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THE ROLE OF INNOVATION ACTIVITIES IN TOURISM AND REGIONAL GROWTH IN EUROPE

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Tourism plays a crucial role for national economies throughout the world. In Europe, international tourism receipts were almost three times higher in the late 1990s than they were in the late 1980s. Tourism has great potential as regards contributing to the achievements of several major EU objectives, such as economic growth, employment, sustainable development and economic and social cohesion. The importance of innovation was long underestimated in service and tourism activities. Successful innovation, as for instance innovation that is also profitable to the tourism firm in a competitive market, must increase the value of the whole tourism product. The production and the dissemination of new technologies has been the subject of much research. This paper illustrates why technological innovation is considered as a major force in tourism industry. It also attempts to analyze the impact of technological innovation and the implications on regional growth of member states.

Key Words: *Tourism, innovation activities, competitiveness, regional growth.*

INTRODUCTION

Tourism is one of the most important factors affecting directly the competitiveness and regional growth. International tourism is considered as one of the few economic sectors through which developing and less favoured regions have managed to increase their participation in the global economy. Tourism can be seen as the «engine» of employment creation, poverty eradication, ensuring gender equality, and protection of the natural and cultural heritage. These facts principally result from the existence, in most developing and less favoured regions, of significant comparative advantages that are conducive to viable tourism specialization.



Tourism is defined as «those activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited» (WTO).

Tourism is an important economic activity in the European Union. It comprises a wide variety of products and destinations and many different stakeholders are involved (both public and private) with very decentralised areas of competence, often at regional and local levels. Europe, with the greatest diversity and density of tourist attractions, is one of the most visited tourist region in the world. The main effects of tourism industry for European member states are threefold, as follows (CEC, 2000):

- capacity: refers to the accommodation infrastructure that is available to the tourist in the region concerned.
- occupancy: provides statistics on the number of nights spent in hired accommodation in a particular region and
- demand: refers to domestic and outbound tourism: outbound tourism shall mean residents of a country traveling in another country.

Innovation research explains growth and productivity gains with the help of the long waves of the business cycles. Innovation activities and the new technologies are closely related with market competitiveness and the productivity level. Innovative activity has been one of the most important components for the long-term economic growth. Economists use to consider innovations as «accidental events». As an exogenous factor, i.e. from the outside, innovations changed the direction of economic growth. This view assumed that innovations cannot be planned and produced at will. Innovation was regarded as the province of the creative entrepreneur who was prepared to take risks, and to devote much of his own time and money to the development of new business ideas. It is true, of course, that innovation and the new technologies those pioneers did play a leading role in the early development of tourism business and consequently for regional growth (Weiermair and Peters, 2002).

Tourism makes an important and increasing contribution to economic growth and accounts for about 30% of international trade in services in the European area. It also represents one of the best opportunities to create income and employment for less developed countries and regions.

This paper will start by drawing upon the findings of innovation activities on tourism and regional growth for European member states. In particular, this paper examines the effects of innovation activities on tourism and regional growth in Europe.

REGIONAL DISPARITIES, TOURISM CAPACITY AND REGIONAL GROWTH IN EUROPE

The major sectors driving developments in the rural regions of European Union are:

- energy,
- tourism
- transport,
- industry, and
- agriculture

Many rural areas are among the most dynamic territories in the European Union, whereas many others suffer due to low population density a lack of basic services and an inadequate labour market and low basic infrastructure. Innovation activities and new technologies contribute substantially towards the modernisation process and the competitiveness level. It is quite important to develop the countryside as a space for recreation and «green tourism», in order to support the renovation of the villages, encourage agriculture and forestry in their function of maintaining landscapes and respect the environment and natural resources.

In order to be able to estimate, present and furthermore to analyse the level of innovation, tourism activities and regional disparities, we may use the following main indicators:

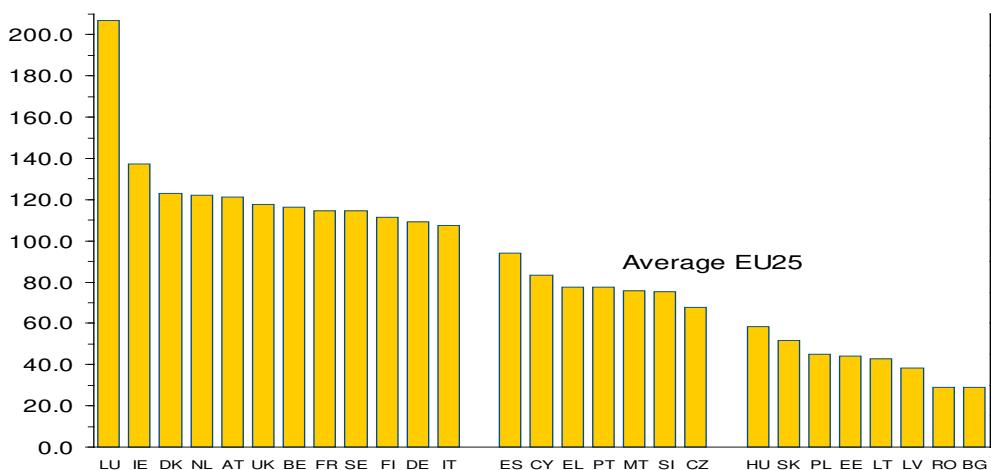
- (a). For regional disparities the main indicator is the regional per capita GDP. According to available data, in ten European countries, the highest regional per capita GDP is between twice and three times that of the lowest. Half of this group of countries is made up of the older member states, plus four of the new member states and Romania. In 2001, the highest per capita GDP was more than twice the lowest in 12 of the 19 countries. The largest regional differences are in the United Kingdom, where there is a factor of 4.4 between the two extreme values (Inner London: 288 % of the EU-25 average; Cornwall and the Isles of Scilly: 65 %), and in Belgium, with a factor of 3.1 (Region de Brux-elles-Capitale/Brussels Hfdst. Gew.: 238 %; Hain-aut: 76 %). Comparatively marked regional disparities in per capita GDP therefore emerge in both the old and the new member states (Eurostat, 2005).

At the same time, the regional distribution of per capita GDP (in PPS) ranges from PPS 4,088 per capita in north-east Romania to PPS 61,316 per capita in the UK Inner London region. Region de Bruxelles-Capitale/Brussels Hfdst. Gew. (PPS 50,749) and Luxembourg (PPS 45,310) follow in second and third place, with Hamburg (PPS 39,862) and the

French capital region Ile-de-France (PPS 38,452) in fourth and fifth place. Figure 1 illustrates the Gross Domestic Product per Head for European member states. This figure illustrates the existing gap and the regional disparities between the European «advanced member states» (namely, Luxembourg, Denmark, Netherlands, Austria, United Kingdom, Belgium, France, Sweden, Ireland, Finland, Germany and Italy) and those of «developing member states» (namely, Spain, Cyprus, Greece, Portugal, Malta, Czech Republic) and furthermore with those of «less advanced and new member states» (namely, Hungary, Poland, Lithuanian, Romania, Bulgaria).

In particular, Prague (Czech Republic), is the region with the highest GDP per inhabitant in the new Member States, has already risen to 16th place with PPS 31,639 (149 % of the EU-25 average) among the 268 European Union' regions, (including EU-25 plus Bulgaria and Romania). The next regions of those joining the EU in May 2004 follow a long way behind: Bratislavsky kraj (Slovakia) is in 65th place with PPS 23,782 (112 %), Kozep-Magyarország (Hungary) is 147th with PPS 18,993 (89 %), Cyprus is 157th with PPS 18,281 (86 %), Malta is 179th with PPS 16,221 (76 %) and Mazowieckie (Poland) 196th with PPS 15,033 (71 %). All other regions of the new Member States are below 70 % of the EU-25 average as Budapest, Bratislavsky kraj, Sofia and Bucuresti (Eurostat, 2005).

Figure 1. GDP per Head (PPS 2002) (Source: WTO)



Upon closer examination, we can see that between 1999 and 2001, numerous somewhat peripheral regions of the enlarged European Union managed to catch up by comparison with central regions with higher per capita GDP. This is particularly true of Ipeiros (+ 9.6 percentage points) and Peloponnissos (+ 9.3) in Greece, Regiao Autono-ma da Madeira (+ 6.7) in Portugal and Pohjois-Suomi in Finland (+ 5.1), but also of Alentejo (+ 1.4) in Portugal, Andalucia (+ 1.4) in Spain and South Western Scotland in the United Kingdom (+ 1.3).

Economic growth in most countries therefore continues to be visibly concentrated in certain regions. This is particularly true for the new member states and Romania. At the same time, the size of the country does not appear to have any noticeable bearing on the regional concentration of economic dynamics.

- (b) For measuring of tourism activities and innovation activities, we may use the main available indicators of «accommodation density», «tourism infrastructure» and also «new accession of new technologies».

Figures 2 and 3 illustrate the regional arrivals in millions through 1990 to 2003 and also the biggest international tourist arrivals in millions. According to these data the «leading member states» of tourism activities is France, Spain, USA for the upper level following by China, United Kingdom, Austria, Mexico, Germany and Canada ranging in a middle level.

Regarding the tourism industry, we can compare the highlights regions according to their «accommodation densities», because of their high number of bed places (i.e. Illes Balears (ES); Provincia Autonoma Bolzano (IT); Corsica (FR)), while other regions have high accommodation densities because of their low populations (Åland (FIN); Highlands and Islands (UK); Övre Norrland (SE)). Some classic destinations for package holiday flights, such as the Illes Balears in Spain and the Algarve in Portugal do indeed have a very high supply of accommodation per head of population. To these «traditional destinations» in the European Union, one can add the island of Cyprus which has a hotel capacity similar to the Algarve.

A number of regions with an extensive hotel infrastructure lie within comfortable driving range of major concentrations of urban population (basic infrastructure). Examples include West Wales and the Valleys, Dorset and Somerset in the United Kingdom and the Black Forest region in Germany. But also Östra and Norra Mellansverige are also quite attractive for short holiday breaks.

Figure 2. Regional Arrivals (in millions) (Source: WTO)

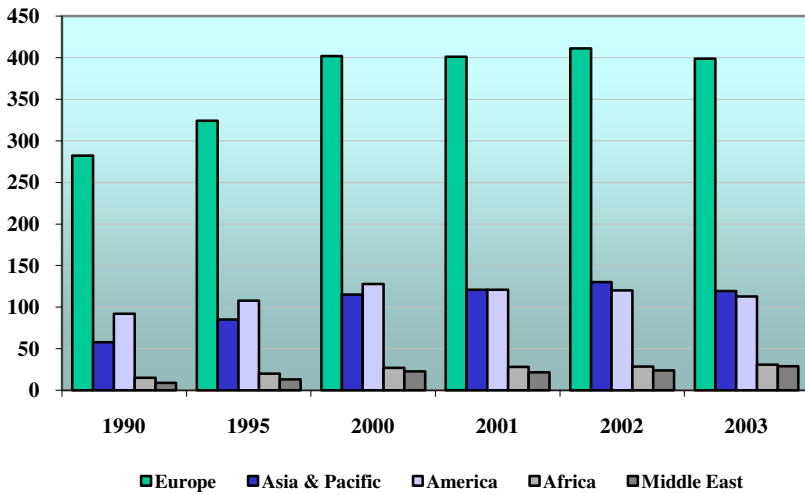
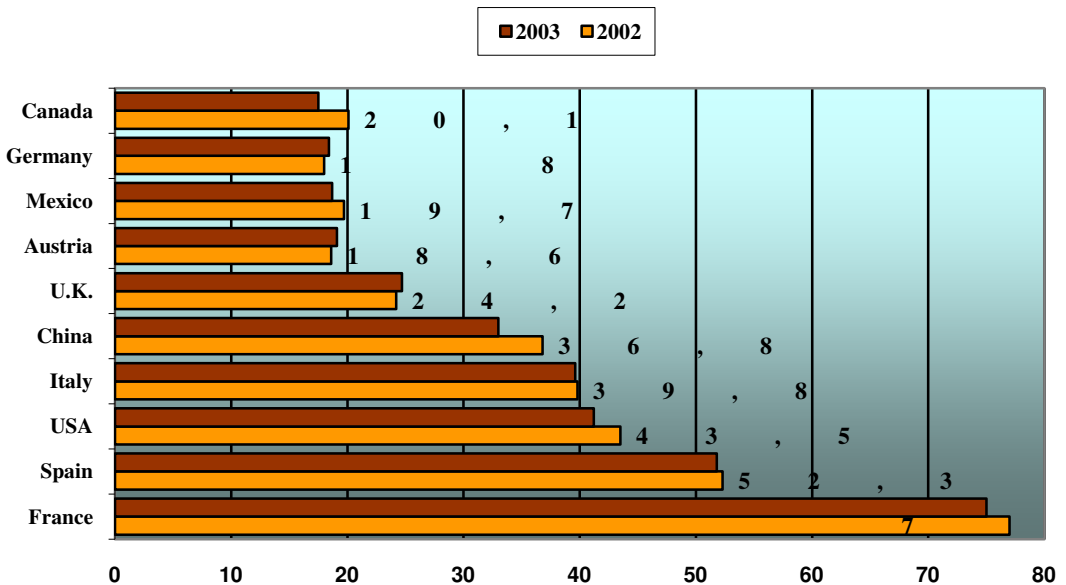
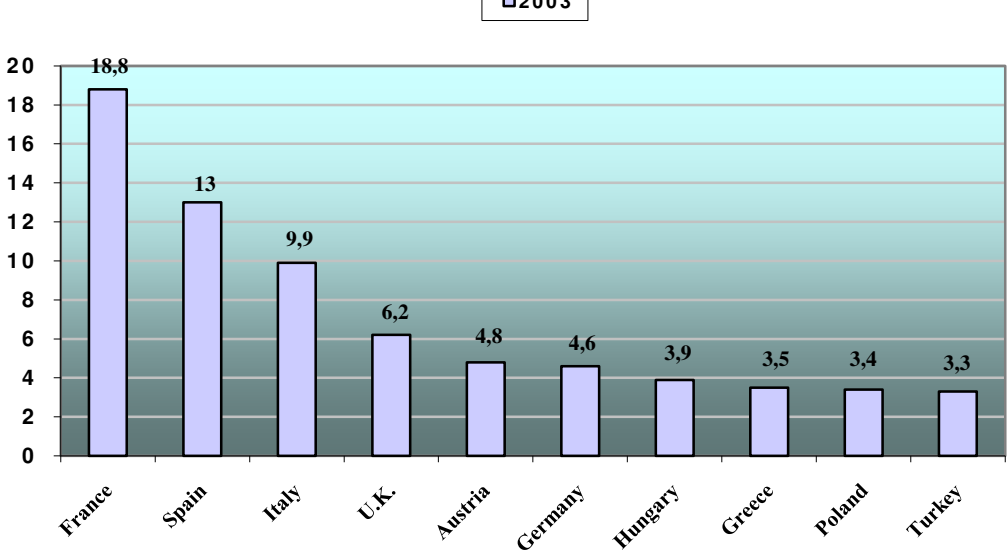


Figure 3. The Biggest 10 International Tourist Destinations (arrivals in millions) (Source: WTO)



However, in other regions as well, particularly in Scotland, in parts of England, and in Greece, the number of bed places as a proportion of total bed places is equally high. In rural areas, for example in many parts of Belgium and the Netherlands, in West and South West France, in Denmark, in most parts of Sweden, but also in Poland, the number of bed places in hotels and similar establishments as a proportion of total bed places can be less than 25 % and does not exceed 40 %. Figure 4 illustrates the biggest ten tourist international destinations as a percentage of the market share. According to these data, France, Spain, Italy and the United Kingdom are the leading member states for European destinations, following by Austria, Germany, Hungary, Greece, Poland and Turkey. This may well be due to economic pressure, forcing people to choose closer destinations for holidays, or due to political decisions (such as additional taxes imposed in the Illes Balears) or other factors favouring new destinations over such traditional tourist destinations as Spain and Italy.

Figure 4. The biggest top 10 European destinations in Arrivals (as a percentage share of market). (Source: WTO)

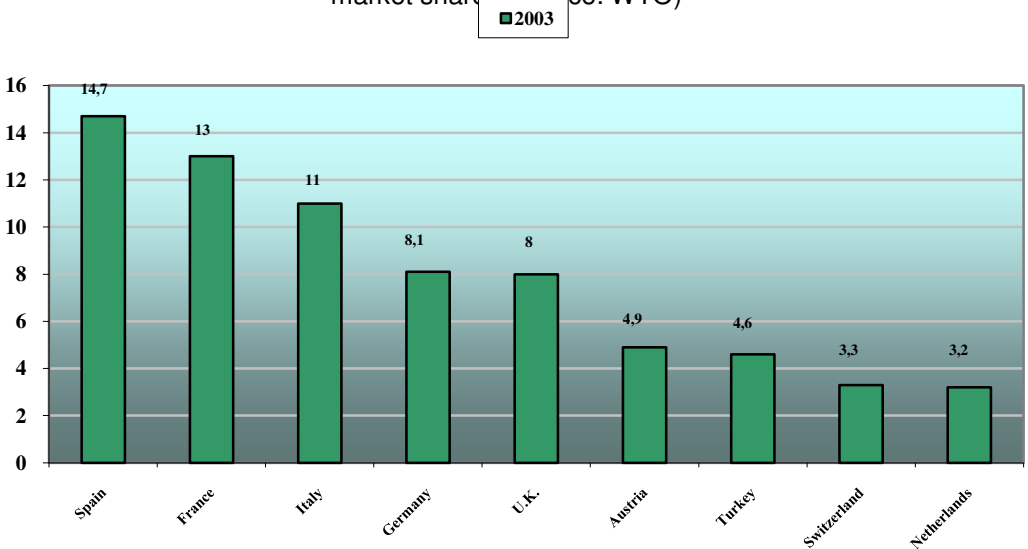


While tourist infrastructure figures yield an indication of the accommodation capacity available in a specific region, it is important to know the extent to which this capacity is actually used.

Moreover, using the available data from World Tourism Organisation (Figure 5) we can illustrate the revenues from tourism activities as a percentage of the market share. According to these findings Spain, France, Italy, Germany and the United Kingdom is far-away from other member states, such as Austria, Turkey, Switzerland, and Netherlands.

The European member states and the Mediterranean regions is the world's leading tourist destination, accounting for 30 per cent of international tourist arrivals and for one-third of the receipts from international tourism. Overall, the annual growth rate for tourism in Europe is 3.7 per cent per year, but tourism in the Mediterranean is growing by more than 5 per cent per year.

Figure 5. Revenues from Tourism Activities (as a percentage of market share) (Source: WTO)



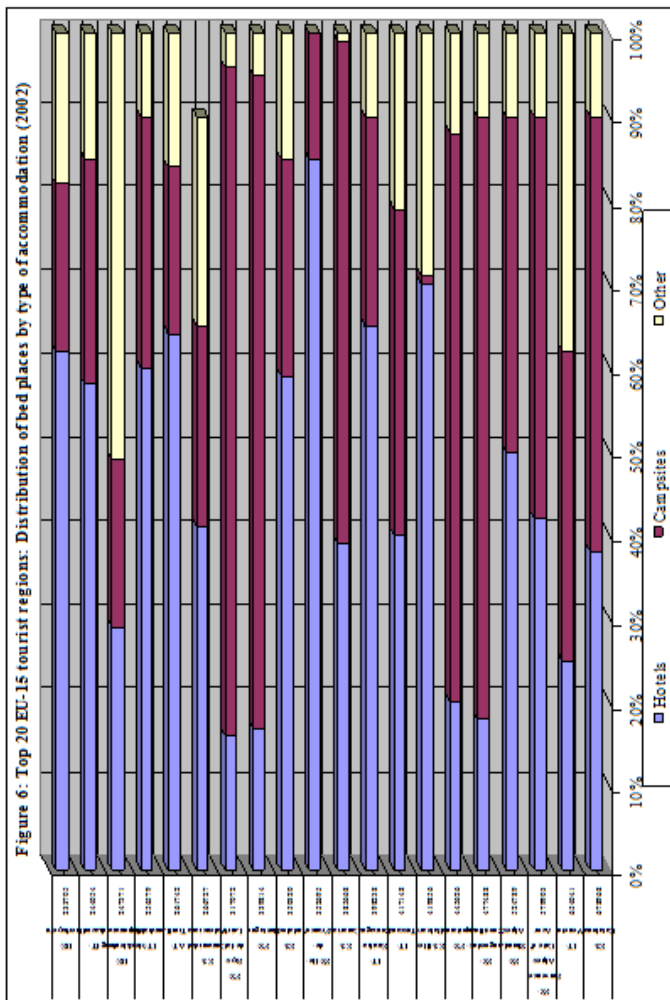
The total figures of World Tourism Organisation indicate that there is an effect accounted a figure of 659,719 places of work that's corresponding to around 16.5% of total places of work. In addition, tourism it's also contributing with 23.2 billions of Euros in the GNP, corresponding to around 14.3% from the total GNP. Finally, tourism'

industry contribute with 12.4 billions of Euros in the GNP corresponding to 35.9% of total exports.

According to the forecasts of World Tourism Organization there will be a general tendency to increase the tourism flows at around 4.5% until 2014. The economic elements it is forecasted they are shaped as follows:

- 836,239 places of work corresponding to around 19.6% of total places of work,
- 44 billions of Euros in the GNP corresponding to 15.7% from the total GNP and
- 26.7 billions of Euros corresponding to 33.1% from the total exports

Finally, Figure 6 illustrates the top tourist regions for distribution of bed places by type of accommodation. This figure illustrates the regional disparities of tourism innovation activities through European member states.



DEFINING INNOVATION ACTIVITIES IN TOURISM INDUSTRY

There are various definitions of the term «innovation», which derives from the Latin «innovation» which means the creation of something new. The diversity of definitions lies in the different purposes of examining this phenomenon. Innovation can be defined in a multiplicity of ways. The leading theoretician of innovation, Joseph Schumpeter (1883-1950), already had a broad vision of the concept, encompassing new products, new production processes, new markets, new raw materials and new forms of organisation. For Schumpeter, the common thread between all these changes is that they involve «carrying out new combinations» which are qualitatively important and introduced by dynamic business leaders, or «entrepreneurs». The definition generally accepted today does not necessarily entail a major change linked to a particular individual. Today, it is necessary to take account the risk and uncertainty nature of the process, and of the need for innovation to lead to the creation of value that in the final analysis is judged by consumers, (Schumpeter, 1934).

Innovation differs from creativity. Creativity refers to the production of new ideas, new approaches and inventions, whereas innovation corresponds to the application of new and creative ideas and the implementation of inventions. Schumpeter described as the creative destruction of existing institutional arrangements and patterns of exchange in order to create new wealth through innovation.

Probably the most useable definition is that provided by the late Schumpeter who distinguished five areas in which companies can introduce innovation (Schumpeter, 1934):

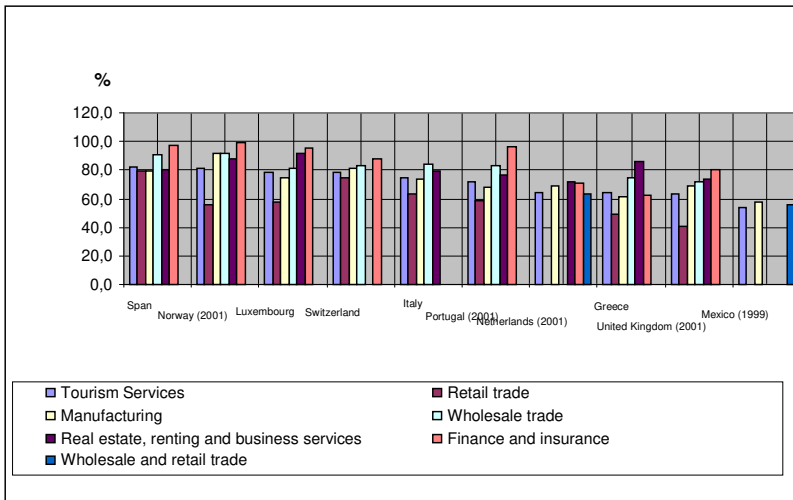
- Generation of new or improved products.
- Introduction of new production processes.
- Development of new sales markets.
- Development of new supply markets.
- Reorganisation and/or restructuring of the company.

The production and marketing of tourism products is distinct from industrial products and displays specific characteristics which often pose constraints or problems and hence serve as stepping stones for increasing the value of products via innovation. The availability of new technologies led to the development of new skills, new materials, new services, and new forms of organisation. This is especially true for the last two decades where the role of technological innovation was crucial. In tourism, technology created a new form of business called e-tourism, which today is the biggest force in e-commerce. Figure 7 illustrates the introduction of new technologies – internet by service activity for European member

states. As we mentioned before, the more «advanced and leading» countries are far better than other member states.

A main area of change and innovation in tourism concerns the use of information and communication technologies (ICT). The diffusion of information and communication technologies in the tourism industry enables consumers to interact directly with tourism providers. Major basic innovations, *e.g.* in transportation, have also largely influenced the growth of the tourism industry (Weiermair and Peters, 2002).

Figure 7. Internet penetration by activities for business enterprises, 2002



The tourism industry is largely dominated by small and medium sized enterprises (SMEs). To survive in an increasingly competitive and global environment, tourism enterprises, small ones in particular, have to achieve economies of scale and scope in order to reduce transaction costs, increase productivity and gain market power. Restructuring and co-operation mechanisms help enterprises to adapt to changes and increase their competitiveness. They include horizontal and vertical integration, but also many flexible structures that encourage product, marketing and organisational innovation (Weiermair, 1998).

The tourism industry has always been very proactive regarding the adoption of new technologies (*e.g.* global distribution systems). Recent advances in telecommunications, networking, databases, data processing and electronic marketing provide many new opportunities for tourism

business that are significantly impacting on the tourism growth. The use of information and communications technology adds value to tourism services and products and supports the development of industry networks and clusters. Information and communication technologies cover the whole tourism value chain, (*e.g.* information on destinations, accommodation, transportation, package tours and services), and displays the actual process and availability of such services.

POLICY INSTRUMENTS FOR TOURISM INNOVATION

To survive in such global competition, tourism firms should try to enter into competition that is constructive rather than destructive. Tourism entrepreneurs, particularly small ones, are more sensitive to competition from their partners than to the benefits of working together. Innovation in the tourism industry relies as much on «co-operation and networks» as in other service industries.

Co-operation among policy makers and entrepreneurs is also one of the key factors for the constant growth of the tourism industry. The primary objective for governments is to ensure that their policy and actions support and encourage innovations that contribute to further development of the tourism industry. Innovation in tourism brings new ideas, services and products to the marketplace. Innovation in tourism is to be seen as a permanent, global and dynamic process. Most successful innovations were new forms of distribution (online booking), agent relationships and reduced costs of product delivery, (Weiermair, 1998).

Major barriers that firms had to face were lack of time, money or know-how, and risk aversion which were all internal factors. Regarding the outside forces, particularly in Europe, bureaucracy and politics were pointed out as possible obstacles that prevent the realisation of planned innovation activities, (Weiermair and Peters, 2002).

Although many European member states are concerned by the innovation process of tourism enterprises, however, rather few have launched specific policy instruments. To enhance innovation and technological development in the tourism sector, the White Paper provides a basis for partnership between the federal, state and territory governments and industry, and encourages the latter to improve the quality of tourism products as well as environmentally and culturally sustainable tourism business practices. Tourism innovation policy should be focused on the following main points and tools:

- Improve the internal dynamics of innovation in tourism by pushing firms to adopt a more proactive attitude towards innovation,

notably through a shift from simple technology watch to economic intelligence.

- Improve the efficiency of national innovation systems: improve the training of operators and staff, develop the role of public and private agents, and stimulate research (*e.g.* create a genuine multidisciplinary network).

- Improve incentive systems for operators and employees. The extent to which governments can help the business sector become more innovative may be limited. However, they can create favourable framework conditions and encourage business to enhance productivity through innovation.

- Maintain the coherence of the tourism industry and its linkage with society as a whole. It is not possible to consider innovation in tourism without acknowledging the need to mobilise the local population.

POLICY IMPLICATIONS AND CONCLUSIONS

Innovation is more often constituted of a series of small steps that lead to incremental growth. Innovation is a feedback process. One innovation inevitably leads to another one. Innovations improve products and reduce the cost of processes. The innovation process has thus become an investment process.

An innovation-oriented tourism policy requires the adjustment of certain instruments. Training creates personalised know-how in the form of personalised human capital. The impact is mainly over the long term.

Tourism is a very heterogeneous industry, which is defined at the time of visitors' consumption. The tourism suppliers compete against one another. Tourism has developed a dual structure which influences to a large degree the level of change and its direction. The international travel and tourism industry makes use of global strategies to get the best out of local potential. The impact of a technological innovation will generally depend not only on its inventors, but also on the creativity of the eventual users of the new technology.

Many of the European member states with a long tradition in tourism are suffering from growth and production weaknesses. Tourism enterprises and industry branches are under tremendous competitive pressures. In a much liberalised world tourism market, they are competing with new destinations that can benefit from resources that are intact or in any case very little exploited, and from very favourable economic conditions including low wages and soft currencies.

European tourism and its industries have been undergoing major changes for several years. The relevant figures show that tourism becomes more and more important for European regions. The tendency of more and shorter trips especially encourages regions to promote their attractiveness.

Europe is one of the main tourist destinations in the world. In a number of regions, particularly assisted ones in the south and in mountainous areas, tourism is a major source of employment and has a substantial effect on economic development. It is also an activity dominated by small and medium enterprises, some 6.5% of the total turnover of firms of this size being generated in this sector.

In the EU as a whole, tourism accounts for 5.5% of GDP and 6% of jobs. In many parts of the EU, the figures are much higher. In Spain, for example, tourism accounts for 10.5% of GDP and 9.5% of employment. Tourism is likely to be a major source of job creation over the coming years, particularly in lagging and peripheral regions, and measures to support the sector could have an important effect on the development of these.

According to the WTO there is an opportunity for creating around 3 million new jobs in tourism in the EU over the next decade. Priorities for cross-border cooperation have primarily been investment in infrastructure and the environment, but support has also focused on the exchange of information and experience across the border regions, as well as joint measures in fields such as transport, energy, telecommunications, health, business, technology and tourism.

The tourism industry is changing, driven notably by new consumer requirements and information technologies. A new tourism is emerging - one which takes into account the complexity and segmentation of tourism demand. Tourism entrepreneurs have realized that innovation is becoming a key element to survive and compete in a dynamic and radically changing environment. As for policy decision makers, the aim is to encourage all partners (as for instance, regions, municipalities and the business community) to co-operate more proactively. For governments, this means that an innovative tourism policy has to promote coherence and synergy.

Actions by less favoured regions and the development policy will be along the following lines:

- Promoting a climate conducive to tourism and in particular to encourage investment in the tourism industry and enterprise development in the wider tourism economy, in particular through increased access to finance and the development of local human resources;

- Recognizing the potential of the tourism sector in national development strategies, and ensuring effective participation of domestic tourism authorities in the national decision-making process in order to enhance their economic efficiency;
 - Determining the most desirable tourism product specialization in order to guide potential investors in their decisions;
 - Promoting domestic and foreign investment in the tourism industry and related sectors with full respect for natural and cultural heritage;
 - Taking measures to facilitate local tourism operators' access to and participation in global information and distribution systems;
 - Formulating all these necessary strategies in order to achieve the most beneficial linkages between tourism and land, sea and, particularly, air transport.
- Improve the internal dynamics of innovation: pushing firms to adopt a proactive attitude towards innovation, notably thanks to an ambitious shift from simple technology watch to economic intelligence.
 - Improve the efficiency of the national system of innovation.
 - Improve the training of operators, staff.
 - Improve incentive systems for operators and employees.
 - Maintain the coherence of the tourism industry and its linkage with society as a whole.

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