

# The new face of the tourism industry under a circular economy

Alfonso Vargas-Sánchez

## Abstract

**Purpose** – *The purpose of this paper is to reflect on the evolution of the tourism ecosystem within a circular economy, considering relevant factors that influence the transition towards the circular economy model.*

**Design/methodology/approach** – *This reflection is carried out from an organisational perspective and employs a strategic management approach combined with a neo-institutional theoretical lens.*

**Findings** – *Four scenarios are identified after selecting several pertinent internal and external dimensions, which will help to understand the form and pace of the expected transition towards a tourism circular economy.*

**Research limitations/implications** – *Other variables could have been used for the scenario creation aim, which can be deemed a limitation.*

**Practical implications** – *Tourism operators can position themselves within this framework to analyse their conditions in order to address this unavoidable strategic change.*

**Originality/value** – *To the best of the author's knowledge, this is the first academic work written in this line of research.*

**Keywords** *Circular economy, Circular tourism, Tourism circular economy, Tourism circularity, Tourism management, Tourism trends*

**Paper type** *Trends paper*

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## Introduction

The increasing awareness of the need to transform the current economic system to ensure it does not exceed the ecological limits of our planet is giving rise to numerous efforts to address the sustainability issues it generates. Within this context, the circular economy (CE) model is gaining momentum at political, business and academic levels. In fact, although still in an early stage, the whole economy is in a process of transition from a linear to a circular model, as the path forward for our global society. Thus, among the emerging paradigms highlighted by [Koury et al. \(2015a\)](#) as global shifts and shapers of the future of business, the move into circular economies is one of them. Unavoidably, the tourism industry is not an exception and is also being disrupted by this transition ([Vargas-Sánchez, 2018](#)). Consequently, to contribute to the understanding of this process towards a tourism circular economy (TCE) and its implications represent the fundamental aim of this paper.

Although CE was not explicitly mentioned, in order to identify the diversity of factors which are shaping the future, [Saritas and Smith \(2011\)](#) found “Environmental/Sustainability Awareness” to be the main trend that is pervasively causing generalised societal change. Additionally, “Environmental Policies and Practices”, enacted to shift patterns of behaviour in society (such as recycling requirements), was found to be one of the major drivers of change. Undoubtedly, these shapers and drivers of social change are aligned with CE principles and will affect the future of business.

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Beyond recycling and other R's present in the literature (reuse, reduce, etc.), CE is a model inspired by the cycles of ecological systems and, then, intended to eliminate waste generation. In this line, in the Circular Economy Package Report, issued in Brussels on 4 March 2019 by the European Commission, it is said that: "In a circular economy the value of products and materials is maintained for as long as possible; waste and resource use are minimised, and resources are kept within the economy when a product has reached the end of its life, to be used again and again to create further value[1]". According to [Ten Brink et al. \(2017\)](#): "This requires actions ranging from upstream product innovation to downstream waste and recycling infrastructure, as well as engagement by governments, businesses and citizens", that is, a greater collaboration able to lead to the creation of a circular ecosystem (known as industrial symbiosis) aimed to the creation of synergies between businesses/sectors so that wastes of a company/sector become inputs of other companies/sectors.

An example is the EU's Circular Economy Packages (the first put forward in 2015 and the second in 2018) to stimulate Europe's transition from the traditional linear model of economic growth (symbolised by the sequence "take-make-consume-dispose") to a new model based on closing the loops (i.e. the circularity) of products and materials. This commitment can be demonstrated by way of several targets which help to value the depth of the undergoing process of change:

- recycling targets for municipal waste: by 2025, 55 per cent; by 2030, 60 per cent; by 2035, 65 per cent (current state, in 2017, for the EU-28, 46.4 per cent); and
- recycling targets for plastic waste: by 2025, 50 per cent; by 2030, 55 per cent (current state, in 2016, for the EU-28, 42.2 per cent)[2].

Although originally applied to industrial activities, this approach to sustainability has been gradually widening its scope, reaching also service sectors, such as tourism. Within this framework, the research question tackled here is how tourism companies are expected to integrate the CE approach, with its pace and its implications under diverse scenarios.

This process of integration relates to new forms of producing and consuming tourism services, as well as new business models, which will be analysed next.

### New forms of production and consumption

[Larsson \(2018, p. 12\)](#) defines a CE as "an economic system where production and distribution are organised to use and re-use the same resources over and over again. The present system consists of linear flows, where in most cases, resources are used once, made into products that after they have been used end up on a landfill", making it unsustainable.

Therefore, since CE involves changes in production and consumption, understanding the changing relationship between producers and consumers is essential. To this respect, the perspective provided by [Kjaer \(2015\)](#) regarding tomorrow's lifestyle choices is of particular interest: CE development requires new consumption patterns (such as the sharing and bartering of goods) and new business models (i.e. shift from product ownership to product usage, leasing, reuse, remanufacturing, eco-design, etc.). In other words, new business models are "bringing together organizations and innovators globally to create products and services that enshrine the principles of reuse and remake at the initial design and development stage" ([Kjaer, 2015, p. 166](#)).

Thus, the "Sharing Economy and Collaborative Consumption" was identified by [Koury et al. \(2015b\)](#) as one of the emerging drivers of change which are reshaping the business landscape. It has expanded across the board in the tourism industry, including how to get around, where to stay, what to eat, what to do, with models in which access to goods and services with excess capacity is provided to customers through internet-based platforms. It is worth to underline how the development of this technology has made possible the fast and remarkable rise of the sharing economy with C2C business.

However, watching this phenomenon with care, the question mark is to which extent these collaborative economy models contribute to the transformation process towards a CE, that is, if they represent ways to collectively reduce resource consumption, rather than helping to maintain existing consumption patterns. Based on this reflection, finding complementary and comprehensive solutions to support a CE in its most genuine sense is one of the challenges for the future of tourism, through the ability to weave an ecosystem where circular flows of products and materials among stakeholders are articulated.

In [Mathews' \(2011, p. 868\)](#) words, naturalising capitalism is the next great transformation (and the tourism sector cannot be an exception), so that, in economies where circularity of resources and materials becomes the dominant model, with multiple “eco-linkages” between firms, capitalism will continue “to grow and deliver improvements in the quality of life without destroying humankind’s resource base, and the biosphere as well”. In fact, this author defends that, as an evidence of this naturalisation process, “a green economy is already growing within the old, fossil-fuel economy, and that through competitive dynamics it will dominate by mid-century – unless blocked politically by vested interests”. Even he predicts that, within that time span, the new system that is emerging will come to fruition first in China and India, and then in the rest of the world.

### **Circular business models**

For [De Angelis \(2018, pp. 62, 105\)](#), circular business models are those “wherein enhanced customers’ value is produced as a result of more comprehensive ‘circular offerings’ (e.g. products as services; dematerialised products; superior product durability and ecological performances; product upgradability; take-back schemes) and ‘circular relationships’ (access over ownership, e.g. leasing, renting, sharing)”. In this line, examples of circular business models are: Circular Supplies, Resource Recovery, Product Life Extension, Sharing Platforms and Product as a Service.

As in other economic activities, their application to tourism companies is not only possible, but plausible, reconfiguring the company’s value chain and value system. For instance: hotel chains could be supplied with completely renewable, recyclable or biodegradable resources/materials, and they can contribute to extending the life of products they use (such as furniture) through repair, renewal and resale to second markets; other accommodation options, increasing their usage rate through sharing use/access/property; in the case of restaurants, investing in the recovery of energy or resources from waste or by-products, particularly in food waste elimination; tourism service providers and leisure companies, implementing use-oriented (a costume for a party, for example) and result-oriented (payment based on the use of tourism information devices) business models that prioritise use over possession.

In sum, circular tourist companies are emerging and reinforcing this profile, characterised by value chains reconfigured as a result of the increasing implementation of reuse, recycle, etc., in their primary and support activities (operations, procurement and others), and a value system with new interconnections between companies to favour circularity (e.g. with agriculture firms for food-wasting reduction and exploitation). This circular ecosystem, with organisations where the principles of circularity are integrated into their value propositions, will reshape the future of the tourism industry in a process whose pace can vary from one company to another, as explained below.

### **The future of tourism under the influence of CE**

The future of a TCE can be envisioned by drawing on the example of some companies that, exceptionally, have already embraced this model. In that future, these cases will form part of the normal landscape of destinations worldwide. In this sense, two references in the lodging subsector follow, as they can serve as benchmarks, with the feature of operating in

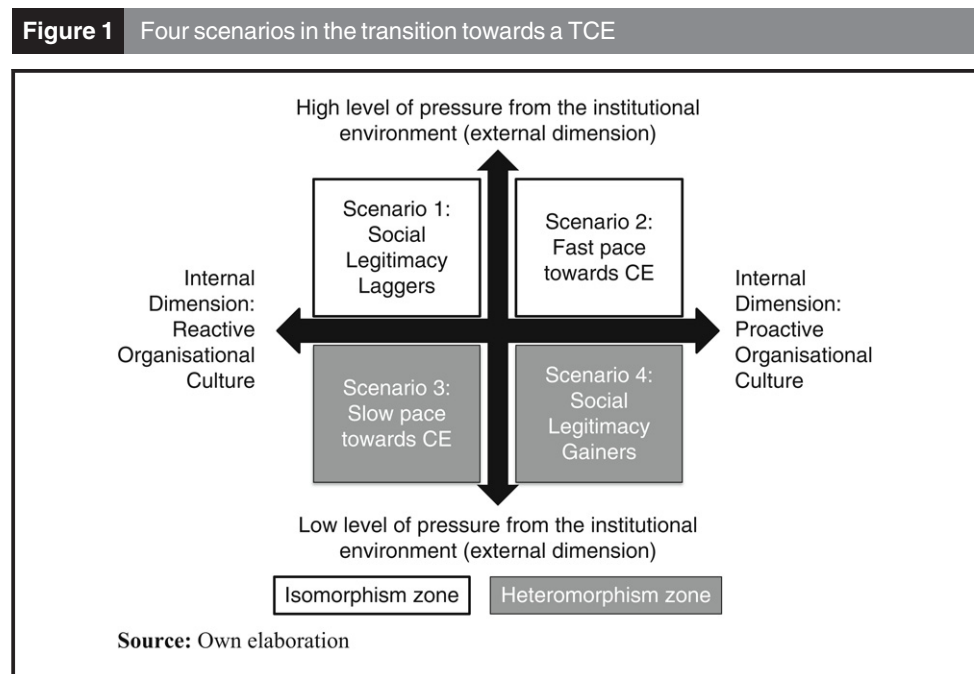
very different segments: “Le Querce di Cota” agritourism, in Italy (Bonanno *et al.*, 2018) and “OO Amsterdam”, an urban hotel in this major Dutch city (Sommet Education Group, 2018, p. 21).

Another issue concerns how fast the transition towards a TCE will occur. From a corporate point of view, multiple scenarios could be proposed. For their identification, the scenario-axes technique has proven useful to structure thinking and discuss the future, as indicated by Van't Klooster and Van Asselt (2006). From a strategic management perspective, the combination of external and internal axes is proposed here for a better understanding of the process of CE integration in businesses, its pace and implications. More specifically:

- The external axis would mirror the institutional environment within which companies operate and the level of normative (values and social norms), coercive (regulatory framework) and mimetic (cognitive dimension) pressures they experience (Di Maggio and Powell, 1983). Over time, these influences would lead, in accordance with the neo-institutional theory, to a situation of isomorphism in case of pressures of high intensity. Otherwise, a heteromorphic panorama would be expected, with companies following different cadences in the transition to circularity.
- The internal axis would reflect the organisational culture of the company as a source of competitive advantage (Barney, 2001), in reference to its proactiveness or reactivity to strategic changes. In this way, it connects with the resource-based view of the firm, which, according to Kenworthy and Verbeke (2015), is the most frequently used theory in strategic management journals.

As a result, four scenarios emerge, as displayed in Figure 1.

Scenario 2 would be ideal, with external and internal conditions playing in favour of a fast progress towards a TCE. The opposite side would be Scenario 3, leading to a slow pace as a result of the convergence of ineffective environmental mechanisms (low institutional pressure) and an unhelpful (reactive) organisational culture.



Scenarios 1 and 4 are in between. The latter (4) would reveal those innovators and risk takers guided by a proactive organisational culture which, in spite of the low level of impulses from the institutional environment, willingly move towards circularity in the understanding that social legitimacy will be gained (as an antecedent of a better organisational performance). The former (1) would reflect those organisations that only move towards circularity forced by external pressures, but without an organisational culture able to act as a driver of change. As a result, we can expect that these organisations will lag behind in terms of social legitimacy from tourism stakeholders.

## Final remarks

In short, the future of tourism industry, understood as a complex adaptive system (Perfetto *et al.*, 2016)[3], will be the result of an exercise of reconfiguration derived from forces originating from the CE model.

In an attempt to shed some light into the research question formulated about the pace and implications of CE integration in tourism companies, and consistently with the framework presented in Figure 1, two main vectors should be taken into account when envisaging and monitoring the progress towards circularity in these organisations: from a public policy perspective, the effectiveness of the diverse instruments with the potential to stimulate the implementation of CE initiatives by tourism companies and destinations; and from the internal point of view of tourist organisations, the factors capable of facilitating (accelerators) and hindering (brakes) the implementation of CE strategies in hotels and other operators (the organisational culture was underlined here).

The homogeneous (isomorphic) or heterogeneous (heteromorphic) behaviour of tourist organisations will be marked by the level of the institutional pressures (high or low, respectively), as explained by the neo-institutional theory. This theory fits in the context of this paper, because of the extensive scientific literature that investigates and probes the influence of the three above-mentioned institutional pillars on organisational behaviour.

Previous studies that relate the sources of institutional pressure to the adoption of sustainable environmental practices by tourist organisations (hotels, golf courses, etc.) present an approach that could embrace the integration of CE. From a theoretical point of view, this is a novelty by itself, reinforced by its combination with the cultural dimension of the resource-based view of the firm in an exercise of cross-fertilisation.

As an implication for practitioners, if, in general, institutional forces have not exerted strong pressure until this moment, from now what can be expected is an increase in all of them, that is, more strict regulations from public administrations leading to a high level of coercive pressures; incentives driven by consumer demand, with more conscious tourists developing more consistent pro-environmental behaviours (Amadeus, 2014, p. 10); and the propagation of good practices in this field, very limited so far. If so, only obtaining social legitimacy from tourism stakeholders through the integration of CE principles, as well as managing the corresponding cultural change to the necessary extent, the organisational performance can be improved.

## Notes

1. Available at: [http://europa.eu/rapid/press-release\\_MEMO-19-1481\\_en.htm](http://europa.eu/rapid/press-release_MEMO-19-1481_en.htm) (accessed 28 July 2019).
2. Source: <https://ec.europa.eu/eurostat/web/circular-economy/indicators/monitoring-framework> (accessed 28 July 2019).
3. This concept describes a system that adapts through a process of "self-organisation" and selection into coherent new behaviours, structures and patterns (Dann and Barclay, 2006).

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