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Leveraging Intangible Cultural Heritage for Local Economic Development: The Mediating Roles of Innovation and Commercial Value

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ABSTRACT: Intangible cultural heritage represents an important source of cultural identity and has growing potential to contribute to local economic development. However, the economic value of heritage does not emerge automatically from its preservation or existence, rather communities need appropriate capabilities to transform cultural resources into innovative and commercially valuable outcomes. This study examines how cultural heritage identity contributes to local economic development through the mediating roles of innovation capability and commercialization capability in the Vietnamese context. Drawing on the Resource-Based View and Dynamic Capabilities Theory, the study develops and empirically examines a structural model linking cultural heritage identity with innovation, commercialization and local economic development. Data were collected from 272 respondents in Vietnam and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 3. The results show that Cultural Heritage Identity has significant and strong positive effects on both Innovation Capability ($\beta = 0.798$, $p < .001$) and Commercialization Capability ($\beta = 0.718$, $p < .001$). Innovation Capability significantly contributes to Local Economic Development ($\beta = 0.583$, $p < .001$), while Commercialization Capability also has a significant positive effect ($\beta = 0.247$, $p < .001$). Furthermore, both Innovation Capability ($\beta = 0.465$, $p < .001$) and Commercialization Capability ($\beta = 0.177$, $p < .001$) significantly mediate the relationship between Cultural Heritage Identity and Local Economic Development. The stronger indirect effect through Innovation Capability highlights the importance of innovation in transforming cultural heritage into contemporary economic value. The findings contribute to the intangible cultural heritage literature by demonstrating that cultural identity can function as a foundation for capability development and that innovation and commercialization represent distinct pathways through which heritage can support local economic development. The study also provides practical implications for Vietnamese policymakers, heritage communities, and businesses seeking to balance cultural preservation with innovation, market development, and sustainable local economic benefits.

KEYWORDS: Commercialization capability; cultural heritage identity; innovation capability; intangible cultural heritage; local economic development

I. INTRODUCTION

Intangible cultural heritage has increasingly been recognized as an important cultural and socioeconomic resource that can contribute to community well-being and local development. Intangible cultural heritage encompasses living practices, knowledge, skills, traditions, rituals, artistic expressions, and craftsmanship that are transmitted across generations and continuously adapted by communities. Beyond its intrinsic cultural value, Intangible cultural heritage can create economic opportunities through tourism, creative industries, cultural products, entrepreneurship, and employment. The broader economic significance of culture-related activities is reflected in their substantial contribution to the global economy. According to UNESCO (2025), cultural and creative industries account for 3.39% of global GDP and 3.55% of total global employment, while cultural tourism generated approximately US$741.3 billion across 250 cities in 2023. These figures demonstrate the considerable economic potential of cultural resources and experiences and highlight the increasing relevance of culture to sustainable economic development. However, the economic value of intangible cultural heritage does not emerge automatically from the existence of cultural resources. Communities need to identify the distinctive value embedded in their heritage, adapt it to contemporary social and market conditions, and develop appropriate mechanisms for creating and capturing economic value.

UNESCO (2025) further emphasizes that cultural and creative industries can contribute to innovation, cultural tourism, heritage revitalization, and economic inclusion, while UNESCO's guidance on the economic dimensions of intangible cultural heritage safeguarding notes that economic activities associated with living heritage can generate income, support livelihoods, and contribute to local economies when they are appropriately managed. Previous studies have also emphasized the role of innovation in this process. For example, Shakya & Vagnarelli (2024), based on case studies from Germany and Italy, demonstrate how innovation, including storytelling, participatory engagement, ecological approaches, and heritage-based marketing, can transform intangible cultural heritage into tourism experiences and other forms of economic and experiential value, thereby supporting sustainable rural and regional development. Nevertheless, their findings also show that the economic potential of intangible cultural heritage is not automatically realized, as the capacity to transform heritage resources into economic value depends on how communities and other stakeholders mobilize, innovate, and develop heritage-based opportunities. Therefore, understanding how cultural heritage can be transformed from a source of cultural identity into a resource for local economic development requires greater attention to the capabilities that enable communities to innovate and commercialize heritage-based resources.

This issue is particularly significant in Vietnam, where cultural heritage is deeply embedded in the identities and livelihoods of local communities. Vietnam possesses a highly diverse intangible cultural heritage system, with numerous elements recognized by UNESCO, including Quan họ Bắc Ninh folk songs, Xoan singing, Bài Chòi, Then practices, Xòe dance, the art of Chăm pottery-making, and the Festival of Bà Chúa Xứ Goddess at Sam Mountain (UNESCO, n.d.). These forms of heritage provide important foundations for cultural tourism, traditional craftsmanship, creative activities, and community-based economic development. Nevertheless, Vietnamese heritage communities increasingly face the challenge of balancing cultural continuity with changing consumer preferences, technological development, tourism commercialization, and market competition. Traditional products and cultural practices may possess strong cultural meaning but remain economically limited when they are not adapted to contemporary markets or connected to appropriate distribution channels. Conversely, excessive commercialization may weaken cultural authenticity or reduce the benefits received by the communities that maintain the heritage. Existing studies have provided important evidence regarding the contribution of cultural heritage to tourism, cultural industries, and rural development, but relatively less attention has been devoted to explaining the mechanisms through which cultural heritage identity is transformed into local economic development. In particular, limited empirical research has simultaneously examined whether innovation capability and commercialization capability function as mechanisms linking cultural heritage identity with local economic development. This gap is particularly relevant in Vietnam because the country possesses abundant living cultural heritage, while many heritage communities continue to face difficulties in transforming cultural resources into sustainable economic opportunities. Therefore, examining the capability-based mechanisms underlying this transformation can provide a more comprehensive understanding of the economic role of intangible cultural heritage in the Vietnamese context.

To address this research gap, the present study develops and empirically tests a model in which cultural heritage identity influences local economic development through the mediating roles of innovation capability and commercialization capability. Drawing on the Resource-Based View and Dynamic Capabilities Theory, the study proposes that cultural heritage identity provides local actors with a strong basis for recognizing, valuing, and mobilizing the distinctive cultural resources embedded in their communities, while innovation and commercialization capabilities enable these resources to be transformed into contemporary economic value. Using data collected from 272 respondents in Vietnam and employing Partial Least Squares Structural Equation Modeling, this study examines the relationships among cultural heritage identity, innovation capability, commercialization capability, and local economic development. The study contributes to the literature in three ways. Firstly, it extends research on intangible cultural heritage by moving beyond a primary focus on preservation and tourism toward a capability-based explanation of how heritage generates economic value. Secondly, it distinguishes innovation capability and commercialization capability as two separate mechanisms through which cultural heritage identity can contribute to local economic development, thereby providing a more detailed explanation of the heritage–development relationship. Thirdly, the study provides empirical evidence from Vietnam and highlights how culturally embedded resources can support local economic development when communities are able to innovate and capture commercial value while maintaining the cultural identity and continuity of their heritage. Accordingly, the study conceptualizes intangible cultural heritage not as a static cultural asset, but as a dynamic community resource whose contribution to local economic development depends on the capabilities through which cultural identity is transformed into innovative and commercially valuable outcomes. The study is divide into 5 main part inluding (1) Introduction; (2) Theoretical framework and hypothesis development; (3) Methodology; (4) Results and discussion; and (5) Recommendations and conclusion.

II. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Intangible Cultural Heritage and Cultural Heritage Identity

Intangible cultural heritage has increasingly been recognized not merely as a set of traditions that should be preserved, but also as a living resource that can contribute to community development, tourism, entrepreneurship, innovation, and local economic development. The UNESCO Convention for the Safeguarding of the Intangible Cultural Heritage defines intangible cultural heritage as practices, representations, expressions, knowledge, skills, and associated instruments, objects, artifacts, and cultural spaces that communities recognize as part of their cultural heritage. Importantly, intangible cultural heritage is continuously recreated by communities in response to their environment, interaction with nature, and history, thereby providing communities with a sense of identity and continuity (UNESCO, 2003). This conceptualization is important because cultural heritage should not be treated as a static historical asset. Rather, intangible cultural heritage is a dynamic social resource embedded in the knowledge, practices, memories, skills, and identities of local communities. Fusté-Forné & Nguyen (2018) argue that intangible cultural heritage communities are constituted through networks of people whose identity and interconnectedness emerge from shared historical and geographical relationships. Their study further connects intangible cultural heritage with communities of practice, emphasizing that cultural practices simultaneously preserve knowledge, reinforce identity, and create opportunities for tourism and community development.

Building on this perspective, cultural heritage identity in the present study comes from the origin of cultural identity, which refers to the extent to which local individuals and communities perceive, recognize, value, and identify themselves with their inherited cultural heritage and perceive that heritage as an important element of the identity and distinctiveness of their locality (Chen, 2018; Niglio, 2013). Cultural heritage identity therefore goes beyond simple awareness of cultural heritage. It reflects a psychological and social connection between people and the cultural practices, traditions, knowledge, symbols, and historical experiences of their community (Szromek & Bugdol, 2024). The identity dimension is particularly important in the context of cultural heritage identity because intangible heritage is inherently community-based. Unlike physical heritage assets, many forms of cultural heritage identity cannot be separated from the people who practice, transmit, interpret, and reproduce them. Consequently, the strength of cultural heritage identity can influence whether community members perceive heritage as merely an inherited tradition or as a valuable resource that can be actively developed.

Empirical research supports the importance of identity in heritage contexts. Zhang et al. (2020), for example, demonstrate that cultural identity has a significant positive effect on consumption intentions in intangible cultural heritage tourism. Their study of Suzhou Kunqu Opera shows that cultural identity provides a basis through which residents and visitors recognize the value of cultural heritage identity and subsequently support heritage-related consumption and tourism development. Similarly, Yi et al. (2024) found that local residents' localized identity is positively associated with cultural self-improvement and heritage responsibility. Their findings demonstrate that identity is not simply an outcome of heritage appreciation; it can also become a mechanism through which local residents actively engage with, protect, and develop cultural heritage. Therefore, cultural heritage identity can be regarded as an important intangible community resource. When people strongly identify with their heritage, they are more likely to perceive traditional knowledge and cultural practices as valuable resources that should be maintained while also being adapted to contemporary social and economic conditions.

Theoretical Foundation: Resource-Based View and Dynamic Capabilities

The proposed model can be theoretically grounded in the Resource-Based View (RBV) by Barney (1991) and the Dynamic Capabilities View (DCV) by Teece et al. (1997).

The RBV suggests that organizations and communities can obtain sustainable advantages from valuable, rare, difficult-to-imitate, and non-substitutable resources. In a heritage-based development context, cultural heritage can constitute a distinctive territorial resource because local traditions, cultural knowledge, craftsmanship, rituals, narratives, and practices are strongly embedded in particular communities and places. However, possessing a valuable resource does not automatically generate economic development. The critical issue is the ability of actors to transform resources into valuable products, services, experiences, and market opportunities. This argument is consistent with the dynamic capabilities perspective, which emphasizes an organization's ability to integrate, build, and reconfigure resources in response to changing environments. Lawson & Samson (2001) conceptualize innovation capability as an organizational capability that enables organizations to transform resources and knowledge into new products, services, and processes. Their framework identifies several components of innovation capability, including vision and strategy, competence, organizational intelligence, creativity and idea management, organizational structures and systems, organizational culture, and technology management. More recently, Munoz-Penas et al. (2024) conceptualize commercialization capability from a dynamic capabilities perspective. They argue that commercialization is not a

single activity occurring after innovation but rather an iterative process involving market learning, commercial alertness, organizational agility and alignment, and credibility building. Thus, commercialization capability represents an organization's ability to transform innovative offerings into market value.

These perspectives provide a strong theoretical explanation for the present model. Cultural heritage identity represents a valuable heritage-based resource, whereas Innovation Capability and Commercialization Capability represent organizational/community capabilities that allow this resource to be transformed into economic value. Local Economic Development represents the broader territorial outcome of this resource-capability transformation process. Accordingly, the proposed model moves beyond the assumption that cultural heritage automatically produces economic development. Instead, it argues that heritage identity creates a foundation for development, while innovation and commercialization capabilities determine how effectively that foundation can be transformed into contemporary economic opportunities.

Cultural Heritage Identity and Innovation Capability

Innovation is increasingly recognized as an important mechanism through which traditional cultural resources can remain relevant in contemporary markets (Elżbieta, 2016). A major challenge associated with intangible cultural heritage is that traditional practices may lose their social and economic relevance when they are not adapted to changing consumer preferences, technologies, lifestyles, and market conditions. Cultural heritage identity can provide a distinctive knowledge base from which innovation emerges (Yildiz & Hetemoglu-Venedik, 2024; Vitale & Valeri, 2026). Communities possessing strong heritage identities are likely to have deeper knowledge of local traditions, symbolic meanings, traditional techniques, narratives, craftsmanship, and cultural practices. Such knowledge constitutes a form of locally embedded knowledge that can serve as an input into new product, service, experience, process, and business-model development. This argument is consistent with Lawson & Samson's (2001) dynamic capabilities perspective, according to which innovation capability depends on the organization's ability to combine knowledge, competencies, creativity, organizational systems and technology.

The relationship is particularly relevant to intangible cultural heritage because innovation does not necessarily mean replacing traditional culture with modern alternatives. Instead, innovation can involve reinterpreting, redesigning, digitizing, packaging, communicating, or combining traditional cultural elements with contemporary technologies and market needs. An empirical evidence is provided by Shakya & Vagnarelli (2024), who examined how intangible cultural heritage can create value for rural communities through innovation. Their comparative case studies in Germany and Italy demonstrate that innovation can transform traditional agricultural and culinary heritage into contemporary tourism and development opportunities. In the German case, an innovative ecological farming model helped connect traditional agricultural practices with tourism and landscape preservation. In Italy, storytelling and corporate heritage marketing provided new ways of communicating culinary and rural heritage to contemporary audiences. Importantly, Shakya & Vagnarelli (2024) show that the economic potential of intangible cultural heritage does not arise simply from possessing traditional cultural resources. Rather, innovation is required to make heritage accessible, attractive, and meaningful to contemporary stakeholders. Storytelling, participatory engagement, ecological farming, and heritage marketing are examples of mechanisms through which traditional cultural resources can be transformed into new forms of value. This reasoning also aligns with the findings of Zhang et al. (2020), who demonstrate that cultural identity strengthens the attractiveness and consumption potential of intangible cultural heritage. Although their study focuses on tourist consumption rather than innovation capability, the findings imply that stronger cultural identification provides a foundation for developing and promoting heritage-related products and experiences. Therefore, communities with stronger cultural heritage identities are expected to possess stronger motivation to preserve, reinterpret, and develop their heritage (Li et al., 2025). They are also more likely to combine traditional knowledge with contemporary ideas, technologies and market requirements. Based on above agurments, the following hypothesis is proposed:

H1: Cultural heritage identity has a positive effect on innovation capability.

Cultural Heritage Identity and Commercialization Capability

Commercialization refers to the process through which resources, ideas, products, services, or innovations are transformed into market value (Pellikka, 2014; Sløk-Madsen et al., 2017). In the context of cultural heritage, commercialization should not be interpreted simply as the sale of traditional cultural products. It rather encompasses the ability to identify market opportunities, develop appropriate offerings, communicate cultural value, establish distribution and marketing channels, and capture economic value while maintaining the cultural meaning and legitimacy of the heritage. Munoz-Penas et al. (2024) emphasize that commercialization is a dynamic and iterative organizational process. Their study demonstrates that commercialization capability is developed through commercial alertness, market-context learning, organizational agility and alignment, and

credibility building. This perspective is particularly relevant to cultural heritage because heritage-based economic activities require continuous adaptation to changing consumer preferences and market environments.

Cultural heritage identity can contribute to commercialization capability in several ways. For example, strong heritage identity can increase the ability of community members to recognize the distinctive market value of their cultural resources (Stephens & Tiwari, 2015). A community that understands the uniqueness of its traditional knowledge, craftsmanship, food, performing arts, rituals, stories, or production methods is better positioned to identify which cultural attributes can be translated into differentiated market offerings. Heritage identity also can contribute to authenticity and credibility. Commercialization of cultural heritage often faces the problem of commodification: excessive commercialization may weaken cultural meaning and community legitimacy. Bui & Lee's (2015) study of the Imperial Citadel of Thang Long in Hanoi demonstrates that heritage commercialization involves tensions surrounding selection, interpretation, political meaning, and commercial use. Their findings illustrate that the economic use of heritage must be negotiated with cultural and social considerations. Besides, strong cultural identity may strengthen community participation in heritage-related economic activities. Hampton (2005), in his analysis of Borobudur, shows that heritage tourism can generate economic opportunities for host communities, but local participation, power relations, control, and the development of small-scale local enterprises are critical to ensuring that economic benefits reach local populations. Moreover, heritage identity can provide a foundation for place-based branding. Spielmann et al. (2021), examining family-owned wineries across six countries, demonstrate the relationship between place and corporate heritage identity and show how heritage and place can become integrated into marketing strategies. Their findings are relevant because cultural heritage identity can provide a distinctive basis for positioning products and services in markets where geographic origin, history, authenticity, and cultural meaning are valued. Thus, cultural heritage identity is expected to strengthen the community's ability to recognize commercial opportunities, design heritage-based offerings, communicate cultural value, develop markets, and capture economic benefits. Based on above agurments, the following hypothesis is proposed:

H2: Cultural heritage identity has a positive effect on commercialization capability.

Innovation Capability and Local Economic Development

Innovation capability represents the ability to continuously transform knowledge and resources into new products, services, processes, experiences, or organizational practices. In a heritage-based local economy, innovation capability is particularly important because traditional cultural resources need to remain relevant to contemporary markets without losing their cultural foundation. Lawson & Samson (2001) conceptualize innovation capability as a dynamic organizational capability that enables organizations to generate and implement innovations and subsequently achieve superior performance. Their framework emphasizes that innovation capability involves more than creativity alone; it includes strategy, competencies, organizational intelligence, structures, culture, and technology management.

In the context of cultural heritage, innovation can create economic opportunities through the development of new cultural products, cultural tourism experiences, digital heritage applications, new storytelling formats, creative products, modernized traditional crafts, cultural events, and new forms of community-based tourism. Shakya & Vagnarelli (2024) provide particularly relevant evidence. Their research shows that innovative approaches can make intangible heritage accessible to new audiences and create economic and social value for rural communities. Storytelling and participatory engagement can transform traditional knowledge and memories into experiences that appeal to tourists, while innovative agricultural practices can simultaneously preserve heritage and support tourism and rural development. The importance of innovation is also consistent with the broader regional-development literature. Cultural heritage creates a distinctive resource base, but innovation determines whether this resource can be connected to new markets and contemporary consumption patterns. Consequently, locations with stronger innovation capabilities should be more capable of generating employment, business opportunities, tourism revenues, entrepreneurial activities, and other forms of local economic value from cultural heritage. Based on above agurments, the following hypothesis is proposed:

H3: Innovation capability has a positive effect on local economic development.

Commercialization Capability and Local Economic Development

While innovation creates new possibilities, commercialization determines whether those possibilities can be converted into economic value. This distinction is fundamental to the present research model. An innovative cultural product may possess cultural and creative value but fail to contribute to local economic development if the community cannot identify appropriate markets, communicate the product's value, establish distribution channels, attract customers, manage relationships with stakeholders, or capture sufficient economic returns. Munoz-Penas et al. (2024) argue that commercialization capability is a key

organizational capability because firms ultimately need to bring innovations to markets and capture value from them. Their dynamic capability perspective identifies commercial alertness, market-context learning, organizational agility and alignment, and credibility building as processes that support commercialization capability.

Evidence from innovation and commercialization research also supports this distinction. Kim et al. (2011), studying Korean IT SMEs, examine the relationships among R&D capabilities, technology commercialization capabilities, and innovation performance. Their findings emphasize the role of commercialization capabilities in translating technological resources and R&D into innovation outcomes. Similarly, Lim et al. (2017) find that innovation commercialization capability is positively related to firm performance. Their study of 182 managers demonstrates that commercialization capability has meaningful performance consequences, reinforcing the argument that the creation of an innovative offering and the ability to successfully commercialize that offering are analytically distinct capabilities. This distinction is highly relevant to heritage-based development. Local communities may possess valuable cultural traditions and may even innovate around these traditions, but economic development depends on whether those innovations can be transformed into commercially viable products and services. For example, cultural heritage can be transformed into tourism experiences, cultural products, food products, handicrafts, performances, educational experiences, festivals, digital content, and destination brands (Wasela, 2023). However, the existence of these offerings does not necessarily guarantee local economic benefits. Effective commercialization is necessary to connect supply with market demand and to ensure that value generated by heritage-based activities is retained within the local economy. Based on above agurments, the following hypothesis is proposed:

H4: Commercialization capability has a positive effect on local economic development.

The Mediating Role of Innovation and Commercialization Capability

The preceding arguments suggest that the relationship between cultural heritage identity and local economic development may not be purely direct. Cultural heritage identity represents an important intangible resource, but possessing a strong identity does not automatically create economic development. Instead, identity can stimulate communities to recognize the value of their cultural resources, preserve traditional knowledge, experiment with new applications, and adapt cultural practices to contemporary contexts. These processes represent the development and utilization of innovation capability. Shakya & Vagnarelli (2024) provide particularly strong conceptual support for this mechanism. Their cases demonstrate that ICH generates development value when innovation is used to make heritage accessible to contemporary audiences and connect traditional practices with tourism, agriculture, storytelling, and other economic activities. The logic can therefore be understood as a sequential process in which cultural heritage identity facilitates the recognition and mobilization of heritage knowledge, which in turn strengthens innovation capability, enabling the development of new products, services, and experiences that ultimately contribute to local economic development. This mediation argument extends existing heritage research in an important way. Previous studies have demonstrated that cultural heritage can contribute to economic development, while innovation research demonstrates that innovation capability improves organizational performance. However, fewer studies have explicitly examined whether innovation capability acts as a mechanism through which cultural heritage identity is converted into local economic development. Based on above agurments, the following hypothesis is proposed:

H5: Innovation capability mediates the positive relationship between cultural heritage identity and local economic development.

Innovation alone may not be sufficient to generate local economic development. Cultural heritage may be recognized as valuable and communities may develop innovative products, but these innovations must ultimately be commercialized to generate income, employment, entrepreneurship, and other local economic benefits. The dynamic commercialization literature supports this argument. Munoz-Penas et al. (2024) conceptualize commercialization capability as a process through which organizations identify market opportunities, learn about market contexts, adapt organizational activities, and establish credibility in order to bring offerings successfully to market. Within cultural heritage contexts, commercialization capability can involve identifying appropriate customer segments, developing heritage-based products, pricing, promotion, storytelling, branding, distribution, tourism packaging, partnership development, and market access. Importantly, commercialization does not necessarily imply uncontrolled commodification. Instead, sustainable commercialization should enable local communities to capture economic value while maintaining the cultural meaning and legitimacy of heritage. This distinction is supported by heritage research. Bui & Lee (2015), for example, demonstrate that heritage commercialization can involve tensions between cultural meaning, political considerations, heritage interpretation, and tourism markets. Thus, commercialization capability should be understood as the capacity to manage these tensions rather than simply maximizing sales. The proposed mediation mechanism can therefore be understood as a sequential process in which cultural heritage identity enhances the recognition of

heritage value and market potential, which in turn strengthens commercialization capability, enabling the effective capture of market value and ultimately contributing to local economic development. A community with strong cultural heritage identity is expected to have greater knowledge of its cultural resources and greater ability to communicate their authenticity and distinctiveness. This can enhance its capacity to identify commercial opportunities and develop heritage-based market offerings. In turn, stronger commercialization capability should increase the likelihood that economic value generated from heritage remains within the local economy. Based on above agurments, the following hypothesis is proposed:

H6: Commercialization capability mediates the positive relationship between cultural heritage identity and local economic development.

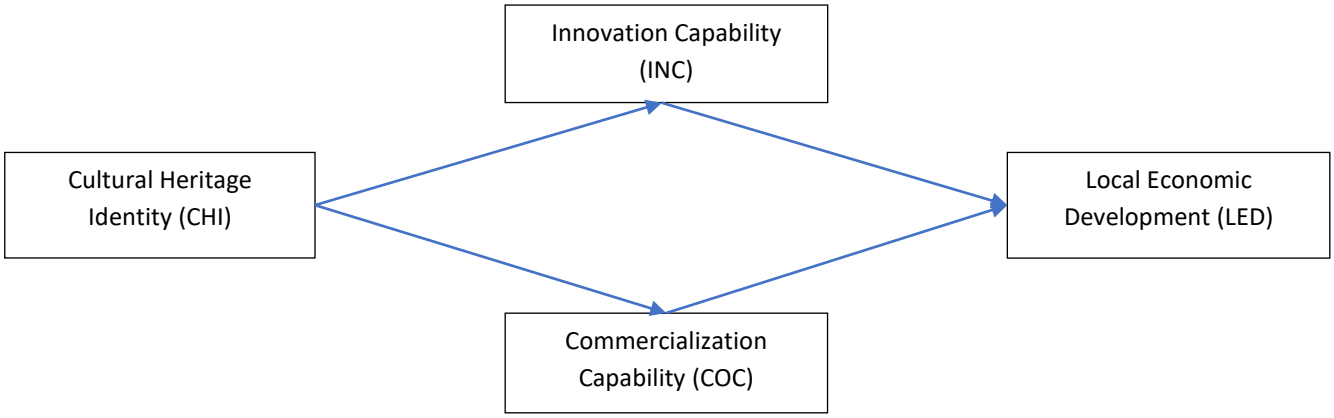


Figure 1. Research Model

III. METHODOLOGY

Measures and Questionnaire Design

The measurement instrument was developed based on established constructs and previously validated measures in the literature. Because the present study examines the role of intangible cultural heritage in local economic development in the Vietnamese context, the original measurement items were carefully adapted to reflect the context of local communities, cultural heritage-based economic activities, and heritage-related products and services. The adaptation process focused on maintaining the conceptual meaning of the original constructs while ensuring that the wording was understandable and relevant to Vietnamese respondents. All constructs were measured using a 5-point Likert scale, ranging from 1 = “strongly disagree” to 5 = “strongly agree.” A 5-point scale was selected because it provides sufficient response discrimination and has been widely used in research examining cultural identity and heritage-related perceptions.

The final questionnaire comprised four latent constructs with a total of 17 measurement items, including four items for Cultural Heritage Identity (CHI), four items for Innovation Capability (INC), four items for Commercialization Capability (COC), and five items for Local Economic Development (LED). Cultural Heritage Identity was defined as the extent to which individuals perceive local cultural heritage as an important component of their identity, feel emotionally connected to it, and recognize the importance of preserving and promoting it.

The four CHI items were adapted from previous research on cultural identity in heritage contexts, particularly Fu & Luo (2023), who developed and empirically examined cultural identity in a heritage tourism context, and Zhang et al. (2020), who examined cultural identity in relation to intangible cultural heritage and consumption intentions. The items were contextualized to reflect respondents’ identification with and attachment to the intangible cultural heritage of their locality. Innovation Capability was defined as the ability of local organizations, businesses, and community actors involved in cultural heritage activities to develop and implement new or improved products, services, processes, and experiences based on cultural heritage resources.

Four INC items were adapted from the innovation capability literature, primarily drawing on Lawson & Samson (2001), who conceptualized innovation capability from a dynamic capabilities perspective, and Hogan et al. (2011), who developed and empirically validated a scale for organizational innovation capability. The original items were contextualized to the cultural heritage setting by emphasizing the development of new heritage-based products and services, the introduction of new ways of presenting and delivering cultural heritage, the application of new technologies and methods, and the adaptation of traditional cultural resources to contemporary needs.

Commercialization Capability was defined as the ability of local organizations and businesses to identify market opportunities, understand changing customer and market requirements, adapt heritage-based offerings and commercial strategies, and establish market credibility. Four COC items were developed and adapted based on the dynamic capability perspective proposed

by Munoz-Penas et al. (2024), who conceptualized commercialization capability through four key organizational processes: commercial alertness, market-context learning, organizational agility and alignment, and credibility building. Since Munoz-Penas et al. (2024) employed a longitudinal qualitative research design rather than developing a standardized psychometric questionnaire scale, the present study does not claim to adopt a previously validated four-item COC scale, instead, the four survey items were developed from the conceptual dimensions identified in their study and contextualized to heritage-based products and services in Vietnam.

Finally, Local Economic Development was defined as the extent to which cultural heritage-related activities contribute to economic vitality within the local community through employment creation, income generation, business development, entrepreneurship, and overall economic growth. Five LED items were adapted from the heritage, tourism, and local economic development literature, particularly Hampton (2005) and Madden & Shipley (2012), which emphasize the contribution of heritage-related activities to local employment, business opportunities, and economic development, and were further informed by empirical evidence on the relationship between cultural heritage and regional economic growth provided by Kostakis & Lolos (2024). The LED items were contextualized to assess the perceived contribution of cultural heritage-related activities to local economic growth, employment opportunities, income and business opportunities, local entrepreneurship, and the overall economic vitality of the locality.

Sample, Data Collection and Analysis

The empirical study was conducted in Vietnam, where intangible cultural heritage represents an important cultural resource increasingly associated with tourism, creative industries, entrepreneurship, handicrafts, gastronomy, cultural events, and other local economic activities. The target population comprised individuals who had sufficient knowledge of, exposure to, or experience with local cultural heritage and heritage-related economic activities. A total of 272 valid responses were collected for the final analysis. To improve the representativeness of the sample across key demographic groups, the study employed a stratified convenience sampling approach. Specifically, respondents were stratified according to two demographic characteristics, namely gender and age, as these characteristics may influence individuals' cultural identification, engagement with traditional cultural practices, and perceptions of the preservation, innovation, and economic utilization of cultural heritage. Within each demographic stratum, respondents were approached using convenience sampling. Other demographic characteristics, including education level, occupation, income, and place of residence, were not used as stratification criteria but were collected to describe the characteristics of the sample. Data were collected through a structured questionnaire, and respondents were informed of the academic purpose of the study and the voluntary and confidential nature of their participation. The questionnaire was administered in Vietnamese to facilitate respondents' understanding of the measurement items. After the completed questionnaires were screened for completeness and response quality, 272 valid observations were retained for subsequent statistical analysis.

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is appropriate for examining complex relationships among latent constructs and for assessing mediation effects in predictive research models. The analysis followed two main stages: assessment of the measurement model and assessment of the structural model. Firstly, the measurement model was evaluated to establish the reliability and validity of the constructs. Indicator loadings, Cronbach's alpha, composite reliability (CR), and average variance extracted (AVE) were examined to assess indicator reliability, internal consistency reliability, and convergent validity, respectively. Discriminant validity was assessed using the Fornell–Larcker criterion and the Heterotrait–Monotrait Ratio (HTMT). Secondly, the structural model was assessed to test the hypothesized relationships among Cultural Heritage Identity (CHI), Innovation Capability (INC), Commercialization Capability (COC), and Local Economic Development (LED). The significance of the direct relationships proposed was examined using bootstrapping with 5,000 resamples, with path coefficients (β), t-values, p-values, and confidence intervals used to determine hypothesis support. The mediating effects proposed were evaluated by examining the indirect effects of CHI on LED through INC and COC, respectively, using bootstrapped confidence intervals. An indirect effect was considered statistically significant when its confidence interval did not include zero. In addition, the explanatory power, effect sizes of the structural model were assessed using R^2 and f^2 respectively. This analytical procedure enabled the study to simultaneously examine the direct influence of cultural heritage identity on local economic development and the mediating roles of innovation capability and commercialization capability.

IV. RESULTS AND DISCUSSION

Demographics of Respondents

The demographic profile indicates that the sample of 272 respondents provides a relatively balanced representation of different groups relevant to the study of cultural heritage and local economic development. Regarding gender, the sample consists of an equal proportion of male and female respondents, with 136 respondents in each group (50.0%). This balanced distribution is appropriate for the present study because perceptions of cultural heritage identity, innovation, commercialization, and local economic development may potentially vary across gender groups. Maintaining an equal distribution also reduces the possibility that the results are disproportionately driven by one gender group.

In terms of age, respondents are distributed across five age groups. The largest group comprises respondents aged 26–35 years, accounting for 68 participants (25.0%), followed by those aged 36–45 years, with 62 respondents (22.8%). Respondents aged 18–25 account for 54 participants (19.9%), while 51 respondents (18.8%) are aged 46–55 years. The smallest group consists of respondents aged 56 years and above, representing 37 participants (13.5%). Overall, the distribution provides representation across both younger and older generations. This is particularly relevant to research on intangible cultural heritage becauseents with college or associate degrees account for 17.3%, and 14.3% have a high school education or below cultural identity, knowledge transmission, attitudes toward innovation, and perceptions of commercialization may differ across generations.

Regarding educational attainment, almost half of the respondents hold a bachelor's degree (47.1%), while 21.3% have postgraduate qualifications. Respondents with college or associate degrees account for 17.3%, and 14.3% have a high school education or below. Thus, the sample is characterized by a relatively high level of educational attainment, with 68.4% of respondents holding at least a bachelor's degree. This suggests that most participants are likely to possess sufficient ability to understand the questionnaire and evaluate relatively abstract concepts such as cultural heritage identity, innovation capability, commercialization capability, and local economic development.

The occupational distribution further indicates that the sample is reasonably relevant to the research context. Respondents working in tourism and hospitality constitute the largest occupational group, accounting for 56 participants (20.6%), followed by business owners or entrepreneurs with 51 respondents (18.8%) and cultural heritage-related practitioners or workers with 48 respondents (17.6%). Employees and professionals account for another 48 respondents (17.6%), while 38 respondents (14.0%) work in the government or public sector. Students represent 7.4% of the sample, and 4.0% are classified as having other occupations. Importantly, 57.0% of respondents are directly involved in cultural heritage-related, tourism/hospitality, or business activities, indicating that a substantial proportion of the sample has practical exposure to the economic utilization of cultural heritage. This characteristic is particularly valuable because the proposed model focuses not only on cultural identification but also on innovation, commercialization, and local economic development.

With respect to monthly personal income, the largest proportion of respondents earns between VND 10 and 20 million per month, representing 91 participants (33.5%). This is followed by respondents earning VND 5–10 million (26.1%) and those earning less than VND 5 million (15.4%). Respondents earning VND 20–30 million account for 15.8%, while 9.2% report monthly income above VND 30 million. The distribution therefore covers a relatively broad range of income levels, which is useful for capturing differences in respondents' socioeconomic backgrounds and their perceptions of the economic value generated by cultural heritage.

Finally, respondents demonstrate substantial exposure to local cultural heritage. In terms of the length of involvement or exposure, 68 respondents (25.0%) report more than 10 years, followed by 63 respondents (23.2%) with 4–6 years and 58 respondents (21.2%) with 7–10 years of exposure. Only 9.6% have less than one year of exposure. In addition, regarding the frequency of engagement, 30.5% report engaging with local cultural heritage sometimes, while 20.3% and 9.9% report frequent and very frequent engagement, respectively. Consequently, approximately 60.7% of respondents engage with local cultural heritage at least frequently or sometimes, while only 11.4% report rare engagement. This suggests that the majority of respondents possess meaningful exposure to local cultural heritage, strengthening the appropriateness of the sample for assessing cultural heritage identity and its relationship with innovation capability, commercialization capability, and local economic development.

Table 1. Demographics of Respondents (n = 272)

Demographic characteristics		**Frequency**	**Percentage (%)**
Gender	Male	136	50.0
	Female	136	50.0
Age (years old)	18 – 25	54	19.9
	26 – 35	68	25.0

	36 – 45	62	22.8
	46 – 55	51	18.8
	≥ 56	37	13.5
Educational level	High school or below	39	14.3
	College/Associate degree	47	17.3
	Bachelor's degree	128	47.1
	Postgraduate degree	58	21.3
Occupation	Cultural heritage-related practitioner/worker	48	17.6
	Tourism/Hospitality	56	20.6
	Business/Entrepreneur	51	18.8
	Government/Public sector	38	14.0
	Employee/Professional	48	17.6
	Student	20	7.4
	Other	11	4.0
Monthly personal income	< VND 5 million	42	15.4
	VND 5–10 million	71	26.1
	VND 10–20 million	91	33.5
	VND 20–30 million	43	15.8
	> VND 30 million	25	9.2
Length of involvement/exposure to local cultural heritage	< 1 year	26	9.6
	1–3 years	57	21.0
	4–6 years	63	23.2
	7–10 years	58	21.2
	> 10 years	68	25.0
Frequency of engagement with local cultural heritage	Rarely	31	11.4
	Occasionally	76	27.9
	Sometimes	83	30.5
	Frequently	55	20.3
	Very frequently	27	9.9

Scale Reliability and Validity Assessment

The reliability and validity of the measurement model were assessed before testing the structural model. Following the recommended guidelines for PLS-SEM, internal consistency reliability was evaluated using Cronbach's alpha, rho_A, and composite reliability (CR), while convergent validity was assessed using the average variance extracted (AVE). Generally, Cronbach's alpha, rho_A, and CR values of 0.70 or higher indicate satisfactory internal consistency reliability, while an AVE value of 0.50 or higher indicates adequate convergent validity, meaning that the construct explains at least 50% of the variance in its indicators (Hair et al., 2019).

As reported in Table 2, all four constructs satisfy these recommended thresholds. Cronbach's alpha values range from 0.935 to 0.950, with the lowest value observed for INC (0.935) and the highest for LED (0.950), substantially exceeding the recommended threshold of 0.70. Similarly, rho_A values range from 0.937 to 0.954, while composite reliability values range from 0.953 to 0.963, confirming a high level of internal consistency among the indicators of each construct. The AVE values range from 0.835 to 0.848, which are considerably higher than the minimum threshold of 0.50. Specifically, CHI has an AVE of 0.848, COC 0.839, INC 0.835, and LED 0.840. These results indicate that each construct explains more than 83% of the variance in its respective indicators, providing strong evidence of convergent validity.

Table 2. Construct Reliability and Convergent Validity

Variables	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
CHI	0.940	0.954	0.957	0.848

COC	0.936	0.937	0.954	0.839
INC	0.935	0.952	0.953	0.835
LED	0.950	0.952	0.963	0.840

Source: Data analysis by SmartPLS 3

Table 3 further presents the assessment of discriminant validity using both the Fornell–Larcker criterion and the Heterotrait–Monotrait Ratio (HTMT). Under the Fornell–Larcker criterion, the square root of the AVE of each construct should be greater than its correlations with all other constructs (Fornell & Larcker, 1981). The diagonal values in Table 3 represent the square roots of AVE, while the off-diagonal values represent correlations between constructs. For CHI, the square root of AVE is 0.921, which is higher than its correlations with COC (0.718), INC (0.798), and LED (0.805). Similarly, the square root of AVE for COC (0.916) exceeds its correlations with CHI (0.718), INC (0.732), and LED (0.674). For INC, the square root of AVE (0.914) is higher than its correlations with CHI (0.798), COC (0.732), and LED (0.764). Finally, LED has a square root of AVE of 0.916, which exceeds its correlations with CHI (0.805), COC (0.674), and INC (0.764). Thus, the Fornell–Larcker criterion is satisfied for all four constructs. However, because the Fornell–Larcker criterion may have limited ability to detect certain discriminant-validity problems in variance-based SEM, the HTMT criterion was also examined (Henseler et al., 2015).

The HTMT values range from 0.715 to 0.844, with the highest value occurring between CHI and LED (0.844), followed by CHI and INC (0.823), INC and LED (0.800), COC and INC (0.772), CHI and COC (0.755), and COC and LED (0.715). All HTMT values are below the more conservative threshold of 0.85 recommended when constructs are conceptually distinct, and they are also below the more liberal threshold of 0.90 suggested for conceptually similar constructs (Henseler et al., 2015).

Therefore, the results provide consistent evidence that the four constructs including Cultural Heritage Identity, Commercialization Capability, Innovation Capability, and Local Economic Development are empirically distinct from one another. Taken together, the results from Cronbach's alpha, rho_A, composite reliability, AVE, the Fornell–Larcker criterion, and HTMT confirm that the measurement model demonstrates adequate reliability, convergent validity, and discriminant validity, providing a satisfactory basis for proceeding to the assessment of the structural model and hypothesis testing.

Table 3. Discriminant Validity Assessment

	Fornell-Larcker Criterion				**Heterotrait–Monotrait Ratio (HTMT)**			
	CHI	COC	INC	LED	CHI	COC	INC	LED
CHI	0.921							
COC	0.718	0.916			0.755			
INC	0.798	0.732	0.914		0.823	0.772		
LED	0.805	0.674	0.764	0.916	0.844	0.715	0.800	

Source: Data analysis by SmartPLS 3

Research Model Assessment and Discussion

Table 4 presents the structural equation modelling results obtained from SmartPLS 3. All six hypothesized relationships are statistically significant, with all p-values below 0.001. Therefore, H1–H6 are supported. The results indicate that Cultural Heritage Identity (CHI) has strong positive effects on both Innovation Capability (INC) and Commercialization Capability (COC), while both capabilities positively contribute to Local Economic Development (LED). Furthermore, the significant indirect effects demonstrate that INC and COC are important mechanisms through which cultural heritage identity is translated into local economic development. The explanatory power of the model is also substantial. The adjusted R^2 values indicate that CHI explains 63.5% of the variance in INC, CHI explains 51.3% of the variance in COC, and CHI, INC, and COC jointly explain 60.8% of the variance in LED. These values indicate that the proposed model has considerable explanatory power for the endogenous constructs in the Vietnamese cultural heritage context. In addition, the effect-size results in Table 5 show that CHI has a very large effect on INC (f^2 = 1.753) and COC (f^2 = 1.061), INC has a large effect on LED (f^2 = 0.406), while COC has a small effect on LED (f^2 = 0.073). According to Cohen's (1988) commonly used guidelines, f^2 values of 0.02, 0.15, and 0.35 represent small, medium, and large effects, respectively; therefore, the results suggest that CHI is particularly important in developing both

innovation and commercialization capabilities, whereas innovation capability is considerably more influential than commercialization capability in explaining local economic development.

H1 proposes that Cultural Heritage Identity positively influences Innovation Capability. The results strongly support this hypothesis, with a standardized path coefficient of β = 0.798, a t-value of 29.728, and p < .001. The magnitude of the coefficient indicates a very strong positive relationship: respondents who perceive local cultural heritage as an important part of their identity tend to perceive substantially greater capacity within their communities and heritage-related organizations to develop new products, services, processes, and experiences. This relationship is further supported by the very large effect size (f^2 = 1.753), indicating that CHI is a dominant explanatory factor for INC in the proposed model. The finding is consistent with emerging research that views cultural identity as a resource for cultural innovation. For example, Li et al. (2025) demonstrate that cultural identity is closely connected to the protection and innovation of traditional crafts, emphasizing that innovation in traditional crafts requires balancing the continuity of cultural identity with adaptation to contemporary conditions. Similarly, Shakya & Vagnarelli (2024) show that intangible cultural heritage can generate new forms of value when communities combine traditional knowledge with innovative approaches such as storytelling, tourism experiences, and new forms of community engagement. The strength of the relationship found in the present study can be particularly understood in the Vietnamese context, where many intangible cultural heritage practices remain embedded in community life rather than being treated solely as external tourism products. Vietnam currently has numerous UNESCO-recognized intangible cultural heritage elements, including *Quan Ho, Xoan singing, Bai Choi, Then practices, Xoedance, and the art of Cham* pottery, demonstrating the breadth of heritage resources embedded in local communities. In such settings, strong cultural identity provides practitioners with detailed knowledge of traditional techniques, symbols, stories, aesthetics, and local meanings, which can serve as a foundation for innovation rather than an obstacle to it. For example, the recent development of contemporary crafts based on traditional craft-village heritage in Hanoi explicitly seeks to connect artisans with designers, universities, businesses, and creative communities to create products that retain Vietnamese cultural identity while responding to contemporary lifestyles. Therefore, the very high coefficient observed in H1 suggests that, in Vietnam, innovation in cultural heritage is likely to be strongest when modernization is perceived not as abandoning tradition but as reinterpreting and extending an identity that local actors already value and recognize as their own.

Table 4. Structural Equation Modelling Results Estimates

Paths	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
H1: CHI -> INC	0.798	0.800	0.027	29.728	0.000
H2: CHI -> COC	0.718	0.721	0.037	19.558	0.000
H3: INC -> LED	0.583	0.584	0.049	11.841	0.000
H4: COC -> LED	0.247	0.247	0.061	4.046	0.000
H5: CHI -> INC -> LED	0.465	0.468	0.046	10.158	0.000
H6: CHI -> COC -> LED	0.177	0.179	0.048	3.713	0.000
Adjusted R^2: INC = 0.635; COC = 0.513; LED = 0.608					

Source: Data analysis by SmartPLS 3

H2 examines whether Cultural Heritage Identity enhances Commercialization Capability. The result provides strong support for the hypothesis, with β = 0.718, t = 19.558, and p < .001. The effect size is also very large (f^2 = 1.061), indicating that cultural heritage identity is a major determinant of the ability to identify market opportunities, understand market requirements, adapt heritage-based offerings, and establish credibility around heritage products and services. Although previous studies have rarely tested this exact impact of CHI on COC relationship as a structural path, the result is theoretically consistent with research on heritage identity and market performance. Spielmann et al. (2021), for example, show that place and corporate heritage identity can become embedded in marketing strategies, particularly for products whose value is strongly associated with geographic

origin and heritage. Their findings suggest that heritage identity can provide a basis for differentiation and market positioning. Spielmann et al. (2022) similarly find that heritage identity can function as a market signal and is positively associated with marketing performance, suggesting that heritage can reduce market uncertainty by communicating authenticity, continuity, and distinctive value to stakeholders. This relationship is particularly meaningful in Vietnam because many heritage-based products are difficult to compete on price or mass-production efficiency alone. Their competitive advantage instead depends on authenticity, local identity, craftsmanship, stories, and geographic origin. The Vietnamese craft-village context illustrates this mechanism clearly. Government policy has explicitly linked the preservation of traditional craft villages with tourism development, product development, branding, trademarks, OCOP products, and expanded markets, demonstrating that cultural heritage is increasingly being treated as a commercial resource rather than solely as an object of preservation. At the same time, the commercialization process remains challenging. The case of Chăm pottery illustrates that traditional skills can support family income and cultural identity, but insufficient adaptation to the market economy remains one of the threats to the viability of the tradition. Thus, the strong H2 coefficient suggests that when Vietnamese communities possess a strong sense of ownership and identification with their heritage, they are better positioned to recognize what makes their products distinctive and to communicate this distinctiveness to contemporary markets. In other words, identity provides the authenticity and cultural narrative that commercialization capability subsequently transforms into market value.

Table 5. Effect Sizes of The Structural Model

	COC	INC	LED
CHI	1.061	1.753	
COC			0.073
INC			0.406

Source: *Data analysis by SmartPLS 3*

H3 proposes that Innovation Capability positively affects Local Economic Development. The results strongly support this relationship, with β = 0.583, t = 11.841, and p < .001. The effect size of f^2 = 0.406 exceeds Cohen's (1988) threshold for a large effect, indicating that INC is not merely statistically significant but also substantively important for explaining LED. Among the two mediating capabilities, innovation therefore represents the stronger direct contributor to local economic development. This finding is consistent with Shakya & Vagnarelli (2024), whose comparative cases in Germany and Italy demonstrate that innovation enables intangible cultural heritage to create economic, social, and tourism value for rural communities. Their findings show that traditional agricultural and culinary heritage becomes more economically valuable when communities develop innovative forms of storytelling, tourism experiences, ecological production, and community engagement. The finding is also consistent with broader evidence from Kostakis & Lolos (2024), who demonstrate a positive impact of cultural heritage endowment on regional economic growth across Greek regions. Their analysis explains that cultural heritage can affect economic growth through tourism demand, which subsequently generates spending, employment, investment, and business activity. In Vietnam, the strong effect of INC can be explained by the fact that many heritage resources are concentrated in rural areas where conventional industrial and employment opportunities may be relatively limited. Innovation allows communities to convert traditional cultural assets into contemporary sources of livelihood, for example, by redesigning handicrafts, developing cultural tourism experiences, using digital platforms for promotion, creating cultural events, or combining traditional products with modern design. The recent Hanoi initiative connecting traditional craft villages with designers, artists, universities, businesses, and creative communities provides a concrete example of this conversion process that traditional cultural knowledge is retained, but the form of the product is adapted to contemporary lifestyles and markets. Therefore, the relatively large coefficient and effect size for H3 suggest that economic development does not arise simply because a locality possesses cultural heritage, it arises when local actors have the capability to transform that heritage into new forms of economic activity.

H4 examines the effect of Commercialization Capability on Local Economic Development. The result is positive and statistically significant (β = 0.247, t = 4.046, p < .001), supporting H4. However, the effect size is relatively small (f^2 = 0.073) compared with the effect of INC on LED (f^2 = 0.406). This difference is theoretically meaningful. It suggests that commercialization contributes to local economic development, but commercialization alone is less influential than the ability to innovate. This result is consistent with Munoz-Penas et al. (2024), who conceptualize commercialization as a dynamic and iterative capability involving commercial alertness, market-context learning, organizational agility and alignment, and credibility building. Their study emphasizes that commercialization is necessary for bringing innovations to market, but it operates as a process that interacts with innovation rather than replacing it. The relatively smaller coefficient in the present study is also

understandable in the Vietnamese heritage context. A heritage product may generate economic value only when it reaches consumers, but simply increasing commercial exposure does not necessarily create broad-based local development. The case of the *Cham community at Po Klaong Girai* illustrates this limitation: although tourism generates revenue around the living heritage site, the benefits perceived by the local heritage custodians were not necessarily distributed equitably, with tourism revenue allocated to local government budgets while community members faced economic pressures. This indicates that commercialization can increase economic activity without automatically ensuring that value is retained by heritage bearers or distributed throughout the local economy. A similar challenge can be observed in Vietnamese traditional craft value chains. Recent evidence from *Ngoc Thom conical-hat production* shows that *OCOP certification* increased sales, but most products remained confined to local and provincial markets and only a small proportion were sold online, demonstrating that recognition of heritage value does not automatically translate into broad market access. Consequently, the positive but relatively modest H4 effect suggests that commercialization is necessary for converting heritage into market transactions, but its contribution to local economic development depends on market access, value retention, distribution mechanisms, branding, digital channels, and the extent to which revenues reach local producers.

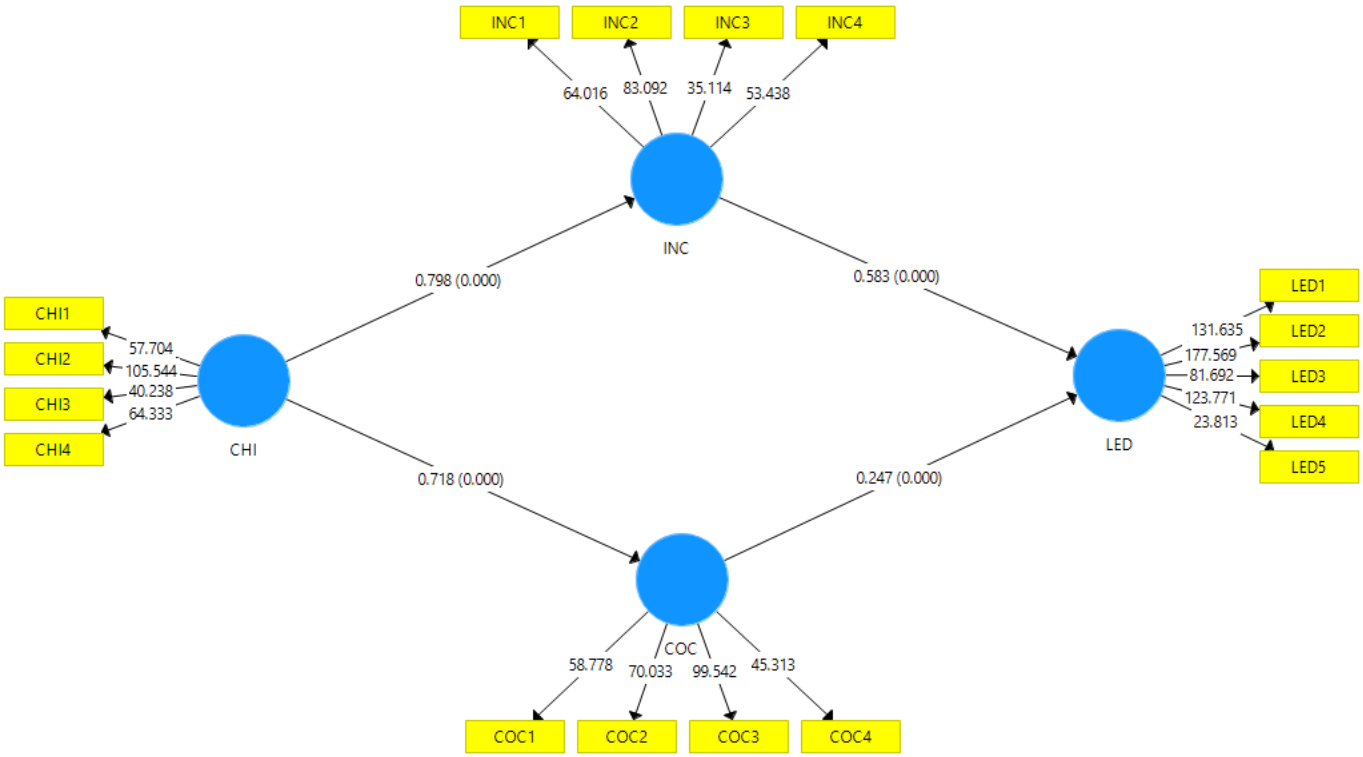


Figure 2. PLS Bootstrapping Model

Source: Data analysis by SmartPLS 3

H5 tests the indirect effect of Cultural Heritage Identity on Local Economic Development through Innovation Capability. The indirect effect is positive and statistically significant (β = 0.465, t = 10.158, p < .001), supporting H5. The magnitude of this indirect effect is substantial and is larger than the indirect effect through Commercialization Capability in H6 (β = 0.177). The result indicates that cultural heritage identity contributes to local economic development particularly strongly when local actors are capable of transforming cultural resources into innovative products, services, experiences, and processes. This finding extends previous research by identifying a specific mechanism through which cultural heritage can generate economic value. Shakya and Vagnarelli (2024) argue that the development contribution of ICH emerges when innovation is used to create new forms of value around traditional practices; their cases demonstrate that innovation connects cultural heritage with tourism, rural development, and community value creation. Similarly, research on traditional crafts emphasizes that cultural identity can provide the foundation for innovation because innovation must preserve sufficient cultural distinctiveness to remain recognizable as heritage while adapting to contemporary market and social conditions. The strong mediation effect is particularly relevant to Vietnam because many localities possess cultural resources that are highly distinctive but economically underutilized. For example, UNESCO's documentation of *Cham pottery* notes that the tradition contributes to family income and cultural identity but also faces threats from urbanization, changing lifestyles, and insufficient adaptation to the market economy

(UNESCO, 2022). In this context, innovation provides the conversion mechanism: traditional knowledge can be maintained while products, designs, tourism experiences, communication methods, and distribution channels are updated. The result therefore suggests that Vietnamese local economic development is more likely to emerge from cultural heritage when identity is converted into innovation rather than simply preserved as a static cultural resource.

Finally, H6 examines the indirect effect of Cultural Heritage Identity on Local Economic Development through Commercialization Capability. The indirect effect is positive and statistically significant ($\beta = 0.177$, $t = 3.713$, $p < .001$), supporting H6. Although the indirect effect is statistically significant, its magnitude is considerably smaller than the corresponding indirect effect through Innovation Capability ($\beta = 0.465$). This indicates that commercialization represents a meaningful pathway through which heritage identity contributes to local economic development, but it is not as influential as innovation in the present model. The finding is consistent with Munoz-Penas et al. (2024), who argue that commercialization capability enables organizations to recognize market opportunities, learn from market contexts, adapt offerings, and establish credibility so that innovations can be brought successfully to market. It is also consistent with heritage-market research showing that cultural identity and heritage can provide a basis for product differentiation, branding, and market positioning. Spielmann et al. (2021), for example, demonstrate how place and heritage identity become incorporated into marketing strategies for products whose value is anchored in geographic origin and cultural heritage. In Vietnam, however, the smaller mediation coefficient can be explained by the structural difficulties involved in capturing and retaining commercial value at the community level. The Cham heritage tourism case demonstrates that tourism revenue can exist without being equitably shared with heritage custodians, while the Ngoc Thom craft case shows that even after OCOP recognition and increased sales, market expansion and digital commercialization remain limited. These examples help explain why commercialization has a weaker economic-development effect than innovation in the present model that selling heritage is not equivalent to generating broad local development. Commercialization produces stronger local economic outcomes only when local producers have market access, control over value creation, effective branding, suitable distribution channels, and mechanisms that retain a meaningful share of revenue within the community. The significant H6 result nevertheless confirms that cultural identity can facilitate commercialization by providing authenticity, differentiation, narrative content, and credibility, which can subsequently generate economic returns for heritage-related activities.

V. RECOMMENDATIONS AND CONCLUSION

This study contributes to three complementary theoretical perspectives, namely Social Identity Theory, the Resource-Based View (RBV), and Dynamic Capabilities Theory. From the perspective of Social Identity Theory (Tajfel & Turner, 1986), the findings extend the understanding of cultural identity by demonstrating that Cultural Heritage Identity is not only a source of belonging and cultural attachment but can also motivate local actors to develop innovation and commercialization capabilities, as evidenced by the strong effects of CHI on Innovation Capability ($\beta = 0.798$) and Commercialization Capability ($\beta = 0.718$). From the RBV perspective (Barney, 1991), the study conceptualizes intangible cultural heritage as a valuable, distinctive, and socially embedded local resource whose economic contribution depends on the ability of local actors to mobilize and transform its cultural knowledge, authenticity, traditions, and symbolic meanings into economic value. Most importantly, the study extends Dynamic Capabilities Theory (Teece et al., 1997; Teece, 2007) by demonstrating how Innovation Capability and Commercialization Capability function as mechanisms for transforming cultural resources into local economic outcomes. The significant effects of INC and COC on LED, together with the stronger indirect effect through INC ($\beta = 0.465$) than through COC ($\beta = 0.177$), indicate that innovation represents a particularly important capability for adapting heritage resources to changing market and societal conditions. Thus, the study integrates the three perspectives into a coherent explanation in which Social Identity Theory explains why local actors value and engage with their heritage, the RBV explains why heritage constitutes a potentially valuable and distinctive resource, and Dynamic Capabilities Theory explains how innovation and commercialization transform that resource into local economic development. This integrated framework extends existing heritage research by shifting the focus from heritage preservation alone toward the capability-based processes through which intangible cultural heritage can generate contemporary and sustainable economic value.

Several limitations should be acknowledged. Firstly, the study employed a cross-sectional survey with 272 respondents, which limits the ability to establish causal relationships and observe how the effects of cultural heritage identity evolve over time. Future research could employ longitudinal designs to examine changes in innovation, commercialization, and local economic outcomes. Secondly, the study was conducted in the Vietnamese context, and the findings may not be fully generalizable to other countries or cultural settings. Comparative studies across regions or countries could therefore examine whether the proposed relationships vary according to institutional, cultural, and market conditions. Third, the study focused on

innovation capability and commercialization capability as mediators. Future research could incorporate other mechanisms, such as community participation, digital capability, entrepreneurial orientation, destination attractiveness, social capital, or institutional support, to provide a more comprehensive explanation of how intangible cultural heritage contributes to local economic development. Finally, future studies could include objective economic indicators, such as household income, employment creation, business revenue, or tourism expenditure, alongside perceptual measures to strengthen the empirical assessment of heritage-related economic outcomes.

Based on the empirical findings, several practical recommendations are proposed for strengthening the contribution of intangible cultural heritage to local economic development in Vietnam. Local governments should shift from a preservation-oriented approach toward a "preservation–innovation–market" approach. Because Cultural Heritage Identity has a very strong effect on Innovation Capability ($\beta = 0.798$; $f^2 = 1.753$), provincial and district authorities should involve heritage practitioners, artisans, local communities, designers, universities, and creative businesses directly in the development of new heritage-based products rather than treating communities only as beneficiaries of conservation programs. For example, in traditional craft villages in Hanoi, authorities can establish annual co-design programs connecting artisans with industrial designers, art universities, tourism businesses, and young creative entrepreneurs to redesign traditional products for contemporary consumers while maintaining their core cultural symbols, techniques, and stories. Similar mechanisms can be applied to Chăm pottery in Ninh Thuan and other traditional craft communities, where product innovation should focus on contemporary household products, interior decoration, souvenirs, cultural experiences, and digital storytelling rather than simply increasing the production volume of traditional products. Provincial Departments of Culture, Sports and Tourism should establish heritage innovation support programs at the local level. Rather than providing support primarily for festivals and conservation activities, these programs should provide small competitive grants, technical training, product-development laboratories, and mentoring for heritage-based enterprises and cooperatives. Priority should be given to projects that demonstrate both cultural authenticity and market potential, such as new handicraft designs, cultural tourism experiences, traditional food products, digital cultural content, and technology-supported interpretation of heritage. This recommendation directly responds to the strong effect of Innovation Capability on Local Economic Development ($\beta = 0.583$; $f^2 = 0.406$), indicating that innovation is a more important economic-development mechanism than commercialization alone.

Local authorities and trade-promotion organizations should strengthen the commercialization capability of heritage producers rather than expecting artisans to access markets independently. The significant effect of Commercialization Capability on Local Economic Development ($\beta = 0.247$) indicates that market access matters, but its relatively small effect size ($f^2 = 0.073$) suggests that commercialization by itself is insufficient. In practice, provincial authorities should create dedicated market-access programs connecting craft villages and heritage communities with hotels, restaurants, museums, tourism operators, airports, shopping centers, OCOP distribution systems, and e-commerce platforms. For example, heritage products from Hanoi, Ninh Binh, Hue, Hoi An, Ninh Thuan, and other heritage destinations could be organized into curated "local heritage product" collections and sold through tourism destinations and verified online channels. Training should also move beyond general entrepreneurship courses and focus specifically on pricing, packaging, storytelling, branding, customer segmentation, online sales, intellectual-property protection, and export readiness. This would help heritage producers convert cultural authenticity into commercial value without reducing heritage products to low-cost souvenirs.

Vietnamese local governments should strengthen digital commercialization and digital storytelling for intangible cultural heritage. Many younger consumers and domestic and international tourists discover cultural products through social media, search platforms, short-form video, and online marketplaces. Therefore, heritage communities should be supported in producing professional digital content that communicates the history, techniques, people, and cultural meanings behind each product rather than merely displaying the final product. For instance, a traditional pottery product should be marketed together with information about the artisan, production process, local community, cultural significance, and contemporary use. QR codes can be incorporated into product packaging to provide multilingual stories, videos, workshop information, and links to online stores. Such an approach would allow the cultural identity embedded in the product to become a source of differentiation and credibility rather than simply an aesthetic feature.

Besides, commercialization policies should ensure that economic benefits remain within heritage communities. This is particularly important because the present findings show that commercialization contributes positively to local economic development, but its effect is considerably weaker than that of innovation. Vietnamese authorities should therefore establish mechanisms that increase the proportion of value retained by artisans, households, cooperatives, and local cultural practitioners. This can include collective branding, geographical indications where appropriate, certification of authentic heritage products, transparent revenue-sharing arrangements in community-based tourism, and stronger intellectual-property protection for

traditional knowledge and cultural expressions. Tourism operators and businesses using local heritage should also be encouraged to establish formal purchasing and benefit-sharing arrangements with heritage communities. In this way, tourism and commercialization can generate income for the people who maintain cultural practices rather than concentrating most of the economic value among intermediaries.

Heritage-based tourism development should prioritize experiential products rather than mass tourism alone. In destinations such as Hoi An, Hue, Ninh Binh, Ha Noi, and communities associated with Cham and other ethnic cultural heritage, local authorities and tourism businesses should develop small-scale experiences that allow visitors to participate in traditional activities, learn directly from practitioners, purchase authentic products, and understand the cultural meaning behind them. Examples include pottery-making workshops, traditional craft demonstrations, culinary experiences, music and performing-arts experiences, storytelling sessions, and community-hosted cultural tours. Such activities can simultaneously strengthen cultural identity, stimulate innovation in tourism products, create employment, and increase local expenditure. Importantly, visitor numbers should not become the sole performance indicator; authorities should also monitor local income retained, employment created for heritage practitioners, participation of local households, and reinvestment in cultural transmission and conservation.

Finally, Vietnam should develop integrated heritage-economic-development indicators at the provincial and community levels. Current assessments of heritage programs should not focus only on the number of festivals, conservation projects, or recognized heritage elements. Local governments could evaluate whether heritage initiatives generate measurable outcomes such as the number of new heritage-based products developed, sales growth, new businesses established, employment created for local residents, household income generated, online market reach, tourism expenditure retained locally, participation of young people, and the proportion of commercial revenue reinvested in cultural transmission. Such indicators would allow policymakers to identify which heritage-development models genuinely create local economic value and which merely increase tourism or commercial activity without strengthening the communities that maintain the heritage. Overall, the findings suggest that Vietnam should not pursue commercialization of intangible cultural heritage as an end in itself. Instead, the priority should be to strengthen cultural identity as the foundation, build innovation capability as the primary engine, and use commercialization as the mechanism for connecting innovative heritage-based value with markets while ensuring that economic benefits are retained and distributed within local communities.

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