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Posted Date: 18 December 2023

doi: 10.20944/preprints202312.1228.v1

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## Article

# Examining Cross-Industry Clusters among Airlines and Tourism: An Island Context Perspective

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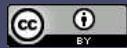
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**Abstract:** Cross-industry clusters are important for the economic prosperity of a region. However, studies are lacking to address competitive clusters among the aviation and tourism industries. Thus, this paper considers the case of both industries in terms of clusters and synergies formed. This research aim is to provide an understanding of both industries' protagonists' involvement in contributing to knowledge insights on the establishment of synergies or clusters among the two industries. Cyprus is highly dependent on tourism and aviation because they facilitate connectivity. The research is fulfilled with semi-structured interviews with the main players and organizations of the airline and tourism industries (government bodies, airports, airlines, tour operators, and hotels). The results are indicative and suggest that, in a small geographical context, the notion of clusters involves a synergetic relationship among tourism stakeholders. Airlines' role is important because it has an effect on all stakeholders involved in tourism.

Keywords: tourism clusters; airline; tourism policy; semi-structured interviews; cyprus

## 1. Introduction

In the tourism context, there is a mutual synergetic relationship that facilitates access to all services [1]. This relationship can be considered the formation of regional clusters, entailing ideal planning and development in tourism that outweigh the positive benefits for the destination. Clustering is the geographical concentration and proximity of companies that have interdependent services, either horizontally or vertically [2–6]. According to tourism literature, public policy or governance plays a significant role in influencing and guiding the development of a destination [7–9]. It is important to understand how policy is decided, formed, and acted upon concerning its implementation. The 'policyscape' of a destination sheds light on the trajectory of tourism and provides an understanding of the internal country environment. Destination Management Organizations (DMOs) significantly encourage and enable tourism development [10,11]. Since the government is the most important sector in tourism and acts as the main ruler, it indicates the type and form of tourism expansion. This underpins the argument that the government's role in coordinating tourism as a phenomenon of interlinked sectors with a plethora of businesses is not easy. That is because each stakeholder has a different view and is motivated by different economic benefits without considering social benefits. For example, tourism development changes the natural and social features of the area, which comes with many risks and threats. This is why the government should work to keep things in balance [12]. This research aims to understand the types of cross-industry clusters and identify the role of airlines in forming a strong relationship among tourism industry partners. Cyprus will be explored to understand the economic and social benefits of forming collaborative strategies, which are the driving forces to viability with substantial benefits to a specific area [13]. With the current turbulent economic and political environment, the development of cooperative procedures among firms seems imperative. To avoid a mismatch between supply and demand, the airline and tourism industries should cooperate to offer more premium packages for holidays. Cyprus, as a tourism destination, suffers from flaws in terms of the quality of services offered and value for money. Thus, it is important to explore the linear and non-linear relationships that develop among the aviation and tourism industries in an area whose main economic activity is tourism. The next part considers the theoretical background of the study.



## 2. Literature Review

Cluster discussion dates from 1920 as a business concept because it was mentioned in the nominal work of Marshall (1920) [14]. Marshall (1920) [14] raised the importance of clustering by arguing that forming synergies within the business environment can provide better utilization of human resources and production processes and come up with new ideas. Michael Porter, the guru on the development of clusters' theory, put forth that clusters deal with companies, suppliers, service providers, the government, and other institutions that enable education, diffuse information, research, and any other technical support within an economic geographical area [15]. Additionally, cluster formation can ensure longevity, sustaining the success of the sector and thus of the country. Porter (1998:78) [15] described clusters as a 'concentration of interconnected companies and institutions in a particular field'. Additionally, Brown (2000)[16] stated that 'geographical proximity enables face-to-face networking, common labour markets, and the diffusion of knowledge, especially tacit knowledge, which is difficult to codify'. Nonaka and Takeuchi (1995) [17] are the pioneer authors of knowledge management, with the concept of 'Organisational Knowledge Creation'. In their book '*The Knowledge-Creating Company*', they defined this construct as '...the capability of a company as a whole to create new knowledge, disseminate it throughout the organization, and embody it in products, services, and systems' (1995: 3). Additionally, Drucker in 1992 (:3)[17] extended the definition and argued that innovation can be achieved only through knowledge. In particular:

'We know now that the source of wealth is something specifically human: knowledge. If we apply knowledge to tasks we already know how to do, we call it "productivity". If we apply knowledge to tasks that are new and different, we call it "innovation". Only knowledge allows us to achieve these two goals.' (Drucker 1992:23)[17]

In accordance with Delgado, Porter and Sterns (2015: 2) [19], 'clusters contain a mix of industries related by various linkages (knowledge, skill, inputs, demand and others)'. Jackson and Brown (2006:1022) [20] argued that the aim of clustering is a 'description of industrial districts, in that both contain interdependent businesses engaged in cooperative competition and interacting within a community-based and supportive public policy'. A large body of literature on local and regional innovation systems has been studying geographical areas or industry clusters that foster local networks [21-25]. There is no doubt that the appearance of cluster initiatives contributes to the effective management of economic, industrial and regional processes at the regional level. Additionally, in management literature, clusters are examined by two main domains, namely, network development and cooperation [26] and the characteristics of economic geography [27]. Both avenues of examination posit an understanding that interaction among business partners leads to innovation through knowledge transfer [3]. The role of the firms' managers is imperative since they are the ones who must understand the emerging opportunities of the market and provide benefits to the businesses they manage [28]

Concerning tourism, cross-industry activities can create a tapestry of knowledge with the 'formation of alliances with local and regional authorities required so that all partners are engaged in 'selling' the destination' (UNWTO 2012: 19) [29]. UNWTO (2012: 17) [29] states emphatically that 'tourism demand and capacity growth must be worked at simultaneously'. In addition, UNWTO (2012: 17) [29] adroitly states:

'The demand for a destination depends on its accessibility and cost and the capacity available depends on demand and the destination's infrastructure'.

Within tourism, the notion of clustering is about inter-related companies that drive economic viability in a region [30]. The various relationships that are formed within the business environment facilitate the value chain of products and services [31]. According to Capone (2004: 9) [32], "[a] tourist cluster is ... a geographic concentration of interconnected companies and institutions in tourism activities. It includes suppliers, services, governments, institutions, competitors, and universities". The destination is an aspect of investigation in terms of the functionality of tourism-related stakeholders by identifying the effectiveness of their performance [33]. An airline company is interconnected with the airport and at the same time, a hotel or a car rental company within a proxy geographical area. The refinement of tourism literature suggests that clustering is a way of unifying

all involved entities in the tourism industry to achieve a competitive edge and lead other destinations. Joint efforts are increasingly becoming the norm rather than the exception, with cluster formation becoming an important priority for business success [34]. Effective cluster formation leads to innovation, whereas the overall economic performance can be improved [35]. Industry and/or company clusters are directly linked to innovation with new approaches towards competition [28,36]. Phelps (2004) [37] identified the main strength of clustering as sharing common patterns of business development that can be beneficial regionally. Knowledge creation and transfer play an imperative role in innovation and quality procedures [38] that can make a destination more competitive. All these are embedded with a thorough investigation of national and supranational policies to provide an understanding 'by continually reforming and updating the regulatory and institutional framework within which innovative activities are taking place' (OECD 2007:5) [39]. Undoubtedly, in island tourism destinations, airlines have a central role to fulfill since their role is to facilitate the tourism movement [40]. Thus, any strategic alteration in the airline industry has an impact on the destination, as, for instance, in the case of COVID-19 [41]. In any destination, tourism authorities need to work closely with airlines by setting an agreement of cooperation [1,7,13,42,43]. However, this is considered a difficult task due to the complex nature of tourism and the conflict of interest among industry stakeholders.

### 3. The case of Cyprus

Situated in the eastern Mediterranean Sea, Cyprus is the third biggest island in the Mediterranean Sea, covering a total area of 9,251 km<sup>2</sup>. According to the Statistics Service of Cyprus 2019 [44], the population is 888,000, and Nicosia serves as the nation's capital. On May 1st, 2004, Cyprus joined the European Union (EU). In island nations, there is a strong reliance on aviation to promote connectivity and attract tourists. In Cyprus, airline governance is directly related to tourism since the two industries are inextricably linked [7]. Tourism and air transport operations contribute 20% of the Gross Domestic Product (hereafter GDP) [45]. Before the outbreak of the COVID-19 pandemic, Cyprus received 3.976 million tourists in 2019 (Statistical Service Cyprus 2019). Since Cyprus is an island, 99% of tourism arrivals are by air, with air transportation a determinant of the island's economic and social welfare.

Through deregulation, the airline governance structure has changed since the nation joined. Airlines operating freely and without interference from the government are said to be operating in a deregulated market. The entry of low-cost carriers (LCCs), such as easyJet and Ryanair, has resulted in passengers enjoying reduced costs and increased network links to additional routes (Graham & Dennis 2010) [46]. The fact that Cyprus is an island means that the tourism industry is mainly aviation-dependent. Thus, any developments in the aviation industry have an immediate impact on tourism arrivals. In Cyprus, two international airports in Larnaca and Paphos handled 9 million passengers in 2022 [47]. The most popular inbound countries are the United Kingdom, Greece, Israel, Germany, Poland, Austria, Sweden, Italy, Hungary, and Romania. In tourism, airlines are inextricably linked to the success of the destinations and gubernatorial and supranational (EU) directives can determine the outcome of development.

In the case of tourism, the responsible authority for development is the Deputy Ministry of Tourism (hereinafter DMT). The DMT has been established as a national tourism policy to establish Cyprus as a qualitative destination and disentangle Cyprus from its mass tourism image. The DMT has a significant role in fulfilling decision-making processes that directly affect the airline industry. Seasonality is acknowledged as the tourism industry's main problem since Cyprus is a popular summer resort. In the 'National Tourism Strategy 2030', one of the initiatives deals with 'improving connectivity to the island, to diversify our source nationalities and market' (Deputy Ministry of Tourism 2022:2) [48]. If this is to be achieved, an expanded strategy is required for rebranding Cyprus and establishing the foundations for becoming a year-round destination [49]. This will enable the aviation industry to develop a diversified network with significant demand.

The significant economic impact that the tourism industry has on Cyprus is what led to the decision to use it as a study location [7]. The concept of regional clusters adds to the existing literature

with reference to a particular regional example. Using the case of Cyprus enables how to identify various parameters among airlines and tourism industries that are interrelated, examined and assessed. Accessibility to island destinations implies that the airline network, which is important for the development of the tourism industry, is at the same time the backbone of the island's economic activity. The role of the airlines in terms of connectivity between the origin and the destination is defined and measured in accordance with 'capacities, daily or weekly frequencies, timetables and type of aircraft to be used' (UNWTO: 2012). Thus, both industries are important in state-wide progression and understanding the degrees of cooperation can shed light on any drawbacks and impediments that prevent them from reaching their full potential. The formation of cross-industry clusters in terms of goals, plans, projects and policies can provide useful information. The level of analysis will be based on the relationships developed and the two industries will be correlated by taking into consideration the case of Cyprus and the main stakeholders in terms of aviation tourism.

#### 4. Methods of the research

The nexus of relationships and strategies involves airlines, airports, hotels, tour operators and the destination. The study will attempt to provide an understanding of the geographical characteristics to identify the cluster formation or type. Further, this study seeks to identify the form of destination development that is taking place in the air transport industry concerning the role of the airlines. Additionally, this discussion takes into consideration the policy remits that primarily impact developments in both the airline and tourism industries. This will be achieved by understanding: (1) both industries' leaders' involvement in contributing to insights on the establishment of synergies and clusters among the two industries; and (2) industry and government partnerships providing practical experience and best practices.

The study will investigate the relationships with the following questions:

- How is both industries' protagonists' involvement interlinked with knowledge insights on the establishment of synergies or clusters among the two industries?
- What are the industry and government types of partnerships that provide practical experience and best practices?

The research incorporates semi-structured interviews with the main players and organizations of the airline and tourism industries (governmental bodies, airports, airlines, tour operators, hotels) (Table 1). The sample is non-probabilistic and purposeful by targeting key organizations and people from airlines, airports, official tourism offices, hotels, and tour operators. The interviews were mainly conducted by phone from December 2022 to June 2023. The average duration of the interviews was 25 minutes. The final sample involves 20 managers from all the tourism domains (Table 2).

The interview protocol was designed to assess the relationship between tourism stakeholders with the development in terms of discussion of three themes (Table 2). This analysis will be of interest to deepen the knowledge of the existing cooperation between both industries to better understand and define the exact cluster approach.

**Table 1.** Interview respondents.

List of Interviewees	Sector
Interviewees I - IV	Tourism Officers
Interviewees V - VIII	Airline Managers
Interviewees IX - XII	Tour Operators Managers
Interviewees XIII - XIV	Airport Managers
Interviewees XV - XX	Hotel Managers

Source: Author.

**Table 2.** Interview protocol Themes.

Themes
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Interaction and Participation
Tourism Policy Understanding
Strategic Responses

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Source: Author.

This research follows an inductive method of analysis based on the evidence given in terms of the experience and actions of the research participants in the relevant organizations appropriate for a particular case study. In the case of tourism, social actors are a web of individuals involved in the processes of tourism. Understanding the stance of the social actors involved in the tourism industry, with special emphasis on the airline industry, provides implications for the development [50].

As Bergeman and Richards (2020:3) [50] put forth:

The actions, interactions and behaviour in a practice are, therefore, determined by the characteristics of the actor and conditions of the context.

This is more intense in the case of tourism whereas the complex nature engages in a network of interrelations that might bring conflicts. However, territorial, national, and supranational policies build the interrelations that affect both external and internal environments. Taking into consideration the context of the airline industry and the actions of the people involved that ensure its viability, the study will examine its effect on other business sectors. The analysis of the interviews is based on NVIVO software that analyzes qualitative data through thematic analysis. The results provide a framework to define the types of clusters developed among aviation and tourism companies. These will enable policymakers and opinion leaders to understand the economic environment of the two industries and their degree of influence on each other.

## 5. Research results

In terms of tourism and airline relationships in the sense of clusters, the study's results reveal that there is a gap in setting common goals and strategies. However, the respondents emphatically stated that during the COVID-19 pandemic, the Deputy Ministry of Tourism took immediate actions that enabled the speedy recovery of the industry. Based on the interview content, the analysis developed four main thematic topics: a) interaction and participation, b) tourism policy understanding, c) strategic responses. The themes were developed based on how cross-industry clusters can be defined and how they can be implemented. Respondents emphasized airlines' role in tourism development and the formation of synergies that can enhance tourism development as part of an effective strategic response.

### Interaction and participation

The first theme of analysis was to identify the degree of interaction of private airline companies with the governmental body of tourism. Admittedly, airlines have the most important role to play in the development of tourism on the island [13]. However, according to respondents, the main limitation is that there is a lack of an airline division in the Deputy Ministry of Tourism with an exclusive role in keeping tight links with the aviation industry. However, any restrictions for the airlines, such as the case of COVID-19 and the Ukrainian-Russian political dispute, directly impacted tourism flows on the island. In terms of cluster formations, the respondents highlighted that, because of the small size of Cyprus, a cluster network can be effective due to its geographical proximity. However, as mentioned by Interviewee I:

A stronger relationship is necessitated that can monitor and enhance the performance of all firms in tourism. Local associations of tourism stakeholders need to be closer and have an informative role in the exchange of the main developments and trends.

Addressing the main challenges of the industry as they emerge from external factors needs to be communicated with the aim of encouraging industry practitioners to be proactive and effective [3,4,7]. The airline industry has direct links with outbound and inbound tour operators, highlighting the efficiency of air transport capacity and network. A specialized airline division in the Deputy Ministry

can disseminate information accurately and on time in relation to trends and occurrences that reciprocally affect the airlines and tourism. A representative excerpt is the following:

There is a communication gap in the tourism sector; this is a common phenomenon in relation to the ways of setting up various effective channels of communication. Unfortunately, the public sector is reluctant to impose innovative methods of bringing together tourism participants and set a common strategy of interaction and communication. Interviewee IV

The above reveals a problematic interaction with airlines that is distant from the organized public sector with an interactive relationship that can act proactively and set the same goals and objectives. All tourism managers (airlines, tour operators, airlines, hotels, government) identified that there are no clear and active structures that can enable interaction with tourism-involved parties that can enable immediate communication [12]. Respondents have a wider problem to state, as below:

There is a lack of formal structures where all the involved stakeholders in tourism can interact and communicate. Because airlines play a big part, they need to keep other industries informed about changes and how to best respond to them. This way, other industries can do better at strategic planning. Interviewee IX

This problem is indicative and suggests that airlines do not disseminate information adequately, thus their role as a central protagonist in tourism clusters is underdeveloped.

### **Tourism Policy Understanding**

Tourism policy is set as a plan that dictates future tourism development [7]. In general, tourism is suffering from a rhetorical gap, whereas there is a limitation in successfully implementing any tourism plans and strategies [8]. The tourism policy highlights the roles of the airlines and the fact that tourism on the island is facilitated by air.

Interviewee IV put forth that:

A formal network of synergetic relations through clusters can be for the benefit of the tourism industry.

An airline manager (VI) mentioned that:

An airline's decision to enter Cyprus depends on the potential of tourism demand. If there is demand, then Cyprus is an attractive destination.'

The main issue of concern is for the official tourism authorities to have a cooperative strategy with feedback in terms of the actual tourism policy. Important is the role of the airport management teams in attracting more airlines and ensuring the adequacy of flights. Clustering is the formation of learning networks that can lead to innovation, which is the key to gaining a competitive advantage. A respondent (VIX) mentioned that:

Tourism policy is the key to success in the sense that, for instance, the main problem of the island is seasonality, with a remarkable decrease in demand. Cyprus must be established as an all-year-round destination and provide a viable network for the airlines.

An airline officer (VII) has a representative opinion that:

Collaboratory networks are imperative in tourism. Any airline flying to a destination must examine its long-term performance and determine its market segment. Cyprus is unique in terms of its location since it is the first entry point to the European Union and the Middle East.

Another participant (X) mentioned:

Clustering in Cyprus is not about geography but about effective cooperation and understanding if small island states are considered. Setting a clear and common tourism policy can benefit all players in the industry. The air transport industry has become more flexible since the introduction of European liberalization with the entrance of the island into the European Union in 2004.

Clustering refers to a web of interconnected activities, indicating the interdependency of business interactions. In an island such as Cyprus, cooperation is imperative, and access to information is easier. Another perspective that can enhance cooperative synergetic relations in tourism is the below:

There is a need for an association of airlines in Cyprus that has a strong representation in tourism policy and decisions. Interviewee XX

Islands can act as a unique collective case of a geographical context of study about clusters.

### Strategic Responses

An important parameter that was discussed during the interview was the extent to which strategic actions by the airlines influence strategic responses by other main players in the industry.

A respondent from the hotel industry (XVI) emphatically pointed out:

Airlines' role is to promote locations and improve the entire travel experience for tourists. Their role should be to work with regional tourism boards, lodging establishments, travel agents, and other tourism-related businesses. A synergetic relationship is the format of a business cluster.

All respondents highlighted that it is imperative that all sectors' representative associations to be aware of the strategic actions of the aviation industry – led mainly by the official civil aviation authorities. A respondent (XVI) highlighted the below excerpt:

Sanctions to Russia impacted tourism arrivals on the island since is one of the most important markets. The official tourism authorities must seek for new markets to fill the gap, thus new opportunities were identified in the French market.

The above implies that there is an array of relationships that are affected by each tourism supplier and have a role to fulfill. Airline companies fulfil the most important role in enabling tourism arrivals on the island. Thus, clustering starts with the airlines, and there is a force of movement in all territorial aspects of the island. Interlinked strategic responses can set up an effective tourism network, and the respondents highlighted the effectiveness that can be provided in developing synergies. This will lead to practices that are aligned with tourism planning and policy, whereas all the players will be informed and able to progress with effective knowledge transfer that can lead to innovation. The role of the airlines is set as important in the formation of a strong web of relations, having as a central point of concentration the airlines flying and aiming to fly in Cyprus. The network forms through the actors involved in each organisation that must take decisions that can minimise risk. Basically, network synergies are formed by each stakeholder involved in tourism with the aim of ensuring the viable performance of the organisation.

### 6. Conclusion

The results of the study revealed that the motivation for the creation of a cluster network in tourism is the drafting of an applicable tourism policy by involving tourism actors. However, the results suggest that a viable airline network can enable the diversification of tourism arrivals and provide a sustainable approach to tourism development. The actors involved in the industry in high positions have a determining role to execute. Close cooperation with officials from the tourism authorities can play a significant role in tourism planning and development. Clusters in small island nations refer to a holistic approach to development with close cooperation and understanding among all industry players. Inactive tourism planning can adversely affect the future of islands since they are highly dependent on tourism. Air transportation to an island destination does not necessarily imply a geographical dimension since distances are small. Their role is mostly in the development of synergetic relationships among stakeholders and informing them about future strategic plans. The cluster's formation, apart from the geographical dimension, involves personal interaction among the actors. Such an interaction indicates an exchange of views and opinions to extract positive actions for development.

The air transport industry can ensure the economic viability of the geographical place; thus, any developments directly affect tourism. Setting the foundations of a strong airline network can play a significant role, so it is important to have a common strategy. The tourism authorities should prioritise effective communication with the aviation players and create strong synergetic relations. The tourism authorities should prioritize effective communication with the aviation players and establish strong synergetic relations, ensuring that airline companies entering the island are well-informed about the tourism policy and developments. This is particularly important in addressing the main problem of the tourism product of Cyprus, which is seasonality, as well as the underutilization of accommodation capacity during low-season months. Business partners can

enable effective clustering through synergetic relationships. Airline companies must have an informative role in other sectors by highlighting their potential plans and strategies. In turn, the official authorities in the tourism industry diffuse all information to other business partners to make plans and try to minimise risks. In an island context, clustering is communication and knowledge transfer, which represent a strong role of the airlines that can diversify tourism demand throughout the year. Tourism practitioners must prioritise, be aware of air transport actions, and influence in a proactive manner. The results of the study also suggest that an effective airline network is directly based on the alertness of the tourism authorities, who set and adjust policies according to the needs of the airline to attract customers.

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