

Article

# A Decision-Making and Governance Framework for the Renewal of Tourism Destinations: The Case of the Canary Islands

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Received: 10 December 2017; Accepted: 21 January 2018; Published: 25 January 2018

**Abstract:** Tourism destinations in advanced stages of the life cycle need to update their lodging offers and infrastructures. The main problem is that new destinations are planned according to the new preferences of customers, creating critical problems in older destinations related to the architecture of the buildings, size of the rooms, dimension of lodgings, complementary offer, and infrastructures. The aim of this paper is to develop a decision-making and governance framework for the renewal of destinations in an advanced stage of the life cycle that require the renovation of the lodging offer and infrastructures in order to increase their competitiveness and sustainability. The decisions were planned and carried out in the Canary Islands by stakeholders involved in the public and private sectors. The evaluation of actions to renew the lodgings and infrastructures through special legislation, leadership, sources of financing, and investment guarantees is presented to determine the level of success obtained. Because the Canary Islands is one of the main tourist destinations in Europe, the actions and procedures presented can be used in other destinations with similar characteristics.

**Keywords:** tourism destination; lodging; renewal; life cycle; sustainability; relational capabilities; stakeholders

## 1. Introduction

The competitiveness of tourism destinations depends on the level of updating of the lodging offer and infrastructures, based on the new preferences of customers, the strategy of competitor destinations, and the level of leadership among the stakeholders [1]. According to Rodríguez-Díaz and Espino-Rodríguez [2], relational capabilities are fundamental to organizing and carrying out action programs designed to increase the competitiveness of the resources and capabilities of the tourism destination. The advanced stage of the life cycle of the destination is critical to deciding the best way to renew and update the main factors involved in the lodging offer [3–5]. The renovation of the lodging offer and tourism infrastructures has implications for the economic sustainability of the destination [6–8]. The governance of destinations has to develop systems and procedures in order to maintain their competitiveness, and the application of effective leadership to make stakeholders work together to achieve the same common objective is quite complex [1,2,6]. In the academic literature, few studies have analyzed the renewal of tourist destinations, and so the analysis of the practical actions that have been carried out and their results is of great interest for the effective governance of tourist destinations and scientific research [8].

Changes in competitiveness and the success of the combined actions of the partnerships require an adaptation of the skills and strategies in each stage of the life cycle of destinations [9]. The Canary

Islands (Spain) tourist destination has been developing for more than 60 years (it currently receives 15 million tourists per year). The Canary Islands is an archipelago in the mid-Atlantic, composed of seven main islands. From the early 1960s to the first part of the 1980s, the tourism model applied was based on non-hotel accommodations. The first hotels basically had three stars and small rooms. Only a few lodgings had five stars. Customers demanded this type of lodging; however, since the end of the 1980s and 1990s, customers began to change their preferences, increasing their bookings in hotels. The main effects were that the first tourism zones (Playa del Inglés-Gran Canaria Island, Puerto de la Cruz-Tenerife Island, Puerto del Carmen-Lanzarote Island) had old buildings with an architecture oriented toward non-hotel lodgings with few hotels, complemented by services areas concentrated in shopping centers. Santos et al. [10] established that 81% of the lodgings in the main consolidated tourist zones were built before 1995.

Rodríguez-Díaz and Espino-Rodríguez [2] proposed a model to evaluate the strategy of a tourism destination, and they tested it on the Island of Gran Canaria (currently receives 4 million tourists per year). The results showed that the non-hotel (or extra-hotel) factor had a low internal strategy value and a low relational strategy value. The internal view is based on the resources and capabilities theory [11–16], and it determines the core competences of the destinations depending on their strengths and weaknesses. Moreover, the relational view deals with the relational capability [17,18], combinative capability [19], absorptive capacity [20], the integration of processes [21] or resources and capabilities of destinations [2], and the sustainability of destinations as integrative systems [22].

Rodríguez-Díaz and Espino-Rodríguez [2] proposed the rehabilitation of the non-hotel offer in the destination of Gran Canaria Island following strategic actions based on the internal and relational view, in order to obtain the destination's sustainability. From the internal view perspective, the main action to promote is the renovation of apartment complexes, adapting them to customers' new preferences. Furthermore, the relational view was analyzed on the basis of the integration and sustainability of this specific resource. Integration implies seeking synergies with other companies or with complementary offers, whereas sustainability is focused on the application of environmental management in lodgings. Finally, the stakeholders involved were the companies themselves, along with the different governments involved in renovation planning, and representatives of the financial industry, who would supply the economic resources needed to implement the renovation of the lodgings.

Another way to analyze the relevance of a resource or capability is through its relationship with the tourism destination's performance [23–25]. Rodríguez-Díaz and Espino-Rodríguez [8] carried out a study to determine the correlations between the sustainability factors, based on the resources and capabilities of the Gran Canaria Island destination and the performance of the destination and its customers. One of the factors obtained was the "extra-hotel offer", which maintains a positive and significant relationship with the destination's performance, but the relationship with the customer's performance was not significant. These results showed that the non-hotel offer is perceived by stakeholders as quite important for the competitiveness and sustainability of the destination, but the need to update this offer appeared to be less decisive for customers. In this context, Rodríguez-Díaz and Espino-Rodríguez [8] (p. 12) concluded "that the renovation of the extra-hotel offer would provide a strategic advantage for the future sustainability of the destination. Furthermore, it is necessary for the renovation of this type of lodging to be linked to the image and emotional experience of the tourists, in order to maintain their level of loyalty to the destination".

Destinations can, therefore, follow the methodologies proposed by Rodríguez-Díaz and Espino-Rodríguez [2,8] to detect the need to renew the lodging offer and infrastructures and their impact on the destination's results. Thus, it is possible to analyze the case presented in this paper in order to determine the actions that best adapt to the conditions of each destination to be renewed. In this context, the relational capacity in a tourist destination is determined by the degree of integration and sustainability created among the different resources, capabilities and stakeholders involved. A relational capacity can be developed when two or more resources and capacities act in such a way that their mutual benefits are enhanced through their integration. For example, if the attraction of a destination

consists of sun and beaches, synergies are achieved if the destination takes advantage of creating a flow of clients toward museums, leisure, or complementary activities. Another example can be found in the different public administrations when they work independently (low relational capacity) or together (high relational capacity). Moreover, sustainability itself has a far-reaching systemic view. Therefore, actions to integrate resources and capacities must be geared towards maintaining environmental, economic, and social sustainability. A high level of relational capacity would occur when integration produces high synergies between resources and capabilities in a sustainable way, i.e., over the long term. By contrast, when synergies are weak or may affect the future competitiveness of the destination due to a loss of environmental, economic, or social quality, relational capacities are not created, and there is a risk that the destination will eventually lose its attractiveness.

The renovation and adaptation of the tourism offer in order to meet the demand is a key to maintaining the competitiveness and sustainability of tourism destinations [6,26–34]. The objective of this paper is to develop a decision-making and governance framework for renewing the lodging offer and infrastructures of a tourism destination, based on the actions carried out in the destination of Canary Island. The study will demonstrate that the rehabilitation activities of non-hotel lodgings proposed by Rodríguez-Díaz and Espino-Rodríguez [2], based on the internal and relational view, have been applied, showing that the development of relational capabilities among the stakeholders involved is the only way to obtain the objective of rehabilitating the offer. In the next section, a framework is developed for the renewal of the lodging offer and infrastructures of a tourism destination, and the main actions that must be carried out by the stakeholders are proposed. Then, the evaluation of the rehabilitation implemented by the Canary Government is presented. The study ends with the main conclusions obtained from the application of the measures in the destination analyzed.

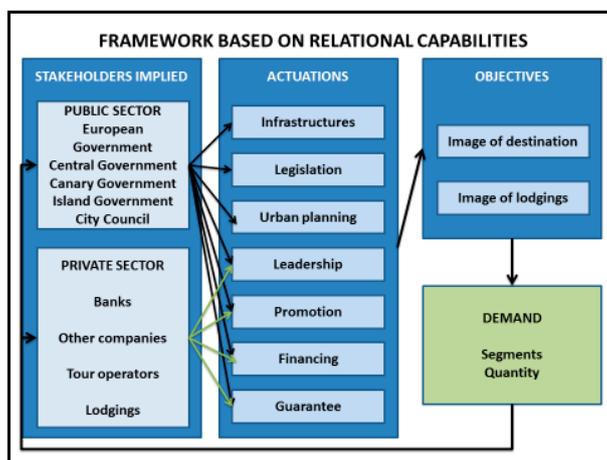
## 2. Renewal Framework

The decision-making and governance framework to renew the lodging offer and infrastructures proposed in this study is based on experiences in the destination of the Canary Islands (see Figure 1). It is a framework based on relational capabilities [2,18,19,35] because the actions to be performed must be coordinated and implemented by different stakeholders from the public and private sectors [1,36–39]. In this context, Rodríguez-Díaz and Espino-Rodríguez [18] establish that the combined success of the destination and its individual companies depends on the effectiveness of the coordination and collaboration among the destination's individual resources and capabilities, as well as its leadership and governance, implemented through close relationships among the stakeholders involved [40–43].

The framework has three parts: stakeholders involved, area of actions, and objectives related to the demand in the tourism destination, measured in terms of type of segment and the amount of income to reach. The stakeholders are divided into two areas because the public sector has specific attributions to carry out actions that differ from those of the private sector. Figure 1 shows that the public and private sectors share the leadership in destinations [6,40,43]. Haugland et al. [35] (p. 269) consider that “the success of individual actors, as well as the success of the entire destination, is dependent on efficient coordination and integration of individual companies' resources, products and service”. In this regard, Bornhorst et al. [39] (p. 572) establish that “competitive advantage requires the ability to effectively manage all components of the tourism system to ensure success is achieved”, and many destinations create a Destination Management Organization (DMO) to provide leadership in managing them. When destinations have not created a DMO, the leadership is normally carried out by the public sector in coordination with the principal stakeholders. This is the case of the Canary Islands, where leadership in managing the planning and actions is provided by the different public administrations directly involved (Canary Government, Island Government, and councils).

In this context, the study of the strategic evaluation of a tourism destination carried out by Rodríguez-Díaz and Espino-Rodríguez [2] showed that the Public Administrations involved in the destination of the island of Gran Canaria have a low internal and relational view. The stakeholders reviewed consider that the different governments (state, Canary, island, council) did not develop

relational capabilities because there was no collaboration or coordination between them. At the same time, the low internal view is related to the leadership capacity in the destination through the governance of infrastructures, urban planning, and legislation about the tourism sector in order to improve the competitiveness of the destination. One of the main conclusions of this study was that neither the non-hotel offer nor the governance of the destination led by the Public Administration integrated the core competences of the Gran Canaria destination.



**Figure 1.** Decision-making and governance framework for the renewal of tourism destinations.

Leadership is basically implemented through the governance of infrastructures, promotion of the destination, and legislation with special applications to urban planning in tourist areas [36]. Moreover, the different public administrations can take action to support investment in private renovations with special financial sources that can range from low interest rates to non-refundable grants. Another way to help companies is to offer complementary guarantees for bank loans. To the extent that many firms cannot accept the risk of investing in lodging renovation, the public sector helps companies to get the loans they need.

The private sector is composed of lodging companies as the central object of the destination's renovation. Banks supply financial resources to companies that need a loan guarantee. Tour operators have different roles in planning lodging renovations. On the one hand, they can give loans to lodging companies for the building or repairs required for the renovation of lodging complexes' installations. On the other hand, tour operators can participate directly or indirectly in the financial guarantee of bank loans, by means of long-range commercial agreements with the tourism companies (five or ten years). These agreements are usually pledged by the banks to guarantee the payment of loans. Other companies that can participate in lodging renewals are construction companies, complementary offers, or service companies that perform certain activities such as catering, wellness, sport, and so on. As Figure 1 shows, the private sector also acts directly in the promotion and leadership of the destination [43,44].

The final objective of the renovation is to improve the destination's image [45] by improving the image of its lodgings and infrastructures [2,46–49]. Image improvement is intended to increase the income from the demand in two aspects: first, by increasing the number of tourists in the destination; and second, by modifying the target toward market segments with greater purchasing power. The final result must be the increase in the destination's income. The private sector receives income from sales to customers, whereas the public sector earns income through taxes.

### 2.1. Public Sector

Simancas [50] establishes that the tourism sector is one of the private business fields where entrepreneurs are not only in favor of governmental interventionism, but they demand it. Thus, it is

common for public administrations to formulate a set of policies, plans, programs, and projects that focus on the rehabilitation, redefinition, restructuring, and in some cases, reinvention, of the tourism destination. The competencies of the public administration are usually implemented through legislation promoted by the public or private sectors. In the destination of the Canary Islands, the first legal norm established by the Canary Government was passed in 1995 (Ley 7/1995) [51], marking its exclusive competence in the promotion and ordering of tourism in the Canary Islands, including the power to legislate in this area. It is important to highlight that the urban planning competencies in tourism zones are shared by the councils and governments of each of the seven islands. Table 1 shows the relevant aspects addressed by the different laws passed on the Canary Islands, highlighting that this first norm (completed by Law 5/1999) [52] had the main objectives of regulating the tourism activity, setting standards for lodging rehabilitation, defining the joint administration of complexes where the property is divided into multiple small owners in order to improve their competitiveness, and controlling overbooking.

Law 6/2001 [53] marked a change in the orientation of the Canary Government because it led to the control and protection of the tourism activity. Due to the excessive increase in the number of tourist beds at that time, basically in new hotels inaugurated to satisfy the new needs of customers, and taking into account that the level of demand in the following years would not increase much, the Canary Government decided on the “suspension of management instruments of natural, territorial and urban resources, as well as their implementations” (article 2 of the cited law). It only allows rehabilitation projects and the building of new lodgings with specific high-quality characteristics. The opening statement of the law emphasizes the need to contain the increase in the lodging offer while a new law with new guidelines could be written.

A new law was passed in 2003 (Ley 19/2003) [54] to achieve a model of sustainable development in the Canary Islands. This law defines the guidelines for tourism organization in order to induce changes in the production and management methods of the lodging offer. The main objectives were: (a) the rehabilitation of existing lodgings as a preferred alternative to their extensive increase; (b) the increase in the lodging offer would be related to improving the value of the destination and its image; and (c) planning would favor the diversification and differentiation of the tourism offer, as well as increasing the leisure offer. However, the rehabilitation of the oldest lodgings continued to be the main objective; in reality, the effect of this law was very limited. At that time, the sector was going through a period of economic stagnation in which the revenues of companies were reduced. The oldest lodgings needed financing resources that they could not obtain with the expectations and means available to them. In a practical sense, this law did not develop the relational capability between public administrations and the private sector. On the contrary, the purpose was to limit the competences of the islands’ governments and councils in order to stop the building of new lodgings in the most competitive and highly demanded customer segments. With this constraint, competitiveness between Islands was controlled, avoiding a drop in prices.

The next law was passed in 2009 (Ley 6/2009) [55] in the midst of the world economic crisis. The increase in unemployment and the decrease in the gross domestic product forced the Canary Government to rethink the planning of the tourism sector. The circumstances had changed, and the priority was to give a boost to the sector by simplifying administrative actions related to urban planning, removing unnecessary requirements stated in previous legislations, and acknowledging that the private sector would increase its involvement. The Canary Government had a dilemma. On the one hand, if lodging construction increased, the economy would improve, but tourism prices would drop, and companies would further reduce their revenues. On the other hand, a strategy focusing on lodging rehabilitation would affect both the building sector and the competitiveness of older lodgings. The latter was the option selected by the Canary Government, but the practical effects were only seen in the reduction of the administrative process followed in the lodging renewal. Although the Canary Government started to develop a primary level of relational capability with other administrations and the private sector, it continued to have a restrictive view of the problem and did not notice

that the actions would be more integrated if they included more economic activities. The practical result was very poor because the rehabilitation process was not adopted by many lodgings. Evidently, the rehabilitation problem was too complex to be resolved by a declaration of intent in a new law.

In 2012, a radical change occurred in the perspective on analyzing tourism destination renewal. The law passed (Ley 2/2012) [56] explicitly recognizes the need to carry out an in-depth analysis with the broad participation of the sectors involved and society in general. The objective was to formulate an adequate approach to organizing the main economic activity of the Canary Islands. Later, the tourism renovation and modernization laws of the Canary Islands (Law 2/2013 and the complementary Law 9/2015) [57,58] were approved. The most significant measure taken was the strengthening of the urban planning agreement among the public administrations involved (Canary Government, Island Governments, and councils). The process involved the development of a consensual procedure for initiatives proposed by owners of lodgings, and this was the basis for the “Planes de Modernización, Mejora e Incremento de la Competitividad” (PMMs) (Modernization Plans). These plans promoted an agile process, instead of a lengthy planning process, inserting a new management tool in tourism urban planning. At the same time, the councils involved decided to reduce the capital gains taxes on rehabilitation projects. Furthermore, the councils decided to invest all the taxes obtained from renovation projects in improving tourism infrastructures, and this was complemented by public investments in the renewal of infrastructures in the tourism zones to be rehabilitated. Therefore, the actions promoted involved the development of a relational capability between the public administrations and the private sector because all the stakeholders cooperated in pursuing a common objective.

A second important measure was related to financing renewal projects. The Canary Government agreed to offer urban incentives for rehabilitation by increasing the ratios of occupancy and the buildability of the complexes to be renovated. The objective was to supply a new source of financing for rehabilitation by increasing the percentage of land occupancy allowed, in order to improve or diversify the services offered to customers. Likewise, the new orientation seeks to provide the possibility of increasing the number of rooms in order to obtain additional revenues to pay for investments in rehabilitation.

In this context, for the first time, the Canary Government began to understand that legislation must supply new financing methods to carry out a true renewal of the destination. However, the Canary Government went further because it noticed that the investments needed public and private financing sources. Two main actions were performed by the public administrations. The first was to encourage public subsidies through a joint mechanism between the European and Spanish governments, applied by the Canary government. This subsidy is integrated in the Canary Island program of Regional Incentives, and the funds come from Europe, with the project providing a real improvement in the category and quality of service delivery to customers. Small and medium-size companies can achieve a subsidy of up to 55% of the total investment applied to the renovation of complexes.

**Table 1.** Legislation passed to regulate, rehabilitate, and renew the tourism activity in the Canary Islands.

Laws	Relevant Aspects
Law 7/1995, Tourism Organization Law in the Canary Islands [51]	<ul style="list-style-type: none"> <li>➤ First general regulation of the sector.</li> <li>➤ Proposes the management and promotion of the tourism sector as a strategy for the Canary Islands' economy.</li> <li>➤ Considers the Canary Islands as a unique tourism destination.</li> <li>➤ Regulates the tourism offer and establishes the standard for carrying out the rehabilitations.</li> <li>➤ Performs the control of overbooking in lodgings.</li> <li>➤ States the conservation needs for the quality of lodgings through maintenance programs in order to retain the tourism category.</li> <li>➤ Defends the management unity principle of lodgings.</li> </ul>
Law 5/1999, which modifies the Tourism Organization Law in the Canary Islands [52]	<ul style="list-style-type: none"> <li>➤ Modifies the way the owners and the Company have to formalize their agreement.</li> <li>➤ Continues to insist on the quality of buildings and service, establishing control mechanisms.</li> </ul>
Law 6/2001, of Urgent Measures in matters of Territorial Organization and of Tourism in the Canary Islands [53]	<ul style="list-style-type: none"> <li>➤ Its objective is to regulate the regime of the planning and the use of the ground.</li> <li>➤ It favors the containment of the growth of the tourist accommodation offer, enhancing those actions focused on the rehabilitation or replacement of an obsolete lodging offer, without increasing its capacity.</li> <li>➤ Opts to reduce the lodging offer by encouraging its conversion into residential or complementary offer.</li> <li>➤ It also enables exceptional selective growth for higher category hotels.</li> <li>➤ It limits the validity of obsolete planning instruments, licenses and administrative authorizations.</li> </ul>
Law 19/2003, about the Guidelines for the General Ordering and Guidelines for Organizing Tourism in the Canary Islands [54]	<ul style="list-style-type: none"> <li>➤ It aims to achieve a more sustainable development model for the Canary Islands.</li> <li>➤ It defends a model that contributes to the generation of economic wealth.</li> <li>➤ It considers tourism a vital and dynamic sector that cannot be conditioned by a slow and chained process of successive adaptations.</li> <li>➤ It favors the increase in quality and the diversification of the lodging and complementary tourist offer.</li> <li>➤ Enables the figure of the Special Territorial Plans of Insular Tourist Planning (Planes Territoriales Especiales de Ordenación Turística Insulares).</li> <li>➤ It refers to the renovations of the existing establishment without an increase in capacity, although it allows improvement of the quality, to expand the total buildability, proposing several alternatives.</li> <li>➤ Comprises the obligation to renew, within three years after its approval, the existing buildings.</li> <li>➤ It determines the possibility of establishing more effective measures of economic, fiscal, labor and administrative incentive.</li> </ul>
Law 6/2009, of Urgent Measures in matters of Territorial Ordering for the Stimulation of the Sector and the Organization of Tourism [55]	<ul style="list-style-type: none"> <li>➤ It is approved in the middle of the economic crisis.</li> <li>➤ It tries to give impetus to the tourism sector, addressing, among other things, the need to simplify and rationalize administrative processes in territorial and urban planning.</li> <li>➤ It maintains the so-called tourist moratorium, although it relaxes the reclassification of land under certain conditions.</li> <li>➤ In light of the concern that the process of renovation and rehabilitation of the lodging offer had not achieved enough support. There is an attempt to stimulate renewal and improve tourism infrastructures and lodgings through concerted actions between the public and private sectors.</li> </ul>
Law 2/2012, temporal extension of Law 6/2009 [56]	<ul style="list-style-type: none"> <li>➤ An in-depth analysis is proposed, counting on a broad participation of the sectors affected and the citizens, in general, to define what the appropriate proposal would be for organizing the main economic activity of the Canary Islands.</li> </ul>

Table 1. Cont.

Laws	Relevant Aspects
Law 2/2013, on Tourism Renovation and Modernization of the Canary Islands [57]	<ul style="list-style-type: none"> <li>➤ It adopts the legislative technique of configuring and recasting in a single text all the previous legislation on this matter.</li> <li>➤ It guides the actions towards the same strategy to increase the quality of the Canary Islands as a tourist destination.</li> <li>➤ It aims to achieve greater competitiveness in the products offered and to position the Islands in a line of responsible, economic, environmental, and socially sustainable tourism, in addition to ensuring satisfactory public services.</li> <li>➤ It aims to redirect the residential nature of tourist lodgings.</li> <li>➤ It allows construction on lands that have consolidated urban rights, through extending the rights to additional places granted as incentives for renovation, or through the implementation of high quality hotels.</li> <li>➤ Establishes the duty of lodgings and tourist activities to maintain, conserve, and rehabilitate the buildings and facilities in accordance with the provisions of tourist regulations and planning.</li> <li>➤ Strengthens the urban agreements, as a consensual procedure for the initiatives proposed by the owners of the establishments, and favors the approval of the Modernization, Improvement and Increasing Competitiveness Plans (PMMs).</li> <li>➤ It establishes the creation in each Island Government of a “Tourist registry of accommodations”.</li> </ul>
Law 9/2015, to correct, among others, Law 2/2013 [58]	<ul style="list-style-type: none"> <li>➤ It aims to correct different issues and/or problems, shown in the Evaluation Report of the Law 2/2013 of Tourism Renewal and Modernization of the Canary Islands, which compared the progress of the new measures and their impact on the tourism sector.</li> </ul>

The other financing source is articulated through the European Investment Bank (EIB), which offers loans by subsidizing part of the interest. The Canary Government has promoted the concession of these types of loans through private financial entities. Another characteristic of these European loans is the inclusion of a public guarantee for all or part of the credit given by private banks to tourism companies. In conclusion, combined and integrated actions led by the public administration to renew the lodging offer are the only way to achieve practical results. This means that the development of relational capabilities is the path to the successful rehabilitation of destinations. When the Canary government finally understood that legislation is not sufficient to carry out rehabilitation projects because they are complex and have different stakeholders, rehabilitation started to be a successful reality. When the Canary government applied actions in all the related aspects, the results began to appear. In this context, the public administrations, tourism sector, financial sector, and other companies, such as tour operators, building and service companies, and complementary offers, were involved. Likewise, the Canary government intensified public investments in improving tourism infrastructures and promoted campaigns to improve the destination's image. This special legislation was only applied for a limit period of time, and currently the common administrative urban planning process is applied with severe consequences. The legal bureaucracy keeps renewal or innovative tourism projects from being carried out because, in many cases, urban planning in tourist towns can take more than 10 years.

## 2.2. Private Sector

The Canary Islands is a tourism destination with a high demand, receiving more than fifteen million tourists per year, with an average occupancy of 9.75 nights per client in non-hotels and 8.39 nights in hotels per client [59]. It is a destination focused basically on sun and beach tourism, but it is diversifying its offer in other segments (sport, golf, rural tourism, cultural). This destination has 1168 lodging non-hotels that represent about 22% of the total offer in Spain in this category (see Table 2). The island with the largest number of non-hotel complexes is Gran Canaria, with 435, followed by Lanzarote (190), Tenerife (188), and La Gomera (159). With regard to the hotel offer, the island with the greatest number of lodgings is Tenerife (234), whereas Gran Canaria has 154, Fuerteventura 84, and Lanzarote 72.

**Table 2.** Number of lodgings in the Canary Islands by island in 2016 [60].

Categories Islands	Hotels		Non-Hotels		Total	
	Number	%	Number	%	Number	%
Lanzarote	72	27.48%	190	72.52%	262	14.70%
Fuerteventura	84	51.85%	78	48.15%	162	9.09%
Gran Canaria	154	26.15%	435	73.85%	589	33.05%
Tenerife	234	55.45%	188	44.55%	422	23.68%
La Gomera	30	15.87%	159	84.13%	189	10.61%
La Palma	27	21.60%	98	78.40%	125	7.01%
El Hierro	13	39.39%	20	60.61%	33	1.85%
Total	614	34.46%	1168	65.54%	1782	100.00%

Taking into account the structure of the lodging offer by island, Table 2 shows that Gran Canaria and Lanzarote have more non-hotels (73.85% and 72.52%, respectively) than hotels (26.15% and 27.48%, respectively). Moreover, the islands of Tenerife and Fuerteventura have a more balanced structure because hotels represent 55.45% and 51.85%, respectively, and the percentage of non-hotels is 44.55% and 48.15%, respectively.

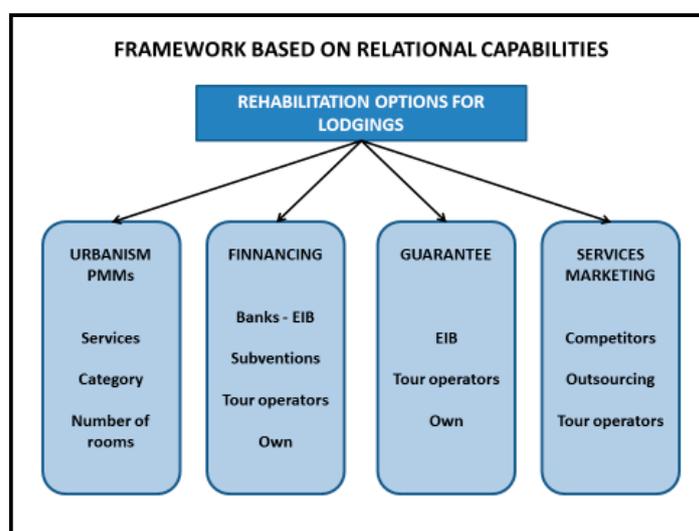
Table 3 shows that there were 427,354 tourist beds in the destination in 2016. Analyzing the number of beds by island, the greatest number is in Gran Canaria island (140,956), followed by Tenerife (136,269). Another important characteristic of the destination is that the percentage of non-hotels and hotels is similar (50%) because in the initial stage, the non-hotel offer was more important than the

hotel offer. However, this trend changed in the 1990s because customers began to prefer hotels. In this context, the islands of Gran Canaria and Lanzarote have more non-hotels, and, therefore, they need more renovation in order to maintain their sustainability and competitiveness. Moreover, there are also hotels that are designed with old characteristics and require renewal in order to adapt them to customers' new demands.

**Table 3.** Number of tourist beds in the Canary Islands by island in 2016 [61].

Categories Islands	Hotels		Non-Hotels		Total	
	Number	%	Number	%	Number	%
Lanzarote	29,767	43.47%	38,704	56.53%	68,471	16.02%
Fuerteventura	34,381	55.17%	27,938	44.83%	62,319	14.58%
Gran Canaria	59,735	42.38%	81,221	57.62%	140,956	32.98%
Tenerife	84,754	62.20%	51,515	37.80%	136,269	31.89%
La Gomera	3876	34.93%	7220	65.07%	11,096	2.60%
La Palma	1944	29.17%	4720	70.83%	6664	1.56%
El Hierro	395	25.02%	1184	74.98%	1579	0.37%
Total	214,852	50.27%	212,502	49.73%	427,354	100.00%

The options for renovating lodgings are described in Figure 2. The companies could decide to include the rehabilitation project in the Modernization Plans (PMMs) in order to increase the surface dedicated to services or enhance the number of rooms. This process requires improving the category of lodgings, and the result would be to increase revenues by raising prices and increasing the number of rooms. Another option is to carry out the renovation without benefiting from these alternatives. Currently, the Modernization Plans are not activated.



**Figure 2.** Rehabilitation options for the lodging offer.

The financial perspective can be addressed in different ways. First, private banks are giving loans in this strategic tourism sector individually or with the support of the EIB. European subsidies can be achieved by presenting innovative projects that lead to an increase in the category and service quality of lodgings. Tour operators are another important financing source because they need to control the beds offered in a high-demand destination like the Canary Islands. Therefore, they grant loans to tourism companies to renovate buildings in exchange for controlling the sale of beds. Finally, lodging companies can use their own financial resources. Loan guarantees can come from the EIB, tour operators via long-term sales agreements (5 or 10 years), and companies' assets. Financing and guarantee options are currently available.

Companies can improve the results of renovation projects through the development of relational capabilities with competitors, outsourcing firms, and tour operators. With direct competitors, it is possible to create specific alliances to improve the infrastructures of tourist areas and influence with the political powers. In relation to outsourcing firms, rehabilitation can involve offering new services to customers. In many cases, the outsourcing of certain activities is a satisfactory way to resolve the complexity of tourism processes. Catering, wellness, golf, gym, and animation are some examples of complementary services that improve the value and competitiveness of lodgings. Finally, tour operators develop a close relationship with lodgings in order to guarantee their sales and share the risk and responsibility. Today, tour operators continue to have special agreements because the demand continues to increase. If this trend continues in the coming years, tour operators will maintain their policy of support for the rehabilitation of lodgings. However, if other competitor destinations begin to activate their sales, tour operators' interest in the Canary Islands could decrease.

### 3. Evaluation of the Rehabilitation

In 2014, the Canary government elaborated and published an evaluation of the Law of Tourism Renovation and Modernization of the Canary Islands (Ley 2/2013) [57] in order to determine the results obtained through the different actions carried out. The first task was to establish the real offer functioning as tourist activity. Table 4 shows that the total number of tourist beds authorized in the destination was 371,177, but in recent years this offer has declined by 77,556 beds that have become residential. Therefore, the total number of tourist beds operating was 249,018. The total number of Modernization Plans processed in the entire destination of the Canary Islands was 16, four on Fuerteventura Island, three on Lanzarote Island, two on Gran Canaria Island, and seven on Tenerife Island. The island with the greatest number of renovations of authorized beds is Tenerife Island (97,757), followed by Gran Canaria Island (68,425), Fuerteventura Island (42,967), and Lanzarote Island (39,969).

**Table 4.** Plans for Modernization, Improvement, and Competitiveness Enhancement processed [62].

Modernization Plans (PMMs)	Total Authorized Beds	Total Reduced Beds	Renovation Authorized Beds
<b>Fuerteventura Island</b>	<b>59,769</b>	<b>5585</b>	<b>42,967</b>
Corralejo	14,158	-	12,246
Caleta de Fuste	12,229	-	6402
Costa Calma	11,085	-	10,646
Morro Jable	22,297	-	13,673
<b>Lanzarote Island</b>	<b>60,220</b>	<b>9525</b>	<b>39,969</b>
Puerto del Carmen	28,653	5329	11,617
Costa Teguisse	15,412	4006	12,925
Playa Blanca	16,155	190	15,427
<b>Gran Canaria Island</b>	<b>133,973</b>	<b>46,577</b>	<b>68,325</b>
Maspalomas Costa Canaria	101,545	36,786	46,240
Playa Mogán-Costa Mogán	32,428	9791	22,085
<b>Tenerife Island</b>	<b>117,215</b>	<b>15,879</b>	<b>97,757</b>
Puerto de la Cruz	21,310	912	14,939
Puerto Santiago	7151	1139	5051
Arona	35,669	3129	34,401
Adeje	37,085	5406	33,981
La Caleta-Playa Paraíso-Callao Salvaje	8241	1734	6152
Costa del Silencio-Tenbel	3233	3559	3233
Costa de San Miguel	4526	285	3544
<b>Total</b>	<b>371,177</b>	<b>77,566</b>	<b>249,018</b>

The evaluation study [62] determined that, at the time of its elaboration, six modernization plans had been approved and applied. Table 5 shows that on Fuerteventura Island, there was one plan (Corralejo), on Lanzarote Island, there were three plans (Puerto del Carmen, Costa Teguisse and Playa Blanca), and two on Gran Canaria Island (Maspalomas-Costa Canarias and Playa Mogán-Costa Mogán). The total number of tourist beds involved was 14,365 in 93 private rehabilitation projects

requested, with 58 of them being executed. Moreover, the public tourism space was also the object of renewal, reflected in 74 actions promoted by the corresponding public administrations.

**Table 5.** Plans for Modernization, Improvement, and Competitiveness Enhancement executed [62].

Plans for Modernization Executed	Beds that Can Request Projects	Private Projects Requested	Private Projects Executed	Actions in Public Space
<b>Fuerteventura Island</b>	<b>3171</b>	<b>7</b>	<b>4</b>	<b>6</b>
Corralejo	3171	7	4	6
<b>Lanzarote Island</b>	<b>9525</b>	<b>33</b>	<b>20</b>	<b>25</b>
Puerto del Carmen (Second PMM)	7109	20	15	11
Costa Teguise	2416	13	5	14
<b>Gran Canaria Island</b>	<b>1669</b>	<b>53</b>	<b>34</b>	<b>43</b>
Maspalomas-Costa Canaria	1585	50	34	26
Playa Mogán-Costa Mogán	84	3	-	17
<b>Total</b>	<b>14,365</b>	<b>93</b>	<b>58</b>	<b>74</b>

Public investments focusing on the renovation of the destination's infrastructures are presented in Table 6. The funds for these investments were supplied by the European, Spanish, and Canary Island governments, as well as the taxes obtained by the councils from private rehabilitation projects. In 2010, 38 actions were carried out, with an economic budget of 28 million Euros. Likewise, in 2011, the projects executed increased to 43, as well as the public investment (47 million Euros). The islands with the greatest number of actions and budgets were Tenerife (18 actions with an 18 million Euro investment) and Gran Canaria (14 actions with an 18 million Euro investment). These actions demonstrate that public administrations must exercise leadership and develop relational capabilities through the renewal of the public space in the tourist zones of the destination, taking into account the stakeholders' opinions.

**Table 6.** Public investment in public tourist spaces [62].

Island	2010		2011	
	Actions	Budget (€)	Actions	Budget (€)
Tenerife	9	9,700,265	9	8,672,362
Gomera	5	2,478,397	4	3,400,000
El Hierro	1	370,258	1	3,846,204
La Palma	4	1,151,375	6	3,700,000
Lanzarote	7	4,459,306	10	7,675,263
Gran Canaria	9	7,356,641	5	11,372,336
Fuerteventura	3	3,259,666	8	9,013,923
<b>Total</b>	<b>38</b>	<b>28,775,908</b>	<b>43</b>	<b>47,680,088</b>

The private rehabilitation projects analyzed in the study [62] are presented in Table 7. The main condition for the private sector to obtain the benefits of the Modernization Plans was that they had to increase the quality of the lodgings by increasing the category or quality of the complex. Table 7 shows that 16 extra-hotels changed their category from 1, 2 and 3 keys to 4-star hotels. Furthermore, 12 extra-hotels increased their category to 3 stars and 18 increased it to 4 stars. Moreover, 8 hotels upgraded their category to 4 stars, and 6 increased their category to 5 stars. Seven new buildings were constructed to offer 4-star and 5-star hotels. Finally, 43 3-star and 4-star projects were formulated, maintaining their category, but renovating their facilities. These results demonstrated that the objective of the Canary Government's renovation strategy to improve the lodging offer was achieved. Furthermore, the findings showed that the development of relational capabilities between the public and private sector is essential in improving the quality of the destination's lodging offer.

**Table 7.** Type of action in tourist lodgings [62].

Extra-Hotels and Hotels Maintaining the Category	Number
Renovation of extra-hotels and hotels maintaining category (3 or 4 stars)	43
<b>Extra-Hotels that Change Their Category</b>	
Extra-hotels of 1, 2 and 3 keys that changed to 4-star hotels	16
Extra-hotels of 1 and 2 keys that changed to 3 stars	12
Extra-hotels of 1, 2 and 3 keys that changed to 4 stars	18
<b>Hotels that Changed Their Category</b>	
Hotels that upgraded to 4 stars	8
Hotels that upgraded to 5 stars	6
Newly built hotels (4 and 5 stars)	7

To carry out the private renovation projects, it was necessary to open up lines of financing. Table 8 exhibits the subsidies granted jointly by the European, Spanish, and Canary Governments to finance renovation or innovation projects in tourism firms. The total amount invested in the 2009–2014 period was 488 million Euros, of which 60 million were subsidies from Regional Economic Incentives from Europe. The new employment created with these private actions reached 1248 jobs. It is important to highlight that these types of subsidies are granted through a joint process among different Public Administrations (Europe, Spain, and Canary Islands), representing the development of relational capabilities needed to renew the lodging offer of destinations, as indicated by Rodríguez-Díaz and Espino-Rodríguez [2]. Moreover, the Canary Government reached specific agreements with the main financial entities in order to stimulate bank loans for tourism companies. Table 9 shows that the total amount was 1875 million Euros, distributed in ten financing companies, with the characteristic that the loans can be totally or partially guaranteed by the EIB.

**Table 8.** Investments and subsidies granted through Regional Economic Incentives from Europe [62].

Subsidies Granted in the Period 2009–2014			
Provinces	Investment (€)	Subsidy (€)	Employment
Santa Cruz de Tenerife	209,163,362	24,415,620	515
Las Palmas	279,545,282	36,404,927	733
Total Canary Islands	488,708,644	60,820,547	1248

**Table 9.** Collaboration agreements between the Government of the Canary Islands and Financial Entities [62].

Financial Entities	Credit Line
Banco de Santander	500 M€
Caixabank	500 M€
BBVA	100 M€
Bankia	100 M€
Banco Popular	200 M€
Banco Sabadell	200 M€
Canarias Caja Rural	100 M€
Banca March	70 M€
Bankinter	30 M€
Caja 7	25 M€
<b>Total Financing</b>	<b>1875 M€</b>

#### 4. Conclusions

The framework proposed to determine the key aspects to take into account in renewal based on relational capabilities is developed by drawing on the experience carried out in the destination of the

Canary Islands. As Rodríguez-Díaz and Espino-Rodríguez [2] pointed out, the results demonstrated that the development of relational capabilities is essential in the planning and implementation of actions addressed to renovating the lodging and infrastructures of tourism destinations. Furthermore, for years the Canary Government was passing laws to renew the lodging offer, but the results were not useful because the rehabilitation of a tourism destination is a complex problem that must be resolved from an integrated and shared view of the entire system. The leadership of the Canary Island destination corresponds to the Canary Government because there is no specific figure or DMO to execute it. The private sector also participates in the leadership of the destination through the tourism company association.

Since the law passed in 2013 promoting the Modernization Plans of tourist zones, the view of the Canary Government has changed and now reflects the understanding that actions focused on the destination's rehabilitation need to cover different ambits. Thus, the leadership needs to push actions in infrastructures, urban planning, legislation, financing, and guarantees, in order to promote the renovation of lodgings and the destination as a whole, and improve its competitiveness by upgrading its image. The consequence is integration and increased collaboration among the stakeholders involved. In this context, the results obtained from the renovation of the Canary Islands involved improving the resources and core competences of the destination via rehabilitation, with higher quality private lodgings and the renovation of public spaces. To reinforce the basic resources of the destination, it was necessary to develop relational capabilities between the Public Administrations and the private stakeholders involved. The main actions taken based on the development of relational capabilities are presented below.

- Tourism Modernizations Plans were implemented through integrated collaboration among the Public Administrations with competences in the urban planning of tourism destinations, that is, the Canary Government, Island Governments, and councils.
- This Plan involved the simplification of the long bureaucratic urban planning process, opening up a special way to process the approval of rehabilitation of private projects.
- In this context, there was a close relationship between the public and private sectors in order to stimulate the private initiative to renew lodgings. Another measure to motivate rehabilitation was the possibility of increasing the buildability and percentage of land occupied by the complex, in order to improve the quality of the offer and facilitate firms' return on investment.
- Tourism infrastructures were upgraded, taking into account the councils and tourism companies' views. This vision implies the recognition that the renovation needs integrated actions among all the destination's resources. Therefore, an integral view in the analysis and implementation of actions represents the development of relational capabilities in the destination.
- The taxes collected by the councils for the surplus value of the rehabilitation projects in relation to the increase in the surface of buildings were reduced. The councils have recognized that they must stimulate rehabilitation by cutting taxes on this concept and applying this income to the renewal of tourism infrastructures.
- Public financing was promoted in two ways. One involves public subsidies from Regional Incentives, where the European, Spanish, and Canary Governments collaborate in the diffusion, selection, and implementation of projects presented by tourism firms. The other consists of loans granted and supported by the EIB to firms with innovation or rehabilitation projects in tourism, which have also been promoted jointly by the European, Spanish, and Canary Governments.
- Agreements between the Canary Government and financial entities are another example of the development of relational capabilities between the public and private sector. In this case, the Canary Government saw that lodging rehabilitation projects needed financing resources and decided to reach agreements with ten financial entities with the commitment of facilitating 1.875 million Euros in loans to tourism firms.

- Tour operators were private companies that intervened in lodging rehabilitation in this destination by financing all or part of the renewal projects. Their objectives were to improve the quality of the lodging offer while increasing their control over the beds available in the destination.
- The guarantee is another important aspect of obtaining bank loans and reducing the level of investment risk. In the case studied, the guarantee is provided by Public Administrations through the EIB loans managed by banks. Agreements with tour operators are another way to obtain the necessary guarantees to achieve a bank loan. Both methods involve joint actions to support the financial resources of firms that want to renew their lodgings.
- The promotion of the destination is an activity carried out mainly by Public Administrations in collaboration with tourism firms, independently or in associations. Renewal is a very good argument to promote in communication campaigns. In this context, the lodging renovation produces positive synergies in the destination's image, attracting greater demand in terms of numbers and higher-level segments.
- Collaboration among private companies from different or complementary sectors is necessary in order to undertake the building activities and improve the service offered to customers. The outsourcing of certain activities is a useful way to diversify or complement the service delivery in the complex (e.g. catering, health, wellness, animation, sport).
- The sustainability of the destination has been an objective key to the renewal strategy applied in the Canary Islands. According to Rodríguez-Díaz and Espino-Rodríguez [2], sustainability is a measure of the development of relational capabilities in destinations because they are complex, open, and adaptable systems. The actions carried out have been focused on the sustainable management and development of destinations' resources. In the case studied, the Canary Government has opted to encourage the renovation of lodgings, rather than building new complexes, limiting building to new high quality hotels (4 or 5 stars).

In spite of the notable success of the measures implemented to renew the Canary Island destination, the results obtained were useful but limited. The number of private projects carried out was small, compared to the total number of complexes and beds that needed rehabilitation. The main reason was that, after passing the Law in 2013 [57], only a few companies believed in the rehabilitation promoted by the Canary Government. There was great uncertainty about the evolution of the demand, and perhaps the most important reason was that the financial sources were not clearly defined at the outset. Furthermore, the Canary Government proceeded with the financing sometime after the approval of the plans. In reality, the different actions were not planned and applied from the beginning because practical experience was guiding the formulation of some of the actions taken. When the results started to highlight the relevant effects on the improvement of the competitiveness of lodging complexes, the number of firms interested in participating in this policy increased significantly. However, the Modernization Plans lasted for a limited period of time while the administrative councils approved the new urban plan. The bureaucratic process of the council's urban planning was the critical reason for stopping the powerful and useful strategy applied by the Canary Government to renew the destination.

Despite the limitations of the results of the Modernization Plans in tourism, they determined an integral methodology to carry out useful actions in the renewal of tourism destinations. Furthermore, the sector currently recognizes that it was a real opportunity exploited by the most innovative and risk-taking companies. There are a significant number of renovation projects or new hotel construction projects waiting for administrative permits. Furthermore, due to the notable increase in the demand in recent years, companies are more determined to carry out lodging renewals because there are multiple sources of financing, the involvement of tour operators is quite high, and prices have increased significantly. In this context, uncertainty has been reduced by the environmental conditions and high degree of competitiveness of the destination compared to its main competitors. Moreover, public actions in the tourism infrastructures have been a success, influencing the destination's economic activity

and image. It is very important to recognize that the investments carried out in infrastructures have represented practical and tangible actions.

Therefore, when Rodríguez-Díaz and Espino-Rodríguez [2] evaluated the internal and relational view of the public administrations in the Gran Canaria destination, they demonstrated that the stakeholders considered had the lowest scores. These authors pointed out that it was important for the leadership of the destination, the public administrations, to start to collaborate with each other in rehabilitating and increasing the competitiveness of the destinations. Today, it has been shown that the only actions that have been successful in the Canary Islands have been carried out in the development of relational capabilities among the different public administrations involved, as well as the creation of a close relationship between the public and private sectors. Future research should examine the possibility of reapplying these initiatives, but as an integrated whole, with the possibility of simplifying the bureaucratic process of urban planning and the concession of council building licenses, thus increasing the number of tourism firms interested in renovation. Moreover, it would be very interesting to confirm the need to develop relational capabilities to carry out renewal programs in other destinations, taking into account the different types of actions proposed in the framework presented in this study.

**Author Contributions:** The authors have contributed equally in the research design and development, the data analysis and the writing of the paper. The authors have read and approved the final manuscript.

**Conflicts of Interest:** The authors declare no conflict of interest.

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