
BUSINESS IMPLICATIONS OF LOCAL DEVELOPMENT POLICIES: THE CASE OF DUBAI AND THE TRAVEL INDUSTRY

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Abstract

Place competitiveness and entrepreneurship is becoming more and more central in the economic debate on microeconomic of development. We focus on the interlinkages between public administration and business development as it is important to shed light on implemented reforms across countries and over time. Prior research shows that appropriate form and coherent governance structure are key determinants in successful projects in local development. This does not exhaust the set of factors leading to positive performance. In this paper we investigate how i) Dubai local government has regulated and ii) first comer firms have managed the innovation phase. In order to achieve the desired objectives, firms have deeply analysed the local market and made significant changes to its services, while local authorities have fostered their policies to promote the presence of foreign leader companies in the field of travel & tourism e.g. cruise lines.

Keywords: competitiveness, new service development, Dubai, Hospitality, travel industry.

1. INTRODUCTION

Participants in international strategic plans which encompass local business development face a difficult challenge: local authority struggle for enhance local attractiveness and foreign investors and operators need to adapt their offer in order to fit and satisfy specific requests by local population. In 2011 the cruise industry has contributed to the European economy for the amount of 36.7 billion euros (+6% compared to 2010). In five years (2006-2011), the sector recorded a growth of 54%.

In this paper we take into consideration the business strategy of European major cruise lines. Namely the decision of establishing new routes based on a rapidly increasing travel hub: Dubai. No wonder that different cruise line itineraries have an effect on cruise ship occupancy rates Lee & Ramdeen (2012). Their study indicates cruise itineraries do have a significant effect on cruise ship occupancy rates. They also stated that cruise line tend to sail the most popular itineraries with their newest and many times

largest ships. This is another current issue because of cultural aspect of clients living in the Gulf area. In our research we have reviewed the measures required to fit these clients' needs.

Supported by former research on product innovation (Di Foggia et. al., 2011) one might expect that both adaptations and structural changes are necessary to comply with customers' specific requirements.

We extend this idea in detail and design our research in order to cover many aspects of business development strategy and investigate how the process is undertaken by operators and local authorities alike.

The reminder of this paper is organised as follows: section two introduces service innovation and implication of travel on territories, section three describes the market, section four contains the case study. The paper ends with conclusion.

2. THE IMPACT OF TRAVEL INDUSTRY ON TERRITORIES

A territory can sometimes mean any set of tangible and intangible values, such as population, culture, historical legacy, heritage and urban art, infrastructure, location and any other instrumental ingredient to increase the overall value of individual elements (Kotler, Haider & Rein, 1993). Supporting the development of a territory from the bottom is an essential approach to promote development opportunities and collect instances expressed in terms of individual and collective standpoint from backlog and turn them into feasible and fundable strategic projects. These concept finds its strength in the system of relationships, alliances and partnerships, political and socio-economic support and investment with timely and proactive culture with the development of lines of action.

Economic impact of travelling on territories has been widely investigated by scholars. Focusing on cruise sector, Brida & Zapada (2010) provide an overview of the different impacts of cruise tourism in Costa Rica; the authors consider cruise passenger demographic characteristics, preferences and expenditure behaviours, and compare the expenditures of the average cruise passenger with the average land tourist that visits the country. They raise some concerns as to whether cruise tourism in Costa Rica should be encouraged. As anticipated, the market is evolving rapidly, considering the economic impact we can see slightly different results obtained fifteen years earlier by Dwyer & Forsyth (1996). They argued that cruise tourists are higher yield tourists, spending, on average, much higher amounts per day than other categories of international tourists. Chase & McKee (2003), taking into account the case of Jamaica and agreeing on the constant growth of cruise's business output, investigate the increasing input cost. Archera & Fletcherb (1998) analyse the impact made tourism

expenditure in the Seychelles. Diedrich (2010) analyse Belize while Hobson (1993) considers the US cruise line industry. Furthermore, at the time of writing one can state that, cruise industry has certainly still made progress over the last twenty years; actually from 1989 to 2010 the number of international cruise passengers tripled (CLIA 2011).

2.1. Service Development & innovation in travel & tourism oriented service

Since changes in Dubai's travel facility-related services are constant, it is worth mentioning the notion of service development as it is a wide concept (Jaw et al., 2010; Tsai et al., 2008). Alam & Perry (2002) consider the model presented by Bowers (1987) as a pioneer work on service development. The structure was similar to the idea of Booz, Allen and Hamilton of new product development Booz et al., (1982). Currently, managerial literature describes the service development process from different perspectives and for different aims. (de Brentani, 1991; de Brentani and Cooper, 1992; Avlonitis et al., 2001; Bullinger et al. 2003; Edvardsson & Olsson, 1996; Smith et al. 2007; Junarsin, 2010; Ernst, 2002; Trott, 2008). Services are characterised by peculiarities which include inseparability, since consume and production happen simultaneously; heterogeneity regarding the interaction of human activity and perishability as service cannot be stocked Jaw et al., (2010) and is not patentable. Shekar (2007) adds that a service can't be tried before being purchased and emphasise the role of staff.

2.1.1. Travel & tourism oriented service.

To clarify our aim, it is useful to concentrate on tourism & travel industry from an offer-side perspective. Hall (2009) finds out that there isn't a significant difference in innovativeness between tourism and other economic sectors; Evangelista (2000) – considering English hospitality industry – and Christensen (2008) – taking into account Denmark – point out that tourism innovation level is weaker than the mean. Miles (2008) converges to a similar conclusion. Sundbo et al., (2007) present a theoretical framework for understanding the propensity to innovate of businesses in the hospitality industry; according to the authors innovation is positively correlated with size, professionalism of employees and entrepreneurship inclination. Jacob et al. (2003) argue that tourism's firms use to adopt primarily non-technological innovations.

Other researcher have investigated service innovation and service success factors in tourism (Hjalager, 2010; Ottenbacher, 2007). Finally, an exhaustive categorization of innovation in tourism is provided by Hjalager (2010). The author performs an extensive review of literature synthesizing different approaches to the research of innovation classes and suggests the following categories: Service innovations refer to changes observed by users and tagged as new, never seen before, different, innovative; process

innovations occur normally in the backstage and are initiatives aimed to improve productivity, efficiency, reduce costs; managerial innovations focus on new ways of organizing and developing human resources in the sense of motivate, create career, train and empowering staff which is a very important success factor in high contact service organizations; management organizations, especially in marketing strategies; institutional innovations refer to new, collaborative, organizational structure of framework that supports the business in a specific field or place of tourism.

3. OPPORTUNITY AND STRATEGIC CHALLENGES

The UAE is a federation of seven emirates (Abu Dhabi, Ajman, Dubai, Fujairah, Ras al-Khaimah, Sharjah and Umm al-Quwain) with an estimated population of 4.6 million. It is a well-known fact that UAE economy rely on oil revenues. However, investments have also been made in real estate and travel facilities especially in the emirates of Abu Dhabi and Dubai. Table 1. describes the evolution of some interesting economic and tourism variables of UAE. In accordance with Table 1. current account balance shows a steady increase; it doubled from 2000 to 2005 and from 2005 and 2010. Foreign direct investment (net inflows of investment to acquire a lasting management interest - 10 % or more of voting stock- in an enterprise operating in an economy other than that of the investor is 3948,3 million USD in 2010 while was 10899,9 million USD in 2005 and -506,3 in 2000. International Tourism Receipts as % of Exports has doubled in a decade, from 2000 to 2010.

TABLE 1 - TOURISM & MACROECONOMIC OVERVIEW OF UAE

| UAE | Category | 2000 | 2005 | 2010 |
|--|-------------|-------|---------|-------|
| Balance of Payments: Current Account | Million USD | 12144 | 24291 | 55860 |
| Foreign Direct Investment | Million USD | -506 | 10899,9 | 3948 |
| Consumer Prices, annual % change | Percentages | 1,4 | 6,2 | 0,9 |
| GDP Deflator (2005=100), US Dollars | Ratio | 75 | 100 | 140,9 |
| Balance of Foreign Travel | Million USD | -1956 | -2968 | -3241 |
| International Tourism Receipts as % of Exports | Percentages | 2,6 | 3,3 | 4,9 |
| Tourism Expenditures | Million USD | 3019 | 6186 | 11818 |
| Tourism Receipts | Million USD | 1063 | 3218 | 8577 |

Source: Own elaboration on SESRIC data

Table. 1 contains some competitiveness indicators, however, competitiveness is a complex concept, encompassing various aspects difficult to measure. Gooroochurn & Sugiyarto (2005) present an approach for measuring tourism competitiveness using eight main indicators – price, openness, technology, infrastructure, human tourism, social development, environment and human resources. The world economic forum consider a series of issues as: policy rules and regulations, environmental sustainability, safety and security, health and hygiene, prioritisation of travel & tourism, infrastructures,

ICT infrastructure, price, human resources, affinity for travel & tourism, natural and cultural resources,(WEF, 2009). It is clear that, beside competitiveness of firms a key role is played by local government fostering business attractiveness. Kavaratzis (2005) offers a short description of the development of place marketing and its routes in general marketing. His paper goes on to describe the recent shift towards place branding. Papadopoulos (2004) discusses implications for government, business and research, and calls for integration of the various streams of thought in order to enhance the understanding of the field of place branding.

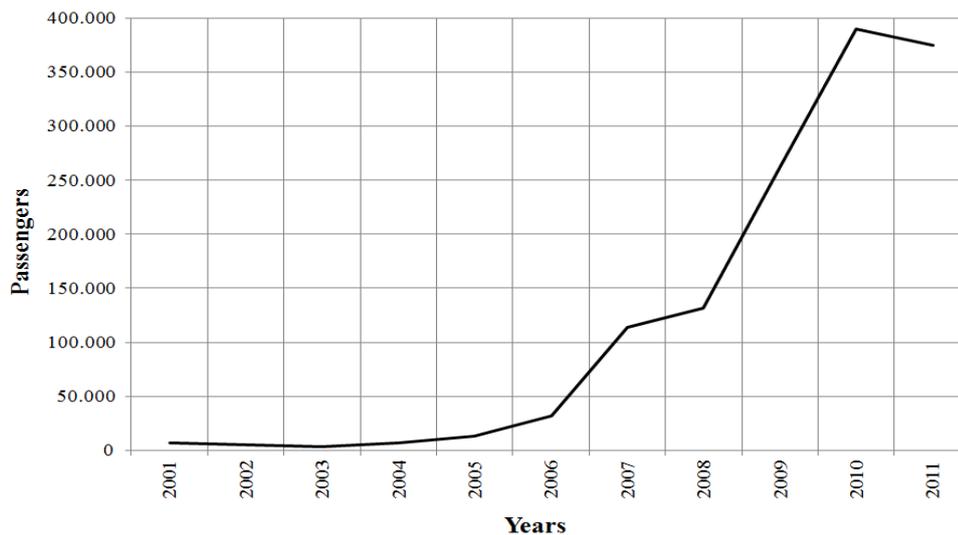


FIGURE 1. - EVOLUTION OF CRUISE PASSENGERS IN DUBAI
Source: Dubai Department of Tourism & Commerce Marketing (DTCM)

Graph 1. shows that the Dubai Cruise Terminal experienced a 30% growth in traffic between 2009 and 2010, from 260,000 to 390,000 passengers; 375,000 passengers in 2011.

3.1. Requisites, and strategic drift to be avoided.

Gibson (2008) underscores how influences such globalization of tourism, multiculturalism of customers and their average demographic trends induce the market place to be more dynamic than in the past and staff to be well trained and able to mediate with people of different cultures. UAE is composed by different ethnic groups: Emiri 19%, other Arab and Iranian 23%, South Asian 50%, other 8%; almost 96% of population is Muslim. Thus, companies should consider a series of specific clients' requirements affecting the success of product and services in such specific area. Riaz & Chaudry (2004) describe some requirements, which fit any aspect of day life, including: food, drugs, communication and entertainment. Starting from definitions and guidelines provided by Riaz & Chaudry (2004), we list a series of strategic factors to be deeply considered by travel & tourism managers.

- Demography: it is understood that Muslim tourists often travel with the family which is pretty numerous if compared with the European standard.
- Food and beverage: certification of food religious lawfulness plays a primary role to gain trust of customers, Di Foggia et. al. (2011).
- Wellness, entertainment and shopping: hospitality industry typically offers a variety of wellness facilities. Night entertainment like casino and gambling are forbidden. Although dancing is not barred, a western disco ambience may encounter little liking.
- Location and requirement of the accommodation: Arab-language media are welcomed. Prayer mat should be also present as well as a copy of the Koran together with a marker to identify the holy city. Paintings and other artistic objects shouldn't depict naked human bodies.
- Price policy: price should be as comprehensive as possible. Discounts, offers and other drastic fall in prices though to incentive customers may result counterproductive as sales are not so common in such markets (Marinov, 2007);

4. CASE STUDY

The public/private dichotomy has long been the object of considerable attention within business studies which, frequently, let the concept of innovation being associated with the private one, conversely the public sector, is painted as a braking because of cost and lengthiness of bureaucracy procedures. This dichotomy, of course, varies between countries, points of view and industries.

However, public sector, through its representatives has a well-known direct and indirect impact on innovation propensity of firms. According to Breznitz (2007) government intervention is essential, especially in less developed economies in order to encourage industrial & business development based on. Hall & Williams (2008) summarize some key decisions on innovation that governments must take more and more frequently:

- How to acquire the necessary skills in R & D and where to locate them;
- The regulation of the path of technological development, including investment decisions or how to attract foreign direct investment in technological advanced projects;
- Strategic support to public enterprises;
- Policies facilitating cooperation between local and international companies.

In addition, Hall (2009) recognizes that local authorities have an important role in the tourism economy. In particular, he lists some major functions: coordination, promotion, sustainable tourism, entrepreneurship stimulation, protection of local interests.

Strategic Location.

Dubai is located south of the Arabian Gulf on the Arabian Peninsula. In view of its geographical location the emirate has become the “Gateway between East and West”. According to Balaskrishan (2008), Dubai has been capable to attract foreign direct investments through incentives like no tax, free zones and the revised property ownership laws. The same author also underscore some aspects of Dubai’s development strategy, starting from an historic perspective, strategic vision i.e. tourism, transport, trade, construction and financial services, economic drivers, encouraging tourism, retail spending, strengthening services. Furthermore the author stressed the long term infrastructure investments that need to be funded with foreign capital becomes a destination product though often the initial capital outlay will be funded from the destination itself.

Dubai Cruise Terminals.

The Department of Tourism and Commerce Marketing, Government of Dubai owns and operates the Dubai Cruise Terminals located in the heart of the city at the Port Rashid. The Dubai Cruise Terminal serves as a home port for two leading European cruise liners Costa Crociere as well as Aida Cruises since 2006 and Royal Caribbean International from 2010. TUI Cruises starts its operation from the 2012 /13 season. Nevertheless, most of the world’s leading cruise liners have Dubai in their itinerary on their international and world cruise itinerary.

TABLE.1 – DUBAI PORT RASHID FACT SHEET

| Port Rashid: | Dubai Cruise Terminal 1: | | | Dubai Cruise Terminal 2: | | |
|--|--------------------------|------------------|----|--------------------------|--------------|----|
| Depth at the channel: 13 mts | Location: | Berth# | 31 | Location: | Berth# | 33 |
| Depth at the berths: 11 mts | Size: | 3,450 sq. mts | | Size: | 3,450 sq.mts | |
| Tidal variation: Edge of the pier to water level | Baggage handling area: | 1,200 sq.mts x 2 | | Baggage handling area: | 2,000 sq.mts | |
| Total berths (for cruise): 8 nos., 1890 mts | | | | | | |
| Berth nos. : 28 thru 35 | | | | | | |

Source: Dubai Tourism

4.1. Methodology

The research method adopted in this work is based on a case study. Despite the widely acknowledge limitations of this approach, especially in terms of reliability and validity (Ginsberg & Abrahamson, 1991;

Yin, 2003), this methodology has the ability to capture the full complexity of the studied phenomenon, including its 'softer' aspects. This is consistent with our research question:

- The effectiveness of public policies & the microeconomics implications on business development in the field of travel & tourism.

Given the research question and the aim of our empirical study to in-depth explore the importance of cooperation with local authorities, the effect of cultural and religious variables on the innovation process for new service development.

The aforementioned advantage of the case study method was a critical factor in selecting the research approach (Eisenhardt, 1989).

Information was collected between February 2012 and June 2012. Then, a structured case analysis was carried out, through which data and information collected have been elaborated, categorised and compared. The unit of analysis was the Dubai cruise terminal and first mover cruise line. The use of multiple sources of data (available company documents, registered interviews, specialized press) allowed the triangulation of evidences (Yin, 2003). Our investigation has been designed, according to what written in this article, assuming that the development of a new service is divided in steps ranging from idea generation to commercialization.

4.2. Evidences

Our investigation put in evidence both the effort of operators (cruise lines) and the local government, in particular DTCM.

4.2.1. Operator

The case study illustrates some determinants of business development.

Strategic planning: Cruise corporations operate in a global arena. Internationalization and innovation are interconnected but their relation has been widely neglected so far. Starting from literature Williams & Shaw (2011) focus on multinational enterprises suggest that innovation is essential in a successful internationalization process and that internationalization requires enterprises to own superior knowledge of the new market.

First routes using the Dubai Cruise Terminal as hub for the Gulf region were established in 2006; customers were mainly Europeans. Idea generation & screening: The idea of new routes from the Gulf have been driven both by the demand both by local policies, especially delivered by Dubai Tourism and

Commerce Marketing (DTCM) aimed to boost the passenger movements within the Gulf region. Most of the idea's screening process took place in collaboration with local authorities and advisors. Business analysis: Together with a detailed analysis of Dubai facilities for the business establishment, the estimation of profitability of the investment as well as the form of the local collaboration with Dubai Department of Tourism and Commerce Marketing, a business plan has been developed. Based on the early stage of the market, milestones of the business plan were the growth outlook of the demand, the lack of providers of Muslim-oriented cruises, the opportunity of local collaboration and the regulation for doing business. Compared with other Middle East competitor countries Dubai is considered business friendly according to World Bank (2011). Service design and market test. At the time being two sister ships are meant to serve this market. Although there isn't a given number of Muslim dedicated cabin, onboard environment is adapted. Main facilities are: prayers room for male and female, special food and drink, menu and signs in Arabic, Arab-speaking staff and TV channels, compasses to individuate the Mecca, alternative route to avoid casino and gambling. Entertainment & wellness Customers are provided with detailed maps of the cruise ship with the aim of let customers know where gambling areas are. HR development: Several studies focused on success factors in tourism, put HR skill training and empowerment as success factor. Frontline staff needs to be trained to fit not only requirements but also to comply with the culture. The traditional captain hand-kissing is avoided as well as handshakes and most of physical contacts with Muslim customers.

TABLE 2. CRUISE LINES IN DUBAI

| From Dubai | Cruising Dubai in their itinerary |
|---|--|
| Costa Cruises Aida Cruises Royal Caribbean Tui Cruises | Cunard Cruise Lines, Princess Cruises, Holland America Lines, P&O Cruises, MSC, Peter Deilmann, Silversea Cruises, Hapag Lloyd, Fred Olson, Seabourn Cruise Line, Campagnie Des Lles Du Ponant, Phoenix Reisen, Oceania Cruises, Mitsui OSK, Regent Seven Seas, Noble Caledonia, Saga Shipping |

Source: Dubai Tourism

4.2.2. Local government

The mid-1980s saw the start of the creation of the key institutions for the development of travel & tourism industry Haryoprato et al., (2011). In 1989, the Dubai Tourism Board was created and transformed into the Department of Tourism and Commerce Marketing ("DTCM") in 1997, it concentrated on international promotions and positioning Dubai as a resort destination (Davidson, 1998). Haryoprato et al., (2011) also suggest that the 2007-2009 financial crisis was particularly hard on Dubai's tourism cluster, as its focus on high-end foreign tourists left it exposed when global

consumption dropped. However as graph 1 show contrary to the trend of tourism income, the cruise industry has gone through the financial crisis and has seen growth rates in the presence of passengers.

Since 1997 DTCM set up a division to spearhead the growth in cruise tourism by tapping into this dynamic sector to further develop and promote the tourism industry in Dubai. The present Dubai Cruise Terminal (DCT) facility was inaugurated in March 2001. Dubai cruise terminal staff are involved in all aspects of operations from liaising with shipping agents, tour operators and local Government Authorities as well as providing customer support service to cruise guests during ship arrivals. As above is also supported by the fact that despite the current global financial crisis, the current project pipeline will see Dubai growing its hotel room capacity by more than any other city in the world Haryoprato et al. (2011).

5. CONCLUSIONS AND IMPLICATIONS

In this paper we have considered business and local development opportunities in Dubai and European cruise lines. After an introduction of the concept used, NSD, NPD and clients' characteristics we have introduced innovation in tourism and finally investigated the service development process. Once identified the literature, we have selected those which best fitted our scope and selected a framework to conduct our analysis.

In fact, the available literature supports our assumption that, despite the peculiarities of the services with respect to the product (especially because of the simultaneity of production, delivery and consumption) a common framework is adaptable. Hence, we have identified strategic planning, idea generation, idea screening, business analysis, service design and market test, personal training and commercialization.

Regardless of the current relevance only a few studies explicitly concentrate on the dichotomy Business development – local development; actually there is a gap in the managerial literature.

In particular, the NSD phases have been analysed in Costa Crociere S.p.A which has recently amplified its offer throughout new routes based in the Arab Peninsula with specific services for Muslims. On the other hand Dubai was selected as local unit of study because of its efforts to increase travel and tourism industry in order to diversify its economy and weaken its dependence on oil.

Moreover the decision to investigate a single case has allowed to precisely understand how and in which phase an existing service should be adapted and how a new one should be designed, therefore travel operators can now better understand business opportunity of a such upward market.

Strategies to expand the corporate offer throughout the whole year and the increasing of the region demand have been determinant to enter the market. The case study confirms our hypothesis that Dubai tourism represents an opportunity of growth for global hospitality industry and reveals that:

- Local government and cruise line management share a common future: the capability of anticipate demand.
- Many actions have been undertaken to guarantee: availability of alcohol free drink, gender segregated staff with a dedicated dress code, availability of prayer rooms, gender segregated wellness facilities, daily group games not involving physical contact between men and women, cine and theatre programs adapted in order to avoid adult contents, service fees as well as supplements and extra prices well communicated, Islamic entertainment programs and TV channels, menu with halal food, Compasses to pray in the direction of the Mecca and guides to prevent casino and night club.
- This case study focuses on a business operating in a specific geographical area – Arabian Peninsula – where the cooperation with local authorities as well as trade and marketing agencies is desirable. Because of the nature and the purpose of this study there are some unavoidable limits: first, although we have carried out an in depth analysis, this study is based on a single case, therefore results shouldn't been extended to the entire sector. Future developments will concern the analysis product life-cycle and economic impact of new cruise routes in specific emerging markets.

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