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The impact of convention bureau's activity on transaction costs
in the meetings industry – a theoretical approach

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The impact of a convention bureau's activity on transaction costs in the meetings industry – a theoretical approach

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Abstract

According to M. Porter's (1990) competitive advantage of nations approach, destination competitiveness is based on competitiveness of local industries. Because of dynamic development of the meetings industry in recent years, this industry can be a way of creating city competitiveness. According to neoinstitutional theory, being successful in this field depends largely on the height of transaction costs in the industry and on a convention bureau's activity. This organisation can be treated as one of city's resources and it helps to use other resources in more effective way, which can also influence city competitiveness. Therefore, there is a question: what is the influence of a convention bureau on transaction costs in the meetings industry and thereby on city competitiveness? The aim of this paper is to recognise the transaction costs in the meetings industry and to examine the impact of a convention bureau on reducing them. This institution can reduce transaction costs by playing several roles, especially by being an agent of a city. The investigation based on a literature review is a first attempt in further research.

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Introduction

Competition is a phenomenon which includes both companies and regions or countries [Porter 1990]. Regions compete to attract investors, entrepreneurs, citizens, tourists, and prestigious events [Klasik 1999]. This process occurs in two ways: direct, when local government applies for receiving some benefits, and indirect – by improving conditions conducive to rivalry for local companies [Nawrot and Zmyślony 2009]. The approach is convergent with institutionalism and its wide definition of an institution as an organisation on the one hand and as a set of the rules, norms on the other hand [Iwanek and Wilkin 1998]. In this context institutions formulate “the rules of the game” in economy and they can be “players”, also with regard to competitiveness. Moreover, neoinstitutionalists add the category of transaction costs to overall costs concept [Coase 1937], which can be reduced by institutions. According to M. Porter [1992], low costs are one of the ways of achieving competitive advantage. Another solution could be to encourage local innovativeness [Klasik 2001; Mikołajewicz 1999; Strahl and Sobczak 1999] e.g. by institutional innovations [Hjalager 1997].

Many cities look for advantages in developing business tourism which can strengthen their economic and tourism potential [Davidson and Cope 2003; Zmyślony and Piechota 2014]. It seems an appropriate direction, because this sector develops dynamically – the number of international meetings increased by over 40% in the years 2009-2013 according to ICCA [ICCA 2014; 2010]. The business tourism, which is also called the meetings industry, or MICE industry, [Świątecki 2005] includes many forms of events such as congresses, conferences, corporate meetings, exhibitions, trade fairs etc. [Davidson and Cope 2003; Swarbrooke and Horner 2001; UNWTO 2010a]. Creating a business tourism product needs institutions in the area of cooperation and institutions known as convention bureaux play an important role in applying for prestigious meetings and other events [Getz 2003]. According to UNWTO [2010b], a convention bureau is “an entity responsible for promoting and organizing conferences, exhibitions, conventions, incentives and various events at a destination”.

Despite the general definition, these institutions can have varied forms, roles, and competences in different cities. Moreover, UNWTO’s definition emphasises mainly the promotional tasks, while the functional scope of a convention bureaux is much wider [Gartrell 1988; Morrison et al. 1997]. Most of all these entities bid for business events on behalf of cities. However, in many cases the role of a convention bureau in the local meetings industry and in cities is not clear, especially when companies, governmental units or other

organizations have similar competences. Therefore, the convention bureau concept has been the subject of some research [Getz et al. 1998; Ford and Peeper 2007; Weber 2001; Koutoulas 2005; Pawlicz 2011; Celuch 2015; Morrison et al. 1997], but those projects mainly include only some characteristics and issues relating to the operations of convention bureaux.

Accordingly, there is a need for more extensive and complex research on the importance of these institutions for competitiveness of the local meetings industry and a city.

This paper attempts to solve the following research problem: what is the influence of a convention bureau's activity on transaction costs in the meetings industry and (through that) on city competitiveness according to neoinstitutionalism? Therefore, the aim is to investigate transaction costs in the meetings industry and the impact of a convention bureau on reducing them. The examination is based on a literature review and it is a first step in further analysis. This paper is divided into four sections. First one presents the theoretical approaches to the impact of institutions on destination competitiveness. Second one describes a potential of convention bureau to create city competitiveness. Last two sections provide research method and results of investigation.

1. The impact of institutions on destination competitiveness

Many authors [e.g. Porter 1990; Klasik 2001; Dwyer and Kim 2003; Ritchie and Crouch 2003] investigate the problem of regions' competitiveness. This notion can be understood as "an ability to achieve the particular aims in the competitive arena" [Stankiewicz 2005] and in these goals A. Klasik [1999] includes: attracting investors, entrepreneurs, citizens, tourists or prestigious events. M. Porter [1990] claims that the competitiveness of a nation is based on the strength of industries, which are influenced by the competitiveness of the companies. On the other hand, many scientists' opinions being competitive depends on those resources in a region which form a competitive potential of a destination [M. Żemła 2010 discusses main research projects on this subject]. This approach is called resource-based theory and it is often used to explain the phenomenon of rivalry in the tourism industry, which relates more to the inter-destination than inter-companies competitiveness [Kozak and Baloglu 2011]. An example is research by J. R. B. Ritchie and G. I. Crouch [2003]. They claim, that because of the possession of the resources a destination can produce a comparative advantage, while an ability to use the resources brings a competitive advantage. But both aspects are important in tourism.

One of destination resources might be the institutions [Klasik 2001]. According to the institutionalism, an institution can be defined as an organization, as well as a set of norms or rules [Iwanek and Wilkin 1998]. D. C. North [1971] divides the institutions into: the institutional arrangements (or governance structure according to O. Williamson [Iwanek and Wilkin 1998]) and the institutional environment. The institutional arrangements comprise socioeconomic interactions (including the organizations), while the institutional environment formulates a code of behaviour in those interactions. Therefore institutions might take part in rivalry as a representative of a region (“player”) or create the conditions conducive to competition for local companies (“the rules of the game”). The first situation refers to direct competition of a region, the second one – to indirect [Nawrot and Zmyślony 2009].

The fundamental function of institutions is to reduce transaction costs [Iwanek and Wilkin 1998], which could also influence the region competitiveness [Porter 1992]. It is possible especially by constraining the uncertainty [Hardt 2008], which is one of three determinants of transaction costs (with asset specificity and frequency according to O. Williamson). Transaction costs can be described as “costs of running the economic system” [Arrow 1969], but there is no overall definition of this term and accordingly it is hard to measure these costs [Iwanek and Wilkin 1998; Godłów-Lęgiędź 2009]. Instead of direct measurement the comparison between different institutions is used. The transaction costs include preparation and realisation of transaction, and they are divided into: market exchange costs, hierarchy costs [Coase 1937] and political transaction costs [North 1990]. Hierarchy costs arise inside an organization and political transaction costs refer to keeping the political and economic system.

Reduction of transaction costs could also be achieved by an institution of cooperation and creating a network [Łobejko 2011]. In this case enlisting the cooperation might be described as an institutional innovation [Hjalager 1997], which encourages the local innovativeness and competitiveness by sharing the knowledge and stimulating the synergic effects [Pietrzyk 2001]. The cooperation is crucial in meetings industry, because of the quantity and variety of entities involved in creating a business tourism product. Therefore there is a need for an institution which ensures cooperation and reduces transaction costs. Especially that business tourism might be one of the industries which could strengthen the overall competitiveness of a city according to M. Porter's [1990] point of view. This institution could be a convention bureau, but entrepreneurs could also create their institutional environment [Bruton et al. 2010].

2. The potential of a convention bureau to create city competitiveness

City competitiveness can be achieved by developing the meetings industry and a convention bureau can be treated as an institution in both a narrow and broad definition. It means that a convention bureau is an organization and creates some rules and conditions of cooperation in the meetings industry. In this case a convention bureau could build a city's competitive potential in two ways: as one of the resources, on the one hand and by encouraging the use of other resources, on the other hand. Because of this, comparative or competitive advantages could be achieved. This connection between city competitiveness and a convention bureau is shown in Figure 1.

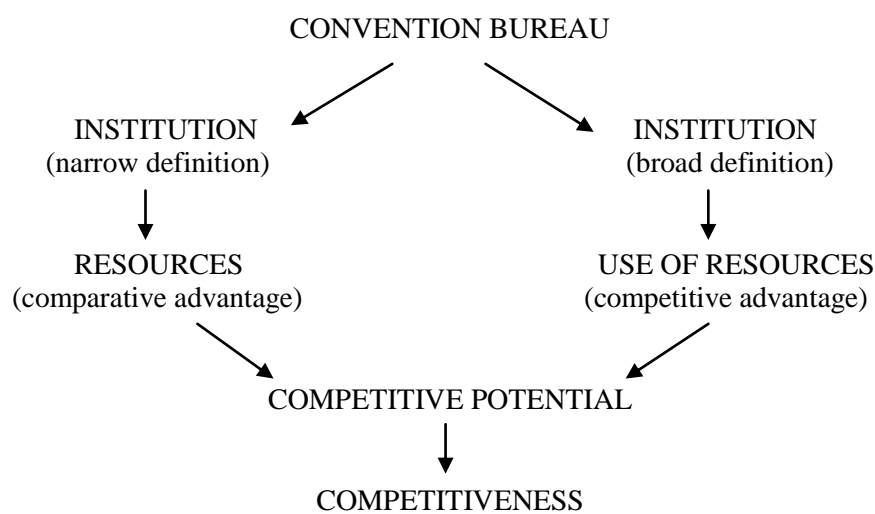


Fig. 1. Connection between a convention bureau and city competitiveness

Source: own elaboration

To ensure the competitiveness of the meetings industry several factors are needed. Haven-Tang, Jones and Webb [2007] list seven critical success factors for this industry and the region where it is developed: leadership, networking, branding, skills, ambassadors, infrastructure and bidding. A convention bureau plays a significant role in achieving those factors. Although this institution has many different functions [Morrison et al. 1997; Gartrell 1988; Wang 2008], they can be described in five main roles: (1) a leader, (2) a coordinator, (3) an agent, (4) a representative, (5) a marketer. In the first one convention bureau is responsible for setting vision and aims for local meetings industry, and managing to achieve these goals. This process needs coordination, because many varied companies and institutions are involved in creating the business tourism product and they all should cooperate to succeed. Roles no. 3 and 4 are similar because both refer to representing the local meetings industry. An agent function refers to an external representation (especially to bidding on

events), while a representative supports the industry among local authorities and policymakers. The marketer’s tasks concentrate on the promotion of the city as an excellent business tourism destination.

Through these roles a convention bureau influences the meetings industry’s potential in the direct and indirect competition among the cities [Piechota 2015], which is presented in Figure 2. As an agent and marketer this entity impacts the direct competing through attracting the business events for and on behalf of the city. It can be done by bidding on events and by helping to create city brand. In this situation, convention bureau should be treated as one of city’s resources. On the other hand, a convention bureau influences indirectly the cities’ rivalry, when it ensures coordination and cooperation within the meetings industry and with other entities like: local government, organizations and companies outside of the industry. It is possible owing to the role of a coordinator and a representative when convention bureau helps to use local resources in more effective way. In this case a local business tourism product could be more competitive. A convention bureau as a leader combines those two approaches, because it sets the directions for meetings industry. Moreover, strengthening the meetings industry results in building up the tourism competitiveness by attracting the business visitors and using local infrastructure. Therefore, according to M. Porter’s [1990] competitive advantage of nations approach compared with Swarbrooke and Horner’s [2001] list of meeting industry’s positive effects on the local development, strong meetings and tourism industry should result in a more competitive destination

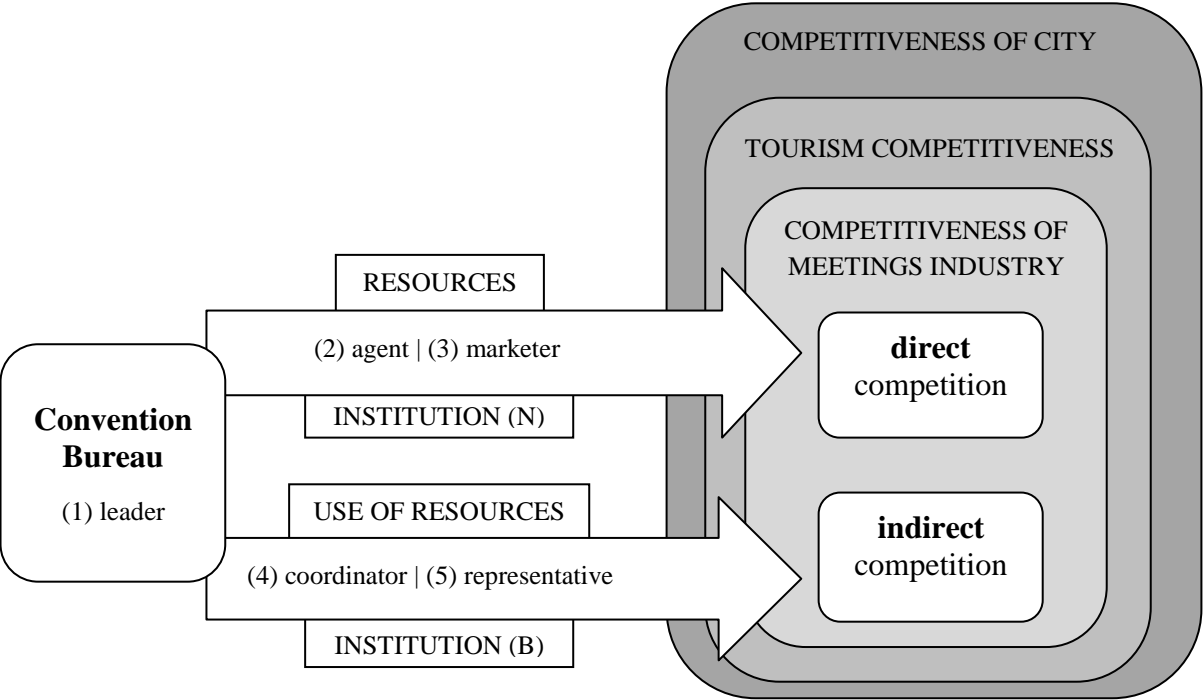


Fig. 2. Roles of convention bureau and its impact on the city competitiveness
 Source: own elaboration

3. The Method

On the basis of a preliminary literature review it is stated that in both cases (direct and indirect impact on cities' competition) a convention bureau can help to reduce the transaction costs in the meetings industry. In this paper the transaction costs are acknowledged not only as the costs of transaction between entrepreneurs or inside the company [Coase 1937], but also as achieving some effects in a different way, by saving time or resources. This approach is based on K. Arrow's [1959] belief, who claims that transaction costs are a broad concept, including the market failure and the external effects [Iwanek and Wilkin 1998].

It enables creating a classification of transaction costs in the meetings industry and, consequently, appraisal of how a convention bureau can influence competitiveness of this industry and of a city. It is believed that kinds of transaction costs which convention bureau helps to reduce depend on the roles of this institution in the local meetings industry. Therefore, a list of transaction costs is formed and they are divided into five main functions of a convention bureau: a leader, an agent, a marketer, a coordinator and a representative. These costs also are associated with three beneficiaries: the entrepreneurs in the meetings industry, the local government's units and a city. In this way a matrix (Fig. 3) is designed to present, what kinds of transaction costs convention bureau helps to reduce by playing five main roles and which costs exist in relationships between this institution and three groups of beneficiaries.

The next step is to create a classification of a convention bureau's roles . It is made by author of this paper on the basis of literature analysis, by giving points from one to five to every transaction cost. The five points are ascribed to costs, which are the most important in the meetings industry, and a convention bureau plays a crucial role in limiting them. It can hardly be replaced by any other institution or company when it comes to reducing these costs. And one point is attributed to the least important costs and the easiest to substitute. The points in every category (convention bureau's role) are summed up and the function with the highest score has the strongest impact on the competitiveness by reducing the transaction costs and strengthening the meetings industry.

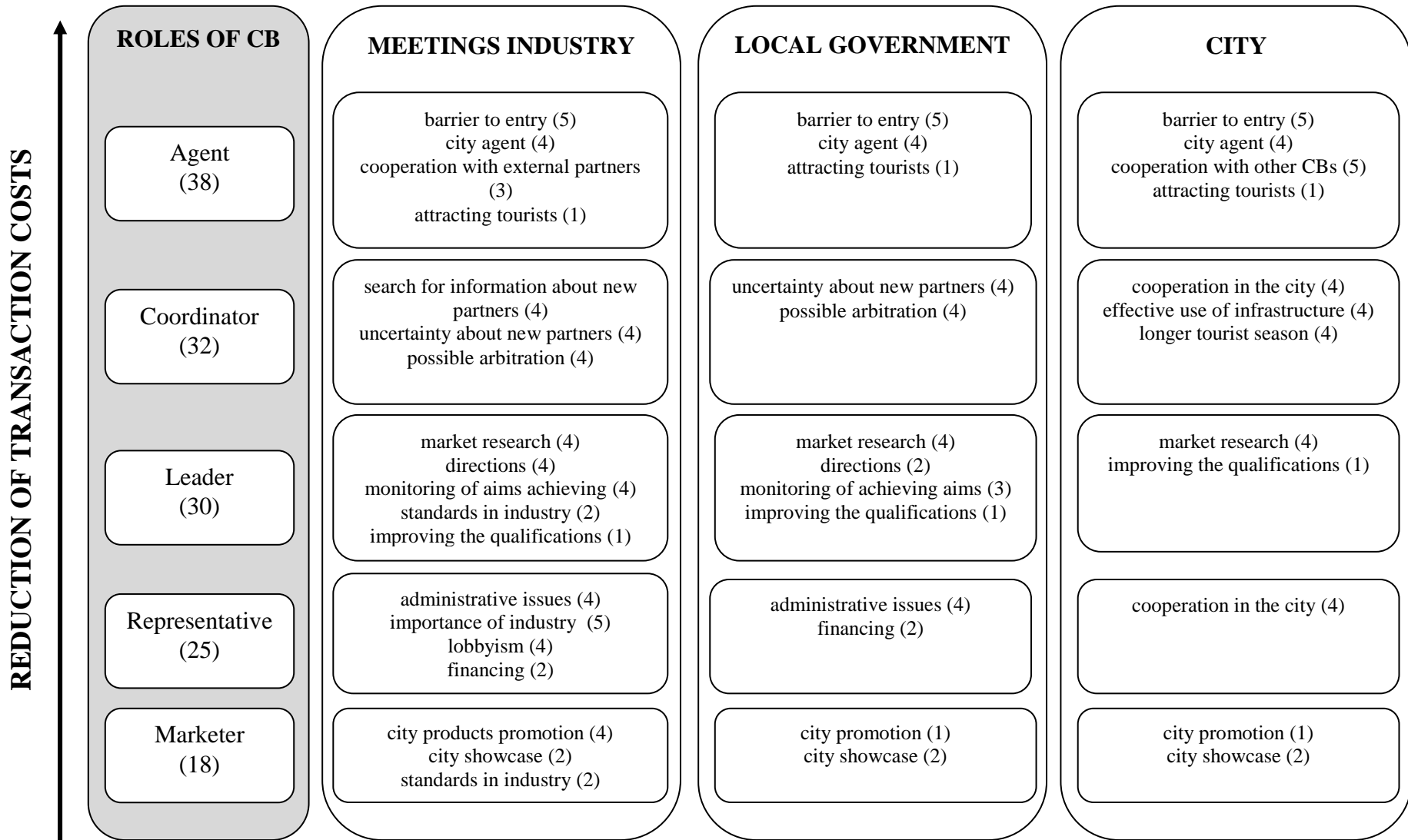


Fig. 3. Transaction costs in the meetings industry
Source: own elaboration

4. Results

Convention bureau influences the city competitiveness the most by playing the role of an agent (Fig. 3). This function has received 38 points. Its highest position is due to the fact that the main important reduction of transaction costs is the elimination of barrier to entry, because without a convention bureau city cannot bid on many international and prestigious events. Owing to the agent role there is also an entity, which sells city business tourism product and attracts business tourists. Moreover, it enables the cooperation with national convention bureau and such institutions in other cities.

The next two roles, a coordinator and a leader, received similar results: 32 and 30 points. A convention bureau as a coordinator reduces the most typical transaction cost like searching for information about new partners, uncertainty about those partners and possible arbitration costs. It also ensures cooperation in the city and its positive effects. But these kinds of cost can be also constrained by creating the network in the meetings industry, without a convention bureau participating. The leader initiates taking action. Moreover, it sets the overall directions and standards in the meetings industry and conducts research, if goals are reached. A convention bureau can play this role as an impartial partner for companies, organisations and local government.

The result of a representative function is 25 points. It creates a platform for cooperation within different groups of stakeholders in the city and it emphasises the importance of business tourism. Because of that, it can help e.g. in administrative issues or getting financial and political support. The marketer received the lowest appraisal – 18 points. It takes effort to promote the destination, but in this role it is the easiest to replace the convention bureau. Furthermore, there are many other institutions responsible for a city's publicity.

Discussion and conclusion

There is a need for complex research about the transaction costs in the meetings industry and the impact of a convention bureau on city competitiveness, while the majority of publications refers mainly to the operational aspects, concerning this kind of institutions [Getz et al. 1998; Ford and Peeper 2007; Weber 2001; Koutoulas 2005; Pawlicz 2011; Celuch 2015 etc.]. Until the present day, the author has not been able to trace any research covering the examination of the transaction costs in the meetings industry and ways of reducing them. Also combining the resource-based theory of competitiveness with neoinstitutionalism is not a common approach (it was used e.g. in the biotechnological industry [Ahn and York 2011]) and the importance of a particular institution for the region's competitiveness was not investigated.

Therefore, this publication is a first attempt to investigate the role of a convention bureau in creating city competitiveness, and to identify transaction costs in the meetings industry. It shows that an institution like a convention bureau can reduce transaction costs by playing several roles, especially that of an agent, by representing the city in bidding for business events, and in this way it can influence city competitiveness. Thereby, this project combines neoinstitutionalism with resource-based theory. However, the research is limited, because it is based only on literature analysis and it needs empirical verification. Probably not every kind of transaction costs is included and there is a need for a wider survey. Convention bureaux' directors and managers should be also asked how they perceive the role of these institutions and if they meet the expectation of entrepreneurs in the meetings industry.

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