Innovation In The Tourism Sector:
Some Preliminary Results For Ireland

Second Annual Tourism Policy Workshop

Dromoland Castle:
November 4th to 6th 2011

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What is Innovation?

- “The successful exploitation of New ideas”
  - Or
- “Doing old things in new ways or doing new things”
  - Or
- “Innovation refers to the process of bringing any new, problem solving idea in to use”
- More formal definitions for measurement we will explore later.
Key Findings From Innovation Studies

- Empirical evidence shows a tightening relationship between innovation capability and economic success at both the macro and micro level across countries.
- Technological Development is often Key
- Innovative firms exhibit better business performance and create more and better jobs.
- That is why we should be interested.
Advances In Innovation Studies and Methodologies

- Background - Failure to account for Services Sector in Policy Across the World.
- A Political Economy Problem.
Findings From International Research

- Service Sector Firms in general less likely to innovate than manufacturing but becoming more innovative.
- Not only “hard technology” matters. Service innovation mainly non-technical.
- Demand a key driver.
- Tacit knowledge (learned on the job) matters as much as codified knowledge for services.
Bottlenecks for Service Innovations

- 1. Capability Failures
- 2. Failures in Institutions
- 3. Network Failures
- 4. Deficiencies in The Environment to support innovation
- 5. Political Failure
Interventions

- Funding Strategic Research
- Fostering Networks and System Linkages
- Provision and Dissemination of Information
- Developing “absorptive capacity” of firms
Differences Between Services and Manufacturing

- Innovation in services is less tangible.
- Being close to the customer is key.
- Development rather than hard research.
- Process, organisational and “business models are key”.
Innovation in The Tourism Sector

- Throughout history tourism has been characterised by significant innovations.
- Thomas Cook broke with convention and developed package tour-strong links to emerging transport infrastructure. New consumers and packages at prices people could afford.
- Disney with movie and media synergised theme parks.
Contd:

- Ray Kroc at Mc Donald’s-whole organisation of food production-an inspiration to the whole catering sector and beyond.
- Formule 1 concept of Accor Hotel Chain a generic innovation.
- Ryanair-New Aviation model that stimulated repressed demand.
Innovation Research In Tourism

- Tourism has always been innovative but rarely appeared in the academic literature.
- ICT boom has massively changed the innovation landscape for tourism.
- Tourism researchers are “late starters” in innovation.
Categories Of Tourism Innovation

- Product or Service
- Process
- Managerial\organisational
- Marketing
Product or Service Innovations

- Changes directly observed by the customer - never seen before or new to the business or destination. Affect purchase decision.

- Examples: Accor-low-price without compromising basic hotel standards of accessibility, cleanliness and comfortable beds.

- Development of “niche hotels”-gastronomy, wellness, customised comfort.
Contd:

- Adding a summer season to a winter sports resort or new products such as snow board parks, dog sledding, snow bikes, after ski activities.

- Innovations of products and services in field of natural and cultural heritage-products re-shaped, re-invented and re-presented with new forms of ICT. Process of “creative destruction” (Schumpeter).
Process Innovations-Backstage Initiatives

- Aimed at escalating efficiency, productivity and flow. Technology investments are the anchor of mainstream process innovation-sometimes re-engineered layouts for manual workers.

- Restaurant Kitchens offer many examples of intensive process innovations.

- Massive potential to apply across all forms of tourism enterprises.
Managerial\Organisational Innovations

- New ways of organising internal collaboration, directing and empowering staff, building careers and compensating work with pay and benefits.
- A big challenge for firms is to retain staff, maintain flexibility and control costs. Managerial innovations can also be aimed at improving workplace satisfaction and nurturing internal knowledge and competence.
- Also important for “volunteers” in museums and festivals. Need to have well designed “do good” element.
Marketing Innovations

- ICT is critical in this domain.
- Co-production of “brands”-gastronomy and tourism.
- Subtle ways-food packaging in supermarkets linked to destinations.
- Social media developments and capacity building is key.
Determinants and Driving Forces

- Tourism innovation affected by a range of internal and external forces. No comprehensive understanding in tourism at this point.
- Clear that “networks” matter.
Entrepreneurship and Tourism

- Entrepreneurs are “creative destructors”.
- Research so far is highly divisive.
- Lifestyle Entrepreneurs—may be innovative but on a small scale.
Innovation Systems

- Does the overall system support or constrain innovations at national and local level.
- The tax system?
- The system of supports—are they driven by an outdated model fixated on manufacturing rather than services?
But What Determines Innovation in Tourism?

- Evidence is mixed but probably safe to say that
  - 1. ICT is key
  - 2. Networks are key
  - 3. Tacit knowledge is vital as is access to information and consumer trends.
  - 4. Being in a very competitive environment matters—Big Cities.
But How Much is Tourism Innovating?

- A definitive answer is some way off.
- Very few studies and different methodologies and environments a key problem.
- Need to develop a common framework to evaluate and support innovations.
Impact of the Innovations

- Again a far from definitive answer but evidence suggests
  - 1. Enterprises do gain a competitive advantage.
  - 2. Differentiation of product helps performance especially if human capital development also happens.
  - 3. Accommodation and Visitor Attraction providers find marketing, promotional and product innovations most important.
Government Policy

- Only intervene to solve “market failures”.
- Help to improve market information and “absorptive capacity of firms.”
- Stimulate “networks”.
- Provide “risk financing”-innovation is risky.
- Distribute key information on consumer trends.
- Support surveys to improve our understanding of innovation in distinct environments.
How Has Policy on Tourism Innovation Evolved Across the World?

- Tourism rarely considered in national innovation policies.
- Policy “silos” in operation with poor connectivity across agencies a common theme.
- Tourism receives far less funding than other commensurate sectors of economic importance—still a focus on traditional industries.
The Irish Case

- Ireland in general classified as an “innovation follower” by the European Innovation Scorecard.
- A long way to go to meet the aspirations of the Smart Economy Strategy of The Government.
- Like in many other Countries tourism is marginalised in innovation reports.
Tourism Innovation Focus

- Numerous tourism reports have identified innovation as an issue since The New Horizon’s document on Irish tourism.
- Issues Identified:
  1. Poor Capability for innovation.
  2. Need to develop a “culture of innovation”.
  3. Funding identified as being an issue.
What Have We Done?

- Begun the process of developing a Tourism Innovation Index For Ireland.

- How?.

- Significant Case studies with 30 Tourism Firms Cross All Sub Sectors to develop a detailed questionnaire.
Progress To Date

- Significant and positive findings of innovative activity.
- Now we are compiling hard core data on the levels of activity across all sub sectors using an amended version of the Community Innovation Survey of the EU.
- Identification of “barriers to innovation”
- Development of a “capacity framework” in an innovative way.
Tourism Innovation Survey
Preliminary Findings
## Company Sector breakdown

**Sample – 313**

Accommodation total 48%

Tourist attraction – 29%

The Accommodation sector accounts for almost half (48%) of the entire sample, with a strong response coming from the tourist attraction sector.

<table>
<thead>
<tr>
<th>Company Sector</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel/G.H</td>
<td>63</td>
<td>20.1</td>
</tr>
<tr>
<td>B&amp;B</td>
<td>61</td>
<td>19.5</td>
</tr>
<tr>
<td>Self-Catered</td>
<td>27</td>
<td>8.6</td>
</tr>
<tr>
<td>Restaurant</td>
<td>21</td>
<td>6.7</td>
</tr>
<tr>
<td>Licensed Trade</td>
<td>9</td>
<td>2.9</td>
</tr>
<tr>
<td>Tourist attract.</td>
<td>92</td>
<td>29.4</td>
</tr>
<tr>
<td>Transport</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Festival Mgt.</td>
<td>11</td>
<td>3.5</td>
</tr>
<tr>
<td>ITO</td>
<td>12</td>
<td>3.8</td>
</tr>
<tr>
<td>DMC</td>
<td>11</td>
<td>3.5</td>
</tr>
<tr>
<td>PCO</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>
### Principal Variable analysis by response count

<table>
<thead>
<tr>
<th>Survey response to:</th>
<th>Yes %</th>
<th>No %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Specific budget allocated to innovation?</strong></td>
<td>8</td>
<td>92</td>
</tr>
<tr>
<td><strong>Innovation abandoned before completion</strong></td>
<td>16</td>
<td>84</td>
</tr>
<tr>
<td><strong>Innovations ongoing at end of 2010/2011</strong></td>
<td>37</td>
<td>63</td>
</tr>
<tr>
<td><strong>2008 to 2011, did your enterprise co-operate on any of your innovation activities</strong></td>
<td>51</td>
<td>49</td>
</tr>
<tr>
<td><strong>Is the business environment supportive of innovation?</strong></td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td><strong>Regular contact with regional tourism organisations</strong></td>
<td>74</td>
<td>26</td>
</tr>
</tbody>
</table>

Fig’s are based on all valid responses.
### Innovation active firms in any of the four categories of innovation 2008-2011

**Innovation active firms overall**

<table>
<thead>
<tr>
<th></th>
<th>N 313</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO</td>
<td>27</td>
<td>8.6</td>
</tr>
<tr>
<td><strong>YES</strong></td>
<td><strong>189</strong></td>
<td><strong>60.4</strong></td>
</tr>
<tr>
<td>Total</td>
<td>216</td>
<td>69.0</td>
</tr>
<tr>
<td>Missing values</td>
<td>97</td>
<td>31.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>313</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

60% of all companies have introduced at least one type of innovation over the four year period.
### Innovative firms by category of Innovation 2008-2011

<table>
<thead>
<tr>
<th>Innovation Type</th>
<th>All Enterprises %</th>
</tr>
</thead>
<tbody>
<tr>
<td>N313</td>
<td>YES</td>
</tr>
<tr>
<td>Product Innovation</td>
<td>47</td>
</tr>
<tr>
<td>Process Innovation</td>
<td>39</td>
</tr>
<tr>
<td>Organisational Innovation</td>
<td>29</td>
</tr>
<tr>
<td>Marketing Innovation</td>
<td>42</td>
</tr>
<tr>
<td>Any Innovation</td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>
Innovation Rates by sector and size of enterprise, 2008-2011 %

<table>
<thead>
<tr>
<th>Tourism Industry</th>
<th>Micro &lt;10</th>
<th>Small (11-49)</th>
<th>Medium (50-250)</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Innovative Enterprises</td>
<td>60</td>
<td>62</td>
<td>74</td>
<td>61 *</td>
</tr>
</tbody>
</table>
Any Innovation category by size of enterprise, 2008-2011 %

<table>
<thead>
<tr>
<th>Innovation Category</th>
<th>Micro &lt;10</th>
<th>Small (11-49)</th>
<th>Medium (50-250)</th>
<th>All enterprise %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Innovation</td>
<td>47</td>
<td>46</td>
<td>65</td>
<td>48</td>
</tr>
<tr>
<td>Process Innovation</td>
<td>37</td>
<td>40</td>
<td>65</td>
<td>40</td>
</tr>
<tr>
<td>Organisational Innovation</td>
<td>24</td>
<td>42</td>
<td>52</td>
<td>30</td>
</tr>
<tr>
<td>Marketing Innovation</td>
<td>41</td>
<td>44</td>
<td>57</td>
<td>42</td>
</tr>
<tr>
<td>Any Innovation</td>
<td><strong>60</strong></td>
<td><strong>62</strong></td>
<td><strong>74</strong></td>
<td><strong>61</strong></td>
</tr>
</tbody>
</table>
### Innovative Firms by type and sector 2008-2011
#### N313 Full Sample

<table>
<thead>
<tr>
<th>N313</th>
<th>Product %</th>
<th>Process %</th>
<th>Organisational %</th>
<th>Marketing %</th>
<th>At least one type of Innovation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel/GH (63)</td>
<td>51</td>
<td>46</td>
<td>40</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>B&amp;B (61)</td>
<td>36</td>
<td>28</td>
<td>11</td>
<td>33</td>
<td>47</td>
</tr>
<tr>
<td>Self-catered (27)</td>
<td>33</td>
<td>22</td>
<td>15</td>
<td>30</td>
<td>56</td>
</tr>
<tr>
<td>Restaurant (21)</td>
<td>71</td>
<td>48</td>
<td>24</td>
<td>43</td>
<td>76</td>
</tr>
<tr>
<td>Licensed Trade (9)</td>
<td>44</td>
<td>44</td>
<td>33</td>
<td>22</td>
<td>56</td>
</tr>
<tr>
<td>Tourist attraction (92)</td>
<td>50</td>
<td>45</td>
<td>37</td>
<td>52</td>
<td>66</td>
</tr>
<tr>
<td>Festival Mgt. (11)</td>
<td>55</td>
<td>55</td>
<td>55</td>
<td>55</td>
<td>64</td>
</tr>
<tr>
<td>ITO (12)</td>
<td>58</td>
<td>42</td>
<td>25</td>
<td>42</td>
<td>67</td>
</tr>
<tr>
<td>DMC (11)</td>
<td>36</td>
<td>27</td>
<td>10</td>
<td>36</td>
<td>45</td>
</tr>
<tr>
<td>PCO (3)</td>
<td>33</td>
<td>33</td>
<td>60</td>
<td>60</td>
<td>67</td>
</tr>
</tbody>
</table>
## Co-operation Partners by Innovative enterprises by type of partner and size of enterprise, 2008-2011

<table>
<thead>
<tr>
<th>Own Region</th>
<th>Micro &lt;10</th>
<th>Small 11-49</th>
<th>Medium 50-249</th>
<th>All Innovative enterprises %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within own Sector</td>
<td>33</td>
<td>40</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td>Suppliers of equipment</td>
<td>24</td>
<td>27</td>
<td>29</td>
<td>25</td>
</tr>
<tr>
<td>Clients/Customers</td>
<td>25</td>
<td>30</td>
<td>23</td>
<td>26</td>
</tr>
<tr>
<td>Competitors</td>
<td>23</td>
<td>27</td>
<td>29</td>
<td>24</td>
</tr>
<tr>
<td>Consultants/Lab</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>Universities</td>
<td>14</td>
<td>30</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>Government</td>
<td>9</td>
<td>17</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Failte Ireland</td>
<td>36</td>
<td>40</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>Tourism Ireland</td>
<td>24</td>
<td>30</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td><strong>Any cooperation</strong></td>
<td><strong>50</strong></td>
<td><strong>47</strong></td>
<td><strong>53</strong></td>
<td><strong>51</strong></td>
</tr>
</tbody>
</table>

*Fig's based on innovative firms only

51% of all innovative enterprises indicated that they engaged in some co-operation activity when developing their innovations. Just over half (53%) of all medium innovation active enterprises were involved in innovation partnerships compared to 47% of small enterprise. Failte Ireland, was the most commonly cited partner with 37% of enterprises having innovation co-operation with this Tourism Organisation.
Co-operation by innovative enterprises by co-operation partner and sector, 2008-2011 %

<table>
<thead>
<tr>
<th></th>
<th>Accommodation Grouped</th>
<th>T-Attraction</th>
<th>ITO/DMC/PCO</th>
<th>Restaurant * Small No’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within own Sector</td>
<td>33</td>
<td>44</td>
<td>33</td>
<td>19</td>
</tr>
<tr>
<td>Suppliers of equipment</td>
<td>17</td>
<td>43</td>
<td>27</td>
<td>25</td>
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<td>22</td>
<td>41</td>
<td>33</td>
<td>19</td>
</tr>
<tr>
<td>Competitors</td>
<td>23</td>
<td>39</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Consultants/Lab</td>
<td>7</td>
<td>18</td>
<td>0</td>
<td>12.5</td>
</tr>
<tr>
<td>Universities</td>
<td>13</td>
<td>27</td>
<td>13</td>
<td>25</td>
</tr>
<tr>
<td>Government</td>
<td>11</td>
<td>16</td>
<td>7</td>
<td>12.5</td>
</tr>
<tr>
<td>Failte Ireland</td>
<td>32</td>
<td>60</td>
<td>47</td>
<td>19</td>
</tr>
<tr>
<td>Tourism Ireland</td>
<td>21</td>
<td>43</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>16</td>
<td>7</td>
<td>6</td>
</tr>
</tbody>
</table>
Highly important hampering factors to innovative activities, 2008 – 2011

<table>
<thead>
<tr>
<th>Factor</th>
<th>Innovative Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of funds</td>
<td>44</td>
</tr>
<tr>
<td>Lack of external finance</td>
<td>42</td>
</tr>
<tr>
<td>Innovation costs too high</td>
<td>32</td>
</tr>
<tr>
<td>Market dominated by established enterprises</td>
<td>21</td>
</tr>
<tr>
<td>Uncertain Demand</td>
<td>19</td>
</tr>
<tr>
<td>Lack of qualified personnel</td>
<td>19</td>
</tr>
<tr>
<td>Lack of information on markets</td>
<td>8</td>
</tr>
<tr>
<td>Difficulty in finding co-op partners</td>
<td>8</td>
</tr>
<tr>
<td>Lack of information on technology</td>
<td>4</td>
</tr>
</tbody>
</table>

Sample based on very small numbers but does accord with Community Innovation survey.
Some Preliminary Thoughts

1. Levels and types of innovative activity differs across the sub sectors.

2. Levels of innovation for process seem low and scope for significant improvement seems obvious but

3. We need to understand the constraints a little better but we are now moving to this task.

4. We need to appraise in a serious way how are institutional and fiscal structures can be enhanced to harness greater levels of innovation for tourism.