

TOURISM INNOVATION – A LITERATURE REVIEW COMPLEMENTED BY CASE STUDY RESEARCH

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ABSTRACT

Innovation is nowadays an essential factor for economic competitiveness of firms. The study of innovation in services is still in its infancy seeing that the first studies only appeared in the late 1990s and it is difficult to find a robust theoretical framework for the study of innovation in this sector. It becomes even harder to find when applied to hospitality and tourism firms. Tourism is currently one of the most promising industries in the world and there is urgent need to better understand innovation in this sector.

This study aims to address a general question: how to explain innovation in the tourism sector. In seeking an answer to this, the paper has two objectives: 1) to discuss what innovation in services is, taking into account the study of innovation in hospitality and tourism firms along with the presentation of a literature review; 2) to develop case study research as applied to an international hospitality group.

The results corroborate all the hypotheses that the implementation of a Hotel Integrated Management System is an important innovation in that it contributes mainly to organizational innovation and firms use politics of sustainability as a strategy for innovation and differentiation from competition. Finally, we present a set of conclusions that enables a better understanding of innovation in tourism and aims at increasing theoretical discussion as well as furthering knowledge on the subject.

KEYWORDS

Innovation, Services, Tourism, Case Study.

JEL

L10, L11, L22, L25, L80, L83.

1. INTRODUCTORY NOTE

Innovation emerges as a driver of economic growth and prosperity in several countries (Stockdale, 2001; Fagerberg and Godinho 2004). Additionally, innovation is a source of competitive advantage for firms as well as a key source for improved output performance of services industries (Van Ark et al,

2003). In fact, the services sector plays a fundamental role in developed economies. The United Nations confirm its relevance by giving three main reasons for this: “First: Services are the largest productive sector in most economies (...) growth and efficiency of services promote competitiveness in the broad sense of the term; Second: Many services are crucial inputs into products that compete in domestic and international markets (...) With the rising importance of information- and knowledge-based economy, the share of services in most activities is growing (...). Third: Advances in information and communication technologies (ICTs) facilitate trade in services (...).” (United Nations, 2004, p.95)

Within the services sector, tourism plays an important role in the economy of various OECD countries as it contributes to their economic growth and provides employment and income (OECD, 2000). Given its importance and the globalization of economies, increasing the competitiveness of this sector is fundamental and the key to increasing its competitiveness lies in innovation.

Studies into the services sector have increased recently (Sundbo 2001, 2007, Sundbo et al. 2007, Gallouj 2002, Schianetz et al. 2007, Miles 2005, Hjalager, 2002, Carvalho, 2008). In this context, while several authors indicate that innovation in services and in manufacturing are closely related, other authors establish a difference between them (Sundbo 2007, Pires et al, 2008). However, studies carried out into innovation in the tourism sector are still in their infancy. These study aims to contribute towards creating and developing research into innovation in the tourism sector.

2. LITERATURE REVIEW

2.1. INNOVATION. THE SEARCH FOR A DEFINITION

Lisbon Strategy threw up a great challenge to the European Union countries when it called for this economic space to become the most competitive economic region. These challenges were to be met through investment in human capital, innovation and entrepreneurship. Consequently, innovation and research have a crucial role to play in improving the competitiveness of firms.

The economic concept of innovation was introduced by Schumpeter in 1934 and describes innovation as the development of new products, new processes, new markets and new sources of raw materials, that is to say, to shape industrial organization anew. Schumpeter introduces into economics the concept of creative destruction as a source of a new economic cycle and links innovation with economic growth. The role of innovation in economic development caught the attention of other authors in this area (Nelson and Winter, 1982).

Additionally, innovation literature highlights different approaches that deal with the economics of industrial innovation (Freedman, 1991), R&D and innovation (Arrow, 1962), differences across industries (Pavitt, 1984) and the role that firm-level capabilities play in innovation and learning (Cohen and Levinthal 1989, 1990).

Furthermore, the European Commission (2004) described innovation as the renewal and enlargement of the range of products and services and the associated markets; the establishment of new methods of production, supply and distribution; the introduction of changes in management, work organization, working conditions and skills of the workforce.

1.2. INNOVATION IN SERVICES

The services sector is the largest productive sector in most OECD economies. Several authors have conducted research into services recently (Sundbo 2001, 2007, Sundbo, 2007, Sundbo et al. 2007, Gallouj 2002, Schianetz et al. 2007, Miles 2005, Hjalager, 2002, Carvalho, 2008). The diversity of activities included in the services sector makes it difficult to define service. Services initially were classified as non-productive activities. Economists characterise service products as “anything sold in trade that could not be dropped on your foot” (Hauknes, 1998, p.6). Table 1, offers some definitions of innovation in services.

Table 1. Innovation in services

Services innovations are often small adjustments of procedures and thus incremental and rarely radical. Services innovation processes are normally very practical.	Sundbo and Gallouj (1999)
Service innovation is by definition multidimensional. Compared to, for example, manufacturing, service innovation is characterized by much more emphasis on the organizational dimension of innovation (new service concepts, new client interface and new delivery systems) relative the technological options.	Van Ark et al, (2003)
Services innovation is mainly an incremental process, which includes two components: - A non-technological component, dependent on the intangible human resources, organizational structure and factors that can add value to customer service (marketing, distribution channels, etc.); - A technological component, nowadays inseparable from the first component, that depends on technology, especially Information and Communication Technologies (ICT).	Carvalho (2008)

Services innovation involves changes in many areas, and sometimes process innovation and product innovation cannot be separated. A new service product, a new procedure for producing or delivering, a new organizational form and the introduction of new technology, in “most cases cannot be stored, it must be produced in the momentum of consumption” (Gronroos, 1990)

We follow the classification of services innovation set out by Sundbo and Gallouj (1999). According to Sundbo and Gallouj (1999) “service innovation can be categorised into four types: product innovation, process innovation, organizational innovation and market innovation” (p. 8). They described organizational innovations as “new general forms of organization or management such as introduction of TQM, self steering-groups, etc.” (p.8). Process innovations “are renewals of the prescriptive procedures for producing and delivering the service” (p.8) and could be divided into two categories: innovation in production processes (back office) or in delivery process (front office). Market innovations are new market behaviours, such as a new market segment or the entry of another industry into this market.

1.3. INNOVATION IN TOURISM

The study of innovation in tourism is also in its infancy. Various reasons are behind the small number of scientific studies into this sector. The definition of a tourism product as the combination of several elements has complicated empirical studies. In fact, tourism products can include tangible and/or intangible elements. For example, a destination can be identified as any of numerous suppliers, such as hotels, restaurants, entertainment firms, car rental firms, tourism guides etc. Moreover, tourism is not just the production of goods or services. Several intangible characteristics are embodied in people as individuals. Sociological and cultural features of the local population and tourists’ behaviour can influence the tourism experience. Weiermair (2006) defined a tourism product as an experience.

Other difficulties are linked with the characteristics of a tourism product, such as simultaneous production and consumption (Weiermair 2006) and coterminality (Miles 2005).

A high level of heterogeneity is a characteristic of the tourism sector. International hotels and golf courses cannot be compared with family-run accommodation or small restaurants. Some studies on innovation and entrepreneurship find that hotels and restaurants had a lower rate of survival and that as they are typically industries with a very low entrance barrier, it is easy for people to establish a new firm on a non-innovative basis (Sundbo and Gallouj, 1999).

The market characteristics of the sector with high levels of competitiveness oblige firms to innovate in order to keep up with competition (Hall and Williams, 2008). On the other hand, tourism firms find it more difficult to protect innovation as copying competitors is easy. This is why these firms constantly need to innovate to keep up their competitive advantage (Porter, 1998). Bearing in mind the definition of competitive advantage, productivity is linked with quality and with production efficiency. As a result, tourism firms that invest in quality and product diversification are frequently more competitive. Additionally, alterations in quality can contribute towards a more appropriate price strategy. Consequently, innovation is crucial in order to reduce costs of production, enhance marketing and provide product value (Weiermair, 2006).

The way to achieve these results should not be to reduce costs by paying low wages. Tourism industries in many cases absorb the less-skilled and the unemployed. This characteristic, which is more common in SME's, can restrict innovation in the sector. However, competitiveness within the tourism sector and its adaption to new market environments depend on investing in the quality of staff and managers (OECD, 2000). In fact, the specificities of the tourism sector influence innovation, while some studies point out the potential for greater innovation activity in this sector (Hjalager 2002, Sundbo et al, 2007).

The tourism sector has recently been influenced by several factors. Three can be identified and included in the study of innovation in tourism:

- First, globalisation has led to deregulation and increased competition in the tourism sector (Weiermair, 2006). Nowadays, the number of tourists is increasing and they have easy access to more regions/markets. Tourism consumption has grown and the sector has extended to new economies. In view of this, firms and tourism destination have had to adapt to the new reality and develop strategies to improve or maintain their competitive advantage.
- Second, the tourist profile has changed. Tourist have become more experienced and informed. ICT has facilitated access to information and increases the demand for alternative and more sophisticated products. Tourists are now more independent and can self-organize their own holidays.
- Third, sustainability is essential in order to gain competitive advantage. Tourism firms must be managed in line with the three key dimensions: economic, social and environmental.

Therefore, globalisation, experienced demand and sustainability must be taken into consideration when planning a firm's strategy to gain competitive advantages.

1.4. INNOVATION TYPOLOGIES IN THE TOURISM SECTOR

Authors have recently been studying the tourism sector (Weiermair 2006, Hjalager 2002, Hall and Williams 2008). However, the theory of innovation in tourism sector has to develop. Referring to the tourism industry, Hjalager (2002) said that the determinants of innovation can also be found outside the tourism sector. It is therefore vital to develop innovation through the interaction with other agents that might not be directly related to the tourism industry.

Several authors (Weiermair 2006, Hjalager 2002, Fagerberg 2005, Drejer 2004, OECD 2005) adhere to the classification set down by Schumpeter (1934). The typologies identified in the third edition of the Oslo Manual can be adapted to the tourism sector, and a resulting classification of innovation types for the tourism sector based on the reviewed literature is provided: product innovation (an incrementally changed or radically new good or service that can be commercialised); process innovation (the implementation of an incrementally changed or radically new production process or delivery method); organisational innovation (the implementation of a new or incrementally changed organizational method or managerial form) and marketing innovations (the implementation of a new or incrementally changed marketing strategy that develops the sales market).

Organizational innovation for hotels has been relatively little studied. One of the very few is by Ottenbacher (2007) and says that hospitality businesses develop innovations to a set of specific objectives related to business performance. This study comes to the conclusion that different approaches to the development of organizational innovations seem to be dependent on these objectives. In a study of 185 innovations in hotel management, the author identified three dimensions of performance: market performance, financial performance and improved employee-customer relationships.

With regard to the degree of innovativeness, Schumpeter (1934) emphasized the role of the entrepreneur in the production of radical innovations. Schumpeter made a distinction between radical and incremental innovations. Radical innovations are in most cases linked with technology. This type of innovation means that the previously followed pattern is disrupted. Furthermore, radical innovations can lead to various smaller innovations (Sundbo 2001). They can also surface as technological revolutions, which consist of a group of innovations that together have a greater impact (Fagerberg, 2005). However, the impact of radical innovations can only be measured after they have been implemented. Some examples of radical innovation in the tourism sector can be identified, such as the creation of a specific quality management system for tourism organizations. Furthermore, incremental innovations are made step by step and involve cumulative changes during a continuous process. The cumulative impact of incremental innovations can be as great as the impact of radical innovations. The profitability of radical innovations sometimes depends on several incremental improvements (Fagerberg 2005). Cases of incremental innovations in tourism can be isolated actions, such as quality improvement, energy saving, recycling products and cost reductions associated with equipment performance.

3. THE METHODOLOGICAL APPROACH

This empirical research applies case study methodology. According to Yin (1994), case study is the methodology best suited for an investigation that seeks answers to the "how" and "why" questions about contemporary phenomena over which the researcher has little or no control. This methodological choice is justified by the study aims, and reinforced by other studies applied to the tourism sector (Okumus, 1997; Schmelzer, 1992). According to these authors, qualitative methodology

is suitable for hospitality industries studies as qualitative research is probably the only empirical research on strategy implementation that can be applied to the hospitality industry. A case study approach was undertaken for the primary research and incorporated a sample of different types of US multi-unit restaurant firms.

Following this line of reasoning, semi-structured interviews were carried out that led to a conversation involving an agenda of pre-defined issues, but with enough flexibility for further development of specific topics. The interviewees were key informants from the Tivoli Group (quality manager of the group and quality manager of the Tivoli Oriente). The interview guide used is shown in Annex 1.

The research intends to find answers to the questions: “What is the degree of innovativeness of a Hotel Integrated Management System?”; “What are the innovation effects of Integrated Management System implementation?” and “Can sustainability politics be understood as an innovation strategy?”

The hypotheses of the study are based on literature review. In view of the lack of empirical studies applied to tourism innovation, the following hypotheses were devised:

- H1: *The implementation of a Hotel Integrated Management System is a radical innovation.*
Hypothesis 1 aims to find answers to the first question and understand if this kind of innovation represents a set of incremental innovation or a radical innovation.
- H2: *The implementation of a Hotel Integrated Management System contributes mainly to organizational innovation.*

Hypothesis 2 aims to find answers to the second question and explain how the development of innovation contributes to organizational performance.

- H3: *The firms use politics of sustainability as a strategy for differentiation and innovation from competition.*

Hypothesis 3 intends to understand the extent to which sustainability policies are used by firms as a strategy of differentiation and innovation in highly competitive markets.

3.1. CASE STUDY

This case study was applied to the Hotel Tivoli Oriente. This hotel belongs to the Tivoli Hotels chain which has been operating for nearly 75 years and has a marketing image associated with luxury and prestige. Tivoli Hotels belong to the Portuguese Espírito Santo Group, which currently owns 12 hotels in Portugal and 2 in Brazil.

In view of the purpose of the study, two hotels (Tivoli Oriente and Tivoli Coimbra) within the Tivoli group were found to implement an integrated management system that brings together quality certification, environment and security (integrated certification of ISO 9001, ISO 14001 and OHSAS 180001).

The Hotel Tivoli Oriente is located in Lisbon and near the Lisbon International Airport. The hotel has 279 rooms and their market is business tourism and leisure. The hotel has a bar, two restaurants, one of them has a capacity for 180 people, and 11 meeting rooms with a capacity for between 10 and 260 people and are equipped with audiovisual equipment. Table 2 presents the benefits of IMS.

Table 2. IMS benefits

Facilitates a systematic approach and tracks activities that influence quality, environment and safety
Facilitates the integration of three subsystems in the global management of the organization
Reduces bureaucracy in the organization
Saves resources
Minimizes potential conflicts of objectives between the systems when viewed individually
Reduces costs related to audits and certification systems
Provides employees with a better understanding of quality, environment and safety standards dimensions

The implementation of the IMS created some problems and difficulties within the organization such as:

- Resistance to change by some employees to work under a controlled and more organized system;
- Difficulties for people with a low level of education and no technical training in various fields (HACCP, Safety, etc.);
- Increase in bureaucracy;
- Awareness of the authorities and business partners;
- Incompatibilities between concepts (e.g., conflicts between environmental and quality areas).

Another difficulty is the allocation of financial resources to implement IMS. Benefits of implementing the IMS derive from the integration of several systems inside a firm in several areas. The benefits identified by the hotel are: optimization of work processes with impacts on productivity, sustained evolution of the company, consolidation of their corporate image, creation of an organized structure, reduction of environmental impacts and risks and an increase in customer satisfaction level. The IMS also allows registering results in improved efficiency and management of natural resources, reducing water consumption and energy, improving adherence to applicable law and developing the management of waste generated by the operation.

4. RESULTS, DISCUSSION AND CONCLUDING REMARKS

This section is divided into two parts according to the objectives of the study. First, to discuss what innovation in services means, with particular emphasis on innovation in hospitality and tourism by presenting a literature review on the subject. Second, to apply a case study research to an international hospitality group. Table 3 is based on case study methodology and allows discussion of the results and hypotheses validation.

The first objective was achieved through the organization of literature published about this issue in recent years and the comparison of theoretical approaches applied to innovation in services (Table 1) and case study results in order to contribute to the literature in this field. In line with service innovation as defined by Sundbo and Gallouj (1999), the case study reveals that if firms develop a set of procedures in an integrative way that involves the whole organization, this innovation could become radical. However, if the actions are isolated, innovation is incremental. Discussion of the perspective presented by Van Ark *et al* (2003) allows us to conclude there is a multidimensional character of innovation in services. The IMS requires that all departments should be involved. The

results and limitations of implementation bears out an emphasis on the organizational dimension. Finally, the discussion of Carvalho (2008) shows that incremental nature generates the introduction of radical innovation in this case study. Previously, the hotel had already maintained standards for certification, but did not do so seamlessly. This investment resulted in an improvement in the process of IMS.

According to the literature review, the value added from this case study is principally a better understanding of how hospitality firms can transform a set of isolated procedures (incremental innovations) into an integrated management system with a large impact on a firm’s performance (radical innovation).

The second aim intends to apply case study research to an international hospitality group. This aim was achieved by developing the use of a case study research as applied to the Hotel Tivoli Oriente. This hotel implements an Integrated System Management that enables certification as a whole in three dimensions (ISO 9001 Quality Management Systems; ISO 14001 Environmental Management Systems; OHSAS 18001 Management Systems and Health and Safety at Work).

The results of empirical study allows for the testing of hypotheses and Table 3 presents the summary of this testing.

Table 3. Summary of hypotheses testing

Hypotheses		Decision
H1	H1: The implementation of a Hotel Integrated Management System is a radical innovation.	Accept
H2	H2: The implementation of a Hotel Integrated Management System contributes mainly to organizational innovation.	Accept
H3	H3: Firms use politics of sustainability as a strategy foe differentiation and innovation from competition.	Accept

With regard to the degree of innovativeness, H1 confirms and validates the role of radical innovation. Radical innovation can lead to various smaller innovations (Sundbo 2001). They can also surface as technological revolutions, which consist of a group of innovations that together produce a greater impact (Fagerberg, 2005).

Insofar as organizational innovation, literature review shows a very small number of studies applied to tourism firms. One of the few studies was developed by Ottenbacher (2007) who states that hospitality businesses develop innovation to a set of specific objectives related to business performance. This study concludes that different approaches to the development of organizational innovation seem to be dependent on these objectives. Sundbo and Gallouj (1999) classified service innovation into four types: product innovation, process innovation, organizational innovation and market innovation. Confirmation of H2 contributes mainly to organizational innovation and highlights the role of organizational innovation in hotels. Organizational innovation involved the Hotel Tivoli Oriente in making several organisational changes in order to implement the IMS. Some of the difficulties to implement the IMS mentioned above are probably linked with the matrix of the environment for the implementation and the harmony between values and innovation. The effectiveness of the implementation results from the double influence of "organizational climate for the implementation" of a given innovation, and the "line between innovation and values of users" in innovation (Klein, Sorra, 1996). An organizational climate for the implementation of an innovation refers to common perceptions of users about an innovation since the use of an innovation is valued, supported and desired within the organization. This case study demonstrates that innovation offers the possibility to increase service quality, improve customer relations and that the firm tried to involve employees in implementing the entire system. The results also indicate that there was interaction between

production and consumption that involved an adaptation to customer needs, the inclusion of information in the production process that makes use of ICT, the role of human resources and the importance of organizational factors and business performance (Sirilli and Evangelista, 1998).

Results confirm H3. Nowadays, tourism firms must be managed according to the three dimensions: economic, social and environmental. The benefits identified by the hotel are: optimization of work processes with impacts on productivity, sustained evolution of the company, consolidation of their corporate image, creation of an organized structure, reduction of environmental impacts and risks inherent to the activity and an increase in customer satisfaction level. The IMS also allows for results in improved efficiency and management of natural resources to be registered. All these outcomes have positive impacts on the firm's performance as they reduce costs, improve quality and add value. Additionally, they could be connected with an increasing competitiveness in this market segment (Hall and Williams, 2008; Weiermair, 2006).

Finally, it could be concluded that the literature review allows for the identification of the studies that are better adapted to the characteristics of hospitality firms. Analysis and discussion of the empirical work and hypotheses confirm the following: a) the implementation of a Hotel Integrated Management System could be classified as a radical innovation; b) the implementation of a Hotel Integrated Management System contributes mainly to organizational innovation and also depends on the values of its users within the organization. In this context, an organizational culture becomes very important; c) the firms use sustainability as a strategy for innovation and differentiation from competition.

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ANNEX 1 – INTERVIEW GUIDE

General aims	Specific aims
1. Firm/organization features	Entrepreneurial group Localization Age Ranking/stars Installed Capacity Services available Market segment
2. To understanding which strategies used to differentiation/innovation from competition	Identify if firms have some strategies
2.1. Sustainability politics	Understand if the hotel follow particular sustainability approach
2.2. Integrated Management System	To understand the reason for the adoption and analyze the 3 dimensions (social, economic and environmental) and best practices.
3. Barriers and difficulties	Identify barriers and difficulties
4. Benefits	Identify benefits