

Estimating the economic impact of business tourism: a review of issues and methods

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Abstract

Business tourism has become an important economic sector in many parts of the world, and many regions, states, and local areas have identified expenditures by business tourists as a potential source of economic growth. Because their spending can contribute to the local economy, many communities seek to enhance business tourism and business tourists-oriented activities. A wide variety of parties are interested for economic impact estimation of business tourism. The current research identifies key considerations and issues that affect and are serious to reliable estimates of the economic impacts of business events and business tourism.

Keywords: Business tourism; economic impact; impact assessment models

1. Objectives

As per brief literature review, an economic impact study of business tourism can get effected by several issues. The main objective of current research is to assess all the major concern and come over all the essential components of an economic impact assessment. The article observes serious concerns and issues that affect the estimates of economic impacts of business tourism. Possible solutions to handle with major issues with example from several past empirical researches are also discussed.

2. Introduction

Business tourism has become an important economic sector in many parts of the world and developed as very important in modern global market, also known as meeting, incentives, conventions and exhibitions (MICE) sector (Dwyer & Froisyth, 1997) meeting industry (UNWTO, 2006). Business tourism has high yield of economic benefits to an economy in results of business tourists throughout the year (Wang & Davidson, 2010; Weber & Ladikin, 2004). Leisure time and affordability, boosted the income level for local population who are growing tourism sector. Tourists spending can be subsidize to the local economy because of the increase in demand of products and services in several sectors, increase in job opportunities and increase in tax revenue.

Efforts to develop stadiums, convention centres, and different visitor-oriented facilities typically need public investment or support, and local economic advantages area regularly cited as a justification for public investment in such facilities (Crompton, 2004; Noll & Zimbalist, 1997; Baade & Matheson, 2001; Siegfried & Zimbalist, 2000; Jones, 2001). In current time there have been so many economic impact studies on tourism sector been under criticism, where researchers has mentioned about economic impact benefits for the host communities (Crompton,

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2004; Matheson, 2002; Noll & Zimbalist, 1997). Others has evaluated economic impacts for the host region, area or country (Hodur, Bangsund, Leistriz, & Kaatz, 2006).

3. Literature review

Past economic studies have argued that development of informative economy increased the growth of business tourism in 21st century (Weber, 2001). With the passage of time need of knowledge and continuous up gradation of knowledge has given the pathway for the business tourism a standard way to spread the knowledge. A number of countries and association related to MICE industry has realized the significance of business tourism and also conducted researches to measure the size and scope of the industry in particular destination.

3.1. Need of economic impact studies

Han & Fang (1997) stated that business tourism is an important economic activity in most of the countries around the world and its direct economic impacts as well. Business tourism has outstanding indirect and induced impacts. An easy way to summarize all these three impacts as, money spend by tourists, participants, delegates in the restaurants, hotels of in any of the tourism products can be referred as direct effect. Restaurants also use to buy products such as vegetables and other ingredients form other businesses, which can be called as indirect effect. Induced effect get occurs due to additional income of the restaurants and hotel employee and they spend money in the local economy by purchasing goods and services (Vogelsong & Graefe, 2001). Economic impact studies are very much beneficial because they illustrate the benefits of travel and tourism, several studies for economic impacts assessment are been done and vary in methodological part or the information level gathered. That is one reason which makes each and every study different.

Economic impact study can be carried out for a city, region, state, country or particular convention Centre by surveying for the total expenditure done by the tourists in the region. Acknowledgement for prospective economic benefits of business tourism such as jobs, wages and tax revenues can be calculated through economic impact studies, which can strengthen the tourism devilmnt in the particular region. Economic studies can be used as a planning tool and policy for the government and private sector to make promotional activities and setting their goals. An economic assessment finds out the level of contribution of business tourism towards a local economy. It also shows the relationship between different economic segments and comes up with the approximate necessary changes which can take place in the economy due to existing or possible available actions.

3.2. Uses of economic impact studies

Economic impact can be carried out for several reasons and uses such as, travel offices, local or regional travel organizations, and city, state or national visitor bureaus use to carry out impact studies in the form of expenditures, wages/ income, jobs/ opportunities and taxes (Fleming and Toepper, 1990). Results of the studies can be helpful to train and educate the related tourism development official and local public regarding the tourism benefits. As mentioned above economic impact study will be very much helpful for policy makers including both public and private travel and tourism promoters to set their goals related to their agendas. Later spending pattern and trends regarding travel and tourism consumer tastes can be monitored to upgrade the promotional activities in future.

Travel and tourism developer also can get help from economic impact studies regarding viability of choosing destinations for transportation, accommodation and further recreational/ entertainment facilities. Cost (fiscal, social and personal) and benefits (jobs, income and taxes) of business travel and tourism can be measured through these studies.

Past economic impact studies have been exploring the total impacts including direct, indirect and induced impacts of business tourists spending for the economy of particular region, state or country. Most of time these studies focuses on ripple effects of the tourists spending, also known as multiplier. Which helps to analyse the rounds of spending within the economy and leakages from the economy.

In current time economic impact studies are very much beneficial for predicting/ forecasting the econometric stimulation of the tourists spending impacts. There is big range of economic model is available to forecast the economic impacts by looking at past trends of tourist's spending, such as Input Output, REM, Implan and Money Generation Model. Economic impact models are also helpful to determine the tourist's behaviour patterns and other variables which stimulus the tourist's behaviour. Understanding of these patterns is greatly useful for marketing strategies and policy analysis.

3.3. Methodologies economic impact studies

A big range of methodologies is available to access the economic impacts of tourism/ business events. Each of those methodologies has their advantages and disadvantages and each suit different types of tasks, studies with different objectives, looking on the quantity of data available and the region where study is being carried out.

Economic impacts of the business events can be analysed by looking at three distinctive sources, (1) Event construction or planning (2) Event operations and (3) Spending by the event visitors (Hodur and Leistriz, 2006). Expenditure done by event attendees includes event registration fees, travelling cost to arrive until event destination, accommodation cost, food and beverage and some other spending in terms of leisure or shopping. Fleming and Toepper (1990) mentioned in their study that direct positive economic impacts of an event for an economic area resulting from tourists spending in terms of income, jobs and taxes. Estimation for these economic impacts varies on the base of primary data collection, an approach used to conduct the study and primary data collection. There are three different methods for primary data collection and aggregate or disaggregate the data to design impacts estimates.

3.3.1. Survey method

This is the most popular way to collect data. In this method structured questionnaire can be distributed to participants with whom we need to collect the information. In economic studies questionnaire can be distributed to tourists, organizers and operators of the travel businesses. Survey method will be less reliable if we conduct survey with the organizers or travel operators to collect data regarding tourists because they cannot accurately estimate the percentage of spending by the tourists (California Division of Tourism, 1974). With the survey method we can easily collect the information on trips frequency, transportation used, and length of stay, accommodation used, spending pattern for several tourism and hospitality products and the demographics of the tourists. Survey could vary in sample design or selection of the respondents, as there are few sample design techniques like haphazard, representative, quota, probability or non-probability sampling techniques. For each technique has pros and cons. Haphazard sampling techniques usually includes samples of volunteers or the respondents doesn't represent the population, so these samples can't be generalized. Representative and quota sampling techniques included the sample selected on the basis of researchers judgment, experts rejects this way if the several researchers are being used to collect data and on different venues.

In probability or non-probability sampling technique each participant has equal chances to get selected for survey. As in this method some randomization is included and probability samples are always designed to statistically evaluate. With this method we can easily develop the confidence interval for the sample which results that sample estimates are within particular range for a given confidence level. Surveys can be conducted through different ways, like face to face, on telephone or through mail survey. Most often face to face conducted survey is good idea because it has less chance of non-responses. Even though conducting face to face survey is quite expensive as compare to other two options but it has its own value if researcher wants to reduce non response rate. Mail surveys and telephonic surveys are less expensive but traditionally they have highest non response rate and could have biasness as well. Choosing the appropriate way to conduct survey rely on the population, the sampling and the budget (Kish, 1965).

3.3.2. *Modelling method*

Survey methods can collect the information regarding business tourist's travel behavior, expenditure and the demographics but it cannot help to measure the benefits generated by tourist's spending in the destination visited. To analyze the collected data and to measure the economic benefits we need models. There are two types of modelling approaches available to estimate the economic benefits. First approach estimates impacts for city or regions and aggregates these results upwards to estimate the state or country wide impacts. The other approach estimates the state or country wide impacts initial then disaggregates the results down to estimate city or regions. Survey research is necessary to conduct to collect the data like tourists spending patterns for the accommodation in

The economic area for which the study is being carried out. In this method survey is required to aggregate the data. Then all the data are used in model to come up with trips budgets. A model is employed to develop estimates of the aggregate dollars spent by tourists for a given amount by combining trip budgets, and information gathered from surveys of accommodations' occupancy and rates, and information from a survey of the incidence of tourists visiting friends and relatives. Some of these models use payroll, employment and tax information ratios to generate estimates of these impacts from the expenditure estimates. Others use input-output techniques which give information on employment, income, and tax receipts. Analysis of these impacts can be extended to sort of accommodations, season, and kind of trip (Georgia Hospitality and Travel Association, 1998; California Office of Economic Research, 1988).

3.3.3. *Evaluating method*

A huge literature is available on evaluating direct economic impacts models. Frechtling (1987) addressed the criteria for economic impact model which includes significance, exposure, precision and pertinence. Significance or relevance mentions the ability of the technique to estimate the economic activities impacts in results of tourists spending. The approach should clearly differentiate between tourist related impacts and the local residents impacts. Exposure of the approach can be checked by the category of expenditure measured. Several studies argued regarding tourist expenditure that what expenditure should be included, mainly expenditure on transportation, accommodation and retail shopping including food can be covered in the survey. Precision or accuracy denotes the quality of data gathered for the economic impact study, accuracy can be checked by the source, techniques used to gather the data Fleming and Toepper (1990). Pertinence over here covers the consistency of the technique over time and for different locations.

4. **Major issues in economic impact estimation**

A number of issues can be addressed in almost every economic impact assessment (EIA), such as (a) selection of study area, (b) data collection, (c) direct economic impacts estimation, (d) secondary economic impacts estimation, and (e) interpretation of results. Further data collection issues can be categorized in two (a) event/ conference/ exhibition selection, (b) estimation of participants.

4.1. *Selection of study area*

This is the most important and critical decision to selecting the study area. Generally two major considerations influence this choice. First, the study area should estimate a self-contained local business area second, the study area should comprise the locations where business tourist usually spend.

4.2. *Data collection*

Every economic impact study require some level of primary data collection. Mainly survey methods to be used including travel information, expenditure and the demographics of the delegates/ business tourists. Wang & Irwin (1993); Faulkner & Raybould (1995) mentioned that expenditure data can be collected by using recall methods or

dairies. Intercept surveys also can be used to collect expenditure data (Finn & Erdem, 1995; Irwin, Wang & Sutton, 1996). Every method has some pros and cons.

4.3. Direct economic impacts estimation

Porter (1999); Matheson (2002) and Crompton (1995) argued about researcher's bias, misuse of multiplier and improper specification of the study area. Past researchers such as Tyrrell & Johnston (2001); Baade & Matheson (2001); Chhabra, Sills & Cabbage (2003) and Davidson & Schaffer (1980) faced same limitations regarding properly defining the direct economic impact of tourism – business tourism. Another issue faced by many previous studies, were not properly distinguishing between the direct economic impact and the total expenditures of business tourists. Direct economic impacts represent new money or new spending which is injected in the economy only due to particular business event.

4.4. Secondary economic impacts estimation

Money spent by business tourists related to business trip is known as secondary consumptions in System of National Accounts (SNA) whereas Tourism Satellite Account (TSA) treat them as primary, tourism final consumptions to reflect the full value of tourism demand (UNWTO, 2006). Multiplier can be used to measure secondary economic impacts (indirect and induced), multiplier works with amount of leakages and the amount as revenue in the local region. Leakages include taxation, foreign company and importing goods and services. There are several model available to measure secondary economic impact but every model has some pros and cons like Styne (1997) argued about few of the basic assumptions of the IO model like, all organizations in the industry should have same production capacity and technology, IO model are linear in nature – with the production of good or services have to double all the inputs, IO model doesn't keep the track of time, through IO model multiplier calculation for the induced effects like job creation is not correct as the induced effects usually encompass the wide secondary effects of tourism.

Social accounting matrices (SAM) operate with the same set of assumptions as I-O models, but place more emphasis on the distributional effects of the economic changes being modeled (Loveridge, 2004). The computable general equilibrium (CGE) modeling approach also was developed in response to perceived problems with I-O. In CGE models, production is modeled with production functions, and prices are allowed to vary (Dwyer, Forsyth & Spurr, 2004).

4.5. Interpretation of results

It is confirmed by number of authors that economic impact assessment studies are always useful for decision makers (Wang & Irwin, 1993; Putsis, 1998; Leistritz, 1998; Hodur, Bangsund, Leistritz & Kaatz, 2006). Event organizer can choose the event after estimating the local benefits and comparison with the cost incurred to organize particular event (Putsis, 1998; Hodur et al., 2006). When interpreting the findings of an EIA study, it is important to recognize that the effects of a discrete, one-time event may be different from those of a permanent addition to the area economy (e.g., a new employer or facility) (Putsis, 1998). EIA only addresses the benefits for the host area after hosting the particular event. Economic benefits such as positive publicity, media attention, and permanent structural improvements like new parks and sports facilities, are beyond the EIA analysis (Daniels, Backman & Backman, 2004).

5. Conclusion and implications

As business tourism has grown into an important economic sector in many places, and it is quite easy to understand the relevancy of estimating the economic impact of business tourists on the local and regional economies. Even though there is huge criticism on estimating the economic impact of tourism in general and the methodology used. There are so many process available for the economic estimation but the right process is hard to

find because it is not necessary that all process will be appropriate for all cities/ region or the country. Hence some of the criticisms are clearly justified, economic impact assessment methods have advanced considerably over the years. Through this review of issues and methods, attention of some major fundamental issues related to economic impact estimation can drive to reliable estimates of the economic impacts of business tourism. By judiciously mentioning key considerations such as selecting the area for research, confirmation of the delegates/ participants enthusiasm for attending an event, getting a appropriate sample size, and selection of an appropriate secondary impact assessment method, the economic impact assessment methodology can be efficiently used in a variety of conditions and deliver a valuable perception for the event organizer, committee, sponsors and the department related to economic development.

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