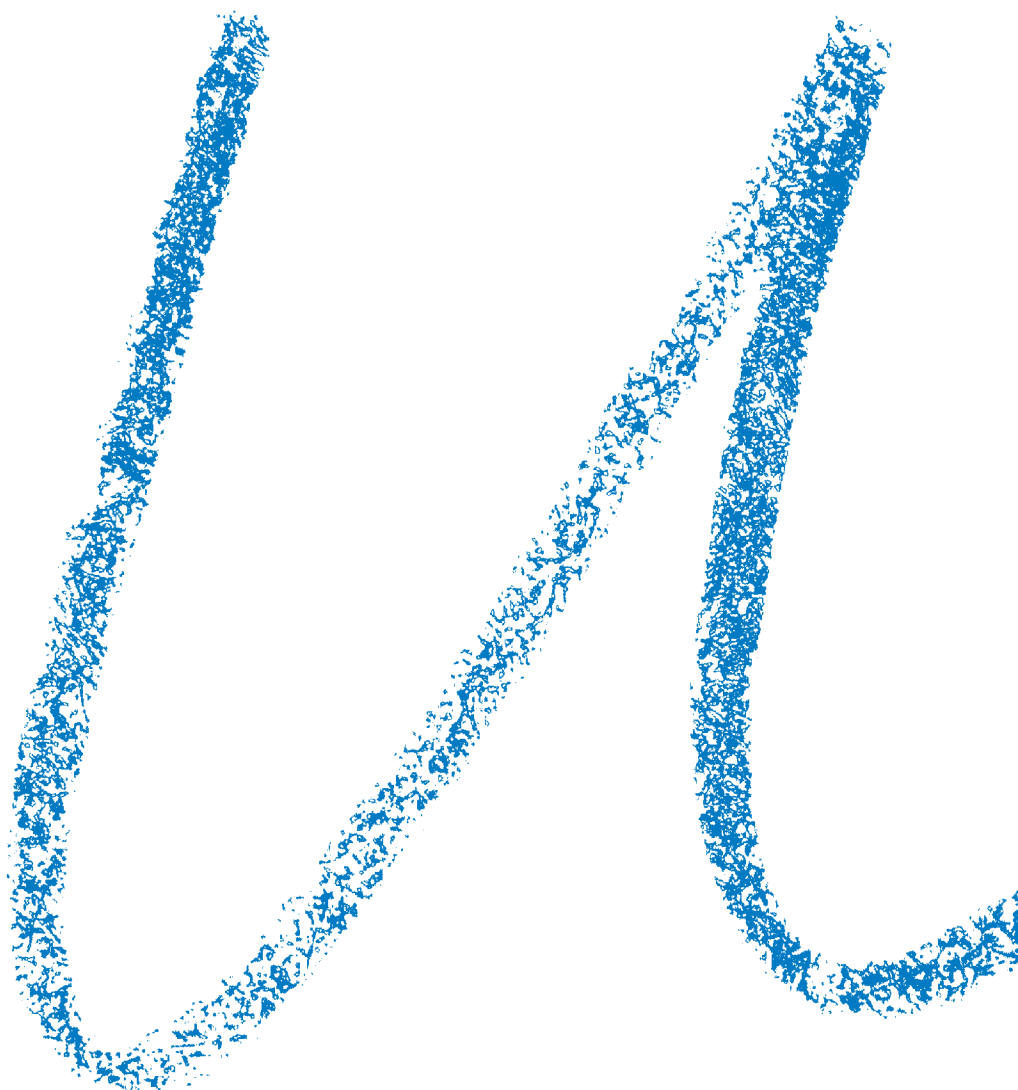


Tourism Clustering & Innovation

– Paths to Economic Growth & Development

Sara Nordin



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”If you want to travel fast,
travel alone.
If you want to travel far,
travel together.”

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Preface

What is it that attracts visitors, residents, companies, investors and other interested parties to a place? That question has for a long period been of great interest, not least to researchers. Models explaining the relation between the power of attraction and economic growth have been developed for more than a century. During the last decade the emphasis has been on what is perceived as cluster theories. The concept in itself invites to discussions on how to define in this context this new term. Once the theoretical framework has been set, it remains to prove that clustering is a main force behind the development of locations.

Sara Nordin has in this report in a commendable and extraordinary manner illustrated the cluster concept, from a general as well as tourism perspective. A lot points to the fact that an increased knowledge about cluster development may play a critical role in the transformation of places into attractive tourism destinations. Since tourism increases in importance in the rising experience economy, the need for knowledge will accelerate.

Stockholm, September 1st 2003

Bengt Sahlberg
Professor, Ph.D.
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Acknowledgements

At one point in my life I lived in the midst of a world class cluster – in the middle of Silicon Valley. I was an exchange student and was given the opportunity to spend a year in one of the world's most dynamic areas, staying with my host family the Schwartz's whose generosity and kindness I will treasure forever.

As I would ride in a car from San Francisco to Sunnyvale I would pass countless numbers of high tech companies, industrial parks, the Stanford University and hundreds of commuters. Even though I had the chance to study this entrepreneurial area up close, it was still difficult to grasp the dynamics. Clusters live a life of their own and there is so much more to it than what can be seen on the surface. Therefore I am very grateful for this opportunity to study cluster theories and moreover, apply them to the tourism and travel industry, which rarely has been conducted.

I would like to thank the National Program for Development of Innovation Systems and Clusters (administrated by the Swedish Business Development Agency, the Swedish Agency for Innovation Systems and the Invest in Sweden Agency), the Swedish Tourist Authority, the Regional Tourism Association of Jämtland Härjedalen and the County Administration Board of Jämtland for supporting the project.

I would also like to thank my manager Bengt Sahlberg, an invaluable source of knowledge and inspiration, for supporting me throughout the entire process and my colleagues at the European Tourism Research Institute for helpful advice. I am grateful to the respondents of the interview study in Åre and Funäsdalsfjällen - thank you for your time and cooperation. Also thanks to Anna-Kerstin Green for assisting with the interviews, my Dad for contributing his photography and my brother for editing.

Finally, I would like to dedicate this report to one of the most sharing persons I have ever met, to Gail Schwartz who unfortunately passed away in February this year and to my American sister and close friend Lisa Pawlak, with whom I have experienced so many of the great joys of Silicon Valley and California.

Frösön, September 1st 2003

Sara Nordin

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1. Introduction

1.1 General Background

There was a time when obvious cooperation with companies in the same field often raised suspicions of collusion. Today the situation is certainly a different one. Even though competitive rivalry still exists, joint efforts are increasingly becoming the norm. Companies tend to cluster, forming critical masses in one place, to take advantage of synergies such as increased productivity, a higher pace of innovation and in essence the possibility of becoming more competitive.

The growing interest in industrial clusters has its origins in Harvard professor Michael E. Porter's studies. However, the multitude use of the cluster concept in various contexts has led to a widespread confusion. What are clusters and in what way do they increase the competitiveness are questions frequently asked.

Traditionally the theories of clustering and the cluster concept have mainly been applied to the manufacturing industry. This is still today dominating, despite the fact that the service sector, and as a part of it the tourism and travel industry, is one of the fastest growing with a great future potential.

Innovations in the field of tourism have also been a matter of limited research and political consideration. This may be explained by their unique features sometimes difficult to grant a patent and their in general limited occurrence.

The majority of small and micro companies together with the fragmentation of the industry constitute a constraint to development, which may be helped by regarding each individual operator as a part of an integrated system. Hence increased knowledge and an understanding for what the cluster concept may provide is of importance to private businesses, government stakeholders at various levels and anyone with an interest in fostering economic growth and development.

1.2 Aim of the Report

The overall purpose of this report is to try to emphasize clustering as a means of developing the tourism and travel industry. It aims to widen the understanding that the cluster concept not only provides an opportunity of economic growth, a higher level of innovation and an increased competitiveness to the manufacturing industry, but is just as important to the service sector. However, it is critical to acknowledge the differences that exist between these industries. This is done by first introducing a general description of the cluster concept and then by applying it to the tourism and travel industry. The report will also provide insight into how other regions have worked with the cluster approach to reach development. Finally, a case study will be introduced, where two tourism destinations are analyzed in order to try to determine whether they constitute clusters or not.

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1.3 Methods

The report is based on two methods. The first one, found in chapter two and three, is a research of secondary literature. An innumerable amount of articles and books have been written about clustering and innovation, forming the foundation of the description of the general cluster and innovation theories. However, the research conducted on tourism clustering and innovation is very limited, which is an explanation to the small number of sources within this field. The second method involves the case study in the fourth chapter, which is based on interviews. A more detailed description of the interviewing procedure is found in section 4.2.

1.4 Outline of the Report

The report is divided into three main parts – a theoretical overview, lessons from cluster development and a case study of Åre and Funäsdalsfjällen. Chapter two with the theoretical overview provides an introduction to cluster theories and innovation and apply them to the tourism and travel industry. Chapter three offers the opportunity of learning from the experiences of others. It introduces cluster development in three areas of the world – Tropical North Queensland in Australia, Napa Valley in California and Khayelitsha in South Africa. The fourth and last chapter involves a case study of the tourism destinations of Åre and Funäsdalsfjällen in the northwestern part of Sweden. The main purpose of this chapter is to analyze the destinations from a cluster perspective and try to decide whether they constitute clusters or not.

2. Theoretical Overview

2.1 General Background

Competitive rivalries continue, but joint efforts and cooperation are increasingly becoming the norm in virtually every industry. Companies tend to cluster. They form concentrations of interconnected similar industries in a specific geographic region and by doing so, they achieve synergies. Porter has pointed out that economic geography in an era of global competition poses a paradox: “In theory, location should no longer be a source of competitive advantage. Open global markets, rapid transportation, and highspeed communications should allow any company to source any thing from any place at any time.”¹ However, in practice location remains a critical factor to competition, since the proximity of companies in a limited geographical area provides competitive advantages.

The cluster concept suggests that industries grow in certain regions as opposed to others for other reasons than pure economical factors. It highlights the importance of research and innovation as well as access to skilled workforce, quality education and investment capital. Karen E. Thuermer states that “[b]y locating in an area where similar companies already exist, newcomers receive the benefits of an established infrastructure as well as an environment that supports and stimulates the latest thinking, attracts highly-skilled employees and offers the opportunity to form close relationships with local resource centers, such as universities. Clusters also promote specialized and tightly knit relationships between buyers and their proximate suppliers.”²

Hence in a cluster the focus is on the linkages between firms, for instance taking the form of buyer-supplier relationships, training or research initiatives, joint marketing and lobbying. However, it is usually not a group of firms that deliberately join to reach common objectives, but rather a non-planned phenomenon. It is a group of companies forming linkages and alliances with the unique feature that companies selectively compete in certain respects and yet cooperate in others.

The concept of companies clustering together and the advantages arising from it are by no means something new. Most of us are familiar with Silicon Valley in California – perhaps the best example of a modern-age cluster of thousands of intertwined high tech companies. However, cluster-based economic developments have received an increased amount of attention in the last decade, especially after the publishing of Porter’s work “The Competitive Advantage of Nations” in 1990,

¹ Porter, M.E. “Clusters and the New Economics of Competition”, Harvard Business Review, Vol. 76, Issue 6, Nov/Dec 1998, p.77.

² Thuermer, K.E. “Companies and Regions Enhance Their Strengths by Building Clusters”, Keller International Publishing, 2000.

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where he showed that leading industries in basically any field tend to group in relatively small geographic areas – in competitive clusters.³

In recent years a debate has been taking place questioning whether the cluster concept is something new or just a new word for a phenomenon that basically always has existed. It is clear that viewing industrial production as a system consisting of different business operations is not a novelty in itself. Certain issues, such as how a company's ability to compete is affected by the place where it is located, why similar and related activities form geographic concentrations (agglomerations) and how different types of related economic activities develop in relation to each other, are traditional questions in economic geography. These have been central issues for a long time.

Alfred Marshall formulated theories as early as in the late 19th century on the importance of an active contribution of local actors in reaching a successful economic development, as he studied highly specialized industrial districts. A wide variety of terms exist describing industrial systems and the way a single economic unity is part of a greater context, such as networks, development blocks, value chains and innovation systems. The differences between these concepts and the discussion of the novelty of clusters have not been dealt with in this report.⁴ However, since it deals with tourism clusters, it is critical to try to explain what is meant by the cluster concept in this context.

2.2 Defining Clusters

A definition of the cluster concept, which is generally agreed upon simply does not exist. The definition used in this report will be based on Porter's definition:

"Clusters are geographic concentrations of interconnected companies and institutions in a particular field, linked by commonalities and complementarities".⁵

Porter points out that industrial production has to be understood as a system of interrelated players and operations. He embraces the idea that agglomerations are not a new phenomenon, but he argues that the reasons behind the behavioral pattern have changed. What used to be done in an attempt to get easier access to raw material, to cut costs or get access to logistics has now turned into a deliberate

³ For more information on the study see Porter, M.E. The Competitive Advantage of Nations (New York: The Free Press, 1990) and Sölvell, Ö. et al. Advantage Sweden (Great Britain: MacMillan Press Ltd., 1993).

⁴ For more information on this see for instance Malmberg, A. "Klusterdynamik och regional näringslivsutveckling – begrepp och forskningsöversikt", ITPS, Report A2002:08, Nilsson, J.E. and Uhlin, Å. "Regionala innovationssystem - en fördjupad kunskapsöversikt", VINNOVA, Report VR 2002:3, May 2002 and Martin, R. and Sunley, P. "Deconstructing Clusters: Chaotic Concept or Policy Panacea?", Paper presented at the Regional Studies Association Conference, London 21 November, 2001.

⁵ Porter, M.E. 1998, p.78.

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choice of locating close to other companies in an intimate environment. As a result, enterprises get access to an environment where the level of innovation is high, new products and services are constantly being developed, increased specialization is taking place, skilled labor, the latest knowledge and information are available. Based on this perspective, clusters could be considered as something new in comparison to previous approaches.

The boundaries of a cluster do not generally follow ordinary administrative borders such as municipalities, counties or even countries. Neither do they follow the “normal” industrial borderlines, since the linkages go beyond that point. Clusters are dynamic with boundaries in constant change, as new companies and new linkages appear and others disappear. Porter states that “[t]he geographic scope of a cluster can range from a single city or state to a country or even a group of neighbouring countries.”⁶ This is a fairly wide delimitation leaving us with little geographic framework. Clusters can simply take on different geographic forms.

The difference between clusters and other forms of cooperation within a network is sometimes difficult to see. A helpful description can be found in a study by the OECD:

*”The cluster concept focuses on the linkages and interdependencies among actors in the value chain in producing products and services and innovating. Clusters differ from other forms of co-operation and networks in that the actors involved in a cluster are linked in a value chain. The cluster concept goes beyond “simple” horizontal networks in which firms, operating on the same end-product market and belonging to the same industry group, co-operate on aspect such as R&D, demonstration programmes, collective marketing or purchasing policy. Clusters are often cross-sectoral (vertical and/or lateral) networks, made up of dissimilar and complementary firms specialising around a specific link or knowledge base in the value chain.”*⁷

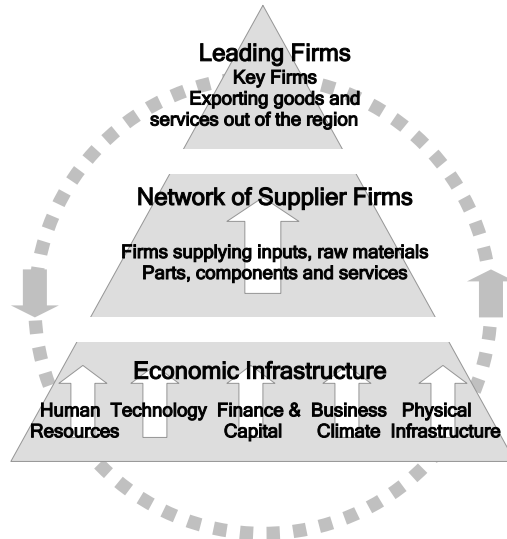
The definitions above show that the interdependencies and alliances between companies constitute the vital factor, the centre of the core. Industry clusters are generally composed of several layers - the leading industries (the principal service providers or manufacturers), the supporting industries and other actors of the economic infrastructure such as transportation and services. Hence the focus is on the linkages to suppliers, to customers and to complementary businesses as well

⁶ Porter, M.E. “Locations, Clusters and Company Strategy”, in Clark et al, The Oxford Handbook of Economic Geography (Oxford: Oxford University Press, 2000) p.254.

⁷ OECD Proceedings, “Boosting Innovation, The Cluster Approach”, 1999, p. 12.

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as to different institutions such as universities, research institutes and government agencies.



Source: The EC Group, www.ecgroup.com

The term cluster has become so common and frequently used that it is applied freely to almost any problem that can benefit from a collective solution. This has to some extent led to the fact that the term is starting to lose some of its meaning. One difference between a network and a cluster is that networks can occur among firms situated anywhere, whereas clusters usually refer to a core of firms in a more limited geographical area. Stuart A. Rosenfeld points out more important distinctions between a cluster and a network that make the difference more distinguished, even though it is important to remember that there are no universal rules that apply to every situation:

Networks allow firms access to specialized services at lower costs
Clusters attract needed specialized services to a region

Networks have restricted membership
Clusters have open “membership”

Networks are based on contractual agreements
Clusters are based on social values that foster trust and encourage reciprocity

Networks make it easier for firms to engage in complex production
Clusters generate demand for more firms with similar and related capabilities

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Networks are based on cooperation

Clusters require both cooperation and competition

Networks have common business goals

Clusters have collective visions⁸

Since the cluster concept can be found in a variety of contexts and takes on different meanings confusion easily arises. Anders Malmberg, a Swedish scholar, has tried to structure the different meanings of the concept. He distinguishes between three interconnected main areas. The first one is a *functional* dimension of clusters, which focuses on related firms and industries often knit together by a network or a production system. The second dimension concerns clustering as a *spatial* phenomenon. It focuses on similar and related businesses forming concentrations (agglomerations) in a limited geographic area. The third dimension deals with clustering as a *development strategy*, taking the form of policy programs promoting clusters. The last one often involves the attempt to create strong regional brands, such as Hollywood or Silicon Valley.⁹ Porter's approach combines the spatial dimension with the point of view that industrial production has to be looked upon as a system of interrelated operators.

In this context it is possible to mention yet another category, namely thematic clusters, which have not been studied in this report, but still are worth mentioning. Themes involve strategic segments. In the field of tourism they may involve heritage, special interest, adventure or sports tourism. The kind of clusters based upon themes generally cross geographical and political boundaries. Accordingly they are more functional than spatial phenomenon, although they may be found in a rather limited geographic area. They depend on the collaboration of the value chain participants to form "packages" and work in synergy to provide an inclusive experience for the market segments in question.

2.3 A Systematic Approach to the Tourism & Travel Industry

In Porter's research as well as in most other cluster studies there has traditionally been a strong focus on the manufacturing industry. This dominance still exists, despite the growth of the service sector and its great future potential. Tourism and travel, an important part of the service economy, is according to the World Tourism Organization (WTO) the world's largest industry and it is predicted to be one of a few industries that will continue to generate job opportunities in the future. Hence it is an important vehicle for regional and national development. To many countries and regions it already today constitutes a very important source of income and employment. Still, the tourism and travel industry is one of the least

⁸ Rosenfeld, S.A. "Backing into Clusters: Retrofitting Public Policies, Integration Pressures: Lessons from Around the World", John F. Kennedy School Symposium, Harvard University, March 29-30, 2001, p. 3.

⁹ Malmberg, A. "Lokal miljö, kluster och industriell konkurrenskraft", Lecture Notes, Course in Economic Geography, 2003.

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researched in the world economy. A cluster-based approach to this industry is interesting, not only because the service sector in general has been overseen for a long period, but because the tourism and travel industry inhabits some rather unique features.

The boundaries of the tourism and travel industry are fairly diffuse and therefore its extent is hard to measure. It combines segments from other industries consisting of a wide variety of products and services, which are demanded while traveling away from home. There is probably no other industry with such diversity in terms of the sectors it embraces, such as restaurants, hotels, airlines, travel agencies, shops and so on. This has often raised the question of whether tourism and travel should even be classified as an industry by itself, strengthened by the fact that no homogeneous product is being produced and that different technologies are used in the production process.¹⁰ In this regard, tourism and travel is not considered an industry in the traditional sense of manufacturing or trade.

The World Tourism Organization concludes that no single definition of tourism exists, consequently making it hard to define the tourism and travel industry as well as the tourism sector. However, the WTO has created the following definitions for travel, domestic as well as international:

Any person residing in a country, who travels to a place within the country, outside his/her usual environment for a period not exceeding 12 months and whose main purpose of visit is other than an activity remunerated from within the place visited.

Any person who travels to a country other than that in which he/she has his/her usual residence but outside his/her usual environment for a period not exceeding 12 months and whose main purpose of visit is other than an activity remunerated from within the place visited.¹¹

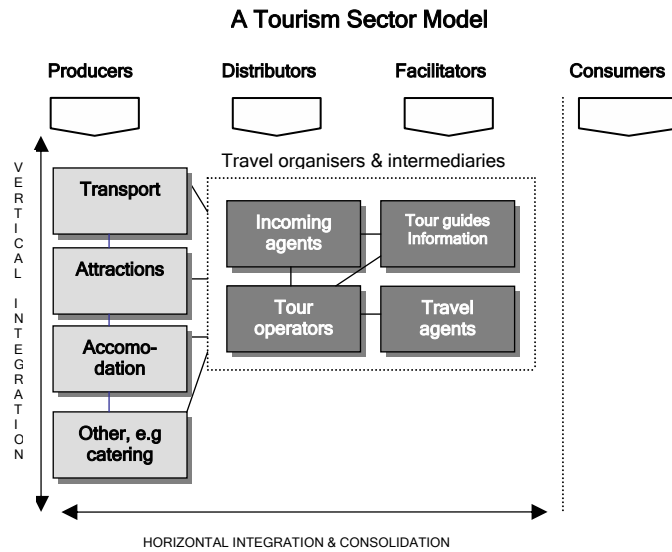
The above stated definitions are conceptual and thus subject to various interpretations. However, for most practical research purposes travelers are often defined as those who travel a specific mileage away from home. Another way of defining travel is to distinguish between residents and non-residents of a nation, county or city.¹²

¹⁰ Ioannides D. et al. The Economic Geography of the Tourist Industry (London: Routledge, 1998) p.36.

¹¹ World Tourism Organization, www.world-tourism.org

¹² Utah Travel Monitor, Utah Division of Travel Development, Department of Community and Economic Development, February 2001, p.3.

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Source: PricewaterhouseCoopers, 2001, adapted from Poon 1993 & Cooper et al. 1998 in "Structure, performance & competitiveness of European tourism and its enterprises", 2003.

The way the tourist himself takes part in the production process and becomes a component of the end product is a rather unique feature to this industry and a few other service-producing ones. In the manufacturing industry there is usually an opportunity for leading companies to control the quality of the end product before delivery and make sure that other actors in the value-chain have done a satisfying job. As a majority of tourism products are being produced and delivered at the same time, this is not possible in the tourism and travel industry. However, the experience of the tourist will still be based on the overall impression of the destination visited, which means that the guest may not return to the hotel, even if the stay was excellent if for instance the restaurant nearby offered poor service. This means that much of an individual tourism business' potential to achieve growth lies outside the power and the influence of the company.

On the other hand, a well-working system of players can create added value, where 1+1 equal 3. Porter states that "[a] host of linkages among cluster members result in a whole greater than the sum of its parts. In a typical tourism cluster, for example, the quality of a visitor's experience depends not only on the appeal of the primary attraction but also on the quality and efficiency of complementary businesses such as hotels, restaurants, shopping outlets, and transportation facilities. Because members of the cluster are mutually dependent, good performance by one can boost the success of the others."¹³ This means that operators in the tourism and travel industry can increase their collective markets and capacities by working together. It can benefit all parties involved in terms of increased opportunities and revenues. By identifying gaps in the tourism cluster

¹³ Porter, M.E. 1998, p.77.

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and creating integration across businesses and sectors to achieve synergy, new products and services can be created and an innovative and competitive environment achieved. Moreover, working together in an integrated system supports the development of economies of scale, which may be critical to competitiveness.

2.4 The Tourism Destination

When thinking of tourism as an integrated system in a limited geographic area, the concept of destinations easily comes to mind. The spectrum of definitions defining a destination is extremely broad. At one end is for instance a theme park or a country club hotel, that is, places that are often owned and operated by a single commercial group of companies, although some services may be provided by other operators, such as the restaurant, the spa department or the golf shop. At the other end an entire continent can be considered and marketed as a destination. In between a variety of destinations can be found as well, defined by the tourist and/or by administrative bodies assuming responsibility for them. These may include villages, towns, cities as well as areas which extend beyond administrative borders but have a cohesive identity with a specific theme, such as national parks and finally, regions defined by administrative borders or brand names, for example the Riviera or Tuscany.¹⁴ Hence in its broadest meaning every place for a holiday; every place to visit may be considered a destination. However, based on a number of traits common to a majority of definitions found, a tourism destination may be intended as “a locality that offers the tourist the opportunity of exploiting a variety of attractions and services,”¹⁵ usually based upon geographical criteria.

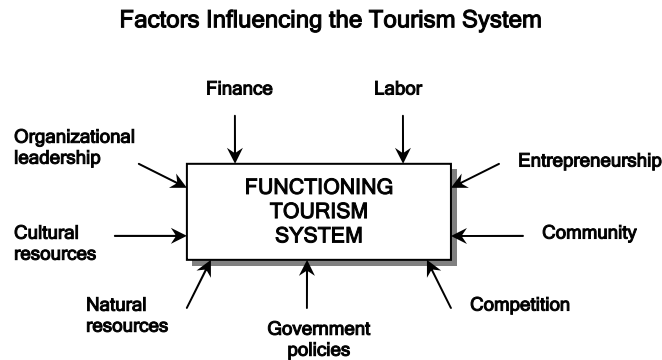
Some tourism models resemble certain cluster models and the factors that influence the tourism system are about the same as the ones affecting a cluster, which becomes evident from a figure by Clare A. Gunn (presented on the next page). However, certain factors may be of even greater importance to tourism, such as logistics and a well-working infrastructure.

Destinations like clusters generally arise naturally, but may need to be developed to reach their fullest potential. Their course of development may be influenced by a number of factors, such as strategy plans, government support and investments in infrastructure or joint marketing efforts. The interdependence of attractions, services, transportation, information and promotion highlights the need for collaboration and it is evident that companies located in a destination have a lot to gain from being located in a close proximity. Gunn explains that “[a] traveller is more likely to seek the great diversity and volume of services when

¹⁴ Vellas, F. and Bécherel, L. The International Marketing of Travel and Tourism, A strategic Approach (Great Britain: MacMillan Press Ltd, 1999) p.183.

¹⁵ Machiavelli, A. “Tourist Destinations as integrated Systems”, *Tourism Review*, Vol. 56, No. 3/4, 2001, p.7.

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Source: Gunn, C.A. *Tourism Planning* (Washington: Taylor & Francis, 1994)

they are located together. And businesses in such cluster benefit from local as well as travel trade.” Gunn also underlines the importance of attractions as they form the backbone of the tourism destinations. He considers attractions the main power that drives tourism everywhere.

However, to say that all destinations are integrated systems would be far from the truth. Tourism destinations when fully developed may make up the core of tourism clusters, but far from all qualify for this level of cooperation. Many destinations lack a system dimension and do not have a shared vision or even common goals. And destinations that share little more than joint marketing are not regarded as clusters in the context of this report. However, developing successful destinations has increasingly turned into a priority issue and an important part of community tourism development. A. Machiavelli states that “[t]he condition at which small companies may develop a greater competitive force, stems from their ability to collaborate, form partnerships, and integrate among themselves.”¹⁶

Global market conditions are causing a more competitive arena. New destinations constantly appear and many mature ones are heading for change or decline. Cooperation at a higher level if successful creates added value for the tourism destination as well as the single entrepreneur. However, perceiving the advantages as an individual operator is not always easy, as it may be more urgent to focus on the cost of collaboration, the limitation of independence and the slowing factors. The majority of small operators in the tourism sector are one explanation as to why it seems harder to form more qualified partnerships than it does in the manufacturing industry. The fragmentation of the supply system is yet another obstacle. The destination participants need to look at themselves as a part of an integrated system. In order to remain competitive network-based operations will to a large degree be essential. Machiavelli further points out that “[i]f cooperation also takes place with companies in different sectors (vertical cooperation) further synergies are developed and they generate positive effects on the economic front

¹⁶ Machiavelli, A. p.7.

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(reduction of transaction costs) and, above all, on the front of the qualification of the products offered.”¹⁷

2.5 Supporting Industry Clusters

Clusters evolve and change over time. They are not isolated entities, but open units that are part of a greater context. Neither is the development of new competitive products and services limited to a separate and isolated cluster. In the interface between different clusters new value can be created. As a matter of fact, cluster development often becomes particularly vibrant at the intersection of clusters, where insights, skills, and technologies from different fields merge, and as a result spark new business. Moreover, the diversity of learning stimulates innovation.¹⁸

Most tourism clusters have strong linkages to other closely related industries and supporting clusters, such as outdoor equipment, design, beverage and food. Cooperation beyond natural borders ought to come easier to an industry that in itself embraces a multitude of sectors. A system of linkages between tourism enterprises and to actors outside the sector is simply necessary in order to satisfy the demands of the customers. It is difficult to draw distinct borderlines between two supporting clusters, as they are often intertwined. However, that may not be particularly important. What matters is that two or more supporting clusters in close collaboration may develop great benefits and competitive advantages. This will be evident in section 3.3 dealing with the wine and tourism industry in Napa Valley, California. Hence clusters operate and succeed or fail in the context of an environment inhabiting other companies, industries and clusters.

2.6 The Competitiveness Diamond

Porter argues that the success of a firm does not only depend on the strategy and positioning of the tourist centre, but also on its embedding in their environment.¹⁹ He claims that the location of the company even in a global world is critical. The local milieu can to a large extent affect a company's ability to compete, since it affects its possibility to innovate and to take part of strategic knowledge and information and thus be in an environment of constant learning. To be able to benefit from and partake in this exchange a certain geographic closeness that enables social interaction is necessary. This also creates close bonds built on trust and confidence – yet another important factor.

¹⁷ Machiavelli, A. p.9.

¹⁸ Hallenkreutz, D. and Lundequist, P. “Innovative clusters in Sweden, practical lessons from regional cluster-building”, NUTEK, 2001 p.18.

¹⁹ Vanhove, N. “Tourism Policy – Between Competitiveness and Sustainability: The Case of Bruges”, *Tourism Review*, Vol. 57, No. 3, 2002, p.36.

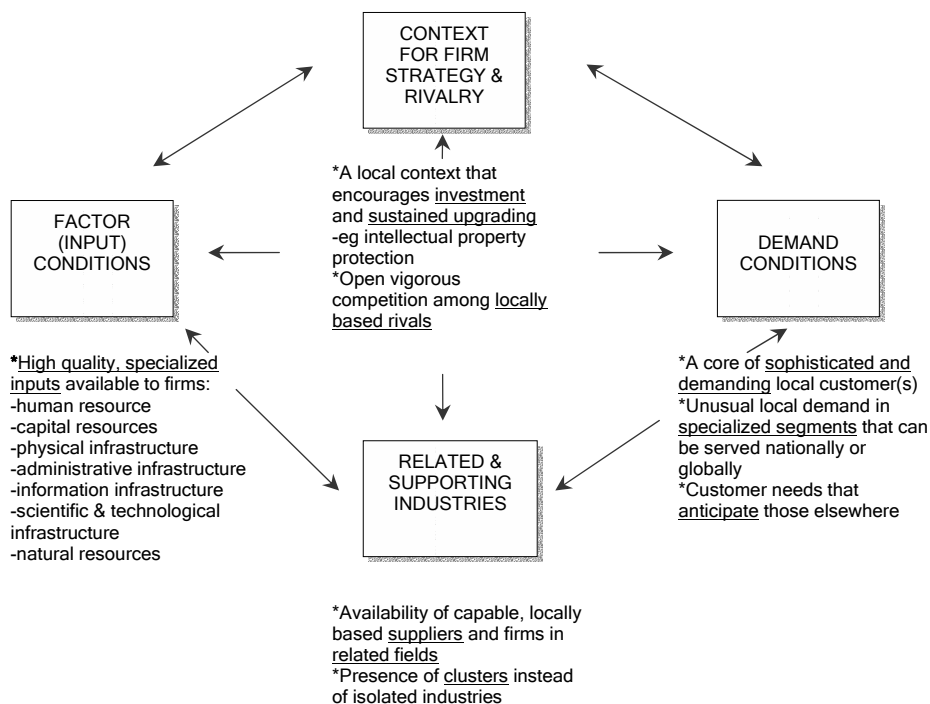
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The reasons for not focusing on individual firms or sectors are the advantages that come with the cluster concept:

“Clusters align better with the nature of competition and the sources of competitive advantage. Clusters, broader than industries, capture important linkages, complementarities, and spillovers of technology, skills, information, marketing and customer needs that cut across firms and industries... Such connections are fundamental to competition, to productivity, and especially, to the direction and pace of new business formation and innovation.... Viewing a group of companies and institutions as a cluster highlights opportunities for coordination and mutual improvement in areas of common concern without threatening or distorting competition or limiting the intensity of rivalry.”²⁰

Porter highlights the factors that are central for creating long-term competitiveness. He presents four key drivers that determine the company's or the cluster's competitiveness, depicted as a diamond model. These attributes (and their interaction) offer, according to Porter's theories, the main explanation as to why companies located in a particular region remain competitive and innovative.

Porter's Diamond Model



Source: Porter, M.E. 1990

²⁰ Porter, 1990 p.205.

2.6.1 Factor Conditions

According to classic economic theory on competitive advantages a nation's or a region's competitiveness is virtually explained by its plentiful endowment of required basic production factors, such as land, labor, capital, natural and cultural resources. These are the conditions on which firms seek to compete. Without factor conditions, in particular without attractions, there would be no tourism activity.

However, Crist Inman et al. raise an interesting issue, illustrated with an example from the Netherlands. They point out that if the basic endowments were the only explanatory factors, how is it then possible that the Netherlands is a leading nation when it comes to fresh flowers? The country accounts for two thirds of the world's fresh flower exports, but certainly does not have the greatest basic factors needed for this activity – the country suffers from scarcity of land, it has a short production period, not the best climate for this purpose and a relatively expensive workforce compared to competing countries.

The explanation is that it is often not the basic factors that are vital to reach competitive advantages, but rather the so called specialized factors. Crist Inman et al. state that “[t]hese specialized factors are not inherited, but created by each country; they come from specific skills derived from its educational system, exclusive technological know-how legacy, specialized infrastructure, etc; and respond to a specific industry's needs. [---] Specialized factors foster a country's competitive advantages, because they are unique and hard to replicate or access by competitors from other regions.”²¹

In the example of Holland there have been major investments in flower-related research, leading to technologies for creating new flower types, extending cut-flower life and improving crop techniques. Furthermore, they have a well-organized infrastructure for distribution and developed artificial farming. An important learning point from this is that the current conditions and the basic endowments present do not necessarily set the frame for what is possible to do in a successful manner. A wider thinking supported by strategic work may open up for new possibilities.

Inman et al. apply their theory to tourism and state that “[i]n tourism, the basic factors enabling a country's development consist of the natural, archaeological, and cultural resource endowment. A country or region's competitiveness, however, lies rather in the quality of specialized factors valuing its inheritance above countries with similar legacy. Human resources trained in tourism, infrastructure designed to provide access to natural resources, suitable capital markets to finance long-term tourism projects, adequate citizens' safety level, and

²¹ Inman, C. et al. ”Tourism in Costa Rica, The Challenge of Competitiveness, Working Paper, March 2002, p.3f.

wide coverage of public sector support services are examples of this type of specialized factors.”²²

Factor endowment and specialization need to be constantly improved in order to remain competitive. Pechlaner et al. point out five areas of particular importance:

- Training centers for new tourism workers
- Relevant institutions for trend/innovation research
- Methods for continual endowment and improvement of production factors (so-called factor-creating mechanisms)
- Institutions for knowledge transfer and implementation
- Innovation-friendly general conditions²³

2.6.2 Demand conditions

Acknowledging the needs and wants of consumers for domestic and foreign goods and services is vital. Globalization has not, as could be expected, decreased the importance of local demand. On the contrary, there is a correlation between competitive companies and a high local demand. Located near one another, customers and companies discuss emerging needs and how to meet them and this becomes yet another incentive to innovate. The closeness increases the responsiveness and the communication channels are shorter. There is also a greater likelihood of entering joint projects.

Both domestic tourists and foreigners visiting the country contribute to the local demand. The industry differs in the way that consumers themselves travel to the tourism attractions, compared to the export of products out of a region or country as in the case of the manufacturing industry (see also 2.3). The central issue when dealing with demand conditions is the requirements of the immediate customers. Thus the emphasis should be on the size and the structure of the market, focusing on the tastes and requirements of tourists visiting a destination. Finding the right position in fast growing markets and strengthening tourism culture of consumers and host societies are also of importance.²⁴

According to Smeral, “[o]pen-minded and sophisticated tourists and consumers are important factors... as anticipating consumer needs requires recognizing new trends and new production possibilities early on. Quality-oriented tourists function as a quality control and can significantly contribute to the competitive advantage.”²⁵

²² Ibid.

²³ Pechlaner, H.A., Smeral, E.B. and Matzler, K.C. “Customer Value Management as a determinant of the competitive Position of Tourism Destinations”, *Tourism review*, Vol. 57, No 4, 2002. p.16.

²⁴ Vanhove, N. p.37.

²⁵ Smeral, E. “The impact of globalization on small and medium enterprises: new challenges for tourism policies in European countries”, *Tourism Management*, Vol. 19, No. 4, 1998, p.376.

2.6.3 Business Strategy, Structure and Competition

Historical and cultural factors affect how firms do business, so do the attitude towards competition, market institutions present and the degree of local competition. In an environment of intense local competition companies feel pressured to innovate and constantly improve. Long-term competitiveness is thus a driver of the development and not mainly a problem. Strategies that improve the competitive standing of a tourism destination or area are vital and a strategic plan supported by both public and private actors is a key element.

Competition and rivalry in the tourism industry can generally be found at two different levels – locally and internationally. Local companies compete in each industry sector for employees, good service, prestige and overall market share. There is usually a correlation between a high degree of rivalry in a sector (such as hotels, restaurants, travel agents) and the incentives to improved standards and the introduction of new products.

On the international level, rivalry among countries competing as destinations (with different positioning and promotional campaigns to attract visitors) is the focus of the analysis. Even then the source of competitive advantage is to be found at the company or cluster level, since a country cannot market a product its industry has not been able to produce.²⁶

Other important issues are among others the marketing of a destination, the organizational structure (for instance encouraging cooperation), public-private partnerships, building strategic alliances and image building.²⁷ Pechlaner et al. have an interesting point as they state that “[i]n the future, a destination’s competitive position will critically depend on whether it is able to optimize its Internet presence in terms of information and booking services and whether regional offers can be integrated in a national frame.”²⁸

2.6.4 Related and Support Industries

Related and supporting industries are actors with whom there is a closer collaboration, better communication, mutual pressures and constant learning. They provide cluster members with custom-made high-quality inputs, components and services often at lower prices. This means that success and competitiveness is made possible because of a very well-developed and efficient network.

A tourism area’s competitive position is defined by the degree of specialization, by its diversity, the quality of the suppliers and the operating network. Successful clusters require well-functioning relations. Inman et al. underline that in order “...to be competitive having a vigorous and innovating support sector is

²⁶ Inman et al. p.5f.

²⁷ Vanhove, N. p.37.

²⁸ Pechlaner, H.A et al. p.17.

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indispensable. This means having good providers of hotel and restaurant food and supplies; good personnel training schools, at the operating, technical and managerial level; engineers and architects specialized in designing tourism projects, and other service companies related to this activity.”²⁹

The suppliers needed in more or less any destination involve shopping facilities, health care, police, construction industry, taxi drivers, travel agents, tourism guides, banks, cleaners, ski schools, a food and fashion industry, cultural entertainment, sport facilities, parking and access to the destination through train, road, air or sea.³⁰

Porter points out that “[c]lusters contain one facet of the diamond (related and supporting industries), but are best seen as a manifestation of the interactions among all facets.”³¹ The interactions between the four set of factors will affect the productivity of the firms - the more developed and intense the better result. Hence in short the diamond model indicates what is needed for a cluster to become successful.

2.6.5 Chance and Government

Two additional variables influence the performance and the competitiveness – chance and government. Chance deals with developments outside the control of the destination or region (and usually the nation’s government). It may include exchange rate speculations, terrorism and wars or the fall of the iron curtain and the German reunification.

Tourism is not solely under the control of commercial enterprises. Governments invest, build and manage tourism development to a fairly large degree. The recognition of the tourism and travel industry as a means of fostering national economic growth that has taken place in recent years has increased the overall interest in the sector. Public actions can definitely affect tourism development as well as the promotion of clusters. Governments can harm or improve the competitiveness of a destination through a variety of measures, such as education, research policies, exchange rates, income policy, competition laws, the structure of investment promotion, control of environmental pollution, labor market policies and so on.³² Undoubtedly, public-private sector cooperation can enhance both destination and cluster competitiveness.

2.7 Criticism

In short, Porter’s theories on clusters are based on two main assumptions – geographic proximity between cluster members and strong linkages between companies. Porter’s theories have not only been praised, but also criticized. It has

²⁹ Inman et al. p.5.

³⁰ Vanhove, N. p.37.

³¹ Porter, M.E. 1990, p. 254.

³² Smeral, E. p.376.

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often been underlined that industry clusters identified in the “real world” have little resemblance to the ideal ones described in Porter’s literature. In short, three main areas of criticism can be identified.³³ First, Porter’s theories on competitiveness, the determinants of the diamond model and the importance of the local environment have been questioned. As an example Stopford and Strange have pointed out that he fails to recognize the composition of government as groups of parties with different interests (this may be of particular importance when dealing with the tourism and travel industry, where government interests are highly influential).³⁴ Furthermore, Martin and Sunley conclude that “Porter’s approach to competition and competitive strategy are far from universally accepted within the business economics, industrial organization and management studies fields”, stating that several authors have criticized Porter’s competitive strategies for being too superficial, for lacking specificity, for being difficult to measure or not as universally applicable as seems to be assumed.

Secondly, it has been argued that the cluster concept by itself is quite diffuse and not very well-defined. It has been stated that since the definitions are so vague, policy-makers and analysts have been able to interpret the meaning to suit their own purposes. Third and last, a more general criticism of a methodological character exists, pointing out the complex nature of a cluster and the difficulty to delimit the cluster geographically as well as according to sectors. Martin and Sunley state that “[i]n practice, there are probably very few firms that do not have horizontal and vertical links (co-operative and competitive) of some sort with other loosely-defined ‘geographically proximate’ firms”³⁵ and question if this means that virtually every firm could be considered part of a ‘potential’ cluster. Truly, it is hard to construct a universal theory of cluster formation to fit all approaches and situations. Furthermore, there is often a gap between theory and practice. However, Porter’s work on clusters and competitiveness is by far the most influential and his concept, even if not perfect, is a good point of departure.

Criticism has not only been raised against Porter’s theories. The way the cluster concept has been used as a key policy tool to achieve an increased economic growth has also been questioned. One issue that has been raised is how strong the evidence is that clusters actually raise the competitiveness, productivity, profitability and innovativeness. The question is relevant and a region or a country should not solely rely on cluster strategies as a means of fostering economic

³³ For a more detailed picture of the criticism against Porter and the cluster concept see for instance Martin, R. and Sunley, P. “Deconstructing clusters: chaotic concept or policy panacea?”, Paper presented at the Regional Studies Association Conference, London 21 November, 2001, Storper, M. The Regional World, territorial development in a global economy (New York and London: The Guilford Press, 1997) and Davies, H. and Ellis, P. “Porter’s Competitive Advantage of Nations: time for the final judgement?”, *Journal of management Studies*, 37, 2000, p. 1189-1213.

³⁴ Stopford, J. and Strange, S. Rival states, rival firms, Competition for World market Shares (Canada: Cambridge University Press, 1991) p.8.

³⁵ Martin, R. and Sunley, P. p. 13.

development. In an ideal situation promoting clusters is just one of many strategies. And even if a region or country has one or more successful clusters generating wealth and employment, it is important to be aware of the fact that clusters go through life cycles and at some point probably will face decline. A strong local or regional economy preferably needs to be able to rely on more than one sector to create job opportunities and development.

2.8 Innovations in the Service Sector – Brief Historical Background

According to cluster theory, there is a correlation between competitiveness and a business' or a cluster's ability to improve its services and products and continuously innovate. The proximity of companies in a cluster is also believed to foster a more innovative environment.

Historically, in the immediate post-war period manufacturing industry was still considered the source of economic growth and innovation. Services played no or very little role in this context. By the 1960s, the first systematic analyses of the sector emerged and terms like “the service economy” and “the post-industrial society” were established. However, there was little change to the idea that services are non-innovative. This assumption has not been questioned on a major level until recently. As we generally are moving towards a knowledge economy, where physical production to a large extent is being replaced by the productivity of knowledge and services, a shift of emphasis is taking place.

In general innovations play just as an important role to the service sector as to the manufacturing industry. However, the focus is stronger on the use of new technology and structural or organizational changes that enable new products and services or ways of delivering them. Innovativeness is not to the same extent associated with research and development. The central elements are generally human resources, such as people, competence and knowledge as well as access to networks.³⁶

2.9 Innovations in Tourism³⁷

The correlation between the growth of tourism and the degree of innovation is evident. Still, tourism innovation has been of limited political consideration and it has not played a decisive part in research. Anne-Mette Hjalager states that “[i]n the most general terms, private profit-seeking agents will plausibly allocate resources to the exploration and development of new products and techniques of production if they expect there will be a market for these products and services.”³⁸ Hence when innovations take place in the field of tourism, economic driving

³⁶ Andersson, T., Asplund, O. and Henrekson, M. “Betydelsen av innovationssystem, utmaningar för samhället och för politiken”, VINNOVA, VFI 2002:1, p.43.

³⁷ The research in the field of tourism innovation is limited. Therefore this section is foremost based on A-M. Hjalager's research.

³⁸ Hjalager, A-M. “Innovation patterns in sustainable tourism”, *Tourism Management*, Vol. 18, No. 1, 1997, p.35.

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forces have often been the reason for looking beyond ordinary procedures and turning to new innovative thinking. However, in general it is not as common a phenomenon as in the manufacturing industry. It has even been argued that innovations are non-existent in tourism. Although it would probably be a lot closer to the truth to say that they are less frequently occurring and sometimes taking on different features making them harder to detect.

One way of generally defining the term *innovation* follows:

*“Innovation is the search for, and the discovery, development, improvement, adoption and commercialization of new processes, new products, and new organizational structures and procedures.”*³⁹

A broad definition, like the one above, is useful when applied to the field of tourism. Hjalager describes an appropriate sub-division of innovations into five categories – product, process, management, logistics and institutional innovations, described in the following section:⁴⁰

- Production innovations

This category consists of changed or new products or services, developed to the stage of commercialization. Their novelty should be evident to producers, suppliers, consumers or competitors. Loyalty programs, events based on local traditions and environmentally sustainable accommodation facilities are examples of production innovations of recent years.

- Process innovations

These innovations involve a way of raising the performance of existing operations with new or improved technology or by redesigns of the entire production line. These kind of innovations can be combined with or result in product innovations. Robots for cleaning and maintenance, self-service devices and computerized management and monitoring systems make up good examples.

- Management innovations

New job profiles, collaborative structures and authority systems among others belong to this category, often in combination with the introduction of new products, services and production technologies. These can for instance lead to staff empowerment through job enrichment, training and decentralization.

- Logistics innovations

Materials, transactions, information and customers constitute examples of the flows handled. Recent innovations in this field are Internet marketing,

³⁹ ”Regulatory reforms and innovations”, OECD Report, p. 17.

⁴⁰ All information concerning the sub-division of innovations is based upon Hjalager, A-M. “Repairing innovation defectiveness in tourism”, *Tourism Management*, 23, 2002, p.465f.

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enhancement of airport hub systems and integrated destination information systems.

- Institutional innovations

This category deals with collaborative and regulatory structures in communities. Institutional innovations go beyond the individual firm. They transect public and private sectors and form new rules and regulations. Reforms of the financial incentives that restructure social or health tourism concepts, the setting up or change of credit institutions and changes in the conditions for obtaining finance are such examples affecting tourism.

2.10 Examples of Innovations in Tourism

Adding another perspective, Abernathy and Clark have developed a model and applied it to innovations in tourism. It illustrates four types of innovations - regular, niche, revolutionary and architectural.

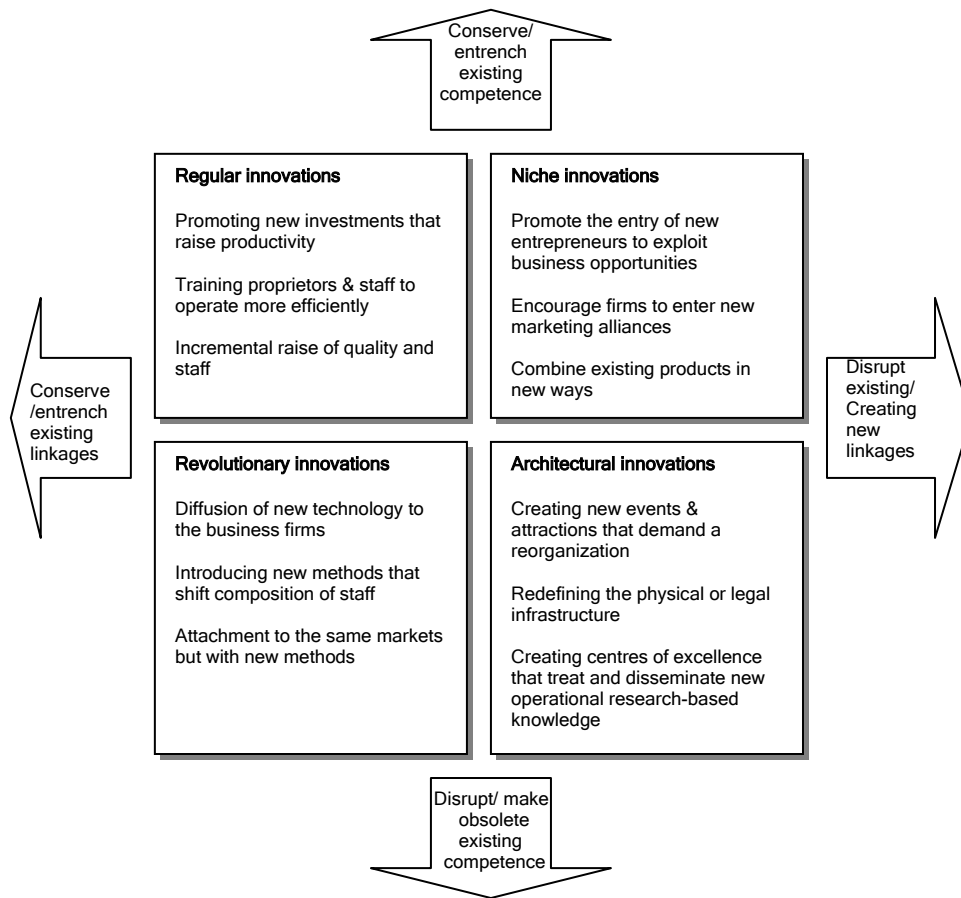
The model is shown on the next page. Its vertical axis indicates the knowledge and competence used for the production of services or products. Sometimes old qualifications and ideas need to be replaced and other times further development of existing structures is all that is needed. The horizontal axis indicates whether specific innovations make existing business linkages obsolete or whether they lead to an entrenchment of the existing ones.

The least radical innovations are the regular ones. Their impact over a longer period can, however, become rather considerable. Niche innovations usually challenge collaborative structures, but not basic competence and knowledge. Revolutionary innovations, on the other hand, tend to keep external structures unchanged, while having a radical effect on competence. The fourth and last category involves architectural innovations that tend to change overall structures as well as establish new rules that remodel the concept of tourism. The model provides a framework for a clearer understanding of the nature of particular innovations in tourism. It has, however, been criticized for being too descriptive and static.⁴¹

⁴¹ Hjalager, A-M. p.466f.

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The Abernathy & Clark Approach to Tourism Innovations



Source: Abernathy, W.J. and Clark, K.B. "Innovation: Mapping the winds of creative destruction", Research Policy, Vol. 14, Issue 1, 1985 and Hjalager, A-M. 2002.

2.11 Issues Hampering Innovation

Generally firms tend to be conservative and they often do not change their procedures until they basically have to in order to remain competitive. This is particularly evident in the field of tourism where according to a survey by Pricewaterhouse Coopers only around 20 per cent of all small and medium-sized enterprises regard innovation as a top priority. The issue is of even smaller significance to micro companies.⁴² A relevant question to raise is thus why innovation is rare in tourism and not a major priority. Structural and behavioral characteristics unique to the tourism sector leave us some explanations.

One presumption is that knowledge is created through academic research and transferred to enterprises for further development. Tourism and the service sector in general do not have as strong linkages to research and development as many

⁴² PricewaterhouseCoopers, Lecture notes, Vakantie salon des vacances, March 21th, 2002.

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manufacturing industries do. However, the relevance of this flow of knowledge is being seriously questioned, as it has been found that “co-operation between formal R & D⁴³ and enterprises account for very little, and that contacts to customers and suppliers are far more important for the innovation process in enterprises.”⁴⁴ If this is true it would benefit the tourism and travel industry, where customer contact is frequent. However, even if the importance of university research may be overestimated an increased interest in tourism as a research field ought to be welcomed, as cooperation between universities and enterprises is often favorable. Silicon Valley provides a great example of this, with Stanford, one of the country’s most prestigious universities playing a critical role to the successful development. At an early stage contacts with the industry were established and the university also brought qualified researchers to the area.

The access of venture capital is another factor contributing to the success in California. Small businesses in general have a hard time obtaining loan and risk capital. However, a small tourism business seems to have even a harder task. The main reason is that many loans are limited to investments in machinery, land or buildings, since these constitute a security for the bank or venture capital provider. Many investments in the tourism and travel industry involve “soft infrastructure” and are therefore not as easy to finance. This naturally affects the level of innovation. There is also a natural correlation between innovation capacity and the size of the enterprise. The tourism sector, clearly dominated by small and micro enterprises, often operated and owned by a single person or family, is thus suffering from a disadvantage. Smaller enterprises tend to wait and make certain that the investment or change is feasible. However, at that point it is no longer a competitive advantage. One way of dealing with this problem is by joining a chain or franchise. The downside to that is that it also means giving up part of the independence and family character.

Cooperation generally does not seem to be as frequent among tourism entrepreneurs. The common pool of knowledge and labor to be found in for instance Silicon Valley is quite unusual in the tourism and travel industry. According to Hjalager operators often regard one another as competitors and not colleagues resulting in little mutual trust among enterprises. She states that “[n]ot even the fact that many destinations are heavily dependent on tourism, and that enterprises could not survive without each other’s presence, limits jealousies. Due to free-riding, collaboration is, therefore, mostly the result of intermediation by other organizations, e.g. tourist offices/boards, where activities are undertaken at ‘arms-length’ from the individual proprietors.”⁴⁵ The lacking trust that Hjalager describes diminishes the potentials of knowledge-transfer and may restrain the development of successful tourism clusters, since strong social capital is a vital

⁴³ Short for research and development.

⁴⁴ Hjalager, A-M. p.468.

⁴⁵ Hjalager, A-M. p.470.

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factor. However, this is a generalization and undoubtedly there is plenty of cooperation based on trust and reciprocity.

The survival of enterprises is yet another important element. The tourism and travel industry is in this regard often a turbulent one with quickly changing ownerships. Each time an enterprise gets a new owner capital as well as energy is invested. This is not necessarily something that affects the level of innovation in a bad manner. However, it compromises consolidation of change. It also hampers the establishment of trust-based relationships with other participants in the cluster.

Generally counting the number of patents is the way of measuring innovations. However, the strong emphasis on patenting does not favor the many ideas and concepts developed in for instance the field of tourism, which often cannot be protected by a patent, but still make up innovations. The fact that many new ideas and concepts cannot be protected leads to a large degree of free-riding on investments and ideas of others, as competitors are quick to follow successful paths. Hence competitive advantages may quickly be eroded and new and constant innovations are needed. This shows that innovations certainly exist; they may just not be as easy to count or as common as in the manufacturing industry.

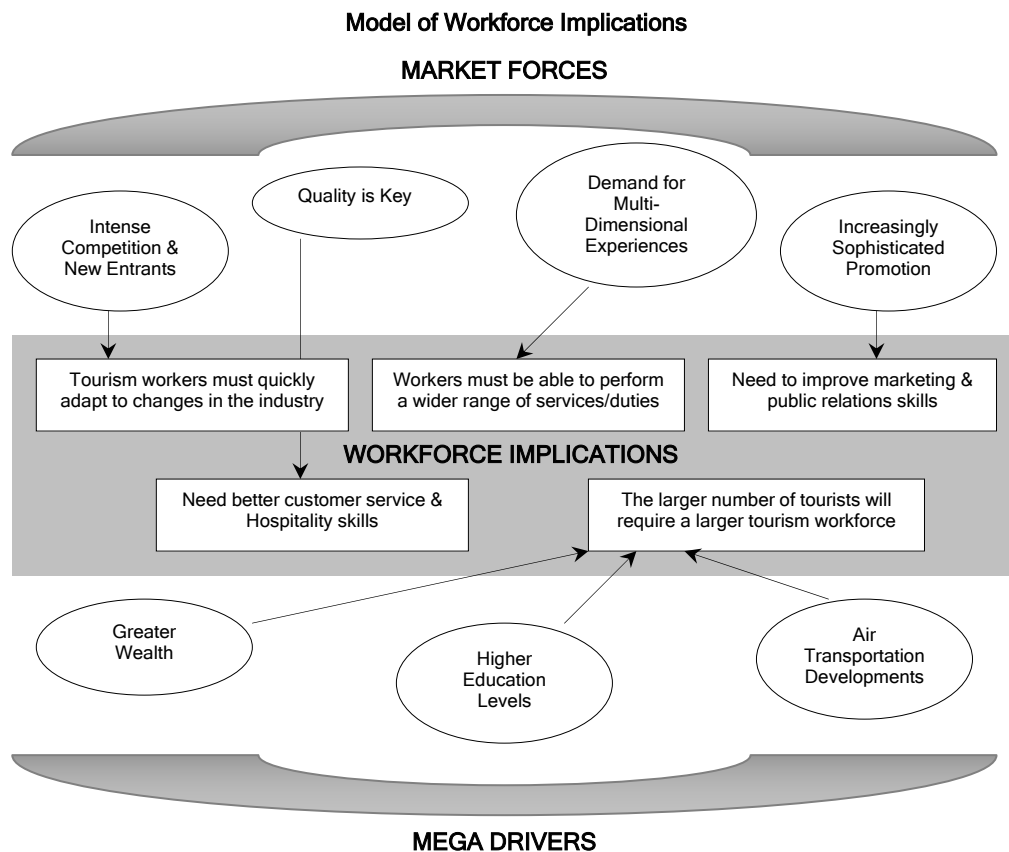
2.12 Human Resources

Human resources and qualified staff in particular are crucial to the success of a service-oriented tourism business and a vital element to the innovation process. In this low-technology industry knowledge is in general embedded in people, rather than in machinery. The assets are human assets and many innovations are the product of more or less one single entrepreneur, such as Madam Tussaud who created a wax cabinet in Great Britain or Yngve Berqvist who built an ice hotel in the north of Sweden. In regard to human resources, the tourism sector is characterized by some specific issues.

First, in general, a majority of the staff working in tourism-related businesses has no education beyond primary school level and very few have ever received high level training. This means that most of them have no natural bond to universities or to the field of research. Second, short-term contracts and part-time jobs are very common, due to for instance seasonal fluctuations. Salaries are in general low and working hours not always the most convenient. This leads to a labor turnover that is much higher than in most other sectors. Third and last, it is hard to pursue a career in the traditional sense in the field of tourism. All of the above affect the level of innovation, since it is unlikely that someone who is not long-term committed to an enterprise will find the motivation, knowledge or experience to contribute to the development processes of the firm. On the other hand, this could offer an advantage. The high turnover of the workforce leads to an exchange of staff between firms in an area and may increase the transfer of knowledge. This of course requires that the company leaders are recipient to the new ideas their staff may come up with.

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Human resource development should be a pre-eminent concern of tourism professionals, since tourism is a labor-intensive and people-based industry, offering not only physical amenities and attractions, but also the skills and services of tourism employees. Hence the workforce is one of the main factors of competitiveness. According to SRI International a common mistake is to focus on developing the “hard” infrastructure and spending little resources on the “soft” one. It seems to be quite common to look at the employee as a “cost” rather than an investment. The global competition requires a constantly innovated and improved productivity level, including the efficiency of the workforce. Managers and public officials need to learn new skills to attract visitors to the region or country and the workforce need to develop specialist skills in areas such as mountain trekking and ski lift maintenance. SRI International has summarized the global megadrivers and market forces and their workforce implications in a chart, pictured below.⁴⁶



Source: SRI International, 2000.

⁴⁶ SRI International, "Tourism Workforce Development for Cluster Competitiveness", July 2000.

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2.13 Summarizing Potential Benefits

To sum up this chapter a model summarizing some potential benefits and reasons for a cluster-based cooperation will be introduced:

POTENTIAL BENEFITS	REASONS
Reduce risk and deal with uncertainty.	By creating a shared mass of technical competencies, market intelligence, as well as human and financial resources, organisations can be more prepared to address unexpected events.
Block or co-opt competition.	The access of competitors to strategic resources is curtailed thanks to the greater operative strength or thanks to their joining the partnership.
Create economies of scale.	The greater dimensions covered (purchases, booking, sales, etc.) lead to a lesser incidence of unit costs. Operative effectiveness increases. Greater capacity to negotiate with intermediaries is achieved.
Opportunities to develop purpose economies.	The collaboration spirit allows greater distribution of specialisation. There is more space for operating in market niches, thanks to less internal competition.
Greater market control.	Companies joined together in partnerships can move in larger markets.
Growth of technological and organisational know-how.	The circulation of knowledge enhances the diffusion of technologies and the development of new operative techniques.
Reinforcement of image and notoriety.	Brands are reinforced at company level and at destination level, both towards the customers and the suppliers.
Company growth both in terms of product quality and process efficiency.	Operating in collaboration generates a healthy competition among companies that tends to raise both product quality and management skills.
Conditions for an effective area marketing.	There cannot be an effective marketing action for the destination without the support of an integrated and coordinated supply system.
Creation of synergies.	Partnerships and the distribution of functions allow to create innovative products, renew production processes and give life to new creative skills.
Positive effects on territorial economy.	The strong inter-dependence between tourism and all economic activities enhances the diffusion of the acquired benefits to the entire territorial economic system.

Source: Machiavelli, A. 2001.

This part of the report has dealt with the task of trying to describe the cluster concept and some innovation theories. It has applied these concepts to the tourism and travel industry – something that often has been neglected. The industry is characterized by some rather unique features and it faces some specific challenges. Nevertheless, a lot could be gained from applying a cluster approach in trying to understand geographically limited concentrations of tourism actors and the linkages and alliances involving related operators and industries. The cluster approach may be one tool available in fostering economic growth, by promoting potential and established tourism clusters.

3. Lessons from Cluster Development

3.1. Supporting Clusters

The potential benefits of a cluster approach to economic growth and development on a regional or national level or from an individual operator's point of view have increased the general interest in the cluster concept. Many attempts have been made to replicate successful clusters around the world, such as Silicon Valley and the districts of northern Italy, only to find that this is basically impossible. First of all, it is important to acknowledge that clusters cannot be created, particularly not by governments. Industry clustering is a dynamic process that must be cultivated over a long period. Clusters generally develop according to a bottom-up-perspective and cannot be created by policy alone. A critical mass of enterprises and skills are needed to form the foundation. In addition, finding the vital factors that have led to success in one area is not enough. There is much more to it than what can be seen on the surface, such as the history of the region, the traditions and the structures – in general, conditions that are exclusive for that particular geographical area. Then there is also a great abundance of chance and fortunate coincidences. Hence different clusters must develop and implement their own strategies. Any interventions and government frameworks need to be tailored to local circumstances.

However, if clusters cannot be created one might ask if there is any point in learning more about the cluster concept. One answer to that is that there are a lot of ways to back up and promote potential as well as established clusters, for instance by creating supporting structures. Cluster development is not automatic, although clusters often arise spontaneously. Supporting structures and efforts to promote clusters may constitute the difference between success and failure. Therefore a lot can be learned from the development of clusters around the world and attempts to support them. One simply has to be cautious about copying the concept and believing that it will be applicable anywhere.

In particular when focusing on tourism clusters, which to a large extent is a neglected area of research as well as of practical implementation, it is important to look beyond national borders to learn more. The following section will give a brief overview of tourism clusters in three areas of the world, discussing how they developed, what role they play as well as what can be learned from their experiences.

3.2 Tropical North Queensland, Australia

Governments and industries in Australia have faced the challenge of how to make the nation more productive and competitive, in particular due to the internationalization and reform to the Australian economy since the 1980s. Clustering, as a means of fostering economic growth, has been an approach that different regions of Australia have experimented with. By the 1990s, networking and innovation were recognized as important factors that could integrate

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Australian industries into global business structures. However, the change of government in 1996 put an end to many regional clustering initiatives as federal government support ceased. Moreover, some efforts of clustering failed due to the lack of experience, resources and training of regional development organization staff in facilitating industry cluster development programs.

Today clustering is back on the agenda as the federal government has shown a renewed interest in cluster-based public policy. However, the role of governments at different levels has been debated – the issue of whether clustering should be left to industries to drive or whether governments should take on a strong leadership role is left unresolved. Enright and Roberts state that “[a]t the state level, South Australia and Queensland are the only two states to have embraced strongly clustering as a framework for regional economic development.”⁴⁷



Photo: Kurt Kihlberg

The state of Queensland is one of Australia's fastest growing and most internationalized regions, due to the development of strong local entrepreneurship and leadership and several well-developed integrated strategies that have been the basis of the overall planning and development of the region. Brian H. Roberts underlines: "Perhaps the most significant factor in the development of the FNQ region⁴⁸ in the last five years has been the ability and keenness of regional firms and industries to collaborate. An important catalyst for this was the economic development strategy prepared under the umbrella of the Cairns Regional

⁴⁷ Enright, M.J. and Roberts, B.H. "Regional clustering in Australia", *Australian Journal of Management*, Vol. 26, August 2001, p.72.

⁴⁸ Short for Far North Queensland.

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Economic Development Corporation. The strategy has had a strong focus on the promotion and development of industry clusters.”⁴⁹

Tourism is the most important industry and the main cluster in the region, contributing to over 24 percent of the region’s gross domestic product.⁵⁰ In general, the potential of this sector for collaboration is strong, partly due to the decision in the early 1990s to restructure the sector and develop a long-term strategic plan to diversify the tourism product as well as to strengthen the capacity of the infrastructure. Roberts describes the situation by stating that “[t]he sector has well developed global networks and marketing systems, has a mature cluster of large and small-scale business enterprises, is very strongly customer and market focused and entrepreneurial. The sector has been a pioneer in entrepreneurship in tourism management and green labeling of tourism products and services. This has led to a significant local innovation within the region’s tourism industry.”⁵¹

In Tropical North Queensland the tourism industry comprises hundreds of businesses directly or indirectly associated with tourism activities. The prime tourist attractions of the region include the World Heritage listed Great Barrier Reef and Wet Tropics rainforests. The city of Cairns is the international gateway into the region with the nation’s fifth busiest airport in terms of international and domestic passengers. The city itself is rated the third most popular tourism destination in the country after Sydney and Brisbane. In addition to the natural assets of the region there are other features including the tropical climate, the access to Aboriginal culture and the close proximity of accommodation to natural assets, together forming the basis of the region’s tourism product.

3.2.1 Cooperation through Time⁵²

During the 1980s, Tropical North Queensland’s popularity as a holiday destination started to increase. At the time a comparatively small number of operators offered a variety of relatively few tourism products. Representing different industry sectors in the region, such as accommodation, restaurants, transportation and activities, the people involved were able to unite and promote the region in a cooperative and well-organized way with the mission of marketing holiday packages. The regional promotion agency at the time, The Far North Queensland Promotion Bureau, was in charge of joint marketing efforts domestically as well as internationally, supported by varying tourism operators.

⁴⁹ Roberts, B.H. “Evaluating the Potential for Multi-Sector Collaboration in the Far North Queensland Region”, Paper presented at the Australian and New Zealand Regional Science Association Conference, Gold Coast, 29 Sept.-2 Oct. 2002, p.2.

⁵⁰ Enright, M.J. and Roberts, B.H. p.79.

⁵¹ Ibid p.19.

⁵² The summary of the development of the tourism cluster and the areas of cooperation is to a large extent based on Huybers, T. and Bennett, J. “Cooperation in Tropical North Queensland’s Nature-Based Tourism Industry”, Australian Agribusiness Review, Vol. 8, 2000.

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This early stage of tourism development was characterized by a high degree of cooperation. The relatively small size of the regional tourism industry provided the foundation for cooperation at very low transaction costs and the peer group pressure evolving from the proximity of actors helped reduce free-riding activities. Furthermore, it fostered relations based on trust. In accordance, Porter concludes that "...the proximity of companies and institutions in one location – and the repeated exchanges among them – fosters better coordination and trust."⁵³ Being quite a small industry, tourism operators simply needed one another in order to reach growth and competitiveness. Moreover, a common vision was identified as an important driving force for the establishment of tourism partnerships.

With the strong growth of tourism in Tropical North Queensland in the late 1980s, the cooperative spirit started to wane. New companies were established in the region and new products developed, resulting in a high degree of competition for intra-regional market share. The competitive strategy of the newcomers was based on price (in order to establish a strong entry position in the market) and the establishment of vertical partnerships. Hence strategic alliances were formed between operators, offering inclusive holiday packages.

To remain competitive other tourism operators were forced to follow the path of aggressive pricing strategies and started to form partnerships as well. However, facing a loss of market share the new companies changed strategy and started promoting their own products, rather than the region as a whole and discredited their regional competitors causing damage to the region's reputation as a strong collective regional unit. A major crisis, a wide pilot strike in Australia in 1989, was needed to force the tourism industry actors to temporarily increase the level of regional cooperation. Not merely premier tourism operators, but also supporting industries took part, resulting in strong, collective international promotion activities, outstanding compared to the achievement of other Australian destinations at the time.

The early 1990s marked the beginning of a dramatic growth of Tropical North Queensland as an international tourism destination. This meant that the tourism business bloomed without much of an effort and that joint activities decreased. However, a generally smaller demand for tourism in the region at the end of the 1990s and the economic downturn in East Asia starting in 1997, made many tourism businesses realize that cooperation was a necessity. History had proved that a collective approach was needed to achieve sustained growth and to remain competitive. It seemed as if the cooperative spirit that historically had existed among the early operators had been extended to the more recently established ones.

⁵³ Porter, M.E. 1998, p.80.

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Summary - The History of Cooperation & Competition

Time Period	Characterisation	Background
Early 1980s	Strong cooperation	Pioneers
End 1980s	Competition & opposition	Initial phase of strong tourism growth
1989-90	Cooperation	Pilot strike
Early to end 1990s	Reduced cooperation	Second phase of strong growth
End 1990s	Increased cooperation	Growth slowdown, "crisis"

Source: Huybers, T. and Bennett, J. 2000

The history of cooperation and competition in Tropical North Queensland correlates fairly well with the five steps Easton and Araujo use to classify relationships between organizations, that is, conflict, competition, co-existence, cooperation and collusion, even if the industry in Tropical North Queensland faced a setback in the 1990s before reaching a more profound level of cooperation.⁵⁴

3.2.2 Areas of Cooperation

Regional cooperation between operators in Tropical North Queensland is taking place in a number of areas, the main ones being collective marketing efforts and environment protection as well as a few other arrangements.

On the national level, the Australian Tourist Commission is in charge of the wide promotion of Australia as a destination, whereas the promotion of the individual states and territories often is carried out by their respective government tourism agencies, in this case Tourism Queensland. At the regional level, organizations such as Tourism Tropical North Queensland, TTNQ (a successor of the Far North Queensland Promotion Bureau), carry out joint promotions of the various destinations in Queensland. Hence important cooperative activities for Tropical North Queensland take place under the umbrella of TTNQ in a formal and organized manner.

Regional promotion agencies have played a crucial role in the development of cluster-based cooperation. The Far North Queensland Promotion Bureau was established as early as in the mid-1970s, at that time as a general economic

⁵⁴ Huybers, T. and Benett, J. 2000, p.5.

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development board for the region. However, it later turned into a tourism focused organization (due to the dominance of the industry). It now trades as Tourism Tropical North Queensland and it consists to 95 per cent of tourism operators. The organization receives about one third of its revenue by government funding at all levels and about 50 per cent by its members. The main task carried out involves organization of and representation at domestic and international tourism and travel events – mainly joint promotion initiatives. Many operators state that their businesses rely on the promotion activities of TTNQ.

For the last three years, Tourism Queensland and Tourism Tropical North Queensland have been working together to develop a marketing strategy. They are trying to create an individual image of the region to give it a competitive advantage. Some potential benefits to the participants involve greater recognition, substantial savings through specially negotiated media rates and coordinated and planned joint marketing activities.



Photo: Kurt Kihlberg

The second main area of cooperation deals with the protection of the environment of Tropical North Queensland. Natural assets constitute the foundation to the majority of the tourism products. A high quality of the region's natural attractions is a strong competitive advantage, being the key strength to the area, in particular to the reef, the rainforest and the many national parks.

Cooperation between regional authorities and the tourism industry is acknowledged by the government to maximize tourism opportunities, while minimizing the negative tourism impact. For instance a strategy for sustainability of the industry was developed in 1995 called Reef Tourism 2005 - a joint

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initiative between government and marine tourism operators. It aims to foster an ecologically and economically sustainable management of marine tourism in the Great Barrier Reef World Heritage Area. This is just one of many formations working in cooperation to protect the long-term sustainability of the region's environment.

Currently, there is a common understanding among most actors that there is a need to collaborate, in order for a small region to remain competitive on a global market. However, it has taken many years to reach this point. Today, tourism actors in Tropical North Queensland generally have the ability to identify and develop synergies. They have benefited from collaboration initiatives in the past and know that without the development of the tourism industry the region would have remained a branch line economy. Instead with its strategic leadership, entrepreneurship and high level of innovation, North Queensland has developed into one of the most highly competitive and internationalized regional economies of Australia.

Tourism will play a key role in facilitating the development of new industries in the region. There is, however, a need to collaborate much more closely with other sectors. Incentives and encouragements, such as selective government support, may be required in order to reach this level of cooperation. The emergence of Tropical North Queensland as a strong international destination is a success, with the only risk that the strong tourism dominance could have a significant impact on the region if the global tourism industry would face a strong decline.⁵⁵

3.2.3 Factors Contributing to the Success of Tropical North Queensland

Some key factors that were vital to the success of the tourism cluster development in Tropical North Queensland can be found in the above presented description and deserve to be highlighted:

- The relatively small size of the tourism industry in the early years, resulting in actors knowing one another, which has fostered relations based on trust.
- A common vision as a key driving force.
- The formation of strategic alliances to reach common goals.
- A crisis or external threat as a determinant for inter-firm cooperation.
- Relationships based on cooperation as well as competition.
- Frequent informal contacts, fostering trust and reciprocity.
- Proximity of companies and institutions in one location.
- Tourism development strategies, in which the cluster concept is an inherent part.

⁵⁵ Roberts, B.H. p.19f.

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To this it is possible to add some more important elements, one being the access to North Queensland. Regional tourism growth and stability are highly dependant on the existence and maintenance of basic tourism infrastructure. Cairns, something of a transport hub, is highly connected with other regional centers and not as peripheral as many other northern destinations in Australia. The city has a major international airport and many smaller airports are placed around the region. There is also a well-established ports network and in general a sound transport infrastructure base.

Proximity to major Asian markets is another competitive advantage. Moreover, the climate helps in attracting visitors to the area and so do the two World Heritage listed areas. North Queensland has the advantage of being able to combine products involving indigenous and bush products as well as tropical rainforest with the more traditional coastal amenities, tropical islands and the Great Barrier Reef, resulting in tremendous product diversity. Furthermore, it is easier to attract public/private sector investments to the area. Pascal Tremblay explains that “[t]he mix of public/private sector investment in attractions development, infrastructure and marketing is quite different...This reflects the fact that Cairns and many parts of the Queensland coast attract considerable private tourism investments...The same companies who own facilities around the country (for instance hotel chains, car rental companies, other services...) also usually get more involved in destination development, attraction development, marketing and research in Queensland locations where scale of operations make such investments more profitable.”⁵⁶

Generally much industry cluster development in Australia has been regionally driven and it is evident that federal and state government support has ceased in recent years, unlike the situation in most OECD⁵⁷ countries, where governments have shown a strong interest and support for cluster initiatives. In Queensland, however, there has been a great support from government agencies. Their participation has played a vital role in the development process. The established public and private education institutions have also been important – the campus of James Cook University (in Cairns) and the Tropical North Institute of TAFE with its seven campuses.⁵⁸ Of even greater importance is that there has been a long-term commitment by local firms, industries and government to support potential, emerging and established clusters. Enright and Roberts state that “[c]lustering only works if there is commitment by regional industries and firms to a process that builds on trust, respect, collaboration and an effort resulting in the achievement of common goals or targets.”⁵⁹

⁵⁶ Tremblay, P. “Elements for the response on 10 year plan”, document, p.4.

⁵⁷ OECD stands for Organization for economic cooperation and development.

⁵⁸ Queensland Government State Development, “Far North Region”, www.sd.qld.gov.au/dsdweb/docs-bin/invest/sd-frnorth.pdf, p.248.

⁵⁹ Enright, M.J. and Roberts, B.H. p.81.

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Finally, some lessons shared by Cam Charlton, the chairman of Tourism Tropical North Queensland.⁶⁰ Charlton points out that on the structural level, it is essential to adopt a corporate philosophy, develop partnerships and leverage as well as formalize linkages and protocols. Resources for growth must be available and the structural design relevant and flexible. The key management lessons involve the need to establish period planning review cycles as well as clear goals and targets, be results driven, focus on outcomes rather than outputs, introduce accountability and provide succession. Furthermore, it is essential to acknowledge the importance of leadership, motivation and engagement. Communication and education are also critical as well as to share disappointments, celebrate success and repeat the message. Finally, Charlton acknowledges the importance of recognizing that difficulties will be encountered, circumstances will change and success will lead to growth. Thus it is necessary to plan the strategies to meet these challenges.⁶¹

3.3 Napa Valley, United States

The Napa Valley located in the north San Francisco Bay Area, world famous for its wine, is a popular tourism destination attracting nearly five million people to the valley each year. The vineyards and their tours and tasting events make up the foundation of a big industry with a long tradition in the region. The concentration of grape growing and wine making business is worth noting and the Napa Valley wine cluster is one of the most well-known in the U.S., although as a cluster it is sometimes overshadowed by the close-by Silicon Valley.

The wine cluster itself is an interesting formation of linkages and alliances with a long history. The story of the rise of the wine industry in California provides a good example of how a civic entrepreneur may transform a region and an industry. Robert Mondavi is credited for starting the real clustering process. The Mondavi family was well-established wine-makers, producing so called “jug wine”⁶² as most producers did at the time. After a trip to Europe in the early 1960s, Robert Mondavi was inspired by the European process of wine-making. He returned to California with a vision of transforming the Napa Valley into being a premier wine-making region.

Robert Mondavi’s vision was not shared by his brother, resulting in Robert branching out and starting a new winery. His goal was to combine the latest U.S. technology, management and marketing know-how with European craft and tradition. This meant transforming the approach to wine-making completely. Mondavi started by trying to change the relation between growers and producers, resulting in an opening up of the grape growing industry. He was devoted to research and development and introduced educational programs for growers. Alec

⁶⁰ Cam Charlton is also director at Kleinhardt FGI PTY LTD, www.kleinhardt.com.au.

⁶¹ Information kindly provided by Mr. Jim Bitomsky at Kleinhardt FGI Pty Ltd.

⁶² Jug wine is inexpensive table wine sold in large bottles.

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Hansen points out that “Mondavi’s vision was not just to produce the best wine in the world, but to ensure that wineries all over Napa Valley were operating at that level. Because a single winery has a difficult time making a name by itself wines, like so many products, are known by their regions.”⁶³

Mondavi realized that he could not produce and market a premier product unless a cluster surrounding him with growers of grapes, suppliers of barrels and label producers among others were all operating at the same level. As his techniques were spread around the valley the quality of wine improved and in the mid 1970s, Napa Valley was recognized as a premier wine-making region. The Robert Mondavi Winery was widely credited as America’s first “premium” commercial winery. Mondavi’s goal had been achieved and it resulted in the transformation of the entire economy of the region.⁶⁴



Photo: Inga-Lill Lindhe

3.3.1 The Wine Cluster & the Supporting Industries

The wine cluster’s two main factors involve grape and wine production. California is among the largest wine grape growers in the world. However, the space available for new vineyards is very limited and the demand for land raising prices, hampering the possibility to expand. The demand for high quality grapes is

⁶³ Hansen, A. “What Motivates Civic Entrepreneurs”, February 27, 2003, Economic Development Futures, www.ed-futures.blogspot.com.

⁶⁴ The history of the Mondavi Winery is based on Hansen’s article.

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high and the supply often tight. Most premium producing winemakers have long-term contracts with growers. Wine production is a long process involving several steps, such as crushing, fermentation and aging. For aging the premium wine is transferred to barrels, sometimes made out of oak contributing to the flavor. Producing barrels for quality wine is an industry by itself. Bottling, packing and labeling yet other ones, not to mention the production of corks.

Other important factors contributing to the success of the cluster involve distribution, sales and marketing, technology development and financing. Science and technology accounted for much of the success in bridging the gap between American and European wineries. Porter underlines that “California winemakers of the 1960s and 1970s began using quantitative analysis and new techniques to produce higher quality, more consistent wines. Innovations flowed rapidly among the state’s vintners, especially in Napa where most of the major wineries were located side-by-side along State Highway 29 and its eastern parallel, the Silverado Trail. Though much of the innovation took place in the wineries themselves, U.C. Davis helped introduce several new technologies...”⁶⁵ There is no doubt that U.C. Davis with one of the world’s leading wine research institutions was (and still is) of great importance to the development of the wine cluster. U.C. Berkeley, U.C. Riverside and Fresno State have also offered highly regarded research programs, in addition to the programs the wineries themselves offer to train wine-makers.

Focusing on marketing, there are specialized public relations and advertising firms serving the valley as well as wine publications, such as the Wine Spectator. Other California industries have also helped in promoting the Napa Valley wineries as well as wine consumption in general – one such example is the establishment of Alice Water’s Chez Panisse in Berkeley in 1971, marking the beginning of “California Cuisine”.⁶⁶ Another one is the tourism industry. An increasing interest in wine tourism has led to a higher number of visitors in the valley as well as an increased wine consumption through wine tours and tasting events. Hence the wine cluster has developed linkages and synergies outside the cluster to other supporting industries, contributing to its success. Porter confirms this: “The cluster also enjoys weaker linkages to other California clusters in agriculture, food and restaurants, and wine-country tourism.”⁶⁷ This is illustrated in a map of the California Wine Cluster (shown on the next page).

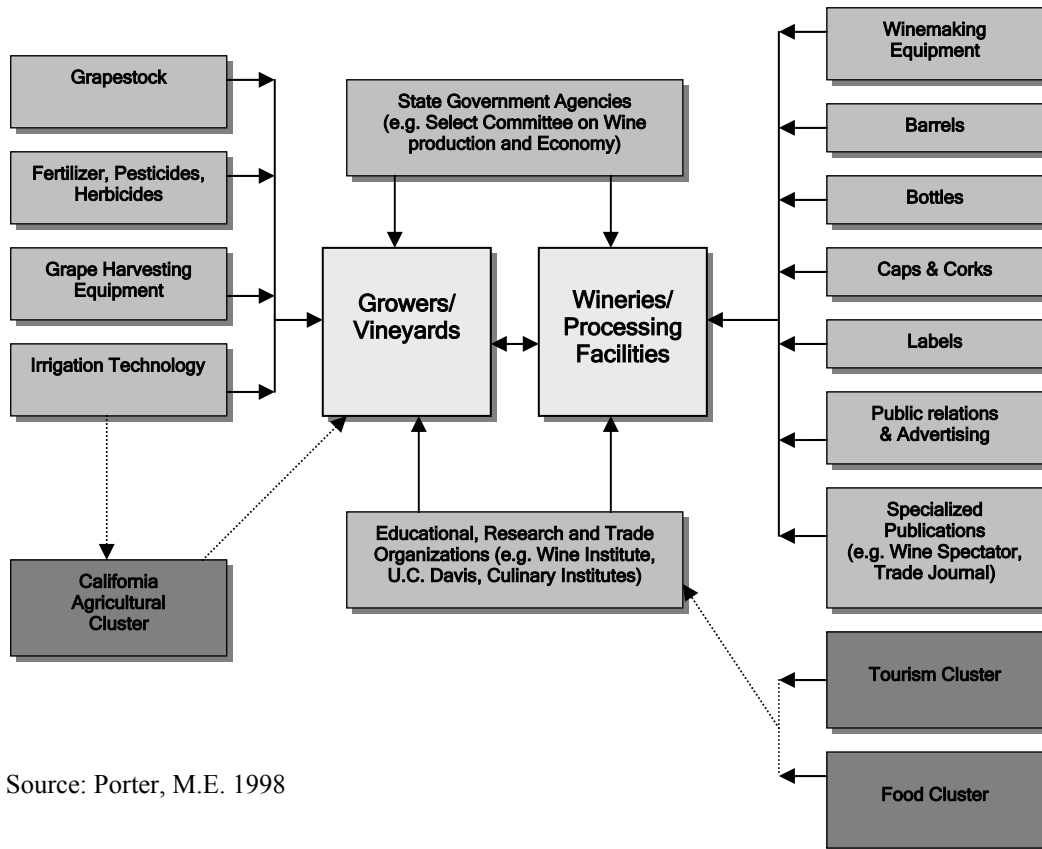
⁶⁵ Porter, M.E. 1998, p.78.

⁶⁶ Porter, M.E. and Bond, G.C. “The California Wine Cluster”, Boston: Harvard Business School Publishing, 1999, revised October 2002, p.3.

⁶⁷ Porter, M.E. 1998, p.78.

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The California Wine Cluster



Source: Porter, M.E. 1998

3.3.2 The Hospitality & Tourism Cluster⁶⁸

Wine tourism has extended into a major industry in the Napa Valley, even though the tourism industry had a late start in the valley with the opening of vineyards and wine tasting events in the early 1980s, coinciding with the establishment of the first bed and breakfast. Prior to 1976, there was no established visitor infrastructure.⁶⁹ Napa County has to a large extent been depending on the agriculturally based industry (foremost grape growing and wine-making) in generating wealth and employment. However, a strong local economy preferably needs high quality jobs in a number of sectors. In order to try to change the dominance of the wine sector the Napa Valley Economic Development Corporation (NVEDC) was established about two decades ago, with the aim of trying to diversify the economic base of the county. In 1995, a strategic plan was developed to promote business clusters outside the largest current employers (such as the wine industry) that could create future high paying jobs as well as

⁶⁸ This section is mainly based upon information from the web site of NVEDC's Cluster Project, www.nvedc.org 2002-10-16.

⁶⁹ The Cluster Consortium, "The Cluster Consortium Strategy in Action Report", Appendix D International Case Studies, 1999, p.344.

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generate economic growth. Based on substantial data three candidate industries were selected in mid-1997, among them the hospitality and tourism industry.

The NVEDC initiated the work with the hospitality and tourism cluster together with the Conference and Visitors Bureau, representing a majority of the industry. The work focused on four goals. The first one was to enhance the value and understanding of the industry through various campaigns. An active marketing of Napa Valley had not started until 1990, when industry leaders realized that a shift from a day-trip destination to a multiple day, overnight getaway had to take place in order for the valley to reach its full tourism potential.⁷⁰ It was around this time the Napa Valley Convention and Visitors' Bureau was established, a joint private/public organization engaged in marketing and advertisement. The second goal involved creating programs responding to the needs of the industry, to get better trained employees and to define career opportunities and professionalism. The third one was to increase visitor access to Napa Valley by improving roads within the county, in particular the highway. The fourth and last one was to try to modify the winery/hospitality permit system to achieve a higher degree of consistency and ease of use for the industry actors.



Photo: Kurt Kihlberg

The hospitality and tourism cluster is the largest and the best organized of the three selected in 1997. However, it still faces some major challenges. So far the outcomes perceived involve developing a certification process for employees in the tourism industry, in which core skills have been identified by the industry.

⁷⁰ The Cluster Consortium, 1999, Appendix D, p.344.

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Generic, but yet detailed career ladders and job descriptions have been drawn up and a curriculum that leads to a Certificate in Hospitality and Tourism has been developed meeting industry requirements. Furthermore, a hospitality school has been established in the Napa Valley with a training program launched in January 2001.

Lately, a conscious effort has been made to package a wider Napa Valley experience, involving not only wineries, but also the gourmet cuisine, spas and hot springs as well as other attractions. What is sold is an image of uniqueness incorporating both wine and an area with character. It has, however, been argued that the tourism development has resulted in the loss of some of the characteristics of the destination, such as the scenic beauty that originally made it desirable. Skinner writes that “[i]t has even been suggested that wine tourism has become so successful that wine-making is now a peripheral activity...The negative impacts on wine tourism not only severely limit the capacity of the wineries to provide a positive tourism experience..., but in altering the rural, pastoral landscape, they ultimately threaten to destroy the tourism product itself.”⁷¹ Hence the development of wine tourism, even though it is successful in bringing visitors to the valley, is not only looked upon in a positive manner.

Not all wineries see the benefits of tourism. However, wine regions often overlap with tourism regions and it is not surprising that wine and tourism industries often are combined. Wine tourism may be the core business for many smaller wineries, where wine-making is more of a lifestyle option. For others it is a part of their business operation and for a few, wine tourism plays no part at all. A decision needs to be made at some point as to whether, how and to what degree a winery should diversify by entering the tourism business.⁷²

Skinner has applied Butler’s tourism development model to wine tourism to highlight its possible development stages in a region. The model suggests that cooperation may be one way of turning the negative trend, when the development reaches a stage of decline. Looking at the phases from exploration to decline, the model may also give some insight into how the life cycle of a wine tourism cluster may progress.

⁷¹ Skinner, A.M. “Napa Valley, California: a model of wine region development”, p.284.

⁷² Mc Rae-Williams, P. “Wine and Regional Tourism: Strengthening Complementarity to Facilitate Regional Development”, Confirmation of Candidature Report, Research Proposal, June 2002, p.46.

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Wine and Tourism Development Model

DEVELOPMENT STAGE	WINE INDUSTRY DEVELOPMENT	WINE TOURISM DEVELOPMENT
Exploration	Viticulture introduced, wine produced	Wine tasting enquiries
Involvement	Wine produced and recognised area becoming popular for vineyard establishments	Wine tasting interest, facility development
Development	Viticulture expansion immigration of workers, improved economic opportunities	Area included on wine tour maps, seasonal tourism, increasing tourist numbers, other tourism developing, immigration of entrepreneurs, improved economic opportunities
Consolidation	Viticulture becomes area's Hallmark, wineries expand, loss of some smaller operators, environmental & social problems emerge, land of use changes, land prices rise	Tourism is significantly revenue stream, overwhelming tourism infrastructure, environmental & social problems emerge, land of use changes, land prices rise
Stagnation	Viticulture loses ground to urbanization, corporate wine ventures move to less expensive areas	Tourism substantial but moving to alternative locations
Decline	Remaining wineries purchase from other regions	Decline of wine tourism, changes area character, small scale wine tourism may survive
Cooperation (alternative)	Agricultural reserve established, viticulture maintained, urban expansion controlled	Wineries develop collective tourism plan, infrastructure improvement to cater for tourist, reduced resident visitor conflict through communication links
Conservation (alternative)	Viticulture in equilibrium with urban area, viticulture recognized internationally, wine regions culture preserved	Positive tourism trade

Source: Adapted from Skinner, A.M., in Mc Rae-Williams, P., 2002 (slightly modified).

Daniel Howard, executive director of the Napa Valley Conference & Visitors Bureau, states that "[a]t least half of the wineries in Napa Valley have identified tourism as a critical marketing target."⁷³ He continues to underline that wine tourism is the ultimate opportunity to connect with the consumer and create loyal, long-term customer relationships. Giving the visitors the chance to see the vineyard, bottling line and aging barrels enables them to connect with the brand. With improved access to the area and marketing campaigns, the number of

⁷³ Madonna, L. "Making the Consumer Connection", winebusiness.com, 2003-08-04.

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tourists visiting the Napa Valley has increased over a long period. Currently, it is in a state of stagnation. Not due to lack of interest, but rather lack of space. There is not enough room to accommodate the tourists. Even though the number of visitors is leveling off the area has still managed to increase the revenues collected, mainly as a result of direct marketing at Bay Area visitors wanting a weekend getaway. This has led to a transformation from being a seasonal to an all year-round industry. There is no question about the fact that the success of its wine and tourism has changed the Napa Valley.

3.3.3 Factors of Importance

This example involves not only the famous wine cluster, but also the closely connected hospitality and tourism cluster and more than anything else provides insight into how two or more clusters can benefit from each other and develop important synergies. Some factors of great importance to the successful development deserve to be emphasized:

- A civic entrepreneur as a key driver of development and as a network broker
- The transformation into a more open industry
- The interest in research and education as well as the latest technology
- The insight that not only a single company, but more or less all operators need to work on the same level
- A strong regional trademark
- A vision shared by many operators
- The need for collaboration and reciprocity
- A high degree of specialization
- A proximate environment
- A high level of innovation
- Collaboration with universities and schools
- Accessibility and a good infrastructure
- Linkages to complementary industries

Porter underlines that cluster development often becomes particularly vibrant at the intersection of clusters.⁷⁴ Hence by combining wine and tourism and creating new products all parties involved may increase their competitiveness. Other key factors that contributed to success involve the diversification of the base of tourists to attract more visitors in the off-season and the achievement of overall increasing visitors' access to the area. The marketing of an entire "package" has been yet another success, maximizing the stay and spending. In marketing the Valley, the Internet has provided a powerful and inexpensive tool. Efforts to create a well-trained workforce and improve education and training have also been of great importance. Moreover, the cooperative effort among the vintners, for instance sharing ideas on growing methods and taking part in joint marketing

⁷⁴ Porter, M.E. 1998, p.24.

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efforts, that started in the 1960s has characterized cooperation in Napa Valley and set a good example on how to reach competitiveness.⁷⁵

The current challenge lies in reaching continued improvement and growth of the wine industry, and at the same time continue to develop other industry clusters, such as hospitality and tourism, to strengthen the economy of the region. However, the concerns expressed that wine tourism in Napa Valley is developing too fast, in particular with the limited geographical area in mind, are serious. The issue of whether it is possible to maintain the wine tourism products in the long term is vital for survival and future success. However, as cluster phenomena both the wine and the wine tourism clusters have developed successfully so far and the dynamic area is interesting to study.

3.4 The Cluster Consortium in South Africa

With a different history, South Africa probably would have been one of the most visited countries in the world. However, the old apartheid regime had kept the nation isolated hence limiting the economic and social benefits travel and tourism could have delivered. Tourism development has historically been highly overlooked and the first wave of interest did not take place until after the democratic election in 1994. This marked the beginning of a new era of tourism, as its potential became evident and the number of international visitors started to increase tremendously.

Following its transition to democracy, tourism, perhaps more than any other sector has been expected to foster economic growth and generate employment, small business development, income and foreign exchange earnings. Industry analysts and government officials have long been predicting that South Africa is on the verge of a tourism boom.⁷⁶ And the future prospects remain extraordinary. The nation occupies the southernmost part of the African continent with country borders on the Atlantic and Indian oceans to the west, east and south and has a long coastline. Its resource base for tourism is rare due to its great diversity of products, offering for instance accessible wildlife, unspoiled wilderness, varied and impressive scenery, diverse cultures and generally a very pleasant climate.

For a number of years following 1994, the growth of tourism was massive, increasing from 3.1 million in 1993 to 5.7 million in 1998.⁷⁷ However, in the late 1990s the country experienced a leveling-off in overseas visitors. In response to global competition and the nature of its tourism, actions and interventions were recognized as a necessity in order to develop the tourism industry in South Africa. Government and the private sector rallied together to create a favorable environment in order to increase the number of international tourists. Significant

⁷⁵ The Cluster Consortium, 1999, Appendix D, p.341.

⁷⁶ World Travel and Tourism Council "South Africa, the Impact of Travel and Tourism on Jobs and the Economy", 2002, p.4.

⁷⁷ Ibid p.16.

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resources were committed to support the industry. A clustering initiative called the Tourism Collaborative Action Initiative brought forth a government response, aimed to integrate the leadership and in general develop the industry. It brought together public and private stakeholders and resulted in a collaborative strategy. The Cluster Consortium states: “Launched in 1998, the clustering initiative provided high visibility and broad accessibility for tourism stakeholders in business, government, and labour to engage in further defining problems, visions and strategies, and taking ‘action’ to meet priority challenges.”⁷⁸



Photo: Lanz Von Hörnsten. Courtesy of South African Tourism

3.4.1 The Cluster Initiative⁷⁹

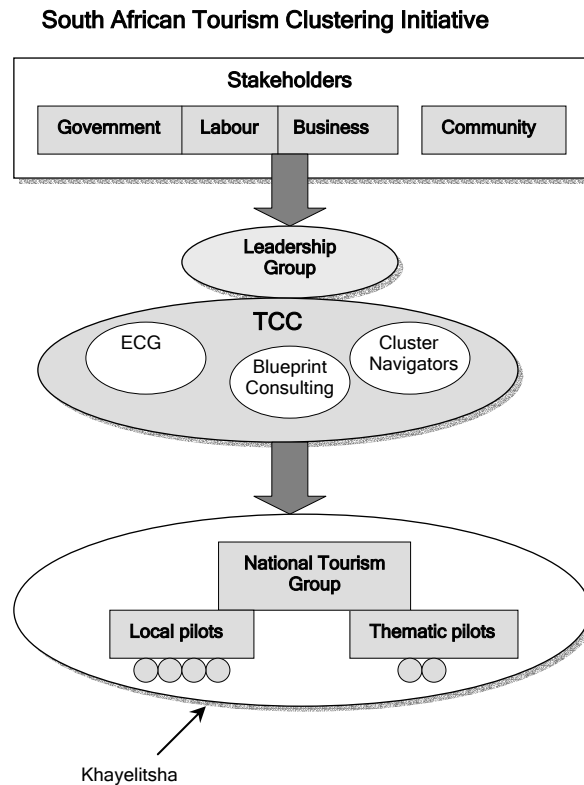
The involvement of tourism stakeholders from various sectors resulted in the formation of new linkages and the opening of a dialogue between operators who previously had not exchanged much information. Besides that, it became evident what could be achieved through a process of collaboration, as plenty of new tourism development projects were created as well as implemented. Seven clustering “arenas” were identified, one at national, two at thematic and four at local levels. The clustering approach was one of the tools available in trying to reach global competitiveness. It engaged economic communities to work actively

⁷⁸ The Cluster Consortium, 1999, p.22.

⁷⁹ The summary of the clustering process in South Africa is based upon The Cluster Consortium “The Cluster Consortium Strategy in Action Report”, 1999.

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to support overarching policy and economic goals of job creation and to increase earnings at the local level. Hence the clustering initiative, introduced in 1998/99, represents an effort to work together to realize the potential of South African Tourism.



Source: "The Cluster Consortium Strategy in Action Report", 1999.

The clustering process involved a well-planned organization and was overseen by representatives from business, government and labor, forming the Tourism Leadership Group (TLG). The project as a whole was consultant driven by The Cluster Consortium (TCC), led by Blueprint Consulting from South Africa, working together with a New Zealand based firm, the Cluster Navigators and the American firm ECG. It was funded by government means. The objective of the initiative was to initiate a mass movement of tourism economic development, with a commitment by all stakeholders to expand and enhance international as well as domestic tourism earnings and the creation of jobs through a process of collaboration. The accomplishments achieved in 1998/99 were intended to be the beginning of an ongoing process, which the South African stakeholders themselves would continue to develop. A multilevel approach was used, which previously had been very rare.

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At the same time as actions on the national and thematic levels were introduced in early 1999, it was decided that two local tourism communities would take part in the tourism clustering process. Tourism employment is generally concentrated in small business and local communities throughout South Africa. This would serve as an example of how the effects of clustering could affect local tourism. In the end, two regions were extended to four regions in order to maximize the learning potential. The local clusters were Khayelitsha, Valley of the Oliphants, Magaliesberg and Fish River, chosen to represent different conditions and starting points for the development process.

Five main objectives of the local clustering initiative were defined:

- To test an approach drawn on international best practice to local tourism cluster development.
- To develop a framework that could be replicated by other communities and to share the learning by a “How To Manual”.
- To make an essential difference to the development of tourism in the four chosen communities.
- To develop the linkages between the different levels - national, thematic and local.
- To make other communities interested in following a similar clustering approach.

International practice has shown that cluster initiatives may be particularly useful at a local and community level, since the vital social capital, fostered by for instance family, church, school and professional relationships, constitutes the glue between the important network linkages - often providing a competitive advantage. The Cluster Consortium states that “[i]t is this social capital – the trust, dialogue, informal and formal linkages – that in turn facilitates the necessary team approach to the development of a community’s wealth.”⁸⁰ In a smaller and limited area the tourism industry usually has formed various relationships and there is some degree of trust and dialogue. However, at the time when the tourism clustering process started many local communities across South Africa had not yet developed networks and linkages of this kind and were in need of starting to build them. One of the communities, Khayelitsha, was however characterized by higher social cohesion and trust than the other ones.⁸¹

3.4.2 The Township of Khayelitsha

The community of Khayelitsha, situated in the biggest African township in the Western Cape, is not far from Cape Town - one of the country’s top ten international destinations. This means that the community receives almost half of

⁸⁰ The Cluster Consortium, 1999, p.98.

⁸¹ The brief summary of the cluster work in Khayelitsha is also based upon The Cluster Consortium, 1999, p.22.

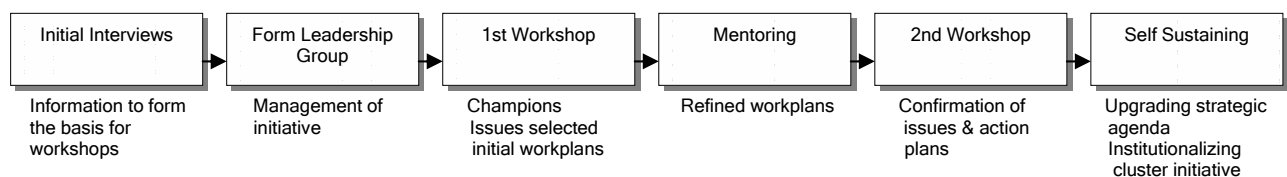
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all international visitors to South Africa within a close surrounding area (approximately 750 000 a year)⁸². Khayelitsha is only 25 kilometers from the V & A waterfront, the most popular tourist attraction for foreign air tourists.⁸³ However, as recent as in 1983 the community consisted of little more than sand dunes. Today it has developed something akin to a dormitory town, part of the Tygerberg Municipality. Even though the history of the community does not go very far back the strength and togetherness found in Khayelitsha provided the basis for the tourism clustering work.

When the process began tourism was in its embryonic phase and represented quite a fragile part of the local economy. Khayelitsha was at the time mainly a by-passed community. The Lonely Planet wrote in 1997 that the Cape Flats "are off-limits unless you have a trustworthy guide", underlining that the Khayelitsha area was a no-go area for many white people and not recommended by most tour operators.⁸⁴ Hence at the time the great number of tourists in Western Cape did not help developing tourism in Khayelitsha and the community was also facing strong competition from other locations.

Before the cluster process was initiated the linkages to local tourism organizations were limited, since most tourism activities up until then had taken place elsewhere in the municipality. However, a broader interest in supporting township tourism could be found in the Western Cape Provincial Tourism Organization, who took the lead in sponsoring the cluster initiative. Together with Tyger Municipality they started the work with the clustering process. One of the first steps was the formation of a leadership group, made up of a number of stakeholders representing different organizations. The four local pilots all started with a similar process, then taking on its own personality and dynamics.

The Local Cluster Process



Source: The Cluster Consortium

The first major activity in Khayelitsha was a workshop held in May 1999 with approximately 80 participants, including the Deputy Tourism Minister at the time and several senior local politicians. Local tourism bodies as well as the local

⁸² Ibid p.274.

⁸³ The Cluster Consortium, 1999, p.18.

⁸⁴ Ibid.

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community were well represented with tour operators the only ones largely missing. At the workshop small groups of participants were formed to identify and address the most significant issues, namely building community partnerships, tackle crime and focus on security, get better training and education, raise the community awareness and the interaction with tourists, build a genuine local experience unique to Khayelitsha as well as link the local attractions to other developments within the tourism sector. Well informed industry stakeholders generally know best which issues to select – they live and breathe the industry. Therefore they were the ones best suited to select the top priority issues.

After the workshop an evaluation took place, indicating a very high satisfaction among the participants. The meetings resulted in three work groups developing initiatives within the fields of education and training, marketing and safety. The issues were addressed in a joint approach through the formation of three action plans. The workshop was followed by a number of smaller community meetings led by the Leadership Group. Members of the Cluster Consortium were present at many of them with the role of providing a neutral corner and the task of continually bringing the agenda forward. The cluster process was enthusiastically supported, but still progressing slowly. An ongoing action agenda has been developed, including various activities to be addressed and implemented. It has been very critical to maintain support and provide the resources needed, consolidate the leadership team, deliver early results to keep support and to learn from higher performing clusters through best practice.

The consultants spent considerable time between the formal meetings, mentoring and facilitating the work. It is, however, important to acknowledge that the aim of the clustering initiative was not to finish a strategic plan developed by consultants. The Cluster Consortium underlines: “It is only by sweating through the issues in workshops and small working sessions that industry stakeholders develop the strategies, and more importantly, the ownership of the action”.⁸⁵ Khayelitsha was the least developed tourist area of the four local pilots. Yet, the commitment and grass root energy exceeded that of all the other pilots, underlining the importance of strong social capital, informal contacts and the involvement of local stakeholders.

Most clusters world-wide have started naturally. The initial stimulus to the concentrations differ significantly – in some cases being the location, in other the attractions within the region. In the case of Tropical North Queensland a wide variety of factors contributed to the growth of a hub of tourism activities including the above mentioned. In the Napa Valley it was mainly the wineries and the related activities offered that formed the foundation. The case of Khayelitsha differs somewhat from the previous examples. There simply was no cluster or concentration of tourism activities in the community. Neither was there a history

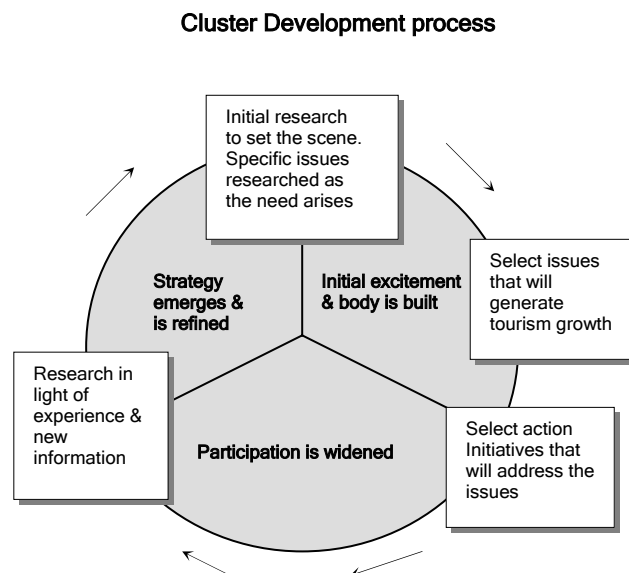
⁸⁵ The Cluster Consortium, 1999, p.99.

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of clustering. However, there was a great potential for development and a strong social capital among community members. This formed the basis for the clustering initiative, which was highly planned and organized. The process aimed to accelerate the development of a cluster as well as focus on identifying the roadblocks hampering growth.

3.4.3 Some Learning Points

The results of the work at all levels – national, thematic and local – indicate good results. It is, however, clear that the clustering initiatives at the local level were the most effective. At this level, it seemed to bring a more immediate sense of clear personal benefits for the involved, which helped motivate the participants. They could see an immediate and measurable difference to their own situation. The implementation continues beyond the frame of the project. In a sense the cluster process is still going on. It does not follow the ordinary pattern of strategy work that starts with an analysis followed by a strategy, which in the end leads to a recommendation. This work is rather an organic and dynamic process in which an initial analysis was necessary, but only to guide the action. The strategy was developed through a long process and it is only appropriate for this particular location. It is tailored to suit the local circumstances. The issues and the ways of addressing them will change over time to reflect the inevitably changing circumstances.



Source: The Cluster Consortium, 1999

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Photo: Walter Knirr. Courtesy of South African Tourism

Some learning points identified in the process involve:⁸⁶

- **Provide Active Support**

There is a great need to be proactive in supporting and facilitating the Leadership Team especially initially, since a committed long-term joint government/business/labor leadership is critical. Support is also needed to keep up the motivation, energy and commitment of all participants.

- **Strong Community Participation**

To mobilize the energy of key people in a community, knowledge of the informal networks that drive action is necessary. Who knows who is usually more important than formal job titles.

- **Bite-sized Chunks**

Major initiatives are easier to handle if broken down into manageable activities with clear timelines and short-term pay-offs. Early results keep up the motivation.

- **Maintaining Momentum**

It may be difficult to maintain the momentum. It is nevertheless of high importance. Close support of the leadership group and bite-sized initiatives may help. Continuity and sustainability in the implementation of action activities are critical and the stakeholders need to support the process long enough, so that it can deliver results.

- **Funding Constraints**

Funding may be a constraint to economic development. A basic financial infrastructure is needed. Therefore it is important to invest in critically needed economic infrastructure.

⁸⁶ The Cluster Consortium, 1999, chapter 5.

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- Broadening Participation

The clustering process should not be dominated by an elite few, but rather needs to bring in new people and thus extend the circle of involved. One goal should preferably be to develop more effective linkages and synergies within the cluster.

- Community Identity & Branding

The reality of the experience needs to match the perceptions. This is a vital part of developing a brand. To establish a shared vision is also of critical importance.

During the 12 months clustering process the South African tourism sector initiated the work to address priority needs for action. Many of the constraints to tourism growth identified in the mid-1990s have been partially or wholly overcome through programs and initiatives. Unfortunately new constraints restraining the development have arisen. The performance of the tourism industry over the past several years in South Africa has not lived up to the optimistic and aggressive targets set in 1996. It may partly be explained by unrealistic goals, but also by a number of serious issues. Tourism growth is threatened by weaknesses in the country's economic foundations, including safety and security, human resources as well as marketing. However, the recognition of tourism's current and potential contribution to the national economy is widespread and the factors limiting the development are being addressed. A lot remains to be done and the forecast is optimistic, but yet modest. It is vital to acknowledge that success takes time.

3.5 Cluster Benchmarking

The cases of Tropical North Queensland, the Napa Valley and Khayelitsha have little in common, apart from the wish to foster economic growth and development through a cluster approach, and doing so by developing their tourism industry. They are all beginning their journey at different starting points with various conditions. None of them go through exactly the same phases and they will all end the process with a unique strategy or action plan formed out of their own circumstances. Nevertheless, a lot can be learned from the experiences of others. By benchmarking and learning from best practice the support and development of clusters can reach a higher level and new information and knowledge be gained.

The Swedish Development Agency has identified a number of reoccurring traits found in a majority of successful cluster initiatives. These may be looked upon as factors important to develop, in order to support emerging and established clusters. It should, however, not be regarded as a complete list in any way. Each cluster is different and develops its own personality and dynamics.

The Swedish Development Agency acknowledges the importance of *meeting arenas* to strengthen unity, increase the exchange of knowledge and experience as well as facilitate the development of specialized skills. Another vital factor is the presence of one or several individuals (or organizations) taking on the role of

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cluster animators or civic entrepreneurs, and as such have the capacity to act as a “network broker” between different sectors and party interests.

The importance of securing the cluster’s system of *specialized skills and expertise* and to support informal business networks for exchange of knowledge and experience as well as to develop training programs is emphasized. So is a *division of labor*, where everyone focuses on doing what they do best. *Brand building* is yet another element that may strengthen the attractiveness of the cluster for new investors, venture capital and expertise. It may also function as a unifying force for cluster participants and thirdly, support the marketing of the cluster.

A clear *vision* is another trait commonly found. It needs to be supported by internal as well as external actors and must be focused and yet flexible. At best the vision may evolve through a consensus-based process, and at the next level turn into a platform for a successful cluster strategy. The last important factor involves the need to focus on *cluster-specific preconditions*, such as creating resources and capacities that will facilitate the development of innovation. Hallenkreutz and Lundequist underline: “In this context, it is of greatest importance that the public sector bases its efforts on the actual conditions and requirements of the companies and entrepreneurs. Every effort should be made so that work can progress from a ‘bottom up perspective’.”⁸⁷

Summary of Some Practical Lessons

- Meeting Arenas
- Cluster Animators
- Support Competence & Skills Development
- Division of Labor
- Brand Building
- Cluster Vision
- Focusing on Cluster-Specific Preconditions

Source: Hallenkreutz, D. and Lundequist, P. 2001

3.6 Sharing Best Practice

To sum up this chapter some words of advice based on Cluster Navigators’ experiences from their own work and from best practice around the world. These learning points may be helpful, in particular to officials responsible for economic development.⁸⁸

⁸⁷ Hallenkreutz, D. and Lundequist, P. “Innovative clusters in Sweden, practical lessons from regional cluster-building”, NUTEK, 2001, p.37ff.

⁸⁸ The information is based upon a chapter in ”Cluster Building: A Toolkit, A Manual for starting and developing local clusters in New Zealand, by Cluster Navigators Ltd 2001, <http://www.nzte.govt.nz/common/files/cluster-builders-toolkit.pdf>

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Some learning points based on Cluster Navigators' experience

- **Draw in the Movers and Shakers early on**
A clustering process needs to be open, being a team activity. Attracting new people is important in developing a collaborative approach. It adds energy, vision and contacts.
- **Share the workload**
A clustering initiative should be a team-driven strategy. If the workload largely is being carried by a few people there is a risk of burnout as well as of a limited number of initiatives being addressed rather than a wide portfolio.
- **Early political support helps**
Participation by some politicians in the early stages demonstrates support of the initiative and may convince stakeholders to join.
- **Private sector leadership must follow**
The leadership should be transferred from the initial politicians, through the cluster facilitator, to the private sector and preferably to well-respected business leaders.
- **Cluster facilitation...not analysis**
A cluster facilitator plays a great role in the development of clusters. The person or organization takes on the role of a relationship builder. That is what is needed, not a researcher or analyst.
- **Find low hanging fruit**
Early initiatives that generate early results may develop trust and build engagement.
- **Move early into action**
The clustering process needs to be action oriented. Maintaining the momentum with initiatives to keep up the support is vital. It is particularly important to win the support of the cluster's core firms.
- **Build for the long term**
It is essential to acknowledge that building the trust for collaboration takes time. Results may not be evident until 6-24 months into the process. Still many stakeholders and sponsors expect immediate pay-offs.
- **Build a cluster portfolio**
A healthy local economy needs more than one cluster generating wealth and employment. If the resources are not too limited, it is better to develop a portfolio of clusters, involving both high-tech and low-tech industries. Each cluster needs its own portfolio of initiatives, ensuring that not all eggs are held in one basket.
- **To move tacit information**
Frequent and repeated contact is useful for the sharing of tacit knowledge. This may happen during cluster breakfast meetings, joint participation or when changing employer within the cluster.
- **Develop trust**
Trust and dialogue develop in the social networks of a cluster and is a vital factor for a well-working cluster.
- **When do I walk away?**
The exit of a cluster facilitator at the right time may be the key to reinvigorating the group.

Source: Cluster Navigators Ltd 2001

4. A Case Study of Åre & Funäsdalsfjällen

The last part of the report involves a case study of the tourism destinations of Åre and Funäsdalsfjällen, situated in the County of Jämtland in the northwestern part of Sweden. This study serves the purpose of analyzing the destinations with the previously introduced cluster theories in mind, in order to try to determine if these destinations constitute clusters or not.



4.1 The Cluster Development Process

Each cluster is different, but a number of common elements can be identified in facilitating their development. The cluster development process generally consists of several steps. The nature of some of these were introduced in the South African case of Khayelitsha. However, even if the work is carried out according to a specific plan, as was the case in South Africa, it is important to acknowledge that each cluster will develop its own personality and dynamics. Hence any framework needs to be tailored to local circumstances and flexibility is vital throughout the entire process.

The company Cluster Navigators, which took part in the cluster development process in Khayelitsha, has developed a clustering approach based on their own experiences and on best practice from around the world. Their method has been used world-wide. However, it should not be regarded as the only way of supporting cluster development, but rather as an example of how it is possible to structure and plan the process. Cluster Navigators' approach consists of eight steps. The case study will basically evolve around the second step, which involves the gathering of information about the identified potential or established clusters. It is important to emphasize that an analysis of this kind can take place in a completely different context, without being a part of the eight steps introduced below.

1. Analyze Local Economy

The first step is to identify the embryonic and the more developed clusters and select the initial clusters for active development.

2. Initial Cluster Stock take

The second step involves the gathering of information about the clusters in the local economy.

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3. Establish Leadership Team

At this point it is time to carefully choose the appropriate people to participate in the leadership group.

4. Develop Cluster Vision

This step involves the process of establishing the preferred future for the cluster.

5. Identify Stepping Stones

The focus is on identifying the key steps to the preferred future.

6. Immediate Action Agenda

It is important to highlight the short-term projects.

7. Institutionalize the Cluster

During this step the institution or the organization that will sustain the clustering process into the future is set up.

8. Upgrading the Strategic Agenda

The last step involves moving to longer-term, more substantial projects.⁸⁹

4.2 The Focus and Method of the Case Study

The County of Jämtland has a long tradition of tourism activities. Furthermore, the tourism and travel industry is of major importance, in terms of generating wealth and employment. The industry has been identified as a key driver of regional development with a great future potential. Based on this, tourism is undoubtedly an interesting area in regard to cluster development. Two tourism destinations were accordingly chosen for this case study – Åre⁹⁰ and Funäsdalsfjällen⁹¹.

The purpose of the second step of the cluster development process is to identify the nature and dimensions of the cluster and its place in the local economy. In this case the strategies of each destination have been studied, but as more detailed and recent information was needed interviews with key stakeholders were undertaken

⁸⁹ Cluster Navigators Ltd 2001, p.15ff.

⁹⁰ The definition of the destination of Åre varies. The perhaps most common one is the one based on the ski areas that Å.R.E. AB today promotes as a destination, that is, Åre Björnen, Åre By, Tegefjäll and Duved (and previously also Edsåsdalen). However, it is important to note that what is included has changed over time.

The term Årefjällen is also used. It may be defined in at least two ways, either from a commercial point of view and as such includes the same areas as the destination of Åre, or from a geographic point of view and as such, according to the local tourist organization includes Åre, Undersåker, Edsåsdalen, Ottsjö, Vallbo, Vålådalen, Trillevalen, Kallbygden, Huså, Björnänge, Duved, Tegefjäll, Ånn, Handöl and Storulvån.

⁹¹ Funäsdalsfjällen consists of the resorts of Ramundberget, Funäsdalen, Tännådal, Bruksvallarna, Ljusnedal, Messlingen, Mittåda, Tännäs, Fjällnäs and Hamra.

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as well. This would help in trying to understand the opportunities and constraints of the potential clusters, the linkages across the destinations and the extent of team work.

All of the respondents mainly represent the private sector, as owners and operators, but also in the roles of managing directors, sales and marketing executives and information managers. In each destination a person representing a tourism industry association (run as a corporation) were interviewed as well. In addition to this, a discussion with a civil servant of the County Administration Board was conducted. In choosing stakeholders to interview a cross section of tourism businesses in the destinations were deliberately selected. The selection was also made to get a diversity of large to medium-sized, small and micro companies and there was also somewhat of a geographical spread of location within the destinations.

The persons interviewed were initially contacted by telephone and they received the questions prior to the actual face-to-face meeting. All interviews were conducted by the author of this report and a majority of them took place with a second person accompanying, this being done to limit the risk of misinterpreting the answers. Three of the 20 interviews were undertaken over the phone, since other solutions were not possible. The time for each interview ranged from about one to two hours, covering a number of survey topics determined in advance, each introduced as an open-ended question. Follow-up questions were sometimes asked, leading to a little variation on the emphasis of the topics covered. Because of differences in relevance, not all respondents were asked all questions. The interviews started to take place in June 2002 and the last interviews were conducted in June 2003. During this time period some structural changes took place in the destination of Åre, which will be discussed in section 4.5.

The result, given the qualitative nature of the information received, is generally descriptive and thus not appropriate for a numerical or statistical analysis. The interviewed persons were given assurance that their responses would be treated with confidentiality. Since the destinations are rather small geographic areas where most actors know one another and it could be easy to figure out who has stated what, no quotes will be presented, but rather a description of the current situation in the destinations. This will be based upon the interviews, unless another source is given.

The questions in the interview format follow a generic check list worked out by Cluster Navigators. In some cases the questions had to be slightly altered, to make sense to a service-producing business. In addition to the interview results and the information found in the strategies of the destinations, some statistics will be provided. Before the analysis of the current situation is introduced, some background information on the historical development will be presented. The

history of the destinations is of uttermost importance in providing an understanding of the current structures.

4.3 The Tourism Destinations from a Historical Perspective

*a) Åre*⁹²

The year of 1808, when a German professor came to Åre by horse, is often stated to mark the beginning of tourism in the area. Åre is situated in the mountains near the Norwegian border, approximately 750 kilometers from Stockholm and 100 kilometers from the nearest town, Östersund (with the closest airport). The distance to the nearest Norwegian town, Trondheim, is 200 kilometers. Being located far from the coast and major towns, the completion of the railway in 1882 made the destination more accessible to larger groups of people and a new phase of tourism started. The “air guests”, that is, people attracted by the clean and healthy air as well as hunting and fishing parties started to increase in number. International guests also found their way to the area. In 1883 the first real hotel was established by Kristina Hansson. She would also establish the first major tourist hotel in the area, Hotel Åreskutan (nowadays called Hotel Åregården), named after the main attraction of the area, the mountain. It was founded in 1895, a few years after the first tourism association was established in Åre.

The potential for tourism was as evident then as it is today. However, it was clear that financially strong people from other regions were needed in order for tourism to reach its fullest potential. A person of great importance to the tourism development in Åre in the early years was Albin F Wettergren. At first he managed a restaurant by the train station, but then expanded his business to include Grand Hotel (nowadays called Diplomat). There was a hard competition between him and Ms. Hansson and he tried with all means to eliminate his competitor. This conflict may be regarded as the start of a behavioral pattern that would characterize Åre from the early start of tourism up until the present day – namely an urge by operators to reach complete dominance and control of tourism in the area.⁹³

The successful businesses that Mr. Wettergren and Ms. Hansson had established attracted other companies to the area. Åre was changed from an agriculturally based village to a tourism destination in a rather short period. The destination attracted mainly rich and royal guests. Most tourism establishments were started by individuals moving into the region rather than being born in the area. They

⁹² The summary of the historical development is based upon von Friedrichs Grängsjö, Y. Destinationsmarknadsföring, School of Business Research Reports 2001:7, (Edsbruk: Akademityck AB), Hedung, R. and Lindahl, H. ”Utredningsuppdrag för utvecklingen av destinationen Åre Fem Byar, November 2000 and Nilsson, P.Å. ”Fjällturismens historia, en studie av utvecklingen i Åredalen”, Report 1999:1, Institutionen för turismvetenskap, Mid-Sweden University, Östersund.

⁹³ von Friedrichs Grängsjö, Y. p.69.

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gathered capital to investments through joint-stock solutions. One such innovator was Carl-Olof Rahm, who had a vision of transforming Åre into a continental winter resort. He was also the man behind Bergbanan, the first lift in the area finished in 1910.⁹⁴ This marks the beginning of the development of Åre into a winter sports destination.

As the number of tourists increased investments followed. In the 1940s and 50s, another ski lift was built, more hotels were established and new ski areas were opened. Previous to this, a local slalom club had been formed and in 1954 Åre hosted the World Ski Championships, making the resort known all over the world. The period after the war had generally been characterized by recession and a need for external capital to be brought into the region. The competition between destinations had increased both domestically and internationally and chartered trips to the Alps grew in popularity.

In 1962 and 1969 the government initiated investigations, where they found that both national and regional government agencies as well as the municipalities should take a responsibility in offering spare time activities and establishments for the community members. The government selected a few premier recreational areas in Sweden and made development strategies for each one of them. Åre was selected as one of them and in 1971 the work was initiated, which would have a great impact on the destination. The major new investment involved the cable car (kabinbanan) at a cost of approximately SEK 73 million.⁹⁵ This period was marked by an increased influence by government stakeholders at national, regional and local levels and many investments were made with state funding.

The 1980s was a period of expansion, but also of changing accommodation preferences. Rather than renting a place to stay in a lot of people started to buy private cabins and condominiums not only in Åre, but also in the surrounding villages. This was partly due to favorable tax regulations. In 1989, the Olympia gondola was established and in an attempt to increase the focus on summer tourism a golf course west of Duved was opened. However, the investments demanded an increased volume of visitors and the Swedish market was limited. Prices went up affecting the competitiveness and Åre was, moreover, struggling with an image problem as an expensive, trendy resort merely for ski professionals.

As the “golden” years of the 80s were replaced by times of recession the conditions changed. The municipality of Åre and the private companies rallied together to create favorable future conditions. It was an urgent matter to unite the individual operators under a common development process towards shared goals. Hence in the early 1990s, a process called Färdledaren (translates to “the Guide”)

⁹⁴ Ibid.

⁹⁵ Hedung, R. and Lindahl, H. p.25.

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was initiated. A vision was developed, new concepts tried and in 1993/94, Åre was back in a position among the top resorts on the Swedish market.

Nevertheless, the bank crisis of the 1990s led to economic problems, bankruptcies and changes in ownership. Through a state-owned credit company, Securum, in charge of companies with liquidation problems Åre Invest was founded. At the time, it consisted of the lift company and some of the major accommodation establishments. Later on a travel organizer was added and the group was given the name Åre Resort Enterprise AB (Å.R.E. AB). In 1997 Åre Invest was bought by Investment AB Bure. As a result, they became the owner of 95 per cent of Å.R.E. AB. In time the group of companies expanded with the aim of being able to offer the guest a complete “package” - an entire experience under the wings of the same concept. Å.R.E. AB therefore came to include the lift company, a ski school, three major accommodation establishments, restaurants, grocery stores, ski rentals and a company with marketing and central booking.

In order to maintain and deepen the joint commitment and responsibility for the future development of the destination a project called Tourism 2000 was initiated, more or less a continuation of the work in the previous Färdledaren project. However, this process was initiated on a regional level and was implemented in all major destinations in the County of Jämtland. The work was carried out between the years of 1997 and 2000.

In 1997 some structural changes took place as Å.R.E AB acquired the ski lift systems in the destinations of Vemdalen and Klövsjö/Storhogna (major ski destinations within the county). This was followed by a purchase of Åre-Vemdalen AB by a major winter tourism actor, Sälenstjärnan. Invest AB Bure mainly received payment in stocks, which they decided to sell in 2001. Some of the major owners of Sälenstjärnan acquired them. The company changed its name to Skistar later that year, which is the current name and the current owner of Å.R.E. AB.⁹⁶ Åre used to be promoted under the name of Åre – Five Villages, but as Å.R.E. AB sold the lift system in Edsåsdalen only four skiing areas remain - Åre Björnen, Åre By, Tegefjäll and Duved – marketed as one destination.

b) Funäsdalsfjällen

The destination of Funäsdalsfjällen, named after the main village in the area, is situated along the mountainous Norwegian border, 580 kilometers from Stockholm, but only 70 kilometers from the nearest airport and town in Norway, Røros. Close to the border Sweden's first mountain hotel was established in 1882 – Fjellnes Högfjällspensionat - a health resort that attracted many visitors. Funäsdalsfjällen has always suffered from a disadvantage due to its location, being harder to access than many other Swedish mountain destinations. However,

⁹⁶ Skistar also runs the destinations of Sälen (Lindvallen, Högfjället, Tandådalen and Hundfjället) as well as Vemdalen and Hemsedal in Norway.

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at the time people often took the more accessible route through Norway to reach the area.⁹⁷

In the early years of tourism most visitors came during the summer to enjoy the nature and the fresh air. Hunters were also attracted to the area. Gradually the interest in skiing increased and the winter season started to gain ground. Today, Funäsdalsfjällen is an all-year-round destination with plenty of genuine character and many old traditions. Fjellnäs is not the only resort with a long history. As early as in 1907 a guest house, Siljeströms Pensionat, was established in the resort of Tännålen. However, already previous to that the owner Mr. Siljeström had offered guests rooms in his own house.⁹⁸

In the resort of Ramundberget the tourism traditions go far back as well. It all started when some students, skiing across the mountain, passed by the farm of Agaton and Brita Norberg in 1935. They wanted to return to the area and stay at the farm. As a result, Mr. Norberg bought ten beds on credit, which at the time was regarded as a risky business. However, the tourists paid twice as much as he asked for and that marks the beginning of Ramundberget's tourist era.⁹⁹ Many guest houses and hotels originally started with families offering visitors a room in their own homes. They gradually increased their business and eventually opened up more conventional small-scale accommodations. This may be one explanation as to why the destination still has a high degree of family character.

Up until the 1960s, the expansion of the area was modest. The first ski lift was built in 1958. As a comparison today the number has reached 31. It was during the 1970s and 80s, that the winter tourism started to develop immensely, partly due to "Stenmarkseffekten" (the interest in skiing increased with the success of the Swedish skier Ingemar Stenmark). Capital was brought into the region, as new investments were made and new establishments were founded. At this point, the number of cabins for rental, apartments and condominiums increased tremendously. As the area expanded, the lack of joint marketing and cooperation among the various resorts hampered the development of the destination as a whole. A local hotel association had existed for some time in the area, but its main purpose was basically limited to cutting costs by joint purchases.¹⁰⁰ The need for a joint approach to development led to the establishment of Funäsdalsfjäll AB in 1973, or Härjedalsfjäll as it was called at the time - a corporation majority owned by the tourism and travel industry. The establishment of a joint organization was in general regarded as a success and the corporation still exists.

⁹⁷ Jämtland/Härjedalen, Svenska turistföreningens årsskrift 1977, (Nacka: Esselte Herzogs) p.207.

⁹⁸ www.tannadalen.se 2003-08-26

⁹⁹ www.ramundberget.se 2003-08-26

¹⁰⁰ Bodén, B. and Rosenberg, L. Unpublished material under the project "Studying the Development of Tourism Destinations", ETour, Mid-Sweden University, 2003.

The 1980s had offered favorable conditions for development and expansion, but this would change in the 90s with times of recession, affecting the destination of Funäsdalsfjällen. Many companies faced liquidation problems and the only major investments during this time took place in Ramundberget and in Funäsdalen where a mountain museum was built. In contrast to the destination of Åre, where several companies faced economic problems as well during this period, the companies facing bankruptcy in Funäsdalsfjällen were not able to attract new owners, but was to a large extent continuously operated by their former owners. This may have been a disadvantage to the area, since neither new capital nor new people came into the region, as was the case in Åre. However, the destination continues to develop and recently large investments have been made, especially in Ramundberget. In the beginning of the 21st century, a majority of the mountain ski resorts in Sweden were owned by major operators, such as Skistar and Strömme. Funäsdalsfjällen was rather alone in its situation without a major dominant actor in charge of the development of the destination.¹⁰¹

4.4 Historical Factors Influencing the Present Situation – Some Reflections

There is a vital difference between the two destinations in regard to accessibility and it has been from early on. Both areas are situated far from the coast and in general far from areas that are densely populated, where their main potential markets are. In the early years of tourism a lot of people traveling to Funäsdalsfjällen found their way through Norway, since that was a more accessible route. This is, via the airport of Röros, still an option for foreign visitors. Communication is currently a major problem restraining the development, but was an even bigger problem in early times when cars were rare. Traveling by car or bus, or by flying to the nearest airport and from there on go by car or bus is more or less the only way of reaching Funäsdalsfjällen. It is an obvious disadvantage that there are no trains passing by the destination. There was for a long period a train station in Funäsdalen, but the plans to expand the railway to the area were never realized.

Åre, on the other hand, from early on had the benefit of trains bringing tourists to the area. Later the car took over as the main means of transportation. However, the train is still important. During certain times of the year there are even so called “Åre trains”, bringing tourists to the area from various places in Sweden. Åre is, moreover, closer to the nearest major airport of Östersund. Hence is a more easily accessible area.

Both destinations belong to a region classified by the Central Government as a support area, which means that companies in the region are entitled to various forms of grants, such as national funds, regional economic support for investments and in more recent years support from the structural funds and Goal 6 as well as Goal 1 of the European Union. Nevertheless, the impact of

¹⁰¹ Bodén, B. and Rosenberg, L., 2003.

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governments at national, regional and local level has been much higher in Åre, resulting in some major investments with state funding, in particular as a consequence of the government decision to support a few Swedish recreational areas in 1960s and 70s. This has had a positive influence on the development in Åre, enabling establishments that otherwise most likely would never have taken place. In general finding capital for investments and attracting stakeholders seem to have been easier in Åre than in Funäsdalsfjällen.

Another major difference between the two destinations is of a structural character. In Åre, there was from early on a small number of major actors competing for influence and power. These persons often came from other regions and moved to Åre, some for life, others for a few years to try to fulfill their dreams and visions. Ever since tourism started on a major level, people with new ideas and capital have been attracted to the area. There has generally been a high degree of power struggles and competitiveness and mixed feelings towards the tourism development as well as the tourists, in particular since the destination became known as a trendy place for rich people and later somewhat of a gathering place for skiers who wanted to party at night. Still today mixed feelings are expressed.

Funäsdalsfjällen is, on the other hand, from the early years on characterized by small, family-owned companies often started and run by local community members. With a small number of people from outside the area, most operators knew one another, which fostered a strong social capital and relations based on trust - sometimes perhaps too strong, making the urge for consensus slowing down development. The strong social capital is still evident. The destination has always been known for its hospitality and conflicts and competitiveness are not as evident as in Åre, although they naturally exist.

4.5 The Current Situation – The Major Actors of the Destinations

a) Åre

Åre is Sweden's premier ski resort, sometimes also regarded as the top one in northern Europe with about 1 500 000 guest nights and approximately 350 000 guests during a winter. The Tourist Information Office has the overall responsibility for information to incoming visitors and guests. It is financed by the municipality of Åre and the local business associations, but run by a corporation called Åre Turistbyrå AB, which also serves as a booking central for some of the accommodation establishments in the area. The various local business associations own a majority of the company, Å.R.E. AB 30 per cent and a transportation company the remaining 15 per cent. It represents some 300 tourism operators. Åre Turistbyrå AB not only promotes the four ski areas, defined as the destination by Å.R.E. AB, but a wider geographic area.

A large majority of the companies present in the area are related to tourism and travel, many of rather small size. However, most of them are organized in local

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business associations, in a joint effort to influence the tourism development of the destination. The biggest one is the one located in the village of Åre (Åregruppen AB), with about a hundred company members. These groups have been influential and an important part of the development. However, it has been indicated by some of the respondents that the associations are losing some of their value and strength, as Å.R.E. AB has expanded and more or less are holding a monopoly position. Hence the business associations may not have been able to act as the strong united counterpart many smaller companies would have wished for.

Å.R.E. AB is the leading actor of the destination. The company is the key driver of tourism development, supposedly in cooperation with the local business associations, although the opinion has been expressed that many decisions are made without much concern to smaller companies. It should also be stated, though, that their work is strongly appreciated by many operators. Their efforts aim to strengthen the attractiveness and the competitiveness of the destination. Å.R.E. AB is more or less the sole financier of external marketing and continuously invests in the region. There is a worry that the areas where Å.R.E. AB has no interests will be left behind and great concerns have been expressed that their only interest is in developing the winter season. However, this may possibly change when the new establishments of The Multi-purpose Hall (multihallen) and Åre Tott Hotel & Spa have developed their concepts over time, which are of an all-year-round character.

Since the first interview of this study was conducted in the summer of 2002, some changes have taken place within the destination. As one of the major hotels, Sunwing Åre,¹⁰² was taken over by Topeja Holding AB¹⁰³, a new establishment was founded - Åre Tott Hotel & Spa. This is an exclusive recreational establishment, with the aim of staying open all-year-round, a new approach in a destination strongly dominated by winter tourism. Yet another major investment is currently taking place. A hotel and entertainment arena with a congress centre, the Multi-purpose Hall, is being built. It is owned by the Finnish company Holiday Club and run by Åre Holiday Club through the former managing director of Å.R.E. AB. The investments amount to about SEK 400 million, partly government funded as well as supported by the European Union. The project is a joint product of Holiday Club, the local business association of Åre and the municipality of Åre and it will also be open all-year-round from the fall of 2004.

Furthermore, the destination of Åre was granted the organization of the Alpine skiing world championships for 2007 and a limited company called Åre 2007 was founded. It is owned by the Swedish Ski Association (70 per cent), Å.R.E AB (15 per cent) and the local business association of Åre (15 per cent). This event has

¹⁰² Sunwing Åre was run by Ving, part of MyTravel Northern Europe AB, Scandinavia's leading tour operator.

¹⁰³ Topeja Holding AB also run two major hotels in the destinations of Sälen and Vemdalskalet.

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resulted in a large number of new projects more or less connected to the Championships and it has created great dynamic in the area.

Even though there is a close collaboration between the recent establishments and Å.R.E. AB, they may to some degree challenge the monopoly position held by the dominating operator. The new companies will have an impact on the structure of the destination and together with the local business associations may form more of a counterbalance. There is no doubt, though, that Å.R.E. AB through their owner Skistar will continue to be the major actor of the destination.

b) Funäsdalsfjällen

Funäsdalsfjällen is Sweden's third largest ski area and a popular all year round destination. The number of guest nights is about 950 000. Tourism is the main industry, representing 85-90 per cent of the total local economy. There is no major actor dominating the area, but rather about 160 small companies, many family-owned and a small number of larger operators, such as Ramundbergets Alpina AB with some 75 employees.¹⁰⁴

The joint marketing is carried out through the corporation Funäsdalsfjäll AB. They are developing the destination through a large number of projects, the main one being Framtidsfjäll 2000, where constraints hampering further development – such as a weak profile, no common long-term goals and weak communication – have been addressed. The project was part of the larger regional project Tourism 2000. The work resulted in a strategy underlining that each actor must acknowledge that they are part of a larger system of operators and that each and everyone must take a responsibility for the destination as a whole.

Funäsdalsfjäll AB not only deals with marketing and development projects, but also runs a booking central for accommodations and activities in the area as well as manages the Tourist Information Office. Furthermore, the corporation owns an affiliated company situated in Stockholm called Till fjälls i Funäsdalsfjällen AB, whose main purpose is to sell trips to the area. About 145 out of 160 local companies have joined Funäsdalsfjäll AB, which with almost 30 years of experience is the oldest still existing tourism company aimed at joint marketing in the county.

The local business association, Föreningen Företagarna i Funäsdalen, is another joint forum for individual entrepreneurs. It is open for all companies, but since such a large majority of them is related to tourism this has turned into a major focus area. The hotel association and the many local associations, often of a non-profit character, work to develop the various resorts as well often with a strong commitment.

¹⁰⁴ www.funasdalsfjall.se

To sum up, the destination has no dominating operator, but rather consists of local community members, individual companies, Funäsdalsfjäll AB, the local business association, the hotel association and other local associations, which all must take a joint responsibility and cooperate with stakeholders at different levels in order to develop the destination.

4.6 Clusters or Not? – Analyzing Some Important Factors

As shown the structures vary in the two destinations with a majority of small, family-owned companies in Funäsdalsfjällen, more or less acting under the same set of rules, facing similar circumstances and conditions. In Åre, on the other hand, a major operator is dominating the scene. Nevertheless, there is a common understanding among most participants on both destinations that there is a need to collaborate in order to remain competitive. However, several of the respondents are of the opinion that small companies feel that the cooperation in Åre is on terms set by the major operator - either you agree on their conditions or collaboration will not take place. This is not helped by the feeling that local business associations are losing strength, an opinion expressed by more than one of the respondents. There is evidently both an appreciation of the major operator attracting people to the area by substantial marketing campaigns and investments bringing the development forward, but also a disapproval of their way of doing business.

The business climate in Åre has been judged as below the national average, according to a study.¹⁰⁵ This may indicate that the social capital, trust and reciprocity have not reached their full potential. It may partly be explained by the fact that one actor has a dominant position, but also by the rather frequent changes in ownership and new actors coming into the area, which may restrain the establishments of trust-based relationships, since it compromises consolidation of change.

In Funäsdalsfjällen the general picture given is of a more harmonious business climate, where it seems possible to look beyond personal conflicts and in a joint effort work together to reach common goals. The social capital, the trust and the reciprocity in general seem to be higher than in Åre. There is also a shared view on who the key drivers of development are, that is, when asked to point out the real enthusiasts bringing the development forward more or less the same persons were selected no matter who was asked. This was not to the same extent the case in Åre.

Being one of few ski destinations without a major dominating actor being in charge of the development, Funäsdalsfjällen may have more of a balance of power. However, many of the respondents still expressed a wish that a strong

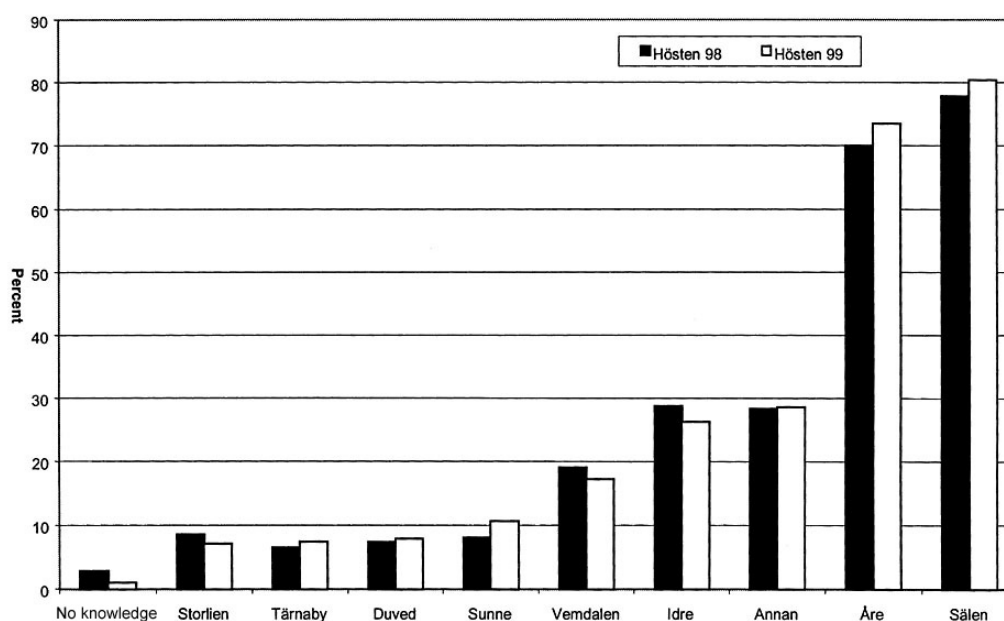
¹⁰⁵ Andersson, J. "Business Process Development and Information Technology in Small and Medium-sized Companies, COMPETE", Institute for Management of Innovation and Technology.

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operator with capital would enter the area and make investments. A major operator also brings competence, new skills and innovative thinking into the area. It often takes on the role of a key driver of development. Accordingly, the level of innovation seems to be higher in Åre than in Funäsdalsfjällen, possibly due to a correlation between innovation capacity and the size of the companies present.

There is no doubt that the size, strength and capital available are important in developing the destination and that all these attributes can be found in Å.R.E. AB and its owner Skistar, resulting in major investments and innovations in the area. Furthermore, the competitive environment with a long history of a few operators urging to dominate tourism in the area creates a high level of innovation and development (mentioned in section 4.4). Another explanation is that the trademark of Åre in general is very strong and well-known (see diagram below) and it attracts new companies and skilled labor. This seems to override the not always ideal business climate in importance. A lot of people moving to Åre are attracted by the lifestyle found in the area and the trademark automatically seems to add positive attributes to their company images.

The knowledge of various ski destinations, a comparison between the fall of 1998 and the fall of 1999

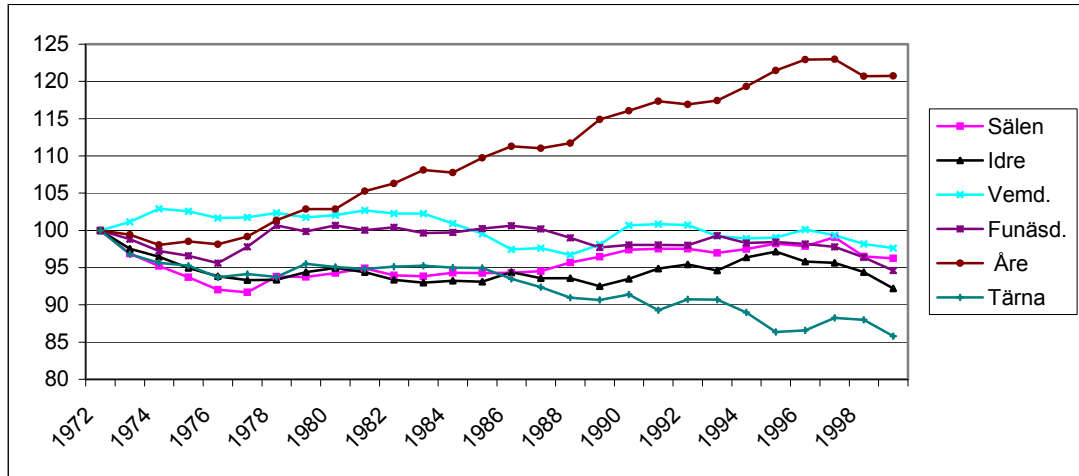


Source: Hedung, R. and Lindahl, H. 2000.

In accordance with what is taking place in Åre, clusters often attract people from other areas resulting in a growing population. This may be of particular importance in the sparsely populated region that both Åre and Funäsdalsfjällen belong to, where the general trend is one of a diminishing growth. It is evident from the diagram on the next page that the changes in Åre are following a different path compared to the other destinations.

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The number of inhabitants in the tourist areas. Index 1972=100



Source: Annual Statistics for Municipalities in Sweden in Bodén, B. and Rosenberg, L. 2001.

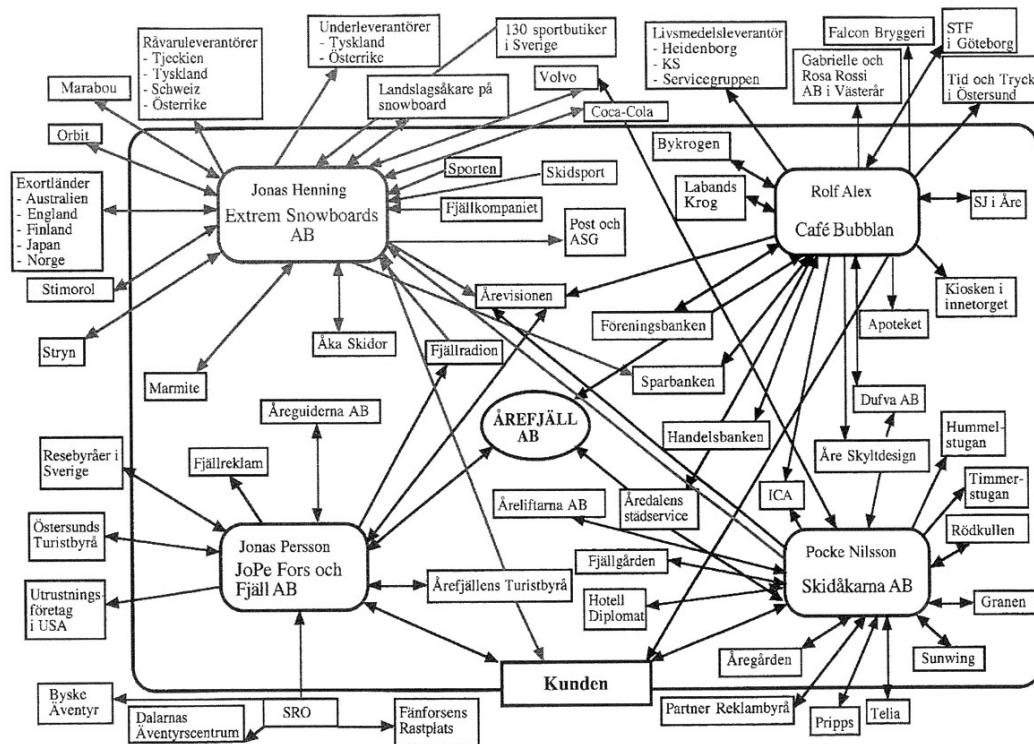
Hence Åre seems more successful than Funäsdalsfjällen in attracting both people and new establishments. Some new businesses are started by local people, but there is also a stream of companies relocating to the area and new companies being established by people originally from other regions in Sweden. One example of an interesting establishment was the Apple Village project, which was started together with the enterprise Macintosh in 1991. Åre Village was selected from a choice of places all over Europe. Accordingly, the trademark, the lifestyle and the destination in itself attract establishments, which in their turn attract labor. These companies are not necessarily related to tourism, but not surprisingly many of them have direct or indirect connections. Hence it is not a coincidence that several operators dealing with outdoor equipment, such as clothing collections, shoes, skis and snowboards are found in the area.

There is a lot of people working within the field of design, in various areas such as fashion, advertisement, outdoor equipment and web sites. Many designers and creators of fashion started working in the company of Peak Performance, a leading brand in sport and leisurewear, but as the company moved from Åre they either started their own business or moved on to work for other fashion companies. It is important to point out that these clothes are more than a shirt, a jacket or pair of pants – they represent a lifestyle. Furthermore, two major publications are based in the destination – Utemagasinet and Åka Skidor, both focusing on skiing and outdoor recreation. In addition to this, an increasing number of events have been arranged in the destination, such as Fjällräven Extreme Marathon, Red Bull Big Air and the UCI World Mountain Bike Championships, organized by companies specializing in this field. Photographers, media corporations, the bakery, the chocolate factory among others are all using the trademark to favor their business. Many of these companies are successful and export their products to countries all over the world.

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The linkages between tourism operators and related industries are in a state of constant change, as companies appear as well as disappear and new forms of collaboration take form. One perception of the system of linkages in Åre is illustrated in a doctoral thesis by Yvonne von Friedrichs Grängsjö. This illustration is based on a study from the late 1990s and therefore not picturing the current situation, but may serve the purpose of showing the wide extent of collaboration in the destination.

Linkages of professional and personal character forming a network



Source: von Friedrichs Grängsjö, Y. 2001.

Some of the related companies use the trendy set of Åre tourists as a testing ground and they cooperate with the premier tourism operators in the area. Others work with completely different markets and networks, but there is still a connection to the destination. These companies that are not directly tourism operators, but still related, are perceived as complementary industries in the context of cluster theory. They are a vital part of the cluster and make the local economy less vulnerable, since it is not only relying on one single industry to generate wealth and employment.

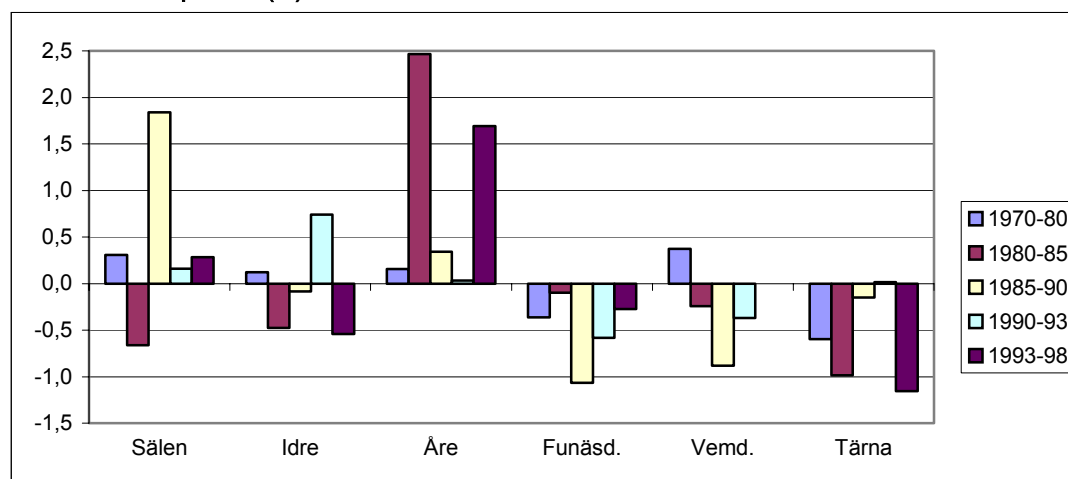
Although photographers, media corporations and event organizers can be found in Funäsdalsfjällen, the destination is to a large extent lacking complementary industries. The trademark is not as strong in attracting new establishments, perhaps because it is more of a genuine family-oriented destination and not

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characterized as a trendy place in the same way as Åre. This is not to say that the trademark in general is weak – both Funäsdalsfjällen as a destination and also the resort of Ramundberget, where a lot of recent investments have been taking place have proved to possess strong trademarks, but they stand for something altogether different than Åre and hence attract different segments.

That the destination of Åre is more successful than Funäsdalsfjällen in attracting companies in various industries generating job opportunities may be illustrated in the diagram that shows the change in the share (in per cent) of the number of employed in all sectors in a certain destination over the total amount of employed in all destinations in question, over time.

The change in the share of the tourist areas by the number of employed in the tourist areas in total, divided into time periods (%)



Source: Statistics Sweden. Census of Population and Housing 1970 and 1980, RAMS others, People spending the night, in Bodén, B. and Rosenberg, L. 2001.

Hence the diagram illustrates a comparison of the capacity of the various destinations in attracting labor and in offering employment over time, not only in the tourism and travel industry, but in all sectors.

Not only companies are attracted to the area, but also research institutes trying to understand the dynamics of the destination and studying the trends that are being developed in the area. At the moment the Interactive Institute is being established in Åre. Recently, the Richter School focusing on design has been founded and there are plans to start a design center. Companies doing market research within the field of tourism and travel are also located within the destination. These establishments connected to research and innovation are not found in Funäsdalsfjällen. However, both the Mid Sweden University and the European Tourism Research Institute are carrying out research projects in the destination, although the work is limited in comparison to the research in Åre. The interviews in general revealed that small companies in both destinations have little or no

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contact with universities and research institutes. It is usually the larger establishments that have connections of this kind. The opinion was also expressed that much research has little relevance in “the real world” and that it needs less of a theoretical approach in order to be of interest.

In regard to education and competence, both destinations have hotel and restaurant schools within a close distance and the Mid Sweden University is well-known for their programs within the field of tourism, educating students that to some extent move on to work in these destinations. Practical training programs are also available. It seems rather easy to attract labor to the destinations, at least during the winter season, although there is in general a high labor turnover due to short-term contracts and seasonable fluctuations. However, the need for a common pool of labor was expressed in Funäsdalsfjällen, where it may be difficult to find for instance guides and cooks in a short period. The generally high number of tourism operators within a limited geographic area, such as these destinations, results in a flow of human resources in terms of staff changing employers favoring the exchange of knowledge and information. Some of the bigger companies are able to offer all year round contracts and working for them may provide the opportunity of pursuing a career, increasing the chance of keeping the workforce for a longer time.

In Åre, the core attraction of the destination is Åreskutan, the mountain in the middle of the village. It is around this attraction that most establishments are located, a majority of them being run by Å.R.E. AB. However, the increasing popularity of the resort has generated a demand for more companies with similar and related capabilities. Since the four ski areas making up the destination are close to one another, sometimes even integrated, there is a flow of information and knowledge between the operators. The proximity of companies in a limited geographic area fosters an environment characterized by both cooperation and competition, which forces the actors to continuously develop and innovate in order to remain competitive.

This really close concentration of companies is not found in the destination of Funäsdalsfjällen, where the distance between the various ski areas are longer and where there are several attractions instead of a major one. Nevertheless, the actors in Funäsdalsfjällen have successfully been able to unite in a joint effort to reach common goals as was mentioned previously. Together they have developed a strategy and a collective vision.

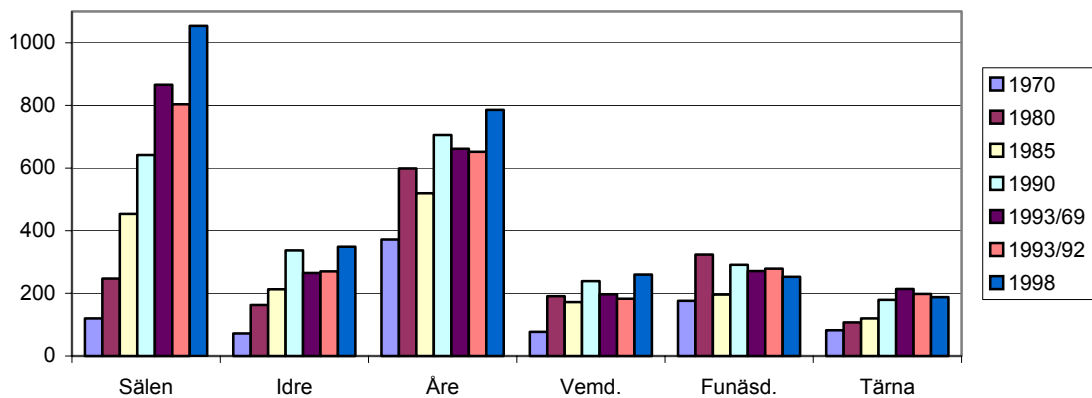
Projects focusing on a joint approach to development are present in Åre as well and several meeting arenas exist. However, to some extent, the vision of the destination seems to be less widely supported than the one in Funäsdalsfjällen, as it is not fully shared by all operators - some working towards other goals and with other market segments. The companies are rather united by the demand of the

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consumers and there seems to be a way of successfully working side by side without a fully shared vision.

Both Åre and Funäsdalsfjällen have over time increased their level of specialization in tourism. The companies belonging to this sector can be divided into three groups - core tourism with pure tourism operators,¹⁰⁶ partial tourism and intermediate businesses, that is, companies and organizations that serve both tourists and the social system in general and finally the superstructure, which involves community support structures.¹⁰⁷ The employment structure in the destinations, according to this classification, is illustrated in three diagrams presented.

The number of employed within core tourism of the tourism areas:



Source: Census of Population and Housing 1970 and 1980 together with RAMS 1985, 1990, 1993 and 1998 in Bodén, B. and Rosenberg, L. 2001.

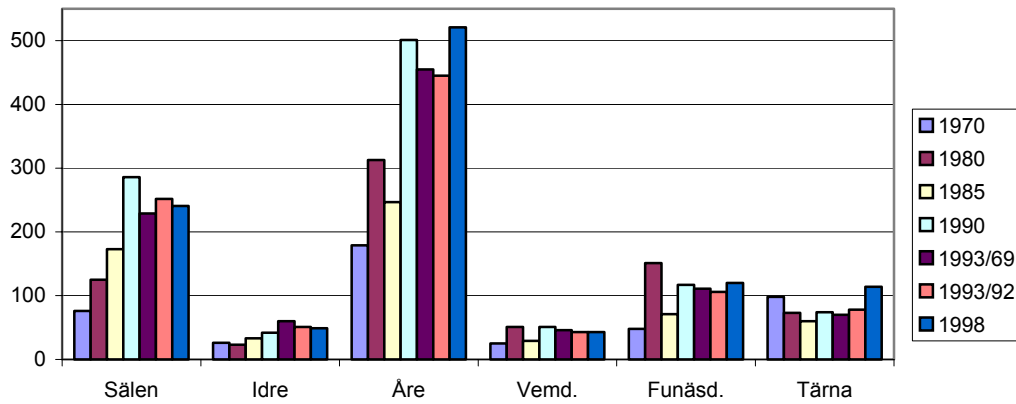
When comparing the two destinations in regard to core tourism companies Åre is one of the leading destinations, although Sälen is even more prominent. In 1998, the number of companies in this category has increased in Åre, but diminished in Funäsdalsfjällen. The difference is possibly due to the development of Å.R.E. AB through its owner Skistar.

¹⁰⁶ Core tourism operators involve commercial accommodation, restaurants and other eating places, transport enterprises offering activities of various sorts and other typical tourist enterprises.

¹⁰⁷ Bodén, B. and Rosenberg, L. "Studying the Development of Tourism Destinations: Analytical reflections based on a pilot study of six winter sports areas in the Swedish mountain area", ETOUR, Mid-Sweden University, Paper presented at the 10th Nordic Tourism Research Conference, Vasa, Finland, October 2001.

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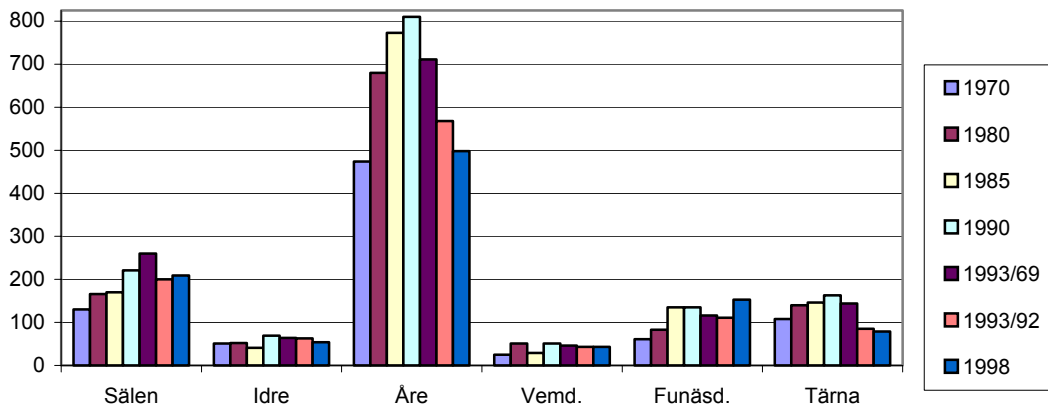
The number of people employed within the partial tourism & intermediate enterprise population:



Source: Census of Population and Housing 1970 and 1980 together with RAMS 1985, 1990, 1993 and 1998 in Bodén, B. and Rosenberg, L. 2001.

It is evident that Åre during the entire period of 1970-1998 has been the dominating destination in regard to partial tourism and intermediate companies as well as operators classified as belonging to the superstructure.

The number of people employed within the tourism areas' superstructure population:



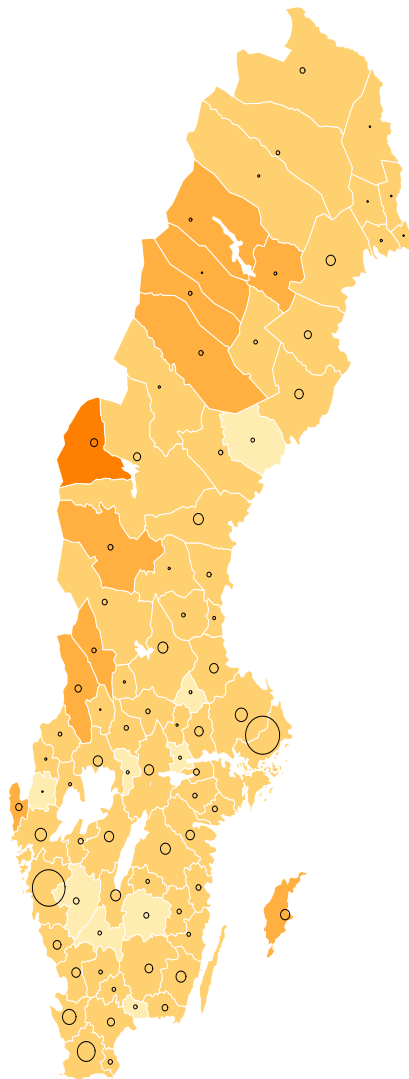
Source: Census of Population and Housing 1970 and 1980 together with RAMS 1985, 1990, 1993 and 1998 in Bodén, B. and Rosenberg, L. 2001.

The diagrams show that the changes over time, no matter what category is being analyzed, in both destinations - Åre and Funäsdalsfjällen – more or less follow the same pattern, indicating that general changes in the market and in the surrounding world account for a lot of the variations.

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From a cluster perspective not merely key companies play a vital role, but supporting operators are often just as important. Together these linkages may form the foundation of a cluster.

The concentration of tourism companies and related actors in Åre is further confirmed by a map of Sweden showing areas of tourism clustering (shown below). It also highlights the importance of tourism in Funäsdalsfjällen, or Härjedalen as it is depicted on the map. The model used to classify the clusters has been developed by Porter and applied in Sweden by Göran Lindqvist, Anders Malmberg and Örjan Sölvell.¹⁰⁸



Source: Lindqvist, G., Malmberg, A. and Sölvell, Ö. 2002.

¹⁰⁸ For more detailed information see Lindqvist, G., Malmberg, A. and Sölvell, Ö. “Svenska klusterkartor – En statistisk inventering av kluster i Sverige 2002”, Centre for Research on Innovation and Industrial Dynamics, University of Uppsala.

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The rings indicate the number of employed in the industry cluster. The smallest ring indicates 500 employees, the medium-sized one 2500 and the biggest one 5000 or more. The colors indicate the level of specialization in the region - the darker shade of color the more specialized region.¹⁰⁹



Foto: Å.R.E. AB

4.7 Conclusion

At one point the entire Silicon Valley was agricultural land. This goes for showing that even the most successful cluster starts with a few companies and their linkages to the surrounding world. It also proves that clusters do not develop overnight, but rather cultivate during a long period. The history of a region often provides insight into how the current situation has come around. This is true when studying the tourism destinations of Åre and Funäsdalsfjällen. The main factors of importance in this context involve the accessibility of the destinations, the support from government stakeholders and the structural character of the companies. All these elements contribute to the understanding of the development in the two areas.

When comparing the two tourism destinations, Åre has over time benefited from more government support. It has also been a more accessible area and still is with trains passing by and a closer location to the airport of Östersund. Moreover, the destination has a long history of a few major operators trying to dominate tourism in the area. It has also been successful in attracting both capital and people from outside the region. Funäsdalsfjällen, on the other hand, has always suffered a disadvantage due to its location. The destination has from early on been characterized by small family-owned businesses, often managed by local community members knowing one another.

¹⁰⁹ The quotient of specialisation is the quotient between a certain region's share of the employed in a certain industry over the region's share of the total number of employed in the country.

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In addition to the historical elements, some current factors are crucial to the development of the destinations. The interviews conducted, the strategy documents and some statistics have provided a foundation for the analysis of these factors.

In regard to the presence of a major dominating actor it is evident that Funäsdalsfjällen is lacking this kind of operator, whereas Åre has a strong driver of development in Å.R.E. AB and its owner Skistar, at least during the winter season. Mixed feelings have been expressed about one operator basically creating a monopoly situation. Nevertheless, it brings capital, skills, innovations and investments into the area. In Funäsdalsfjällen the business climate seems to be more harmonious and the vital social capital very strong, although perhaps too strong, sometimes not leaving room for disagreements. Hence not creating the climate where cooperation and competition coexist to the same extent as in Åre, resulting in innovations and competitiveness.

The proximity of companies in a limited geographic area generally creates an environment where competition as well as the need for collaboration is obvious. The proximity also generates a flow of knowledge and information. In Åre, the various villages are situated closer to one another around the major attraction of Åreskutan, whereas there is a greater distance between the resorts in Funäsdalsfjällen.

The trademark is of crucial importance in the destination of Åre. It attracts not only new companies, but a certain kind of companies often looking to create new trends and to try out new products. The trademark of Funäsdalsfjällen is also very strong, but represents a destination with family-character and hence attracts different segments. Moreover, Åre with its trademark and lifestyle is more successful in attracting both people moving into the area and institutes connected to research and innovation. Furthermore, there is plenty of companies, not directly in the tourism and travel industry, but in related areas – so called complementary industries. Neither these nor the research institutes are found in Funäsdalsfjällen, at the very least not to the same extent.

However, the destination of Funäsdalsfjällen has been very successful in uniting the operators in a joint effort to reach common goals and they have developed a shared vision – something Åre has not been able to do in the same successful manner. Both tourism destinations have over time increased their level of specialization in tourism and related areas, although Åre stand out in a comparison to Funäsdalsfjällen.

To conclude, from the analysis of the factors above it is evident that the destination of Åre possesses many of the vital factors found in a cluster and may be regarded as one of Sweden's premier tourism clusters, if not the premier one. Funäsdalsfjällen, on the other hand, is lacking many of the vital elements and it is

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therefore not considered a cluster in the context of this report. However, even if the destination is not regarded as an established cluster, it still has a great potential to further development.

* * *

To travel alone may be the fastest way of getting from one given destination to another. It involves no compromising, no heartfelt discussions and no friction. Traveling together, on the other hand, requires mutual cooperation, giving and taking and sometimes setting aside one's personal goals for the benefit of others. It can be difficult, frustrating and time-consuming, but it may take you to places you otherwise would never have reached.

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