THE ECONOMICS AND MANAGEMENT OF INNOVATION IN TRAVEL AND TOURISM SERVICES: THE CASE OF EUROPEAN CRUISE INDUSTRY IN DUBAI

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Abstract:

Firms entering new markets face a difficult challenge: how to manage the innovation process to satisfy specific clients' requests. In view of its geographical location and business friendly policies Dubai has become the gateway between East and West. Thus, European travel & tourism industry predicts business development. Prior research suggests that managers should consider religious factors to avoid strategic drift. In this paper we explore what kind of innovations should be introduced in travel service to comply with specific clients. We argue that after a long period of strategic and market analysis, the very affected conceptual step is "service development and market testing". Our arguments are supported by empirical analysis.

Key words: Travel management, Tourism innovatio, Hospitality, innovation process, Dubai, tourism economics.

INTRODUCTION

Nowadays the share of global GDP produced by tourism and its induced activities is roughly 9% (WTTC 2011). In last decades, tourism has become a vehicle for development and business diversification, in developed and emerging markets alike (Sharpley 2002). In today's evolving environment, service innovation has become a vehicle to compete, enter new markets and foster position in existing ones. According to OECD services represent 80% of advanced economies, nevertheless only a marginal share of literature is available.

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Prior research on innovation suggests that only a little share of companies adopt a formalized model, however those who apply one have a higher success rate (Cooper 2005).

Supported by former research on product innovation (Di Foggia et al. 2011) one might expect that both adaptations and structural changes are necessary to comply with specific requirements. We extend this idea in detail and design our research in order to cover many aspects of service development and investigate how the process is influenced mainly by religious factors.

Despite the availability of contributions dealing with Islamic issues (Vignali 2001; Nakata and Sivakumar 2001; Souiden 2002; Shafie and Othman 2006; Haniffa and Hudaib 2007; Marinov 2007; Wilson and Lim 2008; Pink 2009; Lada, Tanakinjal, and Amin 2009); studies dealing with the determinants of tourism success (Ottenbacher Gnoth, and Jones 2006; Hjalager 2010; Williams and Shaw 2011); we strengthen the literature on innovation in tourism applying a theoretical framework of service development composed of seven phases: strategic planning, idea generation, idea screening, business analysis, service design and market test, HR training, commercialization to a real case.

The reminder of this paper is organized as follows: we first carry out a literature review of the concept used in this paper, then introduce the challenges to succeed. After that the case study and relative evidences are presented. Finally we list conclusions, limits and future research.

LITERATURE REVIEW

Service development

It is worth it to introduce the concept of service development since it can be acknowledged that service and product development may differ (Dolfsma 2004), however services are always more being integrated into products and products are becoming part of services Vargo and Lusch (2004). Services have peculiarities which include *inseparability,* since consume and production happen in the same time; *heterogeneity* because of the interaction of human activity and *perishability* as service cannot be stocked Jaw, Lo, and Lin (2010). Moreover, service is not patentable, therefore any first-mover advantage cannot come from monopoly guaranteed by the patent. Shekar (2007) adds that a service can't be tried before being purchased and emphasise the role of staff which is fundamental in service production and delivery.
Alam and Perry (2002) consider as pioneer work on service development the model presented by Bowers (1987). The structure was similar to the idea of Booz, Allen and Hamilton of new product development Booz et al. (1982).
Service development is a wide concept (Alam and Perrry 2002; Jaw, Lo, and Lin 2010; Tsai, Verma, and Schmidt 2008). Currently, managerial literature describes the development process from different perspectives and for different aims. (de Brentani 1991; de Brentani and Cooper 1992; Avlonitis, Papastathopoulou, and Gounaris 2001; Bullinger, Fähnrich, and Meiren 2003; Edvardsson and Olsson 1996; Smith, Fishbacher, and Wilson 2007; Jaw, Lo, and Lin 2010; Junarsin 2010; Ernst 2002; Trott 2008).

In our research a consequential phases framework facilitates the punctual allocation of activities:

- Strategic planning: strategic planning derives essentially from feedback on financial data, market responsiveness and customers preferences analysis.
- Idea Generation: the organization formulates a concept of the service to be developed and decides whether or not to invest resources in the further development of an idea. It includes all activities from the search for new opportunities through the formation of a germ of an idea to the development of a precise concept. In service, contact with staff and users may help in a better identification of needs and problems
- Idea Screening: the object is to eliminate unsound concepts prior to devoting resources to them. In this process phase it's important to analyse users and staff opinion.
- Business Analysis: this phase is a precise market, sales volume and price estimation, often profitability and breakeven point are calculated.
- Service design and market test: in this phase the organization reviews the general design of the service and conduct focus group to better understand pros and cons of the new service. This allows making adjustments where necessary. An additional operational and technological analysis is required, organizational and facilities changes may be required.
- HR training: it includes costs of hiring additional personnel and training the staff.
- Commercialization: it is the launch of the product on the market with 4P marketing activities.

Innovations in tourism business

To date, only a few studies are prone to measure the degree of innovation in tourism compared to other sectors. Hall (2009) finds out that there isn't a significant difference in innovativeness between tourism and other economic sectors; Evangelista (2000) – considering English hospitality industry – and Christensen (2008) – taking into account Denmark – point out that there are dissimilarities between different economic sectors and tourism innovation level is lower than in the others sectors as a mean. Miles (2008) converges to a similar conclusion and estimates that the number of enterprises that innovate in tourism is about 20% against 25% in other sectors. Sundbo, Orfila-Sintes, and Sorensen (2007) apply a cross country analysis between (SMEs) tourism firms in Spain and Denmark. Their study presents a theoretical framework for understanding the propensity to innovate of businesses in the hospitality industry; according to the authors innovation is positively correlated with size, professionalism of employees and entrepreneurship inclination. Jacob et al. (2003) argue that tourism's firms use to adopt primarily non-technological innovations.

Some researchers have investigated service innovation and service success factors in tourism Hjalager (2010), Ottenbacher (2007).

In a recent study Dwyer and Edwards (2009), analysing service innovation, suggest seven areas of importance that tourism managers should consider in order to avoid strategic drift, namely the gradual loose of contact with the business environment. The seven areas are: 1) Sustainable yield as an object of the tourism organization; 2)

importance of customers and their culture; 3) proactive adoption of new technology; 4) Risk management; 5) Importance of collaboration: managerial and collaborative elements are very important in harvesting knowledge from internal process and acquired competence (Pechlaner, Fischer, and Hamman 2005); 7) Education and HR training.

An exhaustive categorization of innovation in tourism is provided by Hjalager (2010). In fact, the author performs an extensive review of literature synthesizing different approaches to the research of innovation classes and suggests the following categories:

- Service innovations refer to changes observed by users and tagged as new, never seen before, different, innovative;
- Process innovations occur normally in the backstage and are initiatives aimed to improve productivity, efficiency, reduce costs;
- Managerial innovations focus on new ways of organizing and developing human resources in the sense of motivating, creating career, training and empowering staff which is a very important success factor in high contact service organizations;
- Management organizations, especially in marketing strategies;
- Institutional innovations refer to new, collaborative, organizational structure of framework that supports the business in a specific field or place of tourism.

Provided the multiple contributes in the field of innovation in tourism, the complexity of this specific market share requires further details to be properly exploited. That's why it is fundamental to give details of some Islamic requirements and opportunities throughout a brief collection.

BUSINESSS OPPORTUNITIES AND CHALLENGES

The market

Global Muslim population is estimated to be around 1.4 billion with an annual growth rate of approximately 3%. Related markets have experienced a considerable growth in terms of GDP in the last decades, especially in Middle East, Malaysia, Indonesia and some Maghreb countries.[2]

Despite some disputes on the relationship between Islam and tourism, especially about the rights given to women in public places and lawful travels, Islam is not intrinsically opposed to tourism (Henderson 2003). At the contrary, tourism is fully compatible (Zamani-Farahani and Henderson 2010). Moreover, according to Afshar (1998), women believe that a correct interpretation of the religious texts protect their rights. Business opportunities in the field of tourism are increasing:

- in region with a high share of Muslim population: countries that are distinguishing themselves in the development of policies supporting tourism are Dubai (Henderson 2006), Malaysia (Henderson 2003), Abu Dhabi (Sharpley 2002), Jordan (Shunnaq, Schwab, and Reid 2008), Egypt (Eraqi 2007);

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[2] An important number of Muslims with a relative high standard of living live in France, Germany, USA and Russia.

- worldwide: in the last decades an increasing number of Muslims are experienced new touristic destination, according to the World Tourism organization (2010). The outbound tourism generated by Middle East region evolved from 8,5 million in 1990 to 23 million in 2008. Today hospitality industry of an increasing number of countries are attracted by this market as they see the possibility (1) to supply its product and services to Muslims (2) to target the growing domestic markets[3] (3) to expand and differentiate their supply, making it available throughout time by enriching their portfolio.

Requisites, strategy and adaptations.

Everything (eating, doing business, family life, behaviours, etc.) for a Muslim can be an act of faith and therefore religion plays a decisive role in purchasing decisions of customers.

Riaz and Chaudry (2004) describe some requirements, which fit any aspect of day life.

- All foods of plants and animal are considered *halal* except those explicitly prohibited, *haram*, by the Quran and the Sunnah, the basic reasons for the prohibition of things are impurity and harmfulness and falsely representing unlawful as lawful is prohibited.
- There is a grey area between clearly lawful and clearly unlawful; such doubtful things should be avoided;
- Unlawful things are prohibited to everyone. Laws are universally applicable and there is no special treatment of any privileged class;
- Necessity determines exceptions. The range of prohibited things is very narrow, but emphasis on observing the prohibitions is very strong.

Al-Hamarneh and Steiner (2004) underscore how, for Muslims in general, the feeling of being misunderstood in non-Muslim countries has increased. In a recent study, Battour, Ismail, and Battor (2011) present a comprehensive review of literature about Islamic religious attributes and suggest how hoteliers could personalize service to make more pleasant the customer's stay. Main customization concern: the availability of place of worship and lawful food, banning of alcohol consumption and gambling, avoiding adult contents (shows, TV channels, clubs, etc…) and women dress code, the author argues. Weidenfeld (2006) suggests a series of adaptations to fit customer needs.

In the light of above, we list a series of strategic factors to be deeply considered:

- *Family composition*: It is understood that tourists Muslims often travel with the family which is pretty numerous if compared with the European standard.
- *Food and beverage*: the awareness of Muslim consumers on their religious obligations is facing the complexity of current food products because of the number and the typology of ingredients. This awareness is boosting the demand of certified *halal* food and other consumer goods (Bonne and Verbeke 2008; Bonne et al. 2007); halal certified food become of primary order to gain trust of customers, Di Foggia et al. (2011). In their analysis of travelling pattern and preferences of Arab tourist, Ibrahim et al. (2009) recommend the operators to offer at least some of the most popular Arab food as one of their most

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[3] The growth is the result of the constant immigration and high birth rate of the local Muslim communities. Main communities are identified in Europe and USA

significance finding Arab cuisine is in mean preferred by Arab tourist, nonetheless a considerable share of luxury hotels were found to lack of popular Arab food as Shawarma, kebab, falafel or shish.

- *Wellness Entertainment and shopping:* hospitality industry has a variety of wellness facilities. Muslim women may feel uncomfortable in gym dress, especially if in public spaces where men and women train together. Night entertainments like casino, gambling hazard games are prohibited. Dancing is not prohibited, nevertheless a western disco ambience may enter in conflict with traditional dance floors; Gibson (2008) underscores how influences such globalization of tourism, multiculturalism of customers and their average demographic change induce the market place to be more dynamic than in the past and staff to be well trained and able to mediate with people of different cultures.
- *Location and requirement of the accommodation:* Arab-language media are welcomed. Prayer mat should be also present as well as a copy of the holy book Quran together with a marker to identify the holy city. Paintings and other artistic objects shouldn't depict naked human bodies. The very best accommodations aren't close to erotic oriented or gambling areas and room service is very discrete.
- *Price policy:* price should be as comprehensive as possible. Discounts, offers and other drastic fall in prices though to incentive customers may result counterproductive as sales are not so common in Muslim markets (Marinov 2007);
- *General:* with general we mean other services and activities not included in the above list: Laundry, dress code, excursions, personal and extra services, travel conditions etc.

CASE STUDY

Dubai market is being approached by several operators as indicated in table 1.

Table 1. Cruise lines – Dubai[4]

From Dubai	Dubai in their itinerary
Costa Cruises	Cunard Cruise Lines, Princess Cruises, Holland America Lines,
Aida Cruises	P&O Cruises. MSC, Peter Deilmann, Silversea Cruises, Happag
Royal Caribbean	Lloyd, Fred Olson, Seabourn Cruise Line, Campagnie Des Lles
Tui Cruises	Du Ponant, Phoenix Reisen, Oceania Cruises, Mitsui OSK,
	Regent Seven Seas, Noble Caledonia, Saga Shipping

In order to narrow our analysis we selected the chronologically first company. Costa Cruises is an Italy based company primarily engaged in the provision of cruise ship holidays in the Mediterranean, Northern Europe, the Caribbean, Central and South America, the United Arab Emirates and in the Far East. Costa Cruises is the European bigger cruise operator, it is the number one company in South America as well. Costa Cruises has Europe's largest fleet which carries approximately 878,000 passengers.

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[4] Source: Dubai Tourism

The company's activities are concentrated mainly in the Mediterranean, and in the Caribbean. Costa Cruises is a subsidiary of Carnival Corporation & Airtours Plc, the world's largest cruise operator who acquired a 97% shares in Costa Cruises in 1997.

Table 2. Costa Cruises key financials overview[5]

Status and account information		
Legal form	Joint stock company	
Ultimate owner	CARNIVAL PLC	
Key financials and employees		
Consolidated	2010	2009
Op. Revenue (Turnover)	2.882.767	2.570.549
Cash flow	751.094	676.872
Number of employees	223.252	22.242

Methodology

Question research and data collection

The research method adopted in this work is based on a single case study. Despite the widely acknowledge limitations of this approach, especially in terms of reliability and validity (Ginsberg and Abrahamson 1991; Yin 2003), the case study method has the ability to capture the full complexity of the studied phenomenon, including its 'softer' aspects. This is consistent with our research question:

- *How do the Islamic requirements influence the new service development process within the travel and tourism industry?*

Given the research question and the aim of our empirical study to in-depth explore the impact of the Islamic variables on the NSD process, the aforementioned advantage of the case study method was a critical factor in selecting the research approach (Eisenhardt 1989).

Information was collected between February 2012 and Juny 2012. Then, a structured case analysis was carried out, through which data and information collected have been elaborated, categorised and compared in order to point out the influences of the variable "Islamic culture" and "Islamic requirements" on the service delivery, so as to draw a reliable and synthetic picture of the sample analysed. The unit of analysis was the service innovation process. The use of multiple sources of data (available company documents, registered interviews, specialized press) allowed the triangulation of evidences (Yin 2003). Finally, the main evidence and emerging findings have been discussed with the Vice President Sales and Marketing of Costa Cruises, in order to verify their validity. Our investigation has been designed, according to what written in this article, assuming that the development of a new service is divided in steps ranging from idea generation to commercialization.

Evidences

The case study shed light on the determinants of and the decisions for the creation of a specific as well as growing category of tourism: cruises. Specifically how the Islamic

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[5] Source: own elaboration based on balance sheet

culture and requirements are integrated in the service development process within a large company. An emerging issue is the necessity for big companies to manage not its own activities – in order to avoid strategic drifts – but even control part of the supply chain relatively to food; as the suppliers of final goods to be served and of intermediate goods to be used in the restaurants have to comply with the specific requirements and being certified. Therefore existing suppliers may be asked to change/review their process and their purchasing of raw materials. Moreover, as the *halal* products cannot be managed with *haram* ones: dedicated storage space and transportation are required with the purpose of avoid "cross contamination" between lawful and unlawful food products.

Internal organization and service innovation

In line with the framework proposed, we find out that in every phase of NSD, some activities have been conducted as reported in table 3. (own elaboration).

Table 3. Activities carried out in the NSD process

Strategic planning	Cruise corporations operate in a global arena. Internationalization and innovation are interconnected but their relation has been widely neglected so far. Starting from literature Williams and Shaw (2011) focus on multinational enterprises suggest that innovation is essential in a successful internationalization process and that internationalization requires enterprises to own superior knowledge of the new market to avoid drifts.
	First routes using the Dubai Cruise Terminal as hub for the Gulf region were established in 2006; customers were mainly Europeans. According to the Costa Cruises chair man, the demand for a Middle East itinerary was strong and the market very attractive.
Idea generation	The idea of new routes from the Gulf have been driven both by the demand both by local policies, especially delivered by Dubai Tourism and Commerce Marketing (DTCM) aimed to boost the passenger movements within the Gulf region. Thus in the first step innovation was mainly represented from the geographical interest. Costa Cruises was the first Company to market regular cruises in the Arabian Gulf.
Idea screening	Most of the idea's screening process took place in collaboration with local authorities and advisors.
Business analysis	Together with a detailed analysis of Dubai facilities for the business establishment, the estimation of profitability of the investment as well as the form of the local collaboration with Dubai Department of Tourism and Commerce Marketing, a business plan has been developed. Based on the early stage of the market, milestones of the business plan were the growth outlook of the demand, the lack of providers of Muslim-oriented cruises, the opportunity of local collaboration and the regulation for doing business. Compared with other Middle East competitor countries Dubai is considered business friendly according to World Bank (2011). Operatively two departures a week (Costa Deliziosa on Sunday and Costa Luminosa on Saturday) were scheduled.

Table 3. (*continued*)

Service design and market test	*Structure* At the time being two sister ships are meant to serve this market. Although there isn't a given number of Muslim dedicated cabin, onboard environment is adapted. Main facilities are: prayers room for male and female, special food and drink, menu and signs in Arabic, Arab-speaking staff and TV channels, compasses to individuate the Mecca, alternative route to avoid casino and gambling. *Food and beverage* We have stated that many amendments have been applied to the ships. Costa Cruises (i) provides dedicated *halal* certified food and dates based drinks (ii) offers a wide choice of plates containing mint, which is a very popular ingredient among Muslims. *Entertainment & wellness* Customers are provided with detailed maps of the cruise ship with the aim of let Muslims know where gambling areas are. Regarding to night entertainment, all guests are daily informed about the type of the scheduled show, moreover the staff report those that may shock certain sensitivities. Fitness courses are held by female instructors if dedicated to Muslim women. The same goes for swimming pools, indeed it's not recommended for women to undress in public spaces.
HR training	Several studies focused on success factors in tourism, put HR skill training and empowerment as success factor. Frontline staff needs to be trained to fit not only requirements but also to comply with the culture. According to the target and the provenance of customers, Costa Cruises guarantees a share of Arab-speaking shipboard personnel and well trained staff. The traditional captain hand-kissing is avoided as well as handshakes and most of physical contacts with Muslim customers.
Commercialization	*Main promotional tools are:* shipboard visits especially arranged for local travel agents and potential customers, dedicated brochures which illustrate the service delivered to Gulf travel agencies, price offer, direct flights to the ports of departure low fares, special family fare, multi-cabin booking, under 18 travelling for free in the same cabin of two adults. Costa branch office in the UAE is represented by an external partner: Al Ketby Consulting.

CONCLUSION AND MANAGERIAL IMPLICATION

In this paper we have considered the service innovation process and service development within tourism, in particular the hospitality sector. After an introduction of the concept used, NSD, NPD and Islamic prerequisites we have introduced innovation in tourism and finally investigated the service development process. Once identified the literature, we have selected those which best fitted our scope and consequently proposed a NSD framework to be applied in the case study.

In fact, the available literature supports our hypothesis that, despite the peculiarities of the NSD with respect to the NPD (especially because of the simultaneity of production, delivery and consumption) a common framework is adaptable. Hence we

have identified seven phases: strategic planning, idea generation, idea screening, business analysis, service design and market test, personal training and commercialization.

Provided our previous research on innovation process for new *halal* product development within the Italian environment in small in SMEs, we have selected a global corporation. Regardless of the current relevance only a few studies explicitly concentrate on this topic.

In particular, the NSD phases have been analysed. Moreover the decision to investigate a single case has allowed to precisely understand how and in which phase an existing service should be adapted and how a new one should be designed, allowing to extrapolate the following paper's implications:

- A link between NSD and tourism literature under the constraint of Islamic requirements is built;
- Hospitality operators can better understand business opportunity of a such upward market;
- Firms which are planning to create Muslim oriented services may better identify opportunities as well as threats;
- Service design and market test is the phase in which happen most of the innovations.

Findings

Strategies to expand the corporate offer throughout the whole year and the increasing of the demand have been determinant to enter the market. The case study confirms our hypothesis that Dubai represents an opportunity of growth for global travel industry and reveals that:

1) Many actions have been undertaken to guarantee: availability of alcohol free drink, gender segregated staff with a dedicated dress code, availability of prayer rooms, gender segregated wellness facilities, daily group games not involving physical contact between men and women, cine and theatre programs adapted in order to avoid adult contents, service fees as well as supplements and extra prices well communicated, Islamic entertainment programs and TV channels, menu with *halal* food, Compasses to pray in the direction of the Mecca and guides to prevent casino and night club.

2) Once the above requirements have been taken into account they must be considered since the initial idea generation, in which the customer needs emerge and have to be studied. Then, it is translated into more detailed rules that impact on specific innovation phases and related activities. Most of the adaptation fall in the service design and market test step of the NSD framework used in this paper.

3) This case study focuses on a business operating in a specific geographical area – Arabian Peninsula – in with the cooperation with local authorities as well as trade and marketing agencies is desirable. In fact DTCM proactively supported the initiative. "*We are delighted with their decision and assure of our whole hearted cooperation and support to make the initiative successful*". DTCM Executive Director Business Tourism, said.

Because of the nature and the purpose of this study there are some unavoidable limits: first, although we have carried out an in depth analysis, this study is based on a single case, therefore results shouldn't been extended to the entire sector. In addition our NSD process is based on a framework mainly derived from NPD. Finally there is a clear lack of dedicated works in the managerial literature which has which prevented us to better specify both the NSD framework in tourism both to compare our results with those of other studies.

Future developments will concern the analysis of different industries: cosmetic, fashion, chemistry and clothing.

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