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“Applying Co-evolution to the Tourism Sector: the case of Albergo Diffuso”

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Applying Co-evolution to the Tourism Sector: the case of Albergo Diffuso.¹

Abstract

An important aspect of competitiveness between destinations concerns the way in which historical and cultural heritage is used. Thus, the relationship between territories and firms grows stronger, shifting the focus on the innovation processes within and across destinations. To increase our understanding of how these processes take place in a tourism destination, more theoretical and empirical research is required. This paper aims to respond to this call by examining the central role played by the Italian phenomenon of Albergo Diffuso (AD) through a co-evolutionary approach, fertilized by the evolutionary economic geography (EEG) literature. The study focuses on the dynamics of the relationship between this new hospitality model, territories and tourists, by analysing 14 case studies of ADs rooted in historical villages. Findings show that AD can be considered as a new sustainability-oriented hospitality model that, by creating synergies with its territory, positively affects the competitiveness of the destinations where ADs are located. The theoretical implications suggest that the creation and development of these innovative firms are the result of effective multi-level co-evolutionary adaptations, adding new elements to the existing literature on innovation in tourism. Moreover, implications for both entrepreneurs and policy makers emerge, together with suggestions for future research.

Keywords

Albergo Diffuso; Co-evolution; Evolutionary economic geography; Sustainability-oriented innovation; Cultural heritage; Multiple case studies.

Introduction

The tourism industry is continuously evolving, and reflects well the changes in the social system. An important aspect of this social evolution concerns the way in which historical and cultural heritage is being used. The multidisciplinary debate around this topic involves many different aspects, especially those connected with heritage promotion (Bourdeau, Gravari-Barbas, & Robinson, 2013; Montella, 2009; Xu & Dai, 2012). During the 1980s, special attention was given to the enhancement of *historic properties*, but only in terms of improving the quality of city life, and tying it to public choices and actions (Lichfield, 1988; Lowenthal, 1985). In the last two decades, tourism literature has enriched this debate, underlining the importance of local identity, and its link with sustainability and innovation, for destination development and competitiveness (Brouder & Ioannides, 2014; Buckley, 2012; Hughes, 1996; Keller, 1996; Macbeth, Carson, & Northcote, 2004; McKercher & Ho, 2006; Pechlaner, 2000; Pedersen, 2002; Romão, Guerreiro, & Rodrigues, 2013; Spaul & Evans, 2005; Teo & Yeoh, 1997; Vuin, Carson, Carson, & Garrett, 2016).

In this vein, there are also the recommendations of the World Tourism Organization (UNWTO, 2011), which states: “*Historic buildings and open spaces that are left abandoned are at risk of physical decay or redevelopment, and represent a loss of opportunity to revitalize structures that contribute to the identity of a community and its social traditions.*”

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[...] revitalization of heritage places as creative and attractive venues for tourists and local residents alike.” In this sense, there are indications of the European Commission, contained in the Agenda for a Sustainable and Competitive European Region, which was urged by the Council of Europe in 2009.

Thus, historical and cultural heritage itself becomes a source of relationships and spatial interdependencies (local and multi-local) able to promote sustainability-oriented innovations on which are based an inimitable competitive advantage, assigning value both to territories and entrepreneurship (Florida, 2002), and shifting the focus on innovation processes within and across destinations (Porter, 1998). Over recent years, the importance of the role of small tourism firms and individual entrepreneurs in destination development and competitiveness, as well as the necessity for synergic action between firms and institutions, have been highlighted (e.g., Alonso-Almeida, Bagur-Femenias, Llach, & Perramon, 2015; Duarte Alonso & Nyanjom, 2015; Dwyer & Kim, 2003; Hall & Williams, 2008; Hjalager, 2010; Komppula, 2014; Marin & Jafari, 2002; Pechlaner & Volgger, 2012; Ritchie & Crouch, 2003; Roberts & Tribe, 2008; Weidenfeld, Williams, & Butler, 2010; Weiermair, Keller, Pechlaner, & Go, 2010). It is therefore necessary to capture and holistically view the relationships that generate innovations, and their dynamics over time; even to better understand the role played by individual entrepreneurs in innovation processes within a tourism area.

In order to do so, the co-evolutionary approach to the study of the relationships between firms and their environment (e.g., Hodgson, 2013; Murmann, 2003) seems to perfectly achieve this goal. Recently, the co-evolution concept has been taken up by economic geographers, introducing a new paradigm, namely evolutionary economic geography (EEG). EEG focuses on the processes and mechanisms through which the spatial economy transforms itself over time (Boschma & Martin, 2010). In this vein, some studies have synergistically linked tourism issues to evolutionary ideas in economic geography, offering important elements to increase our understanding of the evolutionary dynamics of destinations and the tourism sector and on the interlinked processes, such as innovation. Meanwhile, there are calls to investigate this promising area of research from a multidisciplinary perspective (Brouder & Eriksson, 2013; Ma & Hassink, 2013). The currently existing studies include both rural destinations (e.g., Brouder, 2012; Brouder & Fullerton, 2015; Randelli, Romei, & Tortora, 2014), and mass urban centres and resort destinations (e.g., Brouder & Ioannides, 2014; García-Cabrera & Durán-Herrera, 2014; Gill & Williams, 2014; Ma & Hassink, 2013; Papatheodorou, 2004).

Thus, co-evolution becomes a key concept to explain how to encourage change, both at an institutional and a firm level, in order to develop synergies able to stimulate sustainability-oriented innovations, preserving their benefits over time and, as Brouder & Eriksson (2013) state when referring to the Schumpeterian idea (1934) of creative destruction, “*entrepreneurs are potentially key subjects of evolutionary studies in tourism*” (p. 383).

This article follows the above-mentioned recent streams of research in order to understand how the innovation processes take place in a rural tourism destination, focusing on the role of individual tourism entrepreneurs and their firms. In fact, through the adoption of a co-evolutionary approach to examine the overall dynamics of the Italian phenomenon of *Albergo Diffuso* (AD), the article offers a conceptualization of this innovation as effective multi-level co-evolutionary adaptations. Overall, the study constitutes a substantive enrichment of the doctrinal debate on innovation in tourism that is still at an early stage, where the role of the entrepreneur and entrepreneurship are yet to be confirmed (Brouder & Fullerton, 2015; Gill & Williams, 2014; Hall & Williams, 2008; Hjalager, 2010; Komppula, 2014; Thomas, Shaw, & Page, 2011; Weiermair et al., 2010).

The AD represents a new and original hospitality model for enhancing local cultural

heritage not only in city centres, but also in peripheral and rural areas (Paniccia, Pechlaner, & Valeri, 2007). It is radically different not only from traditional hotels but also from other types of accommodation (e.g., B&Bs and agritourism), because it is converted out of *various historic buildings in a small community*, as a means of reviving small, medieval Italian villages and town centres, usually outside the normal tourist circuit. Substantially, the originality of this model is based on *the combination of historical village, local communities and tourists*. However, its flexibility allows it to be applied to the enhancement of different specific contexts (rural and urban) and different types of precious buildings (e.g., palaces, villas, castles, rural farmhouses), away from small communities. Therefore, among the different forms of promotion of cultural heritage, this model is interesting not only for Italy, with its enormous cultural and historical value of real estate heritage spread throughout the country, but also for many other countries in the world (e.g., Matoga & Pawlowska, 2016), which are currently moving in this direction (e.g., Historic Hotels of Europe; Stay in Historic Accommodation; The Landmark Trust USA). Notwithstanding the great opportunities provided by the above-mentioned Italian *heritage*, and tourists who demand more and more to have unique and authentic experiences, especially cultural (OECD, 2010), ADs are still few in number and characterized by tacit potential and an uncertain future.

The purpose of this study is, therefore, to increase our understanding of the role of ADs in fostering a virtuous co-evolution process within destinations where they are located, and how these innovative firms can effectively be diffused across Italian destinations, especially in territories rich with historical properties, in order to improve their competitiveness, along with that of the entire country.

Thus, four main research questions have been posed:

RQ(1): What is Albergo Diffuso (AD) and what are its unique characteristics?

RQ(2): Why and how does the co-evolutionary approach explain the dynamics of the AD phenomenon?

RQ(3): What are the main determinants related to the AD creation?

RQ(4): Do these determinants differ from those of AD development and dissemination?

The paper aims to answer these questions by investigating 14 ADs rooted in historical villages, through a co-evolutionary approach fertilized by the evolutionary economic geography (EEG) literature, and it is structured as follows. First, through a literature review, the main distinctive features of the AD model are identified and it is explained how, over the years, their study has been leading both researchers and practitioners to define the AD model as a sustainability-oriented innovation. In the second part, an interpretative framework able to capture the main determinants of the evolutionary dynamic of this innovation is presented. Substantially, the proposed framework argues that the co-evolutionary approach allows an understanding and explanation of the mutual relations between tourism firms, territories and tourists, as well as their variations over time. In the third part, the dynamics of specific Italian ADs are analysed, by adopting the proposed framework. Findings from this section confirm that the creation and development of ADs are the result of continuous, effective, and multi-level co-evolutionary adaptations. Finally, discussion and conclusions, with suggestions for future studies, are presented.

Albergo Diffuso: origins of the phenomenon and related literature

Although the phenomenon of ADs is relatively new, the idea from which ADs originated, namely, widespread hospitality, is certainly older. In fact, it was first introduced and

developed in Italy at the beginning of the 1980s, when, after an earthquake in Friuli, it was decided to convert the uninhabited houses and villages of Carnia into tourist accommodation. It was nothing new; it had already been tried elsewhere, and even long before, such as the Spanish experience of *Paradores de turismo*, whose origins date back to the early years of the last century².

In 1995, with the creation of the first AD – Corte Fiorita Hotel in the village of Bosa in Sardinia (the first Italian region to give official recognition to this type of accommodation with Regional Law n.27/1998) – on the basis of the aforementioned concept of widespread hospitality, a new hotel model was formalized. After four years, in 1999, the AD of Sextantio was started up in the medieval village of Santo Stefano di Sessanio in Abruzzi (one of the Italian regions to legislate more recently on the theme with Regional Law n.22/2013), the worldwide best-known and most studied example of AD (Nordhorn, 2014; Paniccia et al., 2007; Tani & Papaluca, 2015).

The phenomenon quickly came to the attention of the international press (The New York Times – T Magazine, 20th September 2008; The New York Times – Travel, 19th May 2010), keeping its Italian name (i.e., Albergo Diffuso). Meanwhile, in Italy, a growing number of individual entrepreneurs started to consider villages as opportunities for creating new ADs. At the same time, specific associations have been created, such as the: Associazione Borghi Autentici d'Italia in 2002, Associazione Nazionale Alberghi Diffusi³ (ADI, henceforward) in 2006, and I Borghi più Belli d'Italia in 2001. These associations carry out promotional activities and have connections with policy makers, financial institutions and suppliers.

Due to the novelty of the phenomenon, the related literature is also quite recent, but it is receiving increasing attention from scholars. In particular, the topic has been addressed by many Italian academic and non-academic authors of different disciplines (e.g., history, architecture, urban planning, jurisprudence, management). To promote a holistic understanding of the phenomenon, the related literature has been carefully analysed, and the review highlighted a number of contributions.

Firstly, from a terminological point of view, wide ranges of different expressions are used to define the phenomenon, sometimes even simultaneously and as synonyms, namely:

- “Albergo Diffuso” (Avram & Zarrilli, 2012; Confalonieri, 2011; Dall’Ara, 2010; De Montis, A., Ledda, Ganciu, Serra, & De Montis, S., 2015; Nordhorn, 2014; Silvestrelli, 2012; Vallone, Orlandini, & Cecchetti, 2013);
- “Widespread hotel” (Avram & Zarrilli, 2012; Monge, Cattaneo, & Scilla, 2015);
- “Scattered hotel” (Nordhorn, 2014);
- “Distributed hospitality” (Mandelli & La Rocca, 2006).

In this study, the authors opted to use only the expression Albergo Diffuso, in line with the Italian origin of the model.

Secondly, the literature analysis reveals the different ADs’ distinctive features. In particular: a hotel can be defined as an AD when it is developed horizontally (Avram & Zarrilli, 2012; Dall’Ara, 2010; De Montis et al., 2015; Paniccia, Pechlaner, & Valeri, 2010; Silvestrelli, 2012; Vallone et al., 2013) – rather than vertically as in traditional hotels; in pre-existing old buildings (Avram & Zarrilli, 2012; Confalonieri, 2011; Monge et al., 2015; Nordhorn, 2014; Vallone et al., 2013) that are close together (200 to 300 metres away from

² Which today has 90 historical structures (former convents, castles, fortresses) able to accommodate more than 4 million people, and employing more than 3,000 people (<http://www.parador.es/en>).

³ The ADI was created on June 15th, 2006 during the first “National Convention for Scattered Hotel Managers” in Rimini (Italy). The mission of the association is to promote and support the development of ADs in Italy, protecting their image and reputation with public institutions, the press, the intermediary system and the tourism demand. In order to pursue its mission, the ADI has created a database specifically devoted to the ADs rooted in Italy (<http://www.alberghidiffusi.it/the-scattered-hotel-national-association/?lang=en>).

each other) (Confalonieri, 2011; Monge et al., 2015; Vallone et al., 2013); and is developed to prevent the depopulation and abandonment of places (villages) with rich cultural, architectural and historical heritage (Avram & Zarrilli, 2012; De Montis et al., 2015; Monge et al., 2015; Nordhorn, 2014; Vallone et al., 2013). It provides new job opportunities (De Montis et al., 2015; Nordhorn, 2014; Vallone et al., 2013) by reviving the local artisanal, commercial (Avram & Zarrilli, 2012), and cultural activities (i.e., eco-museum). Moreover, the AD is characterized by the single and systemic management of its activity, i.e. considering the tourist as a temporary resident who has the opportunity to live a unique experience in an authentic environment (Dall'Ara, 2010; Paniccia, Silvestrelli, Montella, Rozera, & Valeri, 2013; Paniccia et al., 2010; Quattrociochi & Montella, 2013).

Thirdly, as verified by different case studies (Avram & Zarrilli, 2012; Confalonieri, 2011; Fissi, Gori, & Romolini, 2014; Paniccia et al., 2007, 2010; Paniccia, Leoni, & Cicerchia, 2015; Paniccia, Minguzzi, & Valeri, 2011; Quattrociochi & Montella, 2013; Silvestrelli, 2012), AD can be considered as a sustainable and innovative hospitality model, or rather as firms that use sustainability as a strategy for innovation and differentiation from competitors. On the side of sustainability, the results of previous studies converge on the following aspects: the AD model has a limited impact on the environment (e.g., nothing new is being built) (*environmental sustainability*), it involves residents and tourists in organising hospitality and tourism services (*social sustainability*), and increases the attractiveness of areas usually outside the normal tourist circuit, generating profitability and attracting investments (*economic sustainability*). On the innovation side, it emerges that the AD model represents innovation in the tourism sector in line with the developments taking place in tourism, because it is not only a hotel, but also an enhancement project of the history and culture of a local area. Its originality is not just related to the use of buildings in carefully renovated historic villages, but also to entrepreneurship, i.e. the ability to create dynamic contexts of experience able to attract tourists through the integration of the local community in the firm offering. Thus, each AD is unique because the territory from which it originates is also unique. Therefore, AD is radically different from traditional hotels and also from other types of accommodation (e.g., B&Bs and agritourism), whilst it is well suited to promote, with mutual benefits, other enhancement formulas of the historical and cultural heritage of small territories, particularly eco-museums⁴ (e.g., Ornica historical village).

In summary, the in-depth analysis of the literature has allowed us to provide a definition of AD as: *a sustainable and innovative form of hotel that originates in enhancing historical and cultural real estate heritage, characterized by original structures, places (rural areas or small urban centres) and persons involved (both residents and tourists) in the production-distribution process and with experiential authenticity.*

However, ADs are still limited in number and in most cases, they remain the expression of only partially used potential. Furthermore, from a theoretical point of view, there appears to be no conceptual model able to capture the main determinants of the evolution dynamic of this touristic innovation. It is for this reason that, in the next section, the aim is to fill this gap by proposing a co-evolutionary approach to the phenomenon.

⁴ These are included among the main similarities because they both represent an evolution with regard to the traditional concepts of museums and hotels, and are geared to the principles of sustainability (especially social and environmental), through the enhancement of cultural and historical heritage (Corsane et al., 2007; Dogan, 2015; Terzic et al., 2014). However, the most important difference is that the eco-museum does not provide board and lodging, and therefore its managerial implications are very different from those of ADs (e.g., voluntary work is a central aspect of eco-museums). Finally, while the AD is a business initiative for profit, the eco-museum is a company run by non-profit institutional policy makers.

Interpreting Innovation in the Tourism Sector: a Co-Evolutionary Perspective

Innovation in tourism is widely considered to be a multidimensional phenomenon that involves firms and destinations with effects on their competitiveness (e.g., Thomas & Wood, 2014; Weidenfeld et al., 2010; Weiermair et al., 2010). In recent years, multiple external and internal factors able to influence innovation processes have been highlighted (Hall & Williams, 2008; Hjalager, 2010; Shaw & Williams, 2009). These factors can range from macro institutional/environmental (e.g., the dynamics of tourism demand, regulation, policies and technological progress), to industrial (e.g., the dynamics of competition, industry's life cycle and dimension) or firm specific factors (e.g., human and financial resources, availability of skills and knowledge, firm's life cycle, creativity, experiences, intentionality and capability of the entrepreneur). It is worth noting that each destination has its own specific factors (i.e., physical, natural, locational, environmental, socio-cultural, institutional, and economic) (Molina-Azorin, Pereira-Moliner, & Claver-Cortés, 2010), and its complex life cycle (e.g., Ma & Hassink, 2013). This implies that local contexts count (Brouder & Eriksson, 2013; Weidenfeld et al., 2010) and just as Martin (2010) argues: "*innovation is indeed often a highly localised phenomenon, dependent on place-specific factors and conditions*" (p. 30). In this regard, it is also important to consider the absorptive capacity (Cohen & Levinthal, 1990) of tourism entrepreneurs and firms (Thomas & Wood, 2014) and, consequently, their path dependence.

Thus, to understand how innovation processes take place in a tourism area, including the start-up of new firms – such as AD – the main problem that arises is how to grasp the above-mentioned influences and then how to handle drawing benefits from them over time. This issue can be properly addressed by considering both interdependencies and mutual relationships (according to a holistic approach) between firms and/or entrepreneurs, territories and tourists, as well as their dynamics over time.

In order to do so, the co-evolutionary approach seems to perfectly achieve this goal.

The co-evolution concept – relying mostly on Darwin's biological assumptions (1859) – has been adopted originally in biology to point out the "*reciprocal evolutionary change in interacting species driven by natural selection*" (Thompson, 2005, p. VII). Over the years, this concept has been considered as one of the key concept of Generalized Darwinism and has been widely used in economic literature (e.g., Breslin, 2011; Hodgson, 2013; Lewin & Volberda, 1999; Nelson, 2006), as well as in business administration and management studies (e.g., Abatecola, 2012; Ahlstrom & Bruton, 2010; Cafferata, 2014), in order to explain the relationship between firms and their environment, reinterpreting the organisational adaptation mechanisms (Lewontin, 1989) as the joint dynamic outcome between a firm's managerial intentionality and the institutional/environmental pressures. The central aspect is that neither of these two forces is sufficient by itself to define the adaptation, but both are necessary. This new way of considering the organisational adaptation draws on the dialectical assumptions by Benson (1977), Hrebiniak and Joyce (1985) and Weick (1969) for which the adaptation is substantially defined by interdependencies and interactions between a firm's competitive power and environmental pressures that change dynamically over time. Thus, social organisations are concurrently both the subject and object of evolutionary change, and adapting means searching for, in a proactive way, solutions to problems (Lewontin, 1989). This approach has been applied to analyse different economic sectors, producing relevant interpretations for different but related phenomena, such as firms' birth, survival, success/advantage, crisis and death, greatly reducing the long-standing dichotomy between two opposing schools of thought (i.e., determinism and voluntarism) on the adaptation of social organisations (see Abatecola, 2012).

Recently, co-evolution has been taken up by economic geographers, introducing a new paradigm, namely the evolutionary economic geography (EEG) (Boschma & Martin, 2010; Essletzbichler, 2012). The major theoretical foundations of EEG are: a) Generalized Darwinism that, in addition to co-evolution, involves the concepts of adaptation, variety, novelty, selection, and inheritance; b) Complexity theory, that studies the complex balance of adaptive systems; and, c) Path dependence theory, which highlights the contingency concept, the dynamics of self-strengthening, as well as the notions of lock-in, branching and path creation.

The adoption of co-evolutionary ideas helps EEG to explain the irreversible and dynamic processes, at different spatial scales, by which the economic landscape transforms itself over time (Boschma & Martin, 2010). Why does a phenomenon occur in one place and not in another? What processes have allowed it? These are key issues addressed in EEG in order to understand and explain the evolution of regional and local economies (Brouder & Eriksson, 2013; Essletzbichler, 2009, 2012; Robertsson & Marjavaara, 2015). Thus, EEG is useful to better understand and explain the relationship between tourism destination evolution and regional development, with its effects on innovation in the tourism sector (Brouder, Clavé, Gill, & Ioannides, 2016). In this vein, some empirical and theoretical studies have recently synergistically linked tourism issues to evolutionary ideas in economic geography to better understand and explain the evolutionary dynamics of destinations and the tourism sector, and offering important elements to increase our understanding of the interlinked processes, such as innovation. In practical terms, for the purposes of this paper, the EEG lens is useful to understand the causal link between localized innovation processes and the interactions which develop among different spatial levels (i.e., micro, meso and macro) in which normally a complex organisation – such as a destination – articulates (Brouder & Fullerton, 2015; Gill & Williams, 2014; Ma & Hassink, 2013; Randelli et al., 2014). More importantly in the context of this paper, it is the meso level, in which territory is an essential element to connect micro (i.e., firms and/or entrepreneurs) and macro (destinations, including their institutional arrangements) increasing interdependencies and positive externalities (Boschma & Martin, 2010; Essletzbichler, 2012; Giuliani & Bell, 2005). In fact, any destination (Keller, 1998) is constituted by a plurality of specific local contexts and proximity relationships (Boschma, 2005), in which individual psychological and cognitive factors are tied to collective factors of an organisational and inter-organisational type, towards integration with local spatial factors. Of course, any destination is not isolated from the world but it is a co-evolutionary component of the broader social, institutional, and economic system (national and international) that inevitably affects many aspects of destination evolution (Murmman, 2003).

As a matter of fact, co-evolution is a multi-level concept, allowing joint consideration of the dynamics of the interdependencies from the micro to the macro level (Breslin, 2011; Essletzbichler, 2012), in their separate values as well as in their mutual relationships, influences and connections with the economic and social changes. Just as Ma & Hassink (2013) argue “...the coevolutionary approach has its strength in analysing heterogeneity and complexity at the micro and macro level, it can be useful to explain the evolution of tourism areas” (p. 99).

Thus, a co-evolutionary approach can be effectively adopted to study phenomena in the tourism sector, such as innovation (Volberda, Van Den Bosch, & Mihalache, 2014), where the need is to combine entrepreneurial and territorial vision (Dwyer & Kim, 2003; Ritchie & Crouch, 2003), according to the critical role that the spatial dimension of innovation is taking (Martin, 2010) and, thus, the role of tourism entrepreneurs for the destination development and competitiveness (Brouder & Eriksson, 2013; Brouder & Fullerton, 2015; Brouder & Ioannides, 2014). Moreover, this interpretation can enrich the doctrinal debate on innovation in tourism that is still at an early stage, where the role of the entrepreneur and

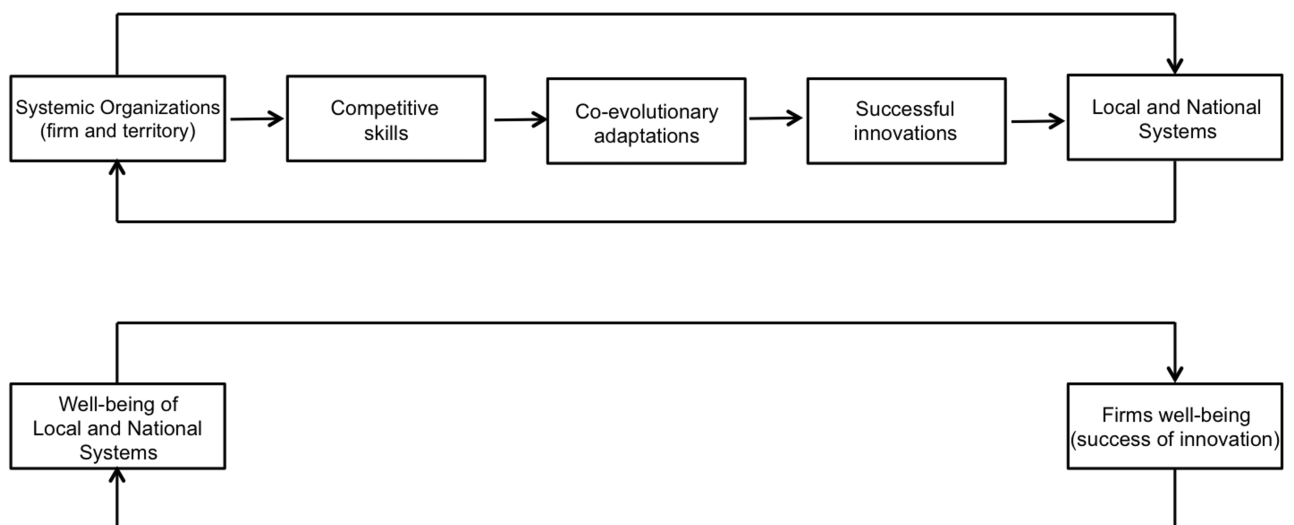
entrepreneurship is yet to be confirmed (Gill & Williams, 2014; Hjalager, 2010; Komppula, 2014; Thomas, Shaw, & Page, 2011; Weiermair et al., 2010).

The interdependency between firm and territory leads us to emphasize the concept of innovation as organisational change (Nelson & Winter, 1982). In this regard, innovation is conceived as a process of identifying and resolving problems, through incremental changes in routines, which entails the ability to adapt and change (Hall & Williams, 2008; Martin, 2010). This idea of innovation as the result of an evolutionary process, based on the selection and retention of useful variants, meets what are called social innovations by Normann (1991), i.e., innovations based on new social behaviours and competitive practical skills, where customers' behaviour is a crucial aspect for their generation and success, especially in tourism (Hjalager, 2010). ADs are a good example of this (Paniccia, 2012).

Thus, the development of synergies between firms and their territories becomes a key aspect to dynamically combine territorial identity and local entrepreneurial skills into a coherent unified tourism development plan (multi-product) within a destination, which aims to sustainably meet a tourism demand that requires more and more variety. This plan must necessarily be based on multi-level cooperation (Beritelli, 2011; Brouder, 2012; Brouder & Ioannides, 2014; Gill & Williams, 2014; Randelli et al., 2014; Saxena & Ilbery, 2008; Weidenfeld et al., 2010).

In accordance with the above stated concepts and the purposes of this paper, the relationship between tourism firms and/or entrepreneurs, territories and tourists will be reinterpreted from a co-evolutionary perspective. Thus, a better understanding of this relationship could shed light on the dynamics over time of ADs (defined here as an innovation in the tourism sector) and their role in the evolution of a rural tourist destination, with effects on its competitiveness. In this reinterpretation, attention will be given to *organisational adaptation* (Baum & Singh, 1994; Child, 1972; Hrebiniak & Joyce, 1985; Nelson & Winter, 1982) and *systemic organisations* (Cafferata, 2014; Kast & Rosenzweig, 1973; Martin, 2010; Pechlaner & Volgger, 2012) as a prerequisite for the competitiveness of systems (i.e., firms and destinations) and, consequently, to effective adaptations. The systemic organisation emphasizes the involvement of stakeholders and multi-level coordination of resources and activities within a destination (Ritchie & Crouch, 2003). Figure 1 shows graphically the interpretive framework proposed.

Figure 1. Interdependences, co-evolution and long-lasting success of the innovation. Source: Own elaboration.



In their evolution, firms and territories *co-evolve* in that each supports the other (Boschma & Martin, 2010; Dwyer & Kim, 2003; Murmann, 2003). Therefore, they are interdependent, with mutual influence, and this has unavoidable implications for the success (or failure) of innovations (Volberda et al., 2014). Moreover, firms and territories co-evolve within the social supra-systems, adapting constantly according to a *circular relationship*: the environment generates dependence, and the firms tend to be independent by strengthening their *technical core* over time (Child, 1972; Weick, 1969). To understand this important aspect, one of the main starting points is acknowledging the existence of a *dialectical relationship* (Benson, 1977; Hrebiniak & Joyce, 1985) between the firm, the territory, and the system of economy and society, and that the effects of this relationship are largely influenced by the ability to change and the path-dependence of these entities (Arthur, 1994; Martin, 2010). This *mutual dependence* between systems has unavoidable, important effects on competitiveness, as well as on the possibility for firms, sectors and territories to regenerate themselves, not to mention the effects on social well-being.

This evolutionary circular relationship becomes even tighter when referring to the connection between tourism firms, their territories and tourists within the destination (Brouder & Ioannides, 2014; Gill & Williams, 2014; Ma & Hassink, 2013; Marin & Jafari, 2002; Molina-Azorin et al., 2010): the territory is not external to the firms as well as the tourist is not external to the territory, becoming co-protagonists (with the firm and territories), not only in the success (or failure), but also in the generation of the innovation (Hjalager, 2010; Pine & Gilmore, 1999; Randelli et al., 2014; Richards & Wilson, 2006). In particular, tourists can activate and feed a virtuous circular relationship between demanded and offered innovation, proving themselves to be an active component of the co-creation and co-evolution processes. Tourists not only ask for variety, but then they choose and live temporarily in the territories that they have chosen to visit, interacting with the local communities and the tourism firms that host them. These interactions allow a sharing of routines (e.g., beliefs, values, knowledge, patterns of consumption, culture) and their incremental changing between tourists (as temporary residents), local communities (as permanent residents), local firms, and local institutions (Gill & Williams, 2014; Robertsson & Marjavaara, 2015; Shaw & Williams, 2009). In this regard, the concepts of cognitive proximity between individuals and related variety (i.e., sharing complementary cultures and competences) (Boschma, 2005), favoured by informal settings, are important and can be an explanation of the evolution of tourism models that have emerged over the decades, being more and more oriented towards sustainability. Consequently, a certain innovation is formed and consolidated largely within a specific context based on history and the institutional constraints that characterize it and may have different future outcomes (Benson, 1977; Boschma & Martin, 2010). This historical viewpoint allows us to identify what the *lock-in* factors are that inhibit (or foster) both the generation and development of an innovation and on which appropriate action is needed.

Therefore, only firms, territories, and destinations, which have a systemic organisation, will be able to develop competitive capacity and, consequently, to proactively adapt to environmental changes, generating sustainability-oriented innovations. This is particularly true for ADs.

Thus, there is an important relationship between systemic organisation and organisational adaptation concepts, from which it is possible to derive three main determinants that can promote effective adaptation between firms, territories and tourists, and consequently may affect virtuous co-evolutionary processes. This determinants are: 1) the *tourist experience* (Uriely, 2005), as the ability to interpret the changing environment and having a critical holistic vision of the relationships between tourists and inhabitants; 2) the *systemic approach* to social organisations (Boschma & Martin, 2010; Kast & Rosenzweig,

1973; Pechlaner & Volgger, 2012), as the ability to organise and manage firms and territories in an integrated way, and the system of relationships, as basic conditions for effective multi-level co-evolutionary adaptations (i.e., micro/firm, meso/territory and macro/destination), generating positive externalities; and 3) *social responsibility* (Paniccia, 2012), as attention to emerging values from contexts in evolution, the general principles of sustainable development – also through appropriate regulations (Weaver, 2000) – and in terms of community economic development (Brouder & Fullerton, 2015). Moreover, the concept of lifestyle entrepreneur (Ateljevic & Doorne, 2000) – i.e. an entrepreneur mainly interested in improving the quality of life through the development of its business over time, rather than to merely achieve economic goals (Brouder & Eriksson, 2013; Brouder et al., 2016) – should characterize not only entrepreneurs but also the institutions.

In conclusion, there is a relationship of *mutual functionality* between firms, territories and tourists, involving many subjects at different spatial levels, variable over time, necessarily co-evolutionary and sometimes contradictory, i.e., *dialectic*. This key concept suggests that to ensure the long-lasting benefit of sustainability-oriented innovations (such as ADs), effective, ongoing and co-evolutionary multiple levels adaptations are needed, inside and outside the destination. Thus, the purpose of this study is to increase our understanding of the role of ADs and their entrepreneurs in fostering a virtuous co-evolution, improving the competitiveness of the destinations where ADs are located and, thus, of Italy as a whole.

Methodology

In line with the purpose of this paper and with the proposed *interpretive framework*, this research relies on *case study analysis* following a qualitative approach and a *collective multiple-cases* perspective (Stake, 1995; Yin, 2009). This methodology is appropriate for studying firms with a *co-evolutionary* approach (Abatecola, 2012; Brouder & Erikson, 2013, Brouder & Fullerton, 2015; García-Cabrera & Durán-Herrera, 2014; Ma & Hassink, 2013; Murmann, 2003; van Driel, Volberda, Eikelboom, & Kamerbeek, 2015; Volberda et al., 2014) because it analyses the firm-environment relationship in its real context, from a holistic perspective, and in compliance with time limits (Cafferata, 2014), for investigating new and complex entrepreneurial choices with a permanent link to the environment, such as ADs.

The individual firm is the unit of analysis, and the research was conducted in three main steps (from January 2014 to March 2015): 1) identifying the firms and the selection criteria for the case studies, 2) gathering and analysing data, and 3) interpreting information.

Owing to a lack of independent Italian official statistics, in order to identify the ADs, the ADI's database has been taken into consideration. On March 31st 2015, 125 ADs were present on the Association database and they have been reclassified into three different categories according to: a) the type of property re-qualified, and b) the number of housing units, rooms, and beds. Categorizing the ADs was important for two main reasons: 1) the evaluation criteria used for traditional hotels (i.e., number of stars and number of rooms) were found to be inapplicable; 2) the regional legislation aimed at defining the features of the model is uneven and sometimes unclear. Compared to the total number of ADs identified, the ADs in historic villages proved to be the most common type (equal to 56%). Therefore, within this group, 14 cases (25% of all ADs included in it) were selected (see Appendix A for details). The selection criteria were: 1) relevance to and consistency with the purposes of the study, 2) relevance and completeness of the information, and 3) homogeneity of the temporal phases (the cases have experienced a first phase of redevelopment of buildings and of the

initial start-up – 4/5 years on average; and a second stage of development)⁵.

The second step focused on data collection, mostly obtained by interviewing the entrepreneurs. In particular, the interviews were semi-structured according to the following main themes:

- Dimension and characteristics of the AD, size of the investment, and certifications of the village;
- Key business processes and generated value (economic, social, and environmental);
- Relevance of property, territory, and global trends;
- Problems detected, solutions proposed, and synergies in the two phases of the activity (i.e., planning and start-up, and development).

Moreover, two interview techniques have been adopted (Eisenhardt & Graebner, 2007): 1) Courtroom questioning, to emphasize facts and events; and 2) Event tracking, to put the informant back in the time frame of the events and to produce an accurate chronology of those events.

In the last step, the main synergies achieved between ADs, territories and tourists were identified through a cross-interview analysis, in order to identify similarities and differences (Eisenhardt & Graebner, 2007). Afterwards, the emerging results were compared with data collected from other sources – namely triangulation of data (Jick, 1979) – in order to develop more robust causal relations and to strengthen the confidence and validity of the case study findings (Johansson, 2003).

In each step, the study availed itself of the following sources: face-to-face and telephone interviews with entrepreneurs or people belonging to the entrepreneurial family involved in the business activity; online questionnaires exclusively intended for entrepreneurs; direct examination; interviews with spokespersons (operators of local and national institutions, municipalities, etc.); available documentation; firms' and Associations' websites; corporate balance sheets; regional regulations; publications in economic and political newspapers; and scientific articles.

Findings

The first aspect that emerges from all the interviews concerns the existence of a historic village that can be converted into a hotel complex, with support from the local community. Obviously, this is not sufficient; there is also a need for an entrepreneur who is able to recognize the value of these places and to enhance them appropriately to respond to the new tourism demand trends; not to mention the importance of the municipalities in ensuring good governance of the territory.

“The first time I saw the village of Santo Stefano di Sessanio, during a motorbike ride, I was fascinated by the beauty of the place, and I could not believe it was in a state of semi-abandonment.” (I12)

ADs and villages are not seen as separate, but rather as overlapping. The firm is identified with the village and *vice versa*, in the minds of both entrepreneurs and the local community, thanks to the horizontal configuration of the AD that is fully embedded in the

⁵ The information for 2 of the 14 cases analysed are exclusively related to the first phase that, for this type of firm, is of crucial importance in terms of co-evolutionary adaptations. Therefore, having regard to the purposes of this work, it has been taken into consideration to verify if and how changing conditions within the national context (e.g., regulation development of ADs) have influenced their start-up phase.

territory.

“There is no firm without a village.” (I1, I3 and I8)

“I involved the local businesses (i.e., architectural renovation and restoration) to help me to recover its history and traditions.” (I2, I6, and I12)

“The AD, as well as the village, is our home to look after with everyone.” (I7, I10, and I13)

“This is where our family ties are.” (I11 and I14)

Findings also show that for the creation of an AD, the entrepreneur's skills (deriving also from his/her past experiences), especially those related to his/her ability to recognize a business opportunity and know how to develop it, both for his/her own advantage and for the community, play a decisive role. In fact, all the entrepreneurs interviewed can be defined as *lifestyle entrepreneurs*, whose main concern is not only to make a personal profit, but first and foremost, to revitalize the place where the AD is rooted, both from the social point of view (through the repopulation of the village) and from the economic point of view (through the reopening of commercial activities), allowing the rejuvenation of the village.

In order to make this possible, the individual entrepreneur does not act in isolation. Indeed, entrepreneur and local communities interact in an ongoing basis over time. In particular, in the early stages of AD life, especially considering the inter-systemic nature of the production-distribution process. One of the most frequent comments in the interviews was about the *single and systemic management of the activity*, meaning that the AD and its entrepreneur are primarily responsible for managing coherent and qualitative support activities (e.g., day trips, tours, tastings of typical foods), even when they are entrusted to other firms and organisations in the village (usually, an agreement that regulates the relationships between parties is stipulated). There is a *strong circular interdependence* between business processes, villages and tourists: on the one hand, the firms benefit from local resources and cultures, also visible in the menus; on the other hand, they feed guests and their local communities, providing a visit that is rich in experiences and local flavours. This transfer of knowledge to the territory is also visible in the revitalization of old crafts (i.e., reopening craft shops, farms, creating small museums and libraries), as well as in developing economic activities (i.e., commercial, financial, catering, events) in these villages. This is a good example of *co-evolution* through the involvement of the local community, which enhances the firm role on the local social system, with beneficial effects for the attractiveness to tourists. The latter not only benefit from these positive externalities, but also make them possible, thanks to their own interactions with the AD and the local community.

“Our guests, in particular the Americans, love us because they live a unique and emotional experience. They come into contact with the local community and they discover the culture, dialect and traditions, especially related to food and wine.” (I5)

“Residents and artisans interact with our guests during a series of events jointly organised, such as cooking and craft classes.” (I1, I5, and I11)

“The economy of the village and the surrounding area has seen a rebirth thanks to the AD, because in the renovation activities we have mainly involved local players, contributing to the creation of employment opportunities.” (I13)

It is worth noting that, especially in the start-up phase, the entrepreneurs may not have supply chain relationships only at the local level because there is no local economy to exploit. Thus, he/she needs to find suppliers on a regional, or even national, level. Moreover, the interviews show that the creation of an AD is also linked to the entrepreneur's ability to

establish relationships and to cooperate with policy makers both at a local and national level. Especially during the planning and launch stages, the development of synergies seems to be fundamental for two reasons. The first refers to *regulations* (i.e., regional law on ADs); there is no national law on ADs. It is remarkable to note that in most cases the regulation on ADs has been issued from their regions after a delay of up to 10 years (on average) from the creation of an AD in its region. Only in three cases have regions legislated in advance in respect of the AD creation, demonstrating attention to the evolution of the phenomenon, now evidently in rapid growth. However, despite this dysfunctionality, interviews show the driving role of the individual entrepreneur in triggering the processes of cooperation with municipal and regional institutions, performing as an institutional change agent.

“When I met with the mayor of my town and proposed this idea, I found many hesitations and so I pleaded and convinced him to go along with my idea, but not without many difficulties, especially bureaucratic and administrative. Of course, if I had had a guide at a national level or from the administration of my region, the task would have been a lot easier.” (I4)

The second reason is related to the initial investment required for the purchase and redevelopment (also including the use of eco-innovative technologies) and furnishing of a village’s housing units (2,000,000 euros on average, with peaks of 8,000,000 euros). With the exceptions of AD Muntaecara in the village of Apricale (Liguria) and AD Borgo Tufi in the village of Castel del Giudice (Molise), which were created through public-private partnerships, all the others ADs are the result of individual entrepreneurs’ initiatives. These partnerships signal a growing awareness on the part of local policy makers of the significance of a synergistic action with firms. However, the existence of an innovative entrepreneur attentive to cultural and environmental values was instrumental in the evolution of local areas, also urging financial institutions to support the creation of similar projects.

“Saving and re-qualifying a village is a very expensive project, but it's worth it [...] you have to have money, design capabilities and also high management skills to combine tradition and innovation. For example, the heating system passes under the medieval floors of our AD, not to mention the bed and table linen woven with traditional and colourful fabrics with natural dyes, and all of this has a cost. Precisely for this reason, I would say that the tourism minister and/or the local policy makers should provide a contribution to those who put into place these renovations, in order to encourage them, without leaving the full weight on us.” (I5)

“I tried looking for European and regional funds, but I found it very difficult to extricate them from the mountains of information, to then find myself at a stalemate. Speaking then to some accountants, I noticed too much ignorance regarding this model of tourism.” (I9)

Once the activity began, the analysis shows increases in the sizes of some ADs that gradually purchased (or rented) more housing units in the village and/or lands and neighbouring farms (to cultivate typical foods and wines). For example, in the case of the AD Sextantio in Abruzzo, almost all of the village’s housing units have been progressively involved in the hotel’s activities. Thus, local community support is essential, and entrepreneurs seem to be well aware of the *symbiotic relationship* between the AD, the village and its residents, confirming the need for the relationship between the AD and the local area to be durable over time in order to improve the culture of hospitality, offering *contexts of experience* in harmony with the evolution of tourism demands.

“The historical and cultural heritage of our town can all be retrieved, cooperating for the development of the AD and territory. We have had a stream of tourists so we asked the owners of the village homes who do not live here, to rent them out. Some, we have also bought. But we also bought and revitalized ancient farms and we have fields that cultivate saffron. Moreover, we cooperate with the Museo delle Genti d’Abruzzo.” (I12)

Policy makers do not always have a strategic and systemic vision of the administration of their territories, as reflected in the lack of a long-term vision in managing tourist flows and of effective promotion initiatives. In one case, these obstacles have led the entrepreneur to scale down over time the structure of the hotel and to invest in other villages. This is a test of how the dysfunctionality between the company and the municipality will adversely affect the territory. The synergistic role of business, or the courage and perseverance of entrepreneurs in developing their businesses, can exert positive effects on the territory only if there is effective co-evolutionary adaptation at multiple levels: the company is not a cathedral in the desert. In four cases the importance of the ADI association in the resolution of the contradictions emerging between the company and the municipality has been recognized.

“If you do not understand that this solution is the only possible way to revitalize this town, you are not going anywhere. It is a problem that often emerges in our ADI Association. After ten years since the creation of AD, I was bold enough to sell some houses here, but only because I believe in the value of these initiatives. I created a new AD, Le Grotte della Civita, in an area that is more sensitive to social evolutions, located in the old town centre of Matera.” (I12)

Moreover, respondents feel there is a problem of accessibility to villages where ADs are developed, requiring new and additional infrastructure connecting the village with other cultural sites and cities within and outside the region in which the AD is rooted, in order to promote local and regional identities.

“I would have a much better chance of retaining visitors for a longer time in the village, if the tourists could get there more easily and at the same time also visit places close to our village, but also far away cities such as Florence in Tuscany and Rome in Lazio.” (I4)

Another obstacle faced by ADs is their inability to cope with peak demand due to the difficulty of acquiring new units to increase the number of available beds and expand the size of the hotel in general.

“In 2006, given the growing demand from tourists, especially Anglo-Saxon, we wanted to purchase additional units in the village and we had the money needed to do it. Unfortunately, we have had negative responses from most of the owners of the houses of the village – even if they are resident elsewhere – as they already offer them for rent.” (I13)

In this context, a more suitable national regulation of rent alongside greater commitment from the local policy makers in administering this particular issue, would certainly favour the development of ADs and the local community.

However, despite the obstacles observed, all the ADs analysed have recorded a substantial increase in their activities, providing evidence of their proactive role in the local development of the area. In all the interviews the strong attractiveness of these hotels, which are particularly appreciated by tourists from the standpoint of innovation and sustainability, became clear. This ability is confirmed by the increasing number of tourists recorded over the

years (with peaks exceeding 10,000 guests) staying for an average of 2.5 nights, paying the average cost of one night in a double room, i.e. 180 euros/person, with peaks exceeding 1,100 euros.

“Our guests are mainly foreign couples and families (with young children). Our guest is typically a traveller who doesn’t want to stay in an isolated hotel in the big city, but who wants to know and experience the places hosting him, without renouncing modern comfort and services. We have guests arriving from northern Europe but also from the United States and Russia. In recent years, we have seen a growing number of Italian guests.” (I11)

Evidence shows that further determinants of the Ads’ development are linked to *continuous and mutual adaptation processes* between the AD and the environment. In particular, entrepreneurs need to pay particular attention to the changes that take place in both technology and the demand side. This means that, even though the ADs are rooted in rural villages, *they need to keep up with the times* and need to put in place customers’ segmentation processes and specialization of services offered. This is because, in order to maintain the Ads’ attractiveness over time, entrepreneurs must continue to treat tourists as a proactive component in the process of offer co-creation and in the general process of co-evolution. This involvement determines the possibility for tourists to shape – enriching and modifying – the firms’ routines.

“When we opened our AD, we had not given much thought to the website, but we had to change our mind over time. Thus, now our website is more accurate and functional (for example, it provides extensive information related to the different activities that can be undertaken by our guests in all the region, and not only the information on our AD) and we also have a profile page on the most famous social networks, such as Facebook and Twitter.” (I8 and I12)

“Our customers come from all parts of the world, and even if they choose our AD because they want to immerse themselves in our culture and traditions, we still have to meet some of their specific needs, such as providing an electric kettle and tea in every room.” (I5)

To sum up, the interviews show that a virtuous dynamic evolution of ADs (from their creation) depends primarily on the adaptability of the ADs to their various territorial contexts, according to professionalism and accountability. Furthermore, the perception that entrepreneurs have the support of policy makers is very clear. Obviously, this support needs to be renovated in line with the evolution of national and international competitive scenarios.

Conclusions

This study highlighted the synergies between ADs, their territories, and tourists, and thus how and what changes in the mutual relationships between these entities have favoured (or limited) virtuous co-evolution processes, with beneficial effects for the territories and for Italy, as well as ADs.

The results of the case studies are consistent with the proposed theoretical framework and confirm that the creation and development of ADs may be possible through continuous, efficacious and mutual adaptations between firms, territories and tourists, based on three main determinants: tourist experience, systemic approach, and social responsibility. These determine relevant managerial implications for entrepreneurs and policy makers, such as:

a) A critical vision, in a holistic way, of environmental trends and their possible positive effects on tourist development in ADs' own territories and the awareness that tourists are the real protagonists of the co-creation process and its evolution over time, introducing a virtuous circular relationship between demanded and offered innovation with positive effects on the competitiveness of the national tourist offering (*tourist experience*);

b) The organisation and management of systemic and multiple relationships of mutual functionality among all the actors involved, including tourists, at different interconnected levels, namely, micro (firms), meso (territories), and macro (destinations), as a prerequisite for the implementation of common strategies for generating favourable evolutionary changes within destinations with positive effects on their competitiveness (*systemic approach*); and

c) An awareness of the underlying values of hospitality to a new culture of hotel hospitality based on social cohesion, not least that of an effective adjustment to sustainable development (*social responsibility*).

Thus, *firstly*, according to Brouder (2012), Brouder & Fullerton (2015), Hall & Williams (2008), Komppula (2014), and Weiermair et al. (2010), the results confirm the role of the driving force of ADs (i.e., innovative firms and entrepreneurs) for their sustainable development and the competitiveness of small rural destinations, even not characterized by a suitable entrepreneurial atmosphere and outside the normal tourist circuit. This is through the creative use of entire historic villages that are able to ensure tourists live an authentic experience within the cultural environment (Hughes, 1996; Pedersen, 2002; Uriely, 2005), without distorting the places and the local community with their history, and traditions, but, conversely, regenerating them, including the more traditional professions, also through the active involvement of tourists (McKercher & Ho, 2006; Richards, 2002; Teo & Yeoh, 1997). *Secondly*, according to Beritelli (2011), Brouder & Fullerton (2015) Pechlaner & Volgger (2012), Saxena & Ilbery (2008), and Weidenfeld et al. 2010), the results show that the development of ADs should be encouraged, intensifying synergic actions that can foster the development of cooperative relationships, inside and outside the historical villages. *Thirdly and foremost*, the results of this study are consistent with the results of the few recent studies on the evolution of rural tourist destinations (e.g., Brouder, 2012; Brouder & Fullerton, 2015; Randelli et al., 2014). Both the creation and development over time of the investigated ADs are largely determined by place-specific factors and the heterogeneous capabilities cultivated by entrepreneurs and policy makers (especially local and regional). Thus, ADs can effectively exert their full competitive potential, with beneficial effects for a sustainable development, through efficacious, co-evolutionary adaptations at multiple levels. The territory becomes a key factor to connect the micro (firms) with the macro (destinations) level, and with the supra-system of economy and society, increasing interdependencies and positive externalities (Boschma & Martin, 2010; Hodgson, 2013; Murmann, 2003), in order to realize a tourist offering able to respond to the current demand for variety. Moreover, the results of the case studies suggest that time, not only space, is critical to realize and disseminate these innovations based on the evolution of local contexts and anchored to the sharing – rather than simply transferring – of knowledge among multiple actors (Shaw & Williams, 2009). This sharing implies slow and gradual processes of mutual adaptation at multiple levels within and across destinations aimed at the proactive research of solutions. Without these processes becomes difficult to converge opposing power forces (innovative and conservative), and, thus, to achieve the appropriate combination of the multiple, co-evolving, tourism (and non-tourism) paths – existing and upcoming – within Italian regions, with negative effects on the competitiveness of Italian tourism.

Consequently, what becomes crucial is the systemic vision and strong orientation towards the future in the management of firms and territories (Brouder & Fullerton, 2015; Kast & Rosenzweig, 1973; Ma & Hassink, 2013), including tourists. All this can facilitate the

dissemination of ADs throughout the Italian territory, with obvious benefits in terms of destination competitiveness and community development. On the other hand, in Italy, according to Ancitel (Istat data, 2014), there are 5,000 small municipalities (accounting for 70% of all Italian municipalities, where 17% of the total population live), which are considered to be able to favour the creation of new ADs, owing to their historical and local backgrounds. This leads us to believe that it is possible to start new businesses to benefit from new opportunities, providing multiple benefits to the local system and to the country (Hunter, 1997).

On an international level, the AD model, because of its intrinsic characteristics, can be adopted and adapted to improve the competitiveness of many other countries (Confalonieri, 2011; Paniccia et al., 2010), promoting and enhancing the specific character of their local contexts, especially where the DMOs (meta-organisers) are very uncommon (Komppula, 2014), because they are almost unable to fit the required changes. Instead, this investigation – in agreement with Hall & Williams (2008), Saxena & Ilbery (2008), and Weidenfeld et al. (2010) – shows the importance of strong and ongoing synergies, between tourism firms and local areas. If properly used, these synergies can trigger economic benefits in addition to increasing the value of entire territories, starting from the improvement of the firms rooted in these territories. These synergies and connections should be taken into account by policy makers to orient stimuli, incentives and subsidies.

In conclusion, the results achieved in this study, although they are not to be generalized and could be improved, are interesting from a theoretical point of view as well as for *decision-* and *policy-makers*. Regarding the theoretical aspect, this study provides an interpretive framework that conceptualizes sustainability-oriented innovation in tourism as the result of continuous and effective co-evolutionary adaptations between firms, territories, and tourists. ADs are one such innovation. With regard to the territorial policies, regardless of the general good intentions and the extraordinary availability of Italian cultural heritage, results show the current inadequacy of the institutions (public and private) and the financial system in providing adequate support to firms, and in particular, to innovative entrepreneurship.

This study has shown that linking the success of ADs and their spread across the country to the concept of *mutual functionality* between systems and, thus, to the effective co-evolutionary adaptations between them, represents a promising interpretation of the analysed phenomenon that shows a tight link with the evolution of territories. When so conceived, tourism in historic villages cannot become a mass phenomenon, but it can certainly play an important role in spreading a new culture for small firms as the driving forces for healthier and more sustainable development in their local territories. All of this is likely to benefit local communities more than tourists.

Finally, the main limit of this study is its link with a developing phenomenon, which implies certain information gaps caused, sometimes, by a lack of homogeneity and ambiguity in the data acquired from different geographical areas. Future investigations will have the opportunity to be supported by statistical and quantitative analysis tools (i.e., historical data on tourist flows in the different areas analysed) as well as tourist interviews. In addition, more interesting investigations may be concerned with the application of the AD model in different contexts at an international level, assessing possible evolutions and their positive effects in those contexts.

Appendix 1. Case studies characteristics

Albergo Diffuso in Village	Year of establishment	Housing units	Rooms	Beds	Initial investment ¹	Employees ²	Guests ³	Resident Population in the Village	Customers	Average stay	Average price ⁴	ADI	Official awards
1. Al Vecchio Convento (Portico di Romagna - Emilia-Romagna)	2007	7	25	27	800,000	3	3,500	777	80% foreigners	3 nights	65	Yes	Bandiera Arancione ⁵
2. Borgo delle Fonti (Acquaviva Collecroce - Molise)	2014	3	9	27	500,000	2	200	673	Italian Couples	1.5/2 nights	80	Yes	-
3. Borgo Tufi (Castel del Giudice - Molise)	2013	25	25	-	5,200,000 (public-private partnership)	-	-	351	-	-	250	Yes	Premio "Angelo Vassallo" ⁶ La fabbrica del paesaggio ⁷
4. Castello di Casigliano Country Inn (Casigliano - Umbria)	1997	7	8	30	2,000,000	10	1,167	67	55% foreigners 37.5 years old	2.1 nights	60	Yes	-
5. Corte Fiorita (Bosa - Sardegna)	1995	4	30	80	830,000	6	3,000	8,017	85% foreigners	2 nights	75	Yes	I borghi più belli d'Italia
6. La Loggia di Gradara Relais (Gradara - Marche)	2009	3	9	16	-	2	1,500	4,850	10% foreigners Couples and families 25-40 years old	2 nights	125	Yes	I borghi più belli d'Italia Bandiera Arancione Premio "Italia Medievale" ⁸
7. La Piana dei Mulini (Colle d'Anchise - Molise)	2002	4	12	28	2,000,000	5	-	814	Couples and families	2 nights	60	Yes	-
8. Le Grotte della Civita (Matera – Basilicata)	2009	21	21	46	5,000,000	18	12,000	60,556	50% Italians	2 nights	200 up to 1,500	Yes	Capitale europea della cultura per il 2019
9. Locanda Alfieri (Termoli - Molise)	2002	5	18	45	700,000	5	-	33,478	Summer: foreigners and couples Winter: Italians and singles	7 nights in summer 1/2 nights in winter	80	Yes	Associazione "Termoli Medievale" ⁹
10. Muntaecara	2008	15	40	70	2,000,000	7	3,000	624	60% Italians	1/2	120	Yes	I borghi più belli d'Italia Bandiera Arancione

¹ The initial investment is in euros and includes the purchase of properties and their requalification for accommodation purposes.

² The number of employees is an average estimate because many of them have seasonal or "on call" employment contracts.

³ The average number of arrivals during the year.

⁴ The average price refers to the average cost for one night in a double room.

⁵ The Orange Flag is the eco-tourist quality label acknowledged by the Italian Touring Club and intended for small inland villages that are characterized by excellent service and quality hospitality.

⁶ The Angelo Vassallo prize is promoted by ANCI and Legambiente with the aim of encouraging good practices in the field of sustainable development, respecting the territories and enabling progress, job creation and prosperity while protecting the environment, local identity, landscape and areas.

⁷ The La Fabbrica nel Paesaggio International Prize is promoted by the Federazione Italiana dei Club e Centri with the sponsorship of the Federazione Europea e Mondiale and is awarded for the implementation of forward-looking principles of the European Landscape Convention.

⁸ The Italia Medievale prize is an initiative of the Associazione Culturale Italia Medievale that awards institutions and/or private enterprises that have distinguished themselves in promoting and enhancing the Italian medieval heritage.

⁹ The socio-cultural association Termoli medievale brings together nearly all of the traders in the historic village of Termoli.

(Apricale - Liguria)		(30% public funding)						Couples and families	nights	Città dell'Olio ISO 14001 per l'Ambiente ISO 9001 per i Servizi OHSAS 18001 di sicurezza ¹⁰			
11. Residenza Sveva (Termoli - Molise)	2005	5	21	50	-	3	-	33,478	Italians and foreigners of Italian origin	1/2 nights in winter 3 nights in summer	80	Yes	Associazione "Termoli Medievale"
12. Sextantio (Santo Stefano di Sessanio - Abruzzo)	1999	9	29	63	8,000,000	7	10,948	117	50% foreigners Couples	1.5 nights	150 up to 1,000	Yes	I borghi più belli d'Italia La fabbrica del paesaggio "Premio Italia" ¹¹ Premio europeo per la conservazione del patrimonio culturale
13. Sotto le Cummerse (Locorotondo - Puglia)	2003	10	10	30	-	2	1,866	14,257	30% foreigners	3 nights	95	Yes	I borghi più belli d'Italia Bandiera Arancione
14. Val di Kam (Sant'Angelo Muxaro - Sicilia)	2002	4	20	60	-	7	560	1,405	60% foreigners Couples and families	2 nights	40	Yes	-

¹⁰ ISO 14001 is a standard for certifying environmental management systems. ISO 9001 is an international standard applied to organisational processes that have an impact on the quality of the product or service provided to the customer. OHSAS 18001 certification defines the requirements for an occupational safety and health management system (SSL).

¹¹ The Premio Italia is a prize that was created by the scientific committee of Borghi più belli d'Italia as a certificate for a "beautiful Italian experience".

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