

Optimizing the Competitive Advantage of Four and Five Star Hotels in Bali with Strategic Thinking and Local Wisdom

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Abstract

Purpose: This study examines the influence of the local wisdom of Panca Budhi Indriya on competitive advantage in 4&5-star hotels in Bali. It also investigated the mediating role of strategic thinking in enhancing the relationship between local wisdom and competitive advantage.

Methodology: This study adopted a quantitative approach and used survey data collected from 158 general managers of 4&5-star hotels in Bali. Data were analyzed using Structural Equation Modeling-Partial Least Squares (Rahayu & Yanis) with SmartPLS 3 software. The study employs a structured questionnaire based on indicators developed for local wisdom, strategic thinking, and competitive advantage.

Results: The findings revealed that Panca Budhi Indriya has a significant and positive influence on competitive advantage. Additionally, strategic thinking significantly mediated the relationship between Panca Budhi Indriya and competitive advantage, acting as a complementary mediator. This demonstrates that integrating local wisdom with strategic management practices enhances hotels' competitive edge.

Conclusions: This study examines the influence of local wisdom Panca Budhi Indriya on competitive advantage, both directly and indirectly through strategic thinking. The findings confirm that Panca Budhi Indriya, as a form of intangible local wisdom, significantly enhances competitive advantage. Additionally, strategic thinking acts as a complementary mediator, further strengthening this relationship.

Limitations: This study was limited to 4&5-star hotels in Bali, which may not fully represent the broader hospitality sector. This quantitative approach also limits the exploration of deeper qualitative insights into the role of local wisdom in strategic management.

Contribution: This study contributes to the field of tourism and hospitality management by providing empirical evidence of how local wisdom can serve as a strategic resource for achieving competitive advantage. These findings offer practical insights for hotel managers, policymakers, and academics interested in integrating cultural values into strategic planning to support sustainable tourism development.

Keywords: *Competitive Advantage, Local Wisdom Of Panca Budhi Indriya, Strategic Thinking*

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1. Introduction

Bali, known as the “Island of the Gods,” has long been a top tourist destination in Indonesia. The stunning natural beauty, unique cultural richness, and friendliness of the local people make Bali a magnet for tourists from all over the world. Tourism in Bali is not only the mainstay of the regional economy (Yuwono, Leopardjo, Irtanto, Nugraha, & Wibowo, 2024), but also plays a vital role in contributing to regional economic growth. In 2023, the tourism sector contributed around 41% to Bali's GRDP, with regional economic growth reaching 5.7% (Maya, 2024). The hospitality sector is an integral part of this industry, providing significant employment and tax contributions. With 541 starred hotels by 2023, hospitality in Bali is an important symbol of the progress of culture-based tourism (BPS, 2024a).

As tourist arrivals increase, culture-based tourism in Bali continues to grow. In March 2024, 469,227 foreign tourists visited Bali, an increase of 3.06% compared to the previous month (BPS, 2024b). This growth encourages the development of tourism infrastructure, such as villas and hotels, which triggers fierce competition in the hospitality industry. Especially for 4&5-star hotels, this challenge becomes more complex as they are required to maintain their existence as well as competitiveness amid the proliferation of new tourist accommodations (Kusumawati, 2020).

Competitive advantage is key for 4&5-star hotels in Bali to remain relevant and attractive in the global market. Competitive advantage refers to an organization's ability to create superior value that is difficult for competitors to replicate (Porter, 2008). In the tourism industry, competitive advantage is often achieved through differentiation strategies, such as providing unique experiences or high-quality services, to increase the attractiveness of the destination compared to competitors. Culture-based tourism is one of the relevant approaches to create a sustainable competitive advantage, especially in Bali, which relies on local resources such as culture, nature, and traditional heritage (Sereda, Albeschenko, Krupitsa, Biletska, & Krasnik, 2024).

A culture-based tourism approach, which emphasizes uniqueness and authenticity, is an important strategy to differentiate themselves from competitors (Ali, Mohamed, & Alakhras, 2020); (Hadiwijaya & Yustini, 2023). This is in accordance with Bali Province Regional Regulation No. 2/2012, which emphasizes that tourism development should be based on local culture. Cultural elements such as traditional ceremonies, traditional festivals, and village life become unique strengths that not only create authentic experiences for tourists but also strengthen Bali's image as a distinctive tourism destination (Andari, Supartha, Riana, & Sukawati, 2022); (Rahayu & Yanis, 2023) .

Balinese local wisdom, specifically Panca Budhi Indriya, provides a rich philosophical basis for tourism development. This concept encompasses five senses that reflect a holistic sensory experience, namely sight (Caksu Indriya), smell (Ghrana Indriya), taste (Jihva Indriya), hearing (Srota Indriya), and touch (Twak Indriya) (Swebawa, 2021). In the context of the tourism industry, the integration of these values creates a unique and immersive experience for tourists, thus increasing the attractiveness and competitive advantage of 4&5-star hotels in Bali.

In addition to optimizing competitive advantage, Panca Budhi Indriya also encourages the birth of strategic thinking in organizational management. This local wisdom enriches management strategies with an approach that is more rooted in local culture, which allows organizations to be more flexible and innovative in the face of market changes (Syafi'i, Syaflita, & Putra, 2024). Strategic thinking plays an important role as a bridge that connects local values with the achievement of competitive advantage through effective strategy formulation and implementation. As such, strategic thinking can act as a mediator in the relationship between Panca Budhi Indriya and competitive advantage, ensuring that cultural values translate into sustainable business excellence (Bushairi, Sularso, Tobing, & Irawan, 2024).

Although many studies have addressed competitive advantage in the culture-based hospitality industry, few have specifically examined the role of local wisdom, such as Panca Budhi Indriya, as a strategic factor in creating differentiation. Previous research tends to focus on operational aspects, such as

customer service or facility quality, without integrating local values as a key variable influencing competitiveness (Andari et al., 2022); (Rahayu & Yanis, 2023). The urgency of this research lies in the need for 4&5-star hotels in Bali to remain competitive amidst intensifying competition. In addition, the development of culture-based tourism that characterizes Bali requires innovative strategies to preserve and utilize local values as strategic assets. By filling the research gap, this study provides strategic guidance for hotel managers to improve competitiveness while supporting the sustainability of Balinese culture.

2. Literature Review

2.1 RBV

Resource-Based View (RBV) theory views organizations as a collection of resources that can be utilized to achieve competitive advantage and superior performance, both in the short and long term (Barney, 1991). RBV emphasizes that a firm's ability to access, manage, and optimize resources determines its competitiveness. These resources fall into two main categories: tangible resources, such as physical and financial facilities, and intangible resources, including knowledge, technologies, and reputation (Grant, 1991). The RBV framework is often used to understand variations in business strategy and competitiveness, focusing on how physical resources, such as the quantity and quality of facilities, as well as the ambience of the customer experience, can enhance a firm's attractiveness and competitiveness (Dolega & Lord, 2020); (Teller & Schnedlitz, 2012). Therefore, RBV provides a theoretical foundation for evaluating an organization's internal capacity to create and sustain sustainable competitive advantage (David, 2018).

2.2 Local Wisdom of Panca Budhi Indriya

Local wisdom refers to the knowledge and values contained in a community, which is shaped by its cultural, environmental and social context, and has adaptability to local conditions and serves as a guide in decision-making and community behavior (Lisdiyono, 2017); (Mawardi, 2018). One example of typical local wisdom is the Balinese Panca Budhi Indriya, which consists of five indriyas (five senses) that function to perceive the surrounding world: Caksuindriya (eyes to see), Srotendriya (ears to hear), Ghranendriya (nose to smell), Jihwendriya (tongue to taste), and Twakindriya (skin to touch) (Swabawa, 2021). This local wisdom has a strong relevance in the hospitality industry, as the values contained in Panca Budhi Indriya can be implemented in providing a holistic and immersive experience for hotel guests. For example, by utilizing the five senses in the design of hotel services-such as the welcoming Balinese aroma (Ghranendriya), beautiful visual arrangements (Caksuindriya), and friendly service (Twakindriya)-the hospitality industry can create a competitive advantage that sets them apart in an increasingly competitive market. By integrating this local wisdom, hotels can offer a more authentic experience and touch the emotional aspects of guests, increasing their satisfaction and loyalty (Andari et al., 2022); (Faridha, 2022).

2.3 Strategic Thinking

Strategic thinking is a thought process that involves analyzing, synthesizing, assessing, and predicting problems with a long-term perspective, involving creative and analytical elements to address uncertainty and complexity (Liedtka, 1998). It includes a holistic understanding of systems and interconnections within the organization as well as the external environment, which supports goal- and hypothesis-driven decision making (Rozanna & Ahadiat, 2023). Strategic thinking also involves the ability to think creatively and visionary in facing future challenges (Zhihang & Qian, 2019), as well as rational and complex thinking in understanding social and economic developments (Geier, 2024). In the context of competitive advantage, strategic thinking serves as an organization's ability to adapt quickly to change, innovate with creative solutions, and maintain a long-term vision that ensures competitive advantage in a dynamic business environment (Geier, 2024); (Liedtka, 1998); (Zhihang & Qian, 2019).

2.4 Competitive Advantage

Competitive advantage refers to an organization's ability to create superior value that is difficult for competitors to replicate (Porter, 2008). As a fundamental concept in strategic management, competitive

advantage allows organizations to achieve superior performance and long-term success. It is achieved when a firm offers greater value to customers, either through lower prices or by providing additional benefits that justify higher prices (Amason & Ward, 2020). In the hospitality industry, competitive advantage is often linked to the ability to deliver unique experiences through cultural values, innovative services, and product differentiation (Porter, 2008). These elements not only enhance a hotel's appeal to customers but also foster customer loyalty that is difficult for competitors to imitate. Despite its significance, competitive advantage remains a complex and dynamic concept requiring continuous refinement to adapt to evolving business environments (Sigalas & Pekka Economou, 2013). In this study, competitive advantage is defined as a hotel's ability to create unique and authentic customer experiences by leveraging local wisdom values. This includes culture-based differentiation, service innovation, and the ability to respond to market demands with sustainable added value.

2.5 Local Wisdom of Panca Budhi Indriya on Competitive Advantage

The Resource-Based View (RBV) theory emphasizes that unique, inimitable, valuable, and well-organized resources are key to achieving sustainable competitive advantage (Barney, 1991). In the context of tourism, local wisdom such as traditional ceremonies, cultural festivals, and village life has been proven to be intangible resources with high strategic value. These elements enable tourist destinations to create meaningful differentiation through unique experiences, thereby enhancing competitiveness (Andari et al., 2022); (Faridha, 2022). Previous research has demonstrated that local wisdom in general can support competitive advantage by offering cultural value-based differentiation. For instance, Oematan, Tunti, and Tefa (2022) found that local cultural elements, such as traditional practices and distinctive architecture, foster holistic experiences that build customer loyalty. Similarly, Syafi'i et al. (2024) highlighted that cultural value-based differentiation enhances the attractiveness of tourist destinations by addressing diverse market needs.

This study introduces Panca Budhi Indriya as a unique form of Balinese local wisdom that has the potential to enhance the competitive advantage of 4- and 5-star hotels. Panca Budhi Indriya consists of five sensory intelligence tools: sight (Caksu Indriya), smell (Ghrana Indriya), taste (Jihva Indriya), hearing (Srota Indriya), and touch (Twak Indriya) (Swebawa, 2021). Each element contributes to an authentic tourism experience, such as traditional Balinese architectural designs, the aroma of incense, authentic local cuisine, traditional music, and soothing spa treatments. These elements create a deep and immersive experience that differentiates these hotels from their competitors. Moreover, communication strategies based on local wisdom can strengthen tourism branding. By leveraging interpersonal and mass communication that emphasizes cultural values, hotels can build a strong and authentic brand image, ultimately enhancing customer attraction and loyalty (Rahayu & Yanis, 2023).

Additionally, involving local communities in tourism management helps preserve and effectively utilize local wisdom, supporting business sustainability and industry resilience (Violinda, Setyorini, Ulumuddin, & Herlambang, 2023). This study seeks to position Panca Budhi Indriya as a form of local wisdom that can provide a competitive advantage for hotels in Bali. Within the RBV framework, Panca Budhi Indriya can be considered a valuable, rare, inimitable, and well-organized organizational asset (Barney, 1991). By effectively leveraging these values, hotels can establish themselves as leaders in culture-based tourism, creating a distinctive and sustainable competitive advantage. Based on this argument, the first hypothesis in this study is:

H1: Local wisdom of Panca Budhi Indriya has a positive influence on competitive advantage.

2.6 Local Wisdom of Panca Budhi Indriya for Strategic Thinking

Panca Budhi Indriya, which includes the five tools of sensory intelligence, provides a framework for understanding customer needs through visual, olfactory, gustatory, auditory, and tactile experiences. This principle allows hotel management to design strategies that are relevant and oriented towards a holistic tourist experience (Swebawa, 2021). For example, respect for aesthetics and immersive customer experiences can enrich the strategic framework, making it more relevant to the local cultural context (Ramanauskas & Banevicius, 2021); (Syafi'i et al., 2024). Local wisdom also helps create a unique identity for tourism destinations, where cultural narratives can be used to build a destination brand image (Oematan et al., 2022). Furthermore, local wisdom encourages synergy between local

actors in supporting the creative economy and preservation of traditions, which in turn increases community involvement in strategic decision-making (Aji, Murdani, & Wijayati, 2023).

This engagement ensures that local values are integrated in business strategies, creating sustainable tourism practices that balance economic benefits and preservation of culture and nature (Syafi'i et al., 2024). In addition, collaboration between the public and private sectors supported by local wisdom can overcome challenges in strategic planning. This approach allows organizations to utilize strategic locations and resources more effectively in tourism planning (Ramanauskas & Banevicius, 2021). Thus, the application of local wisdom in tourism management not only increases the effectiveness of strategies but also creates innovations that are relevant to the local context. Based on these arguments, local wisdom can be considered as an important element that supports the development of strategic thinking in the management of tourism organizations. Therefore, the third hypothesis in this study is:

H2: Local wisdom of Panca Budhi Indriya has a positive influence on strategic thinking.

2.7 Strategic Thinking on Competitive Advantage

In the Resource-Based View (RBV) perspective, an organization's ability to utilize and manage strategic resources is key to creating sustainable competitive advantage (Barney, 1991). Strategic thinking, as a long-term oriented managerial capability, drives innovation and strategic flexibility, which enables organizations to adapt to market dynamics, develop new products or services, and take advantage of modern technology (Bushairi et al., 2024); (Zadoia & Charkina, 2022). Strategic thinking also plays a role in fostering collaboration and partnerships, which allow businesses to combine resources and expertise to create greater value. This approach not only improves competitiveness, but also strengthens business sustainability in the long run (Bushairi et al., 2024); (Presutti, Savioli, & Odorici, 2020).

With a strategic orientation that focuses on customer and market needs, hotels can improve performance and create a more satisfying experience for customers, ultimately increasing their competitiveness (Presutti et al., 2020). Effective strategic management also includes efficiently managing resources, both internal and external, thus enabling companies to optimize processes, reduce inefficiencies, and proactively respond to opportunities (Gerald, Obianuju, & Chukwunonso, 2020); (Rozanna & Ahadiat, 2023); (Sergiy, 2024). Strategic thinking has even proven essential in the face of crisis, where innovative and collaborative approaches are key to supporting Competitive Advantage, as seen during the COVID-19 pandemic (Dixit, Singh, Dhir, & Dhir, 2021); (Sereda et al., 2024). In the context of 4&5-star hotels, strategic thinking provides a framework to leverage intangible resources such as reputation and service innovation to create a competitive advantage that is difficult to replicate. Therefore, strategic thinking can be viewed as an important element in linking resource management with improved hotel competitiveness. Based on these arguments, the second hypothesis in this study is:

H3: Strategic thinking has a positive influence on competitive advantage.

2.8 Local Wisdom of Panca Budhi Indriya on Competitive Advantage through Strategic Thinking

In Resource-Based View (RBV) theory, organizations that are able to leverage unique and hard-to-imitate resources have a great chance of achieving sustainable competitive advantage (Barney, 1991). Local wisdom, such as Panca Budhi Indriya in Bali, is an intangible resource rooted in local cultural values, providing a rich framework for creating meaningful differentiation in the marketplace. These elements not only enhance the attractiveness of tourist destinations, but also influence managerial ability to design relevant and innovative business strategies (Swebawa, 2021); (Syafi'i et al., 2024). Strategic thinking acts as a bridge that connects local wisdom values with the achievement of competitive advantage. As a managerial framework, strategic thinking enables organizations to formulate, implement, and evaluate strategies that make effective use of local resources (Bushairi et al., 2024).

Through the integration of Panca Budhi Indriya, strategic thinking can guide management to tailor products and services to diverse market needs, create unique experiences for customers, and capitalize on emerging market opportunities (Oematan et al., 2022); (Ramanauskas & Banevicius, 2021). For example, the elements of Panca Budhi Indriya, such as respect for aesthetics (Caksu Indriya) and attention to holistic experiences (Twak Indriya), provide deep insights into customer needs. By utilizing these insights, managers can design differentiation strategies that enhance the appeal and relevance of

4&5-star hotels in Bali. Strategic thinking also encourages cross-sector collaboration and more effective resource management, ensuring that local values translate into sustainable competitive advantage (Zadoia & Charkina, 2022). In terms of causal relationships, local wisdom influences strategic thinking, which in turn influences competitive advantage. Strategic thinking becomes a mediating variable that ensures that local cultural values are not only preserved, but also utilized to create significant economic value. Thus, the influence of local wisdom on competitive advantage can be maximized through innovative and relevant strategic thinking (Presutti et al., 2020); (Syafi'i et al., 2024). Based on this theoretical foundation, the fourth hypothesis in this study is:

H4: Local wisdom of Panca Budhi Indriya has a positive influence on competitive advantage through strategic thinking as a mediating variable.

3. Research Methodology

This research is a type of associative research that aims to identify the relationship between two or more variables. A quantitative approach is used to analyze statistical data and test the proposed hypothesis. The main instrument used was a questionnaire with a five-point Likert scale, where respondents provided answers ranging from 1 (very low) to 5 (very high) according to their perceptions. The competitive advantage variable is measured using five indicators compiled from the research of Cetinkaya, Niavand, and Rashid (2019); (Silva, Warnakulasuriya, & Arachchige, 2019); Skrinjaric (2022) namely: performance management, selective hiring, employee engagement, career development, and empowerment, strategic thinking variables are measured using six indicators, namely: visionary thinking, synthetic thinking, creative thinking, systemic thinking, Identification of Opportunities, and Mentalization and Rationality (Bilancini, Boncinelli, & Mattiassi, 2019); (Geier, 2024); (Rodrigues, Ferreira, & Neves, 2021) and the indicators used to measure the local Wisdom Of Panca budhi indriya, namely: sight (Caksu Indriya), smell (Ghrana Indriya), taste (Jihva Indriya), hearing (Srota Indriya), and touch (Twak Indriya) (Swebawa, 2021).

This study involved a total population of 178 hotels, consisting of 116 four-star hotels and 62 five-star hotels spread across all regencies and cities in Bali Province. The unit of analysis in this study is the organization, namely the hotel, which was selected using probability sampling techniques. The General Manager of the hotel was chosen as the main respondent because he is considered to have deep insight into hotel management issues. Data collection was carried out through an online questionnaire via google form which was filled in by 158 respondents from the total planned population with a response rate of 88%. The data obtained is primary data in quantitative form. Data analysis was conducted using Structural Equation Modeling (SEM) techniques with the Partial Least Squares (PLS) approach, using SmartPLS 3 software. The stages of analysis include testing the validity and reliability of the model (outer model), which includes convergent validity, discriminant validity, and composite reliability. After the model is declared valid, inner model testing is carried out to calculate the predictive relevance value (Q^2), with the criteria $0 < Q^2 < 1$ as an indicator of a good model. Hypothesis testing is carried out by paying attention to the critical ratio value ($CR > 1.96$) at the 5% significance level ($p\text{-values} < 0.05$) to determine whether the hypothesis can be accepted.

4. Result and Discussion

Convergent validity of measurement models with reflective indicators is assessed based on the correlation between item scores or component scores estimated using PLS software. In early stage research, a measurement scale with a loading value between 0.5 to 0.6 is considered sufficient (Wiyono, 2011). This study will use a factor loading threshold of 0.6. Outer model values, or correlations between variables, meet convergent validity with a loading factor above 0.6.

The Panca Budhi Indriya local wisdom variable shows that all indicators have an outer loading of more than 0.6. The indicator "Touch (Twak Indriya) X6" is the strongest measure of the Panca Budhi Indriya local wisdom variable because it has the largest outer loading of 0.969, so it can be stated that all Panca Budhi Indriya local wisdom statements are valid statements in responding to Panca Budhi Indriya local wisdom. The six indicators of the "Strategic Thinking" variable show that all statements have an outer loading value above 0.6. The indicator "Creative Thinking (M3)" is the strongest measure of the

Strategic Thinking variable because it has the largest outer loading of 0.978, so it can be stated that all Strategic Thinking statements are valid statements measuring Strategic Thinking.

The “Competitive Advantage” variable shows that all statements have an outer loading value above 0.6. The “Employee Engagement (Y3)” indicator is the strongest measure of the Competitive Advantage variable because it has the largest outer loading of 0.987, so it can be stated that the entire Competitive Advantage statement is a valid statement measuring Competitive Advantage.

Based on the test results using SEM - PLS, Cronbach's, composite, and AVE values are displayed in Table 1.

Table 1. Cronbach's Alpha, Composite Reliability, And AVE

Variabel	Cronbach's Alpha	Composite Reliability	AVE
Competitive Advantage (Y)	0,988	0,991	0,956
Local Wisdom of Panca Budhi Indriya (X)	0,965	0,973	0,879
Strategic Thinking (M)	0,983	0,986	0,920

Source: Data processing results using SmartPLS (2024)

Table 1, the convergent validity assessment informs that all factor loadings on each indicator of the research variable have met the requirements, namely > 0.6 . In addition, convergent validity can also be seen from the magnitude of the Average Variance Extracted (AVE) value, which is > 0.50 ($AVE > 0.5$). composite reliability is measured by the magnitude of the composite reliability coefficient ($CR > 0.7$) and the magnitude of the Cronbachs Alpha value ($CA > 0.70$), then it is declared reliable. The next step is to analyze discriminant validity using the Farnell Larcker Criterion, shown in Table 2.

Table 2. Discriminant Validity Menggunakan Fornell-Larcker Criterion

Variabel	Y	X	M
Competitive Advantage (Y)	0,978		
Local Wisdom of Panca Budhi Indriya (X)	0,917	0,938	
Strategic Thinking (M)	0,902	0,928	0,959

Source: Data processing results using SmartPLS

Table 2, informs that the entire AVE root (Fornell-Larcker Criterion) of each construct is greater than its correlation with other variables. Thus, the discriminant validity requirement has been met. Outer model evaluation results, both convergent. Discriminant Validity, composite reliability, shows that all indicators measuring latent variables are valid and reliable. In addition, all Average Variance Extracted (AVE) values > 0.50 and all Cronbach's Alpha (α) values > 0.70 so that all variables are said to be reliable.

Goodness of fit (GoF) is a test of the feasibility of a research model to determine the accuracy of the sample estimating the actual value (Ghozali, 2021). The GoF value is in the range of values between 0 and 1 (Hair Jr et al., 2021). A GoF value closer to one means the better the model. The GoF evaluation of the research model was carried out in two ways, first seen through R-square (R^2). Second, using the predictive relevance value. In Table 3, the R-square value of the Strategic Thinking variable has 86.2 percent of its variability explained by the Local Wisdom of Panca Budhi Indriya, while 13.8 percent is explained by variables outside the model. The Competitive Advantage variable has a value of 0.86, meaning that 86% of the variability of the Competitive Advantage construct is explained by the Local Wisdom of Panca Budhi Indriya variable, and Strategic Thinking while 14% is explained by variables outside the model.

Table 3. Hasil Uji R Square (R^2)

Variabel	R Square	R Square Adjusted
Competitive Advantage (Y)	0,860	0,858
Strategic Thinking (M)	0,862	0,861

Source: Data processing results using SmartPLS (2024)

Furthermore, predictive relevance (Q^2) is calculated using the formula $Q^2 = 1 - (1 - R^2_1)(1 - R^2_2)$. The results of the calculation $Q^2 = 1 - (0.142)(0.139) = 0.980262$, including in the good category. This means that 98.02% of the variation in the Competitive Advantage variable is influenced by the Local Wisdom of Panca Budhi Indriya, and Strategic Thinking variables. The remaining 1.98% is influenced by variables outside the model. After all SEM - PLS requirements are met, hypothesis testing is carried out in Figure 1, which is summarized in Tables 4, and 5, as follows.

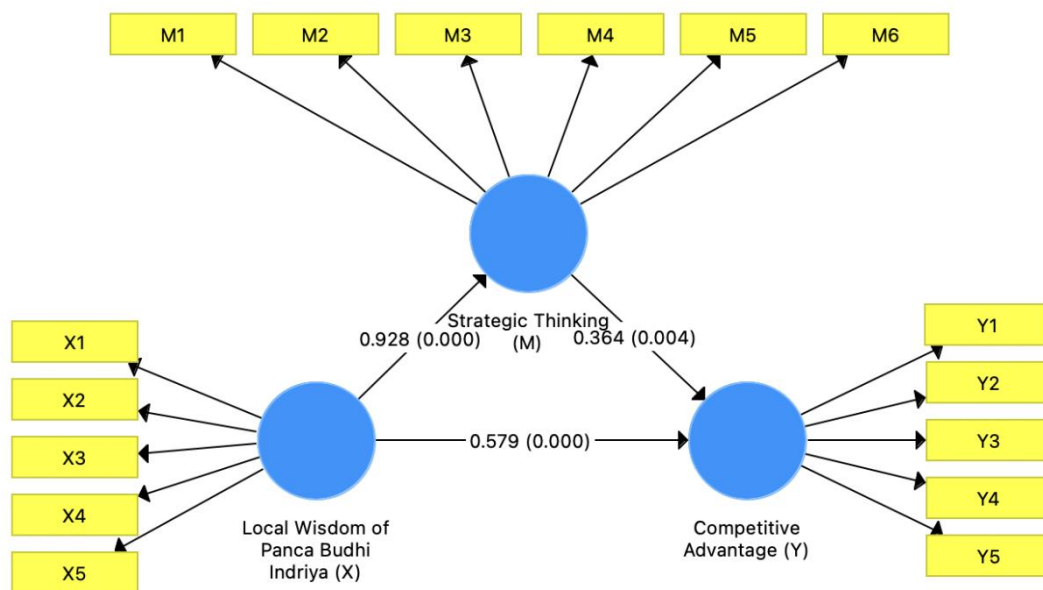


Figure 1. SEM-PLS Testing Model
Source: Data Analysis (2024)

Table 4. Hypothesis Test Results of Direct Effect

Variabel	Path-Coefficient	T Statistics	P-Value	Remarks
Local Wisdom of Panca Budhi Indriya(X)-> Competitive Advantage (Y) (H1)	0,579	4,681	0,000	Accepted
Local Wisdom of Panca Budhi Indriya(X1)-> Strategic Thinking (M) (H2)	0,928	47,361	0,000	Accepted
Strategic Thinking (M)-> Competitive Advantage (Y) (H3)	0,364	2,882	0,004	Accepted

Source: Data processing results using SmartPLS (2024)

This study proposes four hypotheses, consisting of five direct effect hypotheses and two indirect effect hypotheses. The direct influence of Local Wisdom of Panca Budhi Indriya on competitive advantage is significant with p-values of 0.000 and a positive path coefficient of 0.579, with t-statistics of 4.681,

meaning the hypothesis is accepted (H1). Local Wisdom of Panca Budhi Indriya has a positive and significant influence on Strategic Thinking (path coefficient 0.928, t statistics = 47.361, with p-values <0.000), indicating that the hypothesis can be accepted (H2). Strategic Thinking has a positive and significant effect on Competitive Advantage (path coefficient 0.364, with t-statistics = 2.882, and p-values = 0.004), meaning that the hypothesis is accepted (H3).

Table 5. Hypothesis Test Results of the Mediating Role of Strategic Thinking on the Effect of Local Wisdom of Panca Budhi Indriya on Competitive Advantage

Variabel	Path-Coefficient	T Statistics	P-Value	Remarks
Local Wisdom of Panca Budhi Indriya(X)-> Strategic Thinking (M) (P1)	0,928	47,361	0,000	Positive & Significant
Strategic Thinking (M)-> Competitive Advantage (Y) (P2.1)	0,928	47,361	0,000	Positive & Significant
Local Wisdom of Panca Budhi Indriya(X)-> Competitive Advantage (Y) (P3)	0,579	4,681	0,000	Positive & Significant
Local Wisdom of Panca Budhi Indriya(X1)->Strategic Thinking (M)-> Competitive Advantage (Y) (H4)	0,338	2,847	0,005	Complementary (Partial Mediation)

Source: Data processing results using SmartPLS (2024)

The effect of Local Wisdom of Panca Budhi Indriya on Strategic Thinking (P1) is significant (p-value = 0.000), the effect of Strategic Thinking on Competitive Advantage (P2) is significant (p-value = 0.000), all direct effects of exogenous and endogenous variables (P1, P2, and P3) are positive so that the role of Strategic Thinking is in accordance with the mediation analysis procedure according to Hair Jr et al. (2021) complementary (partially complementary) on the effect of Local Wisdom of Panca Budhi Indriya on Competitive Advantage, meaning that hypothesis 4 is accepted.

4.1 Discussion

4.1.1 Direct Effect

This study proves that the local wisdom of Panca Budhi Indriya has a positive and significant effect on competitive advantage (H1 accepted). This finding supports the Resource-Based View (RBV) theory which states that unique, difficult-to-imitate, and well-organized resources can create sustainable competitive advantage (Barney, 1991). In the context of this study, Balinese local wisdom becomes a valuable asset capable of increasing the attractiveness and differentiation of 4&5-star hotels. The elements of Panca Budhi Indriya, such as visual beauty, distinctive aromas, culinary flavors, traditional music, and natural materials, contribute to creating a unique experience that cannot be found elsewhere (Rahayu & Yanis, 2023); (Swebawa, 2021).

This finding is consistent with the view that cultural resources can enrich the strategic thinking framework, making it more focused on a holistic customer experience (Oematan et al., 2022); (Syafi'i et al., 2024). The application of sensory elements in Panca Budhi Indriya allows 4&5-star hotels to design unique strategies, such as the use of local aesthetics and community engagement in creating a destination brand image. Strategic thinking, in turn, is also shown to have a positive and significant influence on competitive advantage (H3 accepted). This result supports the RBV theory that emphasizes

the importance of managerial capabilities in utilizing strategic resources to create competitiveness (Bushairi et al., 2024). Strategic thinking allows hotels to adapt to market changes, develop new products and services, and improve resource management efficiency. With a strategic orientation that focuses on customer needs, 4&5-star hotels can create a more satisfying experience, ultimately increasing customer loyalty and competitiveness.

4.1.2 Indirect Effect

Strategic thinking plays the role of a partial mediator that complements this relationship, in accordance with the mediation analysis procedure according to (Hair Jr et al., 2021). Thus, the fourth hypothesis (H4) is accepted. In the Resource-Based View (RBV) theoretical framework, local wisdom such as Panca Budhi Indriya is a unique and difficult-to-imitate intangible resource, which provides a strong foundation for creating meaningful differentiation in the marketplace (Barney, 1991). This research reinforces the concept that local cultural values not only enhance the attractiveness of tourism destinations, but also influence managerial capabilities in designing relevant and innovative business strategies (Swebawa, 2021); (Syafi'i et al., 2024). In this context, strategic thinking acts as a bridge that connects local wisdom with competitive advantage, enabling organizations to optimize the economic value of local cultural resources.

The results show that elements of Panca Budhi Indriya such as respect for aesthetics (Caksu Indriya) and attention to holistic experiences (Twak Indriya) provide rich insights for hotel managers to understand customer needs more deeply. Using these insights, management can design differentiation strategies that not only enhance the hotel's appeal, but also make it more relevant to the needs of a dynamic market (Oematan et al., 2022); (Ramanauskas & Banevicius, 2021). Furthermore, strategic thinking encourages cross-sector collaboration and more effective resource management, ensuring that local values are not only preserved but also translated into innovative business strategies. As a result, 4&5-star hotels in Bali are able to create a sustainable competitive advantage by utilizing the uniqueness of local culture as an added value (Zadoia & Charkina, 2022). This effect not only increases hotel competitiveness, but also strengthens Bali's cultural identity as a local wisdom-based tourism destination.

5. Conclusion

This study examines the influence of local wisdom Panca Budhi Indriya on competitive advantage, both directly and indirectly through strategic thinking. The findings confirm that Panca Budhi Indriya, as a form of intangible local wisdom, significantly enhances competitive advantage. Additionally, strategic thinking acts as a complementary mediator, further strengthening this relationship. By integrating the principles of Panca Budhi Indriya, such as sensory intelligence and cultural values, with strategic management practices, 4&5-star hotels in Bali can achieve sustainable differentiation and competitiveness. These results align with the objectives of the study, demonstrating that local wisdom-based strategies can provide meaningful insights and practical implications for the hospitality industry in Bali.

Limitations and future studies

This research, while offering valuable contributions, has several limitations. First, the study is limited to 4&5-star hotels in Bali, which may restrict the generalizability of the findings to other regions or types of hospitality establishments. Second, the study uses a quantitative approach, which may not fully capture the qualitative depth of local wisdom's influence. Future research could consider expanding the scope to include other regions or types of accommodations, such as boutique or eco-friendly hotels, to provide comparative insights. Additionally, adopting a mixed-methods approach that combines quantitative analysis with qualitative interviews or case studies could enrich the understanding of the integration of local wisdom and strategic management. Lastly, future studies could explore additional mediating variables, such as organizational culture or innovation, to further elucidate the mechanisms linking local wisdom to competitive advantage.

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