

# CAUSAL FACTORS OF SERVICE INNOVATION OF TOURISM BUSINESS IN THAILAND

**Bundit Pungnirund**

*Suan Sunandha Rajabhat University, 1-U-Thong Nok, Dusit, Bangkok, Thailand,*

*E-Mail: Bundit.pu@ssru.ac.th*

## ABSTRACT

Abstract—The purpose of this research was to study the relationship of causal factors consisting of entrepreneurial orientation, marketing orientation, and co-production services affecting service innovation of tourism business which were consistent with the empirical data. The sample in this research was tourists of tourism business which located in Bangkok, totaling of 400 people using snowball and convenience sampling method. Online questionnaires were used as a data collection tool. Statistics used in data analysis were Structural Equation Model (SEM) analysis by using statistical packages for analysis. The results showed that the model had good consistent with the empirical data with the level of statistical significance at 0.05. The results of the causal factors of service innovation of tourism business revealed that entrepreneurial orientation, market orientation, and service innovation had direct influence on satisfaction with the services of travel service businesses. while the co-production services had no direct influence on the satisfaction of service of the travel service business.

Keywords— Causal factors, Service innovation, Tourism business

## INTRODUCTION

Nowadays, the service sector plays an important role in economic development and growth. both on a global level and national level. The growth of the service sector has a significant impact on the global economy both in terms of economic value and in terms of labor force as is the case with Thai tourism which is regarded as a large service sector industry and plays an important role in enhancing the country's economic stability. In addition to being a source of income that results in the value of economy and the country's GDP growth rate of more than 6% (Ministry of Tourism and sport, 2021), the tourism industry is still an important mechanism for out of employment diversified career creation spread across all regions especially service businesses such as tourism business, transportation business, accommodation business, restaurant and entertainment business, souvenir business, tour and guide business. Thailand's abundant tourism business will affect the overall economic income of the country.

Thailand is a country with high competitiveness in tourism. The Travel & Tourism Competitiveness Index of the World Economic Forum (WEF) ranks Thailand's tourism competency in 2019 at 31 (out of 139 countries around the world), improved up from 34th in 2017, Thailand's strength lies in its prominence in natural resources, infrastructure for tourist services and pricing, but with weaknesses in safety, health and environment. In the past, the tourism sector always focused on creating new travel destinations to attract tourists of all age groups, but the COVID 19 crisis has made the needs and behaviors of tourists different in each age group. During the situation of the epidemic of COVID 19 in the country the most severe, the lockdown measures being the strictest, and the feeling of fear the strongest. But most Thai people are still confident and plan to travel soon. From that trend, therefore, it is expected that the new wave of the epidemic will temporarily affect domestic tourism and should recover in the second quarter of 2021 (Research Intelligence: Krungsri Research, 2021).

However, tourism is a volatile and ever-changing industry. It also faces global competition in terms of products and services. While most entrepreneurs in the service sector in Thailand still unable to adapt to compete in a more dynamic and volatile market (Ministry of Tourism and sport, 2021). The development of the service potential of the tourism business therefore plays an important role in the country's competitiveness. In Thailand, trying to develop capabilities by designing new services that are different for customers, focusing on driving innovation in line with the country's development guideline called Thailand 4.0. Therefore, it is necessary to use tools in various management, especially the ability in innovation. Service provision, which is one of the important service business management tools in the present and future world.

Nowadays, service innovation is a topic that is gaining attention from service sector businesses. It can be used in the formulation of key strategies for services and organizations as well as a response tool to the value and needs

of customers in improving the image that leads to the sustainable success of business operations ((Roberts & Amit, 2003, Henard & Szymanski, 2001). The development of service innovation in the organization therefore plays an important role and very important for business operations, especially tourism businesses that are important at the national level (Suwunniponth, 2022). For this reason, the researcher is interested to study the causal and effect factors of service innovation of tourism business in Thailand. This study will focus only on strategic variables for tourism businesses to see the importance of the causal factors in each aspect, including 4 factors as follows: service innovation, entrepreneurial orientation, market orientation, and satisfaction with the services of travel service businesses. It is expected that the aforementioned causal factors will result in the development of service innovation and contribute to the enhancement and development of knowledge organizations that have the need for developing the capacity of tourism industry operators and finding ways or standards to improve the service of Thailand's tourism operators and their stakeholders involved in the use of models. The results from research apply to develop guidelines to promote creation of potential within the service innovation to occur in the tourism business in Thailand under changing contexts and situations.

## LITERATURE REVIEWS

The service innovation concept was developed from Schumpeter's innovation theory in 1934 (Chen, et al., 2011), which is just a broad concept of creating and developing something new. While most innovations are developed through technology, many research studies focus on using technology to transform service delivery. Service innovation is developed from the concept of innovation that means the initiation, acceptance, implementation of new ideas or activities as well as new things arising from the use of knowledge and creativity that benefit the economy and society (Mattsson et al., 2005). Most of service innovations in the tourism industry start from the leadership's creative thinking process or personnel in the organization and bring it to actual practice. The main goal is to improve the service to meet the needs of customers towards customer satisfaction. Innovation development should develop or implement something new to happen in the organization rather than creating something new in the market. Therefore, the type of innovation development at this level should be the development of product innovation and process innovation (Tidd et al., 2001). Since both types of innovation are Innovation that directly affects the price of goods and services including contributions to the economy level.

Entrepreneurial orientation refers to the personality and characteristics of an entrepreneur who has involved in management practices of employees and executives in organizations that reflect strategic decision-making processes under the perception of one's own needs including being creative and doing things that challenge knowledge and ability in order to meet and be in line with the organization's goals (Nasution et al., 2011). According to Miller's Entrepreneurial orientation concept (1983), looking at driving an organization to success depends on the integration of strategies and organizational structures and suggested that the organization can be developed by leaders should have characteristics in 3 dimensions, namely, Risk appetite, Proactive operations and Innovation capabilities. *Risk appetite* refers to the level of performance of personnel in an organization that challenges their knowledge and abilities within opportunities, budgets, constraints and risks to the extent that that person can successfully perform. *Proactive operations* refer to the level of work performed by people in an organization with the enthusiasm and determination to make it happen on their own by predicting planning and pursuing new opportunities under the circumstances of change and business survival. *Innovation capability* refers to the level of performance of personnel in an organization arising from the idea or support of the pursuit of a pattern, new ways of working, and being creative to lead to the development of new products and services.

Market orientation refers to an effective corporate culture and effectiveness in building behavior of personnel in the organization to lead to the implementation of marketing activities, which are information that can respond to customer satisfaction. Data analysis of competitors' operating conditions and the importance of coordination procedures in the organization. Market orientation, according to the concept of Narver & Slater (1990), is a corporate culture that have components/components in 3 aspects of behavior, namely, Customers orientation, Competitiveness orientation and Coordination within the organization. *Customers orientation* refers to the level of performance of personnel in an organization that aims to support the organization's strategic goals with a focus on meeting basic needs, satisfaction, benefits and value of customers. *Competitive orientation* means the level of performance of personnel in the organization that analyze situations strategies and competitor information to seek ways to respond and develop competitive advantage. *Coordination within the organization* refers to the level of

performance of personnel in the organization where resources and data are shared. It aims to respond and fulfill the needs of customers under the strategy of coordination throughout the organization and satisfaction with the services of travel service businesses.

Co-production services refers to the process of creating valuable interactions between an organization and its external stakeholders, customers and partners. Basic resources for creative ideas from outside the organization to play an important role in consolidating service production by building cooperation that is beneficial to develop service and lead to actions that respond to the value and needs of customers in service delivery. According to the service co-production scale of Chen et al. (2011) consists of indicators in 2 dimensions, namely Cooperation with customers. and cooperation with partners. *Cooperation with customers* refers to the operational level of personnel in the organization to create. Cooperation with customers in co-producing services by giving importance to listening commenting and supporting information that reflects value customer needs to lead to the implementation and delivery of the service. *Cooperation with partners* refers to the level of performance of personnel in the organization in build cooperation with partners in participating in the production of services by giving importance to the coordination of planning, receiving suggestions as well as information to deliver services to customers to lead to joint operations.

Service performance refers to the level of performance which is a result of the service operation of the tourism business in Thailand. Norton & Kaplan (1996) developed modern measurement methods called the Balanced Scorecard, which fully reflects the performance of each point of view instead of the traditional performance or financial measurement approach. Measurements to create future value should give importance to all components that are customers, suppliers, employees, processes and innovations. The indicators service performance consists of 2 dimensions, namely marketing performance and financial performance. *Financial performance* is a measure of financial goals. In general, an organization/income focuses on profitability in which the executives take in account of income factors, growth of market share, profit generation, and cash flow management by measuring performance from these monetary terms. It makes it possible to know the strategy or whether it has a contribution to profitability for the business or not. *Marketing Performance* is a measure of customer goals. From this point of view, the focus is on creating customer satisfaction, building loyalty to customers, building trust in the brand and increasing the market share. Therefore, it is something that the management must measure the performance to be more concrete. It focuses on time, quality, service and cost factors by linking the vision and strategy to the four measurement perspectives. Balanced Scorecard able to meet the needs of the management from many perspectives, especially the different performance metrics that reflect different organizational plans. In the same report to present to the management for improving the quality of products and services by focusing on working as a team that focuses on results the long term. In addition, the measurement of marketing performance also reflects a clearer picture than the measurement in some perspectives.

## METHODS

This research is a quantitative research. The target population is tourism businesses located in Thailand. The sample was selected using geographic clustering. Therefore, a multi-stage cluster sampling method was used to randomly select provinces that are famous tourism provinces in each region. and then randomly sampling the tourism businesses of each province. The determining the number of samples to be studied due to this study used Structural Equation Modeling (SEM) analysis, in which a large sample size resulted in statistical accuracy is greater than that of small samples (Hair et al., 2010). The number of samples studied should be about 20 samples for each 1 predictor, there are 12 predictors in this study, so the sample size is 240.

According to the theory and concept of relevant texts and documents, researchers have developed a questionnaire and conducted content validity test through the use of the index of item objective congruence. For reliability testing, conducted with 30 non-sample, the reliability value was .906. Research tools used to collect quantitative data was a questionnaire consisted of 5 rating scale questions about the Entrepreneurial orientation, Market orientation, Co-production services, Service innovation, and Service performance, respectively. The researcher analyzed the data obtained from the questionnaires and processed it using computer program. Statistics used for data analysis were percentage, mean, standard deviation, Structural Equation Modeling (SEM) analysis to study the causal relationship of the variables in the model.

## RESULTS

Results of the personal data of the sample showed that most of the tourism businesses were female (54.41%), age between 36 - 45 years old (46.18%), the highest education is undergraduate (64.12%), had experience working in the field of travel services between 6-10 years (31.47%), the current job position was the owner (69.12%), the largest number of employees is 5-10 people (30.29%), most of them use Internet to provide services (36.68%), followed by Facebook and Line.

The observation variable that has the highest performance level is customer orientation, cooperation with partners and product innovation with an average of 4.23, 4.16 and 4.08 respectively. The results of the analysis of the standard deviation were between 0.534-0.875. The analysis of the distribution characteristics of the observed variables was found that Skewness between 0.334 and -1.071 and Kurtosis between 0.015 and 1.457.

The results of the fitness of structural equation model of the correlation of the factors affecting the performance of SMEs, it showed that the modified structural equation model of the correlation of the factors were in accordance with the empirical data. Based on the Chi-square value of 150.475, the degree of freedom (df) was 85 and the p-value was 0.089, at the acceptable level of 0.05. The relative Chi-square ( $\chi^2/df$ ) was 1.749 and the acceptable criteria was less than 2.00. Then, root mean square error of approximation (RMSEA) value was 0.037, which was lower than the criterion of 0.05 mean good fit and comparative fit index (CFI) value was 1.00, which was higher than the acceptance criterion above 0.90. Goodness of fit index (GFI) was 0.98, which was higher than the acceptable criteria of 0.90. Adjusted goodness of fit index (AGFI) was 0.94 which was higher than the criterion used to determine the model at 0.90. The standardized root means square residual (SRMR) measured at 0.055 was lower than 0.10 indicated that data fitness was acceptable. For Non-normed fit index (NNFI), the value was 0.99 which was higher than 0.90, where the value closed to 1 indicated that good fitness of data. Comparative fit index (CFI) was 1.00, which was higher than 0.90 mean that relate high good fitness of data. The results of the causal factors of service innovation of tourism business revealed that entrepreneurial orientation, market orientation, and service innovation had direct influence on satisfaction with the services of travel service businesses. while the co-production services had no direct influence on the satisfaction of service of the travel service business.

## CONCLUSION AND FUTURE WORK

### *Conclusion and discussion*

The results found that implementing a market orientation approach both in terms of analyzing, the needs of clients, forecasts, strategies, competitors and coordination within the organization affected the development of service innovation. This is consistent with a study by Lukas & Ferrell (2000) that found that conducting activities in the area of customer orientation and market orientation was a statistically significant direct influence on product innovation, with a wide variety of types. This is consistent with a study by Cheng & Krumwiede (2010) that used the above market orientation activities as a variable in the study of impacts on service innovation and found that such activities had a direct influence on service innovation. However, the focus on marketing is a concept in organizational behavior leading to build efficiency and effectiveness of the organization (Narver & Slater, 1990). Market orientation approach conduct activities that aim to develop for the benefit of the organization, customers and competitors who are involved in decision-making in strategy in marketing. Regarding the relationship between innovation and market orientation, it has also been discussed by scholars that innovation is a consequences effect arising from market attention (Nasution et al., 2011).

Service performance is the resultant factor of service innovation that reflects the overall achievement of the organization. This shows that if an organization has an operation related to service innovation or new service development, it will affect the performance in an increasing direction. The study found that service innovation has a positive direct influence on service performance in both marketing and finance areas. This is consistent with the Cheng and Krumwiede (2010) study, which used a sample of multiple service businesses and one of them is the travel agency business in Taiwan, found that the performance is influenced by the development and improvement of services both performance in terms of financial and marketing performance. Likewise, Lin (2011) study used a sample group of travel agents in China. It was found that building a strategy, in terms of service innovation, resulted in increased performance. In addition, in line with the study of Thakur and Hale (2013), a comparative study of the performance of companies operating a service business was conducted to study the

relationship of various service businesses that have improved their services with the results using the sample group as senior executives and found that the company has operating results both financially and non-financial increases in both countries. As for the combination of quantitative and qualitative research findings, it was found that the consensus of the variables supported the positive direct influence of market focus on service innovation.

#### ***Recommendations and future work***

The findings provide empirical evidence to confirm the influence of market focus on service innovation. It shows the relationship between marketing activities and concepts and new approaches in developing service innovations. It is important to have a direct influence on the entrepreneurial orientation factor and service integration to service innovation. Therefore, the market orientation factor is the factor that tourism businesses should pay attention to study in order to plan for the benefit for the organization. In addition, the executives and stakeholders in the tourism industry used the variables used in this study to prepare projects or activities to promote knowledge and understanding for tourism operators in various fields to lead to increase skills and knowledge in business operations and to create a competitive advantage both from within and outside the country.

Suggestions for further research, In this study, the researcher studied specific factors in strategy, organization, organization by using the sample groups that are executives and entrepreneurs which is a view that reflects on the ability to manage and manage the organization. The next study should be done to study the opinions of the employees group, customers group and other group because of the development of good service innovations caused by cooperation and data from a variety of sources. In addition, future studies may expand the sample to include other types of service businesses, such as retail businesses, food businesses, accommodation business, transportation business, etc.

### **ACKNOWLEDGMENTS**

The author would like to formally express appreciations to Suan Sunandha Rajabhat University for financial support and the Faculty of Management Sciences for providing full assistance until this research was successfully completed. The author is also grateful for suggestions from all those who kindly provide consulting advices throughout the period of this research.

### **REFERENCES**

- Chen, J. S., Tsou, H. T., & Russell K. H. (2011). Co-production and its effects on service. *Innovation.Industrial Marketing Management*, 40, 1331-1346.
- Cheng, C. C., & Krumwiede, D. (2010). The effects of market orientation and service innovation on service industry performance: An empirical study. *Operation Management Research*, 3: 161-171.
- Chusanuk, A. (2016). *The influence of service quality on perceived value, satisfaction and loyalty of beauty clinic users in Bangkok*. Master's Thesis, Bangkok University.
- Fornell, C., & Lehmann, D. R. (1994). Customer satisfaction, market share, and profitability: Findings from Sweden. *Journal of Marketing*, 58 (January), 53-66.
- Hair, J. F., Black, W. C., Babin, B. J. (2010). *Multivariate Data Analysis: A Global Perspective*. Pearson Education.
- Henard, D. H. & Szymanski, D. M. (2001). Why some new products are more successful than others. *Journal of Marketing Research*, 38 (3): 362-375.
- Kaplan, R.S., & Norton D.P. (1996). *The Balanced Scorecard: Translating Strategies into Action*. Boston: Harvard Business School Press.
- Lin, L. (2011). The impact of service innovation on business performance: evidence from firm-level data in Chinese Tourism Sector. *Humanities and Social Science Research Base of Ministry of Education*, PR China. Grant. 1-5.
- Mattsson, J., Sundbo, J., & Fussing-Jensen, C. (2005). Innovation systems in tourism: The roles of attractors and scene takers. *Industry and Innovation*, 12 (3): 375-381.
- Miller D. (1983). The correlates of entrepreneurship in three types of firms. *Management Science*, 29(7), 770–792.
- Ministry of Tourism and sport. (2021). *Situation of tourism in foreign markets in 2021*. URL: <https://tatreviewmagazine.com/article/situation2022-inter/>

- Narver, J. C. & Slater, F. S. (1990). The effect of a market orientation on business profitability. *Journal of Marketing* 54: 20-35.
- Nasution, H. N., Mavondo, F. T., Matanda, M. J., & Ndubisi, N.O. (2011). Entrepreneurship: Its relationship with market orientation and learning orientation and as antecedents to innovation and customer value. *Industrial Marketing Management*, 40, 336-345.
- Research Intelligence: Krungsri Research. (2021). Tourism and hotel business after COVID-19. URL: <https://www.krungsri.com/th/research/research-intelligence/ri-future-of-tourism-21>
- Roberts, P. W. & Amit, R. (2003). The dynamics of innovative activity and competitive advantage: The Case of Australian Retail Banking 1981 to 1995. *Organization Science*, 14 (2): 107-122.
- Suwunniponth, W. (2022). Relationship between innovative organization and the performance of small and medium enterprises. *International Academic Multidisciplines Research Conference in Geneva*, 51-56.
- Thakur, R. & Hale, D. (2013). Service innovation: A comparative study of U.S. and Indian service firms. *Journal of Business Research*, 66, 1108-1123.