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Rethinking Tourism Cluster Development Models for Global Competitiveness

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RETHINKING TOURISM CLUSTER DEVELOPMENT MODELS FOR GLOBAL COMPETITIVENESS

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ABSTRACT

The purpose of this paper is to propose a tourism cluster development model for global competitiveness. By indicating the deficiency in current clusters and tourism competitiveness models, this newly proposed model takes three key issues into account: the role of transnational corporations in tourism cluster development, interconnection between cluster actors, and the separation of cluster actors. This paper expands the current tourism development model from one which has mainly focused on a home-based environment in tourism development to the global framework, which can better account for global competitiveness.

Key Words: tourism competitiveness, Porter's diamond model, tourism cluster, transnational corporations

INTRODUCTION

The purpose of this paper is to propose a revised and more accurate global tourism cluster development model in an emerging nation(s). Globalization and internationalization have brought business economists, regional economists, and tourism researchers together to examine destination competitiveness and multinational activities in a global economy. Most developing countries face international competition for tourism markets and are vulnerable to changing global economic and business situations. The domestic economies and industries of these nations are impacted by Transnational Corporations (TNCs) and Foreign Direct Investment (FDI) that has mostly flowed from the West. Their choice to enhance economic growth through tourism development is based on a belief that this industry would be an effective stimulus when other local capital or skilled labor is not present. Therefore many developers, researchers, and policy makers in both practice and academia endeavor to find a strategic model of successful tourism development. This effort has been triggered by the acceptance of Porter's competitiveness and cluster theory model (1998a) in both advanced and developing countries. Some studies assert that a strategy to cluster business is particularly relevant for the early stages of economic development as it may help small enterprises survive the start-up process (Schmitz & Nadvi, 1999). The impact of tourism related TNCs on host countries would also appear more prevalent in new or less developed destinations than mature ones (Barrowclough, 2007). However, current tourism and regional development literature fails to take into account the present global context and the multinational activities of FDI and TNCs that are critical in tourism and regional development. Even tourism competitiveness literature has focused on evaluating the present context in order to compare the competitiveness of different tourism destinations and relies on the "home-base" concept from Porter's theory.

This paper proposes a conceptual model of tourism cluster development in emerging nations by reformulating and combining Porter's diamond model with the tourism competitiveness models of Crouch and Ritchie (1999) and Dwyer and Kim (2003). The focus is primarily on two issues: the important role of TNCs as a participant in tourism cluster development in emerging nations and the networks between participants within the tourism cluster. The next section reviews the general concept of cluster theory and competitive advantage within the context of tourism literature. Following this is the rationale and presentation of a new conceptual model of global

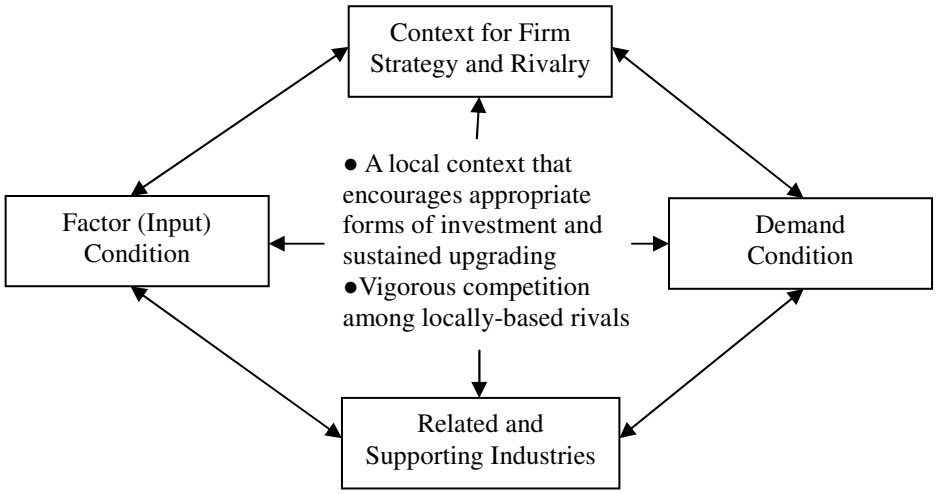
tourism competitiveness through tourism cluster development, concluding with implications and proposals for future research.

LITERATURE REVIEW

Cluster theory and competitive advantage

The concept of industry clusters and the notion that they create competitive advantage is not a new framework to explain regional economies and to assist policy-making in regions or nations. Cluster theory originates from the "industrial district" of Marshall's agglomeration economies (Marshall, 1920). This early framework argued that when firms are closely located in geographic proximity they generate positive externalities and economies of scale, and then these agglomeration effects can contribute to their overall productivity. The cluster concept has been translated from various agglomeration theories—from the works by Marshall (1920) and Hoover (1948) through Isard's work (1956) on the industrial complex. The shift towards globalization, however, requires new approaches to understanding the effects of industry clustering from regional and economic developers. A major breakthrough for the cluster concept was Porter's cluster theory and competitiveness in *The Competitive Advantage of Nations* (Porter, 1990). Porter has contributed significantly to the literature by providing a comprehensive understanding of national and regional competitiveness and by broadening the concept of industrial clusters. Porter defined the cluster as "a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities" (1998b:199). Porter (1990) states that clusters are inherently local yet must be globally competitive, so he emphasizes the co-locating of firms and complementarities and a supportive home-environment for business success. Based on these elements of Porter's cluster theory its application to tourism can be seen as a useful strategy in regional development. Porter's diamond model proposes that there are four sources of national and locational competitive advantage and their interactions: Factor (input) conditions, firm strategy, structure and rivalry, demand conditions, and related and supporting industries (Figure 1). Taken together, all components of clusters represent economic dynamism. Despite criticism that it is more appealing to politicians and policy makers rather than developing a theoretical framework (Martin & Sunley, 2003), Porter's theory of competitiveness of nations and the concept of cluster has been considered one of the most successful and influential theories or models of local development (Isserman, 1998). The cluster concept has been brought forward to explain industrial dynamics and in turn Porter's theories help address which factors can achieve optimal competitiveness in national and regional development.

Figure 1
Porter's Diamond Model (adopted from Porter, 1998b:211)



Tourism cluster

Many researchers, tourism specialists, regional economists, practitioners, and policy makers have sought a strategic way to maximize the positive effects of tourism development while minimizing the negative. This issue is most significant in emerging nations and less developed areas where there may be optimistic boosterism for the

tourism industry. Most tourism related cluster studies have addressed the applicability of Porter's diamond model to tourism. Case studies have focused mainly on investigating the potential of tourism destination competitiveness based on the four sources. Jackson and Murphy (2006) and Jackson (2006), for example, applied Porter's model at the regional level in Australia and China, respectively. They examined in what areas and to what degree the four sources impacted the potential for cluster formation in their study regions. Jackson and Murphy (2006) draw on the conclusion that cluster development would contribute to the transition from comparative advantage into competitive advantage and that factor (input) conditions could be integrated through cluster development to enhance a region's competitive advantage. Furthermore, Hong (2008) modified the four sources and the elements of Porter's model to construct suitable competitive indicators in tourism—not merely adopting them to identify the competitiveness of regional potential for cluster development. On the other hand, Porter's cluster theory emphasized the interconnection and networks among companies and suppliers as well as between companies and other relevant institutions. This approach is very appropriate for the tourism sector as it is characterized by a fragmented structure typically based on small and medium sized enterprises (SMEs) and a network of participants who are not necessarily involved in the same economic sectors (Bernini, 2009). This framework of a tourism cluster involving niche markets and co-location has been addressed by Michael (2003), who developed the concept of micro-clusters in a rural tourism context by studying the co-location of antiques retailers in Australia. He suggested the concept of diagonal clustering "labeled in this way to refer to the concentration of complementary (or symbiotic) firms, which each add value to the activities of other firms, even though their products may be quite distinct" (Michael 2003:138). One tourism product created by firms that supply separate goods and services is consumed by travelers as if it were one packaged item. For tourism, in contrast to cluster theory in terms of competition in other sectors, there is often little competition among producers as all firms that produce complementary products or services are considered as complementarities. Both approaches to applying Porter's theory to tourism are based on a home-based environment for developing the tourism cluster and enhancing destination competitiveness.

Tourism competitiveness

As economic globalization has rapidly expanded, the tourism phenomenon has also undergone rapid growth leading to an increase in international competition between tourism destinations. Free market competitiveness is considered an important driver in national economic prosperity. Competitiveness is characterized by dynamics involving a complex interactive process of social, political, and institutional change. Porter's theory is the predominant framework on competitiveness and so far the most comprehensive work related to tourism has been conducted by Crouch and Ritchie (1999). Crouch and Ritchie contributed to the transition of tourism destination literature from the traditional focus on destination attractiveness (see Kim, 1998) into destination competitiveness using both tourism-specific elements and a wide range of generic business factors.

Crouch and Ritchie (1999) build their conceptual model on Porter's "diamond of national competitiveness" (hereafter, CR's model). They have suggested that tourism destination competitiveness is determined by four major components: "qualifying determinants (location, dependencies, safety, and cost), destination management (resource stewardship, marketing, organization, information, and service), core resources and attractors (physiography, culture and history, market ties, mix of activities, special events, and tourism superstructure), and supporting factors and resources (infrastructure, accessibility, facilitating resources, and enterprise)". They also included in their model the micro and macro environments which affect the four components of destination competitiveness. More recently Dwyer and Kim (2003) suggested an "Integrated model" which represents determinants and indicators of destination competitiveness (hereafter DK's model). They combined the main elements of national and firm competitiveness of Porter's model with the main factors of destination competitiveness of CR's model. Its main determinants of competitiveness include "Inherited Resources, Created Resources, Supporting Factors and Resources, Destination Management, Situational Conditions and Demand Conditions". Some studies have tried to elaborate on both CR's model and DK's model. Enright and Newton (2004), for example, suggested a combined approach including general business factors in CR's model, and Mazanec, Wöber, and Zins (2007) extended DK's model in terms of the relation of competitiveness and a destination's performance using the framework of the Competitiveness Monitor (CM) of the World Travel and Tourism Council

(WTTC). Cracolici, Nijkamp, and Rietveld (2008) added the efficiency component in the model to measure tourism site competitiveness in Italy. However, to date no one has taken account of the global economic contexts which are affected by TNCs or FDI on tourism competitiveness.

CRITIQUES OF THE CURRENT MODELS

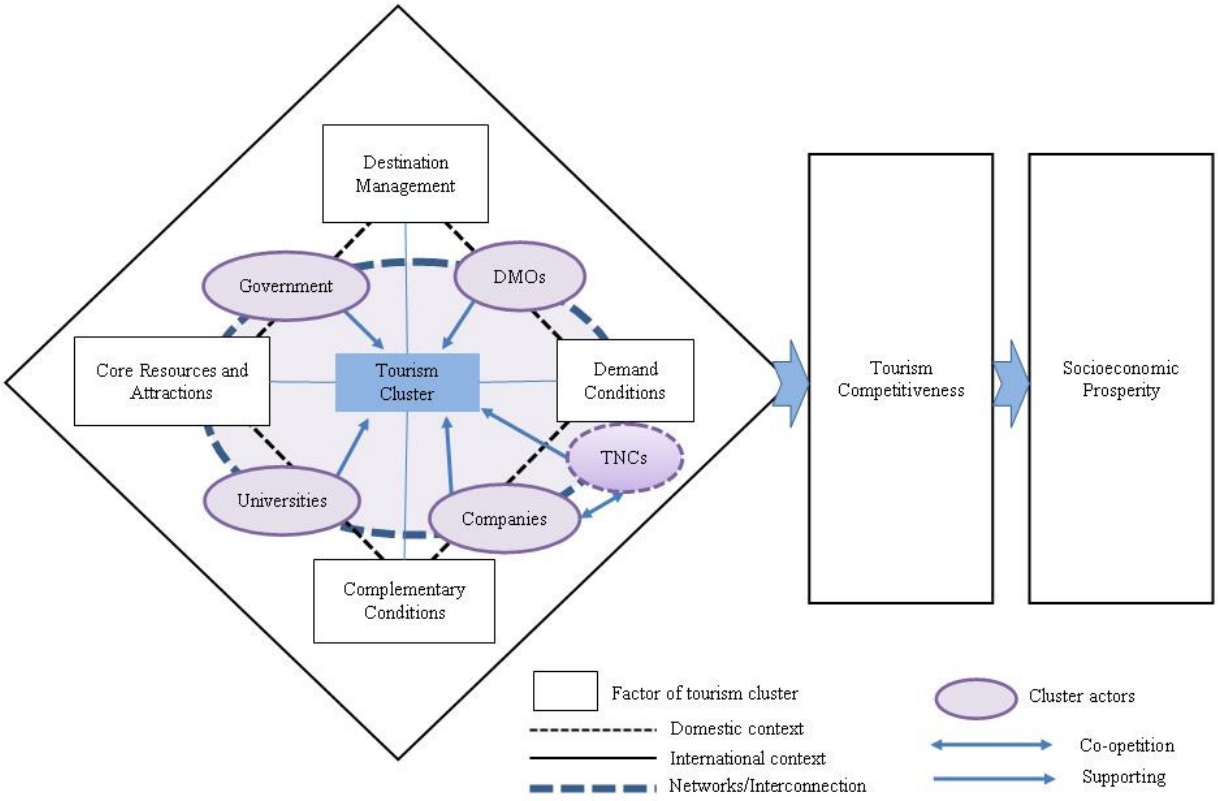
Although a number of studies on cluster development, competitiveness, and Porter's theory stressed international competitiveness of nation states and regions in a global economy, there are two issues which should be taken into account in tourism development in developing countries: (1) the contribution of multinational economic activities on cluster and competitive advantage and (2) the role of interconnectedness/networks between cluster participants. Considering the importance of these issues for tourism competitiveness, a new approach called "global competitiveness of tourism cluster development" is proposed.

A weakness of Porter's theory is that it may have overlooked and underestimated the roles of TNCs and FDI in competitiveness (Moon, Rugman, & Verbeke, 1998; O'Malley & Van Egeraat, 2000). He exclusively emphasizes a "home-based" diamond approach and his model is typically applied in large and advanced economies (Clancy, O'Malley, O'Connell, & Van Egeraat, 2001). From this exclusive point of view enthusiasts of his theory also have focused on the home-environment of business success. Many factors may be affected by globalization and multi-nationalization, but the most prominent effect is the arrival of TNCs. In certain parts of the world, TNCs may be a main force of economic integration, which helps "to reap the economies of scale or scope, to diversify geographical risks and to better exploit the gains of the common governance of related value added activities" (Dunning, 1993:13). Recognizing the critical role of TNCs, Dunning (1993), Rugman and D'Cruz (1993), and others have reviewed Porter's domestic diamond model and proposed so-called "double-diamond" or "multiple diamond" models (Clancy, O'Malley, O'Connell, & Van Egeraat, 2001; Moon, Rugman, & Verbeke, 1998; O'Malley & Van Egeraat, 2000). Recently the effort which reveals the impact of TNCs and FDI on the tourism sector has been undertaken by the United Nations Conference for Trade and Development (UNCTAD). This issue is important in that tourism markets are more vulnerable in a global economy and tourism development in emerging nations depends highly on foreign direct investment and multinational activities. The second addition to the proposed model of tourism cluster development is interconnection. Although Porter and others who followed have emphasized networks and interconnection of various actors constituting a cluster, they failed to show the practical application of how networks work to enhance the success of the cluster as interconnectedness is hard to measure (Motoyama, 2008). This weakness of the theory calls for further emphasis on how to promote the linkage/interconnectedness between cluster actors. Schmitz (1999) and Nadvi (1999) focused on joint action within the cluster emphasizing interconnection. They suggested the concept of collective efficiency; that regional competitive advantage is derived from not only local external economies of clusters but also joint action. That is, joint action or collaboration between actors would help clusters in developing countries succeed in coping with major changes in products or markets in the global competition.

THE REVISED TOURISM CLUSTER DEVELOPMENT MODEL

The proposed tourism cluster development model for global competitiveness is displayed in Figure 2. This revised model is based on Porter's diamond model and includes many of variables identified by both CR's and DK's models, but there are three additions: the importance of TNCs, the emphasis on networks between all cluster actors, and the division between cluster actors and conditions of the business sector. First, tourism competitiveness in developing countries is highly affected by TNCs or tourism related FDI and so it should be considered as one of the important actors in tourism cluster development. For example, hotel TNCs would connect host countries to international tourism marketing and promotional networks, which in turn would increase tourist arrivals and generate more income (Endo, 2006). However, because not all tourism destinations have attracted FDI or TNCs the role of TNCs is represented by a dotted line in the model. Second, all actors within the cluster are interrelated and the degree and type of networks between them should be noted and shown.

Figure 2
Tourism Cluster Development Model for Global Competitiveness



In figure 2, single direction arrows indicate that actors support the tourism cluster as an organic system that represents their symbiotic relationships and interconnectedness. It also indicates that cluster actors should cooperate to maximize both their individual benefits and the positive effects of the tourism cluster in regions and countries. For example, companies and TNCs may collaborate with universities or governments to improve their productivity and ability to innovate. Moreover, significant levels of collaboration activities occur through Destination Management Organizations (DMOs) such as travel and tourism associations which consist of companies, governments, universities, and non-government organizations. The two-directional arrow between TNCs and Companies indicates the relationship of co-opetition[1], that is, each actor can be a competitor and at the same time can be a collaborator. This means the symbiotic relationship of competition and cooperation may exist between them in order to enhance the tourism cluster in which they are included, and may encourage them to pursue not only individual benefits but also benefits for the entire tourism cluster. When companies within host countries and regions who supply TNCs

[1] Co-opetition was coined by Brandenburger and Nalebuff (1998) to describe cooperative competition which occurs when companies work together for their business.

expect a positive effect from knowledge spillover and economies of scale, it behooves them to collaborate with TNCs. If they are in the same industry with TNCs they would compete and also cooperate for technology transfer, management skills, and training effects. Co-opetition may also exist within companies. For example, diversified companies are comprised of firms from related and supporting industries in order to maintain the quality of the tourism experience in their respective destinations, including accommodations, restaurants, tour operators, travel agencies, providers of sports and cultural activities, etc. Each company would collaborate with one another in a different industry and at the same time be competitors. Third, cluster actors are separated from conditions of competitiveness because their roles need to be clarified and given more emphasis. For example, government has a critical role in tourism development and the direct intervention of government has often been an important factor in regional economic growth, particularly in depressed regions (Brown & Geddes, 2007)—even though neo-classical economic theory has suggested minimizing government in economic development. The following section explains the four factors of tourism clusters and includes how cluster actors contribute to success in tourism development.

Four factors of the tourism cluster

The main factors of the tourism cluster on an individual and system level constitute the cluster and support the competitiveness of tourism destinations. These factors are indices of domestic and regional environments where destinations are located and where the tourism cluster is formed. They include core resources and attractions, destination management, complementary conditions, and demand conditions. When these environments support and permit sufficient inputs such as skilled labor, assets, attractive resources, and provide better information about products and tourist needs to the relevant suppliers, tourism destinations gain a competitive advantage.

The *core resources and attractions* factor represents the main resources that draw tourists to destinations and is a main factor in creating tourism products. This is based on the integrated model proposed by Dwyer and Kim (2003) including "endowed resources" and "created resources." Endowed resources are classified as natural resources such as mountains, lakes, beaches, and rivers and "heritage or cultural resources" which can give tourists memorable experiences; such as cuisine, handicrafts, and culture or history of a destination. Created resources include special events or festivals, the mix of possible available activities within a tourism destination, entertainment, and shopping. Unlike DK's model, tourism infrastructure is excluded from created resources and moved into the *complementary conditions* factor because of its supportive and complementary nature. The *destination management* factor "focuses on those activities that can enhance the appeal of the core resources, strengthen the quality and effectiveness of [the complementary factors], and best adapt to the constraints imposed by the qualifying determinants" (Crouch & Ritchie, 1999:149). This factor mainly includes the activities of DMOs which focus on the marketing of the destination, the service dimension, information and technology, human resource management, and environment management. The *complementary conditions* factor contributes to adding value to core resources and includes two categories: "tourism superstructure" and "supporting elements". Tourism superstructure is comprised of accommodation facilities, food services, transportation facilities, and other resources which many view as a private sector component of the tourism industry (Crouch & Ritchie, 1999). Although Crouch and Ritchie (1999) included tourism superstructure in the core resources categories as main attractions, in this model it is considered a complementary factor because its main role is to support and enhance the value of core resources and attractions. Unlike CR's and DK's models, supporting elements is now divided from tourism superstructure depending on the degree of contribution and relevance to tourism. It is made up of general infrastructure, accessibility to a destination beyond physical facilities such as regulation and entry visas, and hospitality and market ties. The *demand conditions* factor is an important factor in tourism competitiveness and includes three elements: demand-awareness, perception, and preferences (Dwyer & Kim, 2003). While much competitiveness literature focuses on supply-side factors, Porter (1998a) emphasized demand conditions, especially domestic demand as sophisticated and solid demand in a domestic context can afford tourism destinations the rapid response to the changing of domestic and international needs. Dwyer and Kim's framework also addressed conditions of demand as an important push factor determining a destination's competitiveness from the tourist viewpoint.

The role of cluster actors

Cluster actors may be governments, DMOs, universities, companies related to the tourism industry, and TNCs. When all actors cooperate with each other, the tourism cluster is more likely to succeed in achieving tourism competitiveness in a global market and in turn contributes to regional and national prosperity. Furthermore, their participation should be interconnected with each other in both how they compete and collaborate. Although there is continuing debate between advocates for greater or lesser involvement of government, the optimal role of government in a tourism cluster is to encourage all actors to enhance their aspirations and move to higher levels of performance. When developing a new tourism destination or upgrading present destinations, government should promote cluster-based development strategies, facilitate collaboration between all cluster actors, and provide institutional and political contexts through regulation, law, or cluster policies. DMOs comprised of the public sector, NGOs, and private sector members would also contribute to the achievement of tourism competitiveness and the success of tourism cluster development through various activities such as joint marketing; collecting, analyzing, and distributing market information; establishing trade shows; and developing strategies for destination branding and competition. Contributions by educational institutions help create technology and knowledge of management systems, and support the development and innovation of tourism destinations. Companies include those that are the main producers of tourism products, and the suppliers that provide complementary products and inputs to producers. Producers are made up of not only the private sector that provides products and services as core resources (e.g. theme parks, entertainment, shopping, etc.) but also the public sector that provides and manages endowed resources (e.g. mountains, beaches, and cultural heritage). Suppliers support and add value to core resources and attractions by providing complementary products such as accommodations, transportations, and foods from various industries. Competition may mainly occur between companies in the same industry and it promotes management innovation, enhances the quality of products and services, and in turn contributes to improvement of tourist satisfaction. The role and impact of TNCs in the host countries would be largely seen in domestic demand conditions and complementary industries. TNCs can contribute to knowledge spillover into domestic firms, increase in competition between domestic firms and TNCs, and in turn enhance overall competitiveness of the destination. Such an effect would be enhanced by co-locating within the tourism cluster rather than remaining isolated.

CONCLUSION

Many debates on tourism development in emerging nations and less developed regions have focused on whether it positively or negatively affects their society and economy. However, the tourism industry is rapidly growing and many countries and regions have already started to see tourism as a vehicle to bolster their economy which usually lacks resources, skilled labor, SMEs, and capital. From that perspective they should focus on productively introducing sustainable tourism development in a way that minimizes the negative effects and maximizes the positive effects; rather than focusing on the short term gains of hasty tourism development. Consequently they should look to tourism cluster development as an appropriate strategy.

This study has proposed a revised model for strategic tourism cluster development based on Porter's work, and CR's and DK's models. The revised model emphasizes (1) the important role of TNCs or tourism related FDI in tourism cluster development in emerging countries that are highly challenged by global competition, (2) the critical role of interconnections between all cluster actors in both competition and cooperation, and (3) the distinction between condition factors and cluster actors in the model by separating each other. Regarding practical implications, this study aims to help developers and policy makers employ a strategic plan for tourism cluster development that is an integrated system for achieving the sustainable development of natural and cultural environments, business in the tourism destinations, and local and regional economic advancement. This model can be useful for less developed destinations that need to create or upgrade tourism destinations and clusters. Developers and government officers should promote a strategy fostering collaboration between all cluster actors and highlight the effectiveness of the cluster-based approach as a way to enhance sustainable tourism clusters.

This proposed model of tourism cluster development is descriptive and does not address predictable or causal relationships. Future research needs to empirically and analytically examine the impact of the four factors of

competitive advantage on socioeconomic prosperity and the interconnections between cluster actors—especially the relationship and the impact of TNCs and tourism FDI. For example, where cooperation or competition occurs among various participants within a cluster, all stakeholders should take account of the interconnected nature of relationships among participants, not only to enhance and upgrade tourism competitiveness but to mitigate conflicts among cluster actors.

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