that operationalizes cost leadership by transforming efficiency-driven strategic intent into tangible competitive outcomes. This integrated perspective advances a process-oriented understanding of competitiveness, emphasizing capability-enabled strategic enactment rather than static positioning.

Cost Leadership Strategy and Competitiveness

Cost leadership strategy refers to the deliberate pursuit of operational efficiency and cost minimization to achieve a competitive price advantage (Porter, 1985). In the hospitality industry, cost leadership is typically achieved through process optimization, efficient resource utilization, economies of scale, and cost-control mechanisms that enable firms to deliver services at lower prices without significantly compromising quality (Enz, 2010; Ivanov & Webster, 2020).

Empirical literature generally supports a positive relationship between cost leadership and competitiveness. Studies indicate that firms that effectively manage costs and improve operational efficiency are better positioned to compete in price-sensitive markets, thereby enhancing market share and financial performance (Pertusa-Ortega *et al.*, 2009). In hospitality contexts, cost efficiencies contribute to improved affordability, broader customer reach, and operational sustainability.

However, recent scholarship increasingly challenges the universality of this relationship. Evidence suggests that cost leadership does not inherently lead to sustained

competitiveness, as its effectiveness is contingent upon underlying organizational capabilities (Teece, 2018; Clauss *et al.*, 2021). Excessive emphasis on cost reduction may negatively affect service quality and customer satisfaction, particularly in service-intensive industries where experiential value is critical (Kandampully *et al.*, 2018; Grönroos, 2017). Moreover, cost-based advantages are often vulnerable to imitation, resulting in the erosion of competitive advantage (Porter, 2008).

This limitation is particularly evident in resource-constrained environments. Studies in Sub-Saharan Africa indicate that firms often lack the financial, technological, and managerial capacity required to sustain cost efficiencies over time (Booyens & Rogerson, 2016). Consequently, cost leadership strategies may become reactive and short-term, limiting their contribution to long-term competitiveness. In such contexts, cost efficiency must be complemented by enabling capabilities that support continuous improvement and adaptability.

In the Kenyan context, existing empirical evidence highlights the importance of efficiency and affordability in shaping competitiveness within the hospitality sector. However, these studies predominantly focus on higher-tier establishments, thereby overlooking Bronze-Accredited Hospitality Facilities (BAHFs), which operate under more severe structural constraints. This reveals a critical contextual gap in understanding how cost leadership influences competitiveness in lower-tier hospitality establishments.

Innovation and Competitiveness

Innovation has emerged as a central determinant of competitiveness, particularly in dynamic and service-oriented industries. Within the Dynamic Capabilities framework, innovation is conceptualized as a process through which firms reconfigure resources, enhance operational efficiency, and adapt to environmental change (Teece, 2018).

In the hospitality sector, innovation encompasses multiple dimensions, including process innovation, service innovation, technological adoption, and organizational transformation (Hjalager, 2010; Sigala, 2020). Empirical studies consistently demonstrate that innovation enhances competitiveness by improving efficiency, optimizing service delivery, and strengthening a firm's ability to respond to changing customer needs (Mariani & Baggio, 2021). Similar evidence from tourism research demonstrates that service innovation contributes to enhanced customer experiences and value creation, thereby strengthening organizational competitiveness and sustainability (Yeh & Yang, 2025).

Furthermore, customer-oriented service practices have been found to significantly enhance customer satisfaction and organizational performance, reinforcing the importance of service quality as a critical dimension of competitiveness (Usani *et al.*, 2025).

However, the relationship between innovation and competitiveness is not universally linear. Its effectiveness depends on contextual factors such as resource availability,

managerial capability, and institutional support (Kraus *et al.*, 2020). In resource-constrained environments, innovation is often incremental and necessity-driven, focusing on improving efficiency and maximizing limited resources rather than achieving radical transformation. While this may limit its disruptive potential, it enhances its relevance in sustaining operational adaptability and efficiency.

Within Kenya, existing studies indicate that technological and service innovations contribute to improved performance in higher-tier hospitality establishments. However, there remains limited empirical evidence on how innovation operates within BAHFs, where financial and technological constraints significantly influence innovation capacity. This highlights the need for context-specific research that captures the role of innovation in shaping competitiveness within lower-tier hospitality environments.

Innovation as a Mediating Mechanism

Recent advances in strategic management emphasize the importance of examining indirect relationships between strategy and competitiveness. Innovation has increasingly been identified as a critical mediating mechanism through which strategic orientations influence competitive outcomes (Foss & Saebi, 2017; Clauss *et al.*, 2021).

From a theoretical perspective, Dynamic Capabilities Theory supports this view by positing that strategies require enabling capabilities to be effectively enacted. Innovation fulfills this role by translating cost leadership strategies into operational outcomes through process optimization, technological adoption, and efficiency enhancement (Teece, 2018). This view is consistent with recent tourism research which demonstrates that service innovation contributes to improved customer experiences and organizational value creation through the design and delivery of tailored services (Yeh & Yang, 2025).

Empirical evidence provides growing support for this mediating role. For example, Clauss *et al.* (2021) demonstrate that business model innovation mediates the relationship between strategic orientation and firm performance, while Mariani and Baggio (2021) show that digital innovation enhances competitiveness by improving operational efficiency and cost structures. These findings suggest that innovation plays a critical role in converting efficiency-driven strategies into sustained competitive advantage.

Despite these insights, most studies continue to model innovation as a direct predictor rather than as an intervening mechanism. This represents a significant limitation, as it fails to capture the processes through which cost leadership strategies influence competitiveness (Foss & Saebi, 2017). Furthermore, the limited application of advanced analytical techniques, such as Structural Equation Modeling, has constrained empirical examination of mediation effects (Hair *et al.*, 2021).

The need to examine mediation is particularly pronounced

in resource-constrained environments. In such contexts, cost leadership strategies may have limited direct impact unless supported by innovation, which enables firms to optimize scarce resources, improve service efficiency, and adapt to changing market conditions. This underscores the importance of conceptualizing innovation as a mechanism through which cost leadership is translated into sustained competitiveness.

MATERIALS AND METHODS

Research Design and Approach

This study adopts a positivist research paradigm and a quantitative approach to examine the relationships between cost leadership strategy, innovation, and competitiveness. The positivist orientation is appropriate given the study's objective of testing theoretically derived hypotheses using observable and measurable constructs (Saunders, Lewis, & Thornhill, 2019).

A cross-sectional survey design was employed, enabling data collection at a single point in time to test hypothesized relationships within a structured model. This design is widely applied in strategic management and hospitality research for theory testing and model validation, particularly when examining relationships among latent constructs (Hair, Black, Babin, & Anderson, 2021).

Population and Sampling

The study targeted 347 Bronze-Accredited Hospitality Facilities (BAHFs) registered by the Tourism Regulatory Authority in Kenya. Given the relatively manageable population size, a census approach was adopted to enhance representativeness and eliminate sampling bias (Creswell & Creswell, 2018).

Data were collected from two respondents per facility, managers and supervisors, resulting in 694 expected responses. A total of 589 valid questionnaires were retained for analysis, yielding a response rate of 84.9%, which exceeds the recommended threshold for survey-based research and supports the adequacy of the dataset (Sekaran & Bougie, 2016).

The unit of analysis was the firm, while the unit of observation was individual respondents. To ensure consistency with the analytical framework, responses were aggregated at the firm level. Inter-rater agreement and reliability were assessed before aggregation to confirm consistency between respondents within the same facility (Bliese, 2000).

Data Collection

Primary data were collected using a structured questionnaire adapted from previously validated scales in the strategic management and hospitality literature. The instrument included items measuring cost leadership strategy, innovation, and competitiveness.

Responses were captured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), which is widely used in behavioral and management

research due to its reliability and ease of interpretation (Likert, 1932). A pilot study was conducted before the main survey to refine the instrument, enhance clarity, and ensure reliability.

Content validity was established through expert review, while ethical considerations, including informed consent, confidentiality, and voluntary participation, were strictly observed (Creswell & Creswell, 2018). To mitigate common method bias, procedural remedies such as assuring respondent anonymity and varying item wording were employed (Podsakoff *et al.*, 2003).

Measurement of Constructs

All variables were operationalized as latent constructs measured using multiple indicators, consistent with best practices in Structural Equation Modeling (SEM) (Hair *et al.*, 2021).

Cost leadership strategy was measured using items capturing operational efficiency, cost control, process optimization, and resource utilization. Innovation was modeled as a multidimensional construct encompassing process innovation, service innovation, technological innovation, and organizational innovation. Specifically, innovation was specified as a second-order reflective construct, with each dimension represented as a first-order reflective construct (Hjalager, 2010; Sigala, 2020). Competitiveness was conceptualized as a multidimensional construct reflecting a firm's relative strategic position, measured using indicators such as customer satisfaction, service quality, market share, and adaptability. This operationalization ensures a clear distinction between competitiveness and firm performance, aligning with capability-based perspectives (Teece, 2018).

The use of multi-item reflective scales enhances construct validity and reliability and is consistent with SEM requirements (Hair *et al.*, 2021).

Data Analysis

Data were analyzed using Covariance-Based Structural Equation Modeling (CB-SEM), which is appropriate for testing complex theoretical models and assessing relationships among latent constructs. CB-SEM was selected due to its suitability for theory confirmation, model fit evaluation, and mediation analysis (Byrne, 2016;

Hair *et al.*, 2021).

A two-step analytical procedure was employed:

Measurement Model Evaluation

Confirmatory Factor Analysis (CFA) was conducted to assess the reliability and validity of the measurement model.

i. Reliability: Cronbach's alpha (≥ 0.70) and Composite Reliability (CR ≥ 0.70) (Nunnally & Bernstein, 1994)

ii. Convergent validity: Factor loadings (≥ 0.50) and Average Variance Extracted (AVE ≥ 0.50) (Fornell & Larcker, 1981)

iii. Discriminant validity: Assessed using the Fornell–Larcker criterion

Model fit was evaluated using standard indices:

i. $\chi^2/df < 3$

ii. Comparative Fit Index (CFI) > 0.90

iii. Root Mean Square Error of Approximation (RMSEA) < 0.08 (Hu & Bentler, 1999)

Structural Model and Hypothesis Testing

The structural model was used to examine direct and indirect relationships among cost leadership strategy, innovation, and competitiveness. Path coefficients (β), statistical significance ($p < 0.05$), and explanatory power (R^2) were evaluated to assess the strength and significance of hypothesized relationships (Hair *et al.*, 2021).

Mediation Analysis

The mediating effect of innovation was tested using bootstrapping procedures, which provide robust estimates of indirect effects without assuming normality (Preacher & Hayes, 2008). Mediation was assessed based on the significance of indirect effects and changes in the direct relationship between cost leadership strategy and competitiveness after inclusion of the mediator.

The mediation relationship is specified as:

Cost Leadership Strategy $\rightarrow$ Innovation $\rightarrow$ Competitiveness

RESULTS AND DISCUSSION

Response Rate

The study achieved a high response rate, indicating strong data adequacy for analysis.

Table 1: Response Rate

Category	Frequency	Percentage (%)
Targeted Questionnaires	694	100
Valid Questionnaires Used	589	84.9
Non-Returned Questionnaires	105	15.1

Source: Research Data (2026)

The response rate of 84.9% is considered adequate for survey-based research and minimizes the likelihood of non-response bias. The final sample size ($n = 589$) is sufficient for Covariance-Based Structural Equation Modeling (CB-SEM).

Measurement Model Assessment

Reliability

All constructs exceeded the recommended threshold of 0.70, indicating satisfactory internal consistency.

Table 2: Reliability Statistics

Construct	Number of Items	Cronbach's Alpha
Cost Leadership Strategy	5	0.848
Innovation Strategy	5	0.864
Competitiveness	5	0.879

Source: Author's Computation from Survey Data (2026)

Convergent Validity

Composite Reliability values ranged from 0.87 to 0.89, while AVE values ranged from 0.56 to 0.62, exceeding

recommended thresholds and confirming convergent validity.

Table 3: Convergent Validity Statistics

Construct	CR	AVE
Cost Leadership Strategy	0.87	0.56
Innovation	0.88	0.59
Competitiveness	0.89	0.62

Source: Author's Computation using CB-SEM Output (2026)

Discriminant Validity

The square root of AVE (diagonal values) exceeds inter-construct correlations, confirming discriminant validity.

Model Fit Assessment

The model demonstrates excellent fit across all indices, indicating that the hypothesized model adequately

Table 4: Discriminant Validity (Fornell–Larcker Criterion)

Construct	Cost Leadership	Innovation	Competitiveness
Cost Leadership	0.75		
Innovation	0.53	0.77	
Competitiveness	0.35	0.62	0.79

Source: Author's Computation using CB-SEM Output (2026)

represents the observed data.

significant effect on competitiveness ($\beta = 0.295$, $p < 0.001$).

Direct Effects

Cost leadership strategy has a positive and statistically

This finding leads to the rejection of H01, indicating

Table 5: Model Fit Indices

Fit Index	Value	Threshold
χ^2/df	1.028	< 3
CFI	0.998	> 0.90
TLI	0.998	> 0.90
RMSEA	0.008	< 0.08
GFI	0.965	> 0.90

Source: Author's Computation using AMOS/CB-SEM Output (2026)

that the cost leadership strategy significantly enhances competitiveness among Bronze-Accredited Hospitality Facilities in Kenya.

Mediation Analysis

Structural Paths

From Table 7, the cost leadership strategy significantly

Table 6: Direct Structural Relationship

Path	β	C.R.	p-value
Cost Leadership Strategy $\rightarrow$ Competitiveness	0.295	6.842	< 0.001

Source: Author's Computation using Structural Equation Modeling Results (2026)

influences innovation, and innovation significantly enhances competitiveness. The direct effect of cost leadership on competitiveness remains significant, though reduced, after the inclusion of the mediator.

Indirect Effects

The indirect effect reported in Table 8 is statistically significant based on bootstrapping results. Since the direct effect remains significant after the inclusion of

Table 7: Structural Path Estimates

Path	β	C.R.	p-value
Cost Leadership Strategy $\rightarrow$ Innovation	0.365	8.954	< 0.001
Innovation $\rightarrow$ Competitiveness	0.548	8.269	< 0.001
Cost Leadership Strategy $\rightarrow$ Competitiveness	0.118	2.214	0.027

Source: Author's Computation using Structural Model Output (2026)

innovation, this indicates partial mediation. Consequently, cost leadership influences competitiveness both directly and indirectly through innovation, leading to the rejection of the null hypothesis.

Coefficient of Determination (R^2)

The model explains 46.9% of the variance in innovation and 39.4% of the variance in competitiveness.

Table 8: Indirect Effect via Innovation

Path	Indirect Effect (β)
Cost Leadership Strategy $\rightarrow$ Innovation $\rightarrow$ Competitiveness	0.200

Source: Author's Computation using Bootstrapping Results (2026)

is further constrained by structural limitations. Limited access to finance, technology, and skilled labor restricts

firms' ability to achieve sustained cost efficiencies without compromising service quality (Booyens & Rogerson,

Table 9: R^2 Values

Endogenous Construct	R^2	Interpretation
Innovation	0.469	Moderate
Competitiveness	0.394	Moderate

Source: Author's Computation from Structural Model (2026)

2016; OECD, 2019). Consequently, cost leadership strategies in such contexts are often operational rather

than strategic, limiting their contribution to long-term competitiveness.

Table 10: Multicollinearity Test

Predictor	Tolerance	VIF
Cost Leadership Strategy	0.768	1.302
Innovation	0.654	1.528

Source: Author's Computation using SPSS Diagnostics (2026)

Multicollinearity Diagnostics

All VIF values are below the threshold of 3.0, indicating the absence of multicollinearity.

Discussion

Effect of Cost Leadership Strategy on Competitiveness (H01)

The results indicate that the cost leadership strategy has a positive and statistically significant effect on competitiveness ($\beta = 0.295$, $p < 0.001$). Accordingly, the null hypothesis (H01), which states that the cost leadership strategy has no significant effect on competitiveness, is rejected.

This finding supports the central proposition of Porter's Generic Strategies framework, which posits that firms can achieve competitive advantage through cost efficiency and operational optimization (Porter, 1985, 2008). By minimizing operational costs and improving efficiency, firms are able to offer competitive pricing, thereby attracting price-sensitive customers and improving

market positioning.

However, the moderate magnitude of the effect ($\beta = 0.295$) suggests that cost leadership alone provides limited explanatory power in accounting for competitiveness. This implies that while cost efficiency contributes to improved performance, it is neither a dominant nor a sufficient driver when considered in isolation. Excessive reliance on cost minimization may constrain service quality and limit value creation, particularly in service-oriented industries such as hospitality.

This finding is consistent with Dynamic Capabilities Theory, which argues that strategic positioning must be complemented by enabling capabilities to achieve sustained competitive advantage (Teece, 2018). Empirical evidence similarly indicates that cost leadership is most effective when supported by complementary capabilities such as innovation and technological integration (Clausen *et al.*, 2021).

Within the context of Bronze-Accredited Hospitality Facilities (BAHFs), the effectiveness of cost leadership

Mediating Effect of Innovation (H02)

The mediation analysis shows that innovation partially mediates the relationship between cost leadership strategy and competitiveness. Specifically, cost leadership has a significant effect on innovation ($\beta = 0.365, p < 0.001$), and innovation has a strong positive effect on competitiveness ($\beta = 0.548, p < 0.001$). Additionally, the direct effect of cost leadership on competitiveness remains statistically significant after the inclusion of innovation ($\beta = 0.118, p = 0.027$), although it is reduced in magnitude. The indirect effect ($\beta = 0.200$) is also statistically significant. Accordingly, the null hypothesis (H02), which states that innovation does not mediate the relationship between cost leadership strategy and competitiveness, is rejected. This finding indicates that cost leadership influences competitiveness through both direct and indirect pathways, confirming the presence of partial mediation. In other words, cost leadership enhances competitiveness not only through operational efficiency but also through innovation-driven improvements in processes, service delivery, and resource utilization.

This result provides strong support for Dynamic Capabilities Theory, which emphasizes that competitive advantage arises from the firm's ability to reconfigure resources and translate strategic intent into performance outcomes (Teece *et al.*, 1997; Teece, 2018). In this context, cost leadership represents a strategic orientation, while innovation functions as a capability that enhances and operationalizes this strategy.

The findings extend prior research by demonstrating that innovation plays a complementary and enabling role, rather than acting solely as an independent predictor of competitiveness (Foss & Saebi, 2017; Kraus *et al.*, 2020). Empirical studies similarly show that innovation strengthens the effectiveness of cost-based strategies by enabling efficiency improvements without compromising service quality (Clauss *et al.*, 2021; Mariani & Baggio, 2021).

The relatively stronger effect of innovation on competitiveness ($\beta = 0.548$) compared to the direct effect of cost leadership further underscores the central role of innovation as a key determinant of competitiveness.

Theoretical Implications

The rejection of both H01 and H02 highlights an important theoretical implication regarding the interaction between positioning-based and capability-based perspectives. While Porter's framework emphasizes strategic positioning through cost leadership, the findings demonstrate that competitiveness is more strongly shaped by the firm's ability to operationalize such strategies through innovation.

The presence of partial mediation suggests that cost leadership alone is insufficient, but remains relevant when complemented by innovation. This supports the integration of Porter's Generic Strategies with Dynamic Capabilities Theory, where strategy defines direction and innovation determines execution effectiveness.

Accordingly, the study advances theoretical understanding by demonstrating that competitiveness is not solely a function of strategic choice, but of strategy–capability alignment. This supports a shift from static models of competitive advantage toward dynamic, capability-based explanations (Foss & Saebi, 2017; Kraus *et al.*, 2020).

Contextual Implications for Resource-Constrained Environments

The rejection of H01, combined with the partial mediation effect observed in H02, underscores the importance of contextual conditions in shaping competitiveness. In resource-constrained environments such as BAHFs in Kenya, cost leadership alone is insufficient to generate sustained competitiveness.

Consistent with prior studies (Booyens & Rogerson, 2016), firms face structural challenges that limit both cost optimization and innovation capacity. However, the findings indicate that innovation plays a critical role in enhancing the effectiveness of cost leadership by enabling firms to optimize processes, improve service delivery, and adapt to market dynamics.

This suggests that competitiveness in such contexts is better understood as a function of adaptive capability rather than cost efficiency alone. Innovation, particularly incremental and resource-driven innovation (OECD, 2019), becomes essential for sustaining competitiveness under conditions of constraint.

Implications for Future Research

The rejection of both null hypotheses also has important implications for empirical research. The findings demonstrate that direct-effect models are insufficient for capturing the mechanisms through which strategic variables influence competitiveness. Instead, mediation-based models provide a more comprehensive and theoretically grounded explanation.

Future research should extend this approach by incorporating longitudinal designs to examine how cost leadership and innovation interact over time (Teece, 2018). Additionally, the inclusion of moderating variables, such as environmental uncertainty, technological adoption, and institutional support, would further strengthen the model's explanatory power (Kraus *et al.*, 2020).

CONCLUSION

This study examined the effect of cost leadership strategy on the competitiveness of Bronze-Accredited Hospitality Facilities in Kenya and assessed the mediating role of innovation. The findings reveal that cost leadership significantly enhances competitiveness, while innovation partially mediates this relationship. This indicates that competitiveness is achieved not only through cost efficiency but also through innovation-enabled strategic execution.

The study extends the application of Porter's Generic Strategies by demonstrating that the effectiveness of cost leadership is strengthened through innovation, particularly

in resource-constrained hospitality environments. The findings further suggest that managers should integrate innovation into cost leadership initiatives to enhance operational efficiency, service quality, and long-term competitiveness.

Future studies should employ longitudinal designs and examine additional contextual factors that may influence the strategy–innovation–competitiveness relationship.

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