

## *Policy support for innovation in the South African tourism sector*

### **Executive summary**

Innovation is gaining traction internationally as a critical issue for contemporary tourism. In South Africa, tourism innovation has received little research and policy attention. Science, Technology and Innovation (STI) policies exclude service sectors such as tourism, and the notion of innovation is underdeveloped in tourism-specific policies and strategies. Yet innovation is vital for enhancing the competitiveness of tourism as a key growth sector in South Africa. A Western Cape study found that tourism innovation is widespread (Booyens & Rogerson 2016a, b). However, tourism innovations are mostly incremental in nature, which means tourism enterprises characteristically introduce improvements rather than innovations new to a particular market, the country or the world. Furthermore, tourism enterprises, typically small firms, indicate that they do not have the financial and human resources to innovate. These findings raise vital policy issues in relation to support for innovative tourism enterprises (see specific policy recommendations in the last section). Moreover, there is a need to rethink the appropriateness of current STI policies in South Africa, which chiefly support technological innovation and overlook innovation in services.

### **Introduction**

This policy brief draws attention to the importance of innovation in the tourism sector based on evidence from a Western Cape study carried out under the auspices of the University of Johannesburg (Booyens & Rogerson 2016a, b). Tourism has been described as a 'success story' of the new South Africa as a result of its strong economic performance alongside growth in services. Over the last two decades, services have grown disproportionately in relation to the rest of the South African economy (Booyens 2016). In fact, a structural economic shift away from resources and manufacturing towards a services-based economy is observed. The bulk of gross domestic product (GDP) growth is attributed to services, whose contribution to GDP output amounts to approximately 70%. Service sectors have become major generators of employment; technological progress in services has grown steadily; and service exports, of which tourism has the largest share, have exhibited higher growth than the export of goods. These trends stand in contrast to the marked decline, observed since the mid-1970s, of traditional drivers of the South African economy – namely, agriculture, mining and manufacturing.

Tourism is regarded as a key growth sector both in South Africa and in the Western Cape. However, the performance of the tourism sector in the Western Cape has weakened in recent years (Rogerson & Rogerson 2014). In light of this, innovation in tourism is vital for enhancing the competitiveness of the Western Cape tourism economy. Arguably, innovation is also of significance for the performance of tourism in other provinces. However, it should be appreciated that an investigation of this nature has not been done elsewhere in South Africa.

### The policy landscape for innovation and tourism in South Africa

A review of local policy frameworks for innovation and tourism discloses that STI policies ignore innovation in services (Booyens 2016). The key national STI policies in South Africa include the White Paper on Science and Technology, the National Research and Development Strategy, and the Ten-Year Innovation Plan. Similarly, the concept of innovation in tourism is underdeveloped. This is evident from a review of tourism-specific policies and strategies, such as the White Paper on the Development and Promotion of Tourism in South Africa, the National Tourism Sector Strategy, and the Domestic Tourism Growth Strategy, among others (Booyens 2016).

The Organisation for Economic Co-operation and Development (OECD 2007) observes that local STI policies in South Africa focus too narrowly on research and development, and technological innovation. As a result, service enterprises, considered to be dynamic innovators, are typically not eligible for government innovation funding since most innovations in services are non-technological (HSRC & DST 2011; OECD 2007). At the same time, while local tourism policies recognise the importance of innovation in enhancing competitiveness in the tourism economy, actual initiatives

or mechanisms to support tourism innovation are absent. It is observed that policies and strategies in the case study region of the Western Cape largely mirror national STI policies, and make very little, if any, mention of innovation in services and tourism, despite the substantial contribution of services and tourism to the economy of the province (Booyens 2016).

### The significance and nature of innovation in tourism

Modern economic theory holds that innovation is essential for the competitiveness, not only of individual enterprises, but also of cities, regions and nations (Fagerberg 2013). In turn, competitiveness impacts positively on job creation, local economic development and long-term growth. In view of this, innovation is of significance for tourism establishments and destinations. Tourism establishments need to innovate and adapt constantly to stay ahead of the game, or even simply to survive in a highly competitive, globalised tourism economy.

The term 'innovation' refers to new and improved ways of doing things, which translates into new products (or services), processes or business practices introduced by enterprises to the market (OECD 2005). The perception exists that the tourism sector is not particularly innovative even though innovation takes places widely in tourism, as indicated by several authors

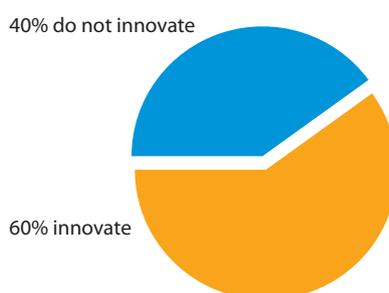
(Booyens & Rogerson 2016a). That said, incremental innovation (improved ways of doing things) is prevalent in tourism. It is argued that incremental forms of innovation enhance the competitiveness of enterprises, cumulatively lead to radical changes and contribute to long-term economic growth.

### Evidence on tourism innovation from the Western Cape

#### Propensity and nature of tourism innovation

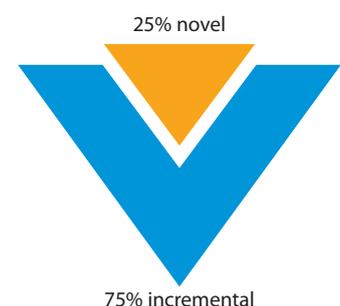
The Western Cape survey on innovation in tourism, which included a sample of 152 tourism establishments across the province, reveals that up to 60% of tourism enterprises surveyed are innovative (Booyens & Rogerson 2016a, b). These are tourism enterprises that have introduced new or significantly improved products (or services), processes and business practices during the period under review (Figure 1). One consideration in analysing the degree of novelty of innovations is whether innovations are only 'new to firm,' or also 'new to market,' 'new to a country' or a 'world first' (OECD 2005). New-to-firm-only innovations have a low degree of novelty. In this regard, it is observed that the vast majority of tourism innovations can be regarded as incremental rather than novel, since tourism firms characteristically implement changes that are new to their own firms only (75%), while 25% of innovations are

**Figure 1:** Innovation propensity of tourism establishments



Source: Booyens & Rogerson (2016b)

**Figure 2:** Novelty of tourism innovation



either new to a particular market, first in South Africa or first in the world (Figure 2).

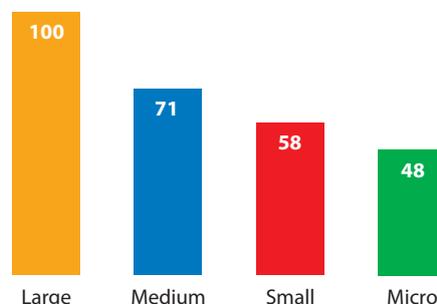
Non-technological innovations are widespread in the Western Cape tourism sector. These are mostly new or significantly improved products or services, marketing methods, and environmental or organisational practices. Product innovations typically comprise new or significantly improved attractions and activities, accommodation, travel and transport services, and food and beverage offerings. Marketing innovations are new or significantly improved marketing practices. Environmental innovations are mainly new or improved methods or practices to save energy, reduce water usage, minimise waste and contribute to conservation. Organisational innovations in tourism include new franchising agreements, corporate restructuring, business expansion, and the adoption of new and improved methods to enhance operational, management and administrative procedures.

### Constraints in relation to tourism innovation

Overall, large tourism enterprises are observed to be more innovative than small establishments since proportionally they introduce the most innovations. In other words, all large establishments surveyed introduced innovations, while 71% of medium, 58% of small and 48% of micro establishments did so (Figure 3). Large establishments also had more novel innovations than smaller ones. One reason for this is that large establishments typically have better access to resources such as finance and knowledge for innovation purposes. In fact, financial constraints stand out as the main barrier to innovation (Figure 4). This is followed by restrictive bureaucracy (mostly in large firms) and business legislation which small establishments,

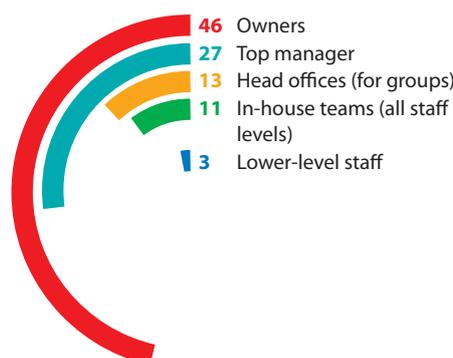
in particular, find stifling. Further barriers centre on lifestyle motivations. ‘Lifestyle entrepreneurs’ in tourism refer to well-capitalised retirees or new lifestyle seekers, mostly from metropolitan areas, who establish small tourism businesses (often B&Bs, restaurants or cafés) in rural areas, coastal villages or small towns. They regard tourism as an additional income, do not necessarily want to grow their businesses and are not always profit oriented. This investigation found that, as a result, they are also characteristically not very innovative. Lastly, staff constraints often hamper innovation. Among the identified issues here are a lack of professionalism, poor management skills, a general lack of skilled and experienced staff, and difficulty in recruiting creative and innovative staff members who think outside the box.

**Figure 3:** Innovation tourism establishments by size\* category (%)



\* Large: ≥ 201 employees; Medium: 101–200 employees; Small: 5–100 employees; Micro: ≤ 4 employees

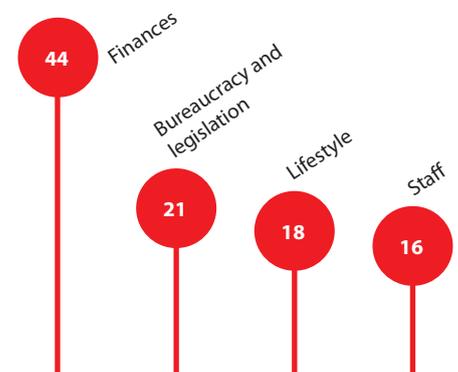
**Figure 5:** Who initiates tourism innovations (%)



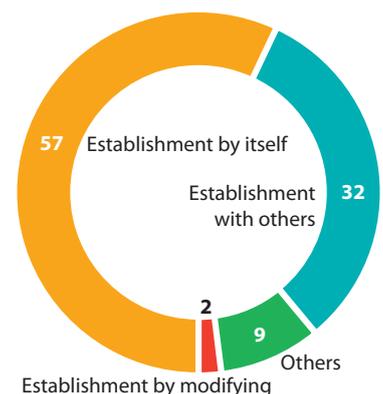
### Initiators and developers of tourism innovations

Visionary, professional and experienced owners and managers play a key role in innovation since they mainly are the persons who initiate innovation (Figure 5). In relation to who develops tourism innovations (Figure 6), most establishments reported that they innovate by themselves using their own resources (57%), or that they collaborate with others to a lesser extent (32%). It is observed that 9% of tourism establishments introduce innovations developed principally by ‘other’ parties – a typical example being the adoption of various kinds of technologies. A small number of establishments (2%) modify existing innovations developed by others.

**Figure 4:** Main barriers to tourism innovation (%)



**Figure 6:** Who develops tourism innovations (%)



Source: Figures 3 to 6 are based on the findings of Booyens & Rogerson 2016a

## Learning, capacity building and networking for tourism innovation

It is observed that highly innovative tourism firms engage in in-house, mostly informal research. Another avenue used by tourism establishments is networking, which allows them to access knowledge outside of their own enterprises to enhance learning, build staff capacities and foster novel innovation. Tourism establishments access knowledge from a wide range of network partners or sources, including other tourism establishments, consultants and experts, suppliers, government agencies, tourism and other business forums, universities or training organisations, and foundations and not-for-profit organisations in South Africa as well as overseas through networking behaviour.

## Policy recommendations

The Western Cape research demonstrates that tourism innovation is widespread, albeit mostly incremental in nature. Moreover, the findings show that even though tourism enterprises mostly innovate by themselves using their own resources, finances emerge as the main barrier to innovation. It is observed that while internal knowledge is significant for innovation, networking linkages to external knowledge foster novel innovation. These findings raise vital policy issues in relation to support for tourism innovation.

The provision of financial support for tourism innovation is recommended. In particular, small, medium and micro-sized enterprises (SMMEs) require targeted support since they typically do not have the resources or the know-how to innovate and generally fail to introduce novel tourism innovations. Such support is essential for enhancing the competitiveness of the tourism sector made up predominantly of SMMEs. A further recommendation centres on policy support to enhance

inter-organisational networking activities among tourism establishments and with other organisations to enhance their capabilities for innovation. Accordingly, specific policy actions for supporting tourism innovation are:

- Create a dedicated grant scheme with a focus on supporting tourism innovation among SMMEs.
- Create an innovation-focused networking platform of tourism firms and other tourism industry actors.

It is recommended that the grant scheme and the innovation-focused networking platform become extended functions of the national Department of Tourism's small business support programme, which is part of the department's focus on tourism business development.

One broader implication of this research is the need to rethink the appropriateness of the current technological paradigm of STI policies in South Africa, which chiefly supports technological innovation. We argue that in view of the growing economic significance of service sectors in which innovation is observed to be dynamic but not necessarily technological, this dominant paradigm needs to be challenged and the existence of different forms of innovation that are characteristic of services should be acknowledged. The results of this investigation also point to the critical need for regional policy to focus on strategic external knowledge for stimulating local learning and innovation for catalysing regional competitiveness and growth.

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## Acknowledgements

The financial assistance of the National Research Foundation and the School of Tourism and Hospitality at the University of Johannesburg in support of this research is hereby acknowledged. The authors thank Johann Booyens for preparing the figures. Professor Ivan Turok, Mr Tim Hart and Dr Alexis Habiyaemye from the HSRC, as well as an external reviewer, provided comments on an earlier version of this brief.

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