How Innovative Are Tourism Firms In Ireland and What Changes Are Required To Stimulate Greater Levels Of Innovation?

Professor Jim Deegan

Director

National Centre For Tourism Policy Studies

University of Limerick

Outline Of Presentation

1. Context For The Study
   - The Macroeconomic and Tourism Performance
   - The Changing International Tourism Market
   - Understanding Why Innovation Matters and What Role Government Should Play
   - The Difference(s) between Manufacturing and Services Innovation.
   - What of Innovation Policy and Performance In Ireland
   - What of International Policy For Tourism Innovation and The Irish Case

2. The Study Findings For Tourism Innovation In Ireland

3. Recommendations For Policy

UNDERSTANDING INNOVATION

"Innovation entails investment aimed at producing new knowledge and using it in various applications. It results from the interaction of a range of complementary assets which include research and development, but also software, human capital, design, marketing and new organisational structures - many of which are essential for reaping the productivity gains and efficiencies from new technologies" (OECD, 2009)

Measuring Innovation In Firms

1. Product and Service
2. Process
3. Organisational/Managerial
4. Market/Marketing Innovations

"Tourism is generally <u>ignored</u> as a target sector in national innovation policy, which has generally refocused from the manufacturing sector to tightly delimited notions of the "knowledge based economy"…...Even where national tourism policies do acknowledge the importance of innovation, ***these rarely extend beyond aspirations, usually related to product and market innovation.*** *Only exceptionally do they address other types of innovation such as* ***process or organisational innovation.*** *Furthermore, there is generally a failure to specify how these broad goals or aspirations are to be encouraged or achieved and the role of the state in this, whether directly or indirectly."*

Hall and Williams (2008)

Ireland’s First Attempt to Measure Tourism Innovation

Findings For 2008-2011

Tourism Sub-Sector Responses

Sector	No. of responses received	% Response received (N= 395)
Hotel/Guesthouse	75	19
B&B	84	21
Self-Catered	44	11
Accommodation Total	203	51
Restaurant/ Licensed Trade	32	8
Tourist Attraction	108	27
Transport Company	6	2
Festival Management	12	3
ITO/DMC/PCO	34	9
TOTAL	395	100%

Detailed Profile of Respondents and Make Up Of The Hotel/Guesthouse Sector

Enterprise size	N=395	%
Micro (<9)	282	72
Small (10-49)	74	19
Medium (50-250)	39	9
Company Sector		
Hotel/Guesthouse	75	19
Bed & Breakfast	84	21
Self-catering	44	11
Tourist Attraction	108	27
Restaurant/Licensed Trade	32	8
Transport Company	6	2
Festival Management	12	3
ITO/DMC/PCO	34	9
Hotels/Guesthouse n=75		
3Star	22	29
4 Star	43	57
5 Star	10	14

Key Point: 1

- Micro and small enterprises = 91% of total respondents
- Accommodation sector = 51% of total respondents

Comparison of Innovation Rates For Tourism Enterprises and Selected Services Enterprises By Size From The Community innovation survey and UL Survey

	Micro <9	Small 10-49	Medium 50-249	Large 250+	Total
Tourism Enterprises 2008-2011 (UL SURVEY)	48	53	92	N/A	**53**
Selected Services* 2006-2008	N/A	51	69	77	**54**

Key point: 2

- % of Innovation active enterprises **(N=210) 53%% -Engaged in at least one form of innovation between 2008-2011.**

- %of non innovative enterprises **(N=185) 47%**

Type of Innovation Introduced By Tourism Enterprises 2008 to 2011

Category of Innovation (n=395)	%
Product	46
Process	36
Organisational	28
Marketing	41
Any Innovation	53

Detailed Type of Innovation Activity By Company Size, 2008 – 2011

Type of Activity	Micro <9 (n=282)	Small (10-49) (n=74)	Medium (50-250) (n=39)	All enterprises (n=395)
Product	42	42	86	**46**
Process	30	38	73	**36**
Organisational	21	41	60	**28**
Marketing	35	43	81	**41**
Any Innovation	**48**	**53**	**92**	**53**

Key Point: 3

- **Firm size affects innovation performance in the Irish tourism sector. In general, the larger the firm the more innovation we find.**

- **Innovation rates differ substantially between the individual sub sectors of tourism.**

Detailed Innovation Activity Rates By Enterprise Sector, 2008 – 2011

Sector	**Product**	**Process**	**Organisational**	**Marketing**	**All enterprises**
Hotel/Guesthouse	60	48	47	55	**65**
B&B	31	24	8	25	**33**
Self-Catered	32	21	9	14	**36**
Restaurant/Licensed Trade	59	47	34	44	**69**
Tourist Attraction	50	40	35	50	**60**
Transport Company*	83	67	67	100	**100**
Festival Management	42	42	42	42	**50**
ITO/DMC/PCO	44	29	24	44	**53**
Total	**46**	**36**	**28**	**41**	**53**

Key Point: 4

- **Irrespective of company sector or size product innovations are generally the most important for all firms.**

- **Although the rates of innovation differ across sectors it is clear that process and organisational innovations are afforded the least priority.**

Detailed Product And Process Innovation Activity Rates by Number of Persons Engaged 2008 to 2011

		Number of persons engaged			
	<9	10-49	50-250	250+	All Enterprises
Product Innovations:					
New or significantly improved goods	30	31	70	n/a	**33**
New or significantly improved services	39	39	75	n/a	**43**
Any product innovation Tourism	**42**	**42**	**86**	**n/a**	**46**
Any product innovation CIS	**n/a**	**22**	**35**	**54**	**25**
Process Innovations:					
New or significantly improved methods of producing goods or services	20	34	65	n/a	**27**
New or significantly improved delivery or distribution methods for your inputs or services	21	20	51	n/a	**23**
New or significantly improved supporting activities for your processes	19	30	60	n/a	**25**
Any process innovation Tourism	**30**	**38**	**73**	**n/a**	**36**
Any process innovation CIS	**n/a**	**29**	**39**	**49**	**31**
Active in both Product & Process Innovation Tourism	**28**	**37**	**73**	**n/a**	**34**
Active in both Product & Process Innovation CIS	**N/A**	**15**	**22**	**38**	**16**

Key Point: 5

- **Within product innovations the focus for tourism is more focused on producing improved services than improved goods.**
- **For product and service improvements it is clear that both occur more frequently in larger companies.**
- **The sample data suggests that tourism firms may actually be good performers for product developments relative to other sectoral groups in the Irish economy.**

Key Point 6

- **The levels of Process Innovation are low though this does accord with the national data.**

- **The failure to adopt “back office” process innovations to produce and deliver tourism services represents a “lost opportunity” Process innovations increase with firm size.**

Procedure Used By Each Sector To Introduce New or Significantly Improved Product innovation 2008-2011

Product Innovation	Hotel	B&B	Self Catering	Tourist attract	ITO/DMC/PCO	Rest/ license trade	Trans comp	Fest mgt	Total
Own market research	54	25	16	43	44	44	67	42	38
Outside consultant	11	4	2	4	3	9	0	8	5
In house meeting with staff	60	13	14	38	35	55	67	25	35
Customer feedback	63	40	20	50	50	63	50	42	49
Observation from travel	45	27	20	30	45	50	67	42	34
Following others example	31	15	5	11	12	7	17	17	15
Tourism Networks	21	23	14	25	27	20	0	25	22

Procedure Used By Each Sector To Introduce New or Significantly Improved Process innovation 2008-2011

Process Innovation	Hotel	B&B	Self Catering	Tourist attract	ITO/DM C/PCO	Rest/ license trade	Trans comp	Fest mgt	Total
Own market research	47	23	23	35	50	45	33	33	35
Outside consultant	11	5	7	9	6	13	17	8	9
In house meeting with staff	48	11	14	31	30	35	33	42	31
Customer feedback	39	25	9	38	24	29	33	33	30
Observation from travel	25	19	11	21	33	25	33	25	22
Following others example	23	12	7	12	6	10	17	8	13
Tourism Networks	16	13	7	19	18	10	0	17	15

Key Point: 7

- **Product innovations are heavily influenced by customer feedback, own market research and travel. In each case there are variations between the subsectors.**
- **Process Innovations are more unusual than usual in the sector. The failure to use outside consultants who are experts in this area needs greater explanation.**

Type of Organisational Innovation Introduced By Number Of Persons Engaged 2008 to 2011

	Number of persons engaged			
	<9	10-49	50-250	All enterprises
Organisational Innovations:				
New Business practices	16	39	60	25
New Knowledge systems integration	15	35	54	23
New methods of organising external relations	15	24	38	19
Any Organisational Innovation	**21**	**41**	**60**	**28**

Key Point: 8

- **Across all areas of organisational innovation the tourism sector performs poorly. The opportunity to adopt such innovations to improve productivity and competitiveness is a major opportunity and challenge.**

- **Organisational innovations in all forms increase with firm size in the tourism sector.**

Key Point: 9

- The primary motivations to introduce organisational innovations is to:
  - improve the quality of goods and services
  - reduce time to respond to customer needs

- For innovators, organisational innovations are also important to
  - improve communication within enterprises
  - reduce unit costs
  - improve the ability to develop new products

- 72% of tourism firms do not engage in organisational innovations.

Type of Marketing Innovation Introduced By Number Of Persons Engaged 2008 to 2011

	Number of persons engaged			
	<9	10-49	50-250	All enterprises
Marketing Innovations:				
Changes to presentation and delivery	26	32	58	**30**
New media for product promotion	32	42	76	**38**
New methods of product placement	16	24	47	**21**
Pricing of goods/services	20	35	61	**27**
Any marketing Innovation	**35**	**43**	**81**	**41**

Key Point: 10

- **41% of Tourism Firms introduced some form of marketing innovation between 2008 and 2011.**

- **Micro and Small Tourism Enterprises have rates of marketing innovation that are about half of the medium sized companies.**

Most Popular Marketing Channels Utilised By Tourism Enterprises 2008 to 2011

Most popular Marketing Channels used by innovation active enterprises		
	All enterprises n=395	Innovation active enterprises n=210
Own website	55	81
Facebook	36	55
Twitter	20	33
Tour Operators	27	39

Key Point: 11

- **62% of Tourism Firms introduced a marketing innovation as a measure to protect market share whereas the remaining 38% has the explicit goal of increasing their market share.**

Profile of Hotel/Guesthouse Sub Sector

	Number of respondents	**%**
Number of Hotel Respondents overall	**75**	100
Number of Innovation Active Hotels/Guesthouses	**49**	65
Number of Non Innovative Active hotels/G.H	**26**	35
Number of Hotels Engaged In All Four Categories Of Innovation	**25**	33

Hotel Sub Sector Analysis By Grade Rating And Size Of Enterprise %

Hotel Grade Rating %			
Total number of Hotels/Guesthouses By Grade rating	**3star** (n=22) 29%	**4 star** (n=43) 57%	**5 star** (n=10) 14%
Total % Of Innovation Active 3,4 and 5 Star Hotels	**50**	**57**	**100**
% of 3,4,5 Star Hotels Engaged In All Four Categories Of Innovation Activity	**22**	**30**	**50**
Hotel Size %			
	Micro <9 (n=16) 21%	**Small 10-49 (n=28) 37%**	**Medium 50-250 (n=31) 42%**
Total % Of All Innovation Active Micro/Small/Medium Hotels	**50**	**46**	**90**
Total % Of All Non Innovation Active Micro/Small/Medium Hotels	**50**	**54**	**10**

Categories of Innovation For The Hotel/Guesthouse Sector

Number of hotels engaged in each category of innovation	% of total hotels in the sample (n=75)	% of innovation active hotels in the sample (n=49)
Product (45)	60	92
Process (36)	48	74
Organisational (35)	47	71
Marketing (41)	55	84
Any Innovation (49)	**65**	**100**

Innovation Activity Rates By Size And Type Of Innovation:
All hotels in the sample

	Micro <9	Small 10-49	Medium 50-250	Total
Product (45)	41	39	90	**60**
Process (36)	35	29	73	**48**
Organisational(35)	29	39	63	**47**
Marketing (41)	35	39	80	**55**
Any Innovation	**50**	**46**	**93**	**65**

Innovation Activity Rates By Size And Type Of Innovation: Innovation Active hotels

	Micro <9	Small 10-49	Medium 50-250	Total
Product (45)	78	85	100	92
Process (36)	67	62	82	74
Organisational(35)	56	85	70	71
Marketing (41)	67	85	89	84

Key Point: 12

- **21 % of hotels/guesthouses are micro enterprises, 37% are small firms and 42% are medium sized businesses.**

- **65% of hotels exhibit some form of innovation. All 5 Star hotels are innovative in some way while the respective rates for 4 and 3 star properties is 57 and 50% respectively. One third of hotels exhibit all 4 forms of innovation- 22% of 3 star; 30% of 4 star and 50% of 5 star.**

Key Point: 13

- **Circa 50% of micro and small sized hotels display some form of innovation and the figure for medium sized hotels is 93%. Generally the bigger hotels show greater levels of innovation.**
- **The most popular forms of innovation for hotels are in the areas of product and marketing. For the more innovative hotels all forms of innovation emerge as being important.**

Profile of Bed & Breakfast Sub Sector

	Number of respondents	%	
Number of B&B Respondents	84	100	
Number of Innovation Active B&B's	28	33	
Number of Non Innovative B&B's	56	67	
Number of B&B's Engaged In All Four Categories Of Innovation	6	7	
Bed & Breakfast – Size %			
	Micro <9	Small 10-49	Medium 50-250
Total % Of All Innovation Active Micro/Small/Medium B&B's	33%	0	0
Total % Of All Non Innovation Active Micro/Small/Medium B&B's	67%	0	0

Type of Innovations Of The Innovation Active B+B Sector: 2008-2011

Sector	Product %	Process %	Organisational %	Marketing %	All Enterprises %
B&B	31	24	8	25	33

Key Point: 14

- **Virtually all B+BS are micro enterprises and resultantly exhibit the problems faced by such firms.**

- **Only one third of B+Bs were engaged with at least one form of innovation and only 7% were involved in all four forms of innovation**

Profile Of Tourist Attraction Sub Sector

	Number of respondents	%	
Number of Visitor Attraction Respondents	N= 108	100	
Number of Innovation Active Visitor Attractions	65	60%	
Number of Non Innovative Visitor Attractions	43	40%	
Number of Visitor Attractions Engaged In All Four Categories Of Innovation	24	22%	
Visitor Attraction Size %			
	Micro <9 74%	Small 10-49 20%	Medium 50-250 6%
Total % Of All Innovation Active Micro/Small/Medium Visitor Attractions	60	55	83
Total % of All Non Innovation Active Micro/Small/Medium Visitor attractions	40	45	17

Innovation Activity Rates For
All Visitor Attraction Enterprises
By Size & type of Innovation

	Micro <9 %	Small 10-49 %	Medium 50-250 %	Total %
Product (54)	49	46	67	49
Process (43)	36	46	50	39
Organisational(38)	31	41	50	34
Marketing (54)	49	50	83	49
Any Innovation	60	55	83	60

Categories Of Innovation Introduced By ITO/DMC/PCO Sector.

Number of ITO/DMC/PCO engaged in each category of innovation	% of total ITO/DMC/PCO in the sample (n=34)	% of innovation active ITO/DMC/PCO's in the sample (n=18)
Product (15)	44	83
Process (10)	29	56
Organisational (8)	24	44
Marketing (15)	44	83
Any Innovation (18)	**53**	**100**

Profile of Restaurant/Licensed Trade Sub Sector

	Number of respondents	%	
Number of Rest/Trade Respondents	**32**	100	
Number of Innovation Active	**22**	69	
Number of Non Innovative	**10**	31	
Number of Rest/Trade Engaged In All Four Categories Of Innovation	**7**	22	
Restaurant/Licensed Trade – Size %			
	Micro <9 72%	**Small 10-49 25%**	**Medium 50-*250* 3%**
Total % Of All Innovation Active Micro/Small/Medium Businesses	**65**	**75**	**100**
Total % Of All Non Innovation Active Micro/Small/Medium Businesses	**35**	**25**	**0**

Categories Of Innovation For Restaurant/Licensed Trade Sector 2008 to 2011

Number of Trade Engaged in Each Category of Innovation	Whole Sample %	Innovation Active %
Product (19)	59	86
Process (15)	47	68
Organisational (11)	34	50
Marketing (14)	44	64
Any Innovation (22)	69	100

Highly Important Factors Constraining Innovation Activities activity For All Enterprises: 2008 – 2011

	All enterprises (n=395)	Innovative Enterprises (n=210)	Non-Innovative Enterprises (n=-185)
Lack of Funds	**38**	33	**43**
Lack of External finance	**36**	30	**43**
Innovation Costs Too high	**32**	28	**36**
Lack of Qualified Personnel	**9**	11	**5**
Lack Of Information On Technology	**11**	8	**15**
Difficulty Finding Co-Operation Partners	**3**	4	**1**
Market Dominated By Established Enterprises	**15**	14	**16**
Uncertain Demand	**13**	11	**15**

Key Point: 15

- **Key constraining factors for innovation identified by tourism firms are –**
  - **“lack of company funds”, the “access to external finance” and “the costs of innovation”**
- **These findings are exactly the same as those found in the last published CIS for Ireland.**
- **Tourism firms accord relatively low levels of importance to ICT and co-operation with others as a springboard for innovation. Such findings accord with international research and reveal a major issue to be addressed.**

Type Of Cooperation Partner By Size Of Enterprise, 2008 – 2011

	Number of Persons Engaged			
	<9	**10-49**	**50-250**	**Total**
Other enterprises within tourism sector	34	42	58	**39**
Suppliers of equipment	21	26	21	**22**
Consultants	7	12	19	10
Clients or Customers	32	39	32	**34**
Competitors	24	31	30	**26**
Universities/Colleges	13	29	24	18
Government	12	22	22	**15**
Failte Ireland	38	40	50	**40**
Tourism Ireland	15	12	17	**15**
Any Co-Operation	**30**	**40**	**63**	**35**

Sectoral Co-Operation on Innovation For Innovation Active Firms

	Hotel	B+B	Self-Catering	Attraction	Restaurant	ITO/DMC /PCO	Festival Mgt.
Other enterprises Tourism	59	36	19	44	27	44	33
Suppliers	27	14	13	30	27	33	33
Consultants	18	7	6	10	18	6	17
Customers	41	39	19	43	32	45	33
Competitors	35	32	19	29	32	23	33
Universities/ Colleges	25	10	0	23	23	22	50
Government	29	14	0	14	14	11	17
Failte Ireland	51	43	25	43	28	39	50
Tourism Ireland	16	25	19	0	5	0	0
Any Co-Operation	61	57	31	55	36	66	50

Key Point: 16

- The overall working of the Innovation System seems weak with only 35% of firms engaging with an innovation partner.
- Failte Ireland is rated as the top partner with 40% of firms having some link with the National Tourism Development Authority.
- Universities and Colleges seem relatively disconnected as a source of information and support for innovation.

Recommendations

1. A Clear Policy For Tourism Innovation Must Be Articulated With a Lead Agency

2. A Funded National Competence Centre For Tourism Innovation Should Be Developed-sub sector targeted initiatives are required

3. Benchmarking Progress On Innovation Is Required

Contd:

4. **Need For A Venture Capital Fund For Tourism Innovation and extension of Innovation Voucher Scheme to Tourism.**

5. **Tourism should be included in the Community Innovation Survey and;**

6. **Festivals Can Be An Incubator For Innovation-Use The Example and Learnings From The Roskilde Festival.**