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### **Innovation in Tourism: The Case of Destination Marketing Organizations**

Innovation represents the core of destination competitiveness. This paper provides definitions of innovation and identifies the forces that drive innovation in tourism. Looking specifically at destination marketing organizations, the paper argues that DMOs should develop and use partnerships with stakeholders as a primary engine for innovation. In addition, it is suggested that a supportive culture within the organization is a necessary foundation for innovation.

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Key words: innovation; destination marketing organizations; definition; external forces; organizational culture

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## **Introduction**

Dramatic environmental changes brought about by economic downturn, natural disasters, terrorism and increased global competition challenge the way tourism destinations do business. These circumstances force destination marketing organizations (DMOs) to reinvent themselves by providing new and better services and by supporting the development of new products (Gretzel, Fesenmaier, Formica and O'Leary 2006). Recently, it has been argued that innovation by tourism organizations represents the core of destination competitiveness (Volo 2005). While innovation as an economic driver is widely accepted, it appears that destination marketing organizations have not found a common base to understand the drivers and the potential value of innovation (Hall and Williams 2008). The goal of this paper is to provide an introduction to the literature in innovation, where it is posited that innovation in tourism is pervasive and, thus, an essential function of destination marketing organizations. In particular, this paper provides a definition of innovation and introduces the benefits and drivers of innovation in destination marketing organizations.

## **Defining Innovation**

Innovation has been identified as a driving force for the development and growth of businesses (Drucker 1985), manifests itself in different areas of an organization and therefore, takes different shapes. Scholars, however, have not been able to agree what exactly innovation is, resulting in a myriad of definitions supporting different purposes (Johannessen, Olsen, and Lumpkin 2001). Innovation generally has been defined based on the degree of newness (Nord and Tucker 1986), the area of innovation (technological, market expansion through product or process development) (Schumpeter 1939), and the attributes of innovation (compatibility, observability, relative advantage, trialability and complexity) (Rogers 2003). Historically, the innovation literature focused on manufacturing, which was considered a key

driver of economic development. Schumpeter (1939), one of the first innovation researchers, differentiated between inventions and innovation; whereas the former are breakthroughs in technology, the latter resembles adjustment and application of inventions. Others have argued that innovations can include organizational change ranging from incremental adjustments to radical adoption of technologies which can potentially change the structure and processes within the organization (Sundbo, 1997; Hoelzl et. al., 2005; Yuan et. al., 2003).

Alternatively, innovation may be distinguished based on newness. Nord and Tucker (1986) proposed that “incremental” innovation refers to the improvement of existing products and services, whereas “radical” innovation is the introduction of something new to the focal organization. Schumpeter (1939) argued that only completely new ideas qualify as innovations; at the same time, he and others have acknowledged that the concept of innovation should incorporate incremental change (Hage 1999). More recently, it has been argued that the question “New to whom?” is important when measuring innovation (Johannessen *et al.* 2001). For the purpose of this paper, a broad definition of innovation following Rogers (2003) is used; specifically, innovation is defined as “...ideas, practices and objects perceived as new by an individual or other unit of adoption” (Rogers 2003).

Recent research on innovation has broadened to reflect the shift in the economy from manufacturing to include service development (e.g. Easingwood 1986; Kelly and Storey 2000; Sundbo 1997), and the performance of service innovations (e.g. de Brentani 1989; Hipp and Grupp 2005). It is argued that innovation in services is both different and similar to innovation in manufacturing (de Brentani 1989); similarities are found in organizational programs and processes employed to foster innovation and their success, whereas differences stem from the unique characteristics of services. Importantly, the co-production of the service product requires the consumer to participate resulting in a variable service delivery (Prahalad and Ramaswamy 2004). In addition, the intangibility of service products makes

pretesting difficult, forcing service producers to provide substantial information about the service product in the pre-purchase phase. This, in turn, makes service products increasingly accessible to the use of information technologies disseminating valuable information to the consumer (Werthner and Klein 1999). Further, innovation in services often does not provide a long term competitive advantage as it cannot be patented and can be easily copied by competitors. Importantly, organizational innovation appears as either a “generation process,” resulting as an innovative outcome of the organization generating innovation, or as an “adoption process” for organizations adopting that innovative outcome (Damanpour and Gopalakrishnan 1998). Recent research on this process view suggests that the successful implementation of innovations is a key step for organizational success (Hipp and Grupp 2005). This understanding, together with the today’s consistent importance of change, indicates that innovation must be considered an on-going or continuous process of change.

Following Hjalager (1997; 2002), it is argued that innovation in tourism takes place in four key areas: 1) innovation in products and services offered to actual and prospective visitors and the stakeholders; 2) innovation in internal processes to improve the operation’s performance; 3) management innovation to improve the organizations management; and, 4) innovation in relationships with business partners, governments and the supporting industry to gather information and to develop tourism products. Hoelzl *et al.* (2005) argued that innovation not only includes something new but also requires imitation to generate value for the destination. When innovations mature a process of incremental improvements to ‘fine-tune’ the innovations emerges (Laursen and Salter 2006). Therefore, innovation is defined as newly established as well as redefined products/services or processes that provide at least short term competitive advantage, and therefore contribute to the success of the DMO.

### **Forces Influencing Innovation in Tourism**

Destination marketing organizations need to adapt in order to develop and sustain competitive advantage (Gretzel, *et al.*, 2006; Gretzel, Yuan, and Fesenmaier 2000; Poon 1993). External forces such as natural disasters or economic development substantially influence the nature and size travel markets. Similarly, internal threats like budget cuts impact the future development and behavior of destination marketing organizations. Recent studies have identified three dominant external forces influencing the nature of innovation in tourism (Weiermaier 2003):

- *Changing demand*: increase of spare time, individualization, accumulated travel experience and therewith higher quality requirements influence demand and behavior of tourist (Poon, 1993). Especially the increasing maturity of travelers challenges tourism organizations as they nearly continuously have to provide new attractions and services to satisfy customers' needs (wellness for example seems to be lapped by "Well-being" soon).
- *Competition*: the high concentration of substantial sectors of the tourism industry, such as tour operators, airlines or lodging industry, create global players. This, together with a decreasing demand and the increasing use of the internet to book travels, threaten tourism destinations as competition increases and thus forces them to lower the price. Furthermore, competition is no longer restricted to the next nearby city or town, but also to destinations around the globe.
- *Information technology (IT)*: rapid development in this area created what is known today as *etourism*. The introduction of IT into tourism businesses did not only require new skills from employees, but also created new business models (e.g. *eintermediaries* like [expedia.com](http://expedia.com)) and new types of travelers (e.g. last minute bookers) (Buhalis 2004; Werthner and Klein 1999). As a consequence of these new intermediaries tourism organizations have adapted new ways to communicate and sell their products and services.

Another important factor influencing the innovativeness of a DMO is the nature (number, strength, etc.) of the relationships held with business partners and other

stakeholders within the destination (Wang and Xiang 2007). That is, recent research has shown that well developed partnerships provide easy access to information about developments in the industry, as well as potential threats and opportunities. Importantly, studies by Rogers (2003) and others (Wang and Xiang 2007) show that the characteristics of network members are especially important for the diffusion of innovations. Finally, Hjalanger (2002) identified similar trade businesses, technology, infrastructure and regulations as key aspects for both the development and the diffusion of innovation.

### **Destination Marketing and Innovation**

Innovation in the tourism industry is driven mainly by external forces. However, Yuan *et al.* (2003) argue that financial and human resources are essential to continued innovation by DMOs; that is, innovative behavior and creative ideas are worthless if they cannot be realized due to the lack of money or employees. As such, these findings indicate that the DMO should be organized to encourage innovation within the organization by establishing a culture that rewards innovative behavior. Furthermore, the CEO should possess the capacity to recognize the usefulness of innovation within or outside his organization; that is, in order to gain competitive advantages faster than their competitors, leaders must possess the capability to envision change and to identify potential opportunities (Yuan *et al.*, 2006). Thus, the innovative leader promotes those developments that enable the organization to realize profits and/or to increase the organization's competitiveness.

Thus, for destination marketing organizations, it is crucial to understand that innovation must be fostered within the organization and "imported" from nontraditional partners. And, the success in implementing innovative ideas depends on the strength of the relationships within the region. Finally, it is argued that through innovation the destination

marketing organization can gain significant advantage which, in turn, leads to continued success.

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