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Crisis: a driver for tourism innovation and service design?

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Abstract

Tourism entrepreneurs adapted to regulations during COVID-19 by introducing creative solutions. The crisis was said to be a unique opportunity for innovating sustainable businesses. This study investigates crisis as a driver for innovation and its relevance to service design. Interviews with entrepreneurs are the empirical base that highlights that finetuning existing services is an established approach instead of innovative service design. Few expressed lessons were learned from the creative solutions made during the pandemic, suggesting that strategies for innovation need to be developed.

Keywords: service-oriented design, innovation, user-centred design, design thinking, tourism and hospitality

1. Introduction

Many of the tourism businesses in Sweden did not survive the initial stage of the COVID-19 pandemic; 3,000 companies, or 20% more than average, applied for bankruptcy (Sveriges Riksbank, 2020). Investigations showed that, for example, the amusement and theme parks lost 80% of their turnover in 2020 (SCB, 2021) and that restaurant turnover more than halved, leading to extensive layoffs and dismissals (Visita, 2021). Cinemas, events, attractions, museums, and culture were also experiencing severe impacts. The interconnectedness across the different tourism services on a national level became evident very quickly. All were stricken by the crisis simultaneously, i.e., from one day to another. Those business problems happened even though Sweden did not apply lockdown as a national countermeasure. However, the Public Health Agency of Sweden continuously regulated how businesses had to be made safe for citizens and visitors. The crisis forced the tourism and hospitality entrepreneurs to adapt to regulations. The situation implied increased uncertainty. It took the entrepreneurs much work to foresee or even make qualified guesses about the next step of an upcoming regulation. Those adaptations introduced innovative new solutions almost monthly. For example, the number of people in the supermarket was regulated; to know the number of customers, a display showed how many were inside.

Some solutions were digital value-added services, which were radical compared to the usual analogue business idea, e.g., eat-in vs. online takeaway, shop in-store vs. e-shopping. Also, the staycation trend, i.e., vacation in your own country, was not anticipated but turned the market from international visitors to national having different requirements. In sum, everyone did their best to be informed and to find solutions to uphold their businesses on a day-to-day basis.

Sweden's tourism and hospitality industry is mainly comprised of micro and small companies, i.e., categorised as SMEs with less than ten employees. Nevertheless, the tourism industry creates jobs for 100,000+ persons (Tillväxtverket, 2021a). The small-size companies in the industry imply that they have marginal resources but also do not have sufficient in-house competencies. Earlier studies have found that design thinking and innovation, i.e., the capability to design new services, are generally

missing, resulting in a traditionalist mindset or business-as-usual approach (Ericson, Holmqvist and Wenngren, 2016). However, designing radically new services and introducing them to markets is challenging for any small company (Ericson, Wenngren and Nilsdotter, 2013). Furthermore, other research suggests more empirical studies of tourism entrepreneurs' innovation practices (e.g., Engen et al., 2019).

There is a saying that necessity is the mother of invention. Innovative solutions were, in hindsight, helpful for keeping tourism businesses alive during the pandemic. The crisis prompted new services and changes in tourism habits, which could also be beneficial in the aftermath. Taking advantage of changed patterns and behaviour is recommended to build capabilities to meet future challenges or new crises. Researchers and practitioners have pointed to the grand challenges posed by the COVID-19 pandemic, concluding that it could be a unique opportunity for the hospitality industry to choose a sustainable path forward (e.g., Ioannides and Gyimóthy, 2020). Thus, a crisis could be a stepping stone for designing sustainable services and leveraging digitalisation benefits. Later investigations indicated that Sweden and the rest of the world had likely missed this opportunity (e.g., O'Callaghan and Murdock, 2021). By 2022–2023, the industry seemed to have recovered, with the number of tourism nights surpassing 2019 figures in Sweden and most other countries in the EU (Eurostat, 2023; Tillväxtverket, 2023). Today, it can be concluded that the recovery has been at the expense of becoming more sustainable since visitors are returning to pre-pandemic habits.

This study empirically explores how actors in the tourism and hospitality industry reason about innovation and the design of services. The objective is to investigate crisis as an innovation driver for the design of new services. The investigation is done to gain insights into how tourism entrepreneurs addressed new services or service innovation design both under and after the pandemic.

First, we will present insights from earlier research addressing service innovation and design. Second, we will describe the design of the empirical study. Third, the empirical results are presented and discussed.

2. Service innovation

It is sometimes argued that service innovation differs from product innovation, e.g., one concerns intangibles and the other physical goods. Drucker (2002) explains innovation as knowing rather than doing, while Brown (2009) combines both knowing and doing in the design activities. Innovation is described in this paper as the capability to design new services. Capability implies that the outcome of the process can be either a service or a product. However, services and products were previously defined by highlighting the distinctions between, for example, product as a thing and service as an activity or process, and the transfer of ownership of the item and no transfer of ownership of the activity or process (e.g., Grönroos, 2000). Vargo and Lusch (2004) concluded that a shift in almost all industries had started going from a goods-dominant logic to a service one, see Table 1.

Table 1. Rationale shift (adapted from Vargo and Lusch, 2004, p.7)

Goods dominant	Service dominant
Exchange of things	Exchange to access to skills, competencies and similar
Technological function or attributes	Solution to a user problem
Maximation of revenue	Co-created value
Delivery	Experiences
Manufactured	Performed

Vargo and Lusch (2004) elaborate on operand and operant resources concepts. Operand resources are typically things, while operant resources are human, organisational, informational, competencies, and similar. In a goods-oriented view, customers are considered operand resources, objectifying them by, for example, being able to segment and penetrate the market. The goods-oriented operand way of acting is discussed as an issue for the climate crisis today, i.e., we have acted on land, animal life, plant life, minerals, and other natural resources, and those that possess the resources are considered wealthy

(Vargo and Lusch, 2004). By referencing Penrose (1959), Vargo and Lusch (2004) highlight that servitisation is more sustainable, i.e., to create value in the customer processes. This view is manifested in research on product-service systems as circular, user-oriented, and result-oriented solutions rather than offering standalone commodities (e.g., Tukker, van den Berg, and Tischner, 2006; Lusch and Vargo, 2006). However, despite an increase in service research within the engineering field, services are often seen as add-ons to goods (Secomandi and Snelders, 2011). Being stuck in a traditionalist cognitive model can cause a lock-in of the innovation capability of designing more sustainable solutions (Könnölä and Unruh, 2007).

Services are produced and consumed simultaneously (Grönroos, 2000), inevitably involving the client and the employer in the innovation processes. As such, the innovation processes become active in customer interactions. Engen, et al. (2019) investigated previous research within tourism and found a gap related to those interactive features of innovation. They suggest further research into two dimensions of employer involvement, i.e., the intensity of employee influence and the breadth of innovation activities. The breadth of innovation relates to work tasks, on-the-job innovation at the micro level, and whether innovation remains task-oriented or is transferred to the company level. Employee influence relates to their concrete actions, for example, recognising the customer's need for a new solution, realising new ideas in the service provision, and scaling up new solutions. Other research has also identified employee influence as an under-researched area (Näppä, Ek Styvén, and Foster, 2023).

Hallonsten (2023) has studied the governmental attitude to innovation and concludes rather straightforwardly that the *"obsession"* and *"unrealistic expectations"* often *"means producing reports, brochures and marketing slogans"* (p.4-5). Thereby distinguishing real innovation from empty innovation. Activities that characterise empty innovation are, for example, "*talking about innovation, launching projects and programs to spur innovation, and holding events about innovations"* (p.81), i.e., mostly talk and no actions. Hallonsten (2023) concludes that real innovation must have contributed to progress and growth even when understood as unfavourable and not promoted by governments and authorities.

Previous studies have concluded that the innovation processes among SMEs depend not only on knowledge about a home market and the owner's expertise but are also ad hoc and non-formalized (Ericson, et al., 2020). Also, the owner's attitude and ambitions towards innovation either drive or hinder the processes (Klofsten, et al., 2019). It has been concluded that innovation must be aligned with the established business's social dynamics and corporate culture (Kupp, Anderson and Reckhenrich, 2017). Yet, implementing agile innovation approaches, for example, design thinking, in established processes or certain organisational cultures is problematic. Such efforts often rely on a few passionate innovators who lack support from middle managers and are sometimes even opposed by colleagues (Lugnet, Ericson and Larsson, 2021).

Examples of barriers to innovation are (adapted from Kupp, Anderson and Reckhenrich, 2017):

- Specialisation manifests specific viewpoints, e.g., departments, responsibilities, roles, or niche businesses in the case of SMEs.
- Human speed bumps, e.g., someone relating the role to a responsibility to stop things from happening (legal, regulatory, etc), or in the case of SMEs' business, the owner's attitude, and ambition.
- Failure phobia could lead to false analyses of consumers' buying behaviour, e.g., to avoid making mistakes, too broad and unspecific user hypotheses are formulated, which are impossible to test and to be held responsible. In the case of SMEs focusing on a home market that is already thoroughly understood.

One fundamental characteristic of successful innovative business leaders is branded as innovation capital (Dyer, Furr and Hendron, 2018). Innovation capital comprises three main intangible characteristics, i.e., human capital, social capital, and reputation capital. The ability to commercialise novel solutions comes from who you are (human capital), who you know (social capital), and what you are known for (reputation capital). Innovation capital is not given by birth but must be built up purposefully (Dyer, Furr and Hendron, 2018). In the context of SMEs, it seems essential to overcome the resistance from the owner (Klofsten, et al., 2019). An investigation of barriers among SMEs,

destination developers, and business consultants in the tourism and hospitality industry indicates some general obstacles Johansson (2023):

- Limited internal resources due to micro or small-scale businesses. Risk capital is lacking and is hard to attract from external sources.
- Low educational level compared to other businesses. This impacts the ability to drive innovation, follow up, and develop innovation processes. Also, the low level affects the absorptive capability negatively, i.e., problems in assimilating and exploiting new knowledge.
- Problems in attracting talented people with relevant competences due to working conditions, low wages, and relatively exposed profitability and employment, e.g., the layoffs during the pandemic or economic regression.
- Weak tradition of cooperation between actors at different levels. Cooperation and networks among local actors at the same level are strong, but innovation efforts rarely go external, connecting larger companies at higher levels of tourism services.

Nevertheless, Engen et al. (2019) suggest further research into the innovation activities in the tourism industry.

3. Methodology

The study is based on semi-structured interviews involving seven respondents from different tourism and hospitality companies and a workshop involving five respondents from additional companies. Nine respondents were the owners and CEOs from micro companies, and three were managers or project managers from larger support organisations. The semi-structured interviews lasted from one hour up to two hours. A conferencing tool with recoding support was used in four online interviews, and three were conducted at the tourism service sites. The interviews at the sites were voice-recorded. The site visits also included guided tours of the facilities, simultaneously describing how customer experiences are obtained. The workshop was held at the location of one of the respondents, i.e., a guesthouse and conference site. The respondents have also shared material, e.g., statistics and their investigations concerning visits.

In addition to the recordings, field notes were taken. The voice recordings have been transcribed and, in combination with field notes, provided the base for text analysis. Semi-structured interviews imply a conversation with a purpose (Mason, 2002). The interviews, therefore, addressed specific themes upon which the respondents could formulate their answers freely, i.e., using their own words (Miles, Huberman, and Saldaña, 2019). This study was organised into three themes, i.e., innovation, digitalisation, and sustainability. Innovation is the central theme for the part of the study presented in this paper. The themes have provided predefined categories for the text analysis, i.e., respondents' expressions have been matched with each category (Silverman, 2000) if the respondents describe efforts of designing a service that matches the category innovation.

The workshop was designed in line with the first phase of a design sprint. The design sprint is commonly seen as originating at Google Ventures and their five-day workshop approach (Knapp and Zeratsky, 2016). The first phase includes mapping out problems. In this case, addressing approaches for designing new services was the focus of the 6-hour workshop. The workshop and the sprint format were chosen because we have, in earlier studies, found that tourism entrepreneurs prefer to talk about the solutions rather than the efforts, i.e., they do not reflect upon innovation processes and their challenges. The respondents used an A3 paper format to visualise and describe their thoughts. The A3 sheets were collected, and the workshop data was added to the analysis with field notes.

The respondents run and provide services at restaurants, museums, bed and breakfasts, experience nature tourism, destination development, accommodation, conferencing facilities, and stores. Five companies in the study are active in high-quality nature tourism accommodation and are highly ranked by visitors on TripAdvisor. Those sites communicate sustainable designs in the form of buildings in wood or logs, also demonstrating cultural heritage and authenticity. Three companies can be categorised as activity and experience providers, and one can be classified as a conference site with accommodation and activity services. The study also includes three support organisations since they also design new tourism services; see Table 2 below for an overview.

Table 2. Overview of respondents

	Company Type	No. of employees	Participation in
1	Nature activities & experiences	1	Workshop
2	Cottage village & conference	18	Workshop
3	Guesthouse & conference	3	Workshop
4	Farm shop & Hunting lodge	1	Workshop
5	Horse farm & equestrian activities	1	Workshop
6	Destination marketing organisation	(county council authority)	Interview
7	Hotel & arctic experience	4	Interview
8	Lodging & experience	2	Interview
9	Museum	(state owned)	Interview
10	Cottage village & arctic experience	1	Interview
11	Lodge & cultural experience	1	Interview
12	World heritage organisation	(municipality)	Interview

4. Insights from practice

4.1. Doing and not innovation

We use the term 'tourism services' to denote the offerings from the companies. However, the respondents use the terms 'product' and 'service' interchangeably. Communicating in English is generally no problem, but sometimes it becomes tricky; one respondent said:

> *I made the mistake of saying that I had 24-seven services. One guest called me in the middle of the night and asked for a candle. I had to change to be available on call around the clock in case of urgent issues.*

When describing, for example, managing problems, the match with the service orientation (Vargo and Lusch, 2004; Lusch and Vargo, 2006) to ensure good experiences becomes evident. One respondent described a problematic situation:

> *We had an electricity failure; staying in the cottages was impossible. The toilets and the water are run on electricity. The alternative was to cancel the booking and close the site, but I re-booked the guests to another company's site and ensured that the visitors had an excellent experience anyway. I did not earn money, but it demonstrated my hosting.*

The respondent explained further:

> *I am solution-oriented. I do not go around and prepare for managing problems or crises. I am more here and now. I do not know if it is good or bad. It is just who I am. I solve problems as they appear.*

The respondents generally describe their service innovation as: *"We just do it"*. And they do not have words to describe it as a process or an intentional strategy. This can be interpreted as typical for SMEs as found in previous studies (Klofsten, et al., 2019; Ericson, et al., 2020.; Johansson, 2023). But it can also be interpreted as embedded in the service-oriented approach, i.e., to address the situation from a user or customer point of view. The human-oriented operant resources (Vargo and Lusch, 2004) thus guide the processes. Hence, innovation becomes ordinary work and is not considered a new service design per se.

A respondent described the activities during the pandemic as:

> *That was not innovation. It was more that we adjusted to meet new restrictions. Not particularly innovative. We understood that we had to do our best under the conditions at that time. I call it self-preservation. We did not change the product, but we changed the market. We were not innovative; we were just flexible.*

Nevertheless, when the respondents talk about how they manage problems or make use of an opportunity, they describe their mindset in a typical innovative thinking approach:

> *Can I think differently? Can I do this in another way? What can I add? How do I build further upon this? How can I develop this? What can be created? I am very much up in the sky and need someone to take me down on earth to do business. I have a good partner who is a sounding board but also the one to make me implement things.*

4.2. Crisis as a catalyst for innovation

The respondents from the companies had no formal education in tourism. One came from the construction industry, one had worked in tourism, and another had been a hairdresser. One had experiences from a travel agency and a restaurant. Overall, they were self-taught, but they had long-time first-hand experiences. When they describe the situation during the pandemic, it becomes clear that they adapted their businesses to uncertain conditions. One respondent talks about the crisis in March 2020 when the world closed from one day to another:

> *It was cancellations, cancellations, cancellations! This was a knockdown blow for the business. Since we just built the site, we have had large debts to local contractors and carpenters. It was the cash flow that should ensure that these were paid. It was recommended that I go bankrupt, repurchase the place, and start all over again. That was not how I reasoned. I know all the local entrepreneurs and like to keep them as suppliers. I was determined to save the company. I worked hard for 1.5 months to find financial support and paid at least 25% of their claims. Today, they are still suppliers and good friends.*

Another respondent said her company went bankrupt during the pandemic, and the customers held her personally responsible. They felt fooled by the company. The situation became critical for the owner's health, but seeking external support resulted in better self-confidence: *"This is what I know and am skilled in"*.

A respondent describes a bumpy journey from stable conditions of running a successful business to losing the contract for operating at the site to the starting stage of a new company just as the pandemic closed the world. This respondent describes a struggle where idea after idea did not work due to COVID-19 restrictions. The pandemic hit the respondent's business in at least two waves, i.e., it survived the first months but suffered from being hit in the second pandemic wave within a few months. The respondent described numerous efforts. For example, a new company was started in another business area, but it turned out that the person recruited for a position in the new company was not appropriate. This led to being forced to shut down the company, which was drained of money at that stage.

> *What to do? I had no income. But then I was contacted by journalists who had heard about my previous business, and they wanted to write a report for a travel magazine. What could I do? I am thinking in terms of resources. I am a resource, have a kitchen and table, and have excellent hosting skills. I realised that I could offer a good product right here where I live. The journalists came and were very satisfied. In turn, the report rendered requests from international tour operators. I think it is essential to be present in the relevant context with relevant people. If so, it supports using other resources and frames of reference than I have.*

Thus, the human-oriented operant resources (Vargo and Lusch, 2004) were also, in this case, central to the new service design.

4.3. Collaboration and growth

The traits of perseverance and passion can be recognised in the respondents' descriptions. Also, it relates to the three intangible characteristics of innovation capital (Dyer, Furr and Hendron, 2018): human, social and reputation capital. The respondents speak of keeping good relations, using external resources,

and upholding reputation as a trustable partner or building a more substantial reputation of existing products than innovating new services.

The expectations of tourism as Sweden's next largest national industry are high. So, the respondents feel the pressure of growth. The respondents described the relationship between providing new or extended services as a conflict with the core of being a small company; *"How large do I wish to be? Am I eager to hire more staff? No, I would rather not"*. In addition, hiring and training new employees was found tricky since new staff see the employment as a stepping stone into other employment. So, staff tend to leave soon, making the respondent hesitant to hire people.

It was essential to keep the small scale to ensure good hosting and hospitality. Hosting was a common element to ensure a good stay. One respondent explained that being present at check-in was necessary and doable due to the small-scale business. Complaints were more easily managed by being there, and direct interactions provided a better understanding of the guests' needs and requirements. It was also said that presence and building a relationship was the core of hosting. One respondent described hosting as; *"It should be cosy"*. The companies' small-scale businesses and nature-based products were successful during the pandemic. However, the companies had to provide additional services to offer the incoming international guests COVID-19 tests during the second wave to enable travel back to their home country. Nevertheless, in the aftermath of the pandemic, one company realised they must scale up the business to make a living on the income. Currently, the company is testing the limit for the number of guests without decreasing the excellent hosting.

> *"How many are max people? Is 18-20 people too many for this small place? Which aspects are building hospitality? Can I see and interact with all the guests? Do they perceive the visit as genuine and unremarkable? I want it to be small-scale, but I do not know the limit."*

The respondents describe challenges related to lack of support from politicians and that the support representatives often do not understand radical ideas. It is stressed that this is not to be intentionally *"evil"*. Instead, the respondents perceive that external support needs relevant knowledge. For example, several companies in the study develop their tourism product on nature, regional culture, and heritage related to a rural place. Still, when presenting ideas, they can be met with suggestions to provide the service in more populated cities. One respondent also described that ideas must be presented using familiar words; *"as a concept they could relate to"*. Hence, the respondents perceive that there are expectations from external support organisations to provide products that build on a stereotypical and mainstream view. Such expectations result in getting stuck in certain types of services. i.e., they must be designed in a certain way to enable marketing. However, this situation can be compared to a lock-in of the innovation capability (Könnölä and Unruh, 2007).

One respondent described fewer good experiences of cooperation. The respondent realised that the cooperation only went one way; *"I work too much for everyone else, and I get too little in return"*. This resulted in a decision to carefully select collaborations that resulted in benefits for both, i.e., the own company and the partner's company. Finally, the respondents say they must apply for project funding to support growth by innovating new services. The time-limited project funding forces them to start *"from scratch"* every time, i.e., they get no progress over time. This aligns with the overconfidence that innovation would, by default, lead to growth (Hallonsten, 2023).

5. Concluding reflection

Tourism entrepreneurs adapted to COVID-19 regulations by inventing new services, and the pandemic resulted, in that sense, in a change in visitors' behaviour and markets. Successful innovations originate from actors close to the market; hence, it could have been expected that the entrepreneur's efforts would have inspired an innovation strategy. Also, research expectations pointed out the pandemic as a unique opportunity for the tourism industry to take a sustainable path in which innovation is vital (Ioannides and Gyimóthy, 2020). This paper's objective was to investigate crisis as a driver for innovation and the design of new services. The investigation aimed to gain insights into how tourism entrepreneurs address such challenges. From this perspective, innovation is acted out on a micro level, i.e., within the small company. This implies general issues, also identified in earlier studies. For example, limited human

resources, problems to attract capital, and difficulties to attract and keep staff (Johansson, 2023). The importance of interactive features of innovation (Engen et al., 2019) is also supported by this study, i.e., employer involvement or, in the case of a micro company, the participation of the owner.

Specifically, this study showed that service innovation was not part of the entrepreneurs' expressions. Instead, they explain it as problem-solving or, in the case of the pandemic, to adapt to regulations. However, what they did can be interpreted as service design. However, only limited insights appeared due to the temporary mindset, and seemingly, they did not contribute to an innovation strategy. It can also be questioned if small and micro companies must innovate to develop new business opportunities. Regarding growth, the respondents expressed that they are content with their business if they can make a living. As the respondents indicated, a barrier to innovative growth can be the central function of hosting in their services. Thus, finetuning existing concepts and solving problems are instruments to remain small-scale, e.g., relating to the barrier of specialisation and niched businesses (Kupp, Anderson and Reckhenrich, 2017). Nevertheless, they feel pressure to grow since they also know the expectations of the tourism industry. This might indicate a view of innovation as a new commercialised product or service rather than a capability and a learning process. Further, support from external organisations was a barrier to innovation since the entrepreneurs had problems presenting radical ideas and getting understood. Yet, this might relate to the barrier of human speed bumps (Kupp, Anderson and Reckhenrich, 2017), i.e., acting in the role of external organisations' legal and regulatory roles.

Finally, the creative approach described by the respondents to adapt to regulations during the pandemic aligns in some parts with user-centred design and related concepts, e.g., design thinking, user experience, and agile innovation. Thus, suggestions for further studies are to address these upfront and based on the unique tourism conditions. The tourism and hospitality industry is likely to provide interesting cases for studies with a design perspective.

Acknowledgement

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