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Model of Improving Tourism Industry Performance through Innovation Capability

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Abstract:

The capability of innovation is an important factor for the economic performance of tourism companies, *(Martínez-Román et al.* 2015). This study aims to examine the influence of innovation capabilities on product innovation and process innovation and then these results influence marketing performance. The design of the research is explanatory research with a quantitative approach. The population of this research is 168 starred hotels in southern Sumatra, the data used are primary data. Processing data used a structural equation model. The conclusion of this study shows that the capability of innovation influences product innovation and process innovation, which in turn influences marketing performance.

Keywords: innovation capability; product innovation; process innovation; marketing performance.

JEL Classification: L83; M31; O31; Z32.

Introduction

The development of the business sector in Indonesia in recent years has increased, especially in the tourism sector. The tourism sector is one of the biggest foreign exchange contributors in Indonesia, which ranks second in 2017. The results of this data were obtained from the Central Statistics Agency (BPS), showing that the first order was crude palm oil (CPO).

Global tourism that continues to experience rapid development also has an impact on the increase in the number of starred hotels and other accommodations as the main support in tourism activities. During January 2015, Indonesia built 28,652 rooms in 159 hotels. This number places Indonesia as the second largest country in Asia in hotel development. Then Indonesia became the fourth largest country in the Asia Pacific in hotel development as of June 2015 (Alexander 2015).

In that period the total rooms built reached 554,532 units from 2,363 hotels. Meanwhile, the value of hotel construction being built in Indonesia during January-May 2015 was recorded at around Rp7.85 trillion. The development of hotels has intensified in 2015-2018 in Jakarta and Bali as a benchmark (Alexander 2015). This

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has led to oversupply of the hospitality industry in Indonesia. Another factor influencing this, the lack of innovation in the hotel sector is the main factor in the high level of competition in the hotel sector in Indonesia. There are many definitions of innovation in the literature. According to Hansen *et al*. (2006) innovation as a creativity and/or adoption of new ideas, new processes, new products or new services aimed at increasing value to customers and contributing to the performance or effectiveness of the company. Innovation is the key to increasing productivity through new processes of development and creation, higher value, products and services (Mitussis 2010).

The results of Soca (2011), showed continuous innovation and exceptional customer service in the long run creating and maintaining superior performance. Meanwhile the results of the research by Gheorghe & Alexandru (2010) state that companies to survive continuously must be competitive and innovative.

The purpose of this study is to see the relationship between the capabilities of innovation, innovation (Martínez-Román *et al*. 2015) and marketing performance (Campo *et al*. 2014). Agarwal *et al*. (2003) stated that innovation has an influence on marketing performance both measured by an objective approach (occupancy rate and market share) and with a subjective approach (service quality and customer satisfaction). On the other hand, Gunday *et al.* (2011) stated that integrated innovation including organizational innovation, product innovation, process innovation and marketing innovation had a positive influence on the performance of manufacturing companies. Innovation not only produces quality products, but also produces products that follow changes and a growing market appetite. Innovation also plays an important role in developing the economy, in expanding and maintaining the company's high performance, in the preparation of industrial competitiveness, in improving living standards, and in creating a better quality of life (Ar and Baki 2011). Dodgson (2009) states that innovation capability has a vital role in improving company performance and company competitiveness. The ability to innovate is increasingly seen as the most important factor in developing and maintaining competitive advantage (Tidd and Bessant 2018).

1. Literature Review and Hypothesis Development

Albaladejo and Romijn (2000) stated that innovation capability is the ability of an organization to develop and modify its products and technologies or to create new products and technologies. Capability of innovation has an important influence on the company in making new breakthroughs to improve its company performance. Understanding innovation capabilities according to Lawson and Samson (2001) is the ability to transform knowledge and ideas continuously into various forms of new services, processes and systems for the benefit of institutions and stakeholders. The success of an organization in almost all industries depends on their ability to innovate (Saunila and Ukko 2013). Thus, innovation can be considered an organizational ability, because it is the act of developing existing resources with new capabilities to create value.

Innovation can be considered as an organizational ability because it is an act of uniting the capabilities of existing resources with new capabilities to create value (Saunila 2014). Therefore, the development of innovation capabilities is very important because innovation plays a key role in the survival and growth of organizations (Saunila and Ukko 2013).

The capability of innovation is an important factor for the economic performance of tourism companies, the dimensions of innovation capability namely: knowledge, organization, and human factors, (Martínez-Román *et al*. 2015). Knowledge is an important factor in innovation activities favored by hospitality, both internal and external (Salavou *et al.* 2004; Kim *et al.* 2011; Fernández-Mesa *et al.* 2013). Knowledge is likened to two sides of the same coin (Sarabia and Obeso 2012). On the one hand, action learning is an internal process in SMEs and while on the other hand reaction learning is a consequence of the system of interactions among SMEs.

Human factors and organizations are important for innovation in tourism, (Hall 2009; Hall and Williams, 2008) in Martínez-Román *et al.* (2015). The capability of innovation also relies on human resources or human capital in the organization. As a learning organization, SMEs must manage the ability of human resources to achieve sustainable competitive advantage because the ability of human resources has a positive relationship with the performance of SMEs (Khandekar and Sharma 2005). The importance of organizational factors such as the level of decision making in organizations (decentralization), communication, hierarchy of power, strategic orientation and quality standards (Martínez-Román *et al.* 2015; Chang *et al.* 2011).

Innovation is a step taken by the company to survive and excel in competition in the era of globalization, because change occurs very quickly. Companies cannot survive with the same strategy for a long time. Understanding of continuity, where products and production processes can survive in the long term has been replaced by discontinuity, that is, products and production processes change rapidly with regard to shifts in the market due to the emergence of new technologies (Kaplan *et al.* 2001).

Innovation has two basic forms, which distinguish between technological innovations (products and processes) and non-technological innovations (based on organization and marketing) to distinguish technically from the basic administration in the innovation activities of tourism companies (Martínez-Román *et al.* 2015). Service innovation is an important performance factor that provides the ability to expand into new markets and industries (Damanpour and Gopalakrishnan 2001) and allows exploring opportunities to get abnormal profits and provides a route for companies to make a profit (Nambisan 2003). Process innovation may have an influence on productivity, profitability growth (Veugelers 2008). This process is needed to send products or services that are not directly paid by customers. Therefore innovation p processes must be a new change for the act of producing or delivering products that allow significantly to increase the value delivered to stakeholders (Savitz *et al.* 2000).

Marketing performance is an important element that contributes to company performance and is recognized as a key factor that has led to the growth of the marketing function in the organization (O'Sullivan *et al.* 2009). Marketing performance is a concept that can be used to measure marketing performance a performance company. Every company has an interest in knowing its achievements as a mirror of the success of its business in market competition.

In line with that, Clark and Ambler (2001) stated that marketing performance can be measured from "the relationship between marketing activities and business performance". Slater and Narver (1995) described the results of implementing company strategies such as customer satisfaction, success of new products, increased sales and company profitability. Techniques to maximize organizational performance in long-term business must know and build mutually beneficial relationships with buyers. The business that places consumers as kings in the organization means demonstrating that companies want to give more value to customers in the hope of gaining long-term competitive advantage. So that it can provide superior benefits (Narver and Slater 1990).

2.1 The Influence of Innovation Capability on Innovation

Innovative capability is defined as the ability of an organization to develop and modify its products and technologies, or create new products and technologies (Albaladejo and Romijn 2000). The success of an organization in almost all industries depends on their ability to innovate. According to Saunila and Ukko (2013) the capability of innovation has a positive impact on company performance, as well as research conducted by Taherparvar *et al.* (2014) in the banking industry, the results show that the capability of innovation has a direct and positive effect on business performance.

The results of research by Sulistyo and Siyamtinah (2016) the greater the capability of innovation carried out by the organization, the better the business performance; this will significantly influence competitive advantage. Lawson and Samson (2001) research that produces high innovation capabilities carried out by the company will produce effective performance. Capability of innovation has an important influence on companies in making new breakthroughs to improve their company performance (Albaladejo and Romijn 2000). Building innovation capabilities is not an easy matter, Baldwin *et al.* (2000) state that building innovation capabilities requires developing capabilities in a number of different areas and resources. The development of capabilities is not only in the area and resources that have been owned by the company, but also in the development of capabilities that have not been owned by the company. The results of Hurley and Hult (1998) that innovation capabilities have a significant influence on performance.

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Human factors and organizations are important for innovation in tourism, (Hall 2009; Hall and Williams 2008) in Martínez-Román *et al.* (2015). The capability of innovation also relies on human resources or human capital in the organization. As a learning organization, SMEs must manage the ability of human resources to achieve sustainable competitive advantage because the ability of human resources has a positive relationship with the performance of SMEs (Khandekar and Sharma 2005). The importance of organizational factors such as the level of decision making in organizations (decentralization), communication, hierarchy of power, strategic orientation and quality standards (Martínez-Román *et al.* 2015; Chang *et al.* 2011).

H1: Capability of innovation has a positive influence on product/service innovation.
H2: The capability of innovation has a positive influence on process innovation.

## 2.2 Effect of Innovation on Marketing Performance

Innovation is an important function in management, because innovation is related to company performance, this has been proven (Damanpour and Evan 1984; Damanpour *et al.* 1989). Products, processes (technological innovation) have a significant and positive influence on company performance (Veugelers 2008). More specifically in the relationship between innovation and marketing performance some researchers have also proven the positive influence of innovation with marketing performance.

Agarwal *et al.* (2003) research found that innovation has an influence on marketing performance both measured by an objective approach (occupancy rate and market share) and with a subjective approach (service quality and customer satisfaction). Whereas Im and Workman (2004) also conducted research in relation to innovation and marketing performance, in a study conducted on 106 companies engaged in high technology in the United States, it was found that creativity in product development and new marketing programs had a positive influence towards marketing performance. However, several other studies actually provide different results, namely Mavondo *et al.* (2005) stating that product innovation does not have a significant influence on marketing effectiveness. Besides Mavondo *et al.* (2005); Darroch (2005) in his research on industry in New Zealand also found that innovation has no influence on performance both as measured by financial performance and non-financial performance, namely market share and sales growth. Product and process innovation has a strong and positive relationship with the performance of SMEs in Turkey (Ar and Baki 2011). If SMEs have a good level of innovation, SMEs will be encouraged to improve performance (Li and Mitchell 2009; Rosenbusch *et al.* 2011).

H3: Product innovation influences marketing performance.
H4: Innovation Process influences marketing performance

Figure 1. Research Framework
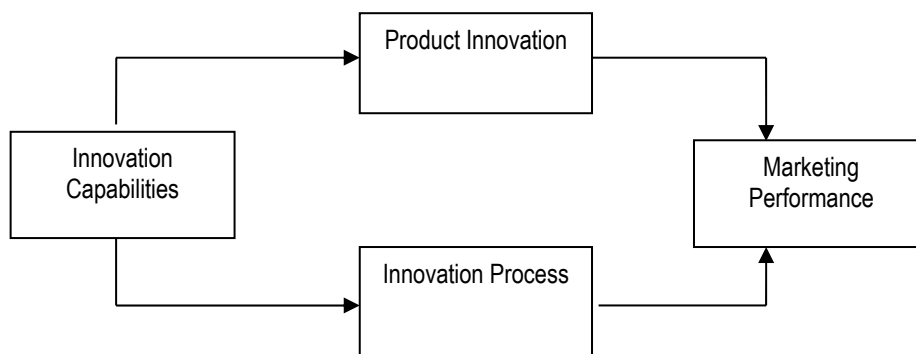
3. Methods

This research was conducted in the tourism industry, especially the hotel sector, research on innovation is a new topic and knowledge that is still limited which discusses the influence of innovation on business performance (Hjalager 2010). The study uses a survey method, carried out on the island of Sumatra in Indonesia, which is broadly based on the sixth largest island in the world. The island stretches from the northwest to the southeast and crosses the equator, dividing the island of Sumatra into two parts, the northern hemisphere Sumatra and the southern Sumatra hemisphere. The population of this study was 164 starred hotels on the island of Sumatra, specifically Sumatra, the southern hemisphere, which consisted of five provinces, namely Jambi, Bengkulu, Lampung, Bangka Belitung and South Sumatra. The many international events such as the 2018 Asian Games in the city of Palembang, South Sumatra also has an influence on several surrounding areas such as Jambi, Bengkulu, Lampung, Bangka Belitung. A significant influence occurred in the increase in the number of star-rated hotels. This study uses PLS to test structural equations, because PLS is more suitable for data with smaller sample sizes (Hair Jr. *et al.* 2010), even for sample size of 50 (Cassel *et al.* 1999).

Measurement models are assessed by testing the reliability of each item, converging validity and discriminant validity (Hair Jr. *et al.* 2010). Each item was tested for reliability using Cronbach's alpha and composite reliability. Table 1 presents Cronbach's alpha and reliability ranging between 0.678 and 0.923. The practical rule used is that values higher than 0.6 indicate satisfactory reliability (Hair Jr. *et al.* 2010). The validity was used PLS tests convergent and discriminant validity. Convergent validity, Henseler *et al.* (2009) was tested using Average Variance Extracted (AVE). Adequate convergence validity is indicated by the AVE value of at least 0.5 (Henseler *et al.* 2009). Table 1 shows adequate convergent validity, with AVE values of all variables more than 0.5. AVE can also be used to test discriminant validity. Discriminant validity can be assessed using two

sizes: Fornell – Larcker's size and cross loading. Using Fornell - Larcker criterion, the discriminant value is calculated by comparing the square root of AVE with the latent variable correlation. The discriminant validity is adequate if the square root of AVE along the diagonal is higher than the correlation between constructs. For both rows and columns, all AVE square roots are higher than diagonal (Table 2). In addition, the measurement of discriminant validity through cross-loading indicates that all items must be larger than other constructions (Hair Jr. *et al.* 2010), this is as shown in Table 3. Therefore, the results of reliability and validity statistics using PLS in each - each construct meets the requirements.

Table 1. Cronbach Alpha, Composite Reliability and Average Variance Extracted

Variables	AVE	Cronbach Alpha	Composite Reliability	Criteria
Innovation Capability (KI)	0.502822	0.909574	0.923568	Reliable
Product Innovation (INPROD)	0.541994	0.678321	0.779992	Reliable
Process Innovation (INPROS)	0.625689	0.706704	0.833707	Reliable
Marketing Performance (KP)	0.504448	0.743946	0.830961	Reliable

Table 2. Discriminant Validity of Latent Variable Correlations

| Variables	Innovation Capacity (KI)	Product Innovation (INPROD)	Process Innovation (INPROS)	Marketing Performance (KP)
Innovation Capability (KI)	0.709099			
Product Innovation (INPROD)	0.704574	0.736202		
Process Innovation (INPROS)	0.664070	0.713912	0.791005	
Marketing Performance (KP)	0.587884	0.704574	0.690062	0.710245

Table 3. Loadings Factor

Indicators	Innovation Capability (KI)	Product Innovation (INPROD)	Process Innovation (INPROS)	Marketing Performance (KP)
X12	0.685796	0.506183	0.523506	0.443663
X13	0.704678	0.530202	0.562711	0.401122
X22	0.701711	0.571037	0.617219	0.622452
X31	0.740698	0.539302	0.492028	0.418433
X32	0.740532	0.526838	0.445673	0.322304
X41	0.727228	0.520784	0.461611	0.411453
X62	0.586232	0.404307	0.330483	0.476369
X71	0.775674	0.634701	0.527434	0.440077
X72	0.658925	0.543682	0.35884	0.355313
X81	0.743124	0.543674	0.427883	0.281477
X91	0.706491	0.522877	0.349262	0.297524
X101	0.719593	0.506183	0.523506	0.443663
Y11	0.573000	0.736111	0.352917	0.391999
Y12	0.508962	0.768816	0.545698	0.653959
Y13	0.618017	0.702172	0.674961	0.355089
Y21	0.569785	0.624714	0.788452	0.393924
Y22	0.527245	0.551612	0.807340	0.405029
Y23	0.487188	0.525713	0.776924	0.763536
Y31	0.404093	0.473197	0.591457	0.824154
Y32	0.517901	0.563467	0.632460	0.859448
Y33	0.350120	0.445026	0.456130	0.703802
Y34	0.469135	0.386061	0.394494	0.527302
Y35	0.345751	0.414199	0.295564	0.575302

4. Results and Discussion

Inner model (inner relation or structural model) describes the relationship between exogenous latent variables to endogenous variables based on substantive theory.

Figure 2. Inner Value Model or Structural Model
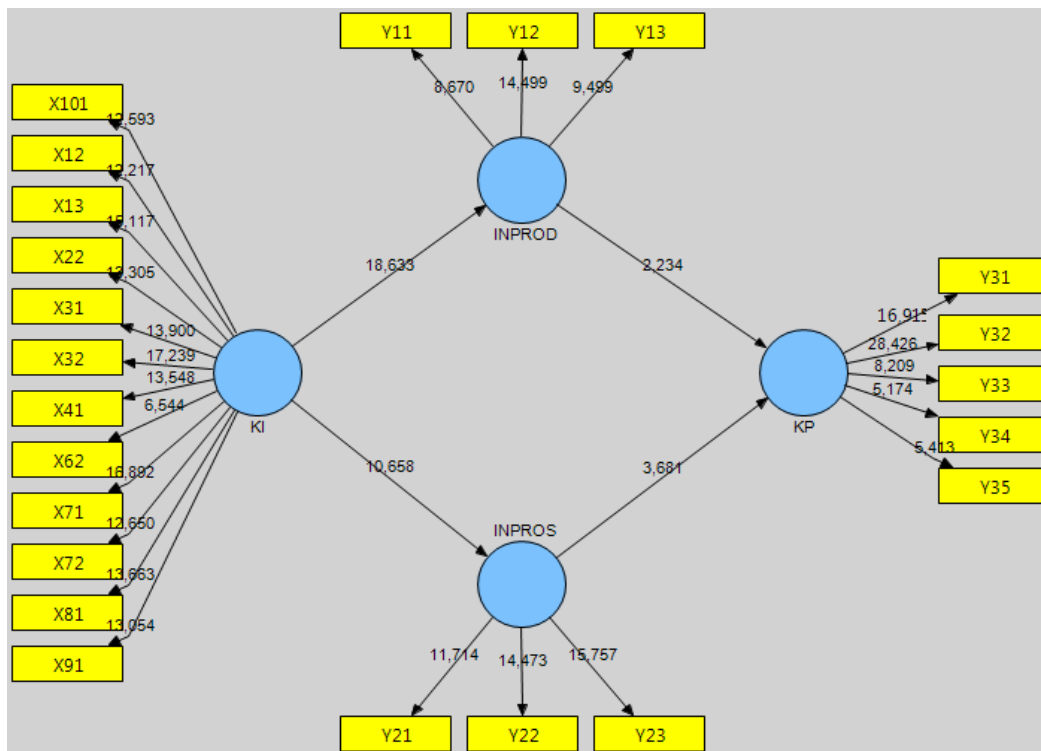
The structural model is evaluated by using the Goodness of Fit Model. The Goodness of Fit Model is measured using R-square dependent latent variables. Stone-Geisser Q-Square predictive relevance to measure how well the observation value is generated by the model and also its parameter estimates. Q-square value> 0 indicates the model has predictive relevance; conversely if the value of -Square Q ≤ 0 indicates the model lacks predictive relevance. The Q-Square calculation is done by the formula:

$$Q^2 = 1 – (1 – R_1^2) (1 – R_2^2) \ldots (1- R_p^2)$$

where R_1^2, $R_2^2 \ldots R_p^2$ is the R-square of endogenous variables in the equation model. The magnitude of Q^2 has a value with a range of $0 < Q^2 <1$, where getting closer to 1 means that the model is getting better. The amount of Q^2 is equivalent to the total determination coefficient in path analysis.

Table 4. Value of R-Square

Variables	R-Squares
Innovation Capability (KI)	-
Product Innovation (INPROD)	0.584573
Process Innovation (INPROS)	0.440989
Marketing Performance (KP)	0.524454

The above table shows that the sub 1 structural model obtained an R-square value of 0.584573 meaning that the Product Innovation variable (INPROD) can be explained by the Innovation Capability variable (KI) of 58.46%. The sub 2 structural model obtained an R-square value of 0.440989 meaning that the Process Innovation variable (INPROS) can be explained by the Innovation Capability variable (KI) of 44.10% and the sub-3 structural model obtained by the R-square value of 0.524454 that the Marketing Performance variable (KP) can be explained by the Product Innovation (INPROD) and Process Innovation (INPROS) variables of 52.45% while the rest are 41.54%, 55.90% and 57.55% are influenced by other variables which is not examined. Next is how well the observations produced by the model. The Q-Square calculation is as follows:

$$Q^2 = 1 – (1 – 0.584573) (1 – 0.440989) (1 – 0.524454) = 0.889565$$

The results of the calculation of Q-square value obtained by the results of 0.889565. The magnitude of Q^2 has a value with a range of $0 < Q^2 < 1$, where getting closer to 1 means that the model is getting better.

The significance of the estimated parameters provides very useful information about the relationship between the research variables. The basis used in testing hypotheses is the value found in the result for inner weight output. To assess the significance of the prediction model in testing structural models, it can be seen from the t-statistics value between the independent variable to the dependent variable in the Path Coefficient table at the Smart output Pls. The limit for rejecting and accepting a hypothesis is proposed if the value of t counts ≥ or ≤ value of t table (n-k-1).

Hypothesis testing will be done using the bootstrap method for the sample. Bootstrap testing is intended to minimize the problem of research data abnormalities. The test results with bootstrapping from PLS analysis are as follows:

Table 5. Result for Inner Weights

Hypothesis	Relationship	Total Effects Original Sample Estimate (O)	Indirect Effects	T-Statistics (| O / STERR |)	Conclusion
H_1	KI → INPROD	0.764574	0.239887	18.63253	Accepted
H_2	KI → INPROS	0.664070	0.309504	10.65773	Accepted
H_3	INPROD → KP	0.313752	-	2.234467	Accepted
H_4	INPROS → KP	0.466071	-	3.680956	Accepted

Table 6. Hypothesis Testing 1

Hypothesis	Relationship	Total Effects Original Sample Estimate (O)	Indirect Effects	T-Statistics (| O / STERR |)	Conclusion
H_1	KI → INPROD	0.764574	0.239887	18.63253	Accepted

The results of testing the first hypothesis indicate that the variable relationship of Innovation Capability (KI) to Product Innovation (INPROD) shows the value of the path coefficient (Total Effects) of 0.764574 with a value of t count of 18.63253. This value is greater than t table 1.960. This result means that Innovation Capability (KI) has a positive and significant relationship to Product Innovation (INPROD). Thus Hypothesis 1 is accepted.

The Total Effects value of 0.764574 is a value obtained from Directs Effects (0.524687) variable relationship of Innovation Capability (KI) to Marketing Performance (KP) through Indirect Effects (0.239887) Product Innovation variable (INPROD).

Table 7. Hypothesis Testing 2

Hypothesis	Relationship	Total Effects Original Sample Estimate (O)	Indirect Effects	T-Statistics (| O / STERR |)	Conclusion
H_2	KI → INPROS	0.664070	0.309504	10.65773	Accepted

The results of testing the second hypothesis show that the variable relationship of Innovation Capability (KI) to Process Innovation (INPROS) shows the value of the path coefficient (Total Effects) of 0.664070 with a t value of 10.65773. This value is greater than t table 1.960. This result means that Innovation Capability (KI) has a positive and significant relationship to Process Innovation (INPROS). Thus hypothesis 2 is accepted.

The Total Effects value of 0.664070 is a value obtained from Directs Effects (0.354566) variable relationship of Innovation Capability (KI) to Marketing Performance (KP) through Indirect Effects (0.309504) Process Innovation variable (INPROS).

Table 8. Hypothesis Testing 3

Hypothesis	Relationship	Total Effects Original Sample Estimate (O)	Indirect Effects	T-Statistics (| O / STERR |)	Conclusion
H_3	INPROD → KP	0.313752	-	2.234467	Accepted

The results of the testing of the third hypothesis indicate that the relationship of Product Innovation (INPROD) variable to Marketing Performance (KP) shows the path coefficient value (Total Effects) of 0.313752 with a calculated t value of 2.234467. This value is greater than t table 1.960. This result means that Product

Innovation (INPROD) has a positive and significant relationship to Marketing Performance (KP). Thus hypothesis 3 is accepted.

Table 9. Hypothesis Testing 4

Hypothesis	Relationship	Total Effects Original Sample Estimate (O)	Indirect Effects	T-Statistics (| O / STERR |)	Conclusion
H_4	INPROS → KP	0.466071	-	3.680956	Accepted

The results of testing the fourth hypothesis indicate that the relationship of Process Innovation variable (INPROS) to Marketing Performance (KP) shows the value of the path coefficient (Total Effects) of 0.466071 with a value of t count of 3.680956. This value is greater than t table 1.960. This result means that Process Innovation (INPROS) has a positive and significant relationship to Marketing Performance (KP). Thus hypothesis 4 is accepted.

The main objective of this research is to see the influence of innovation capability on marketing performance through product innovation and process innovation. This main objective was inspired by previous research conducted by Martínez-Román et al. (2015) who found that the implementation of innovation capabilities on performance yielded mixed results.

The findings of this study support previous research that innovation capabilities in hospitality service companies have a positive and strong impact on innovation efforts. Thus the hypothesis H1, H2, is accepted. Especially the capability of innovation has a strong and significant impact on product innovation and process innovation. This understanding is very important because the capability of innovation is one of the most influential factors for developing innovation activities within the company. Knowledge sharing, human factors, and organizational factors will lead to a clear and effective understanding of innovation strategies. A cultural organization that prioritizes innovation and organization supported by the right people, the process will provide a way to create a wide variety of ideas, especially turning them into profitable business concepts. As well as the effective scale of new business ideas that support them with the right level and type of resources requires the creation of superior ideas and successfully commercializing them. Therefore, the capability of innovation provides insight into the potential of innovation for companies and assets, leading to the identification of strengths or weaknesses, where the company grows and develops. For this reason, innovation capability is the most needed component to develop effective innovation results in companies/organizations to enable the application of resources and the continuous transformation of knowledge and skills into products and processes to provide benefits to stakeholders. The capability of innovation from the next company is responsible for producing very creative innovations.

Another important result of this research is that innovation activities have a positive and significant impact on the company's marketing performance. The results show that product innovation and process innovation are positively related to the company's marketing performance. Therefore the hypothesis H3, H4, is accepted. Product innovation and process innovation are important drivers for marketing performance in hospitality service companies which also show that a strong relationship with innovation capabilities. This suggests that increasing the capabilities of innovation from companies will drive better innovation performance.

Companies with successful product innovation and process innovation can facilitate better product development and marketing activities within the company. Product/service innovation involves creating new products to create new markets/customers or satisfying existing markets/customers and process innovation involves the creation or improvement of production methods that enable services or administrative operations to support the creation of new products, and improve technological processes or operational practices. Focusing on innovation activities encourages employees to grow and develop their abilities. For this reason, hospitality service companies need to implement product innovation and process innovation, towards effective innovation solutions. It is proven that managing the capabilities of the company's innovation leads to improved performance. This is as stated by Im & Workman (2004) that creativity in product development and new marketing programs have a positive influence on marketing performance. The overall findings can be abbreviated that to achieve a hospitality company that performs innovation it is first necessary to develop an organizational culture that can motivate innovation behavior, internal coordination with employees to encourage the mindset of innovation driven from ideas, concepts to products/services, processes, models business, or a successful system. This provides a view for insurance companies to develop innovation capabilities and motivate and empower individuals in an organization to drive innovation. It is possible for organizations to use technology and knowledge to deliver better results and innovation performance. Finally, the study suggests that if a company has strong innovation

capabilities it will have very high marketing performance. The findings of this study provide direction for the most effective way to achieve innovation success.

Conclusion

This research was conducted to investigate and understand the influence of innovation capability, innovation and marketing performance on the tourism industry, especially hospitality services in Indonesia. The findings of this study support that companies that have high innovation capabilities positively influence. This finding also helps that the improvement of innovation capabilities is the responsibility of hospitality service companies as a basis for defining successful innovation. Hospitality service companies need to utilize sources of innovation, access creative ideas from employees, customers, investors and partners, which, in turn, will require aggressive leadership.

Knowledge is an important factor in innovation activities in the tourism industry, especially hospitality services, both internal and external. Likewise, human and organizational factors are also important for innovation in tourism (Martínez-Román *et al.* 2015). As a learning organization, SMEs must manage the ability of human resources to achieve sustainable competitive advantage because the ability of human resources has a positive relationship with the performance of SMEs (Khandekar and Sharma 2005).

Various aspects related to human factors in the company, such as the level of education, creativity and risk taking, this appears in many studies because it is important in influencing innovation.

The next dimension is organizational factors, related aspects include: the level of decentralization or distribution of decision making in organizations, the existence of permanent groups and special teams as liaison / communication resources, the influence of the level of hierarchical control or direct supervision in business structures that influence the company's strategy in competition, and quality improvement helps to improve coordination between functions in the Department, it plays an important role to build an organizational climate that encourages innovation through finding innovative opportunities from internal and external environments to turn them into successful innovations, which significantly influence the success of innovation.

Finally, it is clearly illustrated that innovation capability is the main strategy for companies to encourage long-term growth and profitability and is indispensable for the survival of the organization. Having greater relevance for managers in the context of competition given the importance of developing and implementing innovation with the company's business strategy and having a clear understanding of imperative innovation where deliberately explaining themselves to apply through strategic practice. As with other empirical studies, this study also has limitations that must be recognized. This will help to study the future and can make improvements in this field. First, this research measures innovation capabilities only focusing on the hospitality service industry, there are still many other tourism service industries. Secondly, this research only measures from the perspective of hotel owners / managers; it still has to measure from the point of view of consumers and foreign and domestic tourists visiting tourist attractions. Future research requires various aspects that affect innovation capabilities such as customer orientation, market orientation, and technology orientation. These factors are increasingly developing factors for innovation capabilities. Therefore these factors must be investigated in future research. Some valuable findings from this study reveal that this can be applied to other sector industries. Future research needs to be applied to developing countries that are different from different service sector industries to explore the impact of innovation on different economic growth and market levels.

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