

POTENTIAL DRIVERS OF INNOVATION IN THE MSMEs IN HOSPITALITY INDUSTRY IN ISTRIA

Scientific paper

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Abstract

Purpose – The importance of innovation in the micro, small and medium-sized enterprises (MSMEs), despite today's turbulent business environment, continues to be undervalued. Tourism and hospitality industry are among the most important economic drivers worldwide but still approaches to hospitality industry innovation are in an early phase of research development. Because of their ability of providing differentiated products and services, innovative hotels and rural vacation houses are more successful than their non-innovative competitors. Therefore, hospitality industry should develop new innovative offer.

To date, potential drivers of innovation in the MSMEs in Istria destination have not been systematically investigated and have not considered the needs of MSMEs. This paper is aimed to span this gap.

Design/methodology/approach – By integrating cognition from up to date conducted researches as well as adding some new potential drivers, the author proposed set of 16 potential drivers of innovation in the MSMEs in hospitality industry, which is believed to be more suitable. A quantitative survey was carried out in Istria MSMEs.

Findings – The research results show five main groups of potential drivers of innovation in the MSME in hospitality industry and the best rated in Istria hospitality industry such as owners/management and employee engagement; and information technology. Potential drivers within the group of innovation network should be improved by owners/managers. It is essential to emphasize more activity and connections between the academic community and entrepreneurs, as well as between stakeholders and entrepreneurs in tourist destination.

Originality – This study is the first to provide potential drivers of innovation in MSMEs in hospitality industry in Istria. It gives information which should help owners/managers in developing new tourist product. In addition to practical implications, the study has academic contributions to the existing literature of innovation activities in hospitality industry which is presently an under-researched area.

Keywords potential drivers of innovation, innovation activities, contribution of external factor, MSMEs, hospitality industry, Istria destination

INTRODUCTION

There are many factors that affect competitiveness in hospitality industry. Among them, in today's dynamic environment, innovations take a significant share. Accordingly, innovations are the foundation of the development of hospitality industry. Micro, small and medium enterprises (MSMEs) play a crucial role in investment and making countries more competitive. They are a potential engine of economic growth and development. The importance of innovation and development is confirmed by the UNWTO Knowledge Network Program¹. It is a growing community of knowledge

¹ UNWTO, „*Knowledge Network*“, <http://know.unwto.org/knowledge-network> (11. January 2014.)

with over 125 institutions, organizations and enterprises from 40 different countries with a demonstrated research competency and extensive experience in tourism development and innovation. Tourism is one of the rapidly growing industries in the world that urgently needs a more intensive research and understanding of innovation. In contrast, in the document “Croatian Tourism Development Strategy until 2020”², issued by the Ministry of Tourism, innovation is mentioned only declarative. Istria Tourist Board has a “Work program and financial plan 2014.”³. Other strategic plans for tourism development and rural tourism development were designed only for period till 2013. and there is no new strategic plan for the next period. In “Work program and financial plan 2014.”, there isn’t innovation policy as a strategic issue. The research of innovation in the hospitality industry is in its early phase of research development. In this paper author research the potential drivers of innovation in MSMEs. The research is focused on the area of Istria as a tourist destination.

1. THEORETICAL BASIS

1.1. Innovation theory and literature review

The emergence of innovation theory is linked with Schumpeter as one of the first who developed innovation theory. According to his theory, which is still accepted, innovation depends on the characteristic of entrepreneurs faced with dynamic environment. Entrepreneurs have five areas to innovate: development of new products, new processes, new markets, new suppliers and changing organization. In his early studies Schumpeter⁴ highlights that entrepreneur act as an innovator and it is most important way of development process. Fagerberg⁵ argues that imitators are much more likely to succeed in their aims if they improve on the original innovation and become innovators themselves. This is more natural, because one innovation tends to facilitate other innovation in the same or related fields. In this way innovation becomes a creative process in which one important innovation sets the stage for a whole series of subsequent innovation. Innovation in hospitality industry is common action where suppliers, employees and entrepreneurs take a part. Thus, innovation can be seen as a key factor in hospitality industry. System, as a part of development concept model, represents the totality of activities and interactions that implement the development strategy. In this context, innovation must be viewed as a system, collaborative and interactive process. In order to maintain competitive advantages, hospitality industry has to undertake continuous innovation. Edquist⁶ defines innovation system as all important economic, social, political, organizational and other factors that influence the development, diffusion, and use of innovation. His focus is on several determinants of

² Ministry of Tourism, *Croatian Tourism Development Strategy until 2020.*, Zagreb
<http://www.mint.hr/UserDocsImages/130426-Strategija-turizam-2020.pdf> (05. February 2014.)

³ Istria Tourist Board, *Work program and financial plan 2014*, Pula
http://istra.hr/app/upl_files/Program_rada_i_financijski_plan_TZIZ_2014.pdf (05. February 2014.)

⁴ Cfr: Schumpeter, J.A., *The Theory of Economic Development, An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle*, Harvard, MA: Harvard University Press, 1934.

⁵ Fagerberg, J., “Innovation“, in: Fagerberg, J., Mowery, D.C., Nelson, R.R., *The Oxford Handbook of Innovation*, Oxford, University Press, 2005, 1-27.

⁶ Edquist, C., “The System of Innovation Approach and Innovation Policy: An Account of the state of the Art“, *DRUID Conference*, Aalborg, June 12-15, 2001, 14-37.

innovation system⁷: research and development, competence building, formation of new product markets, articulation of user needs, creation and change organizations, networking around knowledge, financial resources and consultancy services. Strategic innovation theory is presented by Sundbo⁸. The fundamental concept of this theory understands innovation processes in the context of strategy. The author regards strategy as both an interpretation of environmental developments and an instrument for managing the innovation process. Sundbo's⁹ strategic innovation theory assumes that consumer orientation, market saturation, networks and internal resources determine firm innovativeness, interpret only by management. As potential drivers of innovation, Peters and Pikkemaat¹⁰, Ottenbacher and Gnoth¹¹, Ottenbacher, Shaw and Lockwood¹² emphasize employee training, employee commitment, employee expertise, employee involvement in the innovation process, human resource strategy, innovation strategy system; Pikkemaat¹³ added innovative network. Later on, Ottenbacher¹⁴ identified three performance dimensions: market performance, financial performance, employee and customer relationship enhancement. Hu, Horng and Sun¹⁵ in the survey stated innovation culture as a potential driver of innovation. Ouden¹⁶, Sundbo, Orfila-Sintes and Sorensen¹⁷ suggest that professionalism and entrepreneurship among small tourism firms are important determinants of innovation. Considering above and research of Hall and Williams¹⁸, innovation refers to the process of bringing any new, problem solving idea into use. Innovations are ideas for reorganizing, cutting cost, putting in new budgetary system, improving communication, processes, product and services. Further researches imply innovations as open innovation. Henry Chesbrough was called the father of open innovation. Chesbrough¹⁹ is the first author of open innovation theory, defined open innovation as a model that assumes that companies can improve their business to use external and internal ideas, and internal and external paths to market, which will contribute to their development. Innovation research in hospitality has to be

⁷ Cfr: Edquist, C., "The Systems of Innovation: Perspectives and Challenges", in: Fagerberg, J., Mowery, D. C., Nelson, R. R., *The Oxford Handbook of Innovation*, Oxford, University Press, 2005, 181-208.

⁸ Sundbo, J., *The Strategic Management of Innovation: A Sociological and Economic Theory*, Massachusetts, Edward Elgar Publishing Limited, 2002, 443.

⁹ Ibidem., 64, 196.

¹⁰ Peters, M., Pikkemaat, B., "Towards the Measurement of Innovation", *Journal of Quality Assurance in Hospitality & Tourism*, Volume 6, Issue 3-4, 2006, 89-112.

¹¹ Ottenbacher, M., Gnoth, J., "How to Develop Successful Hospitality Innovation", *Cornell Hotels and Restaurant Administration Quarterly*, Vol. 46, Issue 2, 2005, 205-222.

¹² Ottenbacher, M., Shaw, V., Lockwood A., "An Investigation of the Factors Affecting Innovation Performance in Chain and Independent Hotels", *Journal of Quality Assurance in Hospitality & Tourism*, Volume 6, Issue 3-4, 2006, 113-128

¹³ Pikkemaat, B., "Innovation in small and medium-sized tourism enterprises in Tyrol, Austria", *Entrepreneurship and Innovation*, Vol.9, Issue 3, 2008, 187-197

¹⁴ Ottenbacher, M. C., "Innovation Management in the Hospitality Industry: Different Strategies for Achieving Success", *Journal of Hospitality & Tourism Research*, Vol. 31, No. 4., 2007, 431-454.

¹⁵ Hu, M-L. M, Horng, J-S., Sun, Y-H. C., "Hospitality teams: Knowledge sharing and service innovation performance", *Tourism Management*, Vol.30, Issue 1, 2009, 41-50.

¹⁶ Ouden, den E., *Innovation Design. Creating Value for People, Organization and Crowdsourcing*, London, Springer, 2012.

¹⁷ Sundbo, J., Orfila-Sintes, F., Sorensen, F., "The innovative behavior of tourism firms – Comparative studies of Denmark and Spain", *Research Policy*, Vol. 36, Issue 1, 2007, 88-106.

¹⁸ Hall, C. M., Williams, A. M., *Tourism and Innovation*, London, Routledge, 2008.

¹⁹ Chesbrough, H. W., "The era of open innovation", *MIT Sloan Management Review*, Vol. 44, No.4, 2003, 35-41.

distinguished between MSMEs and the other stakeholders in tourist destination in order to find their position in the tourism innovation system.

Despite the mentioned researches in tourism, innovation researches in hospitality sector, especially in MSMEs hospitality are at the beginning. Grissemann, Pikkemaat and Weger²⁰, Sundbo, Orfila-Sintes and Sorensen²¹ emphasize the needs for further research of potential drivers of innovation in hospitality sector. This paper is response to that needs.

1.2. Types of innovation

For the purpose of this study, author has been reviewed a number of studies which have examined the types of innovations and innovation in the hospitality industry. Though, there is a lack of qualitative and quantitative analysis and research of this field. Abernathy and Clark²² developed an innovation levels. That was the starting point for further elaboration of innovation categories. Therefore, Hjalager²³ has proposed five types of innovations: production innovations, process innovations, management innovations, logistic innovations and institutional innovations.

Category of production innovations consists of changed or new product or services, developed to the stage of commercialization. Their novelty should be evident to producers, suppliers, consumers and competitors. Process innovations involve a way of raising the performance of existing operations with new or improved technology. In management innovations category belongs new job profiles, collaborative structures and authority systems often in combination with the introduction of new product and services. Materials, transactions and information belong in category of logistic innovations. Institutional innovations deal with collaborative and regulatory structures in communities.

Classification of innovations proves that innovations are a primary source of change, growth, development and competitive advantage and there is constant tourist demand for innovation. Modern tourists seek newer, better – innovative tourist product.

1.3. Innovations barriers in MSMEs

Many factors can limit innovation activity. MSMEs in hospitality industry should take into account that innovation could help to compete in the tourism market. There are large numbers of SMEs that are unable to take innovation seriously.

²⁰ Grissemann, U. S., Pikkemaat, B., Weger, C., "Antecedents of innovation activities in tourism: An empirical investigation of the Alpine hospitality industry", *Tourism*, Vol.6, No.1, 2013, 7-27.

²¹ Sundbo, J., Orfila-Sintes, F., Sorensen, F., "The innovative behavior of tourism firms – Comparative studies of Denmark and Spain", *Research Policy*, Vol. 36, Issue 1, 2007, 88-106.

²² Abernathy, W., Clark, K., "Innovation: Mapping the winds of creative destruction", *Research Policy*, Vol. 12, April 1985, 3-22.

²³ Hjalager, A-M., "Repairing innovation defectiveness in tourism", *Tourism Management*, Vol.23, Issue 5, 2002, 465-474.

There are many varieties of internal and external factors that are part of innovation barriers. Demirbas, Hussain and Matlay²⁴ highlights that external environment influences and limits the innovative capacity in MSMEs and disadvantages owner managers in terms of their competitive strategy comparing with larger firms. The main external factors that influence the innovations are: government regulations, policy actions that is not conducive to innovation, lack of access to funding, weak contract enforcement, less developed local labor markets, networks and relationship or knowledge networks.

Demirbas Hussain and Matlay²⁵ identified the following internal barriers: owner - manager's ability to identify, evaluate and access relevant information, expert skills, limited time, internal funds, missing market know-how to meet customer's needs, knowledge systems or organizational variables including structures, corporate culture, norms, risk avoidance and leadership. Forsman and Rantanen²⁶ points out that MSMEs do not have the ability to: identify opportunities, track current market and technology trends, properly manage knowledge, develop proactive attitudes towards innovation and successfully engage in networking.

Review of barriers of innovation supports the MSMEs to overcome barriers to innovation. Therefore, owners / managers should have proactive strategic thinking. Thus, in MSMEs, innovation should be understood as open innovation.

2. RESEARCH QUESTIONS AND HYPOTHESIS

The main purpose of this research was to investigate potential drivers of innovation as a part of owners /manager's innovation activities and their external factors in the micro, small and medium hospitality enterprises in Istria destination. To date, it has not been systematically investigated. Up to date, potential drivers of innovation have not considered the needs of MSMEs. This paper is aimed to span this gap. This research intended to:

1. Aggregate main innovation activities in micro, medium and small enterprises in hospitality industry in Istria destination.
2. Based on research, enumerate main potential drivers of innovation in the micro, medium and small enterprises in hospitality industry in Istria destination.
3. Investigate the contribution of stakeholders on innovation process in micro, medium and small hospitality enterprises in Istria destination.

Based on the defined research questions, the study aimed to test the following research hypothesis: The innovative activities and potential drivers of innovation in micro, small and medium hospitality enterprises in Istria destination are low. MSMEs are only declarative entities of regional tourism system because there is no a strong connection

²⁴ Demirbas, D., Hussain, H.M., Matlay, H., "Owner-Manager's Perceptions of Barriers to Innovation: Empirical Evidence from Turkish SMEs", *Journal of Small Business and Entrepreneur Development*, Vol.18, No. 4, 2011, 764-780.

²⁵ Ibidem.

²⁶ Forsman, H., Rantanen, H., "Small manufacturing and service enterprises as innovators: a comparasion by size", *European Journal of Innovation Management*, Vol.14, No.1, 2011, 27-50.

between them and other entities. Owners and managers of micro, small and medium hospitality enterprises are not perceived as a part of the tourism system and don't have support of a system for their innovation activities. On the other side, owners and managers of micro, small and medium hospitality enterprises don't have knowledge and financial leverage for innovation activities.

3. METODOLOGY

Based on review literature and researches, author identified potential drivers of innovation in the MSMEs in the hospitality industry. A quantitative survey was carried out in Istria hospitality industry. Data was collected through the application of self-completion questionnaires in small and medium hotels and rural vacation houses located within Istria destination. The respondents were owners/managers of the small and medium hotels and rural vacation houses. They were contacted through e-mail or personally. Research was conducted in the period from January to March 2014. To remove double meaning and communication mistakes author used 3 owners/managers of small hotel and rural vacation houses. The questionnaire was prepared in Croatian language and consisted of closed-ended questions. Owners / managers of the hotels and rural vacation houses had to rate their innovation activities and innovation behavior in each area of five point Likert scale. Innovation activities and innovation behavior through innovation drivers was measured following innovation theory and literature review and by research paper of Grisseemann, Pikkemaat and Weger²⁷, Hjalager and Flagestad²⁸. Managers and owners rated their innovation activities according to the Likert scale from 1 (being absolutely not innovative) to 5 (being totally innovative). The second section included the potential drivers of innovation and question how much attention is given to these drivers of innovation by owners/managers. The third section included stakeholders as external factors that can affect on innovation process in MSMEs hospitality industry. Respondents were evaluating contribution of stakeholders in their innovation processes according to the Likert scale from 1 (absolutely don't contribute) to 5 (absolutely contribute). Finally, respondents were asked to indicate categorization and types of accommodation and position of respondent.

4. FINDINGS

According to the database of Ministry of Tourism²⁹ and Istria Tourist board³⁰, in Istria there are 57 small and medium hotels and 317 rural vacation houses. Out of 374 questionnaires sent, 131 were obtained back, and of these 128 were completed and usable for further analysis. 26 questionnaires were completed by hotels and 102 questionnaires were completed by rural vacation houses. Questionnaires were mostly

²⁷ Grisseemann, U. S., Pikkemaat, B., Weger, C., Ibidem.

²⁸ Hjalager, A-M., Flagestad, A., "Innovations in well-being tourism in the Nordic countries", *Current Issues in Tourism*, Vol.15, No. 8, 2012, 725-740.

²⁹ <http://www.mint.hr/default.aspx?ID=2505> (11. January 2014.)

³⁰ <http://www.istra.hr/hr/smjestaj/privatni-smjestaj/kuce-za-odmor> (11. January 2014.);

<http://www.istra.hr/hr/smjestaj/hoteli/mali-obiteljski-hoteli> (11. January 2014.);

<http://www.tzpazin.hr/index.php?stranica=16> (11. January 2014.);

http://www.istra.hr/app/upl_files/IstraDomusBonus12.pdf (11. January 2014.)

returned via e-mail and part of them was personally submitted. The response rate was 45,61% for hotels and 32,17% for rural vacation houses. Total response rate was 34,22%.

Considering the categorization, 14,81% hotel respondents fell into the four stars category, 77,78% fell into the three stars category and 7,41% fell into the two stars category. On the other side, 52,48% rural vacation houses respondents fell into the four stars category and the rest of 74,52% fell into the three stars category.

Table 1: Innovation activities

INNOVATION ACTIVITY	HOTELS		RURAL HOUSES	
	MEAN	SD	MEAN	SD
Quality management	4,22	0,85	4,02	0,71
Promotion	4,15	0,91	3,82	1,07
Environmental management	4,07	0,78	3,67	0,80
Equipment (kitchen, restaurant)	4,07	0,27	3,80	1,03
Food and beverage services	3,52	0,80	3,53	0,98
Room installations	3,48	0,64	3,42	0,65
Security system	3,44	1,09	3,25	1,02
Loyalty program for guests	3,41	0,69	3,07	0,72
Entertainment, animation	3,00	0,68	2,95	0,89
Online reservation systems	2,78	0,80	2,74	0,73
Cleaning	2,70	0,91	2,13	1,04
Computer equipment and communications	2,70	0,82	2,62	1,05

Source: Author's research

For the purpose of this research there are twelve innovation activities. Innovation activities are divided it into three main innovation areas:

- Management area,
- Service area.
- IT area.

Management area includes three activities: environmental management, quality management and promotion.

Service area includes: loyalty program for guests, entertainment and animation, food and beverage services, equipment (kitchen, restaurant), room installations, cleaning, security system.

IT area includes: computer equipment and communications and online reservation system.

Managers and owners rated their innovation activities with general score of 3,29 on five point Likert scale. Table 1 presents a detailed overview of scores. The best rated activities for hotel respondents with scores over 4 is Quality management (mean=4,22; SD=0,85), promotion (mean=4,15; SD=0,91), equipment (mean=4,07; SD=0,27) and environmental management (mean=4,01; SD=0,78). The best rated innovation activities for rural vacation houses respondents is equipment (mean=4,02; SD=0,71). Other innovation activities were rated fewer than 4. We conclude that management area was the best rated; while IT area was the worst rated group of innovation area. These results indicate low ranked innovation activities.

By integrating cognition from up to date conducted researches (chapter 1.), as well as adding some new potential drivers, the author proposed set of 16 potential drivers of innovation in the MSMEs in hospitality industry, which is believed to be more suitable.

The basic potential drivers of innovation in the MSMEs hospitality industry are divided into five main groups:

- A) OWNERS, MANAGERS AND EMPLOYEE ENGAGEMENT
 - 1. Education and acquired knowledge
 - 2. Continuous professional development
 - 3. New ideas and positive attitude towards new tourist product and services
 - 4. Employees integration in the development of new tourist product and service offering

- B) INFORMATION TECHNOLOGY (IT)
 - 5. Positive attitude towards the use of IT
 - 6. Role of IT in the development of new tourist product and services
 - 7. Implementation of the latest IT applications during new tourist products and services developing

- C) INNOVATION NETWORK
 - 8. Cooperation with collaborators to create new tourist products and services
 - 9. Maintaining a close network with collaborators and competitors
 - 10. Appreciation of the preliminary assessment of external partners for developing new tourist products and services

- D) CUSTOMER ENGAGEMENT
 - 11. Comprehension of customer demand and complaint in order to develop a new tourist product and services
 - 12. Measurement of customer satisfaction in order to develop a new tourist products and services

- E) INNOVATION MANAGEMENT
 - 13. Promoting an innovative environment
 - 14. Managers/owners involvement in all stages of the innovation process
 - 15. Managers/owners creativity and willing to take a risk
 - 16. Informing employees about the current innovation process of new tourist products and services

Table 2: **Potential drivers of innovation**

POTENTIAL DRIVERS OF INNOVATION	HOTELS		RURAL VACATION HOUSES	
	MEAN	SD	MEAN	SD
Continuous professional development	4,37	0,84	4,02	0,80
Managers/owners involvement in all stages of the innovation process	4,37	0,79	4,17	0,72
Positive attitude towards the use of IT	4,30	0,67	4,51	0,69
Comprehension of customer demand and complaint in order to develop a new tourist product and services	4,00	0,71	4,07	0,72
Education and acquired knowledge	3,96	0,71	4,06	0,75
Implementation of the latest IT applications during new tourist products and services developing	3,81	0,79	3,57	0,71
Employees integration in the development of new tourist product and service offering	3,74	0,76	3,57	0,74
New ideas and positive attitude towards new tourist product and services	3,59	0,80	3,52	0,72
Measurement of customer satisfaction in order to develop a new tourist products and services	3,56	0,64	3,87	0,72
Role of IT in the development of new tourist product and services	3,48	0,89	3,47	1,08
Promoting an innovative environment	3,37	1,15	3,19	0,97
Informing employees about the current innovation process of new tourist products and services	3,33	0,68	3,27	0,72
Managers/owners creativity and willing to take a risk	3,11	0,93	3,17	1,03
Maintaining a close network with collaborators and competitors	2,81	0,68	2,76	0,71
Cooperation with collaborators to create new services	2,74	0,71	2,58	0,72
Appreciation of the preliminary assessment of external partners for developing new tourist products and services	2,59	0,75	2,61	0,72

Source: Author's research

As shown in table 2, the most attention, with scores over 4, respondents gave to next potential driver: Continuous professional development, involvement in all stages of the innovation process, positive attitude towards the use of IT, comprehension of customer demand and complaint in order to develop a new tourist product/services and education and acquired knowledge.

Extremely low attention respondents add to next potential drivers: Maintaining a close network with collaborators and competitors, cooperation with collaborators to create new services and to appreciation of the preliminary assessment of external partners for developing new tourist products and services.

It is important to recognize consolidate scores of owners/managers attention by group of potential drivers of innovation. For respondents of hotels, the best rated is owners/managers and employee engagement (mean=3,92; SD=0,78), as opposed to respondents of rural vacation houses with customer engagement as a best rated (mean= 3,97; SD=0,72). The worst rated groups are innovation network and innovation management. The general score of potential drivers of innovation by group for hotel was 3,56 and for rural vacation houses 3,54. Table 3 presents a detailed overview of scores.

Table 3: Potential drivers of innovation by groups

POTENTIAL DRIVERS OF INNOVATION BY GROUPS	HOTELS	
	MEAN	SD
A) Owners/managers and employee engagement	3,92	0,78
B) Information technology (IT)	3,86	0,78
D) Customer engagement	3,78	0,67
E) Innovation management	3,55	0,89
C) Innovation network	2,72	0,71
HOTEL TOTAL	3,56	0,77
POTENTIAL DRIVERS OF INNOVATION BY GROUP	RURAL VACATION HOUSES	
	MEAN	SD
D) Customer engagement	3,97	0,72
B) Information technology (IT)	3,85	0,83
A) Owners/managers and employee engagement	3,79	0,75
E) Innovation management	3,45	0,86
C) Innovation network	2,65	0,72
RURAL VACATION HOUSES TOTAL	3,54	0,78

Source: Author's research

Contribution of stakeholders as external factors was the third part of this research. Respondents were evaluating contribution of stakeholders in their innovation process. Table 4 presents a detailed overview of scores. Travel agencies were evaluated as an external factor that gives the largest contribution to the innovation process. All others shareholders were rated below 2,5, and the most of them below 2,00.

Table 4: **Contribution of external factors - shareholders**

EXTERNAL FACTORS - SHAREHOLDERS	HOTELS		RURAL VACATION HOUSES	
	MEAN	SD	MEAN	SD
Travel agencies	3,00	0,68	3,00	1,06
Local Tourist Board (town / municipality)	2,52	0,64	2,50	0,91
Istria Tourist Board	2,44	0,85	2,42	1,01
Local government	1,89	0,70	1,82	0,71
Ministry of Tourism / Croatian National Tourist Board	1,85	0,60	1,81	0,74
Academic community (institute, faculties)	1,81	0,62	1,76	0,80
Public communal company	1,63	0,49	1,51	0,58

Source: Author's research

5. DISCUSSION

The importance of tourism and hospitality industry as economically relevant has been debated for decades. Tourism shareholders are being confronted with extremely complex decisions in terms of upgrading, employees, diversification of products and services, environmental concerns and restrictions, and on the top of it, with customer's expectations. Responses to this are innovations. A wide range of innovated tourist products are being provided by organizations that can be understood as tourism system, as defined by Gunn³¹ "a system of major component linked together in an intimate and interdependent relationship". Tourism as a complex dynamic system, should aid tourism stakeholders to realize all the components of tourism system applicable to their context and give clues as to how certain processes and entity influence the strategic management and development of their organization. In case of this research, tourism system can be generally divided on three main levels: local, regional and national level. Local level, among other, includes local tourist boards, regional level includes Istria Tourist Board, and national level includes Croatian National Tourist Board and Ministry of Tourism. This Tourist Boards and Ministry of Tourism should be more proactive and should strengthen the links within the tourism system. They should develop a system for transmitting information and knowledge among all participants in the system. Unenviable results-indicators of this research of innovation activities,

³¹ Gunn, C. A., *Tourism Planning, Basics, Concepts, Cases*, New York, Routledge, 2002, 34-35.

potential drivers of innovation and contribution of external factors are the mirror of the existing tourism system.

The results of this research have strong managerial implications. First, it should be emphasized the importance of implementing training programs to expand knowledge, increase overall creativity and problem solving in hospitality industry. In this section, it is essential to emphasize more activity and connections between the academic community and entrepreneurs. Second, innovation network as one of general potential drivers of innovation influences on innovation behavior. Innovation behavior is connected with innovation activities, thus, innovation activities increase when they are implemented together with other stakeholders. Third, extremely poor indicators of this research are in field of IT area. In this case we should emphasize the wide range of opportunities and challenges of IT for all stakeholders in tourism system. Fourth, owners and managers of MSMEs from this research should recognize that their innovation processes are easier in cooperation and network with other stakeholders in tourism system. Connections between all shareholders as entities of tourism system are not enough strong. The reason for this is the lack of development concept model. Shareholders who have development concept model, very often it does not respect the needs of other stakeholders in tourist destination. This study should help owners and managers to focus on specific potential drivers in order to improve their innovation activities. In addition to aforementioned implications, the study has academic contribution, as well. This study contributes to the existing literature of innovation activities in the hospitality industry, which is presently an under-researched area.

This research is not without limitations. It is not possible to generalize and draw conclusions that apply to other tourism destinations, because it is respondent's subjective interpretation of each statement. What is more, the study include only owners/managers as part of tourist system, thus the generalization of the results should be taken with caution. These limitations do not decrease the validity and relevance of the findings.

This research opens up a new dimension. In further research, data should be collected from other stakeholders, which should include collaborators, Tourist Boards and local authority. Also, it is suggested to make other researches in different tourist destinations which would serve to confirm, modify and compare the findings obtained in this paper. The most important topics to analyze in the further research concern the strategies that allow increasing the knowledge in the innovation strategies based on hospitality industry.

Innovation, as one of the main drivers of competitiveness, should be subject of managers rethinking and reinforcing innovation efforts. The challenge for owners/managers is to communicate with employee and other shareholder in tourism system. Continuous improvement is essential in hospitality industry because even small improvements are recognized by customers and can increase their satisfaction. Thus, in order to achieve innovation culture and to derive innovation activities in hospitality industry, education, acquired knowledge, and further research of this area are the basis. In this research, author has been defined the main innovative activities, enumerated main potential drivers of innovation and has been investigate the contribution of

stakeholders on innovation process in micro, medium and small hospitality enterprises in Istria destination. The study provides reliable and comprehensive information for both practitioners and academics.

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