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The COVID-19 pandemic impact on the global tourism industry SMEs: a human capital development perspective

Global tourism industry SMEs

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Abstract

Purpose – This paper aims to propose a model for increasing human capital competitiveness in the tourism sector in emerging economies. Using Indonesia as an example, the authors study the extent of the COVID-19 pandemic's impact and the sector's resilience.

Design/methodology/approach – Data was collected using a survey of 199 tourism workers in Magelang city in Central Java Island. The data was analyzed using structural equation model with Smart PLS.

Findings – The results confirm that social and human capital influence business success. Furthermore, innovation moderates the influence of human capital and social capital on business success.

Originality/value – By conducting a primary survey with the tourism workers and those who work and interact with the tourism industry in Indonesia, the authors show how a promising approach to creating and sharing agile knowledge can enhance the tourism industry micro, small and medium enterprises in emerging economies during and post-COVID-19 pandemic and after.

Keywords Indonesia, Tourism industry, Structural equation modeling, Emerging economies, COVID-19, Human resource security

Paper type Research paper

1. Introduction

The COVID-19 pandemic has decimated the global economy (Enderwick and Buckley, 2020). The Organization for Economic Co-Operation and Development (OECD) acknowledges that the pandemic has created a major economic crisis marked by the cessation of production activities in many countries, falling levels of public consumption, loss of consumer confidence and falling stock markets, which have ultimately led to uncertainty. If this continues, the OECD predicts a decline in output levels between a fifth and a quarter in many countries, with consumer spending potentially falling by about a third (OECD, 2020). Whether it is a developed or an emerging economy, the tourism industry is a major contributor to the economy and a source of employment for the local population. This is the case for Indonesia, where the tourism industry is the third-largest source of foreign exchange earnings after oil and exports. Locations like the island of Bali in Indonesia are recognized globally as tourist destinations and welcomes tourists



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round the year. That was before the pandemic. Since 2020, the economic downturn has especially hurt micro, small and medium enterprises (SMEs) with a limited cash flow to sustain operations without tourists.

The lockdown rules being implemented in several countries attempt to close all migration routes between countries to prevent the spread of COVID-19 (Grubel and Harbert, 2018). As a result, there were 129 million cancellations of travel plans made by travelers online or in person at travel agency counters. The high rate of cancellations has a direct impact on the tourism industry globally (Stanton, 2017). The global travel ban is implemented to restrict the movement of the people, which is believed to stop the pandemic from spreading. The lesser movement of the people will lessen the spread of the virus from one infected area or country to different areas or the world.

While international travel remains suspended in many countries, the survival of SMEs relies on domestic travelers and their learning to become innovative in the way they undertake their business activities during the pandemic and prepare for future business when international travel is permitted. The post-pandemic period, or the new normal, is expected to be different. New processes around international travel bubbles, vaccine passports and other requirements are proposed for the tourism sector. These changes will influence the lives of residents of the tourism location and tend to have direct contact with tourism, transportation and the culinary industry that require constant supplies.

The future strategy of tourism SMEs will depend on how firms use their human and social capital to develop innovative offerings to succeed in business. This requires providing new and unique product and service offerings that can continue to be provided in disruptive VUCA (volatility, uncertainty, complexity and ambiguity) environments. Thus, human capital has become one of the essential aspects of intellectual capital (Ahmed, Bebenroth and Hennart, 2020). According to Samad *et al.* (2015), human capital is prioritized in major business models because of its considerable position as a strategic asset in high-quality work products, and the social capital's role on firm productivity and performance in various industries is essential. Moreover, Buckley (2020) added that innovation provides strategic orientations that will help them encounter the economic environmental challenges. The OECD in 2020 describes an innovative firm in terms of its relationship with external stakeholders, its workplace management and its new business practices execution. Samad in 2018 further explained that undeniably, innovative firms need a human resource that has high quality.

Furthermore, the ability to network socially and personal characteristics become important for entrepreneurs and managers. Prior research has emphasized how human capital (Yuliansyah, Rammal and Rose, 2016) and social capital (Cordero and Ferreira, 2019) are significant for initiating the performance of the innovative firm. It suggests social and human capital are vital assets for the performance of the innovative firm. This study endeavors to examine the relationship between social and human capital on SMEs.

SMEs' business success and whether this relationship is mediated by innovation in the tourism industry is studied. The contributions of this study are projected to benefit SMEs by identifying the work competencies needed to support the success of SMEs and ultimately increase the policymakers' understanding to help them set policies and take concrete steps in fostering MSME human capital, especially in emerging economies.

2. Literature review and hypotheses developments

Human capital is defined as the combination of individual skills, knowledge, capability and experience of a firm's managers and employees (Buckley, 2020). The foremost successful service innovation source is grounded in idea variability with an open environment. It

means that service firms, including those in the tourism industry, need to associate their entrepreneurs' knowledge with external sources to obtain talent capital and ideas (O'Higgins *et al.*, 2021). Prior research has presented the paradigm shift from a closed to open innovation model (Baumann *et al.*, 2020). Open innovation is useful for innovative performance when a company requires spending much time coordinating, searching and monitoring fresh ideas, including market know-how. On the other hand, path-dependent knowledge construction in a company might also hinder innovation development (Melane-Lavado and Álvarez-Herranz, 2018). Thus, a firm's absorptive capacity has a significant role in developing innovation of the firm, including the human capital management capability (Faeni and Faeni, 2017).

Baumann *et al.* in 2020 highlight a substantial relationship between innovation and absorptive human capital, including access to new markets. Open innovation, in this case, is a paradigm shift from inventing and storing innovations internally to integrating and accessing external knowledge. The service firm has an open degree to seek outside value ideas to shape or deliver new services to the market. This is also consistent with Agostini and Nosella (2017) research, who identify human capital in individuals who are educated, have experience, are trained and have unique skills that influence innovation. Human capital in this study is also said to contribute to increasing relational resources and organizational capital, which will increase innovation. Grounded in the literature, this research assumed the following hypotheses:

- H1. Human capital influences increased innovation.
- H2. Innovation moderates the human capital effect on business success.

Social capital is the core channel for transmitting knowledge to firm entities, such as levels in organizations, stakeholders and workforces both outside and inside the firm (Namvar *et al.*, 2010). Social capital is assessed dependent on elements of the community in which experience and knowledge are developed (Guo *et al.*, 2021). Other significant social capital aspects that have special entrepreneurship attributes are:

- Teamwork;
- trust built via communication (Groggins and Ryan, 2013);
- relationships interpersonal trust stock, norms and context; and
- relational, cognitive and structural elements.

Social capital is multidimensional and is a property that affects the cognitive ability and communication aptitude (Yuliansyah *et al.*, 2021). New knowledge that helps the performance of innovative firms could be conceptualized, e.g. by reciprocity among the members in the firms.

Furthermore, the knowledge connection combination can produce a new idea over time (Roy and Sarkar, 2016). The unique social capital nature contains an interrelationship that combines teams and persons with a social interconnection variety, which is essential for the performance of the innovative firm. Omri *et al.* (2015) had stated that social capital has a substantial relationship and positively impacts innovation. The larger the entrepreneurial network, the higher the innovation in the company. Innovation mediates the social and human capital to business success (Omri *et al.*, 2015). Both variables have value if there is innovation, because large human and social capital help identify existing opportunities, accurately assess potential opportunities and take advantage of opportunities that drive innovation. Thus, innovation is what leads to business success. Based on this assumption, the following hypotheses are examined:

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H3. Social capital influences increased innovation.

H4. Innovation can moderate the effect of social capital on business success.

Consolidating the success concept with the innovation concept appears to be an effective method to develop the new paradigm. Some concepts emerge by this combination, such as sustainability-driven innovation, eco-innovation or innovation. We can search that the eco-innovation concept is “new products and processes that provide customer and business value but significantly decrease environmental impact.” Innovation is the improvement of the latest products, processes, services and technologies, which contribute to the increase and well-being of human necessities and institutions while valuing regenerative capacity and the worlds’ natural resources. Although innovation can be difficult to be defined lucidly, several characteristics appear to be recognized universally. One of the characteristics is that sustainable innovation is not only another hypothetical concept but also a more practical approach to owning the commercialization component of the entrepreneurship, services or products and new technologies. According to Pambudhi (2020), innovation has a significant impact on business success. Development increases productivity, and profit relies on innovation in making new products, process innovation, marketing innovation and research and development innovation. Hence, we hypothesize that:

H5. Innovation influences business success.

This study’s research model (Figure 1) is grounded on the review of the literature. The model proposes the relationship between social and human capital mediated by innovation on business success in the tourism industry. The research investigates the extent to which human and social capital enhance the relationship on successful business via innovation (Faeni and Faeni, 2018). The proposed model comprises four variables: *human capital* and *social capital* as the independent variables, *innovation* as the mediating variable and *success* as the dependent variable.

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3. Methods

We chose Indonesia as the emerging economy to test our hypotheses about SMEs in the tourism industry. Indonesia is the fourth most populated country globally and is made up of over 17,000 islands (Embassy of Indonesia, 2021; US Census Bureau, 2021). Tourism is a significant contributor to the economy, which caters to international and many domestic travelers. In 2019, over ten million Indonesian tourists traveled in the country. However, the pandemic has greatly affected the industry. According to the OECD journal on “The Corona

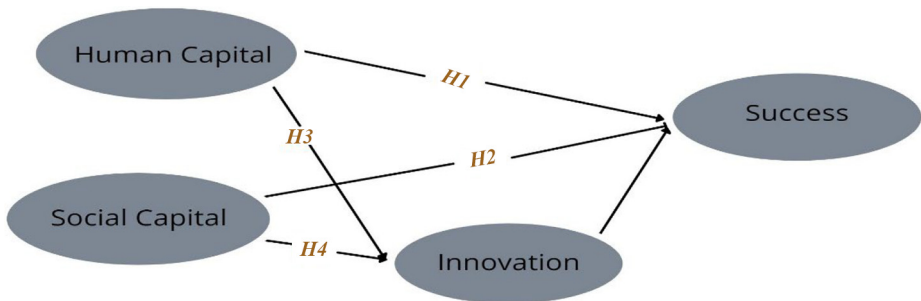


Figure 1. Research model

Virus: SMEs Policy Responses,” the COVID-19 pandemic has impacted the economic sector, both supply and demand. From the aspect of the supply, the company cuts the raw material supply and ineffective labor and supply chains, which are also facing hindrances. On demand, there is a shortage of demand and decreased consumer confidence in a product. SMEs have borne the brunt of the pandemic disruptions and lockdowns, and they are highly vulnerable to business disruptions because they are directly impacted.

These problems will snowball as several regions in Indonesia implement the policy large-scale social restrictions (PSBB or PPKM). The Regulation of Minister of Health No. 9/2020 concerning Guidelines of PSBB/PPKM for the Handling COVID-19 Acceleration limits public activities in the suspected area of COVID-19 infection. It includes limitations on the movement of people and/or commodities for a certain city/district or province to control the COVID-19 outbreak. Such restrictions have an impact beyond the economic effects. Tourism can trigger changes in people’s behavior and shifting of livelihoods, but the COVID-19 pandemic will, on the other hand, develop stagnant behavior, especially the lack of tourists coming to Indonesia. The impact is that there will be a slowdown in economic growth for the tourism sector, socio-culture, physical and political environment. It is a counter-thesis of developing something that has been organized into zero growth (Budiyanti, 2020).

To study how tourism industry SMEs can attempt to face these challenges, we test the relationships between the variables in the context of Indonesia. The model uses several variables, among human capital, social capital, innovation and business success. To achieve this, the authors follow the quantitative method. A set of self-administered questionnaires was completed in Magelang city to gather the data and test the study’s hypotheses. There are 480 people in the city who work and interact with the tourism industry. The questionnaire was adapted from the instrument developed by previous researchers (Randall and Gibson, 1990). It was divided into four sections. The first section sought information about the respondent profiles. The second section assessed human capital (HC) according to three dimensions; competency, skills and knowledge, which were adapted from Blanks (2005; Lee *et al.*, 2005; Brungardt, 2009). The third section focused on social capital (SC) and consisted of two dimensions; teamwork and communication, based on the instrument developed by Knapp and Mujtaba (2010). Innovation (INV) was covered in the fourth section and was assessed using two dimensions based on the instrument developed by Bulut and Yilmaz (2008) and Narver and Slater (1990) to assess the performance of the market. The item measurement used a five-point of Likert scale, ranging from 1 (disagree) to 5 (strongly agree). A total of 199 responses were received. The structural equation model (SEM) analysis was undertaken using Smart PLS. This study used an SEM analysis where the innovation variable becomes a moderating variable between social capital and human capital on business success.

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4. Results

4.1 Outer model testing results

This model of measurement is implemented to measure the reliability and validity of a study.

4.2 Result hypotheses testing

To test the hypotheses with PLS, you can see at the *t*-statistic or *p*-value in each variable the effect and significance level. In testing the hypotheses using the bootstrapping method, the research model is divided into two, namely, the direct and indirect effects, to prove the success of research using the mediating variable, namely, innovation. The following table shows the results of the significance level testing seen through *t*-statistics or *p*-values.

T1 From Table 1, the conclusions of the hypotheses testing results are:

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- *H1*. Human capital has a positive influence on innovation in SMEs.

Based on the test results, the human capital variable for innovation has a *t*-statistic value of 2.522 or a *p*-value of 0.012, so *H1* is supported because the *t*-statistic is greater than 2.005 or the *p*-value is less than 0.05. Thus, it is concluded that the human capital variable has a positive influence on innovation.

- *H2*. Social capital has a positive influence on innovation in SMEs.

Based on the test results, the social capital variable for innovation has a *t*-statistic value of 3.997 or a *p*-value of 0.000, so *H2* is supported because the *t*-statistic is greater than 2.005 or the *p*-value is less than 0.05. Thus, it is concluded that the social capital variable has a positive influence on innovation.

- *H3*. Innovation has a positive influence on the SMEs success.

Based on the test results, the innovation variable on business success has a *t*-statistic value of 5.516 or a *p*-value of 0.000, so *H3* is supported because the *t*-statistic is greater than 2.005 or *p*-value is less than 0.05. Thus, it is concluded that the innovation variable has a positive influence on business success.

Testing the bootstrapping method with the indirect effect research model was carried out with intermediary variables, generally with the mediating variable (Figure 2).

As highlighted in Table 2, testing the indirect effect of the human capital variable on business success through innovation have a *p*-value of 0.020. There is a significant indirect positive human capital variable effect on the success of SMEs businesses, namely, through the innovation variable.

The test results of the indirect effect of the variable social capital on business success through innovation have a *p*-value of 0.010. It means that a significant indirect positive effect of social capital is revealed on the success of SMEs businesses, namely, through the innovation variable.

4.3 Mediation test results

Based on Table 3, the results of mediation testing can be explained by the following hypothesis:

Variables	<i>t</i> -statistics	<i>p</i> -values
Human capital → Innovation	2.522	0.012
Social capital → Innovation	3.997	0.000
Innovation → Business success	5.516	0.000

Table 1. Hypotheses testing

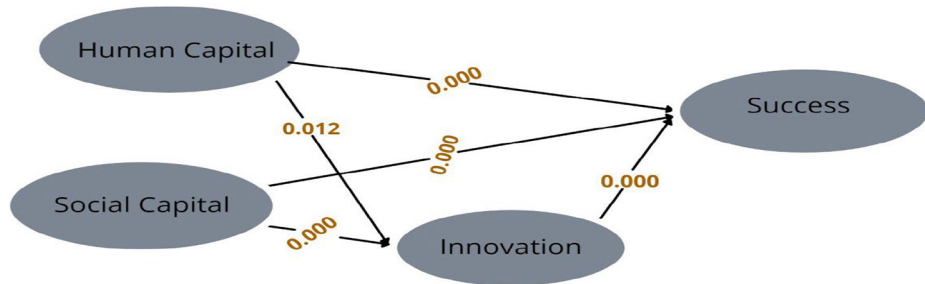


Figure 2. The bootstrapping method with the indirect effect research model

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T2

T3

- *H4*. Innovation can mediate the positive influence of human capital on the SMEs success.

Testing the human capital variable on business success through innovation as mediation has a *t*-statistical value of 13.521 and a *p*-value of 0.000, so *H4* is supported because the *t*-statistic is greater than 2.005 and *p*-value is less than 0.05. Therefore, it can be concluded that the innovation variable can mediate the positive influence of human capital on business success.

- *H5*. Innovation can mediate the positive influence of social capital on the success of SMEs.

Based on the results of testing the social capital variable on business success through innovation as mediation has a statistical *t*-value of 13.271 and a *p*-value of 0.000, so *H5* is supported because the *t*-statistic is greater than 2.005 and *p*-value is less than 0.05. Hence, it can be concluded that the innovation variable can mediate the positive influence of social capital on business success.

Based on the explanation of the hypotheses in this study, we find that innovation mediates the relationships between human and social capital and business success because the independent variable does not substantially affect the dependent variable directly. However, the independent variable substantially affects the dependent variable if the mediating variable supports it.

5. Discussions

Based on the literature review, some factors were recognized to influence the SMEs' performance and survival. However, the human capital role has been highlighted as being critical in previous research. The structural model supports our hypotheses that human capital, business success and social capital are significantly and positively associated mediating by innovations. Certainly, the result indicates the significant contribution and exogenous variable impact on the innovation. Furthermore, this study confirms that the human and social capital's significance for enabling the relationship between business success, mediated by innovation. The results suggest that regardless of the presence of the direct relationship between the variables, innovation significantly mediates the relationship. This result is reinforced by numerous empirical studies such as Samad (2012, 2013) and (Yusoff *et al.*, 2019), who revealed that the higher the human capital level the better the innovations. Moreover, according to Barney (2001) and Sirmon *et al.* (2007), the resource-based view (RBV) further highlights those resources of the firm, including human capital, that will be able to reinforce and boost the workers' soft skills, for instance, firm performance and social capital.

Variables	<i>t</i> -statistics	<i>p</i> -values
Human capital → Business success	2.341	0.020
Social capital → Business success	2.585	0.010

Table 2.
Testing indirect effect

Variable	<i>t</i> -statistics	<i>p</i> -values
Human capital → Innovation → Business success	13.521	0.000
Social capital → Innovation → Business success	13.271	0.000

Table 3.
Mediation test

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Felicio *et al.*, in 2014, argue that human capital assists workers to attain pertinent and vital soft skills for performance. In general, this study's results also verified that human capital is an essential consideration for innovative businesses, as it prioritizes the human asset as the knowledge repository (Bucholtz *et al.*, 2003; Guo *et al.*, 2020).

Our findings are also consistent with the research of Agostini and Nosella in 2017, and we believe that human capital is able to contribute to increasing relational resources and organizational capital, which in turn increases innovation. Putnam (2000) and Reagans and Zuckerman (2001) state that the social capital's unique nature encompasses interrelationships that combine teams and individuals with a social interconnection variety, interrelationship that is significant for the innovative performance of the firm. Omri, Frikha and Bouraoui in 2015 stated that social capital has an important relationship and has a positive impact on innovation. The bigger the entrepreneur network, the higher the innovation in the companies. Innovation mediates human and social capital to business success. Research by Omri *et al.* in 2015 shows that the effects of human and social capital have an indirect impact on business success. Both variables have value if there is innovation, because large human and social capital will know better where opportunities exist, be able to accurately assess potential opportunities and could take advantage of opportunities, which drives innovation. This innovation is what leads to business success.

Conclusively, grounded in the proposed structural model, this study demonstrates that human and social capital are crucial factors that SMEs require in the tourism industry to attain success in the business via innovations. This study's main finding is prioritizing the asset of human and social capital. Furthermore, we should highlight and optimize the human capital use to develop innovation organizations.

6. Conclusions

As the global tourism sector grapples with the effects of the COVID-19 pandemic, we are witnessing an increase in the support to enhance local tourism in the interim. The question remains how can SMEs in tourism industries in emerging economies sustain their operations while waiting for the return of international tourists. Based on the results of the analysis carried out on SME actors in Indonesia regarding the development of an improvement model consisting of human and social capital factors, it shows a considerable influence on business innovation, and the presence of innovation as a mediation strengthens the influence of human and social capital on business success. We believe this model can be applied and implemented in all service SMEs in Indonesia and other emerging economies because it is considered to correspond with the conditions in the field. SMEs need to think more strategically and be innovative to enhance their business success and modernize their operations. The digitization of business activities is one step that these firms can take to reach a wider consumer base, and in the post-COVID-19 world, they will be able to directly interact with international consumers.

We suggest that by taking these steps to enhance the human and social capital and encourage innovativeness, governments will help firms manage some of the impact of the pandemic and prepare them for the eventual international competition that will occur when the international borders eventually open. Some activities may include restaurants and hotels printing menus in different languages, having multilingual staff, offering experiences that suit the needs of the international tourists and offering menu items that would appeal to the taste buds of the tourists. This investment will help the long-term sustainability of the tourism sector in emerging economies.

The results suggest that business success highly depends on social and human capital in the tourism industry. Social capital has become a prevalent concept because of its wide implementation for unwinding issues of management. It aligns with the social capital concept that highlights the actors' characteristics of relations and social structure. This study's

implications will assist the managers in deciding on their managerial process and increase value to the existing knowledge body. However, this study has several limitations. The future study might examine another environment because this research is limited to a certain setting and industry. Additionally, it would be interesting to observe future studies' findings using a longitudinal approach rather than a cross-sectional approach. Similarly, future studies could enhance the richness of the findings from this study by undertaking qualitative or mixed-method studies to understand the reasons for the strategic decisions made by the SMEs.

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