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Research Paper

From potential to ability to compete: Towards a performance-based tourism competitiveness index

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ABSTRACT

The purpose of this study is to design a ranking system for tourist destinations. The ranking system will be grounded in the competitiveness theory. The main tenet of the study reveals that the nexus inputs–outputs as entertained by several indices are not automatic. The study claims that a meaningful measurement of tourism competitiveness is performance. The study designs a tourism competitiveness index (TCI) derived from satisfaction, productivity and quality of life. The ranking in this study shows inconsistent results when compared to the World Economic Forum (WEF) tourism ranking. That is, the WEF tourism ranking revealed that countries at the top of the ranking are not necessarily strong in real tourism receipts per capita and quality of life; while the current study indicated that they actually are strong in those areas. The study further found that these two attributes (i.e. real receipts per capita and value added) strongly correlate with quality of life stressing the attributes of receipts per capita, value added and quality of life and their correlation as important elements in the descriptive theory building of tourism competitiveness.

1. Introduction

Despite its heightened attention, competitive advantage could be a “problematic concept”. The mainstream literature struggles with the vagueness of the concept reflecting a multiplicity of meanings, rendering applicability of the concept challenging. The core conceptual work is based on the studies of Crouch and Ritchie (1999), Ritchie and Crouch (1993, 2000, 2003) and Ritchie, Crouch and Hudson, (2001). Their work shaped the theoretical and conceptual foundations for the tourism competitiveness literature. They defined competitiveness as “…[the] ability to increase tourism expenditure, to increasingly attract visitors while providing them with satisfying, memorable experiences, and to do so in a profitable way, while enhancing the well-being of destination residents and preserving the natural capital of the destination for future generations” (Ritchie & Crouch, 2003, p.2).

The conceptual foundations of competitiveness theory are contested by Krugman (1996) who questions the usefulness of the concept based on the theory of comparative advantage. Lall (2001) also asserts that the concept makes sense only under the condition of market failures and advocates for more meaningful interpretation undergirded in sounder theoretical and empirical foundations. The literature regarding tourism competitiveness is riddled with definitional and measurement issues (Dwyer & Kim, 2003; Gooroochurn & Sugiyarto, 2005). And yet, destinations are confronting increasing competition requiring managers to engage in prioritization of actions and deciding the allocation of resources that will benefit tourism development.

Three reasons seem to induce increased competition. According to Vanhove (2005), there are an increased number of destinations while the number of originating markets has remained unchanged thereby increasing competition. Mangione, Durbarry, and Sinclair (2005) assert that destinations have become easily substitutable. And, Papatheodorou and Song (2005) found that despite increased demand in tourism globally, growth rates of tourism demand have fallen significantly over the past 50 yr. It is not surprising therefore that Croes (2011) concluded that competition between small island destinations in the Caribbean has become fiercer. Destinations in attracting and satisfying current and potential new customers are required to do this better than their rivals. Seen in this light, destination competitiveness is becoming increasingly important, especially if more economies are relying on tourism (Gooroochurn & Sugiyarto, 2005).

Determining the level of competitiveness of destinations is important in measuring the performance of a destination compared to its competitors. Competitiveness has been conventionally measured through indices. An example is the travel and tourism competitiveness index (TTCI) launched by the World Economic Forum (WEF, 2011). The TTCI is the most popular tool to rank

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countries in terms of their tourism performance. Yet, the TTCI seems more a systematic collection (comprehensive notwithstanding) of data than a model that reveals clear testable association among variables thereby facilitating inferential analysis.

The existing indices require countries to collect data based on a myriad of indicators, such as price and human factors, while there is no direct association between these indicators and the competitive level (outcome) of the countries (Croes, 2011; Mazanec, Wober, & Zins, 2007). For example, the Crouch and Ritchie model is based on the premise of potential cause-and-effect relationships similar to other indices. It is not clear how this potential is transformed into ability. The information requirements from those indices are based on the assumption that inputs can reflect outcome expectations. For example, the assumption of good roads, infrastructure, or heritage assets can predict attraction, thereby resulting in increased arrivals.

Inputs reference the potential of destinations to realize the objectives of tourism development, but potential does not necessarily turn into making a destination more attractive, prompting increased demand and enhanced quality of life. The nexus inputs–outputs are not automatic (Croes, 2011). Mediating factors, such as market distortions, inequality and institutional weaknesses, can weaken the ability of destinations to better the quality of life of residents and tourists alike. In addition, the attention to potential can provide the wrong information as to the allocation of scarce resources towards tourism development as an economic and social tool for the betterment of the residents.

Arguably, these challenges affecting the ability of destinations are more pronounced in developing countries (Acemoglu & Robinson, 2012; Easterly, 2002; Lall 2001). More schooling in developing countries has not ensued in sustained higher economic growth in developing countries. Creative destruction did not get a foothold in developing countries because unpredictable government policies got in the way, negatively affecting investments and innovation (Acemoglu & Robinson, 2012). But even if the throughput process in developing countries is not riddled by market imperfections and inequality, most developing countries would lack such an elaborate list of indicators as required by several indices. Data is hard to come by in developing countries because collecting data is costly and time consuming, indicating, for example, why household surveys are done every 5 or 10 yr.

The quality of timely, accurate, and accessible data is crucial in the planning and development of tourism. This is not only because of the need of promoting quality tourism products to keep up with increasing competition, but also on its impact of government budgets of developing countries. Developing countries in particular have embraced tourism as a development strategy to reduce poverty and diversify the economy (Mitchell & Ashley, 2010) and therefore need timely and accurate information pertaining to how tourism is affecting poverty reduction. Therefore, simple models that can provide a quick snapshot of reality are crucial for developing countries in their quest for development.

This study departs from the input/potential based approach and suggests that an output/performance based approach is a better measurement for competitiveness. While the former is premised on the potential of a destination, the latter is grounded in the ability of realizing memorable experience and enhanced quality of life. The ability of a destination can be measured as the aggregate of a large number of internationally competitive firms in the tourism sector, which perform strongly in exports. Exports, however, can take place simultaneously with diminishing real income, which is not considered as being competitive (Crouch & Ritchie, 1999; Hatsopoulus, Krugman & Summers, 1988). For competiveness to happen, two conditions should be present: (1) strong increase in tourism receipts and (2) enhanced quality of life.

Because it is difficult, if not impossible, to align all inputs with outputs of memorable satisfaction and enhanced quality of life in a causality framework, the study assumes that results reveal the most efficient configuration of inputs. Observing results as the unit of analysis is a good indication of performance of a destination. The dynamic environment surrounding tourism development and the pressure of competition requires governments and/or firms to make accurate assessments of the industry in order to recalibrate or reinvent the product in a timely fashion. In this context, measurement of performance is critical to making sound policy and business decisions (Croes, 2006).

Performance is an economic principle and is directed towards results over time. The concept is embedded in productivity (Croes, 2006, 2011) and its effect on quality of life. The measurement of competitiveness makes sense only in the context if productivity and quality of life are positively related. This study proposes a model ranking of countries based on performance. Productivity is captured through tourism growth and value added of the tourism product, while quality of life is captured through the concept of human development (Croes, 2012). The tourism competitive index (TCI) proposed in this study is characterized by its simplicity, by the wide ranging effects of the indicators, and by the minimum data requirements.

This study applies the proposed ranking to the Central American region and compares the respective performance of each country within the region. This area has embraced tourism as a development strategy to reduce poverty and enhance development in the Central America countries. These countries have engaged in restructuring their economies away from traditional agriculture and towards services and manufacturing (Ulate, 2006; Cañada, 2010). This restructuring was necessary in view of the declining competitiveness of the agricultural sector and the need to improve competitiveness in non-traditional sectors. Consequently, the region has recently become an active participant in attracting tourism. Tourism development has been uneven in the region with some countries having a longer history of tourism development than others. Similarly, some countries have been more successful in attracting tourists than others (Hammill, 2007). The ranking of the TCI will then be compared to the TTCI ranking as it pertains to the Central American countries.

The rest of this paper is organized as follows. Section 2 presents an overview of the literature covering the conceptual foundations of the competitiveness theory, definitional and measurement issues, and rankings. Next, Section 3 discusses the model, reviews the data and the applied methodology. Section 4 presents the empirical results, while Section 5 concludes and offers policy implications and limitations for future research.

2. Assessing competitiveness: Emerging issues from the literature

The conceptual foundations of competitiveness theory oscillate between the Ricardian theory of comparative advantage and the Porterian framework of competitive advantage. The former emanates from the international trade paradigm, while the latter stems from management theory. Resource availability is the crux of creating advantage among countries, according to the comparative advantage framework. This framework is embedded in the cost principle that determines the flow of goods and explains supply-side variations among countries. Management theories, on the other hand, posit that an advantage lies in creating core competencies in deploying and using resources effectively (Smit, 2010).

The two paradigms appear at first sight as mutually exclusive conceptualization of these two phenomena in the context of national competitiveness. The source of the foundational exclusiveness seems to be the nature of competition. While international trade theory claims that competition results in welfare gains