

**Hopping onto the bandwagon of tourism: why institutions matter to
achieve economic growth through tourism**

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Abstract

There has been a progressive surge in the numbers of tourists trotting across the globe since the end of World War II. Both developed and developing countries are keen to hop onto this bandwagon in order to reap the promising economic prospects that tourism can bring to a tourist destination. However, academia is divided about the effects of tourism on destinations. The first school of thought emphasizes that the positive effects of tourism outweigh the negative, and that tourism is a panacea for the development issues of a country. The other school of thought dwells on the negative effects and the hidden costs of tourism that could be detrimental to the host country in the long run. This paper discusses the basic concepts used in the tourism discourse and the two schools of thought that analyze the relationship between tourism and economic development. The paper argues that tourism can very well be a vehicle for the economic development for developing countries if they can withstand the competition posed by developed countries and tourism-related Multi-National Corporations, while minimizing the leakage of tourist dollars from the local area. The paper thus discusses strategies in tourism that are generally favorable for developing countries, and recommends improving Small and Medium Enterprises through community-based tourism as keys to the economic development of the. The paper hypothesizes that both formal and informal institutions may affect the degree of economic growth that can be achieved through tourism, especially by affecting the type and degree of community participation. The paper demonstrates that informal institutions can have a greater effect since they can influence the functioning of formal institutions. The paper argues that the manner in which institutions operate can not only maximize the benefits of tourism but can also minimize negative impacts.

Keywords: Tourism, Development, Institutions

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Introduction

Tourism is no longer a privilege enjoyed by the rich and the elite. It is neither a luxury offered to and by the developed nations of the world. Instead, tourism has become one of the leading and fastest growing economic sectors in all parts of the world. Data for 2014 indicate that tourism generated ten percent of the world's Gross National Product (GDP) and one in every eleven jobs was directly linked to tourism. In the year 2018, tourism earned \$ 1.7 trillion globally, which accounted for seven percent of the world's exports and 29 percent of the world's service exports (UNWTO, 2019: 8). Its implications for development are becoming pronounced with every passing year, as annual world tourist traffic grows rapidly. There was a six percent growth in the tourist movement, which totaled 1.4 billion tourists travelling across the globe in 2018 (UNWTO, 2019: 2). Recent statistics and studies have also shown that emerging nations, less developed countries and small island developing states (SIDS) are more likely to benefit from tourism than developed countries due to tourism's capacity to contribute to a country's GDP and employment generation (UNWTO, 2015, pp. 11-14; Holden, 2013, pp. 58-64; Telfer and Sharpley, 2008, pp. 15-25).

However, it is widely discussed how tourism can also act as a double-edged sword, letting in a host of negative effects into destinations. The challenge remains with the destinations to mitigate the negative effects and maximize the positive. The main aim of this article is to first discuss the two opposing theories that have examined associations between tourism and economic development, and then, to examine in detail the theory that argues that tourism is an effective strategy for economic development. The paper then argues that some of the barriers to economic development in local areas can be overcome by developing small and medium enterprises through community-based tourism. Thus, mitigating the negative effects and maximizing the positive lie in the particular strategies of community-based tourism that are employed, and they must be carefully adopted and adapted to suit the destination.

Tourism and Economic Development: An Overview

1. Tourism

Tourism used to be a heavily-debated subject. The debate was mainly due to the narrow, traditional definition of tourism, which was confined to those who travel for leisure. In other words, tourists were considered to be those who traveled for enjoyment or relaxation and leisure. Disagreements intensified with regard to who should be considered as a tourist, with the entry of more complex concepts such as ecotourism, alternative tourism and slow tourism

etc that have made their way into the tourism glossary in recent times. The result of this innate complexity of definition has been a proliferation of operational definitions that differ vastly from one another. In order to avoid misconceptions and measurement errors that arise from such confusion, the United Nations World Tourism Organization (UNWTO), The World Travel and Tourism Council (WTTC), The Organization of Economic Cooperation and Development (OECD) and the Pacific Asia Travel Association (PATA) have attempted to define tourism in a more encompassing manner. Today, the most widely accepted definition is the one adopted by the UNWTO, which defines tourism as “a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes” (<http://media.unwto.org>). This definition includes a range of travel purposes such as holidays, leisure and recreation, business, health, education or other purposes, which throws open the scope of tourism, breaking free from the former ‘leisure restricted’ definition. The UNWTO also distinguishes travel from tourism. Travel refers to the activity of ‘travelers’, in which a traveler is defined simply as “someone who moves between different geographic locations for any purpose and any duration” (UNWTO, 2010, p. 9). Such travelers could be domestic or otherwise. Yet, trips made by all types of travelers do not qualify to be included in tourism. Tourism refers only to the activities of one special subset of travelers known as ‘visitors’. Visitors are those who take “a trip to a main destination outside his/her usual environment, for less than a year, for any main purpose (business, leisure or other personal purpose)” (UNWTO, 2010, p. 10). Visitors are twofold: tourists and excursionists. Excursionists or same day visitors are those who spend less than 24 hours in a given destination, while tourists are those who spend at least one night but no more than one year in the place they visit (Goeldner & Ritchie, 2012, p. 6). Furthermore, even if a traveler abides by the duration that qualifies him/ herself to be a tourist, he/ she is not considered a tourist if the person arrives in a destination to engage in a remunerative activity; resides permanently in the country; intends to stay over one year as a student or arrives on a diplomatic/ government mission (Swain & Mishra, 2012, p. 6).

Inbound tourism comprises *activities* of a non-resident *visitor* in a country while outbound tourism refers to the *activities of a resident* of a country *in another country*. Thus international tourism refers to *inbound tourism* plus *outbound tourism*, that is to say, the *activities of resident visitors* outside the *country of reference*, and the *activities of non-resident visitors* within the *country of reference*. Internal tourism refers to activities by residents and non-residents of a country. *National tourism*, on the other hand, deals with internal tourism

and outbound tourism. Domestic tourism comprises the activities of resident *visitors* within the country of reference (Goeldner & Ritchie, 2012, p. 5-6).

Additionally, destinations recognize many other types of tourists based on their main purpose of visit. Recognizing these types is vital to diversify tourist goods and services for better economic gains. As mentioned before, the simple leisure-type is now broken into more diverse sectors such as adventure tourism, volunteer tourism, educational tourism, wellbeing tourism, agro tourism, culinary tourism, cultural tourism, religious tourism, sports tourism, war tourism, LGBT tourism, sex tourism, etc.

2. Institutions

As explained in the introductory sections, this paper examines the importance of institutions in their role in the manner in which tourism can help the local economy grow. This first requires the term “institutions” to be defined and explained. Douglas North defines institutions as the “rules of the game” (North, 1990, p. 3). His definition suggests that human needs are achieved by sculpting them with rules. He also adds to the purposes of institutions as reducing uncertainty; establishing a stable structure to human behavior and reducing transaction costs in humans’ attempt to meet their numerous needs. Hodgson has a similar definition, which defines institutions as “systems of established and prevalent *social rules* that structure social interaction” (Hodgson, 2006, p. 2). According to Ostrom, institutions are,

“Sets of working rules that are used to determine who is eligible to make decisions in some arena, what actions are allowed or constrained, what aggregation rules will be used, what procedures must be followed, what information must or must not be provided, and what payoffs will be assigned to individuals dependent on their action... All rules contain prescriptions that forbid, permit, or require some action or outcome” (Furubotn & Richter, 2000, p. 6).

According to North, institutions are made up of ‘formal rules’ and ‘informal norms’ (North, 1990, pp. 36-53), both of which he terms ‘constraints’. The difference between formal and informal constraints is simply the fact that formal constraints are explicitly written laws and informal constraints are norms that are implicitly known to and understood by members of a society. Carl Menger on the other hand, argues that there are two types of institutions: ‘organic institutions’ or spontaneous institutions that arose from collective human actions, and ‘pragmatic institutions’ defined as institutions that are the result of deliberate design (Furubotn & Richter, 2000, pp. 6-7). Hayek uses the terms ‘grown order’ and ‘made order’ while

Williamson calls them ‘spontaneous’ and ‘intentional’ institutions. Coleman uses two simple and comprehensive words ‘spontaneous’ and ‘constructed’ to refer to informal norms and formal rules, respectively (Furubotn & Richter, 2000, pp. 6-7). For the purpose of this paper, institutions are defined as all socially constructed arrangements, systems and/ or mechanisms that fulfill human needs. Thus, there are two types of institutions: formal and informal institutions. Formal institutions are defined as all government and private organizations related to the tourism sector, and their laws, regulations, and policies, together with their enforcement and policing practices. Informal institutions are defined as all implicit codes that govern human behavior such as norms, folkways, taboos, beliefs, values, customs and traditions.

Formal and informal institutions interact with one another. Not only do they interact, they are also interdependent on one another. Which of these, is more influential, on the other hand a matter of debate. While formal and informal institutions have reciprocal influences on social actors, informal norms have a greater capacity to influence the implementation and functioning of formal institutions. The main reason for this is because all formal institutions saw their inception as informal norms, folkways, customs and traditions which moved along a continuum as societies grew in complexity and were subsequently transformed via human intervention into formal rules that were later codified or written down (North, 1990, p. 46). Informal norms were what regularized societies as “the invisible hand” (Furubotn & Richter, 2000, p. 25) in the early stages during which formal arrangements were absent. Institutional economists agree that even in the modern era, public policies (what is referred to as formal institutions in this study) should reflect the values and thinking patterns of the public at large (informal institutions) in order for a society to run smoothly (Sen, 2000, pp. 274-276; Furubotn & Richter, 2000, p. 25). Informal institutions have such immense force, that they do not require the support of formal institutions to operate. In other words, they can replace formal institutions if needed. Amratya Sen shows that the ‘social cost of corruption’ that manifests in the form of negative social sanctions against the breaking of norms can be more powerful than enforcing formal rules (Sen, 2000, pp. 275-276). North exemplifies how informal institutions are a pervasive feature of both traditional and modern societies, and how, even in the absence of formal institutions, they can be influential in the smooth functioning of a society (North, 1990, pp. 36-45). He also argues that simply changing the formal rules may not prompt the changing of the informal institutions operating in a society, but instead, may give rise to tensions that will have important implications for economic development (North, 1990, pp. 44-45). On the other hand, while “rationally designed formal institutions have to leave room for

the development of informal arrangements... feelings and traditions cannot be created ad hoc by rational acts” (Furubotn & Ritzer, 2000, pp. 25).

3. Tourism and Economic Development

The emergence of a host of developing countries as middle income countries, and improvements in global transport and information communication technology in the post Second World War era saw a rapid increase in tourists trotting around the globe. Against such a backdrop, the importance of tourism as a source of economic development was realized by countries and international agencies. As mentioned earlier, tourism eventually became a tool for economic development, and was sought and utilized by both developed and developing countries. For example, developing countries and SIDS depend more on tourism for economic growth because a lion’s share of their GDP is earned through tourism. In many developing countries, tourism occupies a large share of the GDP relative to developed countries, in which tourism’s share of the GDP is proportionately small. For example, in developing countries in general, approximately seven percent of earnings from exports of goods and services and 45 percent of earnings from exports in commercial services come from tourism. These figures are even higher for the least developed countries. While the direct contribution of tourism to GDP was only 8.6 percent for the USA, 7 percent for Japan, 8.5 percent for France and 14.3 percent for Spain, it was 56.6 percent for Maldives, 40.5 percent for Seychelles, 43.3 percent for Bahamas and 73.6 percent for Aruba in 2019 (WTTC, 2020). According to the UNCTAD, “In over 150 countries, tourism is one of the top five export earners, and in 60 it is the number one export. It is the main source of foreign exchange for one third of developing countries and one half of LCDs, where it accounts for up to 40 percent of GDP” (2010, p. 2). Thus seemingly, tourism may be a bandwagon that every country aspiring for growth should hop on to. That said, however, academia is divided in its opinion about the role of tourism in economic development. One school of thought treats tourism as a vehicle for development, while the other school focuses more on the negative effects of tourism. This is the reason why Sharpley states that tourism figures and statistics need to be treated with caution (Sharpley, 2004, p. 12).

According to the first school of thinkers, tourism is seen as a ‘safe and cheap development option’ because it can address balance of payment problems, bringing foreign exchange and revenue to the government while increasing employment opportunities for thousands of locals. To give a concrete example, the direct contribution of tourism to employment in Maldives was 44.4 percent in 2014, while its total contribution (direct and indirect) was as high as 86.7 percent (WTTC, 2014, p. 1). At the same time, it also contributes,

in the Maldives, to the protection of natural, historical, and cultural destinations, stimulates infrastructure development in the country, induces investment, and can act as a catalyst for development as it involves several sectors such as agriculture, transport, and communications. For some other countries, the reason to opt for tourism is simply because there is no other viable choice due to their poor stock of resources. Governments of these countries have realized the fact that tourism is, in fact, a better and more profitable way to use their resources than investing in other areas. Martha Honey, on ecotourism points out that:

A study in South Africa found that net income from wildlife tourism was almost eleven times more than that from cattle ranching, and job generation was fifteen times greater. In Kenya, it is estimated that one lion is worth \$7,000 per year in income from tourism, and an elephant herd is valued at \$610,000 annually. A 2001 study found that in the Turks and Caicos Islands, spiny lobsters are... more valuable in the water for ecotourists, than trapped for the dinner table. A study in Iceland found that the economic value of whale watching worldwide is \$1 billion, far more than any financial gain that would come from hunting, should Iceland resume commercial whaling (Honey, 2008, p. 23).

One of the main reasons that encourage developing countries to use tourism as a development strategy is because tourism is a “growth industry” supported by a relatively stable growth of tourist arrivals over the years. The potential ability of tourism to redistribute wealth from wealthier nations to emerging destinations, creates backward linkages, uses necessary resources (natural and other facilities) with relatively lower initial costs, lack of trade barriers, being a labor intensive industry, increases foreign exchange within a short period, dependency on low and affordable technology, and the existence of the multiplier effect, all of which qualify this industry as a powerful growth strategy.

Adherents of the second school of thought reiterate that tourism is no panacea for poverty reduction or economic development. It has been shown that no matter how successful a destination could be in terms of tourist arrivals or receipts, they all face the oft-quoted negative impacts of tourism such as environmental pollution, economic leakages, commodification and culture change, and the negative impacts on women and the younger generation (prostitution, drugs, alcoholism, and pedophilia). Moreover, disillusionment has dawned upon many pro-poor tourism experts, as many mass tourist destinations in the developing world are still suffering from unremitting poverty and poor living standards. Siem

Reap in Cambodia received more than half of the visitors arriving in Cambodia, yet more than half of its residents still live below the poverty line (Dara, 2012). Belize, which is recognized as one of the first countries to implement eco-tourism, is today one of the worst-hit (Telfer & Sharpley, 2008, pp. 165) due to the impact of eco-tourism lite². According to experts, very few tourists actually understand what eco-tourism is, and the image of Belize as a tourist destination leads to hedonistic behavior and Caribbean-type experiences that are environmentally destructive (Telfer & Sharpley, 2008, p. 165). In other words, the social and environmental cost of tourism, to which authorities have usually turned a blind eye, despite the fact that social costs sometimes override economic benefits, desperately calls for proper tourism management in some destinations. This is why some academics advice caution and the consideration of the disadvantages or risks of depending on tourism for general economic development. These risks of over-dependence on tourism include: poor countries' inability to provide the necessary infrastructure required by tourists; economic leakage; insufficient training and education on tourism due to lack of financial and human resources; unexpected urbanization and environmental pollution; negative impact on cultural values and the local environment; diversion of labor and capital away from other economic activities; diversion of income from the local areas as a result of the involvement of Multinational Corporations (MNCs); seasonality of tourism that can cause uncertainty of income and employment to locals in the tourist destination; and the negative impact of the international socioeconomic and political atmosphere on local tourism.

Leakage, perhaps is the biggest economic damage that can take place in a tourist destination. Leakage occurs when foreign exchange earnings generated through tourism leave the country through a number of channels such as payments made for imports; repatriation of income or profits made by foreigners; interest paid on loans and expenses incurred on marketing and promotion (Lange, 2011, p. 18). Ironically, the developing countries that are most dependent on tourism are the ones that find their foreign exchange earnings systematically leaking out of the economy into the more prosperous economies whose lifeblood is not tourism. This is mainly due to how institutions in the global tourism sector are structured to allow very little power to developing countries and small and medium enterprises (SMEs) in such destinations. Martha Honey (2008, p. 89) explains that there is an overwhelming number of players in both the host and guest countries vying for tourist dollars. Usually dominated by

² Eco-tourism Lite refers to the green-washing of tourism without adhering to the actual eco-tourism principles and guidelines.

powerful formal institutions in developed countries,³ much of the said money is spent even before the relevant tourist arrives in the host country, which means that a considerable share of tourist expenditure does not even reach its destination. In 1990, it was estimated that half of every dollar that was spent on trips to Costa Rica never left the USA. By 2001, the situation had changed very little: only 20 percent of foreign exchange earned through tourism reached the needy community in Costa Rica (Honey, 2008: 89). Honey further elucidates how developing nations end up worse off due to this process of leakage. While developed nations suffer only a 10 to 20 percent loss of revenue earned through tourism due to leakage, developing countries lose up to 40 to 50 percent of tourist revenue. Much of the leakage factor is due to the interference of large scale tourism enterprises and multinational corporations MNCs (*ibid*). Andrey Shelkov, an official working with the WTO is quoted as saying that “Just four global distribution systems dominate electronic reservations, while five global air alliances control 60 percent of international air traffic” (*ibid*, 2008, p. 39). This boils down to the premise that it is a David and Goliath battle in which poor countries and small players are not on an equal footing due to their inferior bargaining power (*ibid*, pp. 37-48).

The case of Bolivia presents the ideal solution: since leakage is larger in larger hotels and smaller in smaller hotels in the country, small tourism enterprises are perceived as the best option to allow tourism benefits to trickle down to the local community and curb leakage. This could be relevant to other developing countries as well. In other words, rucksack tourism is the healthiest form of tourism for the small local economy. Rodenburg presents a similar view through his study done in Bali, in which he concludes that small scale enterprises best suit the tourism industry of a developing country, and that large scale enterprises do not meet the economic developmental objectives of such countries (1980, p. 177). Unfortunately, this is only an ideal situation which hardly happens in practice due to unfavorable institutional support.

The foregoing section suggests that one of the most important reasons for this trend in unbalanced growth in and benefits from tourism is that developing countries are new to the tourism industry, where developed countries are comparatively experienced in the industry as they entered the business first. As a rule of thumb, the first come are the first served. Thus, developed countries are at an advantage as far as success in tourism is concerned since they entered the business when there was less competition; and they had decades to establish their businesses and gain a foothold in the industry. Developing countries on the other hand, as late

³ Eighty percent of world's tourists originate from just twenty countries: all of which could be categorized as developed. They include, USA, Canada, Japan, and 17 others in Europe (<http://www.responsibletravelreport.com/component/content/article/2642-mass-tourism-effects>).

comers, face greater competition from competitors who are superior in terms of capital, know-how and experience

4. Institutions and Tourism Development

Stabler opines that according to the Heckscher and Ohlin Theory, a country's endowment of factors of production such as land/ natural resources, labor and capital, determine its comparative advantage (2010, p. 240). This means that a country like Sri Lanka, which is blessed with an abundance of natural resources and brawn should possess a comparative advantage in tourism over regional competitors. This article refutes this idea by arguing that such endowments, without the help of supportive institutions, are redundant. In other words, a country with a panoramic landscape and a large workforce cannot be counted on as one that will have a comparative advantage with respect to tourism if visitors are not felt welcome due to the behavior of the hosts. On the contrary, there are destinations such as Singapore that are at a 'disadvantage' in both the afore-mentioned areas, yet have performed miracles in the tourism sector. This shows that the traditional approach to understanding tourism supply is in some way inadequate, and Institutional Theory helps to explicate the shortcomings of this traditional approach. For example, Sri Lanka is blessed with beautiful landscape, natural resources and an ample workforce, which, according to theory, should create advantages for the country as far as tourism is concerned. However, it is clear from academic studies that institutions in the country have not adapted appropriately to make good use of these 'advantages' (Miththapala, 2013). In other words, human capital in the tourism sector is largely untrained, the attitudes of the local people towards tourism are not favorable (Seelagama, 2014, pp. 13-28), and the natural resources are not promoted through marketing or conserved suitably to make the industry sustainable (*ibid*, pp. 7-13). Formal institutions are corrupt and work in the favor of the rich, powerful and elite. This type of unfavorable conditions bred by unfavorable formal and informal institutions make the industry all the more vulnerable to exploitation by MNCs, large companies and developed countries. These are the conditions that prevail in reality, despite the fact that a majority of workers in the travel and tourism industry in Sri Lanka are engaged in small and medium scale tourism enterprises. And that is the reason why the next section is dedicated to discussing the importance of improving small and medium tourism enterprises through increasing community participation in tourism-related activities. This section also discusses how formal and informal institutions are linked to this process.

1. Development of Small and Medium Enterprises

As analyzed in the foregoing section, tourism could be a very effective strategy for the economic development of developing countries, if its negative impacts could be minimized and its positive impacts maximized. To achieve such an outcome, the most fruitful of all approaches is to protect and empower small and medium enterprises. In other words, it is important to increase community participation in tourism activities in order to distribute the economic benefits of tourism more equitably among the host community. Existing literature suggests, however, that the formal institutional structure of most developing countries or tourist-receiving countries is such that they neither ensure the survival of, nor give adequate incentives to the development of small and medium enterprises. Small hotels and accommodation facilities go bankrupt against MNCs, and small souvenir shops, cottage industries and small vendors are kept 'at bay' by large and powerful players. With regard to the accommodation subsector, Honey claims that while only about 2 percent of the hotels in Western Europe are linked to Multinational corporations, this proportion is exorbitant in developing countries. It is 75 percent in the Middle East, 72 percent in Africa, 60 percent in Asia and 47 percent in Latin America (Honey, 2008, p. 45). Not only are these chains covering more territory on the map with their mushrooming branches, they are growing into enormous conglomerates, driving small and medium enterprises out of business simply because, according to Tanh-dam Troung, the latter are late-comers to the industry with few opportunities, little know-how, and negligible market information that can be used for mass production and global quality standards (Quoted in Honey, 2008, p. 39). A similar idea has been presented with regard to Cambodia, where the lack of skills/ education and lack of capital were quoted as the top two barriers against improvement of small and medium enterprises in Siem Reap (CDRI, 2007, p. 68). Other qualitative studies have shown that where local institutions have failed to create the necessary skilled labor and facilities needed for growth, regional powers and MNCs have taken matters into their own hands and made profits at the cost of the poor destination. Since it is a country with an inferior infrastructure, Cambodia was in a debilitating competition with the powerful institutions of Thailand until the year 2000, not just for their air space, but also because of Thailand's interference with the tourist attractions located on Cambodian soil (Winter, 2007, pp. 86-87).

Britton also gives a very succinct institutional explanation as to how and why there exist power imbalances in the tourism sector, where very often, small and medium enterprises are ousted by large scale and/or foreign enterprises in the developing world. He draws on some

powerful examples of how tourism in developing countries has become an ‘enclave industry’⁴ which is controlled by former colonial masters and powerful local elites. Britton theorizes that their institutions have been reduced by their once colonial rulers to ones that are ‘dependent’ on their previous masters. This feature of dependency has persisted to the present day, which manifests in all economic sectors⁵. He elucidates how the tourism industry is structured as a three-tiered hierarchy in which control is exerted from the top (with their superior bargaining and mercantile power) to the bottom, and revenue flushes upstream to the top, leaving the bottom-most players enjoying negligible economic benefits. According to him, the three tiers are:

1. Metropolitan market countries – This is where the headquarters of hotel, transport and other tourism supplying companies are located. They dominate the lower levels of the hierarchy.
2. Developing countries – This is where the branch offices and other commercial partners of the first tier operate.
3. Small scale tourism enterprises located in the destination that are dependent on intermediate level operations - They are forced to bear the brunt of the repercussions for the meager amount that makes their living (Britton, 1982, pp. 341-346).

In sum, what Britton suggests is that developing countries cannot reap the expected benefits from tourism because they are simply enmeshed in an industry that is controlled and dominated by the formal institutions of developed countries or large companies. However, the next section shows how developing countries can overcome these constraints by improving informal institutions such as norms, attitudes and practices of hosts towards tourists.

① How David can fight Goliath: The importance of improving informal institutions in the hospitality industry

Goeldner and Ritchie in their model that classifies components of tourism supply, recognize “the attitude of residents towards visitors, courtesy, friendliness, sincere interest, willingness to serve and to get better acquainted with visitors, and other manifestations of warmth and friendliness” as the ‘spirit of hospitality’ of a destination which pervades all of the physical elements of the built infrastructure and superstructure (Goeldner & Ritchie, 2012, pp. 264). Other scholars have also pointed out that the attitude and behavior of the hosts form an important part of the tourism product, and therefore, will have a strong impact on tourists’

⁴ Most of the developing nations have been Colonies of European powers for decades if not for centuries.

⁵ The repeated use of the phrase ‘periphery tourism’ in countless sources, academic and otherwise, has gloomy connotations of a persisting form of neo-colonialism. This is a highly debated matter, which will not be taken into consideration in this paper.

satisfaction with a destination (D'Amore, 1983, p. 143). Host attitudes, norms and values that make up the “spirit of hospitality” are known as the Informal Institutions pertaining to the tourism industry. Informal institutions can be so influential in making an impression on tourists that Taylor has observed that a friendly community plays the role of an advertising agent working to promote a destination (Taylor, 1995, p. 488).

Moreover, scholars have argued that the goodwill and support of local people is vital for the sustainability of tourism projects, and they can have a debilitating effect if they do not reflect the aspirations and capabilities of the host community (Murphy, 1985, p. 153). Doxey's Irritation Index (Irridex) is perhaps one of the earliest attempts to examine this matter from a theoretical approach. According to Doxey, local people's reaction to tourists will evolve from euphoria to apathy, animosity and finally, to aggression as tourism grows into a mass industry and people lose control over tourism activities happening in their community. When a destination reaches this stage, tourists will become the scapegoats for all vices that plague the host community (Povey & Van Wyk, 2010, pp 11-12). Actual events in Thailand stand testimony to Doxy's theory. Stapleton, in his celebrated book called *Thailand: Deadly Destination*, discusses how the Land of Smiles has become one of the most dangerous destinations in the world for a tourist to be in, as a result of the country transforming into a mass tourist attraction. This phenomenon has led to the loss of the support of informal institutions, and thus the traditionally friendly Thais have turned into aggressive warriors with an attitude of “murderous indifference” towards foreign tourists (2015, p.1).

Favorable informal institutions or a favorable spirit of hospitality is what ensures that the benefits of tourism will accrue to the grassroots level or small and medium enterprises in a highly competitive tourist market. MNCs and large tourism businesses are clearly at a competitive advantage with respect to a superior spirit of hospitality cultivated in employees through training. In fact this is an important aspect of tourism that puts small and medium enterprises in a David and Goliath battle against large tourism businesses. Large-scale businesses have the resources to train employees and invest more on gestures that display hospitality than small and medium enterprises do. Against such a backdrop, increasing the benefits that accrue to the community at the grassroots level can improve home country hosts' attitudes towards tourists and tourism, which is imperative to arm small and medium enterprises with the key to reap more benefits from tourism.

There have been studies that support this idea. Hosts' reaction/ hospitality/ attitudes and treatment of tourists at the community/ grassroots level and small & medium

enterprises vary according to characteristics such as the degree of community participation in tourism and the socio-economic status of the hosts as opposed to the visitors (Irandu, 2004, p. 148⁶). This is why Inskip argues that it is important to ensure that the benefits of tourism accrue to the insiders (host community) and not the outsiders, which will warrant their acceptance and support for tourism activities in their area (Inskip, 1994, p. 4). Provision of financial benefits and empowerment of the local people through tourism has been cited as a key ingredient that will promote sustainable tourism by the International Ecotourism Society (<https://www.ecotourism.org>). Thus, community participation is recognized as the main channel through which this goal could be met. Whilst community participation is a concept that weaves through a number of development related theories, it is an umbrella term that is difficult to gather within a single definition. The following section defines and discusses the main elements of the concept of community participation in tourism.

② Distribution of Tourism Benefits and Community Participation

As the Ecotourism Society above denotes, the concept of community tourism goes beyond the simple transference of financial benefits to the people, but emphasizes what distinguishes the concept as being desirable in developmental agendas: community tourism comprises ambitious moves to vest the community with decision-making power. According to Stone, community participation aims at “development in such a way that intended beneficiaries are encouraged to take matters into their own hands, to participate in their own development through mobilizing their own resources, defining their own needs, and making their own decisions about how to meet them’ (Stone, 1989, p. 207). The principles of community participation in development includes the involvement of residents in identifying their problems and resources as well as in formulating strategies to overcome the identified problems, development of unique strategies for the community that reflect the social values of that community while building human and social capital, and development of partnerships with formal institutions (Sanoff, 2000, p. 7).

The level of community participation may determine the success of Community Based Tourism Projects in a particular destination. Pretty, in 1995 (later adapted to the tourism sector by France in 1998) has presented a seven-stage timeline in which local people could transform from passive and exploitative ‘participants’ to self-mobilized participants in the tourism sector

⁶ The complete opposite scenario is also possible i.e. different levels of participation and economic benefits derived from tourism activities may induce an otherwise perfectly homogenous community to be split in their reaction to tourists and tourism (Taylor, 1995: 489).

(Quoted in Van Breugel, 2013, p. 6), according to which the success of these tourism activities could be measured. Self-mobilization should be the final target of tourism projects.

Tosun developed the idea of community development into a more compact taxonomy in which he discusses three tiers of participation i.e. coercive, induced and spontaneous participation (Tosun, 2006, p. 494). He argues that coercive and induced types of participation, being top-down approaches allow very little decision-making power to local people and therefore, it is the spontaneous kind of participation that will bring real benefits to the grassroots level as it subscribes to the bottom-up type of participation which bestows people with decision-making power. Thus it is suggested that the ideal and best degree of community participation is one that involves the participation of people in all of the planning, implementation and monitoring stages of a project. Effective community participation in tourism is important because at the end of the day, it is the people who will either enjoy or suffer the outcomes of tourism (Quoted in Tosun, 2000, p. 616) and it is therefore considered a right of the people to decide what is best for them (*ibid*, p. 616). On the other hand, local people are more aware of the type of resources that are available in their own communities, as well as their utility values. This target could be achieved through Tourism-related Community Based Organizations (CBOs), which can be defined as organizations initiated and led by local community members for the purpose of developing the tourism industry in the local area. The tasks carried out by CBOs will include identifying problems and resources as well as coming up with solutions. These solutions will be implemented and monitored by the local people themselves.

However, the concept of community participation is not without problems. Scholars show that community participation is a largely Western concept that is, on most occasions, forced upon developing countries (Stone, 1989, p. 206). This concept, therefore may not be compatible with the local institutional setup. Tosun shows that participatory development of the tourism sector is facing many challenges at the operational, structural and cultural domains, in developing countries (Tosun, 2000, pp. 618-626). According to him, participatory development of tourism could be an ideal and viable solution to many development issues, but that there are impeding institutional barriers that will have to be surmounted first. In other words, there are institutional constraints that hinder effective community participation in tourism activities⁷. Other scholars have provided evidence to support this matter. For example,

⁷ Tosun explains that the following institutional barriers stand in the way to achieving effective community participation (Tosun, 2000, pp. 618-626).

Lipset in his celebrated book *Political Man: The Social Bases of Politics*, has argued that there are certain institutional pre-requisites such as overall economic development of a country that will be essential to set the background for effective democracy (community participation) and empower people to have a voice in their own affairs (Lipset, 1960, pp. 73-75).

In sum, the foregoing theoretical analysis suggests that the behavior of hosts towards tourists has an impact on tourists' sense of satisfaction, and adopting a favorable spirit of hospitality is important for small and medium tourism enterprises to compete with large tourism businesses. Attitudes and behavior of the people vary according to the level of community participation and the economic benefits derived from tourism-related activities. Therefore, despite the fact that 'community participation' as a developmental approach has many shortcomings, it is a powerful method by which to increase people's connection with tourism activities. In order to achieve a premium status of community participation, it is necessary to keep the community informed, allow them to identify problems, issues or prospects, identify their resources, make unique plans and finally, create a partnership between the local people/ informal institutions and other formal institutions (which ironically may be the very source of domination in developing countries). The foregoing analysis also suggests that tourism projects should be 'people-friendly' or that ideas should be supportive of local values if not sprout from the people themselves, rather than being forced on them by the said external institutions. For example, the Night Markets in Thailand, specifically targeting tourists, create opportunities for Thai local people to sell their wares directly to foreign tourists and interact with them, as this is a venue where locals and foreigners mingle freely together.

Therefore, it can be argued that community participation is essential for the sustainable development of tourism because it is the only channel through which the grass roots level could be empowered and through which tourism benefits could be diverted. It is also the stepping

1. At the Operational level:

- i. Centralization of public administration of tourism
- ii. Lack of coordination between service providers
- iii. Lack of information regarding tourism among local people

2. At the Structural level

- i. Attitude of professionals (Superiority complex)
- ii. Lack of expertise among the locals
- iii. Elite domination
- iv. Lack of an appropriate legal system
- v. Lack of trained human resources
- vi. High cost of community participation
- vii. Lack of financial resources

3. At the Cultural level

- i. Limited capacity of the poor people
- ii. Apathy and low level of awareness in the local community

stone to changing other formal structures and institutions towards the favor of the local community.

Conclusion

This paper discussed definitions and theories pertaining to tourism and economic development. The analysis of theories suggests that there are two main arguments about using tourism as a strategy for economic development. The first premise argues that tourism is a cheap and effective developmental strategy, while the other considers it as the key that opens the doors of the destination to a host of negative repercussions that will have to be managed carefully if the destination is to achieve any form of development at all.

Proponents of the second theory argue that among the many other negative repercussions, leakage is one of the biggest challenges that developing countries face. Leakage through tourism can be dangerously tricky because it is not very apparent. Instead, a misleading charade of seemingly lucrative circumstances is often created by the tourism industry. Much of the leakage happens due to the domination of the tourism industry by developed nations and MNCs that are owned, for the most part, by these developed nations.

This paper argued that tourism is an effective strategy for economic growth in many developing nations, but to reap the healthiest fruits of tourism, the tourist destination needs to promote small and medium enterprises in the country. This is because small and medium enterprises can minimize leakage, which is a major barrier to economic growth and can retain tourist dollars in the local community. However in reality, small and medium enterprises are generally pitched in a losing battle against business giants such as MNCs in developed countries since these large businesses are always at an advantage with respect to economies of scale as well as financial and human resources.

Thus this paper challenged the Heckscher and Ohlin theory that posits that countries with an abundance of natural resources have a competitive advantage over other destinations without natural resources. In contrast to this theory, this paper argued that financial/ economic resources on the one hand, and trained human resources on the other hand determine this competitive advantage. It showed how “improving the spirit of hospitality” of the local people towards tourists through training and cultivating professionalism can attract more tourists and economic returns to the local area. In other words, improving institutions in a given destination can help the local economy reap more benefits through tourism. Thus, improving informal institutions can be a very powerful strategy in this regard.

The paper also argues that destinations need to keep their local areas attractive and retain tourist dollars in their areas for the financial gains/ profits to be able to contribute to local economic development. In other words, promoting community based tourism is the most effective way to minimize leakage and compete with large tourism businesses. Promoting community based tourism depends, of course, on the type of formal and informal institutions operating in the destination. Favorable formal and informal institutions for example, will allow greater degrees of community participation in tourism activities, helping to distribute benefits among community members and minimizing negative impacts.

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