



Discussion paper

Determinants of radical innovation in clustered firms of the hospitality and tourism industry[☆]



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ABSTRACT

Social capital is a key resource encouraging innovation in clustered firms of the hospitality and tourism industry, however it may be influenced by managers perception of market dynamism. This paper analyses the moderator role of market dynamism perception among the three dimensions of social capital –structural, relational and cognitive- and radical innovation. We conducted an empirical study on a sample of 215 hospitality and tourism firms located in World Heritage Cities of Spain, by considering each city as a cultural tourism cluster. The structural equations analysis shows divergent direct and moderated effects for the dimensions of social capital. Specifically, the negative effect of structural social capital on radical innovation worsens when market dynamism perception is higher. However, market dynamism perception improves the effects of relational and cognitive social capital on radical innovation. The study contributes to the understanding of the antecedents of radical innovation at firm level in the context of cultural tourism clusters.

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1. Introduction

Tourism is widely considered an engine of economic and social development because of numerous interactions established with other industries. Despite the financial crisis, the tourism industry has undergone a certain degree of growth in recent years, maintaining its importance as a strategic sector in the Spanish economy. During this period tourism provided significant dynamism to the economy since it has been traditionally a very innovative industry (Hjalager, 2010). However, the study of innovation in the hospitality and tourism industry does not have a long tradition compared to manufacturing industries, but this tendency has changed and nowadays innovation in tourism has become a quite prolific research field (Hjalager, 2010; Chang et al., 2011; Aarstad et al., 2015).

The literature on territorial agglomerations of firms traditionally suggests that clusters generate a context, which drives firms towards innovation. From this perspective, firms of the cluster can

gain access to a semi-public knowledge, which facilitates the flow of information and experience to innovate (Porter, 1998). Some studies show that clustered firms have a higher level of innovation (Boix and Galletto, 2009; Ruiz-Ortega et al., 2016). However, some scholars suggest that clustered firms have a heterogeneous ability to take advantage of agglomeration economies (Molina-Morales and Martínez-Fernández, 2009), so that it might be interesting to study the determinants of innovation at firm level in the context of clusters. Sorensen (2007) attempts to examine the causes of the heterogeneity of innovation among agglomerated firms, particularly in the hospitality and tourism industry. In this study we seek to address this gap, delving into how relational and environmental factors interact in order to explain the innovation carried out by firms located in cultural tourism clusters (henceforth CTCs).

In this paper innovation is considered as a broad concept that includes technological innovations –products (goods or services), processes- and those that are non-technological –organizational and managerial innovations- (Oecd-Eurostat, 2005). From this focal point, we differentiate between radical innovation, which represents a break with the already established, and incremental innovation, which refers to changes aimed at significantly improving the functionality and performance of the company. Although the literature highlights that firms in the hospitality and tourism industry usually carry out incremental innovations, it is shown that they also develop innovations of a radical type (Orfila-Sintes

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et al., 2005). Specifically, the CTCs are oriented towards provision of attractive and different tourist destinations in an increasingly complex, competitive and globalized economy, which drive the firms of CTCs to compete strongly through radical innovations (Sorensen, 2007). In addition, the CTCs facilitate the exchange of complex, tacit and new knowledge, that is critical to radical innovation of the firms (Rowley et al., 2000). However, despite the incentive and favourable context of the CTCs not all companies are able to use it to develop radical innovations (Albors-Garrigós and Hervás-Oliver, 2012). Despite the importance of radical innovation for the development of strong competitive advantages by clustered firms within the hospitality and tourism industry, the majority of studies of this field have analyzed innovation as a global construct, with studies focused on radical innovation being virtually non-existent. Therefore, contrary to those studies that have looked at the antecedents of innovation as a global construct, we highlight the interest in analyzing the determinants of radical innovation of firms located on CTCs (Martínez-Ros and Orfila-Sintes, 2009).

The role of social capital as a fundamental element in the development of innovations and the achievement of competitive advantages has been widely acknowledged from social capital theory (Adler and Kwon, 2002), including within the tourism industry (Dai et al., 2015). In the field of the CTCs, the relationships between cooperation and coordination process connect different agents, processes and products related to tourism and cultural production, so that social capital has important implications (Murphy and Boyle, 2006). Following Nahapiet and Ghoshal (1998), we consider social capital as the actual and potential resources available to a firm through its network of relationships. Social capital improves the firm's ability to identify information asymmetries, enabling the discovery of opportunities to develop radical innovations, and facilitates the exploitation of radical innovations with uncertain results (Kyrgidou and Spyropoulou, 2013). However, social capital might also hinder radical innovation because of the cost and time spent on maintaining relationships, redundancy, blindness, inertia and myopia (Koka and Prescott, 2002). Despite firms located in a cluster having more opportunities to generate radical innovations (Ruiz-Ortega et al., 2016), they will achieve different radical innovation according to their social capital endowment (Molina-Morales and Martínez-Fernández, 2009). In accordance with Nahapiet and Ghoshal (1998) we distinguish between structural, relational and cognitive dimensions of social capital since they can have different implications for radical innovation (Tsai and Ghoshal, 1998). We study the heterogeneous effects of social capital on radical innovation of clustered firms depending on the social capital dimension analyzed.

According to evolutionary economics, firms seek to adapt their strategies to the changing conditions of the environment, while they try to influence its development (Nelson and Winter, 1982). Several studies have highlighted the importance of the perceived dynamism of the environment to explain the firm's strategy (Lumpkin and Dess, 2001). Thus, firm's managers take decisions based on their perception and evaluation of the dynamism of the environment (Child, 1997). Jaworski and Kohli (1993) differ between market and technological dynamism. Although the traditional literature on innovation has paid great attention to technological dynamism, we consider that in the hospitality and tourism industry it is of greater interest to deal with market dynamism, since tourism companies must compete in a global market in continuous movement, where changes in the markets and tastes of customers are increasingly faster and more important. Several studies have suggested that perceived market dynamism, linked to perception of changes in the needs, demands and preferences of consumers, affects the innovative activity of firms (Hmieleski and Ensley, 2007). We concur with this approach, considering perceived market dynamism as a precursor of rad-

ical innovation of firms located in the CTCs, since, as proposed by Pérez-Luño, Gopalakrishnan and Valle-Cabrera (2014), expectations of achieving superior performance as a consequence of the development of radical innovations depends, among other factors, on the perceived dynamism of the environment. In this sense, we propose the incorporation of perceived market dynamism to help understand the ambiguous relationship between social capital and radical innovation of the clustered firms.

From the ecology of populations (Hannan and Freeman, 1977) it is stated that companies that have certain key resources are more resilient to changes in the environment (Tece et al., 1997). We understand that perceived market dynamism affects the relationships between social capital, as key resources obtained through its network of relationships, and radical innovation. In addition, we suggest that perceived market dynamism will have divergent moderator effects on the heterogeneous relationships between structural, relational and cognitive social capital and radical innovation of firms located in the CTCs because of its different implications on advantages and disadvantages of each dimension of social capital to innovate (Wu et al., 2008).

Adopting this approach, the main aim of our study is to analyze the moderating effect of the perceived market dynamism in the relationships between dimensions of social capital and radical innovation of hospitality and tourism firms in the CTCs. We analyze structural, relational and cognitive dimensions of social capital separately in order to evaluate the heterogeneity of their direct effects and the potential divergent moderating effects of perceived market dynamism.

The main contribution of this study is to demonstrate how the perceived market dynamism has a divergent moderator effect on the relationship between dimensions of social capital and radical innovation of hospitality and tourism firms located in the CTCs. We also contribute to an improved explanation of the antecedents of radical innovation at firm level in the context of clusters by connecting relational factors –social capital- and environmental factors –perceived market dynamism-. Furthermore, we contribute to a deeper understanding of radical innovation in the hospitality and tourism industry, which has been poorly analyzed in previous studies (Martínez-Ros and Orfila-Sintes, 2009). In addition, we highlight the theoretical support of the ecology of populations in connecting the approaches of both the theory of social capital and evolutionary economics in explanation of radical innovation. Another noteworthy contribution is the development of an empirical study in the cultural tourism industry, more specifically relating to the CTCs, focusing on hospitality and tourist enterprises of world heritage cities (WHCs onwards) in Spain.

The structure of this paper is as follows: first we focus on the theoretical context that justifies the research, then we justify and expound the hypotheses of the proposed model. We describe the methodology used as well as the main results obtained. We conclude with presentation of the discussion, conclusions and implications of the study.

2. Theory and hypotheses

2.1. CTCs and innovation

Opposed to the traditional consideration that only large companies can compete globally and thus achieve sustainable advantages over time –as economies of scale and experience-, numerous scholars defend the geographical grouping as an alternative for SMEs to cope with the large corporations (Asheim et al., 2011). Therefore, in parallel with the phenomenon of globalization, the importance of the geographical concentration of firms to achieve a competitive advantage has been highlighted. It is a paradox that while firms

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