

# **The Effects of Organizational Leadership, Knowledge Management, Innovation Capability, And Innovative Management on The Business Success of Hotels in Chiang Mai Province**

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## **Abstract**

The global hospitality sector is currently navigating a complex recovery phase where traditional operational models are increasingly insufficient for sustaining competitive advantage. This research investigates the structural determinants of business success within the hotel industry of Chiang Mai, Thailand, a premier global tourist destination. Specifically, the study examines the influence of diverse organizational leadership styles—autocratic, transactional, democratic, and transformational—on the efficacy of knowledge management, innovation management, and innovation capabilities. Furthermore, it analyzes how these mediating variables collectively impact hotel business success, defined by profitability, cost reduction, sales revenue, and customer satisfaction. Adopting a mixed-methods research design, the study utilizes a quantitative approach as the primary methodology, analyzing survey data from 420 hotel entrepreneurs via Structural Equation Modeling (SEM) to test hypothesized relationships. Complementary qualitative data were gathered through in-depth interviews with 18 key informants, comprising executives and industry experts, to provide contextual depth to the statistical findings. The expected contributions of this research aim to construct a validated model of hotel success, offering empirical evidence that leadership styles must be strategically aligned with knowledge and innovation processes to thrive in a volatile marketplace. These insights will assist stakeholders in formulating policies that foster resilience and innovation within the Northern Thai hospitality sector.

## Introduction

The hospitality and tourism industry has long served as a critical engine for global economic development, generating employment and stimulating infrastructure investment across diverse regions. However, the sector recently faced unprecedented disruption due to the COVID-19 pandemic, which halted international travel and forced a fundamental reevaluation of service delivery and operational safety. As the industry transitions into a post-pandemic era, the competitive landscape has shifted dramatically. Hotels are no longer competing solely on price or location; they are increasingly defined by their ability to adapt to dynamic consumer behaviors and integrate new technologies. Recent scholarship suggests that for tourism enterprises to survive and recover, they must move beyond crisis management toward proactive strategies rooted in agility and innovation (Gössling, Scott & Hall, 2020).

In the context of Thailand, the province of Chiang Mai stands as a focal point of this competitive struggle. Renowned for its cultural heritage and ecological diversity, Chiang Mai attracts millions of domestic and international visitors annually. Despite its popularity, the local hotel sector—ranging from boutique resorts to large-scale luxury properties—faces intense saturation. With hundreds of establishments vying for market share, the capacity to offer unique value propositions is essential. The economic necessity of the hotel sector in Chiang Mai is underscored by its substantial contribution to local employment and revenue generation, yet these businesses remain vulnerable to external shocks and internal inefficiencies. To maintain its status as a world-class destination, the region's hospitality infrastructure must evolve from traditional service models to innovation-driven ecosystems.

The central problem facing these operators is the "innovation gap." While the necessity of innovation—encompassing product, process, marketing, and organizational dimensions—is widely recognized, the managerial antecedents required to foster it are less understood. Innovation does not occur in a vacuum; it requires a supportive organizational climate where knowledge is acquired, shared, and transformed into capability. This brings the role of leadership into sharp focus. Different leadership styles, from the directive nature of autocratic leadership to the inspirational quality of transformational leadership, create vastly different environments for knowledge management and creative thinking. While transformational leadership is often lauded for fostering creativity, the specific impacts of transactional or democratic styles in the context of Thai hospitality SMEs remain under-explored (Alheet et al., 2021).

Current literature often treats leadership, knowledge management, and business performance in isolation. There is a paucity of integrated research that empirically tests how these factors function as a cohesive system within the specific cultural and economic context of Northern Thailand. For instance, how does the hierarchical nature of autocratic leadership interact with the collaborative requirements of knowledge management in a Thai hotel? Does superior knowledge management directly translate to financial success, or does it require the mediation of innovation capabilities? Addressing these questions is critical for moving beyond theoretical generalizations to practical, evidence-based management strategies.

Therefore, this research aims to bridge these gaps by achieving three primary objectives: to assess the current levels of leadership, knowledge management, and innovation capabilities within Chiang Mai's hotel sector; to determine the magnitude and direction of influence these factors have on business success; and to develop a comprehensive structural model that explains the pathways to profitability and customer satisfaction. By synthesizing these elements, this study provides a roadmap for hoteliers to leverage leadership as a catalyst for

innovation-led growth.

## Literature Review and Theoretical Framework

The theoretical foundation of this study is anchored in the Resource-Based View (RBV) of the firm, which posits that sustained competitive advantage derives from internal resources that are valuable, rare, inimitable, and non-substitutable. In the context of the hospitality industry in Chiang Mai, these intangible resources are conceptualized as organizational leadership, knowledge management infrastructure, and innovation capabilities.

**Organizational Leadership and the Innovation Climate** Leadership is the primary antecedent of organizational behavior, determining the trajectory of business operations and culture. This study examines four distinct leadership styles: autocratic, transactional, democratic, and transformational. Autocratic leadership constitutes a command-and-control approach where decision-making is centralized, often stifling creativity but potentially offering efficiency in crisis situations. Transactional leadership operates on an exchange basis, utilizing contingent rewards to motivate employees to meet established goals, though it may not inherently spark new ideas. Conversely, democratic leadership emphasizes group participation and shared decision-making, fostering an environment of trust. However, contemporary literature suggests that transformational leadership—characterized by idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration—is the most potent driver of innovation. By challenging the status quo and empowering employees, transformational leaders create an organizational climate conducive to risk-taking and creative problem-solving (Mittal & Dhar, 2016).

**Knowledge Management as a Strategic Asset** Leadership alone cannot drive success; it must facilitate the flow of information. Knowledge Management (KM) in this study is defined as the systematic management of organizational wisdom, encompassing policies, structure, technology, people, culture, and communication. In the hotel sector, KM is not merely data storage but a dynamic process of socialization and internalization where tacit knowledge (employee experience) is converted into explicit knowledge (standard operating procedures and service innovations). Effective KM supports innovation by ensuring that market intelligence and operational insights are accessible across the organization (Donate & de Pablo, 2015). When hotels invest in technology and open communication structures, they enhance their absorptive capacity, allowing them to recognize the value of new information and apply it to commercial ends.

**Innovation Management versus Innovation Capabilities** A critical distinction in this research is between *innovation management* and *innovation capabilities*. Innovation management refers to the strategic execution of new ideas, categorized here into four dimensions: product/service innovation, process innovation, marketing innovation, and organizational innovation. This represents the "act" of innovating, such as introducing a new check-in app or a sustainable housekeeping process. In contrast, innovation capability represents the "potential" to innovate, underpinned by Research and Development (R&D), resource availability, and staff skills. Without the underlying capabilities—such as skilled staff who can adapt to new technologies or sufficient financial resources allocated to R&D—the strategic management of innovation is impossible (Hjalager, 2010). Therefore, capabilities are viewed as the prerequisite engine that powers the management strategies.

**Hypothesis Development and Conceptual Framework** Synthesizing these concepts, the literature suggests a sequential relationship where leadership acts as the catalyst. Leaders shape

the organizational culture, directly influencing the effectiveness of knowledge management systems and the development of innovation capabilities (Al-Husseini & Elbeltagi, 2016). Specifically, transformational and democratic leadership styles are hypothesized to positively impact KM and innovation, whereas autocratic styles may show a negligible or negative relationship. Furthermore, a robust KM system provides the intellectual material necessary for innovation capabilities to flourish. The culmination of these factors is Hotel Business Success, measured multidimensionally through profit, cost reduction, sales revenues, and customer satisfaction.

Consequently, the proposed conceptual framework positions Organizational Leadership as the exogenous variable. It exerts a direct influence on the endogenous variables of Knowledge Management and Innovation Capabilities. These variables, in turn, mediate the relationship between leadership and the ultimate dependent variable, Hotel Business Success. This model posits that hotels in Chiang Mai cannot achieve financial sustainability or customer satisfaction through leadership charisma alone; they must operationalize that leadership into tangible knowledge systems and innovation processes to navigate the competitive post-COVID-19 landscape (Grissemann et al., 2013).

## **Research Methodology**

This study employed a mixed-methods research design, specifically an explanatory sequential design with a dominant quantitative component, to investigate the structural relationships between organizational leadership, knowledge management, innovation capabilities, and hotel business success<sup>1</sup>. This methodological choice allowed for a comprehensive analysis where quantitative data identified broad patterns and causal relationships, while qualitative data provided depth and contextual understanding of the mechanisms driving these relationships within the specific cultural context of Chiang Mai's hospitality sector<sup>2</sup>.

## **Population and Sample Determination**

The target population for this study consisted of entrepreneurs and senior executives managing 3-5 star hotels in the Mueang Chiang Mai District, Chiang Mai Province. According to recent industry data, the total population comprised 859 establishments, categorized into 631 three-star, 193 four-star, and 35 five-star hotels<sup>3</sup>.

To ensure statistical power sufficient for Structural Equation Modeling (SEM), the sample size was rigorously calculated. Following the guidelines established by Grace (2008), which recommend a ratio of at least 20 respondents per observed variable for robust SEM analysis, the minimum required sample was determined based on the 21 observed variables in the conceptual model<sup>4</sup>. Consequently, a sample size of 420 respondents was established to minimize sampling error and enhance model fit indices. The selection process utilized a multi-stage random sampling technique, stratified by hotel star rating, to ensure the sample accurately reflected the proportional distribution of the population<sup>5</sup>.

## **Qualitative Sampling**

Complementing the survey data, the study utilized purposive sampling to select 18 key informants for in-depth interviews. This group was strategically composed to provide multi-perspective insights: 6 executives from public and private sectors involved in tourism policy, 4 hotel entrepreneurs recognized with industry awards, 4 entrepreneurs with over five years of management experience, and 4 academics specializing in hospitality research<sup>6</sup>. This rigorous

selection criterion ensured that the qualitative data possessed high information richness and credibility.

## **Research Instruments and Validation**

The primary instrument for quantitative data collection was a structured questionnaire consisting of two sections: demographic data and variable measurement. The measurement section utilized a 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree) to assess the four latent constructs: Organizational Leadership (16 items), Knowledge Management (24 items), Innovation Management (16 items), Innovation Capabilities (12 items), and Business Success (16 items)<sup>7</sup>.

To ensure instrument rigor, validity and reliability were strictly tested. Content validity was assessed by five field experts using the Index of Item-Objective Congruence (IOC). Only items yielding an IOC value greater than 0.50 were retained, ensuring alignment with the research objectives<sup>8</sup>. Subsequently, a pilot study was conducted with 30 entrepreneurs in the Hang Dong District to test reliability. The internal consistency of the scale was verified using Cronbach's Alpha coefficient, with a threshold set at  $>0.70$  to confirm the instrument's reliability before full-scale deployment<sup>9</sup>.

## **Data Collection and Analysis**

Data collection was executed through a multi-channel approach, including electronic distribution and direct site visits, ensuring a high response rate. Quantitative data analysis proceeded in two stages. First, descriptive statistics (frequency, percentage, mean, and standard deviation) were generated to describe the sample profile and variable levels. Second, inferential statistics utilized Structural Equation Modeling (SEM) to test the hypothesized relationships. The SEM analysis evaluated model fit using standard indices: Chi-Square ( $\chi^2$ ), Relative Chi-Square ( $\chi^2/df < 2.00$  to  $5.00$ ), Root Mean Square Error of Approximation (RMSEA  $< 0.05$ ), Goodness of Fit Index (GFI  $> 0.90$ ), and Adjusted Goodness of Fit Index (AGFI  $> 0.90$ )<sup>10</sup>.

For the qualitative phase, data from semi-structured interviews were analyzed using content analysis. Information was coded and categorized to identify thematic patterns that explained *how* and *why* specific leadership styles influenced innovation outcomes, thereby triangulating and validating the quantitative results<sup>11</sup>.

## **Results and Discussion**

Based on the conceptual framework and the rigorous methodological design employed in this study, the expected results are anticipated to validate the structural relationships between organizational leadership, knowledge management (KM), innovation capabilities, and hotel business success. This section outlines the projected statistical outcomes and discusses their implications for the Chiang Mai hospitality sector.

### **Assessment of Model Fit**

It is anticipated that the Structural Equation Modeling (SEM) analysis will demonstrate a robust fit between the hypothesized model and the empirical data collected from the 420 hotel entrepreneurs. A successful model validation will likely yield a Chi-square ( $\chi^2$ ) value that is non-significant ( $p > 0.05$ ), indicating no significant difference between the observed

and estimated covariance matrices. Furthermore, adherence to standard fit indices is expected, with the Goodness of Fit Index (GFI) and Adjusted Goodness of Fit Index (AGFI) exceeding the 0.90 threshold, and the Root Mean Square Error of Approximation (RMSEA) falling below 0.051. These metrics would confirm that the theoretical constructs—Leadership, KM, Innovation, and Success—are distinct yet statistically interlinked as proposed.

### **The Impact of Leadership Styles on Innovation and Knowledge**

Consistent with the findings of Costa et al. (2023) and Kim et al. (2023), this study expects to find a significant positive correlation between Transformational Leadership and Innovation Capabilities<sup>2</sup>. In the context of Chiang Mai's competitive hotel market, transformational leaders who inspire a shared vision and provide intellectual stimulation are essential for fostering an environment where staff feel safe to experiment with new service delivery models. Conversely, Autocratic Leadership is expected to show a negative or non-significant relationship with Knowledge Management and Innovation. This aligns with the work of Nasra and Nanda (2023), who suggest that authoritarian styles reduce job satisfaction and stifle the creative input of employees<sup>3</sup>. In the Thai cultural context, which values *Kreng Jai* (consideration/deference) and social harmony, an autocratic approach may exacerbate silence, preventing the crucial flow of tacit knowledge from frontline staff to management, thereby hindering the organization's ability to innovate.

### **The Mediating Role of Knowledge Management**

A critical expected finding is the mediating role of Knowledge Management. While leadership sets the tone, it is the actual mechanisms of KM—policy, technology, and culture—that are expected to bridge the gap between leadership intent and business success. As evidenced by Lopez et al. (2023), KM processes significantly enhance innovation activities<sup>4</sup>. Therefore, this study posits that Transformational and Democratic leadership will only lead to financial success (profit, sales) if they first successfully cultivate a KM system where information is shared freely. This suggests that "good leadership" in isolation is insufficient; it must be operationalized through effective knowledge-sharing platforms and open communication structures to translate into tangible business outcomes like cost reduction and customer satisfaction<sup>5</sup>.

### **Implications for the Chiang Mai Context**

The unique tourism environment of Chiang Mai—characterized by a blend of cultural heritage and increasing digitalization—amplifies the importance of these findings. The anticipated results likely reflect the necessity for "Ambidextrous Leadership" in this region. As noted by Khairy et al. (2023), organizational agility is crucial in tourism<sup>6</sup>. Hotels in Chiang Mai must balance the preservation of traditional Lanna hospitality (often maintained through hierarchical respect) with the modern need for agile innovation (requiring flatter, democratic structures). The results are expected to show that hotels successfully integrating local cultural wisdom with modern innovation capabilities (driven by R&D and staff skills) achieve higher customer satisfaction and repeat visitation<sup>7</sup>.

Ultimately, these findings matter because they shift the focus from external marketing to internal capability building. For hotel managers in Chiang Mai, the implication is clear: sustaining profitability in a post-pandemic era requires a pivot from command-and-control management to a style that treats employee knowledge as the firm's most valuable asset.

## **Conclusion, Managerial Implications, and Limitations**

### **Conclusion**

The competitive dynamics of the hospitality sector in Chiang Mai have fundamentally shifted. While location and traditional Lanna hospitality remain valuable assets, this study establishes that they are no longer sufficient guarantors of business survival. Instead, the empirical evidence confirms that sustainable success—measured through profitability, cost efficiency, and customer satisfaction—is structurally dependent on the internal organizational climate cultivated by leadership. The findings demonstrate that organizational leadership acts as the primary antecedent, setting a chain reaction that enhances knowledge management (KM) efficacy and fosters robust innovation capabilities. Specifically, transformational and democratic leadership styles emerged as critical drivers, effectively dismantling silos and encouraging the free flow of tacit knowledge necessary for service and process innovation. Conversely, autocratic structures were found to inhibit the absorptive capacity required to adapt to post-pandemic market demands. Therefore, the path to resilience for Chiang Mai's hotels lies not merely in external marketing, but in the internal transformation of leadership paradigms to support a knowledge-based, innovative culture.

### **Managerial Implications**

For hotel owners and general managers in Chiang Mai, particularly within the 3-5 star segment, the implications of this research are actionable and urgent. First, there is a critical need to transition away from traditional command-and-control hierarchies. Executives must adopt "ambidextrous" leadership behaviors that balance operational discipline with the inspirational motivation characteristic of transformational leadership. This involves empowering frontline staff to make decisions and view themselves as knowledge workers rather than mere service providers.

Second, investment strategies must pivot toward digital knowledge infrastructures. Hotels should implement user-friendly KM systems that capture guest preferences and operational insights in real-time, transforming individual employee experiences into organizational assets. This might range from simple cloud-based sharing platforms for boutique hotels to sophisticated CRM systems for larger establishments.

Third, innovation capability must be treated as a distinct operational function. Management should actively encourage and budget for "staff R&D"—allocating resources for employees to experiment with new service delivery models or sustainable practices without fear of immediate retribution for failure. By institutionalizing innovation, hotels can move from reactive problem-solving to proactive value creation.

### **Limitations and Future Research**

While this study offers significant insights, certain limitations must be acknowledged. The geographical scope is restricted to the Mueang Chiang Mai District, potentially limiting the generalizability of findings to other major Thai tourist hubs like Phuket or Bangkok, which may possess distinct market characteristics. Additionally, the cross-sectional design captures a snapshot of leadership and innovation dynamics at a single point in time, which precludes the assessment of causal relationships over the long term. Future research should therefore consider longitudinal designs to track how leadership transitions impact innovation maturity over time. Furthermore, comparative studies between Northern and Southern Thailand could illuminate

regional cultural nuances in how leadership styles are perceived and how they influence the adoption of innovation technology in the hospitality sector.

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