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Istvan Egresi, Fatih University

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The Role of Innovation in the Restructuring of the Tourism Industry

Istvan Egresi, Ph.D.
Department of Geography, Fatih University, Istanbul, Turkey

Abstract: The tourism industry is undergoing significant restructuring (albeit at a slower rate than the manufacturing sector) and innovation is an important element in this process especially because markets are saturated and competition is fierce. Unlike inventions, innovations are market-based applications of new processes, products or forms of organization. When compared to other economic sectors it is easy to observe that change in tourism is dominated by incremental innovations while radical innovations are almost completely lacking. The following dimensions of change are visible in tourism, as reflected by the extant literature:

1. New forms of (alternative) tourism are being created, moving away from the conventional, mass tourism. This has led to the creation of new production processes and different management systems.
2. The diffusion of the new information and communication technologies and their gradual adoption by the tourism industry has helped with the creation of new, individualized tourism products.
3. The addition of new markets and new suppliers.

We could safely conclude that, at a time when the demand for tailored experiences is rising, innovation plays an important role in providing adequate products and services to tourists. Although the specific literature is slowly but constantly growing, innovation in tourism has received much less attention when compared to manufacturing. Attempting to fill this gap, this study will examine the main determinants of innovation in tourism, the forms in which it is manifested and the impact and wider implications it has on destinations.

Introduction

The tourism industry is undergoing significant restructuring (albeit at a slower rate than the manufacturing sector) and innovation is an important element in this process especially since markets are saturated and competition is fierce (Carvalho and Costa, 2011). Tourism has been continuously changing due to the changes in preferences and tastes of tourists, in political and economic conditions and in technologies (Hall and Williams, 2008; Carvalho and Costa, 2011). However, it is globalization the main factor that has increased the speed at which innovations are happening in tourism (Hall and Williams, 2008).
Although the specific literature is slowly but constantly growing, innovation in tourism has received much less attention when compared to manufacturing or even other forms of services (Weiermair, 2003; Hall and Williams, 2008; Hjalager, 2010; Williams and Shaw, 2011; Carvalho and Costa, 2011). The importance of innovation in services, and, more specifically in tourism, has generally been underestimated (Korres, 2008). Attempting to fill this gap, this study will examine the main determinants of innovation in tourism, the forms in which it is manifested and the impact and wider implications it has on destinations.

Kanter (1983: 20-21; cited in Hall and Williams, 2008: 5) defines innovation as “[…] the process of bringing any new, problem solving idea into use. Ideas for reorganizing, cutting costs, putting in new budgetary systems, improving communication or assembling products in teams are also innovations.” For Schumpeter (1934; cited in Hall and Williams, 2008: 5) the main attribute of innovation is “newness” and innovations can be classified as either incremental or radical. Similarly, Chan et al. (1988; cited in Hall and Williams, 2008) distinguished between three types of innovations: incremental, distinctive and breakthrough. The main difference between inventions and innovations is that while inventions are major scientific and technological developments that may include new processes, products or forms or organization, innovations are adaptations of these inventions to the market (Hjalager, 1997: 35).

**Literature Review**

Although research on tourism innovation lags well behind research on innovation in other economic sectors, a number of extensive literature reviews on tourism innovations have been published in influential tourism journals (Hjalager, 2010; Williams and Shaw, 2011; Nagy, 2012; Carvalho and Costa, 2011).

Much of the literature on innovations is ambiguous and does not distinguish between influential and less influential innovations (Hjalager, 1997). Innovations can be classified into the following categories (Hjalager, 1997: 36-40; Hjalager, 2010: 2-4):

1. Product innovations which include different forms of alternative tourism.
2. Classical process innovations include innovations that support performance of already existing operations by means of technology.
3. Process innovations in information handling refer to increasing the tourism flow through an appropriate information system in place.
4. Managerial innovations take place in cooperation with a range of agents from staff to residents and tourists. They refer to new ways of organizing tourism staff by directing and empowering them and by rightly compensating their work.
5. Management innovations refer to new ways of marketing locations and improving communication and relationship with tourists.
6. Institutional innovations refer to the reorganization of local institutions (public organizations, trade associations, trade channels or labor division) in order to improve the profitability of tourism operations. One such institutional innovation is the growing environmental concern among residents and tourists. Based on an extensive literature review, Nagy (2012) concludes that most of the innovations in tourism are technological. She believes that there are several dimensions of innovation in tourism which can be structured as such (Nagy, 2012: 368):

1. Human dimension when employees or guests are involved in the innovation process;
2. Financial dimension when the innovation serves to increase sales or to maximize profits;
3. Organizational dimension when the innovation is aimed at the firm’s size and capacity, chain structure or management.

Moscardo (2008: 4) showed that, although innovation may come in different forms, all these forms share three common elements: creativity, a problem-solving approach and a new way of thinking. In her research she adopts a new way of thinking about the role of tourism in sustainable regional development in order to re-conceptualize sustainable tourism. More specifically she argues for the use of alternative forms of tourism, such as ecotourism and community-based tourism in order to correct negative consequences from mass tourism development.

Bramwell and Lane (2012) argue that we should differentiate between innovation and tourism and innovation in tourism research. Much of the research in sustainable tourism, for example, has been involved in problem-solving and opened up new ways of thinking but not all these innovations have been implemented in the real world. Also, some innovations in tourism have emerged neither within the tourism industry nor within the tourism research but rather reflect broader societal, political and economic changes (Bramwell and Lane, 2012).

Williams and Shaw (2011) examined the relationship between internationalization and innovation. They found that this relationship can be conceptualized in three different ways: internationalization as a form of innovation, successful internationalization through innovation and internationalization driven by firms with superior knowledge. In the first approach, tourism firms may choose to operate in foreign markets in order to gain competitive advantage. In this case, internationalization is also a form of innovation. In the second perspective, the argument is that successful internationalization can only happen in the presence of innovation that will give the internationalizing firm the competitive advantage to operate in a foreign market. In this case, innovation should be understood as a necessary but not a sufficient prerequisite for internationalization. In the third approach, the main idea is that when a firm internationalizes, the competition it faces increases. In order to overcome the heightened imperfections in information, firms need to have access to superior knowledge (Williams and Shaw, 2011).
Hjalager (2005) investigated the impact of welfare state interventions (Denmark) on tourism product and service innovations. She concluded that the Danish Labor Market Holiday Foundation created by the government of Denmark to provide opportunities for social tourism (i.e. tourism for disadvantaged social categories) has since been a leader in tourism innovation, setting the standard in the Danish tourism sector. Besides major innovations in terms of the architecture and landscaping of social tourism operations, the foundation also developed new, education-based tourism attractions.

**Methodology**

This paper is based on a survey of the extant literature on innovation in tourism. All our findings were derived from a thorough examination of these secondary sources. However, due to space limitations, not all sources analyzed were included in this study.

**Findings and Discussions**

Based on our review of the extant literature on innovation in tourism, we organized our findings into four categories. First we will discuss the main determinants and drivers of innovation in tourism. Next we will examine the major forms of innovation in tourism and will discuss its main characteristics. Finally, we will evaluate the impact of tourism innovation in destination locations.

**Determinants of innovation in tourism**

Innovation in tourism is driven by changes in consumer preferences, in technology, in the organization of factors of production and by the need to increase competitiveness (Hall and Williams, 2008: 2).

1. Globalization and deregulation processes which have increased competition among tourism providers. This has stimulated process innovation (networking, reservation and yield management) rather than product innovation which can be easily imitated by competitors (Weiermair, 2003).
2. Entrepreneurship is a crucial factor driving innovation in tourism and increasing competitiveness (Hall and Williams, 2008). Innovativeness of tourism entrepreneurs is generally limited whereas lifestyle entrepreneurs are more innovative but on a small scale (Hjalager, 2010).
3. Market demand for new tourism products and services is considered to be the most important driver of innovation (Hall and Williams, 2008).
4. Technology allows for better customization of tourism packages (Stamboulis and Skayannis, 2003). ICTs can also contribute to better accessibility for tourists and can make tourism operations run more efficiently (Hjalager, 2010).

5. Innovations are stimulated when operations are part of a system rather than stand-alone. Early economic geography works by Alfred Marshall and others (Stutz and Warf, 2005) have revealed that innovation is encouraged when companies are part of industrial districts. We expect that innovations in tourism are stimulated by the location of the operation in resort or in an agglomeration of destinations (Hall and Williams, 2008).

**Forms of innovation in tourism**

The following dimensions of change are visible in tourism, as reflected by the extant literature:

1. New forms of (alternative) tourism are being created, moving away from the conventional, mass tourism. This has led to the creation of new production processes and different management systems. For example, tourism sustainability is often used as a strategy for differentiation from competition (Carvalho and Costa, 2011).

2. The diffusion of the new information and communication technologies and their gradual adoption by the tourism industry has helped with the creation of new, individualized tourism products. They also allowed tourism providers to interact directly with tourists (Korres, 2008).

3. The addition of new markets and new suppliers.

**Characteristics of innovations in tourism:**

1. When compared to other economic sectors it is easy to observe that change in tourism is dominated by incremental innovations while radical innovations are almost completely lacking (Weiermair, 2003; Bramwell and Lane, 2012).

2. Innovations in tourism are often bound together in very complex patterns and manifested at different scales (from individual to the national tourism system) (Hall and Williams, 2008). We should therefore see these innovations as part of the entire tourism system (Hall and Williams, 2008:3).

3. Many innovations adopted in tourism originated in other service sectors or even other economic sectors (Hjalager, 2002; cited in Hall and Williams, 2008).

4. Innovations that started in tourism have also been successfully transferred to other areas of activity, for example to urban regeneration strategies (Law, 2002; cited in Hall and Williams, 2008) or in retailing (Hall and Williams, 2008).

5. Innovations in tourism are often studied in isolation instead of being seen as part of the broader social science research on innovation (Hjalager, 2002: 465; cited in Hall and Williams, 2008).
6. Because tourism firms are dependent on local suppliers, when internationalizing, innovations implemented at the initial location is not necessarily diffused to the international locations (Williams and Shaw, 2011).

The impact of innovations on tourist destinations

It is difficult to estimate the rate of innovation in tourism or to compare with rates of innovations in other economic sectors or across national borders (Hjalager, 2010). In general, it is claimed that the rate of innovation in the tourism sector is lower than in other economic sectors, and, at least partly, this may be due to the smaller sizes of most tourism operations (Pikkemaat and Peters, 2005).

Over the past two decades, destination strategies to attract tourists changed very little to account for the environmental changes and for the increased competition among destinations (Weiermair, 2003). This, in many destinations, has led to declining number of tourists and the phenomenon will continue and even intensify unless the industry is able to innovate in order to reduce the costs of production and marketing or in order to diversify by offering new experiences to tourists through niche strategies (Weiermair, 2003).

There is very little empirical evidence about the effects of innovations on tourism destinations. Sorensen (2007) opined that, in most cases, the impact of innovations on tourism destinations is rather limited. Also, challenging the role of agglomeration in other economic sectors, he argues that in tourism social networks are weak and there is little inclination among tourism operations to collaborate or to learn from each other.

There are controversies surrounding the effect of innovations on destinations, especially whether or not innovations in one place should be diffused to other destinations (the debate between those who support standardization and those who support localization in tourism) (Williams and Shaw, 2011). The supporters of McDonaldization (Ritzer, 1993) of holidays argue that this creates predictable experiences for tourists and highly lucrative and cost-calcualtable operations for businesses. It is well-known that tourists seek an experience that is different from their everyday life (Williams, 2009); however, the argument is that they may be more willing to accept local innovations if they are somewhat familiarized with the standardized product (Williams and Shaw, 2011). This creates a hybridization of the tourism product or service (Murray, 2006). On the other hand, due to the fact that tourism firms are more or less dependent on their local suppliers (Hjalager, 2010), internationalization does not lead to the diffusion of innovations abroad and to the creation of standardized products but rather to a sort of hybridization where innovation is co-produced across international borders (Williams and Shaw, 2011).
Conclusions and Implications

In order to withstand the heightened competition created by the processes of globalization and deregulation, tourism industry was forced to undergo significant restructuring. Although innovation rate in the tourism sector had traditionally been below the innovation rate in other economic sectors, the situation has changed significantly over the last decade or so. We could, in fact, safely conclude that, at a time when the demand for tailored experiences is rising, innovation plays an important role in providing adequate products and services to tourists. However, as this paper has shown, most of these innovations are incremental and many innovations originate in fact in other service sectors or are shared by a range of economic sectors and areas of activity. Our literature review has also shown that, in most cases, the impact of these innovations on destinations is limited and that there is little inclination among tourism operators to learn from each other. Also, since tourism firms are dependent on local suppliers, when internationalizing, they find it difficult to transfer some of these innovations to their international operation.

Although many countries are interested in encouraging innovation in their tourism sector, few have launched any policy instruments to support this process. According to Korres (2008: 147-148), any such policy should include the following points:

1. Push firms to adopt a more pro-active attitude towards innovation;
2. Improve the efficiency of national innovation systems;
3. Include incentives for operators and employees to innovate;
4. Create the conditions to link the tourism industry to society as a whole.

References


