Entrepreneurship, innovation process and cooperation in the field of tourism

Prof. Hon. Dr. Peter F. Keller
Business and Economic Faculty, University of Lausanne
Switzerland
Innovation as driver of growth in market economies

The characteristics of the innovation process in tourism

Entrepreneurship as scarce resource

Promotion of innovation and cooperation as a tool of tourism policy

Co-operation for implementing innovation in tourism
Entrepreneurship as scarce resource

Definition and concepts

The entrepreneur in market economies
Innovative and replicative entrepreneurship
Independent innovator
Entrepreneurial skills and life-cycle
Entrepreneurship is crucial for tourism where independent innovators created the existing structure and not research & development.

The fact that a lot of entrepreneur started as small companies doesn’t mean that all SME’s are innovative. Most of the SME’s are led by “replicative” and not by “innovative” entrepreneurs.

It is the will to risk something for making money by exploiting new products and markets which is the driver of innovation.

The innovating competencies of entrepreneurs change with the life-cycles of products.
Entrepreneurs induce totally irregular changes, upset the existing balance of forces, smashes old habits and ultimately create new structures

Quotation by an economist from Poland
The independent innovator is an entrepreneur who applies innovation to create new products, processes and structures.

- Entrepreneurship of independent innovators
- Learning by doing
- Creative imitation
- Step by step adaptation
- Important structural changes
- Basic and applied innovations

Source: P. Keller 2012
Lasting influence of independent innovators in the field of tourism related industries

Big international travel and tourism companies founded by pioneering entrepreneurs

![SOUTHWEST.COM](https://www.southwest.com)

![easyJet.com](https://www.easyjet.com)

![ACCOR](https://www.accor.com)

![HYATT](https://www.hyatt.com)

![Marriott](https://www.marriott.com)

![Club Med.com](https://www.clubmed.com)

![Disney](https://www.disney.com)
Entrepreneurship is diminishing when a sector gets its maturity

Entrepreneurial resources are transferred to other sectors promising higher profits

The framework conditions influences where the innovators are active

Innovative entrepreneurs operate in sectors and in economies where profits can be realised because of the free market
Innovation is the marriage of new knowledge, embodied in an invention, with the successful introduction of that invention into marketplace.

It is only through “innovative entrepreneurship” which introduce some new product or service, or method of production or delivery – that societies advance their technological frontiers and thus their standards of living (Baumol et al. 2008).

Baumol sees the opposite to innovative entrepreneurship in what he calls “replicative entrepreneurship” and means those producing or selling a good or service already available through other sources. They have an important function but are not source of growth.

Baumol, W.J., Litan, R.E., Schramm, C.J. (2007), Good capitalism, bad capitalism and the economics of growth and prosperity, Yale University Press
Only few entrepreneur are innovative but most start as a small company

In the field of innovation it is not the size of firm which matters. **Entrepreneurship must not be confounded with small business.** The majority of SME’s is led by entrepreneurs who are not innovative. **But independent innovators start often with smaller firms. Larger or more established firms take over, refine and mass produce innovations from entrepreneurs.**

**Hilton started as family hotel and developed then a successful hotel chain to meet the needs of business travellers.** In other cases innovative entrepreneurs were just imitated by competitors which took advantage of the innovation by imitation and by standardising and it for mass production.
Entrepreneurial competences during the life cycle of winter sports resorts
First phase: pioneer of development

Accessibility
- distance from urban areas
- access routes

Resort
- creation of resort
- number of beds

Innovative planners/developers

Attractiveness
- suitability of the ground size and variety of ski resort

Skilifts
- Availability of investment capital
- coherence of planning
The boom phase: mastering growth

Effects of conglomereration
- ski total
- Superstations

Internal growth
- growth of ski resorts and destinations

Innovative negotiators

Phenomena of refusal
- exceed carrying capacity
- queues, pollution

Recycling and repair
- landscape engineering
- additional infrastructural needs
The consolidation phase: the clients needs

- **client orientation**
  - competent and critical clients
  - test markets

- **High capitalisation**
  - high capacity installations
  - artificial snow

- **The innovative salesmen**

- **Marketing**
  - positioning
  - specialization

- **Quality assurance**
  - comfort of installations and sufficient service capacities
Entrepreneurial strategies for rejuvenating mature tourism products

Create new attraction by using the endogenous growth potential

Develop new products for rejuvenating existing supply

Produce in a more efficient and sustainable way

Look for collaborative relationship within and outside the sector

Overcome adverse framework condition
Questions to be asked

- What do we understand by “entrepreneurship”?
- What is an independent innovator?
- Are all entrepreneurs innovative?
- Are small enterprises the innovative units?
- How is entrepreneurship linked to management?
Innovation as a driver growth in market economies

Definition and concepts

The link between competition and cooperation
The role of research and development for innovation
The function of patents
The public dimension of innovation for growth
Innovation is a driver of growth in market economies. It is no more a black box in the growth function.

**Market economies are innovative since the system allows capitalists to look permanently for innovative business opportunities.**

Innovation, based on research and development, *create through the patent system for a certain period a monopolistic position* to the innovative company. But sooner or later, innovation spread through the whole economy and get the character of public goods.

Innovation is only possible in fragmented industries through *cooperation of different partners bringing in complementary competences.*

Basic innovation cannot be planned.
The magic role of innovation

Innovation as a driver of structural change can help when increasing inputs of capital and skilled human resources cannot stimulate growth.
Competition and co-operation are twins fostering innovation and structural change.

**Competition**
- Driver of innovation in a market economy

**Co-operation**
- Reduction of innovation costs

**Creation of new structures**

Teece, David J., Competition, cooperation, and innovation: Organizational arrangements for regimes of rapid technological progress Journal of Economic Behavior & Organization, Volume 18, Issue 1, June 1992, Pages 1-25
Temporary monopolies create market power and enhance the introduction of innovations on the market

Competition is necessary for innovation. **There is no will to change without the pressure from competitors.**

But innovations **can lead to cartels and monopolies.** In fact, only big companies are able to support the high costs for research and development of industrial goods and services.

Schumpeter argues that technological innovation often creates temporary monopolies, allowing abnormal profits that would soon be competed away by rivals and imitators. **He said that these temporary monopolies were necessary to provide the incentive necessary for firms to develop.** This explains the protection of innovation in the industrial good and service sector through patents.
Cooperation stimulates innovation in fragmented markets

Innovations are not profitable in the early stage of commercialisation. It is therefore important that complementary resources are used for reducing costs of innovations. Cooperation can bring complementary resources in the field of technology, proceedings, marketing or distribution.

Cooperation of different competing companies can be profitable for the commercialisation of new products, technologies and procedures if the market is fragmented. Cooperation with other companies, with the suppliers and the customers can give access to complementary resources and can reduce costs of commercialisation of innovation.

Even the cooperation with competitors make sense.
Basic innovations cannot be planned

Tourism growth

- Train
- Car
- Plane

Growth in areas
Creation of remote markets

Growth trend
Short term economic cycle

1850 1950 1960 1973
Time
Innovation characteristics that produce growth

Innovation not only lead to the creative destruction, they further develop and complete existing structures.

A steady flow of innovations thanks to constant R&D produces disproportionately high growth of the GDP.

Thanks to the process of diffusion and imitation innovations tend to benefit the entire economy and thus have the nature of a public good.
Questions to be asked

- Why is innovation the driver of growth?
- Why is market economy a system which favours innovation?
- What is a patent?
- Why do we say that innovation can have the character of a public good?
- In which situation is cooperation necessary to implement innovation?
The characteristics of the innovation process in the field of tourism

Definition and concepts

The S-curve of innovation

The characteristics of the innovation process in tourism

Creative imitation as tool for the diffusion of innovation
Globalisation shock and the maturity of the tourism related industries increase the need for rejuvenating the existing structures.

Innovation is the resultant of competition and cooperation and induces structural change.

Innovation is the growth machine of free market economies.

Independent entrepreneur implement innovation which are later on taken over by mass producing industries.

Tourism applies step by step important innovations from other sector and combines them with learning processes in the company and on the job.

Diffusion of innovation goes often through creative imitation by the competitors.
Weaker position on tourism and factor markets ask for innovation in the developed countries

Markets
Globalisation shock
Marketing innovations

Product life cycle
Saturation of products
Product innovations
Tourism products have a life cycle and need to be rejuvenated by innovation.
Deregulated US market was the principle source for applied innovation in tourism
Diffusion of innovation in the field of tourism by creative innovation

Tourism

Innovation as an action of independent innovators

- Creative and high risk projects
- Creative imitation

Industry

Innovation as a factor of production

- R&D
- Standardized processes
Innovation as a resultant of applied innovations and learning processes

Innovation
- Basic innovations
- Applied innovations

Management
- Learning process in the firm
- Individual learning process

Innovations in tourism services

Customized services
Creative imitation and taking over innovation from other sectors

Creative imitation
- Improvement of existing innovations

Outsourcing innovation
- Buying innovative components and licences on the market

Lower costs
Higher profits
Questions to be answered

- Why is innovation important for mature tourism economies?
- What is a basic innovation which is important for tourism?
- Why is a free market necessary for innovation?
- How does the innovation process in tourism function?
- How are innovation diffused in the field of tourism?
Cooperation for implementing innovation

Definition and concepts

The coordination mechanism of the market economy

The economies of scale and scope by cooperation

The role of informal networks

The difference between cooperation and integration

The notions of horizontal, vertical and diagonal cooperation
The way *how a company chooses its partners is a strategic decision*.

Tourism suppliers cooperate *for satisfying the holistic need of the visitors and to enhance their core competencies*.

Cooperation is a tool *to stay an independent* company.

**Networks are the prerequisite for successful cooperation.**

Cooperation should be profitable for firms. Companies should only cooperate in *“win-win-situation” when they can reduce costs or learn something*.

There a multitude of *vertical, horizontal and diagonal forms of cooperation* in highly developed tourism countries

The state is *promoting cooperation by reducing transaction costs*. 
To buy on the markets or doing by your own is often more efficient and cheaper than cooperation.
Cooperation can compensate the adverse impacts of small size and strengthen market power.

Cooperation for offering more to visitors and producing cheaper

“economies of scale”

“economies of scope”
Companies stay independent when they cooperate and risk that the partners compete them beyond the cooperation.

Cooperation takes place when two or more partners work together for achieving specific common goals.

The aim is to strengthen the companies’ core competences (this is why cooperation is often a must).

Cooperation partners keep their independence.

They develop concrete projects in strategic fields.

The scope of cooperation is limited.

They accept where they are competitors (> coopetition).
A network is an informal structure which facilitates cooperation.

Cooperation depends on the existence of informal networks.

A network is based on personal contacts and is organising itself in a spontaneous way.

Networking is a life and work style which is facilitating its constitution and assuring its longevity.

A network is a social community which is based on a multiple communication between its members.
Cooperation fills gaps which exists in the core competencies of companies

- Access to knowledge and new technology
- Entry new markets
- Reduce the costs of resources
- Obtain financings at lower costs
- Reduce risks

Source: Prof. Peter Keller, HEC / UNIL
Cooperation can improve the efficiency and therefore the productivity

<table>
<thead>
<tr>
<th>Potentials of co-operation</th>
<th>Ways of co-operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) More efficient production</td>
<td>examples:</td>
</tr>
<tr>
<td>&quot;economies of scale&quot;</td>
<td>firms of similar sectors or of similar products</td>
</tr>
<tr>
<td></td>
<td>- pools of human resources</td>
</tr>
<tr>
<td></td>
<td>- purchases in common</td>
</tr>
<tr>
<td>synergies</td>
<td>firms from different sectors or level of production, buyers and sellers</td>
</tr>
<tr>
<td>&quot;economies of scope“</td>
<td>- tourist offices</td>
</tr>
<tr>
<td></td>
<td>- distribution system</td>
</tr>
<tr>
<td>b) Efficient organization</td>
<td>examples:</td>
</tr>
<tr>
<td>transaction costs</td>
<td>cooperation in view to reduce the organizational costs</td>
</tr>
<tr>
<td></td>
<td>- participation to events</td>
</tr>
<tr>
<td></td>
<td>- insurance of quality</td>
</tr>
<tr>
<td></td>
<td>- credit cards</td>
</tr>
</tbody>
</table>

Source: Prof. Peter Keller, HEC / UNIL
Cooperation should take place when there is a win-win-situation

<table>
<thead>
<tr>
<th>Cost of services</th>
<th>Exchange of services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cooperation is only necessary when the service cannot be bought on the market</td>
</tr>
<tr>
<td><strong>Cooperation is justified when it reduces costs</strong></td>
<td><strong>Standardised services</strong></td>
</tr>
<tr>
<td>weak</td>
<td>Market Selling tickets through travel agencies</td>
</tr>
<tr>
<td>high</td>
<td>Limited cooperation Open intercontinental markets (Switzerland Tourism) Swiss Quality Label SuisseMobile</td>
</tr>
</tbody>
</table>
Cooperation rules for managers

- Fix the rules of cooperation in a written way
- Decide about the repartition of the costs among the partners
- Institutionalise the rhythm of meetings and communication
- Maintain personal contacts among partners
- Establish rules in case of conflicts and respective sanctions
- Survey the satisfaction of the partners periodically
There are different forms of cooperation

<table>
<thead>
<tr>
<th>Cooperation</th>
<th>Informal, by contract, by hierarchisation, by law</th>
</tr>
</thead>
<tbody>
<tr>
<td>horizontal</td>
<td>Cooperation among partners of the same industry</td>
</tr>
<tr>
<td>vertical</td>
<td>Cooperation among partners from different industries</td>
</tr>
<tr>
<td>diagonal</td>
<td>Cooperation with partners from other sectors</td>
</tr>
</tbody>
</table>
Vertical cooperation

Tourism offices as cooperation platform between industries and companies
### Vertical cooperation as classic inter-company cooperation at the level of the destination

<table>
<thead>
<tr>
<th>Produits Industries</th>
<th>Switzerland-Ticino-Lugano</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transports</td>
<td></td>
</tr>
<tr>
<td>Hotels</td>
<td></td>
</tr>
<tr>
<td>Restaurants</td>
<td></td>
</tr>
<tr>
<td>Casinos</td>
<td></td>
</tr>
<tr>
<td>Sports</td>
<td></td>
</tr>
<tr>
<td>etc.</td>
<td></td>
</tr>
</tbody>
</table>

**Horizontal cooperation**

**Vertical cooperation**
Destination promotion as classical platform of cooperation among tourism related industries and companies

<table>
<thead>
<tr>
<th>Destination</th>
<th>Regions</th>
<th>Industry</th>
<th>Other sectors</th>
</tr>
</thead>
</table>

**Basic Marketing Programmes for everybody**

* (Legislators and Main Payers will)

- Market intelligence
- Access on international markets
- International media presence
- Distribution channels
- Presence on internet and in social media
- Information customers
- Label Switzerland
Forms of cooperation among national and local tourism offices

NTO

Branding & Positionnement of the country
Selection of new markets
Putting together resources
Transfer knowledge

DMO

Planning & Strategy
Product development
Information services on place
Promotion on nearby and home markets
Innovation based on horizontal inter-company cooperation

Swiss Panorama railways

Swiss holiday apartment initiative

Reduction of capital cost by the Austrian Tourism Bank
Horizontal cooperation between the public transportation firms

“Swiss Travel System” is an icon of Switzerland’s tourism on the international markets due to a functioning distribution of the receipts among the partners.
A better international commercialisation of an important segment of the accommodation sector

Initiative for a better occupation of rented apartments in Switzerland:
public website for a market segment where 60% of the booking is done by Internet.

Creation of an electronic market „Holiday homes of Switzerland“
Overcoming difficulties of refinancing small hotels

fields of cooperation:
e.g. marketing, staff, common acquisition & distribution, business administration, quality management,...
Innovation through diagonal or cross-sectorial cooperation cooperation among different sectors for stimulating endogenous growth

New forms of cooperation between agriculture and tourism

Cooperation between hotel marketing and monument protection

Worldwide only integrated human powered mobility network

Cooperation between sports and tourism
New form of cooperation between tourism and agriculture: 
the holiday village of Urnäsch AR

The holiday village of Urnäsch near St. Gallen is a new form of cooperation between residential tourism 
for families and farmers of a rural and pre-alpine region.

Attraction of visitors
« swiss historic hotels »:
a joint venture of monument protection and hotel sector

« Pas de poussière mais de la patine. »
No dust but patina.
Vertical cooperation project of Switzerland’s tourism: a success of public-private partnership

A trail system of human powered mobility for cycling, hiking, skating and rowing combined with public transport, repair centers, lodging and catering.
Cooperation between sports association and tourism: the sports and holiday Center of Fiesch VS

The sports and holiday resort with 1’000 beds and plenty of sports facilities for groups, sports clubs, schools, families and young people.
States stimulate cooperation for reducing transaction costs

Integration       Cooperation

Organisation costs vs. Transaction costs

States help to reduce the costs of cooperation for strategic projects. They focus on non-competitive cooperation (before the product is put on the market) and on projects of public utility: Quality label, Destination website and booking systems, SuisseMobile, Diffounding of knowledge.
Question to be asked

- Why is cooperation management strategic in the field of tourism?
- Is cooperation necessary at any price?
- What do we understand by “win-to-win” situation?
- What are economies of scale and scope of the cooperation?
- Which is the fields where there is a high cooperation potential?
- What is the difference between cooperation and integration?
References:


Promotion of innovation and cooperation as a tool of tourism policy
Innovation is not a routine in the field of SME’s operating under the umbrella of a given destination. There are many lifestyle entrepreneur who do not plan innovation. There are no R&D department in the field of SME based tourism.

Nevertheless, SME entrepreneurs which are at the same time also their managers, are often creative. They are able to overcome the typical handicaps of SME’s by using their advantages of proximity to customers, to other service providers and the place.

The local socio-cultural cluster is an important factor which favours innovation in the field of tourism.

State agencies can stimulate innovation in tourism as a substitute for lacking research and development (R&D).
Innovation is not a routine in SME’s

Innovation = R/D Department = Big industrial firms

No standardised innovations for SME’s?

No

Why?

No research & development
SME’s can profit from advantages of proximity

Proximity effect  →  Proximity law

- Geographical proximity
- Economic proximity
- Social proximity

Proximity strategy

Competitive advantage
There are many obstacles for innovation in the field of SME’s

**Repeaters don’t like changes.** They return because they expect that nothing has changed. Their benchmark is their last happy experience.

**Life-style entrepreneurs** are not interested to take risks for more profit. They do not behave as capitalists do. They are not taking risks for innovation.

**Traditions traded from generation to generation** do not stimulate change.
The diffusion of the innovation has to profit to the whole economy.

The subsidies have to be justified.

The innovative project should help to boost productivity-led growth.

The tools of state agencies for stimulating innovations should be used.

The criteria of evaluation should be clear.
A strong “Education, innovation and knowledge “ system can stimulate innovation

**Human capital**

- Academic & Polytechnic Schools
- Vocational training
- Apprenticeship, Internships

**Creation of knowledge**

- Substitute for R&D

**Research**

- Methods
- Empiric Research

**Entrepreneurship as resource**

- Initiative
- Competence

**Innovation and growth**
The destination is a laboratory for innovation and cooperation

**Unique selling proposition (USP):**
Landscapes, agriculture, industry, energy, sports etc.

- **Critical visitors**
- **Long specialisation**
- **Sophisticated external providers**
- **Competition among suppliers**

**Institutions R&D / Agences de l’Etat**
The elements for a tourism policy which promotes innovation and cooperation

**innotour**

Elements of the Swiss innovation policy in the field of tourism

- Creating new products and distribution channels
- Boosting quality of services and experiences
- Making Tourism structures more efficient
- Improve vocational skills and management competences
- Promoting research and development
The stimulation of innovation and cooperation must stimulate demand growth.
Questions to be asked

- Which is the main resource for innovation for SME’s?
- What are advantages of proximity?
- Which concepts help to innovate at local level?
- Why