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# Factors Affecting Human Capital and Innovative Entrepreneurial Capabilities of Tour Operators: Evidence from Andaman Coast, Thailand\*

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### **Abstract**

This research seeks to explain factors and relationship models of entrepreneurs capable of building service innovations in Andaman coast with the ultimate aim to ignite sufficient development of regional tourism, increase working potentials, and provide a guideline for tour operations. Initially, document examination and discussions with five experts were conducted to build in-depth interview questions. 19 entrepreneurs were interviewed to examine factors involved and we consulted later with the five experts and six successful entrepreneurs in the regions, as well as with the representatives of the Association of Thai Tour Operators and Tourism Authority of Thailand (TAT) of Phuket, Krabi, and Trang. The results were analyzed according to the theory of resource-based and innovative entrepreneurs. The factors obtained were generated from systematic causes: Nature of Entrepreneurships and Organizational capabilities, the mediator variables of Service Innovation Capability; and Organizational Performance (non-finance). Moreover, the external factors needing to be adjusted regarding the environmental changes were described. The tour operators are suggested to build networking to increase tourism potential with sustainability by providing the entrepreneurs opportunities to be involved in tourism development, accessing the knowledge, technology and innovations resulting in sustainable tourism, quality livelihood, and sustainable ecological management of communities.

Keywords: Human Capital, Innovative Entrepreneur, Thailand

JEL Classification Code: M10, M16, M30, M50

### 1. Introduction

Tourism is a service industry which plays an important role in Thailand's economy due primary to profits it generate that go into the country service businesses. Moreover, it drives business continuity such as hotels and accommodations, restaurants, souvenir and local product shops, which activates investment, employment, and income distribution to localities as well as currency incomes for many thousand

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billion baht. Also, the tourism industry has increased the industrial values, accounting for 4.8% of Thailand Gross Domestic Products (GDP) (Tourism Marketing Strategy Division, 2017). Nonetheless, as the current conditions of 2019 tourism has been revealed, the business tend to expand less because of the impacts of various factors including the world economic situation causing Thai baht to appreciate continually, and the trade war between China and United States, which apparently affects the confidence of tourists.

Under these circumstances, entrepreneurs need to seek out their obvious selling points in marketing and to integrate the overall conditions in planning with explicit, uncomplicated and decisive goals. An assessment system of business has to be more concrete in every step of working procedures (Hult et al., 2004). The marketing models should focus on professionalism, knowledge, and taking actions with the right goals. This will not only increase tourist numbers, but also clarify the working processes with vivid supply and demand sides in overall markets. In Thailand, markets are categorized into three main groups: (1) Chinese market considered as one of the three components of the overall markets; (2) European markets, which are currently in a

low growth; and (3) domestic markets, which the Tourism Authority of Thailand (TAT) tried to hold its segmentation at 33-34% of the overall markets. In particular, when it comes to the portion of international markets, TAT focuses on more tourist segmentation including finding out ways to entice numbers of tourists to travel continually over the year especially from Europe, which generally travel in the first and the last quarter of the year.

Among the current competitive market conditions, the entrepreneurs need to apply aggressive strategies to run business. Service innovation is one strategy administrators engage in to do business to increase values of services and competency in business competitions (Ooncharoen & Ussahawanitchakit, 2011). Service innovation is a construction of creativity within the processes of production to generate modern products or services responding to various needs of customers. This construction of interactive relationships with customers will ultimately increase the values of businesses (Nunta, et al., 2012).

As aforementioned, service innovation reflects an adjustment on organizational and strategic levels. However, a crucial factor promoting businesses is the cooperation of the tourism products and services by integrating the engagement of entrepreneurs into the consolidated services (Naver & Slater, 1990). The main principle is to build collaboration in cluster in order to promote strengths and resolve weaknesses of tourism industrial groups (Jones & Tilley, 2003). That is to build business allies to survive, set up collaboration between relative entrepreneurs and organizations so that the entrepreneurs can adapt with situational changes as well as to improve skills of personals and organizations by exchanging useful news and information (Thomas & Hans, 2003). Nonetheless, business-to-business networking is the collaboration among different businesses to build relationships and to work collaboratively, which help provide services that a single business cannot by itself. In other words, business-to-business networking collaboratively implements activities as large-scale businesses do by sharing operations and building relationships. The networking will also increase more competencies, potentials, flexibilities, and creativity, something that a single business cannot generate alone. As a result, this led entrepreneurs to survive and be able to compete with other world-class businesses (Walter et al., 2006). In sum, business-to-business networking is regarded as "technology" of organizational management, which allowed entrepreneurs working together to make profits along with maintaining strengths of individual business (McEvily et al., 2004).

Currently in Thailand's tourism situations, the entrepreneurs are seen to adjust their business along strategic collaborative goals, which has become causal factors of tourism economic growth. This situation is regarded as a good signal for SME entrepreneurs in the tourism industry

and related fields. Nonetheless, the entrepreneurs still need to adjust themselves based on their organizational capabilities by focusing on strategies and entrepreneurships which affect the service innovation and outcomes. These causal relationships will drive the development of entrepreneurial organizations to increase the organizational capabilities and competitions (Mintzberg & Waters, 1985).

### 2. Literature Review

### 2.1. Theoretical Background

This research relies on resource-based and innovative theory and competencies of services theory for enhancing outcomes of businesses. Resource-based theory means the ways resources function. In terms of the explanation of entrepreneurship development, this research is designed within the perspectives of Thailand's tourism industry, which highlights the knowledge, competencies, skills, expertise, and experiences. With this combination, it leads to the potential of organization or the invaluable resources causing the capabilities to compete with other business competitors. Hence, to develop entrepreneurship, notions of human capital are crucial where human resources are seen as intangible asset without declining cost, and human capital is always value added.

The development of strategic decision by entrepreneurs will directly affect the structure or procedure identifying entrepreneurships because the factors of the strategy-marketing process (SMP) are the results of involvement of various activities, which are planning, decision-making, and strategic management. These procedures reflect different organizational cultures, shared value system, and corporate vision (Hart, 1992).

### 2.2. Perspectives on Entrepreneurs' Innovativeness

Innovative capabilities of entrepreneurs in the perspectives of resource-based theory emphasize the use of available resources, which will lead to the outcomes of new capabilities of organizations (Wernerfelt, 1984). The enhancing of the strategies mentioned created advantages in competition (Hamel & Prahalad, 1990; Moingeon & Edmondson, 1996). Moreover, under the complicated and challenging conditions of business nowadays, the innovativeness has been changed from static to a dynamic relation including value-added human resources, organizational structure, organizational cultures, knowledge management, and effective networking. With these resources, the organizational capabilities are driven with clear directions and strategies (Hareebin et al., 2018). In addition, the compatible competencies of organization are still needed and should be prioritized (Schlegelmilch et al, 2003).

# 2.3. Service Innovation Capabilities

The service innovativeness of hospitality and tourism industries could be divided into several different interrelated categories. Innovations are generally seen as outcomes of products or services, but in fact innovativeness could be found along the ways operations have been practiced and developed that also include external environmental processes. To enable the tourism business to display innovativeness, various innovative drive models are proposed (Leekpai, et al., 2014). For instance, the innovative capability orientation seeks directions or dimensions to develop as to gain higher efficacy of business (Rutherford & Holt, 2007). The marketing orientation brings innovations into businesses by adding values and potentials of organizations resulting in capabilities to compete with other businesses (Naver & Slater, 1990). The learning orientation drives innovativeness to be integrated with organizational cultures to empower the working efficacy of officers and adjustment of organizations with the new innovations. In other words, the coming of innovations will change working processes or procedures (Huber, 1991). The organizational environmental orientation where the environments of organizations will help the operations of innovations being implemented with convenience and effectiveness. The environmental adjustment will help members in organizations mediating themselves towards the innovations resulting from changes and progressions (Burton et al., 2004; Tran, Lee, Nguyen & Srisittiratkul, 2020).

# 2.4. The Influence of Causal Factors on Service Innovation Capabilities

The entrepreneurs are the key factors who generate and pursue new ideas in responding the markets to make profits. The entrepreneurs are in charge in administration and responsible for riskiness business outcomes. In other words, capable administrators will focus on the significance of entrepreneurships. Miller (1983) defined Entrepreneurial Orientation as the emphasis on business implementations with the willingness to accept possible risks, enhancing business with innovations, and competing with other businesses with strategic approaches. The causal factors of innovative entrepreneurships could be categorized into: Innovativeness, Risk-taking, and Proactiveness. Lumpkin and Dess (1996) later found two more crucial factors, including Autonomy and Competitive Aggressiveness. So, the causal factors of service innovation capabilities consist of five factors. Nonetheless, this research will highlight only four factors in order to reduce the overlapping concepts: risk-taking, proactiveness, autonomy, and competitive aggressiveness as the innovativeness is already involved in service innovative capabilities (Yi, Han & Cha, 2018).

Miles and Snow (1978) defined the meaning of Strategic Orientation as the approaches organizations employed in response to external factors. This agrees with Hambrick's 1983 study that states that Strategic orientation was a component used in making decision and leading organizations into several different environments. This research followed the strategic orientation of Venkatraman (1988) which is divided into six elements: (1) Aggressiveness Dimension – the response levels towards competitors by focusing on resource management so as to achieve marketing positioning faster or to invest more to gain more profit in the market segmentation; (2) Analysis Dimension – an important aspect in making decision focusing on analysis and the best selective choices in solving problems; (3) Defensiveness Dimension – a focus on reducing costs in business and emphasizing effectiveness of selection processes; (4) Futurity Dimension – considering timing focusing on the long term rather than research which highlighted short-termresponse; (5) Proactiveness Dimension – focusing on seeking opportunities of organizations and responding to the markets; (6) Riskiness Dimension – the level of riskiness in making decision from several resources.

### 3. Research Methods and Materials

To gain valid and insightful data, the research was designed and conducted following these four stages:

The first stage: document analysis and discussions with five experts from tourism-related fields were conducted to build and identify the concept for in-depth interview questions. The data obtained from the two different sources were critically synthesized by strategy experts and entrepreneurs to figure out a theoretical relationship framework.

The second stage: 19 entrepreneurs have been interviewed to examine factors involved in competitive strategy in Thailand. The factor analysis was later conducted to find out the relationships by coding in different levels representing sub-groups of data, and the data obtained were decoded again so that to identify the significance underlying of each issue. Under these circumstances, the body of knowledge is generated to answering the research questions.

The third stage: the findings obtained from the factor analysis were brought back to consult with experts in the tour operations fields to analyze their theoretical correctness and factors synthesis.

The last stage: the findings obtained from the previous step were discussed with six successful entrepreneurs whose experiences were not less than seven years. Also, the representatives of the Association of Thai Tour Operators and Tourism Authority of Thailand (TAT) of Phuket, Krabi, and Trang provinces participated in discussions. During the discussions, experts' perspectives and factors obtained were highlighted in order to find out possibilities of strategic development models for the entrepreneurs.

### 4. Results and Discussion

Results 1: The three experts agreed that sustainable businesses relied on cooperation of resources and networking, and building social capital is very important. Given this, the experts defined three elements of building social capital. (1) Resource sharing means to share resources available in business with expectation to gain benefits and obtain advantage over the competitive businesses. Resource sharing will empower the processes of business implementation leading to popularity of organizations. (2) Shared vision is the interactions among members derived from trustworthiness in the networking and significant to the success of member participations. (3) Advantage of network associates with business networking happened between business organizations to enable competencies in strategic competition and business. The benefits obtained from business group gathering will affect the stakeholders with trustworthiness, respects in the rights and properties, and quality of production.

**Results 2:** The interviews with 19 tour operators revealed that Entrepreneurial Orientation and Strategic Orientation were the factors driving businesses making acceptance to risk possible, as well as using innovations to strategically compete with other business competitors. The organizations likely used these approaches to adjust to external environmental changes and help in decision-making leading the organizations to be compatible with various environments. Such crucial factors of organizations consisted of Entrepreneurial Orientation, Market Orientation, Service Co-production, Information Technology Adoption, Human Resource Practice, Innovativeness, Learning, and Organizational Climate. Moreover, there are three elements that all the entrepreneurs emphasized:

- 1. Honesty, Trustworthiness, and Endurance: these are the attributions that teams must have. Teams should be always reliable and dependable, have initiating skills, dare to risk, bearing criticisms, and being goal-oriented. The team members must be honest with each other and willing to work for the team with selflessness. The team must be trustful, dependable, and enthusiastic, and responsible for their roles and expectations. The team members must have cooperativeness, imitativeness, and patience. Besides, the team members must be resourceful, be able to apply contents and thoughts wisely in solving problems.
- 2. Marketing: tour operators must differentiate their products or services from others, that is, create new routes to tourism so as to attract tourists at the selling spots. Some product promotion might be launched to attract customers to come again next time. On the other hand, discounts should be offered to the new

- customers as well as proposing special deals for traveling in low seasons.
- 3. Operations: the entrepreneurs must creatively think about new travelling routes as the tourists nowadays are more independent because of change in technology. Therefore, the entrepreneurs need to think of new traveling routes never offered before in order to motivate and help tourists in making decision. The services should be provided with quality and variety in order to create customers' satisfaction, which usually result in them returning and recommending to other customers.

**Results 3:** the findings were obtained from the discussions with the experts from tour operators and the six successful entrepreneurs, whose working experiences are not less than seven years, the representatives of the Association of Thai Tour Operators and Tourism Authority of Thailand (TAT) of Phuket, Krabi, and Trang provinces. Their perspectives and factors obtained highlighted in the above discussions assisted in figure out the possibilities of strategic development models for the entrepreneurs. The guidelines for tour operators were generated in a perspective of entrepreneurship development with innovation of new creative routes to travel sites, doing business with honesty/loyalty, providing quality services, and implementing business focusing on Entrepreneurial Orientation and Strategic Orientation. The results from discussions with entrepreneurs and experts pointed to the necessity to have foreign language skills and not only English, but also languages spoken in ASEAN countries such as Khmer, Laos, Vietnamese, Malay, etc. The administrative board should be prepared and learn continually so as to incorporate the changes of societies and technology.

Following the four stages of the research procedures, the results obtained are shown in Figure 1.

The relationships of factors involved in enhancing service innovation capabilities, in resource- base view that focuses on dynamic changes of milieu, initiated from the nature of entrepreneurships, which consisted of organizational structures, authorized capital, business experiences, networking members, and numbers of personnel. These factors usually determined the degree of organizational capabilities, which could be categorized into Systemic Capabilities, Knowledge Capabilities, Strategic Leadership and Networking Capabilities of organizations. In consequence of development of organizational capabilities, Service Innovation Capability would be developed, which usually relied on Entrepreneurial Orientation, Market Orientation, Service Co-production, Information Technology Adoption, and Learning Orientation. In addition, to enhance innovativeness of organization under the dynamicallychanging environement will cause effective resource management within the limitation of internal and external environemntal changes.

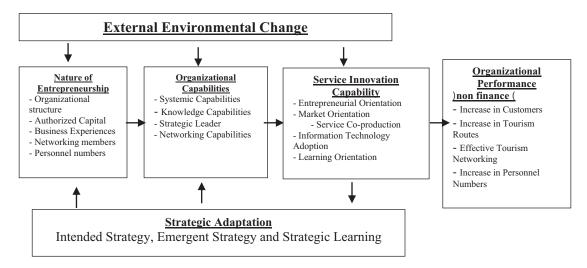


Figure 1: Systematic relations of factors of service inovation capability

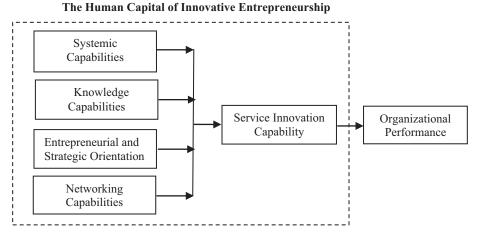
### 5. Conclusions

Entrepreneur capabilities are the primary stage of the value-added resources and innovations of the organization learning (Wang et al., 2010). To create new things, human capital is significant in making use of knowledge, skills, and integration between resources and several capabilities to achieve the goals of organizations (Orchard, 2015). The human capital is not only considered as an important resource of an organization, but also as empowering other factors in organizations to become more and more valued. The innovativeness causes the development of new products and services. In other words, the human capital is regarded as a factor, which could impact the economic growth (Glaeser et al., 1995; Urbano, Claudia & Andreu 2013; Cheng, Li, Lin & Chih 2020).

In this research, the factors affecting the entrepreneurs' capabilities were Systemic Capabilities, Knowledge Capabilities, Entrepreneurial Orientation, Strategic Orientation, Networking Capabilities, and Service Innovation Capabilities. The results were analyzed according to the resource-based theory and theory of innovation capability to enhance business outcomes. The details of each factor are as followed:

1. Systematic Capabilities are organizational structures and internal administrative systems dealing with functioning division, chain of command, administrator's lead, roles and job description, commandment, motivation both formal and informal, as well as rules and regulations within organizations (Yang & Chen, 2007). These capabilities are categorized in Resource-Based Capability, which promotes organizational cultures of sharing, building

- a body of knowledge, knowledge evaluation and measurement, and knowledge management for organizational benefits (Marquardt, 1996; Gold et al., 2001; Zheng, 2005; Peachey, 2006; Yang & Chen, 2007).
- 2. Knowledge Capabilities focus on processing concepts and knowledge development system that are derived from effective processing of selection, collection, storage, sharing, and knowledge distribution (Marquardt, 1996; Davenport & Prusak, 1998; Scarbrough et al., 1999; Brown & Duguid, 2000; Boyett & Boyett, 2001; Gloet & Terziovski, 2004) with the purposes to develop learning by the personnel. These circumstances will enable organizations to have a body of knowledge and competitive performance to achieve the goals.
- 3. Entrepreneurial and Strategic Orientation are the processes of organizational cultures that will add value from useful resources and business opportunities. These orientations could be categorized into three levels: 1) the innovation leadership where the administrators take important parts in supporting innovativeness at the earlier stages, (2) the managerial leverage, which is related to leadership and decision-making of strategic practices or concepts of organizational structures and systems, resources management, and organizational cultures generating innovativeness, and (3) the business process, which is associated with changing processes of input into innovations including innovations that can be built as an organizational business (Hult et al., 2004; Rutherford & Holt, 2007; Crossan & Apaydin, 2010; Chamidah, Guntoro & Sulastri 2020).



**Figure 2:** The Conceptual Framework of Human Capital and Innovative Entrepreneur Capabilities effect to Organizational Performance

- 4. Networking Capabilities are the performance in building business networks by developing competitive skills of entrepreneurships, which are necessary to invite creative people into the same spaces for creating environments of sharing ideas, absorbing ways of life of travelers, tourists, locals, mixing old and new things to response social and markets, as well as proposing sustainable businesses oriented in social and sharing strategies and eventually affecting the innovativeness of organizations (Miller, et al., 2007; Shaughnessy, Gedajlovic, & Reinmoeller, 2007; Becker & Lee, 2019).
- 5. Service Innovation Capabilities are innovativeness construction determining directions of organizational development for more effective performances (Rutherford & Holt, 2007) such as to determine strategies suitable with plans within highly competitive situations. Innovativeness strategy, therefore, is the key to make organization successful and survival (Ooncharoen & Ussahawanitchakit, 2011) as summarized in Figure 2.

# 6. Implication

The research findings revealed that Networking Capabilities influenced Service Innovation Capability mostly as well as Networking Capabilities, Entrepreneurial and Strategic Orientation. Given this, the tour operators have to build networking as a function to increase tourism potential with sustainability. The entrepreneurs of any types of tourism business should be given opportunities to participate in developing the tourism, accessing the knowledge,

technology, and various innovations. The networking functions as a space in development of sustainable tourism, quality livelihood, and sustainable ecological management by preparing communities to access a body of knowledge and practicalities.

Networking is a reflection of sufficient working processes of tourism business as an additional function contributing incomes for communities. The success of networking is based on a genuine caring towards communities. The communities who are truly capable of developing tourism will develop their networking regardless of borders and limitations as long as their members could find the right goals and capabilities to do so. Therefore, expert groups such as scientists, scholars, consultants, lecturers, etc., who understand well the nature of different businesses are regarded as a promoting factor of successful networking. This kind of working processes that respect beliefs, rights and empathy to one another, is considered as one type of strategy called Co-operative Strategy among business alliances who shared objectives of networking. The development under these demands and supplies of industrial tourism business are for building new service innovations to respond to future changes of networking business.

The suggestions to develop tour operations on a national level in Thailand are that the government should provide more positive information of Thailand tourism to erase the negative sides, promote tourism more frequently, and emphasize entrepreneurial tourism to focus more on foreign language learning. The foreign language training should continually be organize so as to enhance competencies of tourism personnel.

### 7. Limitations and Future Research

The research data were collected from the entrepreneurial executives positioned in power to make decision to apply strategies, knowledge, and understand the working of tour operations. The research is conducted in qualitative ways reflecting horizontal perspectives, which is considered as a limitation of this research. As a consequence, quantitative or mix method paradigms are suggested in future research. That is, to apply structural equation modeling (SEM) to analyze the paths of relationships of each factor. In addition, Exploratory Factor Analysis could be used to examine the structures of factor relationships as well as coding and decoding new categories of factors. The Confirmatory Factor Analysis should also be employed to forecast possible structures of relationships to check whether factors are closely related or not.

Future research should focus on Generation Y's entrepreneurial characteristics as they have different backgrounds in social capital building. The Generation Y entrepreneurs were born during 1981-2000, which is the largest demographics in Thailand, - 19 million people approximately or a quarter of Thailand population. The outstanding characteristics of Generation Y are, (1) technology mobility: they are flexible in accessing technology and use it on a daily basis; (2) social oriented: they share interesting experiences or stories through online platforms to represent their identities; (3) information-based decisionmaking: online information is compared and contrasted before making any decisions; (4) selective: Generation Y focus on standards and are aware of the alternatives available online, so they are likely to compare the prices and quality before choosing the best purchase; (5) financial literacy: even though Generation Y are still young, they know how to make money productively. Generation Y tend to spend money frequent, but expect to be wealthy as soon as possible. The characteristics of Generation Y should be extensively studied since it has ultimate implications into business practices.

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