

# **Innovation**

## **in the Norwegian tourism industry**

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## I) Acknowledgements

I would like to begin this project with a quote from Michael Porter (1980), a competitive strategy expert, which summarizes the essence of this thesis, capturing the importance and relevance of innovation.

*“Innovation is the central issue in economic prosperity”*

As a student in academia and Service Management, my own curiosity guided the research topic of this thesis, namely tourism and innovation. However, the thesis could not have been completed without the support of a few special people.

First of all, I would like to thank my supervisor, Lene Granzau Jacobsen, for her patience, her motivating words and most importantly, her constructive criticism.

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Thank you,

Tina



## II) Executive summary

The purpose of this thesis is to investigate what effect a change in the understanding of innovation can have for the measurement of innovation in the Norwegian tourism industry. The problem is approached applying both quantitative and qualitative methods. The literature review explores the innovation theory related to services and shows that the concept of innovation is complicated by various and competing theoretical approaches.

Innovation in tourism is defined as a new product, service or production process, application or form of organization that creates or is expected to create financial gains for a company. For the purpose of exploring the research topic, analyses of the Norwegian innovation survey (2008-2010), and a thematic document analysis of the Norwegian Tourism Strategy (2012), are conducted in an attempt to illuminate some areas of discrepancies.

Main findings show that the apparent misconception of innovation in the tourism industry hinders the Norwegian innovation survey in measuring *all* innovational activities; This includes product, process, market and organizational innovations. Innovation in the tourism industry is labeled as a low-innovator. The innovation concept is therefore becoming an increasingly important topic for policy makers due its wide recognition as a possible approach to increase the competitiveness of products/services and destinations.

As innovation is argued to be a key element in wealth and value creation, this thesis contributes to service innovation literature by showing to areas for further research that can potentially increase the measured innovativeness in the Norwegian tourism industry. It is proposed to conduct further research on uncovering the meaning of innovation from the tourism industry's perspective in an effort to locate *if* and *where* there are 'hidden' innovations. Another suggested area for further research is to locate the apparent communication gap between R&D and consultancy firms, and the tourism industry, in an attempt to better translate academic research in to practical know-how, to stimulate to more innovational activity.



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## 1.0 Introduction

Norway is known for its astonishing scenery and unique experiences: fjords, glaciers, birdlife, salmon fishing, untouched nature, stave churches to name a few and has currently *seven sites* on the UNESCO list of world heritage (UNESCO 2012). The Norwegian tourism industry is mainly based around nature and culture, and the Government has through the Soria Moria<sup>1</sup> declaration acknowledged the tourism industry as one of five industries that has the most potential to succeed in the future.

Even so, the Norwegian tourism industry has lost *international market share* continuously every year since 1970 in contrast to the oil industry which has increased their international market share and contributed to Norway being one of the wealthiest countries in the world. (Jakobsen & Espelien 2010). Innovation and knowledge are concepts that are often associated with this part of Norwegian industry. The prosperity created by the oil industry in itself is not considered a problem for the tourism industry, but the wages in the oil industry that drives up the wages in all other segments of Norwegian industry (ibid).

The global economic growth has led to an increase in the demand for traveling, and as a consequence Norway's GDP has increased three times since the 70's from revenues based on tourism. The problem at hand is that due to the increase in Norway's economic wealth the wages are considerably higher than competing countries, which in turn has provided the Norwegian tourism industry with a competitive disadvantage (ibid). Where the natural resources such as oil on the one hand, can increase Norway's prosperity it can seem that this simultaneously leads to challenges related to developing and increasing value for other areas that are also rich in natural resources, for example, fjords and mountains.

What distinguishes the tourist industry from other industries in Norway, such as the oil industry, when the natural resources are both easily accessible? The most noticeable reason for this is that the resources one is providing in the tourism industry is *part of the product/service* one is selling, and the need for innovation has not been essential when developing this industry; the fjords do not need innovation to become a commercial product. On the contrary, it is best sold unspoiled. In the oil industry however, the primary task is to retrieve oil and *transform the resources* into commercial products, innovation has therefore

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<sup>1</sup> The Soria Moria declaration is a Norwegian political statement forming the basis of Jens Stoltenberg's second and first government. The statement outlines the focus and priority of the so-called Red-Green Coalition government of Labour, the Centre Party and Socialist Left Party.

been absolutely necessary to develop this industry. In the tourism industry, the demand for the resources is at its highest when untransformed; in the oil industry it is opposite.

One challenge relating to this is that while the customer can retrieve transformed resources such as oil to fill up their cars, at any gas station around the country, customers in search of a untouched resource must seek the place they wish to experience- thus the product/service is place-bound (Jakobsen & Espelien 2010). In other words, the challenge for the tourism industry is evident in both the national wage level and the view of the need of innovation.

### **1.1 Can tourism be called an industry?**

To be defined as an industry it must be a sector within an economy that are connected to each other<sup>2</sup>. The connections can be, broadly speaking, similarities or complementary. In tourism, the firms comprises the industry are in many cases mutually dependent or complementary. For example, the industry consists of many types of businesses such as hotels, restaurants, ski resorts, souvenir stores and transportation companies, just to name a few. What can be said about all of these different companies when viewed in connection with one another is that they all have something in common- namely they survive based on people who travel, whether they are tourists, business travelers or MICE<sup>3</sup> travelers. This does not exclude the local environment who also contributes to revenue. Literature shows that the need for *total experiences* is increasingly becoming more important in order to stay competitive and as for and. A hotel stay, a restaurant dinner, transportation and experiences are most of the time part of a total experience which entails that the companies within this industry supply complementary products/services.

The tourism industry is, according to the Norwegian Tourism Strategy of 2012, fragmented and financially weak, and not very knowledge-based as opposed to the oil industry (Destination Norway 2012). It is comprised of many small, independent companies, typically owned and run by families. As wages are increasingly rising, driving up in-house costs and thus the market prices, it is getting more and more difficult to push these prices on to the market/consumer. It can seem that new investments, innovations, development of competence and marketing have all fallen in the shadow of higher wages. On the other hand, Menon<sup>4</sup> produced numbers that argue the opposite. Even though Norway has lost international market

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<sup>2</sup> [www.freedictionary.com](http://www.freedictionary.com)

<sup>3</sup> Meetings, Incentives, Conventions and Exhibitions

<sup>4</sup> Menon provides businesses, organizations, and government with industry analysis

share, a combination of increased number of *Norwegians vacationing in Norway* has increased dramatically and the local markets have higher purchasing power than before; their conclusion is that the industry has experienced relatively high growth (Jakobsen & Espelien 2010). Though the industry is considered fragmented, it is becoming less fragmented, the owner concentration is increasing and more intertwined. This could potentially contribute to decreasing the free rider problem (ibid). Clusters, within the tourism industry are also on a rise, especially among experience based companies. This could increase the exchange of knowledge and as such, increase to level of competence in the industry.

### **1.2 Innovation as an answer to economic growth for the tourism industry?**

In layman's terms, innovation is understood as something new. It is reasonable to assume that when the term innovation is mentioned it is often associated with technology. However, innovation is much more than a microprocessor chip, a mobile phone or even the ipod. Innovativeness is not limited to the high-tech industry anymore; low-tech industries such as the tourism industry have innovations everywhere in practice, innovations in services just presents itself a little differently.

Innovation is defined as “a new product, service or production process, application or form of organization that creates or is expected to create financial gains for the company” (Valuable Experience 2007: 14). In economic development, the service sector is becoming increasingly important as services contribute substantially to economic growth and employment, and because innovations are key drivers for growth and development, innovation in services is becoming an increasingly important topic for policy makers (de Jong et al. 2003). Yet, when the Norwegian industry is described, the industries within oil, gas, engineering and fishing are most likely the subject of discussion. Three out of four work years in Norway are within the service sector and almost half of all work years are within private services, such as trade, transport, finance, tourism, entertainment, cleaning and consulting. The discussion is therefore turned towards the service sector, specifically, the tourism industry.

On a macro level, the service industry, where tourism is subject to, is the fastest growing industry in Norway (Statistics Norway). Even though services have dominated the Norwegian market for quite some time, it is not until recent years that its importance has been recognized in terms of employment and value creation (White paper nr.7, 2008-2009). In 2004, NOK 623 billion was allocated to the tourism industry in public funding and in 2007 NOK 1.085 billion was allocated, a nominal increase of 56 per cent. Norway has 14 384 tourism-based

firms, the industry accounts for approximately 3.3 per cent of the Gross Domestic Product (GDP), and 6.3 per cent of total employment in 2009 (Statistics Norway). “Seen in relation to the industry’s share of the national economy, grants to this sector are given a high priority (Destination Norway 2012: 9)”.

Yet, when the tourism industry is characterized, it is generally labeled as a low-innovation industry. It seems odd that this industry is increasingly receiving more public funding and expertise from various institutions, yet somehow the level of innovativeness seems to have stagnated. The Norwegian statistic bank presented the first measurement of the innovation activity in the Norwegian tourism industry and their conclusion was that it was low. Even so, in the rural areas in Norway there seems to be endless initiatives taken by various projects to develop these areas in to tourist attractions, for example the re-launch of Lofoten, cruise tourism, culinary tourism, Arena-projects, culture and heritage tourism to mention a few.

Measuring innovation implies have a clear concept of what innovation is and literature shows that the concept of innovation is complicated by various and competing theoretical approaches. By exploring the innovational activities in the tourism industry and reviewing these in light of the National Tourism Strategy of 2012, the following research problem derived:

### **1.3 Research problem**

*What effect can a change in the understanding of innovation have for the measurement of the Norwegian tourism industry?*

Grønmo (2007) explains that in order for a question to be considered a research problem within the social sciences, it must first and foremost focus attention on interesting and significant issues in society. The research problem touches on different topics: the Norwegian Innovation Survey, the Norwegian tourism industry and innovation. Based on these topics, the following research questions are formulated:

### **1.4 Research questions**

- What do the results indicate about the tourism industry?
- Why is it important to keep innovating in the tourism industry?

## **1.5 Limitations**

The data collected in this thesis is secondary data, which means that the data used in the following chapters were originally collected for other purposes than the research problem presented here. This poses a question of validity and reliability. This is presented in the methodology chapter. The question of subjectivity is also an issue that must be taken in to consideration, as the data collected will be interpreted by the author.

## **1.6 The structure of the thesis**

In Chapter 1 the introduction is presented, leading to the research problem and research questions that this thesis will attempt to illuminate. A literature review is presented in chapter 2, where innovation in services is a central theme. Chapter 3 provides an introduction to the theories, concepts and definitions utilized, while chapter 4 explains the methodology and research methods employed. In Chapter 5 the empirical findings are presented and are then discussed in chapter 6. The thesis concludes and gives further recommendation in chapter 7. All attachments are found in chapter 8.





## 2.0 Literature review

The purpose of a literature review is to offer an overview of significant literature published on a topic relevant to one's own research area. In this review, innovation in services is presented and will attempt to illuminate the various perceptions of innovation.

There is relatively comprehensive literature about innovation, mainly about technology-based innovation, but innovation in services is not as foreign as it used to be. The core essence of service innovation literature is how and if the service industry is more or less innovative than other industries and how they differ from one another. The response is usually yes and no (Grünfeld et. al 2010). The problem lies in the actual definition of service innovation and the fact that it contains too much variation that the question of whether a service is innovative or not loses its meaning.

Defining innovation in services has been and still is a disputed topic (Normann 1991). There is much disagreement about whether service firms do innovate or if they in fact just imitate. "Although the literature does not offer a thorough discussion of innovation in service firms, it can nevertheless be deduced that innovations are taking place" (Sundbo 1997:433).

Joseph Schumpeter's theory on economic development (1934) is said to be the starting point of the modern innovation term (Rønning 2009). His theory of economic development (1934) is closely related to innovation: "economic development is driven by the discontinuous emergence of new combinations (innovations) that are economically more viable than the old ways of doing things (Drejer 2004: 556)". His interpretation of innovation covers five areas "(i) the introduction of a new good or a new quality of a good (product innovation); (ii) the introduction of a new method of production, including a new way of handling a commodity commercially (process innovation); (iii) the opening of a new market (market innovation); (iv) the conquest of a new source of supply of raw material or intermediate input (input innovation); and (v) the carrying out of a new organization of industry (organizational innovation)" (Schumpeter 1934: 66). It must be understood that Schumpeter's understanding of the concept of innovation was influenced by the time in which he lived; products, not services was the dominant production and it is not until the 1990's that innovation in service products really caught the interest of innovation researchers (Rønning 2009).

Sundbo and Gallouj (1998) have studied innovation types in the service sector and pointed to four types of innovation in service firms: 1. product innovation, 2. process innovation, 3.

organizational innovation and 4. market innovation. They point out that it is not obvious that the concept of innovation can be applied in the same manner to services as it can to the manufacturing industry, but has through their research on seven European Countries, including Norway, concluded that service firms do in fact innovate and that the innovation concept can be applied to service.

Norway is part of the European Community Innovation Survey (CIS) and reports numbers to CIS every two years. Their definition of innovation is “the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations” (OECD 2005: 46). As this is a fairly broad definition, the minimum requirement for an innovation according to the OECD is that the processes, marketing methods, organizational methods and internal/external relations must be new or significantly improved by the company (ibid). However, CIS does not distinguish between radical and incremental innovation which is a central discussion in the innovation in services literature. Sundbo and Gallouj (1998; 2000) do, which is why their division of innovation is how innovation will be presented in this paper. Sundbo and Gallouj’s claim is that innovations in services are rarely radical or large-scale, they are the opposite: small improvements of products and procedures, organization and marketing.

Not all innovations are the same and they are not measured in the same way which is why we can find several categorizations of the degree of innovativeness in literature. Below is a summary of some of the categorizations found in literature:

Table 1: Categorization of the degree of innovativeness

Categorization	Variants
Dichotomous	Discontinuous/continuous Instrumental/ultimate Variations/reorientations True/adoption Original/reformulated Innovations/reinnovations Radical/routine Evolutionary/revolutionary Sustaining/disruptive Really new/incremental Breakthrough/incremental
Triadic	Low/moderate/high innovativeness Incremental/new generation/radically new
Tetra	Incremental/modular/architectural/radical Niche creation/ architectural/ regular/ revolutionary Incremental/evolutionary market/evolutionary technical/radical Incremental/market breakthrough/technological breakthrough/radical Incremental/architectural/fusion/breakthrough
Five	Systematic/major/minor/ incremental/ unrecorded
Eight	Reformulated/ new parts/ remerchandising/ new improvements /new products/ new user/ new market/ new customers

Source: Adapted from Garcia and Calantone 2002

Literature shows several different ways of categorizing the degree of innovativeness and even though these categorizations are different in structure, one underlying theme seems to reoccur: innovativeness is a measure of continuous development. What can be read from this table is that there is no one way of measuring the degree of innovativeness, and there is still no one superior method of measurement.

Another question in literature is whether or not innovation in services should be understood and measured in the same way as innovation in products/manufacturing. Three main interpretations reoccur: assimilation (technologists), demarcation (service-oriented) and synthesis (integration) (Combs & Miles 2000).

The principal idea of the assimilation approach is that innovations in services (low-tech) are essentially the same as in manufacturing (high-tech) and therefore, the same methods and procedures can be used to analyze and measure innovation in both sectors. In other words, this approach assumes that service activities and manufacturing activities are the same. Therefore, measurement tools and theories originally adapted for the manufacturing industry can be said

to be applicable for the service industry (Evangelista, 2000). Demarcation or the service-specific approach argues the opposite. This approach holds that innovation in services are fundamentally different from that of manufacturing, and that the characteristics of services, “intangibility, interactivity and the co-production character” are the basis for measurement and analysis (den Hertog et. al 2006). The four categories of innovation (product, process, organizational and market) are found less useful as it is argued that these categories get blurred. This is a popular approach for service innovation researchers (ibid). Finally, the integration approach (synthesis) aims at explaining both technological and non-technological innovations and points at that it is increasingly harder to disentangle these two innovations (ibid). This approach is understood as a demand for a unified theory of innovation or an “interpretation framework capable of dealing with describing innovations in all type of economic activities” (ibid).

This thesis does not view manufacturing and services as two opposites, rather they are considered having “shared features and differential characteristics at the same time” (Camacho & Rodriguez 2005). This is why the integration approach will be imbedded in the way the information is presented in the discussion. Windrum (2009: 19) explains: “cathedrals and terrace houses are two very different objects, however, common set of processes, tools and materials are used to construct these objects. The processes of human innovation are also common, whether expressed in the generation of improved immaterial services or improved manufacturing artifacts”.

Teigen (2007) discusses whether an incremental change, as with small businesses, a new product or a new process, can be characterized as innovation. He questions whether this should rather be labeled as an imitation. Levitt (1966) seems to agree, “Imitation is endemic. Innovation is scarce”. He points to two distinctions that make an innovation an innovation: 1. Newness in the sense that something has never been done before and 2. Newness in that it has not been done before by the industry or by the company now doing it (ibid). In other words, an innovation is limited to something that is completely new. The author points out that something can be an innovation if it done for the first time in a given industry, however, if competitors within the same industry copy the innovator, even if it is new for that specific firm, it cannot be characterized as innovation. It is then an imitation.

While Teigen and Levitt holds this perspective, Garcia and Calantone (2002) and Sundbo and Gallouj (2000) argues for various degrees of innovation. The term ‘innovativeness’ is often

used in literature as a way of describing the degree of ‘newness’ of an innovation. As highly innovative products or service are regarded as having a high degree of newness, low innovative products or services are on the opposite extreme of the continuum. What is not as addressed in literature is from whose perspective this degree of newness is viewed and what is viewed. Garcia and Calantone (2001) see the degree of innovativeness from two perspectives. “From a macro perspective, innovativeness is the capacity of a new innovation to create a paradigm shift in the science and technology and/or market structure in an industry. From a micro perspective, innovativeness is the capacity of a new innovation to influence the firm’s existing market resources, technological resources, skills, knowledge, capabilities, or strategy” (Garcia & Calantone 2002: 3). From both a qualitative and quantitative perspective, Sundbo and Gallouj (1998) identified six modes of innovation in services, as a way of measuring their innovativeness: radical innovation, improvement innovation, incremental innovation, ad hoc innovation, recombinative innovation and formalization innovation. They argues that consumers are interested in satisfying their needs or functions and this is regardless of whether or not the means of doing is by a product or a service (Sundbo and Gallouj 1998).

Literature shows that there is not a consensus surrounding the innovation in services discussion. Disagreement surrounds what constitutes an innovation, how to measure it and what approach one should have when researching innovation in services.



### **3.0 Theory and concepts**

In this chapter, innovation will be presented from a theoretical perspective. The structure will have a top-down perspective: 3.1 what characterizes a service? 3.2, what characterizes innovation in services? 3.3, Types of innovation, 3.4, Product, process, organization and market innovation relating to tourism, 3.5, The degree of innovativeness, 3.6, Value creation, and 3.7, Definition relation to innovation.

#### **3.1 What characterizes a service?**

In the simplest terms, a service is a “deed, process and performance” (Wilson et al. 2008:5). According to Cook et al. (1999) “no single definition of a service is capable of encompassing the full diversity of services and complex attributes that accompany them” (cited in de Jong et al. 2003:13). By using de Jong et al. (2003) examples of the definition of services, it illustrates the variation and use of the term in relevant literature. A service can thus be defined as:

- An activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and service employees and/or physical resources and/or systems of the service provider, which are provided as solutions for customer problems (Grönroos 1990).
- Any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything (Kotler 1994).
- The delivery of help, utility or care, and experience, information or other intellectual content- and the majority of the value is intangible rather than residing in any physical product (DISR 1999).
- To organize a solution to a problem (a treatment, an operation) that does not principally involve supplying a good. It is to place a bundle of capabilities and competences (human, technological, organizational) at the disposal of a client to organize a solution, which may be given to varying degrees of precision (Gadrey et. al 1995).

Deriving from these given definitions, de Jung et al. (2003) conclude that a service is only a service when it is being delivered. Other characteristics of a service are intangibility, heterogeneity, inseparability (simultaneous production and consumption) and perishability (Wilson et al. 2008). The characteristics of a good, which is not included here, is merely the

opposite of a service: they are tangible, standardized, production is separate from consumption and they are non-perishable.

Intangibility refers to performances or actions rather than objects; they can therefore not be sensed in the same manner as a tangible good. The service concept can easily be copied by competitors and as a service is difficult to communicate and display it can be difficult for customer to assess the quality of the service (ibid). Heterogeneity, as opposed to homogeneity, results in services being different because as no two customers or employees are the same, each will experience and provide different experiences every time. Therefore, the human interaction between employees and customers in the service encounter is what connects heterogeneity and services (ibid). Simultaneous production and consumption in services usually follows the continuum of first being sold, then produced, thus consumed-simultaneously. The experience one has happens in 'real time' for example the interaction one has with an employee at the point of sale. Essentially the employees are an extension of the service consumed and provide an opportunity to customize offerings to customers (ibid). Finally, “perishability refers to the fact that services cannot be saved, stored, resold or returned” (ibid: 17). It is consumed at the time of purchase. It is highly recommended that firms have strong recovery strategies when things in fact do go wrong in order to ensure that customers, for example resorting to another service provider (ibid). It is important however to stress that the differentiation between goods and services is not absolute, but a gradual nature. It is argued that services tend to be more intangible, simultaneous, heterogeneous and perishable than goods, but not always the case (de Jung et. al 2003). Johnes and Storey (1998) offer a suggestion: services and products should be thought of as two extremes on a continuum, as services and goods tend to supplement each other at one point or another. This is can also be referred to as complement<sup>5</sup>. Below is a table showing the resulting implication when view in relation to the five characteristics explained in the previous paragraph. This section will not go into further details as the table is self-explanatory, read from left to right.

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<sup>5</sup> “COMPLEMENT AND SUPPLEMENT both mean to make additions to something. To COMPLEMENT is to provide something felt to be lacking or needed; it is often applied to putting together two things, each of which supplies what is lacking in the other, to make a complete whole: Two statements from different points of view may complement each other. To supplement is merely to add to: Some additional remarks may supplement his address” (www.dictionary.com)



Table 2: Typology of service characteristics

Typology of service characteristics	
Services	Resulting Implications
Intangible	<ul style="list-style-type: none"> <li>- Services cannot be inventoried</li> <li>- Services cannot be easily patented</li> <li>- Services cannot be readily displayed or communicated</li> <li>- Pricing is difficult</li> </ul>
Heterogeneous	<ul style="list-style-type: none"> <li>- Service delivery and customer satisfaction depend of employee and customer actions</li> <li>- Service quality depends on many uncontrollable factors</li> <li>- There is no sure knowledge that the service delivered matches what was planned and promoted</li> </ul>
Inseparability	<ul style="list-style-type: none"> <li>- Customers participate in and effect the transaction</li> <li>- Customer affect each other</li> <li>- Employees effect the service outcome</li> <li>- Decentralization may be essential</li> <li>- Mass production is difficult</li> </ul>
Perishable	<ul style="list-style-type: none"> <li>- It is difficult to synchronize supply and demand with services</li> <li>- Services cannot be returned or resold</li> </ul>

Source: adapted from Berry et al. 1985

### 3.2 What characterizes innovation in services?

Innovation in the service sector is often non-technological and they almost always involve small and incremental changes in the product, process, organization and market innovations. Many service innovations have already been implemented in or by other service firms. As mentioned, there is a general acceptance that innovations in service firms are different from the manufacturing firms. Brouwer (1997) states that service innovations do not require much research and development and that they have a tendency to invest less in fixed assets to support innovation. For example, they tend to spend less money on buying patents and licenses. Ebling et al. (1999) contributes to this adding that service firms invest a lower percentage of revenues in to innovative behavior. Sirill and Evangelista (1998) argues that a main barrier to innovation is the lack of well-educated workers, and with that often comes organizational problems, preventing new services to be successful.

Literature shows several definitions of innovation, specific to services. De Jung et al. (2003) present three examples:

- the development of service products which are new to the supplier (Johne and Storney 1998)
- an offering not previously available to a firm's customers resulting from adding to or changes in the service concept (Menor et. al 2002)
- encompassing ideas, practices or objects which are new to the organization and to the relevant environment, that is to say to the reference groups of that innovator (Van der Aa & Elfring 2002)

Essentially, innovation in services is about change and renewal (de Jong et. al 2003). It can be the creation of new knowledge or information, new ways of handling things or persons or small adjustments of procedures (incremental changes) (Sundbo and Gallouj 1998). Innovations in services are normally very practical as they do not rely on the collection of scientific knowledge. Innovations can also be the introduction of a new service product or a new procedure for producing or delivering the service. As services cannot be stored, they must be produced simultaneously with consumption. Sundbo and Gallouj (1998) explain this by stating “this means that the procedure cannot be completely separated from the product, which leads the conclusion that it is difficult to change to the product without changing the procedure; this is the reason why this thesis does not distinguish between process and product innovation. Thus, service innovations are generally broad in the sense that they imply a change of many elements in the production process and the products simultaneously” (ibid: 5).

### **3.3 Types of innovation**

There are numerous attempts in the literature on how to categorize innovation, but there seems to be four main classifications that are dominant. They are product innovation, process innovation, organizational innovation and market innovation. These are also operationalized the Norwegian Innovation Survey conducted by Statistics Norway which is part of the European Community Innovation Survey (CIS). CIS is coordinated by the European Union’s statistical office, Eurostat. Norway is amongst some of the European and non-European countries which participates in this survey. The CIS collects data on innovation activities in enterprises on product innovation and on process innovation (Eurostat). Following are the definition used by CIS and Statistics Norway:

- A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended use. This includes

significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics.

- A process innovation is the implementation of a new or significantly improved production or delivery method. This includes changes in techniques, equipment and/or software.
- An organizational innovation is the implementation of a new organization method in the firm's business practices, workplace organization or external relations.
- A marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.

### **3.4 Product, process, organizational and market innovation related to tourism**

Product or service innovation refers to a change that is directly observable by a customer and thus regarded as new; either in the sense that the product/service has never been seen before or is new to the particular firm or destination. These innovations are perceptible to tourists to such an extent that they may become a factor in the purchase decision (Hjalager 2010). In the accommodation sectors, some studies have shown to single qualities of the hotel services as innovative, for example gastronomy, animation, infrastructure and wellness facilities (Jacob et.al 2003), customized comfort (Enz & Siguwaw 2003) or environmental measures (Le et. al 2006) to name a few.

Process innovation refers to “backstage initiatives which aim at escalating efficiency, productivity and flow” (Hjalager 2010: 2). Information and Communication Technology (ICT) has been the pillar in many process innovations and is praised for its abilities to organize information and knowledge across geographical areas and boundaries. It is argued that the productivity in a tourism firm can improve by introducing new ICT solutions; it is especially effect if combined with competence building and HRM<sup>6</sup> (Blake, Sinclair and Soria 2006). An example of process innovation in tourism are automatic check-in-systems which are time saving for both the customer as well as the staff. In short, process innovations can be ‘platforms’ for services that improve their processes and are recognizable to the customer and thus adding value to the product/service (Hjalager 2010).

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<sup>6</sup> Human Resources Management

Organizational innovation, also referred to in literature as managerial innovations are new ways of organizing internal relationships, empowering staff and building competence; it could be building careers or compensating work with pay and benefits as the main challenge for many tourism firms is retaining staff, controlling costs and maintain flexibility (Hjalager 2010). Some examples are training and socialization, promotion within and enforcement of corporate values (McDonalds) (Leidner 1993), building team spirit (Hu et. al 2009) and ‘the managed customer’ is also included in this category (Gupta & vajic 2000); for example in adventure tourism, where the customers participation in the experience production is very important (Ellis & Waterton 2005).

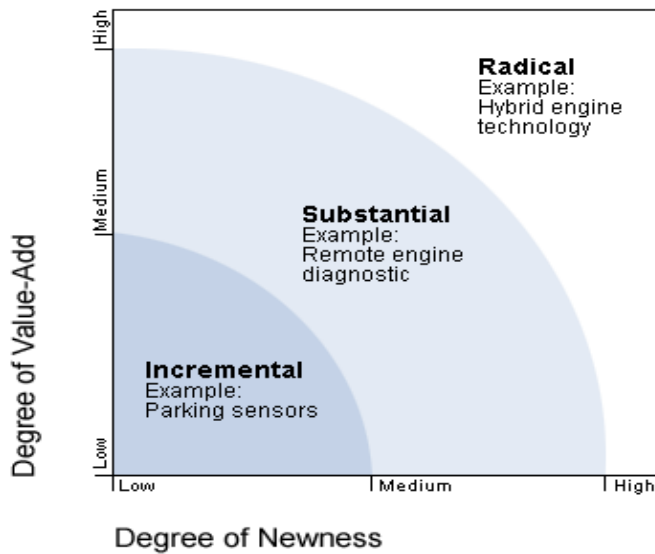
Market innovations are when approaches change the way that overall communication to and with customers is carried out and how the relationship between the customer and service provider are built and withheld (Hankinton 2004 in Hjalager 2010). Some examples of market innovations are the introduction of loyalty programs, as they changed the way customers and tourism firms went from a single purchase relationship to a long-term loyalty relationship (Morais et al. 2004) and the World Wide Web as this has allowed small tourism firm in every corner of the world to be just as accessible as the market leaders. It can also be done through co-production of brands, for example combining a destination and gastronomy; marketing a wine or cheese often goes hand in hand with the destination in which the product is from (Hankinton 2004).

Product and process innovation will be used as one unit and referred to as PP innovation. The reason for doing so goes back to the definition of services; services cannot be store, therefore, production is executed simultaneously with consumption. The process of producing a service and the actual product /service is in most cases a simultaneous production in the tourism industry, as the product/ service one is selling is an experience. Even though the customer has different experiences at different touch points (for example when booking a ticket or eating at a restaurant), the process of the experience and the outcome of that experience is not distinguished between. As the thesis sees the tourism industry as experience-providers, this is found to be the most meaningful way of using product and process innovation.

As can be seen from the paragraphs above, innovation stems from different mechanisms. Conceptualizing these innovations can help identify, more specifically, what type of innovation exists.

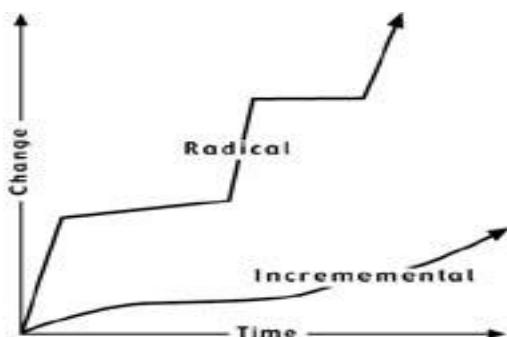
### 3.5 The degree of innovativeness

Figure 1: The degree of innovativeness, measured in value-added and newness<sup>7</sup>



To be able to comment of the degree of innovativeness in the tourism industry, figure 1 and figure 2 will be the basis for such discussion. Figure 1 distinguishes between three types: incremental, substantial and radical. The Y axis shows to the degree of value-added, while the X axis shows to the degree of newness (novelty). In short, low degree of newness and low degree of value-added will determine the industry as incremental innovator thus a low degree of innovativeness. The opposite is true for radical innovations. Figure 2 shows the change and time aspect of innovativeness: incremental innovation has less change (y axis) over time (x axis).

Figure 2: The degree of innovativeness, measured in change and time<sup>8</sup>



<sup>7</sup> Source: <http://www.ceoforum.com.au/article-detail.cfm?cid=6143&t=/Paul-Wright-Invetech/The-three-levels-of-innovation>

<sup>8</sup> Source: <http://www.designers-atlas.net/archives/126>

This thesis will only make the distinction between radical innovation and incremental innovation, however acknowledging there are several other terms used to describe the degree of innovativeness. The following types of innovation are mentioned to show there are several ways of characterizing innovations, but these will not be used when characterizing the tourism industry.

Radical innovations are introductions of completely new types of products or services. On the other hand, incremental innovations involve substituting existing characteristics or the introduction of new characteristics. In this case, the structure of the firm remains unchanged (Corrocher & Zirulia 2007). Improvement of final characteristics and reduction on production and process cost are typically generated from this type of innovation. “Recombinative innovations require the combination of different final and technical characteristics. They may also involve the creation of a new product by combining the characteristics of two or more existing products, or the creation of new products by splitting up an existing product separating various characteristics and turning certain elements into autonomous products” (ibid). Ad hoc innovations are characterized by social and interactive constructions of a solution, typically for a particular problem posed by a specific customer. This often implies that firms and clients cooperate by sharing their knowledge and experience on the specific issue (ibid). Improvement innovations refer to the process of improving particular features without changing the overall architecture of the firm and lastly, the process of putting the characteristics of the service in order and concretize them is known as formalization innovation.

### **3.6 Value creation**

Value creation can be said to be an economic measurement. From a macro perspective, GDP is how a country measures its overall economic growth. However, the paper argues that value is not exclusive to economics. By distinguishing and recognizing that value can be something other than financial return it may contribute to the comprehension of innovation and thereby contributing to painting a more accurate picture of the innovativeness in the tourism industry.

Value creation is recognized as both value for the customer and financial value for the firm (Gupta & Lehman 2005). Voima, Heinonen and Strandvik (2010) however, argue that when asking what value is and where, how, by who and when it is created, the complexity of the value concept becomes evident. White paper nr. 7 (2008-2009) defines financial value as a result of innovation; there is no mention of value for the customer, employee, market, or

society. Experience can be defined as a mental journey, which leaves an immaterial impression, in the form of knowledge or a mental state (a value for the customer). It can be a facet of various types of goods and services and can also be defined as an economic sector comprised of firms that have experiences as their primary production (Sundbo 2009).

### **3.7 Definitions relating to innovation<sup>9</sup>**

Following are some terms that will be used throughout this paper and are thus defined since they are not terms that are obvious in understanding.

*Innovation activities* are all scientific, technological, organisational, financial and commercial steps which actually, or are intended to, lead to the implementation of innovations. Some innovation activities are themselves innovative; others are not novel activities but are necessary for the implementation of innovations. Innovation activities also include R&D that is not directly related to the development of a specific innovation.

*Intramural (in-house) R&D*: This comprises all R&D conducted by the enterprise, including basic research.

*Acquisition of R&D (extramural R&D)*: R&D purchased from public or private research organisations or from other enterprises (including other enterprises within the group).

*Acquisition of other external knowledge*: Acquisition of rights to use patents and non-patented inventions, trademarks, know-how and other types of knowledge from other enterprises and institutions such as universities and government research institutions, other than R&D.

*Acquisition of machinery, equipment and other capital goods*: Acquisitions of advanced machinery, equipment, computer hardware or software, and land and buildings (including major improvements, modifications and repairs), that are required to implement product or process innovations.

*Training*: Training (including external training) linked to the development of product or process innovations and their implementation.

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<sup>9</sup> [www.uis.unesco.org](http://www.uis.unesco.org)





## **4.0 Methodology**

Methodology refers to the rules and recommendations for how to collect, process, analyze and present data given the research problem (Wellington et al. 2005). Methodology can thus be said to be a tool or an approach that it utilized to solve a problem or illuminate a problem. Although a literature review is not a method, it was the first step in the data collection process with the purpose of finding previous research on the topic, thereby getting insight and a deeper understanding of the theoretical fields of innovation in services. Following, quantitative research was conducted based on secondary data from the Norwegian Statistics Bank. Finally, qualitative research was conducted, through document analyses with the purpose of answering the research questions.

In the following chapter, the methods chosen will be presented and will be divided into quantitative methods and qualitative methods. Methods are the tools used in order to gather and analyze data (Buckingham and Saunders 2004), in other words, the technique used when conducting research (Silverman 2005). In this thesis, both quantitative and qualitative methods were used, also referred to in literature as mixed methods, to get a holistic understanding of the research area.

### **4.1 Research Paradigm**

A research paradigm describes how one perceives the world. It is a framework for thinking about how the research ought to be conducted and how it affects the research process. There are two research paradigms evident in service management: the positivist paradigm which applies the deductive approach, and interpretative paradigm, which applies the inductive approach, however, they are not mutually exclusive (Malhotra & Birks 2006). “Although quantitative and qualitative philosophies have contributed to the development of mixed methods research, pragmatism<sup>10</sup> has been considered the best philosophical foundation for justifying the combination of different methods within one study (Datta 1994). Pragmatists argues that the truth is ‘what works’ best for each researcher in order to understand a particular research problem (Patton 2002). The finding in this thesis is based on mix method

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<sup>10</sup> Pragmatism as a philosophy includes the use of induction (or discovery of patterns or gaining an understanding of the meanings humans attach to events, a closer understanding of the research context, and collection of qualitative data.), deduction (moving from theory to data, the collection of quantitative data, testing of theories and hypotheses, explanation of causal relationships between variables, application of controls to ensure validity of data and the selection of sufficient sample sizes in order to generalize conclusions), and abduction (uncovering and relying on the best of a set of explanations for understanding one’s result) (Migiro and Magangi 2011).

research where quantitative and qualitative methods complement one another and thus allow for a more comprehensive analysis of the research problem (Tashakhori & Teddlie 2006). It is important for the researcher to recognize their paradigm as it will determine the course of the research process: the design, how data is collected and analyzed and how the results are presented (Williams 1998).

#### **4.2 Research design**

“The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible” (De Vaus 2001:9). Thus, when designing the research, the researcher needs to ask what type of evidence is needed to answer the research problem in a convincing way, convincing being the operative word. Research design is not to be confused with research methods, as failing to distinguish between these leads to poor evaluation of the design. There are generally three types of research design: explanatory, descriptive and exploratory. In this thesis the exploratory design was found most beneficial. The objective of this design is to provide insight and understanding. The information needed is defined loosely and the research process is flexible and unstructured. Findings are tentative and the outcome is usually followed further by an explanatory or descriptive research. Data is often of secondary nature.

#### **4.3 Qualitative and quantitative research methods**

Researchers within the qualitative research field tend to be concerned with meaning. “They are interested in how people make sense of the world and how they experience events” (Willig 2001). On the other hand, data generated from quantitative research is generally represented numerically, typically through tables, charts and diagrams and draw upon statistical inferences. Wright (1995) explains: “The ‘what’ are the factors that need to be considered, the ‘how’ refers to how they are related and the ‘why’ are the underlying dynamics that justify the selection of those chosen factors and their relationship”. Since this thesis is concerned with both quantitative and qualitative research methods, mixed methods is thus the term used in literature to explain this. "Mixed methods can occur in a single study, sequentially within a program of research, or in an area of research. This suggests that any research involving multiple methods (quantitative and/or qualitative) can be considered mixed methods" (Rocco, Bliss, Gallagher, & Perez–Prado 2003).

Triangulation is also a term worth mentioning in this context. Silverman (2005) refers to triangulations as the comparison of different types of data and different methods, and to see whether they corroborate one another. Fielding and Fielding (1986) present two ground rules for operating with triangulation: (1) always being with from a theoretical perspective or model and (2) choose methods and data which will give you an account of structure and meaning from within that perspective. Given the nature of the research problem triangulation is found fitting in terms of Fielding and Fielding's (1986) rules: the research problem is based on the theory of innovation and multiple methods are used to answer the research questions, using secondary data based on statistics and interpreted qualitative data.

#### **4.4 Data collection and analysis**

In the forthcoming sections a description of how the data was collected will be provided. All data used in this paper is secondary data. There is no single, unequivocal definition of secondary data analysis, even though it is an established methodology in the analysis of quantitative and qualitative data. The fundamental principle of secondary analysis is that it involves pre-existing data. According to Dale et al. "secondary analysis must, by definition, be an empirical exercise carried out on data that has already been gathered or compiled in some way" (Dale et al. 1988: 3). The assessment of relevance aims to clarify whether the available data is fitting in relation to the research questions studied and the assessment of quality draws attention to the reliability of the data.

##### **4.4.1 Validity and reliability**

Validity refers to the data material validity in relation to the questions that will be addressed (Grønmo 2007). Validity depends on what is measured and whether it is suitable to clarify the research problem according to Holme and Solvang (1998). High validity means that there is high correlation between the researcher's intentions with the study and the actual data collected. Low validity shows little correlation between the survey and research and that the data collected does not answer the research question adequately. Reliability shows how reliable the data is. For any research, the goal is to obtain reliable data (Holme and Solvang 1998).

Reliability is the extent to which you can rely on the source of the data and, therefore, the data itself (Pierce 2008). According to Statistics Norway, there was a 96% response rate in the innovation survey. However, it is noted that since it is a sample survey with firms less than 50

employees there is some sample uncertainty. It is also noted that the tourism industry found to be a low innovator, but there is some degree of uncertainty as to whether this is true or not. This is due the innovation survey is a combined survey that measures innovation activity and R&D and it is unsure whether innovation is captured in its fullness through a combined survey. The data from the Destination Norway, the national tourism strategy is based upon research conducted from other institutions that Statistics Norway. The sources used in this thesis were published by academic journals, theoretical books or websites considered reliable.

#### **4.4.2 Qualitative data**

The analysis of the national strategy is in general terms a document analysis. Document analysis is a broad term that involves various procedures in analyzing and interpreting data that have been generated from examining documents that are relevant to a particular study. Some examples of these sources of data include public records (political and judicial reports, government documents, media accounts, television scripts, yearbooks, minutes of meetings), private documents (medical histories, letters, diaries, school records, personal journals, memoirs), interview transcripts and transcripts prepared from video records and photographs (Schwandt 2007). The documents analyzed in this paper are the Norwegian National Strategies of 2007 and 2012 and are examples of government documents (although only the 2012 strategy is used in the discussion). As stated above, the term document analysis can present itself as vague and unclear as to how the data is collected from the analysis and in which manner it is presented. As the types of innovation in service are central to this thesis, it was found that a thematic analysis was an appropriate way of categorizing the data.

Thematic analysis is a common approach to analyzing qualitative data “that does not rely on the specialized procedures of other means of analysis such as grounded theory methodology, discourse analysis and semiotic analysis” (Schwandt 2007). It is an exploratory approach where the analyst codes (marks or indexes) sections of a text (in this paper, documents) depending on how they contribute to emerging themes. In other words, this type of analysis uses particular sections of data to exemplify specific points. A commonly used approach in thematic analysis is to structure the analysis around particular concepts. Another used approach is that of organizing an analysis around particular research questions. This makes for a clear way to relate the analysis to the research questions.

The data collected from the national strategies were thematically categorized into 3 categories: process and product innovation (PP), organizational innovation and marketing

innovation. All data that touched upon the definition of these were placed into the respective categories. When all the data was categorized thematically, there was an attempt to summarize these findings, based on the knowledge of the author. A summary table was created and presented in chapter 5, and the discussions of these in relation to the research questions are found in chapter 6.

Other sources of data were also used: academic journals, newspaper articles, internet sites, publications and books. These sources were used as a source of information, both academically and as an attempt to draw out meanings of the concepts introduced in this paper.

#### **4.4.3 Quantitative data**

There are generally five accepted types of data which are subject to secondary analysis (a) census data, (b) institutions' administrative data, (c) public records, (d) social surveys, and (e) longitudinal studies. The data presented in the Norwegian Innovation Survey is categorized as a social survey. The data was collected aimed at finding out about the innovation activities in the Norwegian economy, and is used by researchers and agencies for various research. For that reason, the author, more specifically notes the innovation survey as a multi-purpose social survey. The section of the innovation survey dedicated to the tourism industry will eventually be part of a longitudinal study however, this part of the survey has only been conducted once, so it has no comparative value until a new survey is conducted, which will be every two years.

#### **4.4.4 Theoretical sampling**

Theoretical sampling is the method of sampling used. Mason (1996) explains: "theoretical sampling means selecting groups or categories to study on the basis of their relevance to your research questions, your theoretical position... and most importantly the explanation or account which you are developing. Theoretical sampling is concerned with constructing a sample... which is meaningful theoretically, because it builds on certain characteristics or criteria which help to develop and test your theory and explanation (1996:93-94). Silverman (2005) presents three features of theoretical sampling; choosing cases in terms of your theory, choosing deviant cases, and changing the size of your sample during the research.

The first is applicable to this thesis. As the theory in this thesis is innovation in services, namely PP, organizational and market innovations, these concepts or themes have guided the search and collection of data.

## **4.5 The process**

Clarifying the focus of the data was the first step. This focus builds on the research questions and the researcher follows by prioritizing which themes to research and which documents to analyze. The theory on innovation in services is the basis of this paper. Extensive research is conducted through a literature review and thereby educating the researcher on the topic chosen. Literature showed that the division between PP, market and organizational innovation was an accepted division of the theory and was therefore used as the themes in which the data was organized into. This is true for both the data retrieved from the quantitative and qualitative research. It was not found to be necessary to collect first hand data as the quantitative information needed had already been collected by the Norwegian Statistical Bank and the qualitative data was published by the Ministry of Trade and Industry as well as other sources of information mentioned in section 4.4.2. The information that was found relevant in terms of the theory was extracted. In the quantitative research, graphs were made to present the data in a clear manner. The industry total and total service industry were used as comparisons in some cases, to clearly show the difference in innovational activities. On the other hand, the qualitative data is presented in a summary to make it easier for the reader to capture the essence of the strategy. The findings will be discussed against the theory in chapter 6.

## 5.0 Findings

In this section the findings from the quantitative and qualitative research are presented, aimed at illuminating the research problem *‘what effect can a change in the understanding of innovation have for the measurement of innovation in the Norwegian tourism industry?’*

Section 5.1, presents the empirical findings from the Norwegian innovation survey attempting to illuminate the first research question *‘What do the results indicate about the tourism industry?’* They are divided into the following subsections: 5.1.1 Product and process innovation, 5.1.2 Organizational innovation, 5.1.3 Market innovation, 5.1.4 Types of innovation activities, 5.1.5 Innovation costs, 5.1.6 Sources of information, 5.1.7 Factors that are important for not engaging in innovation, and 5.1.8 The Norwegian tourism strategy 2012, by type of innovation.

Section 5.2 shows some findings based on the second research question, *‘Why is it important to keep innovating in the tourism industry?’*

### 5.1 What do the results indicate about the tourism industry?

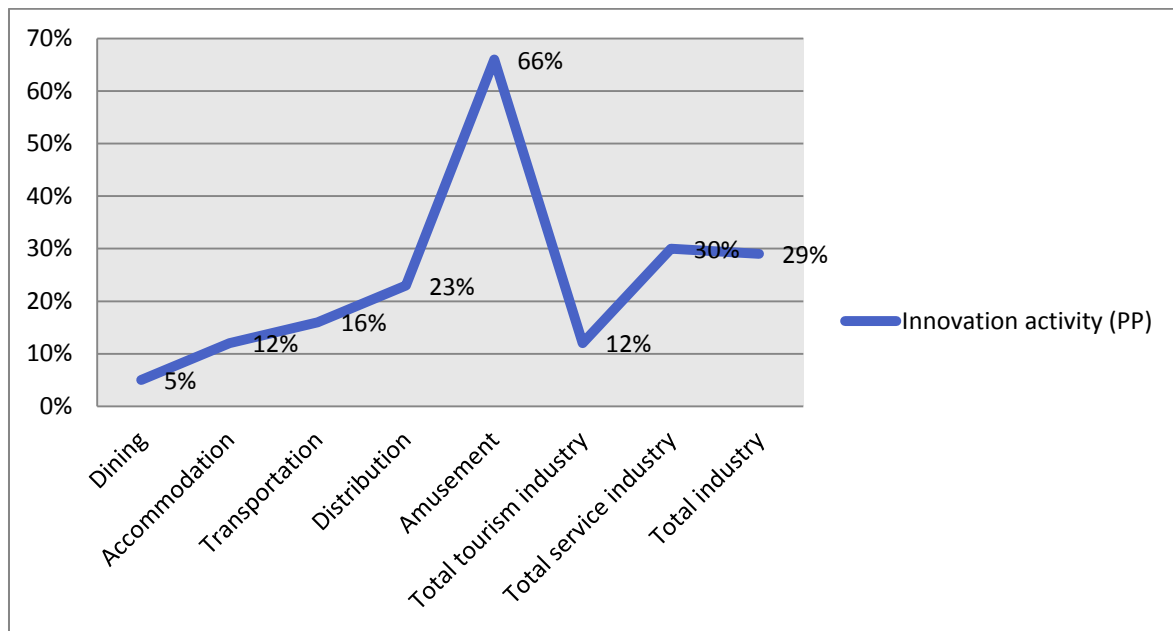
In the following findings, categories are defined as innovational activities, which are found in the legend on the right hand side in the graphs. Groups are used when referring to dining, accommodation, transportation, amusement and distribution. When referring to the service industry, this includes NACE<sup>11</sup> codes G-K, M, N. When referring to the industry total, this includes NACE codes A-N. As the innovation survey is a sample survey, there is a certain degree of uncertainty (Statistics Norway).

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<sup>11</sup> European standard classification system. See appendix (pg. 88) for categorization

### 5.1.1 Process and Product innovation

Figure 3: Process and Product (PP) innovation activity

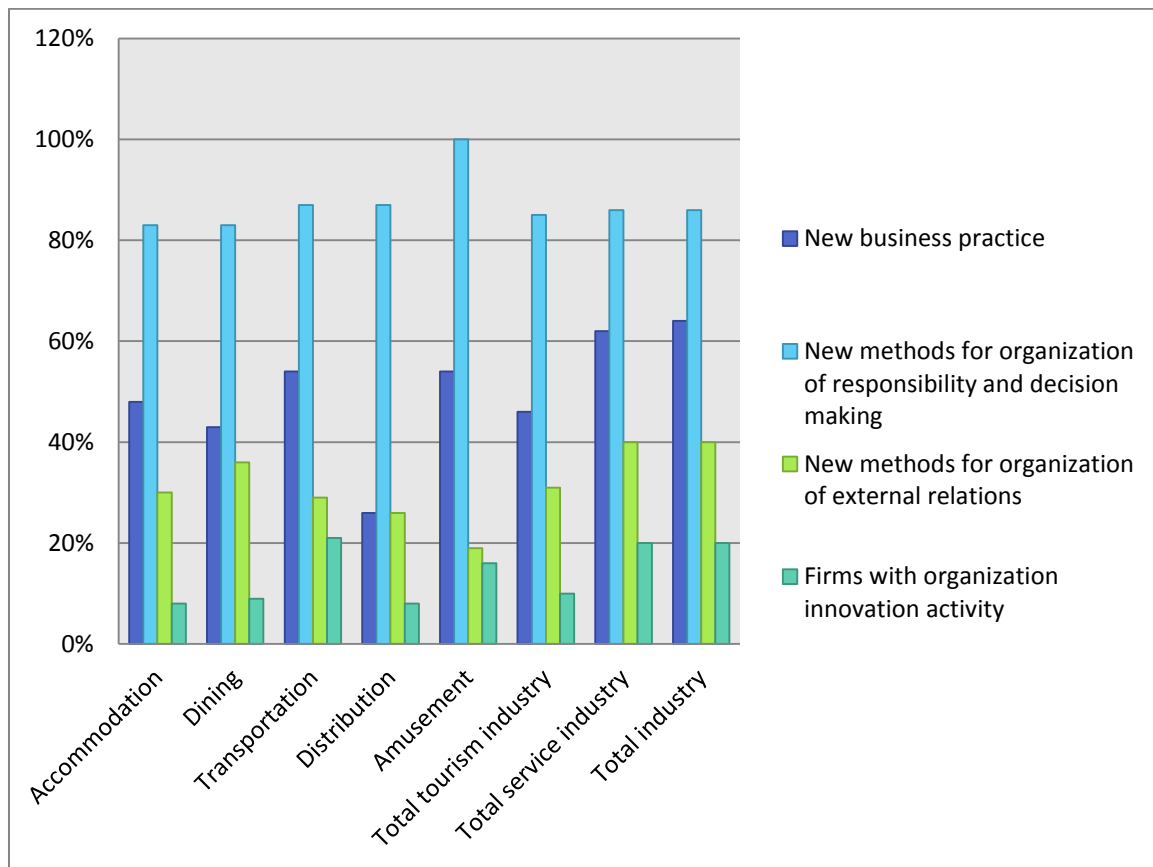


The process and product (PP) innovation varies from 5 percent in dining to 66 percent in amusement. Amusement stands out in PP innovation activity, as can be depicted from the graph above, which is followed by distribution at 44 percent lower, scoring 23 percent. Transportation and accommodation both score below the twentieth percentile, at 16 and 12 percent respectively. The total tourism industry shows it has 12 percent PP innovation, a difference of 17 percent compared to the entire Norwegian industry, scoring 29 percent. Compared to the service industry, scoring 30 percent, in combination with the total industry, PP innovation activity in the tourism is significantly lower. Conclusively, PP innovation is lower than in the remaining service industry and the industry total, and within the tourism industry itself, there are considerable differences in innovation activity.



### 5.1.2 Organizational innovation

Figure 4: Organizational innovation, by industry, 2008-2010



The organizational innovations were measured based on three activities: new business practices, new methods for the organization of responsibility and decision making and finally, new methods for organizing external relations.

What is evident is that most innovational activity is derived from new methods for organizing responsibility and decision making. There is not too much deviation within the tourism industry, where all groups score within the 80<sup>th</sup> percentile, with the exception of amusement, scoring 100 percent. The total tourism industry scores 85 percent in this category. In comparison to the total industry and service industry, both scoring 86 percent it can be argued that the tourism industry has relatively high innovational activity in this category and does not differentiate itself from the rest of the Norwegian industry.

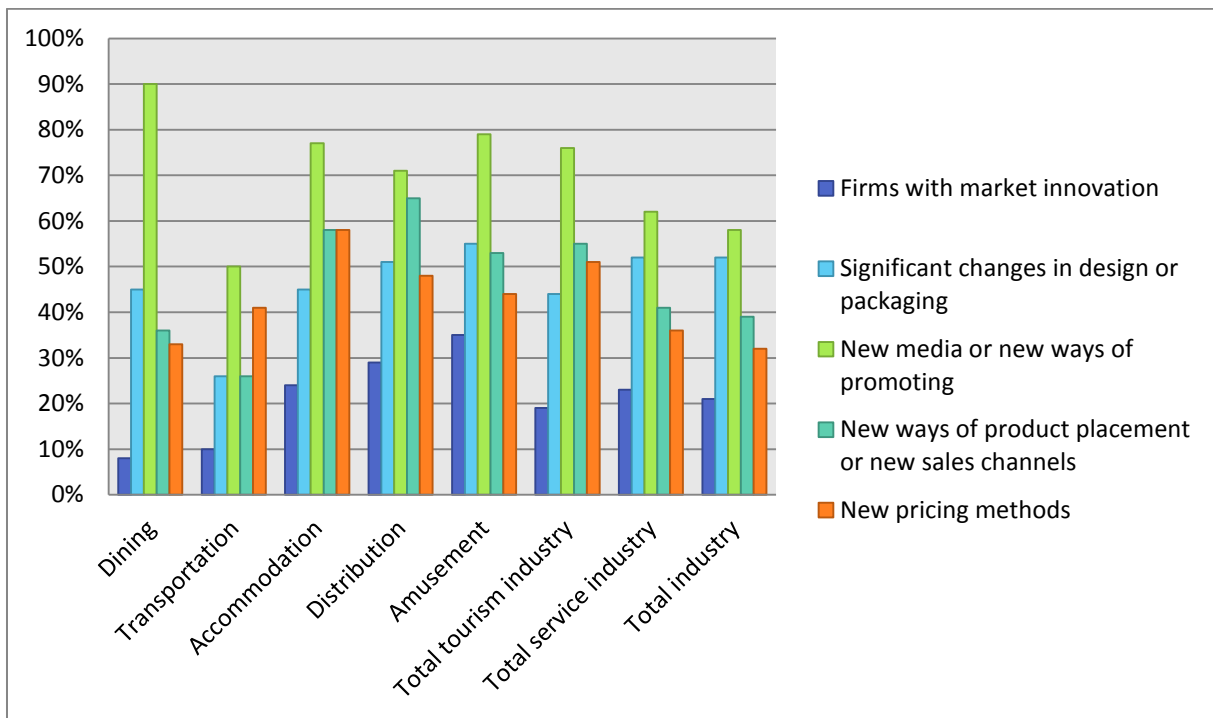
New methods for organizing external relations score the lowest, most groups scoring between the 20<sup>th</sup> and 30<sup>th</sup> percentile. Compared to new methods for organizing responsibility and decision making and new business practices it can be said there is less innovational activity in

this category. However, the tourism industry total scores at 31 percent, a difference of 9 percent compared to the total industry. Although the tourism industry scores lower than the total industry, a difference of 9 percent cannot be said to be enormous, therefore leading the conclusion that the tourism industry has approximately the same level of innovational activity in said category as the remaining industry.

There are differences within the industry, most notably in relation to new business practices. This is also where the biggest difference between the tourism industry and total industry is found, scoring 46 percent and 64 percent respectively. This is a difference of 18 percent, indicating that new business practices is found less than in the service and industry total. The data shows that 10 percent of all tourist firm have had organizational innovation activities; compared to the service and industry total both scoring 20 percent, it can be read that the tourism industry, regardless of its variations within the industry, is less innovative than the other industries.

### 5.1.3 Market innovation

Figure 5: Market innovation, by industry, 2008-2010



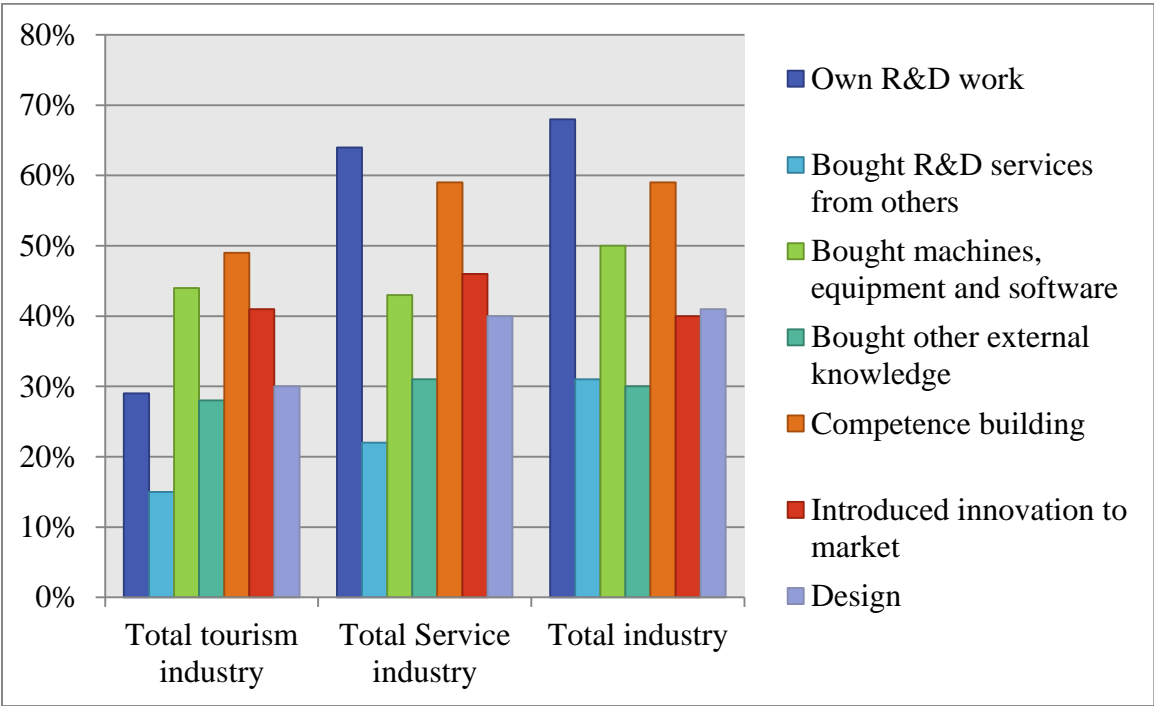
Market innovations identifies are: 1. Significant changes in design or packaging, 2. New media or new ways of promoting, 3. New ways of product placement or new sales channels, 4. New pricing methods. Firms with market innovation are also included in this graph.

Within the tourism industry, there are differences, dining having the lowest market innovation and amusement having the highest market innovation activity. Looking at industries, the tourism industry is at the same level of innovational activities as the total industry and service industry total, scoring 19 percent, 21 percent and 23% respectively.

New media or new ways of promoting is the category that has the highest scores. The conclusion from this data is that the innovational activities with market innovation do not differentiate itself from comparable industries.

### 5.1.4 Types of innovation activities

Figure 6: Types of innovation activities, by industry 2008-2010



The Norwegian industry points to seven categories that represent what types of innovation activities exist: a firm has executed their own R&D work, a firm has bought R&D services from other firms, a firm has bought machines, equipment and software, a firm has bought external knowledge, a firm builds competence, a firm introduced innovation to the market and finally, an innovation to a firm can be a change in design.

The tourism industry has three categories scoring in the 40<sup>th</sup> percentile: bought machines, equipment and software, building competence and the introduction of innovations to market. The remaining categories, with the exception of buying R&D services from others, score in the 20<sup>th</sup> percentile.

Buying R&D services from others scores at 15 percent, the lowest scoring category in the tourism industry. The highest scoring is competence building, which is also amongst the highest scoring in the service industry and industry total. The biggest difference between the industries is the category of performing own R&D work. The tourism scores low in comparison, 29 percent compare to 64 percent and 68 percent.

While the tourism industry generally scores lower in types of innovation activities, it is the category of own R&D work that distinguishes itself.

### 5.1.5 Innovation costs

Figure 7: Innovation costs, tourism industry, 2010

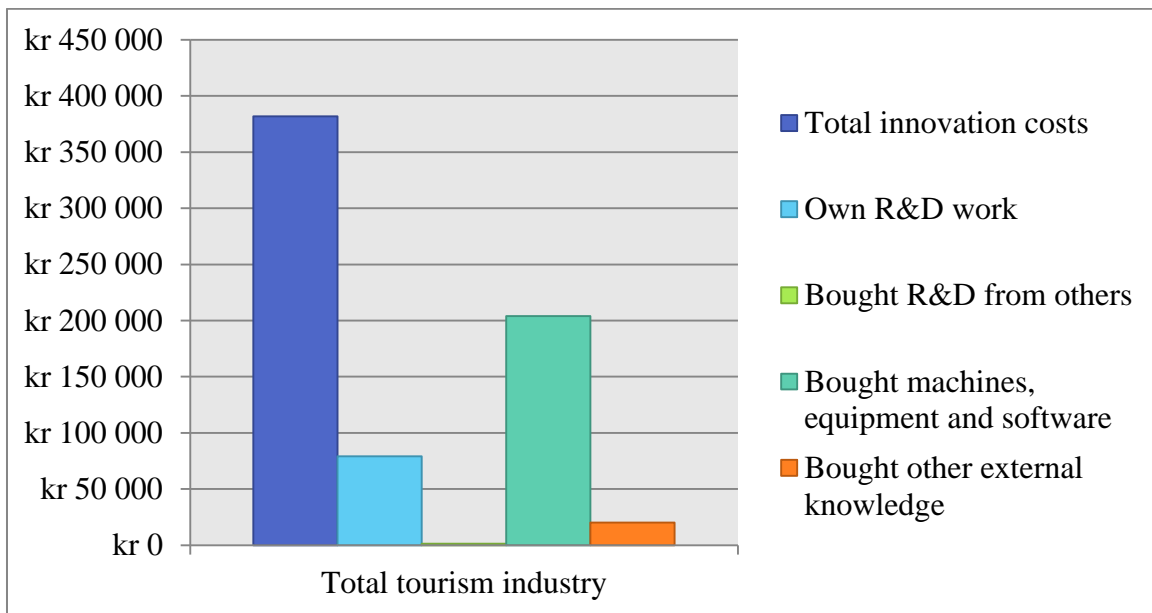
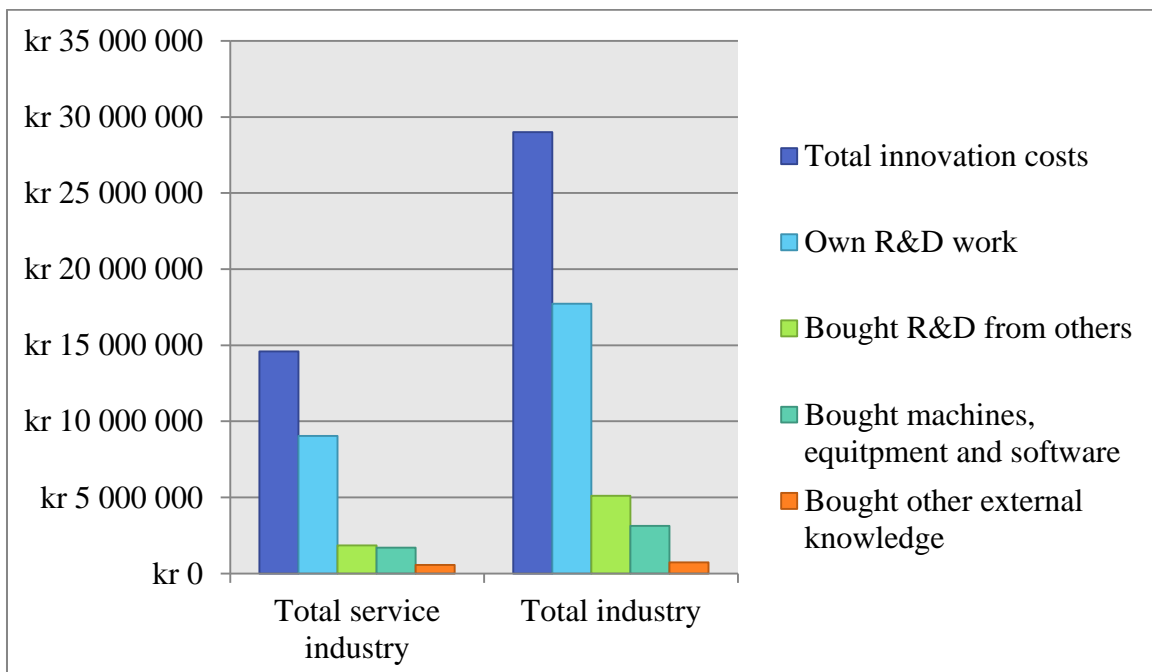


Figure 8: Innovation cost, by industry, 2010



The innovation costs are recognized as: own research and development work, bought research and development from others, bought machines, equipment and software, and finally, bought other external knowledge. This data summarizes total innovation costs for the year 2010<sup>12</sup>.

The total cost firms have spent on innovation in the year 2010 are NOK 381 892. NOK 204 106 of are spent on buying machines, equipment and software. Conducting own research work is allocated NOK 79 090, while NOK 20 055 is spent on buying external knowledge. The category that distinguishes itself from the rest is that of having bought R&D from others. The tourism industry combined spent NOK 1360 in 2010.

Put into perspective, the tourism industry is compared to the service industry and the total industry. Figure 6.4 shows the innovation costs in the service industry and industry total. The total innovation costs in the tourism industry are substantially lower than the latter industries: the service industry spent NOK 14 595 535, while the industry total was at NOK 29 006 333.

With the exception of the money spent on innovation being a major difference between the tourism industry and service/total industry, the tourism industry spends its money differently than that of the other two industries. From figure 6.4, it can be seen that own R&D scores considerably higher than the remaining categories, while, in figure 6.3 it can be seen that within the tourism industry, buying machines, equipment and software score the highest.

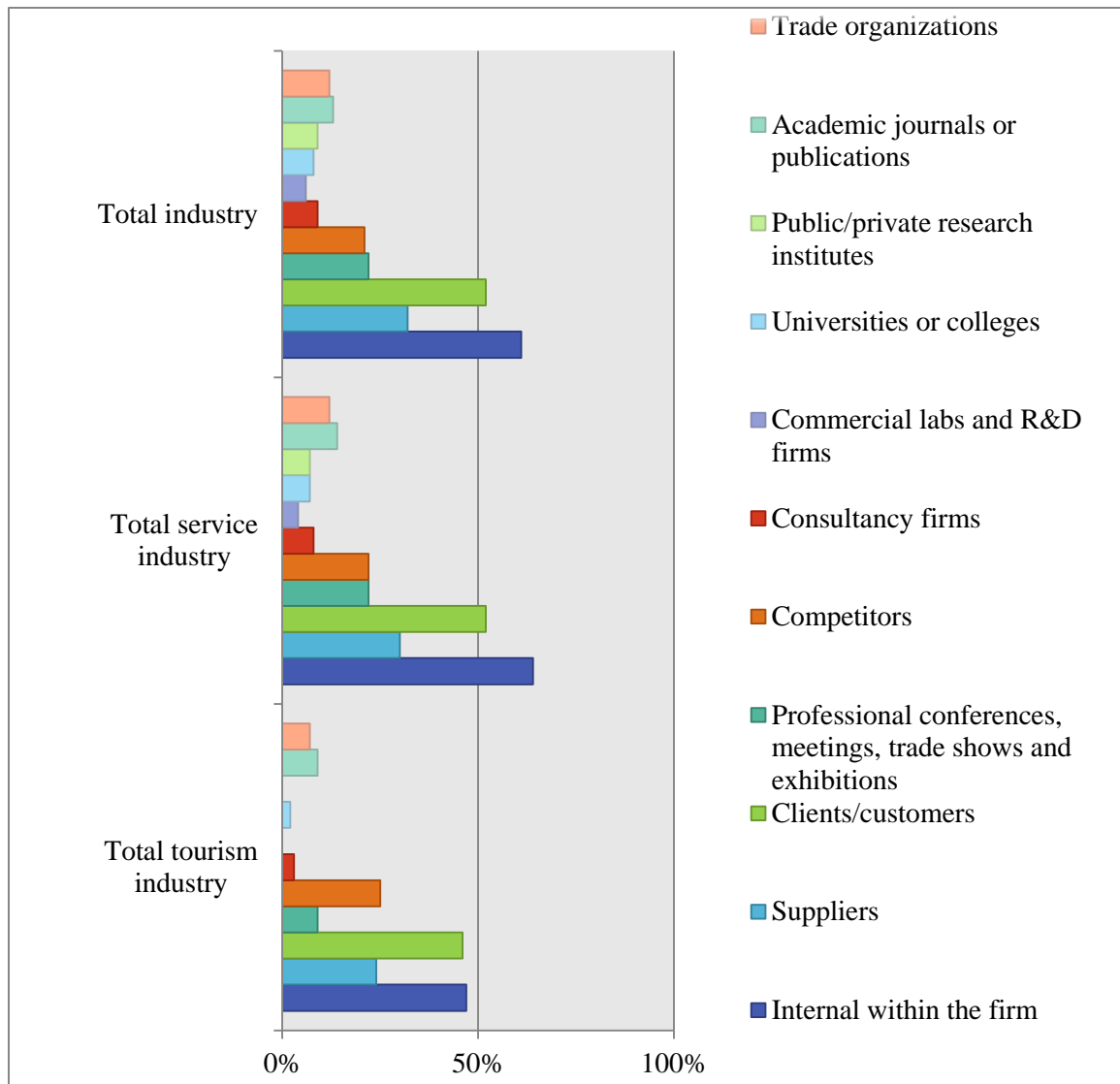
Based on the graphs, the numbers show that the tourism industry allocated considerably less amount of money on research and development than the service industry and total industry and the total costs of innovation is highly contrastable, tourism scoring in the thousands, while the other two industries scoring in the millions.

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<sup>12</sup> Other costs are not included, they amount to NOK 77280.

### 5.1.6 Sources of information

Figure 8: Information sources of great importance for innovation activity, by industry, 2008-2010



The information sources presented in the innovation survey are: trade organizations, academic journals or publications, private/public research institutes, universities or colleges, commercial labs and R&D firms, consultancy firms, competitors, professional conferences, meetings, trade shows and exhibitions, clients/customers, suppliers and finally, internal information inherent within the firm.

As a significant contrast to the service industry and total industry, the tourism industry does not regard commercial labs and R&D firms and public/private research institutes as important

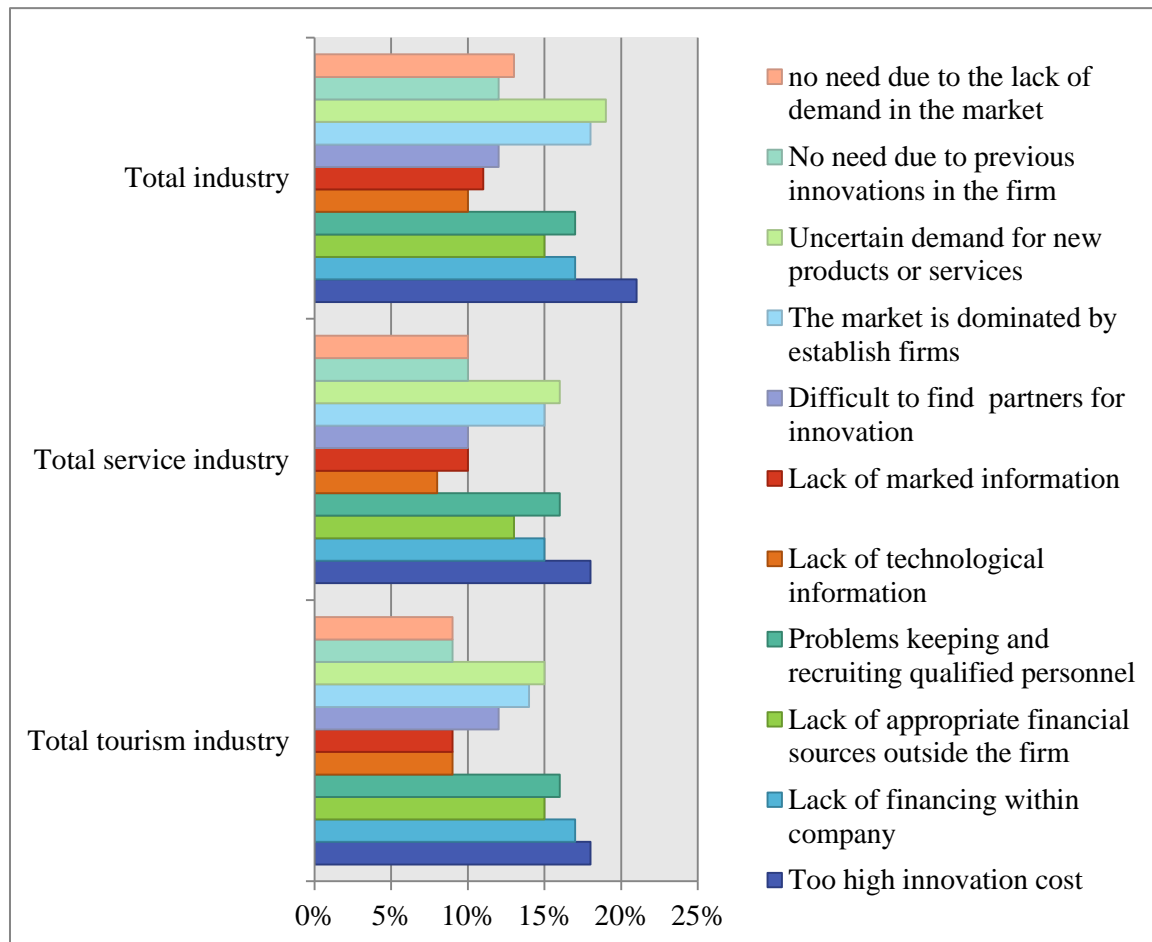
information sources. These two categories both score 0% in the tourism industry. There are two categories that distinguish itself from the other categories as important: information sources are internal within the firm and from customers/clients. These are also true for the other two groups, regardless of the fact that the tourism industry score lower than the others. Supplier and competitors seem to have somewhat of an importance as source of information.

Based on the findings it can seem that the sources of information that have the greatest importance are those produced internally and by the consumer or customer. Research and development and various types of consultancies/institutions do not seem to be an important source of information in tourism.



### 5.1.7 Factors that are important for not engaging in innovation

Figure 9: Factors that are important for not engaging in innovation, by industry, 2008-2010



The following factors are presented as barriers to innovation: too high innovation costs, lack of financing within the company, lack of appropriate financial sources outside the firm, problems keeping and recruiting qualified personnel, lack of technological information, lack of market information, it is difficult to find collaboration partner for innovation, the market is dominated by established firms, there is uncertain demand for new products or services, there is no need for innovations due to previous innovation in the firm and finally, there is no need for innovations due to the lack of demand in the market.

What is evident is that financing is a major barrier to innovational activity. Along with problem keeping and maintaining qualified personnel, an uncertainty in demand for products/services and that the market is already dominated by established firms, the barriers contributes firms not engaging in innovational activity. It can be read from the graph that regardless of small fluctuations within the industries, overall, the same barriers seem to present themselves in the three industries depicted above.

**5.1.8 The Norwegian Tourism Strategy 2012, by type of innovation**

The strategy is a policy for the promotion of tourism in Norway. There are three objectives evident: 1. Increase value creation and productivity within the tourism industry, 2. Increase the number of year-round jobs and develop more robust companies, particularly in rural areas, and 3. Increase the number of unique, good-quality experiences that attract more guest with a higher willingness to pay (Destination Norway 2012: 4). The policy opts to contributing to the development of a highly productive, knowledge-based industry. Central themes in the strategy are cooperation, innovation and investments, as this is believed to stimulate to increased wealth and value creation.

Following is a summary of the thematic analysis of the national tourism strategy of 2012. A complete document analysis can be found in the annex. The themes are divided between are PP innovation, organization innovation and market innovation. Following the table, a more detailed description is provided of PP, organization and market innovation.

*Table 3: Thematic analysis summary of the tourism strategy, 2012*

	<b>Tourism strategy 2012</b>
<b>PP</b>	Destination (Norway) development, experience development (locally)
<b>Organization</b>	Small businesses, fragmented, Innovation Norway, coordination failure, efficient, structural change, regional/destination companies, complex, lack of competence, strategic planning, clear division of labor, fusion and closures, incentive system
<b>Market</b>	Destination marketing, increase wealth creation, sales, good reputation, sustainable, visible, coordination, communication, information technology, holistic marketing, total experiences, design, events, Innovation Norway, infrastructure, accessible

**PP innovation**

Product and process innovation is not distinguished between as the understanding of experience in this thesis is that an experience is produced at the same time it is consumed. Therefore, the PP innovation here is the Norway and the experiences on has in relation to tourism.

## Organization innovation

The 2012 strategy was built upon the 2007 strategy (see annex for document analysis) pointing to specific measures the government will take to brand Norway as a destination. It explained that the industry was still comprised of most small players and that the tourism industry is still too fragmented. The Government calls for a structural change in the tourism industry; instead of having many small players located all over the country, destination companies are encouraged to be created to stimulate marketing Norway as a destination. A characteristic of the Norwegian tourism industry is the lack of competence in the firms and through creating destination companies, the strategy hopes to stimulate business and create a professional network where all players can benefit from each other. There are many small firms that do not survive in said industry, and instead of having to foreclose their businesses, in cooperation with Innovation Norway as an 'instructor' and source of expertise, fusions are encouraged, creating regional destination companies. Clear division of labor is also a focus area in the 2012 strategy, pointing out that this clarity is a prerequisite for a good coordinated public sector and communication with the tourism industry. As with the 2007 strategy, knowing who is responsible for what areas is important for the efficiency of the strategy when put into play. In order to reach their goal of creating destination companies, the Government opts to implement incentive systems, hoping for an optimal and lucrative way of marketing Norway as a destination.

## Market innovation

The marketing aspect is the underlying theme of the policy, trying to market Norway as a destination. Increased sales and good national and international reputation is a prerequisite for this. Total experiences a key phrase, and through good use of infrastructure and accessibility, Norway hopes for a lucrative tourism industry. Designing total packages and the marketing material used is another aspect. By designing good campaigns and offers, the aim is to increase awareness of what Norway has to offer and increase the total tourism in Norway. Increasing tourism in Norway is assumed to increase the value and wealth creation, which is a big discussion topic as Norwegian wages are relatively high and are increasingly difficult to defend.

Information technology, mostly internet based, is stressed as an important tool in being able to market Norway in a cost effective way that reaches the most people. Experiences is also a discussion topic as the Government wants tourists to have a memorable experience that

contributes to word of mouth and good marketing of Norway. Innovation is also a key aspect in marketing, as they contribute to expertise and grants and aids companies to reach their full potential. In order for Norway to market itself in the best possible way it is essential that the country is visible and this is greatly done through investing in good use of information technology.

## **5.2 Why is it important to keep innovating in the tourism industry?**

This research question will only be presented in short, as it touch on many different articles, academic journals, research papers and newspaper articles which will be used in the discussion chapter, rather than presenting them as findings.

The innovation survey is carried out biannually in combination with the business enterprise Research and Development survey. It is part of the CIS (European Community Innovation Survey), and was conducted for the seventh time in 2011, covering the period from 2008-2011, with the reference year being 2010 (CIS 2010).

Comparing the CIS 2008 data to other participating countries, Norway ranks relatively low in innovational activity; Norway is ranked below the EU average. In comparison to the Nordic countries, being the most similar to Norway's GDP and general wealth, Norway is ranked as a moderate innovator while the rest of the Nordic countries are categorized as leading innovators. Based on this, a question has been drawn up by Statistics Norway (2012): can the presence of detailed R&D questions influence the reported incidence of innovation?

Nås et al. (2010) argues that the Norwegian scores on common innovation indicators are too low and does not reflect reality (cited in Wilhelmsen et al. 2012) which correlates with what Statistic Norway show in their research that the results show there is a possibility that a combined R&D and innovations survey may limit the respondent's understanding of what constitutes as an innovative activity.

The goals presented in the national tourism strategy presuppose a knowledge-based initiative: "The government's tourism policy will contribute to the development of a highly productive, knowledge-based industry" (Destination Norway 2012: 4). The strategy also states that knowledge will be one of the most important input factors. However, the strategy dedicates only 1.5 pages to research, in a 92 page document.

Innovation is becoming an increasingly important topic for policy makers due to its wide recognition as a possible approach to increase the competitiveness of products, businesses and destinations (Hall & Williams 2008; Hall 2009). The literature on innovation in tourism is also growing, and constitutes a number of noteworthy contributions with academic, government and regulatory origin (Hall and Williams, 2008; Hall, 2009; Hjalager, 2010). However, Hjalager (2010: 1) points out that “innovation has become a buzzword which in many cases is used without deeper reflection” and argues that innovation must be understood with caution on this complex and important issue. (Hall (2009) notes that the issue of innovation policy is particularly important as little research has been devoted to the situation of tourism in national innovation policies and thus the relationship between innovation policies and tourism.

Innovation research on innovation in tourism is significantly lower than the research of innovation in other industries, and tourism research is typically researched in a ‘case by case’ manner (Hjalagar 2010). Hall and Williams (2008) and Hall (2009) therefore points to the need for to better understand the empirical evidence collected on innovation in tourism; quantification of this is specifically highlighted.

The overlap of definitions has led to the fact that there is not a clear and authoritative definition of innovation (Amoah & Baum 1997). Ettlíe et al. (1984) noted the problem of the definition of innovation and commented on the problems for research and practice of innovation arising from a disciplinary void (ibid). Other researchers have also noted that one of the challenges of innovation is the lack of a common definition, which in turn can undermine the understanding of the nature of innovation (Zairi 1994; Cooper 1998). Adams et al. 2006 sums this up by saying that a general definition that is adaptable to different principles and covers the different aspects of innovation would be useful as “the term ‘innovation’ is notoriously ambiguous and lacks either a single definition or measure” (Adam et al.2006: 22). This is related to how this thesis views innovation, namely through a synthesis/integrated approach.



## **Chapter 6.0 Discussion**

In this chapter I will discuss *the findings against relevant theory and literature* which will help shed light on the research problem, “*what effect can a change in the understanding of innovation have for the measurement of innovation in the Norwegian tourism industry?*” The findings provide an indication as to how the tourism industry is today and will further be discussed in light of the theory of innovation and surrounding topics. The results will be distinguished into sub sections as the data was presented in the previous chapter 5. The discussion seeks to shed some light on the Community Innovation Survey in relation to innovation, the tourism industry and the national tourism strategy. Research question 1, “*what do the results indicate about the tourism industry?*” is presented first, followed by research question 2, “*why is it important to keep innovating in the tourism industry?*” It is important to note that these questions are not mutually exclusive and as such, they will to some extent overlap. It is concluded that the overall innovation activity in the tourism industry is low, this will not be debated.

### **6.1 Research question nr 1 - What do the results indicate about the tourism industry?**

The findings in chapter 5 were divided into the following sections: 5.1.1 PP innovation, 5.1.2 Market innovation, 5.1.3 Organizational innovation, 5.1.4 Types of innovation activities, 5.1.5 Innovation costs, 5.1.6 Information sources that are important for engaging in innovation activities, and 5.1.7 Factors that are essential for not engaging in innovation. The findings were unambiguous- based on the measurement criteria in the innovation survey, the innovation activities in the Norwegian tourism industry is low.

PP innovation within the tourism industry scored low. It was not an unexpected result as process and product are rarely distinguished in the deliverance of services. What is interesting is that amusement scored 66 percent, towering over all other categories. This category embodies recreational activities as well as amusement parks and theme parks. Experiences also fall into this category. It would seem that recreational production is highly innovative. Yet, the rest of this category is relatively low in comparison, which could help explain why the total tourism industry scores at 12 percent compared to 30 percent in the other industries.

The organizational activities within the tourism industry were overall lower than in the remaining industries. New methods for the organization of responsibility and decision making scored high in all groups, including within the industry. There is no difference between the

three groups in this category. However, when measuring the total of firms with organization innovations, only 10 percent is recorded. This means that only within 10 percent of the firms, organization innovation is present. On the other hand, market innovation showed the opposite. It was found that there was the same amount of innovational activity in the tourism industry as within two other industries. Even though there were variations within the industry, the overall results showed that there was only a few percent distinguishing the industries. This finding corroborates with the idea of Sirill and Evangelista (1998) who suggested that the main barriers to innovation is the lack of well-educated workers and argued that this often resulted in organizational problems.

The total innovation costs are significantly lower than service and total industry. The total expenditure on innovation was NOK 381 892 in 2010, merely a fraction of the total industry costs and service industry costs at NOK 30 and 14 million. With reference to these numbers, it can be argued that the tourism industry leans towards incremental innovations rather than radical innovation, as radical implies introductions of completely new types of products or services which typically means investing some sort of sum for said item.

Brouwer (1997) notes that innovation in services has a tendency to invest less in fixed assets to support innovations. Although buying machines, equipment and software is the biggest innovation cost in tourism firms, just over NOK 200 000 is spent on these items. With such a low investment, it is understandable that there are more PP innovations in other industries, as PP innovation are more often than not regarded as technological innovations and most often, it is these innovations that cost money. The theory shows that innovations in tourism (low-tech) are often practical and incremental, as opposed to radical, which can contribute to understanding why PP innovations are considerably lower than comparing industries.

There is a notable difference between the tourism industry and the service/industry total: While the largest innovation costs in service/industry is within conducting own R&D work, the largest cost for tourism is, as mentioned, buying machines, equipment and software. Reviewing what is meant by R&D work, based on the Nordic Institute for Studies on Innovation, Research and Education, there are three main types of R&D that can be distinguished: basic research, applied research and experimental development (NIFU 2012). This is also known as the Triple Helix model for technology development. These three types excludes certain research, such as quarterly sampling of unemployment, market surveys and



all education and training of personnel. These types of research and development are typically what a small tourism firm would conduct.

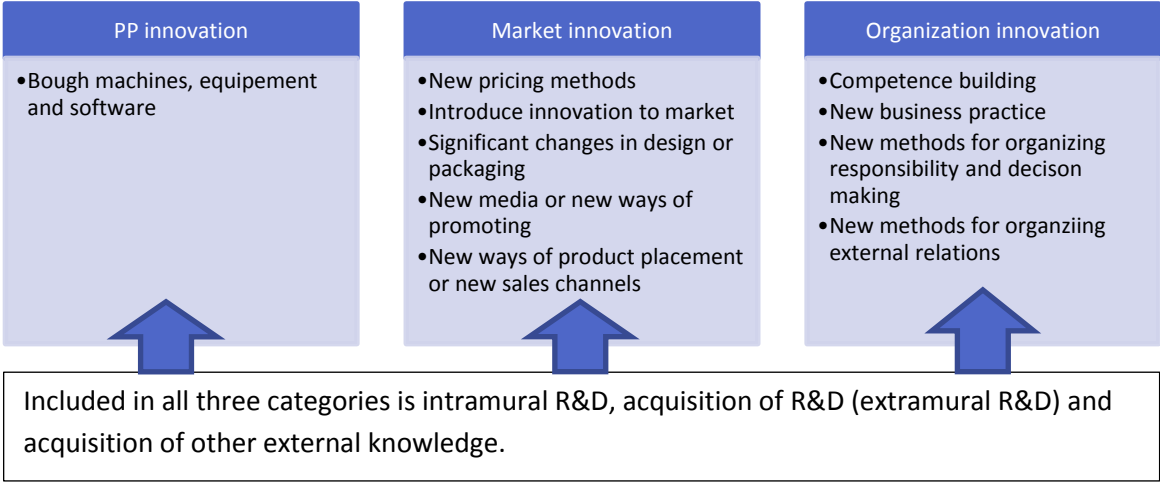
“The R&D model assumes that science has a monopoly over knowledge, technology is an outcome of science, and economic development is due to technology development” (Mahdjoubi 2009). If this model were to be standard for explaining R&D innovation, it would exclude all organizational innovations in the tourism industry, as organizational innovation is the opposite of what the R&D model assumes. Organizational innovations in tourism are typically non-technological and are new ways of organizing internal relationships, empowering staff and building competence (Hjalagar 2010). These incremental innovations can contribute to economic growth and value creation without contributing to technology development as argued by Gupta & Lehman (2005).

While the tourism industry seemingly does not spend money on R&D or other types of bought knowledge, it is argued by Norwegian tourism researchers that R&D is essential for developing this industry (Nationen 2012). There seems to be different perceptions between academics and the respondents of the innovation survey of what sources of information for engaging in innovational activities are important. This could be understood on the basis of the ambiguity that still exists regarding the meaning of innovation (de Jung et al. 2003).

In figure 9 (pg. 47) it shows that R&D, consultancy firms and public/private research institutes are all of less importance as sources of information in innovation activities. This could be a partial explanation as to why tourism firms spend less money on these types of activities. Ebling et al. (1999) corroborates this by noting that service firms invest a lower percentage of revenues in to innovative behavior, such as in-house or external R&D and consulting research institutes to start an innovative process. The sources of information that do have great importance for innovation are people within the firm, suppliers, clients and customers, and competitors. As conducting own R&D is the second biggest category that is spent money on, regardless of the low sum, sources of information that has the greatest importance comes from within the firm. As such, if the information that is sought after already exists within the firm, the apparent need to buy this information is less present and will most likely effect the total expenditure. On the other hand, buying machines, equipment and software are the biggest innovation costs. Based on the empirical data, this can only be assumed to have some correlation with PP innovation, and the amusement group specifically.

The types of innovations found in the empirical evidence are categorized into the three innovation groups, PP innovation, market innovation and organizational innovation.

Table 4: Summary of quantitative findings



The reasoning behind placing buying and conducting research into all innovation categories is that the results produced from the research activities will determine what type of innovation activity it is, hence the development aspect of the term. For example, if R&D is conducted to find out about how a firm can more efficiently organize their firm and potentially find an area where there are some cost benefits, it would be reasonable to place this activity with organization innovation. On the other hand, if the aim is to find out what type of pricing strategy will produce the best rate of return, it would be reasonable to place this within market innovation. In short, it is the result that determines the innovation.

**6.1.1 Synthesis**

It cannot be disputed that the tourism industry in Norway is less innovative than other industries based on the results from innovation survey, regardless of the fluctuation within the industry. How can this be explained? The characteristics of services (intangibility, heterogeneity, inseparability and perishability) could be a contributing factor. Measuring the output or processes in services is more difficult than the output and processes in manufacturing (Hall 2009) and Camison and Monfort-Mir (2012) questions whether the low scores in innovational activity in tourism can be explained by the many ‘hidden’ innovations that get neglected in this type of survey. In simple terms it can be argued that the tourism industry simply does not introduce as many innovations as other comparing due the industry’s

non-technological nature. As this is the case, it is important to uncover why and if there are areas that can be improved in order to increase the innovation activity tourism services.

## **6.2 Research question nr 2 - Why is it important to keep innovating in the tourism industry?**

The research problem seeks to find out '*what effect can a change in the understanding of innovation have for the measurement of the Norwegian tourism industry?*'. As this question in the overarching problem, this section will not describe the innovations in detail as in section 6.1; rather it will try to point to some areas where the importance of innovation is evident. It has to be noted that this thesis is not looking to explain cause and effect relationships, rather seek to understand how innovation and issues relating to this can give some indication as to why the tourism industry is characterized as a low innovator and try to uncover some potential areas for further research.

The following section of the analysis is discussed in a long-term perspective, but in order to do so, the drivers and barriers of innovation in services must be illuminated. A distinction between radical innovation and incremental innovation will be made first. The importance of this distinction in relation to this discussion is that it can contribute to shedding light on why the tourism industry is perceived less innovative and thus contribute to what can be done to change this perception.

The definition of innovation does not include size and scope of the change to a PP or service (O'Sullivan 2008). Radical change is making major (hence radical) changes to a product or service that is already established, for example the introduction of flat screens. Although these radical innovations are the ones that will make headlines, it is in fact more common to spread the risk and operate with incremental innovations in services. Sundbo and Gallouj (1998; 2000) shows that innovations in services are rarely radical and/or large-scale, rather, the opposite; they are small improvement and adjustments to products/process, the organization and to the marketing activities.

Incremental innovation, as opposed to radical innovation is less ambitious which potentially will lead to less revenue for a firm; however the risk for failure is also lower (O'Sullivan 2008). Radical innovations are highly resource intensive; incremental innovation uses fewer resources and often leads to small changes in growth (ibid). Hall and Williams (2008), exemplifies this through their definition of innovation in tourism: "Innovation refers to the

process of bringing any new, problem solving idea into use. Ideas for reorganizing, cutting costs, putting in new budgetary systems, improving communication or assembling products in teams are also innovations. Innovation is the generation, acceptance and implementation of new ideas, processes, products or service... Acceptance and implementation is central to this definition; it involves the capacity to change and adapt”.

Figure 9 (pg. 49) shows that the factors of most importance for not engaging in innovation activities are lack of financing and high innovation costs. “The problems associated with risk, expense, and long timelines encourage most established companies to pursue incremental innovation. It’s safer, cheaper and more likely to produce results within reasonable time” (Harvard Business Review 2003). Figure 9 (pg.47) shows that all firms contributing to research and consultancy are not considered of great importance as sources of information. This could be a contributing factor to the low scores of innovation: There is not enough financing to conduct innovations is what the tourism industry report, however, they do not seem to engage in consultancy agencies or research firm, who have the expertise and experience to aid firms in engaging in innovation activities as can be seen from figure 9 (pg. 47) and figure 7 (pg.45).

Norway has three major public policy institutions that help fund and encourage innovation activity: The Research Council of Norway (RCN), Innovation Norway and SIVA (Industrial Development Corporation of Norway). While Innovation Norway has a strong coordination role, RCN focuses on research and SIVA creates and maintains the infrastructure required for innovations (OECD 2007). Innovation Norway is of specific interest in this context as it is mandated by the Ministry of Trade and Industry to achieve national and regional goals in accordance with innovation policy. They provide a wide array of policy measures including grants and risk capital, business-oriented consulting, competence development, regional and national network services as well as internationalization and profiling support. The strategy touches on this issue.

The strategy points to a coordination failure, referencing to the public institutions and the users- the tourism firms. To steer the next national strategy towards innovation-oriented topics, is argued to be high priority. Keller (2006) argues that the innovation support is too focused on facilitating market access rather than amending the industry structure and products at the firm level. Hall and Williams (2008) shows to a possible solution by demonstrating that

evaluating policies may provide a better understanding of the role of public support to innovation processes in innovation.

Hjalager (2010) expresses that research about innovation in the tourism industry is a young phenomenon and the subject is only gradually being explained in theory and illuminated by empirical evidence. Researching innovation, or the lack thereof, has been a debate with the tourism field in Norway after the national strategy was presented on the 11<sup>th</sup> of April 2012. The Head of Department in the Hotel Management School in Stavanger, Norway, Truls Engstrøm (Nationen 2012) wished that the strategy was clearer and more concrete with regards to a long-term tourism research. He believes that the Norwegian tourism industry needs a long-term research plan, funded by public funds.

The tourism strategy has struggled with the fact that small players in the industry have problems interpreting and employing research that has been conducted. Since politicians, the industry itself and researchers indicate the need for better communication, Engstrøm questions why such little attention is dedicated to research in the strategy. Professor Martin Rønning (Nationen 2012), a noted Norwegian researcher within tourism, agrees with Engstrøm. He requests an intermediary function that can revise the research-based knowledge produced and convert it to practical advice aimed at small player in the tourism industry. He believes that Innovation Norway could take such a role to a greater extent than what they do today.

This is relevant in relation to the innovation survey. The information gives an indication of the innovation activities, its cost, its barriers and its use. This information is then used by various institutions, amongst them the Ministry of Trade and Industry. However, the information provided by this survey is not translated into layman's term (practical how-to information) so that the people who are in fact 'the industry' understands what situation they are in and how to use and adapt the information in to their firms. Perhaps this could be the reason why the scores are close to 0 percent, in regards to all R&D activity; the actors in the tourism industry simply do not see the use of such research because they do not know how to use it.

Principal Ole Petter Ottersen (Nationen 2012) at the University of Oslo thinks that the 'oil wealth' in Norway has become a pillow for the rest of the industries: "We are left hanging in the oil and gas age, and have not caught up with the need for a transition to life without oil and gas. With economic muscles like never before and the younger generation's move into

higher education, we can create a wide society based on knowledge. If we fail to avail ourselves of this opportunity, the future will judge us harshly". There seems to be an understanding amongst academics that continuous research within the field of innovation is important, for various reasons. Camison and Monfort-Mir (2012:777) poses the question of "whether there are sector-based obstacles for innovation in the tourism industry, or whether a less-innovative approach by tourism companies can be biased by the measurement approaches based on scoreboards developed for the manufacturing or general services industries, which undervalue the actual innovation that occurs within this sector and, consequently, the low official rates of technological innovation in the tourism industry can be explained by the great number of 'hidden' innovations that take place within it".

Policy is a process as well as a product and it used to refer to a process of decision making. Policies or as in this thesis, strategy, speaks of what is and what ought to be and Wildavsky (1979) early on argued that policy averts our priorities and that it should rather serve the public interest. Tourism policy should act as a set of guidelines to "determine which specific objectives and actions should be pursued to meet the needs of the particular destination are under consideration" (Amoah and Baum 1997: 7). They continue their argument by pointing to the human resources implication; contributing to education and increasing the level of tourism instruction can consequently lead to higher skills and enhance the overall image of the tourism industry. Questions posed in this regard are for example what type of knowledge is most worth and what types of enquiry is the most appropriate for tourism.

According to Hall (2011) the OECD has established a definition of innovation that has become fairly standard when conducting surveys on innovation activities. However, he points out the experience from the CIS has shown that it is difficult to measure innovation in a consistent and statistically comparable way. One important issue is addressed relevant to this discussion: the term 'innovation' can be interpreted differently by the respondents of the survey which thus can lead to questionable results. The concept of "new" is also a deliberated subject for example 'new to the market or new to the firm'. Hall (2011) claims that 'new' is not defined precisely; For instance, the Norwegian innovation survey distinguishes between new to the firm and new to the market, however, this is more of a way to distinguish between radical innovations from imitation. Thus, it is up to the respondents to figure out what is meant by new.

Another central problem identified is that no two innovations are alike and while some are radical and new to markets, others are incremental; useful, but small. The tourism industry falls into the latter group where small incremental changes or developments can have significant effects on a firm. The innovation survey was conducted for the first time specifically towards the tourism industry in the time period 2008-2010. The data from this research is not yet published in Norway, only through a two page summary of the findings presented on Statistic Norway's website. As it has only been conducted once, it has no comparative value, within the tourism industry itself. For this reason, it was not part of the innovation survey that was published in 2010, which covers the rest of the Norwegian economy. Frank Foyn (2007), one of the analysts responsible for the CIS data in Norway, commented on some experiences with the CIS. It is consistent with the literature findings presented in this paper. He says that the term 'innovation' seems difficult to define and delimit, and that the definition seems to be in constant development. He also points to the fact that it is hard to measure all sides of innovation. Besides the confusion of the innovation concept, it seems that the firms taking part in the survey have problems quantifying their innovation activities, for example the costs of innovation and the effects of innovation.

Hall (2011:5-6) has also remarked this in his review of CIS, stating that the survey is typically measured in two ways: "first by asking whether the firm introduced an innovation of a certain type (product, process, organizational, marketing) during a preceding period (usually the past three years) and second, by asking what share of the firm's sales are due to products introduced during the same preceding period". The results based on these measurements can give an indication of how important innovation were for the firm holistically, however he argues that these measurement are only useful for goods and service and not for capturing process and organizational innovation. Hjalager (2002) argues that the measurement of innovation cannot come from R&D indicators, patents or total innovation expenditure because tourism-based firms do not allocated significant resources to both the generation of knowledge or for obtaining patents. If the CIS is measuring activities that do not sufficiently capture the innovation activities in tourism firms, it cannot be expected that the degree of innovation will increase either. The problem appears to be that the results are misleading; the result show that larger firms are more likely to innovate while the truth is that larger firms are involved in a bigger range of activities which results in these firms being more likely to have an innovation in at least one of the activities. Therefore, Hall (2011) argues that the saying 'large firms are more innovative than small firms' cannot be based on a firm's size

Regardless of the 'low innovation stamp' the Norwegian tourism industry is faced with, it is important for this industry to keep innovating. The Norwegian tourism strategy proposes to make the industry less fragmented by creating regional destination companies and in this way enhance the coordination and communication between actors of significance to innovational activity. By creating destination companies, for example by dividing Norway into North, South, East and West, these companies will act as 'mother companies' for all the small, fragmented firms in their respective regions. The strategy proposed by the Ministry of Trade and Industry hopes to see higher competence in this industry, more creativity and thus a sustainable and attractive industry. By reviewing the results from the innovation survey, there are some indicators as to where potential areas for improvement are. Financial issues seem to be an important factor for not innovating and R&D seems to be non-existent. The strategy has a lot of focus on Innovation Norway as a contributor to innovation, however based on the findings, it can be argued that there seems to be a communication failure between the firms and Innovation Norway, as most of the information sources significant to the firm are gathered internally or from clients/customers.

Conducting research about the industry is argued as being very important, but it has to be made into useful information for the firms that are to employ the suggestions presented. Making the tourism industry an attractive working place with people with high education and willingness to evolve and develop could be a potential way to create and increase value. Camison and Monfort-Mir (2012) points out the tourism industries in general have traditionally relied on semi-skilled human resources and that low productivity has been offset by lower wages. The shortage of skilled human capital is argued to have created incentives to develop technological innovations which "continue to impede the innovative potential of tourism enterprises in non-technological innovations, hindering the capacity to attract highly qualified and motivated personnel" (ibid: 782). However, as the case in Norway is not that wages are low, in fact, they are relatively high compared to other countries, this argument presented by Camison and Monfort-Mir (2012) does not seem applicable to the Norwegian tourism industry. In fact, if this were true, the tourism industry would be a safe haven for innovations.

Arundel & Garrelfs (1997) shows two justifications for the collection of systematical statistical data on innovation in tourism, those are relevant in this context. Firstly, indicators that more adequately captures the 'hidden' innovations can be used to increase the theoretical understanding of how knowledge is spread and to be able to test innovation theories in



tourism. Further, sustainable tools must be created in order to test the drivers of innovation and thus their consequences in tourism firms. Secondly, as the CIS is a source for information for public policies it is important that the information derived from this survey is as accurate as possible. In Norway, the innovation survey has not been used as a source of information when creating the tourism strategy of 2012. As it will be part of the national innovation survey in the future it will most likely be a source of information when the next tourism strategy is produced<sup>13</sup>. Hjalanger (1997) argues that innovation in tourism suffers from political restrictions as policies give more attention to high-tech industries. This is not the case for Norway, as the tourism industry is categorized as one of five industries that have the most potential to succeed in the future (See footnote 1).

The heterogeneity of services and within tourism must be taken into consideration when measuring innovation. “Understanding the sources and patterns of innovation activity in tourism is a key task for re-evaluation whether or not innovation policies adequately cover the needs of tourism companies, and for developing better policies in order to improve the international competitiveness of companies and tourist destinations” (Camison and Monte-Mir 2012: 787). Thus, to be able inspire and contribute to knowledge it is necessary that the policy makers understand and are familiarized with tourism firms and the way they function, this includes understanding innovation in relation to tourism.

Innovation and knowledge management issues are still a relatively neglected area when studying small firms, which is what the tourism industry is mostly comprised of (Thomas et al. 2011). It is argued that the shortfalls in tourism/innovation research is important to get recognition as this often results in presumptions about small firms in tourism. Therefore, it can be questioned how a national tourism strategy initiatives can create jobs, enhance quality and contribute to value creation without understanding the dynamics of small firms prevalent in tourism.

### **6.2.1 Synthesis**

To understand the effects of understanding innovation differently than it is today, it is argued in this paper that this process starts in the measurement tools of innovation. This paper has presented findings that were collected by Statistics Norway as part of the European

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<sup>13</sup> The innovation survey based on innovational activities in tourism was not included in the innovation survey which included all industries due its non-comparative nature. It will be included in the next innovation survey as it will have 2008-2010 to be compared to.

Community Survey, and was done so for the first time in the period 2008-2010. An interesting question is whether such a survey is able to capture and measure innovation at a firm level appropriately when this survey is designed to measure innovation at a national level. Another interesting point is whether or not these surveys are able to capture the essence of innovation in the tourism industry (services) as the CIS was developed to measure technological innovations in the manufacturing industries. It has been mentioned previously in this discussion that this type of survey can be problematic as it is up to each individual firm to determine what an innovation is and, the newness of it and value it has created for the firm.

The discussion seems to come back to the one issue: innovations in tourism are more hidden and difficult to measure than in other industries. A problem relating to tourism, seen in light of service characteristics is that as the production and consumption occur simultaneously which makes it hard for the respondent (tourism firm) to distinguish between PP, market and organizational innovation. It is of the authors opinion based on the literature reviewed in relation to this thesis, that there is need to understand innovation from the firm's perspective to be able to say something about the accuracy of the measurement in the innovation survey.

## 7.0 Conclusion and recommendation

Based on the research conducted in this thesis it is found that perhaps the innovation survey as it is today needs further adjustments that are able to capture the incremental and 'hidden' innovations in tourism-based firms in Norway. The lack of clarity in the definition of innovation specific to tourism can be a hinder when measuring innovation as the respondents of the innovation survey does not seem to fully understand when an innovation or an innovation activity has taken place. Thus, it can be questioned whether innovational activities are under reported.

From a synthesis point of view it is important to continue to participate in the Community Innovation Survey, however, it is argued that it might be more useful when measuring innovation in tourism that the R&D section are separated from the innovation activities section. This is because when these two sections are combined, the R&D measurement can have an effect on the total evaluation of degree of innovativeness. This is due to the fact that R&D is not as evident as in high-tech industries and thus when compared to these industries, the tourism industry will most likely always be a low innovator.

Research shows that there is a call for a different way of measuring innovation in tourism firms. There seems to be a consensus amongst academics that the innovation survey does not capture the essence of innovational activities, specifically with in PP innovation and organizational innovation. As the finding show, the tourism industry shows the same level of market innovation as the remaining industries in Norway.

The national strategy is an overarching policy and based on the findings, it can be deduced that neither the goals set in this policy or the tools they provide to promote and induce innovation (for. Example Innovation Norway) has any significance when it comes to implementing innovations. As this strategy was presented in 2012 and the innovation survey is yet to be published, this thesis cannot evaluate the effect the innovation survey or the strategy has had on the innovativeness in Norwegian tourism industry. What appears to could have an effect of the measurement of innovation lies within the term itself. Innovation needs more specification- what does it truly mean and only when the true meaning of innovation is understood can the results from the innovation survey be used adequately.

Two areas, based on the research problem in this thesis, *'what effect can a change in the understanding of innovation have for the measurement of innovation in the Norwegian*

*tourism industry?*' would be interesting to conduct further research upon. What does innovation mean to the Norwegian tourism industry? Do they associate it with high-tech innovations? Are they aware of what constitutes product/process innovation, market innovation and organizational innovation?

Another identified area is the lack of apparent communication between R&D firms and consultants, such as Innovation Norway, and the tourism industry. These firms/institutions are composed of much knowledge about how to enhance innovational activities, but were not identified by the tourism industry as important sources of information. A review of Innovation Norway and its capabilities to transform academic knowledge into practical know-how could contribute to increasing the level of knowledge in the tourism industry.

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## 9.0 Appendix

### 2007 National Tourism Strategy:

#### The term innovation

“The industry itself must innovate and create good, comprehensive products that ensure visitors valuable experiences”. 10

“A greater focus on innovation and training will increase the need for networks and collaboration on all level”. 10

“In order to achieve the main goals, we are focusing on efforts in seven areas: innovation, sustainable tourism, quality, expertise, destination development, marketing and organization”. 11

“The Government’s objective is to facilitate greater profitability and wealth creation in the tourism industry by contributing to increases innovation”. 17

“Innovation is defined as a new product, service, production process, application or form of organization that creates or is expected to create financial gains for the company. The tourism industry itself must develop and offer attractive products, while the Government’s role is to pave the way for business development and innovation”. 17

“Innovation policy embraces many areas, and in the white paper the Government will present a coordinated policy for promoting innovation, thereby laying the foundation for sustainable long-term wealth creation”. 18

“The Government has a number of tools and measures at its disposal that can help contribute to greater innovation in the tourism industry”. 18

“In 2008, the Government is also going to make tourism a priority in its general focus on innovation”. 18

“In addition to general measures intended to promote innovation, there are also programs aimed specifically at innovation in tourism. Food, cultural landscapes, and art and cultural activities and institutions play an important role in tourism and product development in the tourism industry, and a number of programs administered by various different ministries aimed at specific sectors can also contribute to innovation in tourism”. 19

“Innovation is often a case of using new technology”. 21

“The conditions for more wealth creation in tourism are present if the industry manages to develop innovative and market-oriented products and better coordination”. 22

“Innovation in tourism will primarily occur in the overlap with other industries, such as agriculture, fishing and culture”. 22

“The Government is going to lay down more stringent requirements that innovative tourism projects that receive public grants via Innovation Norway must be collaborative and/ or network projects”. 22

## Thematic Analysis

### **Product innovation**

*A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended use. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics.*

### **Process innovation**

*A process innovation is the implementation of a new or significantly improved production or delivery method. This includes changes in techniques, equipment and/or software.*

*Together (PP) Destination development (Norway) and Experience development (Locally)*

### **Market innovation**

*A marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.*

“The Government’s objective is to strengthen the recognition of Norway as a destination”. 63

“The objective of the promotion of Norway is to contribute to a positive reputation for Norway through a systematic, long-term effort, but a positive reputation must also be earned”. 63

“A reputation plan has been developed for the foreign missions that shall provide guidance with respect to the values and overarching issues the missions should emphasize in their outward work. Each embassy and general consulates shall, based on the reputation plan, prepare their own country strategy”. 63-64

“An important channel for the promotion of Norway is Norway’s official website (www.norway.info)”. 64

“In 2005, Innovation Norway carried out a brand survey. The conclusions from the survey were that Norway should aim towards promoting itself as a country with opportunities for experiences in beautiful, unspoiled nature, active nature experiences of local culture and way of life as well as good hosts. Based on this, four areas have been identified for spearheading the promotion of Norway: the fjord and mountain landscapes, the coast and coastal culture, the mountains and wilderness, and Arctic Norway. This forms the basis for the brand of Norway and new graphic profile for marketing campaigns that Innovation Norway has developed in cooperation with the tourism industry”. 64

“Promoting Norway as a destination in Norway shall contribute to increasing the number of Norwegians who travel and spend their holidays in their own country. The statistics show that Norwegian stays have the highest increase, while there are considerable fluctuations in foreign overnight stays from month to month. This entails that accommodation businesses are becoming more and more dependent of Norwegian travelers”. 64

“Domestic marketing has traditionally been the responsibility of the tourism industry with extensive contributions from county administration and municipal funds”. 64

“There are two major marketing campaigns in Norway: The rural tourism campaign and the Norway campaign. The Rural tourism campaign focuses mainly on the marketing of small-scale tourism businesses in rural Norway. The Norway campaign aims at creating interest in Norway as a holiday destination for persons living in Norway. The synergies from coordinating these campaigns will benefit the tourism industry and create a stronger effect in the market”. 65

“The promotion of Norway as a destination abroad shall contribute to Norway becoming the preferred destination within its segment”. 65

“The public funding of promoting Norway as a travel destination is intended to complement and strengthen the industry’s own contributions. The Government is of the opinion that it is a precondition that the tourism industry pays a charge in order to participate in Innovation Norway’s campaigns”. 65

“Innovation Norway and the tourism industry have cooperated in preparing a draft of a model for funding promotion work. The basic principle is that the authorities shall mainly fund overarching activities, such as brand building and profile marketing of Norway as a destination, while the industry itself shall fund activities that trigger sales. The promotion of adventure areas, product groups and destinations shall be jointly funded”. 65

“There are two large campaigns every year promoting Norway as a destination abroad: The Summer Campaign and Winter Campaign. Summer traffic comprises the largest portion of turnover from foreign travelers and the largest portion of Innovation Norway’s effort is used in the Summer Campaign”. 65

“The number of short holidays in Europe has had tremendous growth in recent years. The tourism industry in Norway has the potential to capture a larger share of this market. This is why short holidays are an important strategic focus area”. 65

“There are theme efforts in certain countries related to cycling and trekking, river and lake fishing, and sea and salmon fishing. Innovation Norway has granted funds to the Norwegian Farmer’s Union and the Norwegian Forest Owners Association to carry out a pilot project which shall provide the necessary expertise in order to initiate a three-year project directed towards businesses which will offer hunting experiences”. 65-66

“Innovation Norway directs its marketing efforts at three main types of markets: consumer, sector and developing markets. The consumer markets are the main markets where Norway as a destination and Norwegian products shall be marketed directly to consumers. Promotion in the sector markets is directed at the distribution, while efforts in the developing markets are directed at establishing distribution networks”. 66

“A market strategy council with ten representatives from the tourism industry has been established in order to provide advice on which countries to include in the various market types. The council contributes to developing and recommending which strategies, market priorities, activities and budgets the market-related tourism efforts should have, and is an important tool for Innovation Norway in order to ensure coordinated and consistent marketing of Norway”. 66

“Knowledge of different markets, both with regard to which type of experience is in demand and how Norway is perceived, is an important precondition in order to carry out efficient marketing of Norway as a destination. The Government therefore requests that Innovation

Norway prioritizes work on acquiring market knowledge. It is important that market knowledge is distributed to the tourism players”. 66-67

“Editorial content is a very efficient and cost-effective channel for disseminating information on what Norway has to offer. Such information is also perceived by consumers to be more trustworthy than advertisements. It is therefore important to work purposefully towards foreign media”. 67

“The Government cooperates with other countries in order to ensure that the reciprocal exchange of tourists becomes easier”. 67

“It will become steadily more important to emphasize local food and experiences related to local food culture, also in connection with marketing destinations and regions”. 68

“Norway as a destination is also promoted through state visits and other official visits abroad”. 68

“The Government will continue to promote Norway as a destination when appropriate at fairs and during official visits and trough exhibitions such as the World Exhibition (Expo)”. 68

“Promotion only has a positive effect if the end product satisfies the travelers’ demands with respect to quality and experience. The strong promotion efforts must therefore be seen in connection with the efforts that are made to promote expertise, innovation, quality and cooperation in the Norwegian tourism industry and thereby satisfy increasing demands from travelers”. 68

“New IT solutions and the customer’s changing purchasing patterns have provided the tourism industry with numerous new opportunities and challenges. IT is an important tool and a precondition to reaching the travelers with information on opportunities in Norway. This also places strong demands on how we work on adaption information on experiences in Norway”. 68

Visitnorway.com is a national tourism website on the Internet. The website is operated by Innovation Norway and is currently available in a new design. The ambition of the website is to unite Norwegian tourism on the Internet and become the definitive source of references for all relevant Norwegian travel products. The website shall compel visitors to travel to Norway and provide good and comprehensive information about Norway and what the tourism industry has to offer. The website shall also contribute to create sales opportunities for the participants through a national booking channel”. 68

“The Government recognized that the increase in the use of the Internet as a channel of information and expectations from travelers with respect to a comprehensive source of information on the Internet creates challenges for the tourism industry. At the same time this provides an opportunity to reach customer groups one has not easily been able to reach previously. The Government is of the opinion that authorities should contribute to the existence of a national tourism portal for Norway on the Internet and will prioritize the further development of Visistnorway.com”. 68

“The use of films as a promotional tool is a new approach for the Government. The films shall provide a depiction of Norwegian nature for international audiences and will be valuable for the promotion of Norway as a destination”. 68



## **Organizational innovation**

*An organizational innovation is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations.*

“The Government’s role is to improve coordination of the public efforts towards tourism and improve cooperation with and within the tourism industry”. 71

“The tourism industry is, in common with other industries, dependent on the general framework conditions for industry in Norway. This includes taxes, rates and dues system, monetary policies, labor policies, infrastructure and general trade and industry policies. At the same time sector policies, e.g. fisheries policies, agricultural policies and transport policies are of great influence, in addition to the actual tourism policies. The Government is concerned with providing stable and predictable framework conditions for trade and industry, including the tourism industry”. 71

“The tourism industry is further affected by policies developed at the regional and municipal level, e.g. through development plans and protection plans”. 71

“The county governors play a role in developing tourism through their responsibility for developing regional strategies for agricultural development, for nature management and for environmental measures”. 72

“Public funds for developing trade and industry are currently largely centralized in Innovation Norway. It is Innovation Norway that has the operative responsibility for carrying out many of the tasks that follow from the strategy”. 72

“The fact that several different public players at various administrative levels affect the tourism industry increases the need for cooperation and coordination. This is important in order to ensure that the needs of the tourism industry are assessed and compared with other considerations and that the public efforts directed at tourism are effective and comprehensive”. 72

“Good cooperation and a clear division of labor with the industry itself is an important precondition for a coordinated public sector. The authorities are responsible for the general formulation of policies and for policies and efforts directed at the tourism industry, while the tourism industry is responsible for the actual production of the tourism services. The authorities will also to a certain degree be able to contribute with funds for the development of products and destinations in the tourism industry”. 72

“The Government is concerned that the tourism policies and efforts directed at tourism are coordinated at and between all levels, both at a national and regional level, as well as towards the policy instrument system”. 73

“The overarching responsibility for tourism policy shall be with the Ministry of Trade and Industry. For this reason the tourism work in the ministry shall be strengthened and a separate unit in the Ministry of Trade and Industry shall be established with particular responsibilities for tourism policy. Responsibility for the other relevant policy areas will remain with the individual relevant ministries. The Government emphasizes the importance of good cooperation and good coordination between the different ministries working with issues that affect the tourism industry. In order to follow up the tourism strategy at the political level, meetings at the state secretary level will be held every six months. The meetings will be headed by the Ministry of Trade and Industry. In addition, a coordination forum will be

established at the senior official level. The forum will comprise the secretary generals of the ministries that to a large degree are involved with tourism”. 73

“There is currently no overview of the total sum of public grants to the tourism industry in Norway. The Government therefore wished to examine the use of public funds for the tourism industry in Norway. The examinations will include both the national, regional and municipal level”. 73

“In order to exploit the resources granted to tourism, the Government also wishes to improve the coordination of Innovation Norway’s tasks with regard to tourism. This will be done through the newly established collaboration forum for ministries, which grants funds to Innovation Norway”. 73

“The Government wishes by the way of the administration reform (Report to the Storting no. 12 (2006-2007) Regional advantages- regional future) to strengthen the regional level. As a part of the reform it has been decided to change the ownership structure of Innovation Norway from 2010. Innovation Norway shall be jointly owned by the state and the regions. Further, the Industrial and Development Corporation of Norway and the regions shall jointly establish regional innovation companies. In addition, regional research funds shall be established, and the regions shall be further developed as regional development actors”. 73

“A broad local partnership and cooperation with the private sector is important”. 74

“The Government is also concerned with good coordination between public players at the regional level who work with issues that are of relevance to tourism”. 74

“It is important that efforts directed towards tourism from other public agencies are coordinated. The Government will therefore establish a coordinating group for other public agencies and players who largely work with the tourism industry. Innovation Norway will be responsible for the group.” 74

“The Government wishes to invite the tourism industry to a closer, more formalized cooperation. The Government suggests that converting the Ministry of Trade and Industry’s contact committee into a more permanent group, a strategic council for tourism, as the central organ in the cooperation. The council should meet two to three times every year. Further, a working committee should be established in order to arrange and prepare the meetings in the Strategic council for tourism, as well as handle requirements for continuous dialogue and coordination between the industry, trade unions, and system of policy instruments and concerned ministries. In addition it is suggested to establish a secretariat that will have the responsibility for the day-to-day work, with particular focus on coordinating the sectors’ activities and contributions”. 74

“The Market strategy council plays an important part of the cooperation between the system of policy instruments and the tourism industry. The Government will continue the arrangement whereby Innovation Norway and the tourism industry jointly agree on strategies, market priorities, activities and budgets in the Market strategy council”. 74

“In many counties there are currently mergers in progress towards fewer companies which cover areas that travelers naturally see in the same context, independently of municipal borders. There are many small players, the Government is positive towards processes that provide more flexible and effective regional, county, destination and municipal tourism companies”. 74

“In order to further strengthen cooperation between Innovation Norway and the tourism industry, the Government will request that Innovation Norway enters into strategic partnerships with relevant players. Norway has considerable potential in the field of short holidays and fly-and-drive holidays. These types of holidays are dependent on the good availability of flights from important foreign markets”. 75

“An agreement of cooperation shall mutually ensure the exchange of expertise between the two organizations regarding opportunities for Norwegian tourism and air travel. In addition one shall look at joint measures to trigger the market potential for airborne foreign tourists to Norway”. 75

## **2012 National Tourism Strategy:**

### **The term innovation:**

“The Government wished to stimulate to service innovation and employee driven innovation in the tourism industry. A challenge and an opportunity for the industry is that it is a short way from those who supply/deliver tourism products to those who consume them, and in this place in the chain information is produced that is valuable for further developing and redevelopment of tourism products”. 66

Innovation Norway/SIVA: “These are tools that are relevant for projects that contribute to increased cooperation in the tourism industry and between the tourism industry and other industries. It is the tourism industry’s responsibility to take initiative to start such projects”. 66

“First when an idea has been through a process and is commercialized is it an innovation. In the tourism industry there are mostly incremental innovations that are implemented, versus radical innovations”. 66

### **Product innovation**

*A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended use. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics.*

### **Process innovation**

*A process innovation is the implementation of a new or significantly improved production or delivery method. This includes changes in techniques, equipment and/or software.*

*Together (PP) Destination development (Norway) and experience development (locally)*

### **Market innovation**

*A marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.*

“It is the companies own responsibility to see to it that they have a product that the market demands at a price that gives the company enough profit and that the market know that the product exists”. 80

“The goal is to first and foremost show off Norway as an attractive destination and increase wealth creation in the tourism industry. To have the best effect it is important to maintain a stable level of marketing over time”. 80

“The government wishes to contribute to infrastructure that makes it easier for the market to buy Norwegian tourism products”. 80

“Sale is a focus area in this strategy because it is a significant element in order to reach the main goal of increased wealth creation and productivity in the tourism industry”. 80

“By having a good reputation, Norway is more visible and increases its influence. The overall goal is that Norway is understood as a resourceful, engaged and trustworthy partner in our connections with the environment. Our culture and our relationship to nature is a constant value and contribute to creating our position”. 80

“The marketing of Norway must be adjusted to the countries and segments we wish to reach, in order to have an impact”. 80

“An important tool to strengthen coordination and communication processes in those countries where we have interests. The Government wishes to be a door opener in this regard, and contribute to strategic thinking in order to promote and strengthen our interest through a good reputation”. 82

“The purpose of marketing Norway as a destination is to increase sales with Norwegian tourism companies. The Government will therefore strengthen its marketing efforts”.

“Holistic marketing campaigns from profile to sales will give Norway a clear and relevant position towards the target group, and contribute to increased sales for the campaign partners”. 82

“Innovation Norway is responsible for creating towards Norway and through clear and easily recognizable messages through all channel, build an interest for traveling to Norway”. 82

“Activities that stimulate sales are measures that shall stimulate buying specific products and/or total experience packages”. 82

“The idea is that Innovation Norway pays for the profitpart of said marketing and the actors pay for the product part. It is important that the effect of Innovation Norway’s marketing work is continually evaluated”. 83

“Innovation Norway bases its marketing activities on in depth knowledge on potential customer’s preferences”. 83

“Profile and sales campaigns are consumer promotions and are directed towards the individual tourist. The platforms used are print, catalogues, online media, as well as visitnorway.com in different languages”. 83

“Besides the profiling activities with products from partners, there will be developed sale stimulating campaign tactics in cooperation with the actors. By utilizing the actors’ competences about sale stimulating communication, an optimal mix of profile and sales campaigns are ensured to increase attention and sales for cooperating partners”. 83

“Some actors have focused on developing and using design elements in their production of experiences, especially in the context of marketing their products and destination. Using design elements when developing a holistic travel experience can contribute to clarifying the communication of a destinations holistic offer through a good visualization of the offers provided”. 85

“Design as a tool for communication”. 85

“Innovation Norway’s cooperates with the Norwegian tourism industry in order to attract and coordinate international press visiting Norway. This work proves good results in terms of articles and press releases about Norway as a destination”. 86

“This is an area of focus and will be emphasized in the branding strategy and communication concept for Norway as a destination”. 86

“Big events like World Championship in Skiing and European Song Contest contribute to making Norway interesting. Both the organizers and the tourism industry should be aware of how to use these types of events into their overall marketing strategy for Norway”. 86

Visit Norway/BookNorway: “In order to build on this it is essential to continuously work on improving the total experience and quality with regards to content, functionality and design”. 86

“Experience wise, tourist come to visitnorway.com primarily for inspiration and answers to concrete questions, rather than for booking. The customers need for information and answers are on a rise, also through new channels such as mobile phones, ipads and social media. Within these types of channels there are a lot of marketing and sales potential”. 86

“By implementing BookNorway on visitnorway.com, Innovation Norway’s work with visitnorway.com will largely be about measures to increase the amount of relevant and qualified traffic in the booking solution tool”. 86

“To increase the volume in total booking it is necessary that BookNoway also receives a critical amount of information that is not marketed elsewhere. Especially concerning accommodation in terms of vacation homes, cabins, camping, apartments, hostels, hotels without chain affiliation and activities and experiences must be in place”. 86

“There is an increasing demand for total experience packages by potential visitors. This entails the industry must be better equipped to offer attractive packaging solutions for travelers and better promote these in terms of sales and marketing. The fact that the industry consists of a lot of small businesses and different ownership interests is a hinder for the coordination of the different packaging solutions”. 87

“It is important that to collective work of selling Norway as a destination abroad today is well coordinated with the marketing cooperation lead by Innovation Norway”. 88

“The sales force is represented by big producers, tour operators, travel agents etc. The attention and awareness around this part of the value chain role can increase”. 88

“Include the use of design as a tool for communicating a holistic destination”. 90

“Develop booking solution BookNorway in all relevant languages that visitnorway.com market”. 90

“Strengthen the conveyance of total experience packages offered and stimulate to the development of new total experiences”. 90

“Use the industries own knowledge when developing new marketing strategies”. 90

### **Organizational innovation**

*An organizational innovation is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations.*

“The tourism industry is a compiled industry that is represented by many and small businesses in different sectors. Both Menon and SNF highlights that the tourism industry is fragmented. Menon states that while other industries have changed in accordance the development of society as a whole, the tourism industry, structurally, have nearest been unchanged for the past 30 years. SNF’s socioeconomic analysis also points in the direction that the industry might not be organized in the way it should be”. 42

“SNF highlights that this coordination failure may be related to the fact that the tourism industry is in need of coordinating activity between independent actors, more so than in other industries”. 42

“A little less than half of the funds were coordinated through Innovation Norway in the form of marketing, competence development, destination development, networking, projects, loans and grants. The other half were mainly allocated by counties and municipalities, destination companies, ‘reiselivsråd and reiselivslag””. 42

“The Government is concerned with that the funds that are allocated in public budgets must be used in the most efficient way”. 42

“To ensure a more efficient use of resources, it is necessary to implement measures that will change the structure in the tourism industry”. 42

“Today, Norwegian tourism is in most parts of the country organized after a model with regional companies and destination companies”. 44

“A destination can be compiled of either one or more municipalities, often organized within a natural geographic area for a destination”. 44

“The regional companies are organized as limited companies with the counties and tourism industry as owners. The destination companies are local and the owner structures varies, but are mainly organized with municipalities and local tourism companies as owners”. 44

“Today structure related to public financed regional companies, destination companies etc. in the tourism industry, is complex”. 44

“Destination companies perform a wide specter of assignments; in their own eyes the most important one is to conduct marketing activities. Innovation Norway is Norway’s national marketing organ...” Other assignments the destination companies conduct are destination development, tourist information, hospitality, booking and sale”. 44

“The organizational model was launched in the early 1990’s by public authorities and was meant to replace the old organizational system. The result however was that many of the old organizations continued to exist ...”. 44

“Here is some of the reason for the complex organizational structure we see today, both when it comes to the organization and distribution of responsibility, roles and work between the different parts of the organizational system”. 45

“In the report ‘Kommunenes rolle reiselivsutvikling’, the average municipality in Norway lacks competence about what is necessary to achieve a successful development of the tourism industry. The report concludes that by strengthening the competence in the municipalities, clearer division between roles and responsibility areas between the actors involved, more binding cooperation models and requirements to plan strategically with a long term approach, will create more effectiveness in the commitment that already exists, and also better resource allocation”. 45

“There is a need for a better organizational model for the tourism industry’s future which will provide a more efficient use of private and public resources. The reason behind the adjustment of the industry structure is to make the industry more efficient and have more successful rate of return on the public resources allocated to the industry...”. 45

“There is a need to define which structure is wanted, possible and appropriate. It is necessary with a clearer division of roles and work tasks. It is necessary to find a robust and long term financial model of a new organizational solution”. 45-46

“NHO Reiseliv points to potential to reduce the total destination companies and tourist information by 50 pst in the next five years. This will mean fusions and closures”. 46

“Today’s organization of the tourism industry operates with different financial models for different parts of the country. This is demanding when developing a national policy for the tourism industry. It is therefore a goal that the structure shall be the same for the whole country”.46

“Existing organizational structure is geographically based”.46

“An appropriate structure could be as following: - the whole country will be covered by the new regional structure; - there will be a regional company for every region. The goal is to give these regional companies the role as the parent company in a corporation and these will organize a number of subsidiary companies (destination companies) in a given area; - Every destination company is responsible for organizing the local tourist information and other local activities, based on a defined role and task division”. 46

“They should be based on naturally defined areas, not municipality borders. A structure as such will amongst other things make the regional companies more competent to lead Arena-projects and other bigger innovation and developmental projects” 46.

“An incentive system is in development to stimulate the structural changes”. 47

“Based on experiences described in NHO’s report, the counties and tourism industry should have majority in ownership in the regional companies, at least as long as the structural changes are ongoing. In the future, the tourism industry should be majority owners in both the regional and destination companies”. 47

“Where common interests between different actors across geographical areas are big that it is appropriate to engage in formalized theme work, there must be ensure good communication between there and between the actors in that are geographically anchored”. 47

“Given the companies’ limited size means large dependence on few people. This increases the vulnerability within turnover and organizational changes. The lines of cooperation may seem to work fine, but the challenges lies in the clarification of roles, in financing and in prioritizing tasks in relation to resources”. 48

“With fewer and bigger companies it will be easier to organize the work better with clearer prioritized tasks. At the same time, one must keep to local affiliation. Good coordination between companies, both horizontally and vertically are important”. 48

“A closer cooperation between the regional companies and Innovation Norway’s district offices will ensure a more wholesome development of tourisms in the given regions- both in terms of destination development, development within sustainable tourism and competence development”. 48

“It is important that the regional companies international activities are coordinated with Innovation Norway. It is also important that the international marketing are carried out in accordance with the current national strategy. The regional companies should have the role as the umbrella organization and competence base for the specific region, and coordinate both national participation from the regional Innovation Norway activities and the developmental work the specific destination company is responsible for”. 48

“The individual destination company should first and foremost be responsible for the areas destination development, specifically concept development and creation of total product experiences, in addition to being the ‘supplier’ to the regional company. The hospitality role should be maintained on a local/municipal level and this work should also be closely coordinated with the destination company”. 48



## **NACE-Codes:**

- A Jordbruk, skogbruk og fiske 01 - 03
- B Bergverksdrift og utvinning 05 - 09
- C Industri 10 - 33
- D Elektrisitets-, gass-, damp- og varmtvannsforsyning 35
- E Vannforsyning, avløps- og renovasjonsvirksomhet 36 - 39
- F Bygge- og anleggsvirksomhet 41 - 43
- G Varehandel;reparasjon av motorvogner 45 - 47
- H Transport og lagring 49 - 53
- I Ovrnattings- og serveringsvirksomhet 55 - 56
- J Informasjon og kommunikasjon 58 - 63
- K Finansierings- og forsikringsvirksomhet 64 - 66
- L Omsetning og drift av fast eiendom 68
- M Faglig, vitenskapelig og teknisk tjenesteyting 69 - 75
- N Forretningsmessig tjenesteyting 77 - 82
- O Offentlig administrasjon og forsvar, og trygdeordninger underlagt offentlig forvaltning 84
- P Undervisning 85
- Q Helse- og sosialtjenester 86 - 88
- R Kulturell virksomhet, underholdning og fritidsaktiviteter 90 - 93
- S Annen tjenesteyting 94 - 96
- T Lønnet arbeid i private husholdninger 97
- U Internasjonale organisasjoner og organer 99