

**THE INTERNATIONALISATION OF LOCATION-BOUND SERVICE SMEs  
– Resources and Networks in Finnish Tourism Companies**

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# 1 INTRODUCTION

## 1.1 Background

The rapid globalisation of the world economy considerably increased the opportunities for marketing services abroad in recent decades. As a result, services are arguably the driving force and the fastest growing sector in international trade (e.g., Bradley 1995; Grönroos 1999; Javalgi – Griffith – White 2003; Javalgi - Martin 2007; Ball – Lindsay - Rose 2008). For instance, according to WTO (2008) statistics, the international supply of services is increasing rapidly: in 2007 the value of trade in commercial services increased at a faster rate (18 per cent) than trade in goods (15 per cent). The service sector accounted for 19 per cent of all trade in the same year, and of that the proportion of tourism revenue was almost 30 per cent (WTTC 2007; Hall - Coles 2008, 2). At the same time, the service sector generated approximately two-thirds of the total world value added (WTO 2008), and contributed between 40 per cent (in China) and 81 per cent (in the USA) to the GDP of the ten biggest world economies (Merchant - Gaur 2008; Economist 2008).

The dynamic nature of the service economy challenges both researchers and practitioners to follow the changes taking place in the industry (Javalgi - Martin 2007). There has been a growing interest among researchers in the internationalisation of services, and there is an increasing amount of research and literature in the field (Orava 2005). Knowledge in this area has developed in parallel with the internationalisation theories of industrial firms, although the main focus has still been on the manufacturing sector (e.g., Grönroos 1999; Ball et al. 2008). According to Grönroos (1999), services have traditionally been considered locally produced solutions, and service firms have been thought of as local establishments. Although services are still produced by small and local firms to a great extent, the business has become more international and the sector is expanding over national borders (Grönroos 1999). However, not all services are the same, and there are significant differences between the different sub-sectors in terms of internationalisation (Grönroos 1998). The tourism industry represents a sub-sector of services with a very specific nature, and the internationalisation process in tourism companies differs from traditional internationalisation modes in several ways.

First, as with services in general, the *production and consumption of tourism products typically take place simultaneously*, and involve the tourist as a co-producer and active participant in the production and delivery (von Friedrichs Grängsjö - Gummesson 2006). Moreover, many tourism products and services are produced and consumed in the service producer's home country, and consequently it is the customer who crosses the border, not the product (Björkman - Kock 1997; von Friedrichs Grängsjö - Gummesson 2006).

Secondly, and as a consequence of the above, many tourism products are typically bound to a certain domestic location and could be classified as *location-intensive services representing domestically located exports* as a mode of internationalisation (e.g., Roberts 1999; Ball et al. 2008). This challenges tourism companies to bring their domestically bound resource base – both tangible resources (such as the physical environment and the premises) and, even more importantly, intangible resources such as entrepreneurship, an international orientation, customer-service and product development, co-operation and networks – up to an international level.

Thirdly, a typical tourism product is a package of different services, produced by a *network of companies* and strongly influenced by public actors locally, regionally, or internationally (Wyllie 2000; Briggs 2001). As Bieger (2005) notes, from the tourism customer's point of view, a tourism product is a chain that consists of single but interlinked services from different producers. The product itself just emerges when a single customer activates a chain and consumes the service. It is therefore obvious that the way in which companies co-operate with each other significantly affects the competitiveness of service products. (Bieger 2005)

It is thus clear that networks in tourism have a role in the formation of alliances in order to facilitate the packaging of a series of related products or services at specific destinations (Lynch - Morrison 2007). In fact, tourism production involves co-operation as well as individual business competition in the local proximity (von Friedrichs Grängsjö - Gummesson 2006). An individual firm is embedded in a business network in which some of the horizontal relationships consist of pure competition, and others of pure co-operation. Between the two extremes are relationships consisting of a mixture of both. (Bengtsson – Kock 2000.) von Friedrichs Grängsjö and Gummesson (2006) note that the firm's dependency on both co-operation and competition is a key issue within the tourism industry because even if an individual company in a destination feels autonomous, it represents only a single component of the total product. In order to attract customers and to keep them, companies need to develop and market their own products and services, and also to play a part in the entire destination's development and

marketing (von Friedrich Grängsjö – Gummesson 2006). This means that a mix of relationships with both vertical and horizontal ties is needed (Bengtsson – Kock 2000), and that companies will be obliged to cooperate with their competitors in the shared locality (von Friedrich Grängsjö - Gummesson 2006).

Furthermore, tourism companies are typically either small or micro-sized enterprises, with limited skills and resources, and *low growth intentions* (e.g., Wanhill 2004; Komppula 2004a; Shaw - Williams 1990; Morrison et al. 1998). The majority of them employ fewer than five people, and many are either part-time tourism enterprises or comprise only the manager-owner and the immediate family (e.g., Middleton 2001; Roberts - Hall 2001; Peltonen – Komppula - Ryhänen 2004). For example, according to Komppula (2004a), a typical rural tourism entrepreneur would rather avoid economic risks than make investments in rapid growth (Komppula 2004a, 116, 125; Dewhurst - Horobin 1998). Gray (2002) also emphasises that the main constraints on SME growth lie in the non-growth career aspirations and the personal expectations of individual small-firm owner-managers. Similarly, Heinonen and Pukkinen (2006, 98) note that growth motivation is, in some cases, influenced by fundamental personal values such as the desire for independence and freedom of action, which may run contrary to enterprise growth. This is particularly relevant within the tourism sector in which for many small firms the maintenance and protection of a certain lifestyle is prioritised over a commercial focus on profit maximisation, and consequently many decisions are based on non-business criteria (Gray 2002; Thomas et al. 2001). Furthermore, according to Komppula and Reijonen (2006), diversification is probably one of the reasons why growth in tourism businesses is often very slow: the entrepreneur has to choose between several options when deciding whether to concentrate on one line of business or to maintain several. Still, the *willingness* to grow has been mentioned as the most important criterion for growth, followed by the *ability* and the *opportunity* (Toivonen et al. 2006, 122-124). Toivonen et al. (2006, 124) point out that all these need to be present if growth is to take place.

However, entrepreneurs running small tourism businesses often lack a global mindset and an entrepreneurial attitude – the ability and willingness - towards internationalisation and growth, and going international may not be among their top priorities. As members of networks or representatives of a certain destination, however, they are forced – or have the opportunity - to face the challenges of internationalisation. Consequently, growth in the tourism business demands increasing efforts from various actors in the field in order to internationalise the destinations and networks, and the resource base of individual companies.

## 1.2 Research Gap

Although the growing importance of trade and investment in services has been acknowledged, it is also true that the internationalisation of services is a relatively new field in terms of building and testing theories (Javalgi - Martin 2007). Service firms are internationalising more quickly than before, but in the process they often rely on relevant studies conducted within the manufacturing sector (e.g., Boddewyn et al. 1986; Axinn - Matthyssens 2001; Javalgi - Martin 2007). According to Domke-Damonte (2000) and Javalgi and Martin (2007), there is an evident need to develop a more comprehensive understanding of the strategic issues that influence the internationalisation of service firms. Several researchers have referred to the immense variation within the sector in the way that services are produced (e.g., Boddewyn et al. 1986; Lovelock - Yip 1996; Sarathy 1994; Zeithaml et al. 1985; Domke-Damonte 2000; Ball et al. 2008). It is thus suggested that the various sub-sectors should be compared in order to identify the most effective strategic practices for specific types of service in particular situations (Domke-Damonte 2000; Ball et al. 2008), and Johanson and Vahlne (1990) and O'Farrell et al. (1998) propose a context-specific approach. In this study, tourism is regarded as a sub-sector of services with specific characteristics, and consequently requires a specific approach to internationalisation.

Given the specific nature of the tourism sector, as described in the previous section, the internationalisation of tourism companies does not follow the traditional models of service internationalisation, especially in the case of location-bound tourism SMEs. Earlier studies have shown that traditional marketing theories are of only limited value to most tourism enterprises because they are based on the assumption that *a company has full control over the marketing and image-creation of its product* (von Friedrichs Grängsjö 2003; Pearce 1992). Moreover, existing theories seem to be insufficient in terms of explaining and understanding the *inward nature of the internationalisation of domestically location-bound service companies, representing domestically located exports as a mode of internationalisation* (Ball et al. 2008). It could thus be assumed that traditional theories of service internationalisation are not always valid in the case of tourism SMEs. There is therefore an evident need to extend these theories by introducing a new context-specific approach to service internationalisation: the internationalisation of location-bound tourism SMEs.

Additionally, from the international-business perspective the potential contribution of tourism services and tourism SMEs to local economic development has been acknowledged in academic research only in recent

years (Ioannides 2003; Thomas - Thomas 2006). There is therefore a need to integrate the views promoted by the different schools of research in the fields of international business and tourism. According to Hall and Coles (2008, 21), tourism and international business have become two important and distinct objects of study for scholars involved in business and management. Given the significance of tourism in the global economy, and of international tourism in many national and regional economies, it could be expected to have attracted a good deal of research attention in the field of international business. This, however, has not been the case: there has been practically no research on international tourism enterprises. The studies that have been carried out have focused on hotel internationalisation and the way it differs from more common applications in manufacturing. (Quer – Claver – Andreu 2007) Moreover, tourism has not featured in articles in the major international business journals, or even in books on international business (Hall 2003, Hall - Coles 2008, 7). According to Hall and Coles (2008, 21), “advances made elsewhere in business and management, as well as the social sciences more broadly, on international business activity have not made their way into tourism-related discourse”. As a conclusion, Hall and Coles (2008, 21) point out that, in spite of the initial progress in understanding the tourism business, the relationship between tourism and international business needs to be explored and strengthened.

Furthermore, although the potential role of small tourism enterprises in achieving social, environmental and economic goals has been understood, research in this field has been very slow to emerge (e.g., Dewhurst - Thomas 2003; Johns - Mattsson 2005; Thomas - Thomas 2006). According to Thomas and Thomas (2006), it is evident that the tourist experience – and the consequent implications for a destination’s reputation and development – is closely tied in with small firms, because it is difficult to imagine how visitors to almost any destination could miss coming into contact with a number of small and medium-sized enterprises. However, research on small tourism businesses is still underdeveloped and further investigation is needed (Tinsley - Lynch 2001).

According to Björkman and Kock (1997), very little is known about the outward internationalisation of small tourism companies, and almost nothing about their inward internationalisation. The majority of the activity is typically domestic in nature, but the internationalisation of tourism consumption and production continues rapidly, which brings tourism entrepreneurs and employees from one culture into contact with other cultures and social groups (Scherle - Coles 2008). The focus in studies of the internationalisation of tourism companies, however, has been on the outward internationalisation of large or multinational enterprises, or it has been

treated as a distribution problem (Björkman - Kock 1997). The internationalisation of a location-bound tourism SME is a two-way process, however, and could be seen as a result of both successful international marketing and the successful internationalisation of its – or a destination's – resources in the form of capabilities, entrepreneurship, know-how, networks and co-operation. In fact, the outward international marketing activities are, in many cases, carried out not by the company itself, but by a regional tourist organisation or an incoming agency.

Consequently, one could justify shifting the focus of research from outward marketing operations to the *internationalisation of the location-bound resources of small, medium- and micro-sized tourism enterprises*. A firm could be viewed as a pool of resources and capabilities, which are the primary determinants of its performance level (e.g., Augustyn 2004, 257; Barney 1991; Wernerfelt 1984), both domestically and internationally. However, research and literature in this field are still relatively scarce, especially in the context of service industries. As Powers and Hahn (2002) note, despite the growing attention given to how company resources are leveraged into competitive advantage in service industries, there has been very little research on this topic. Furthermore, according to Cacic et al. (2001), although there are studies on the service sector, few analyse international performance factors. Coviello, Winklhofer and Hamilton (2006) note the need to understand performance antecedents in the context of small service firms, given the emphasis in the traditional literature on larger firms despite the significant role of smaller organisations in most economies.

Mort and Weerawardena (2006) discuss the role of *networking* in internationalisation, and the *entrepreneurial actions* that drive Born Globals following a competitive strategy that crosses national borders. According to them, however, the literature lacks a coherent theoretical framework, suggesting the need to apply networking as a dynamic capability and reflecting the need to undertake empirical research in born-global firms. Nummela (2004) and Sadler and Chetty (2000) also note that research on networks and internationalisation has remained rather modest, and has concentrated on a few specific areas. Similarly, the internationalisation of tourism services and networks has been studied relatively little on the academic level (Morrison et al. 2004). Several researchers have used the concept of *network embeddedness* to emphasise the role of networks as a strategic resource and an important element of an individual organisation's market performance (e.g., Andersson et al. 2002; Bonner et al. 2004; Halinen - Törnroos 1998). However, there seems to be great variety in the conceptualisation of the phenomenon (Andersson – Forsgren – Holm 2002), and it is obvious that further research is needed. Furthermore, research on



network embeddedness in an international context is still sparse (Fletcher - Barrett 2001).

### 1.3 Objectives

The main research objective is to analyse **how location-bound tourism SMEs internationalise** and, as a consequence, to contribute to the theories of service internationalisation by developing a theoretical framework outlining the process. In order to gain an in-depth understanding of the phenomenon this main objective is divided into the following sub-objectives:

- 1) Given that tourism is a global phenomenon of an international nature, one might question the existence of a concept such as “the internationalisation of the tourism business”. Should tourism enterprises – even micro-sized companies with part-time entrepreneurs – be classified as “Born Globals”? Further, the inward nature and the location-boundness of tourism services require redefinition of the service-internationalisation concept in the context of the tourism business. Consequently, the first sub-objective is **to analyse and define the pre-requisites of internationalisation in the context of location-bound tourism SMEs.**
- 2) Tourism production and distribution are based not only on an individual company’s resources, but also on the resource base of the network or destination in which it is embedded. Therefore, the second sub-objective of the study is **to analyse how a location-bound tourism SME internationalises its resource base.**
- 3) A tourism product is a combination of different goods and services (Kotler 1991), and it is obvious that co-operation and networks are needed in the internationalisation of the business. A business network consists of a set of horizontal and vertical relationships. (Roberts - Hall 2001) A firm’s competitive advantage is said to rest on its collaborative business networks and partnerships, and a network of close business relationships enables it to become more competitive (Gulati et al. 2000). It could also be assumed that an individual company’s ability to embed itself in different networks defines its degree of internationalisation. The third sub-objective is thus **to analyse networks as resources in the internationalisation of location-bound tourism SMEs.**

This study challenges the concept of service internationalisation by introducing a location-bound, resource-based perspective in the context of tourism SMEs, representing domestically located exports (Roberts 1999; Ball

- Lindsay -Rose 2008). The focus of the study is on understanding the *inward nature of the internationalisation* of tourism SMEs - the internationalisation of location-bound, intangible and tangible resources. Location-bound resources, networks and network embeddedness are considered strategic resources in this thesis and, furthermore, the internationalisation of these resources is seen as a source of growth, innovation and sustainable competitive advantage. It is argued that the internationalisation of a location-bound tourism company is industry-specific, and should be considered from the location-bound and inward perspective, and is based on company resources, co-operation and network embeddedness.

Consequently, the study also challenges the definition of internationalisation put forward by Welch and Luostarinen (1988). They define the internationalisation of a firm as “the process of increasing involvement in international operations”. It includes a number of different dimensions such as foreign operational methods (how), sales objects (what), markets (where), organisational structure, finance and personnel, and can be expected to be associated with, and perhaps dependent upon, developments along each of them. It is argued in this study that Welch and Luostarinen’s definition cannot fully explain the internationalisation of location-bound service companies.

At the same time, the aim is to contribute to the development of the integration concept in the context of the emergent field of international entrepreneurship and international new ventures (e.g., Jones - Coviello 2005; Oviatt - McDougall 2005; Coviello 2006, Mort – Weerawardena 2006). Jones and Coviello (2005) describe a process of cyclical behaviour involving the entrepreneur and the firm, moderated by the external environment within which the firm operates. Understanding the process and connecting the cyclical behaviour of tourism entrepreneurs to the resource-based view of the firm could significantly enhance understanding of the concept of the internationalisation of entrepreneurship. As the focus of the research is on understanding and analysing the phenomenon in question, the case descriptions included in this study are *instrumental* in nature (cf. Stake 1995).

In terms of *managerial implications* the aim is to further understanding of the success factors of internationalisation within location-bound tourism SMEs, and consequently the internationalisation of tourism destinations and tourism areas (a tourism system). It is argued that the ability to govern intangible and tangible resources, networks and network embeddedness is the core requirement in the management and planning of internationalisation in the context of the tourism industry. This, again, could provide strategic tools on both the business and the tourism-destination level.

A model for the internationalisation of location-bound tourism services is introduced in this thesis. It is based on the resource-based view of a service firm's entry strategies, proposed by Ekeledo and Sivakumar (2004). Finally, the fingerprint model of internationalisation, introduced by Jones (1999), is used to illustrate different types of internationalisation among tourism SMEs in terms of the destination or area. This may help enterprises, public actors and international marketers to analyse the resources that facilitate the internationalisation of tourism SMEs, business networks and destinations.

The next section positions the study and defines the key concepts and limitations.

#### 1.4 Positioning

It has been argued (e.g., Coviello - McAuley 1999) that internationalisation is too dynamic and broad a concept to be exclusively defined within any one school of research, perspective or mode of explanation. Jones (1999) and Fletcher (2001) also point out that researchers should adopt a more holistic perspective, and include both inward and outward activities in the analysis, for example. Coviello and McAuley (1999) note that if internationalisation truly is the result of "a mixture of strategic thinking, strategic action, emergent developments, chance and necessity" – as Johanson and Vahlne (1990, 22) define it - there is also a need to take a creative approach. They suggest that SME internationalisation is best understood through the integration of major theoretical frameworks in that comparative approaches to the study of internationalisation are beneficial to the understanding of the overall concept (Coviello - McAuley 1999). Therefore, research on small-business internationalisation is becoming synergistic and is incorporating research from various disciplines (Nummela 2004; Coviello - McAuley 1999). It could thus be concluded that the *internationalisation of service SMEs* – and especially of location-bound tourism companies – can only be understood by integrating different perspectives, modes of explanation and theories of internationalisation.

It is therefore suggested in this thesis that the service and network approaches to internationalisation and the resource-based view of the firm (RBV) provide complementary perspectives on the internationalisation of location-bound small, medium- and micro-sized tourism enterprises. Figure 1 illustrates the theoretical positioning of the study.

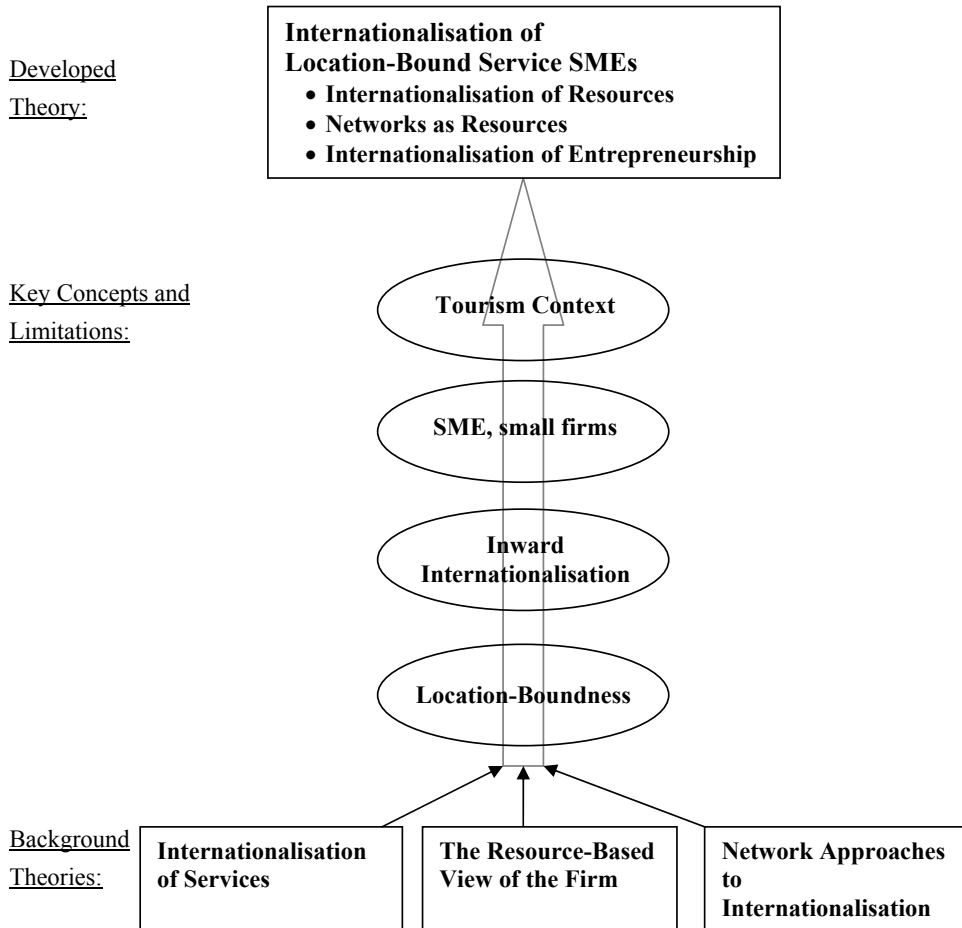


Figure 1 The Key Concepts, Limitations and Positioning of the Study

The phenomenon of *small-firm internationalisation* is becoming increasingly important as more small firms seek growth opportunities in foreign markets (Manolova et al. 2002). SMEs and SME growth have been objects of increasing interest to researchers in the field in recent decades (Heinonen 2006; Nummela et al. 2006), and there has been growing research emphasis on the internationalisation of SMEs. The number of small firms operating in international markets has been increasing, and the process of internationalisation has been accelerating (Nummela et al. 2006). Furthermore, entrepreneurship and SMEs have been regarded as drivers of the economy and of growth (Heinonen 2006; Liao 2004). However, no conclusive theory of small-business internationalisation has been developed (Nummela 2004). According to Jones (1999), although there has been considerable support for export-development models there also has been

widespread concern about their adequacy and limitations. Recently there has been a shift in interest from exporting operations to the processes and patterns that explain how smaller firms increase their international involvement over time (Coviello - McAuley 1999). In this context the *internationalisation of entrepreneurship* has emerged as a concept (e.g., Jones 1999; Oviatt - McDougall 2005; Jones - Coviello 2005). It has also been argued that the firm's environment could be seen as a source of resources, and thus internationalisation is a process of utilising these resources either alone or in co-operation with other firms (Nummela 2004; Madsen - Servais 1997).

Indeed, many service companies – especially within the tourism business - typically operate in a *domestically location-bound context* utilising *location-bound resources*, referring to services that provide output for foreign clients in the domestic market (Roberts 1999; Ball et al. 2008). The concept of location-boundness can be examined from different angles: it refers to spatiality and place (e.g., Shaw - Williams 2004), to the special nature of the tourism product, and to location-bound resources, especially those in the home base of an individual company. Tourism is place-specific, it is consumed *in situ*, and is strongly entangled with local communities and with nature (Shaw - Williams 2004, 21). Moreover, the importance of location-boundness within the tourism industry is closely connected to the concept of *the inward perspective of internationalisation* in tourism companies. Internationalisation in a location-bound tourism service company is attributable to inbound, incoming tourism and, consequently, could be considered inward internationalisation. Location boundness and spatial fixity require tourism companies to internationalise in their home base, and to internationalise their location-bound resources.

Although the internationalisation of tourism SMEs is seen in this study as a domestically location-bound activity, some companies also internationalise over borders. This is a two-way phenomenon: on the one hand Finnish tourism enterprises have invested abroad, and on the other foreign investors and tourism companies have made foreign direct investments in Finland. Moreover, a Finnish activity producer may have partners abroad, and co-operate with another activity producer in another country in order to offer exotic experiences to its own domestic customers. Tourism enterprises may also internationalise by joining an international chain.

The emphasis in this study, however, is on domestically location-bound SMEs that internationalise actively in their home base, and in their own premises and environment. The focus is on companies with a strong international orientation and a global mindset. Furthermore, they can be classified as growth companies, and growth in new market areas is a strategic

choice. In addition to an international orientation and a global mindset, internationalisation also requires the ability and will to invest in and develop operations, processes and services on an international level.

For location-bound tourism SMEs internationalisation is very much dependent on the base of both tangible and intangible resources they possess, either alone or within a tourism system or destination. It could be argued that in this it differs from other industries, as in many cases an individual company's performance is based on the resources in its environment, and there is strong resource dependence within a tourism system. For instance, according to Smeral (1998), the ability of a specific area to attract tourists mostly depends on the stock of factors at its disposal, such as its original local natural, historical-archaeological and social resources, and its knowledge, capabilities, capital and infrastructure. Some of these factors are unique: they cannot be reproduced, transferred or replicated and they are linked to a specific site or to the culture of a specific area (Bonnetti et al. 2006, 114). From this perspective, according to Bonnetti et al. (2006), the resources of a specific area are its real source of advantage: the higher the respect for local specificities, the more sustainable is its competitive advantage. From an individual tourism company's point of view, again, the resource base consists of the company's own resources and the resource base of the tourism area. Additionally, Kotler, Heider and Rein (1993) note that even more important than the static existing resources are the favourable conditions emanating from a number of components and a whole set of factors, such as inhabitants, culture, historical heritage, infrastructure, location and anything else capable of increasing the overall value. Therefore, having a broad understanding of company resources may help in analysing company growth, innovation and success in the international tourism business.

Consequently, special attention is given in this study to the role of "pull" factors and the supply-side approach to the internationalisation of the tourism business. Pull factors, according to Weaver and Oppermann (2000, 124), are forces that stimulate a tourism product by "pulling" consumers towards particular destinations. Push factors, again, stimulate the demand for tourism, and include economic, social, demographic, technological and political factors. Pull factors are distinct from push factors as they are focused on the supply side of the tourism system rather than on demand. However, they are largely interrelated and, according to Weaver and Oppermann (2000, 69), should not be considered in isolation. In this study, however, in order to understand and analyse the inward nature of small-firm internationalisation it would seem useful to put the emphasis on company resources and the

production perspective, and consequently to turn the main focus on the pull factors of tourism.

The idea of viewing a firm as a set of resources points to one of the leading concepts in strategic management: *the resource-based view (RBV) of the firm* (e.g., Wernerfelt 1984; Barney 1991; Amit - Schoemaker 1993; Fahy - Smithee 1999). According to this theory, firms are viewed in terms of the unique bundles of tangible and intangible resources they own and control (Amit - Schoemaker 1993). These resources, again, could be seen as a source of competitive advantage and firm success rather than product-market combinations (Barney 1991; Galbreath 2005). The resource-based view has recently been adopted as a framework for analysing performance in international markets, focusing attention on international resources as determinants of firm success (Fahy - Smithee 1999; Galbreath 2004). The idea is that companies can obtain sustainable competitive advantage by possessing certain key resources, and deploying them in their product markets (Fahy - Smithee 1999). This theory seems to offer a fruitful basis on which to build an understanding of the internationalisation of tourism SMEs. The theory and its implications for the tourism industry are introduced and discussed in Chapter 3.

Furthermore, it could be assumed that the internationalisation of an individual company is very much dependent on the networks in which it operates. Easton (1992) regards networks as relationships and structures, and points out that the relationships between companies can create new opportunities, which in turn may provide an additional source of heterogeneity and transformation. Consequently, tourism networks could be regarded as company resources, and co-operation in various networks could be a source of innovation and sustainable competitive advantage in terms of internationalisation. The network theory of internationalisation emphasises the impact of business relationships upon the growth and internationalisation of firms (Johanson – Mattsson 1988; Johanson – Vahlne 1990; Cavusgil 1980; Mort – Weerawardena 2006). In this context theories of social exchange and interdependence rather than firm-specific advantages assume importance (Mort – Weerawardena 2006; Coviello – McAuley 1999). *Network approaches to internationalisation* and the concept of network embeddedness are discussed in Chapter 3.

The aim in this thesis is thus to contribute to theories of service internationalisation by focusing on the internationalisation of a specific sub-sector of services – location-bound tourism SMEs - and analysing service internationalisation in terms of the resource-based view (RBV) of the firm and network theories of internationalisation. In this the aim is to increase

understanding of the inward internationalisation of location-bound tourism SMEs and, furthermore, of the internationalisation of entrepreneurship.

## 1.5 The Structure of the Thesis

This research report consists of eight chapters. The introduction, Chapter 1, describes the background and the research area, defines the research gap, and gives the aim of the study – to analyse how location-bound tourism SMEs internationalise. It also positions the research in the tourism context.

Chapter 2 focuses on the tourism context and the special features of the industry, specifically tourism SMEs. The role of the public sector is discussed, as well as the tourism environment. Further, the concept of location-boundness is introduced and the spatial fixity of tourism services is analysed. The development of international tourism flows in Finland is traced in order to give a picture of the importance of the phenomenon under study.

Chapter 3 discusses the theoretical points of departure, introducing the theories on which the thesis is based and presenting the theoretical pre-understanding of the study. The theoretical framework derives from theories of service internationalisation, the resource-based view of the firm (RBV) and the network approach to internationalisation. Literature reviews of each background theory are presented.

Chapter 4 focuses on methodological issues with a view to justifying the methodological choices. The quality and trustworthiness of the thesis are also evaluated. Given the aim to achieve an in-depth understanding of the phenomenon in question – the internationalisation of location-bound tourism SMEs – qualitative research methodology was chosen. The empirical research data consist of 15 expert interviews and two instrumental case studies. The case descriptions are presented in this chapter.

Chapter 5 analyses the pre-requisites of internationalisation in location-bound tourism SMEs. These pre-requisites are based on company resources, which may be tangible or intangible. The conclusions are based on a combination of the theoretical pre-understanding and the findings of the expert interviews. This chapter provides the basis on which the research questions are addressed in terms of defining 1) the pre-requisites of internationalisation, 2) the internationalisation of the resource base of location-bound tourism SMEs, and 3) tourism networks, including embedded networks, as resources of internationalisation. The three background theories (Chapter 3) and the expert interviews (Chapter 5) constitute the main sources



of information in this study, the aim of which is to define and conceptualise the internationalisation of location-bound service SMEs.

Chapter 6 introduces and analyses the internationalisation patterns in two selected cases. The first one represents a tourism destination in Lapland and the second one a rural tourism enterprise in Eastern Finland. Both cases represent target-minded tourism businesses with growth intentions and long experience in international tourism. The role of the case studies in this thesis was to verify the conclusions drawn from the theoretical background and the expert interviews. Given that the main findings of the study are based on the theoretical background and the expert interviews, the case studies could be considered instrumental in nature (cf. Stake 1995).

The theoretical and empirical insights are drawn together in Chapter 7 and the concept of location-bound service-company internationalisation is presented. A model of internationalisation is suggested, and illustrative types of tourism SMEs are distinguished.

Finally, Chapter 8 discusses the results of the study, points out the theoretical and managerial contributions of the thesis, and suggests directions for future research.



## 2 CHARACTERISTICS OF THE TOURISM INDUSTRY

This chapter describes the special features of the tourism industry, the aim being to set the study in this specific context. First, the various definitions of the industry and the industry environment are introduced. Secondly, the characteristics of tourism are discussed from different perspectives: the role of the public sector and the importance and special features of small and medium-sized enterprises within the tourism business. The characteristics of location-bound tourism services and spatial fixity are also analysed. Thirdly, the focus turns to the development of international tourism flows in Finland, and to the position of the tourism business within international trade. The chapter ends with a discussion of tourism as a research area and the need to understand the connection between the knowledge fields of tourism and international business.

### 2.1 Defining the Industry

Tourism is said to be the world's largest industry (e.g., Hall - Coles 2008, 19; UNCTAD 2007; Shaw - Williams 2004, 8), linking a series of interwoven activities involving the provision of goods and services, from accommodation, transport and entertainment to construction, agriculture and fishing. It comprises a wide diversity of actors from global transnational corporations to extremely small enterprises, thereby potentially enabling market participation on a number of different scales and levels (e.g., Shaw - Williams 2004, 8; UNCTAD 2007).

One of the challenges facing researchers is to define "tourism", "travel and tourism" or "the tourism industry". Unlike most economic activities, tourism has no fixed definition (von Friedrichs Grängsjö 2003). It has been stated that tourism is best understood as a multi-scalar economic activity that spans geographical levels (global, regional, national, local) and defies geo-political boundaries (Timothy 2006; Mosedale 2008, 150). Accordingly, Milne and Ateljevic (2001, 371-372) define it as follows: "Tourism, in simple terms, must be viewed as a transaction process which is at once driven by the global priorities of multinational corporations, geo-political forces and broader forces of economic change, and the complexities of the

local – where residents, visitors, workers, governments and entrepreneurs interact at the industry ‘coal-face’”.

Shaw and Williams (2004, 8-9) explain tourism as a complex set, or bundle, of economic, political, socio-cultural and environmental processes related to tourist activities. According to them, tourism activities are mixed in with services provided to local markets. They conclude that “drawing a hard line around the tourism sector is, therefore, a largely futile exercise, and it is more useful to recognize that it has blurred boundaries”. (Shaw - Williams 2004, 9-10). Similarly, Weaver and Oppermann (2000, 3) put it in a broad stakeholder context and give the following definition: “Tourism is the sum of the phenomena and relationships arising from the interaction among tourists, business suppliers, host governments, host communities, origin governments, universities, community colleges and non-governmental organisations, in the process of attracting, transporting, hosting and managing these tourists and other visitors”.

The definition of *travel and tourism*, introduced by the World Tourism Organisation (WTO 1992), includes the following principal terms: visitors, tourists and same-day visitors. “Visitors” refer to all travellers who fall within agreed definitions of tourism, “Tourists” are visitors who stay overnight at a destination, and “Same-day visitors” could be categorised as excursionists, or visitors who arrive and depart on the same day (Middleton - Clarke 2001, 5). According to the WTO (1992) definition, “tourism comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes”.

It has also been stated that the tourism industry as such does not exist (Keller 2004). Similarly, Hall and Michael (2007, 18) note: “However, when an industry is said to come under the *tourism* label, there is instant confusion and ambiguity; for, in reality it is defined by misnomer”. They suggest that an *industry* as an economic entity is defined by the commonality of its production processes for a group of similar firms, whereas the *tourism industry* is defined in terms of the travel activity of consumers. However, the process of travelling is not always connected to leisure and recreation, and some tourism business activity may therefore involve tourism and some may not. (Hall - Michael 2007, 18)

Indeed, most definitions of tourism take demand as the starting point, and studying it from the supply side is a more unusual approach (von Friedrichs Grängsjö 2003). For example, according to Keller (2004), tourism can only be defined in terms of demand, and it is a sector of the economy that exists only in the presence of visitors consuming a bundle of tourism services. The sociological and anthropological perspectives also consider tourism from the

demand side, emphasising the characteristics of different customer segments (Smith 1988).

According to Smith (1988), however, a more appropriate definition of tourism as an industry would have a supply-side emphasis. He thus gives the following definition: “Tourism is the aggregate of all businesses that directly provide goods or services to facilitate business, pleasure and leisure activities away from the home environment.” (Smith 1988, 180) Weaver and Oppermann (2000, 47) define the tourism industry as “the sum of the industrial and commercial activities that produce goods and services wholly or mainly for tourist consumption”.

Davies (2003), on the other hand, describes several features of tourism as an industry. First, it comprises firms that jointly co-ordinate goods and services from different industries in order to meet tourists’ needs. Secondly, it is not one industry, but a compilation of several, connected by a common, but not exclusive, interest in supplying tourists. In fact, firm and industry boundaries are not well defined amongst tourism suppliers. Tourism also differs from conventional industries that are based on technological substitutability with high degrees of cross elasticity of supply among homogeneous products. (Davies 2003, 101)

Furthermore, “tourism” does not appear as a formal industry in national accounts classifications, consisting as it does of many different sectors. According to the former Finnish Ministry of Trade and Industry<sup>1</sup>, there is no explicit international definition of the sectors in the tourism business, which makes it difficult to quantify the size and importance of its assets, revenue and employment. (Ministry of Trade and Industry 2004)

The Tourism Satellite Account<sup>2</sup> recommends the following methodological framework for classifying tourism services (see Table 1, Ministry of Trade and Industry 2004):

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<sup>1</sup> Now the Ministry of Employment and the Economy

<sup>2</sup> The Tourism Satellite Account (TSA) is a statistical system describing the economic impact of tourism in a versatile and comprehensive manner. It was developed through extensive international co-operation, and was approved by the UN, the WTO (World Tourism Organization), the OECD and the EU in 2000 (Statistics Finland 2008).

Table 1 Classification of Tourism Services (Ministry of Trade and Industry 2004)

1. Accommodation services (hotels, lodging and second homes)
2. Food and beverage serving services
3. Passenger transport services
4. Travel agency, tour operator and tourist guide services
5. Cultural services
6. Recreation and other entertainment services
7. Miscellaneous tourism services (insurance, finance, etc.)
8. Connected products

Additional activities that may be critical to the success of the tourism industry include financial services, telecommunications, health services, security, energy and water supply, and law and order. Tourism could therefore be characterised as a heterogeneous market sector consisting of several product areas (Wyllie 2000, 62). Public goods are often part of the product, too – not just beaches or natural features, but also views and vistas (Davies 2003).

In conclusion, there is no internationally accepted, explicit definition of the tourism industry (e.g., the Ministry of Employment and the Economy 2008), and many sectors of the economy benefit from it. The definitions of tourism introduced by Davis (2003), Shaw and Williams (2004) and Weaver and Oppermann (2000) are applied in this study, and the industry is considered to comprise networks of companies representing various sub-sectors jointly co-ordinating services and goods in order to meet customers' needs and requirements (e.g., Davies 2003). It is seen as a complex set of economic, political, socio-cultural and environmental processes related to tourism activities (Shaw – Williams 2004). As the focus of the study is on the resource base and the networks of tourism companies, the supply-side of the industry is emphasised by analysing the phenomenon from the producer's perspective.

Furthermore, in this study the co-operation and the networks are regarded as necessary strategic resources of tourism SMEs: it could be argued that without them the tourism business would not exist. Indeed, the industry is diverse, fragmented and dynamic, and it can be studied from many perspectives, and at different levels (Hall - Jenkins 1995, 7).

## 2.2 The Industry Environment

Competitiveness within the tourism industry cannot be controlled by individual organisations: it involves territories that, through the arrangement

and multi-level co-ordination of their resources, become supply systems and tourism destinations. This shifts the focus to *co-operation and networks*, both formal and informal, and partnership management in the search for a competitive edge and better product quality. (Lazzeretti - Petrillo 2006) Although tourism networks are discussed in more detail in Chapter 3 of this thesis, it is useful at this stage to shed light on the multiple environmental layers and the embeddedness of tourism firms in their destinations.

In tourism the organisational dimension often extends beyond the private sector to government agencies or other bodies with jurisdiction over the infrastructure (Hall - Coles 2008). Figure 2 illustrates the multiple layers of the macro- and micro-environmental analysis of tourism, setting the initial focus on a specific product, firm, destination or even industry (Hall - Coles 2008, 10).

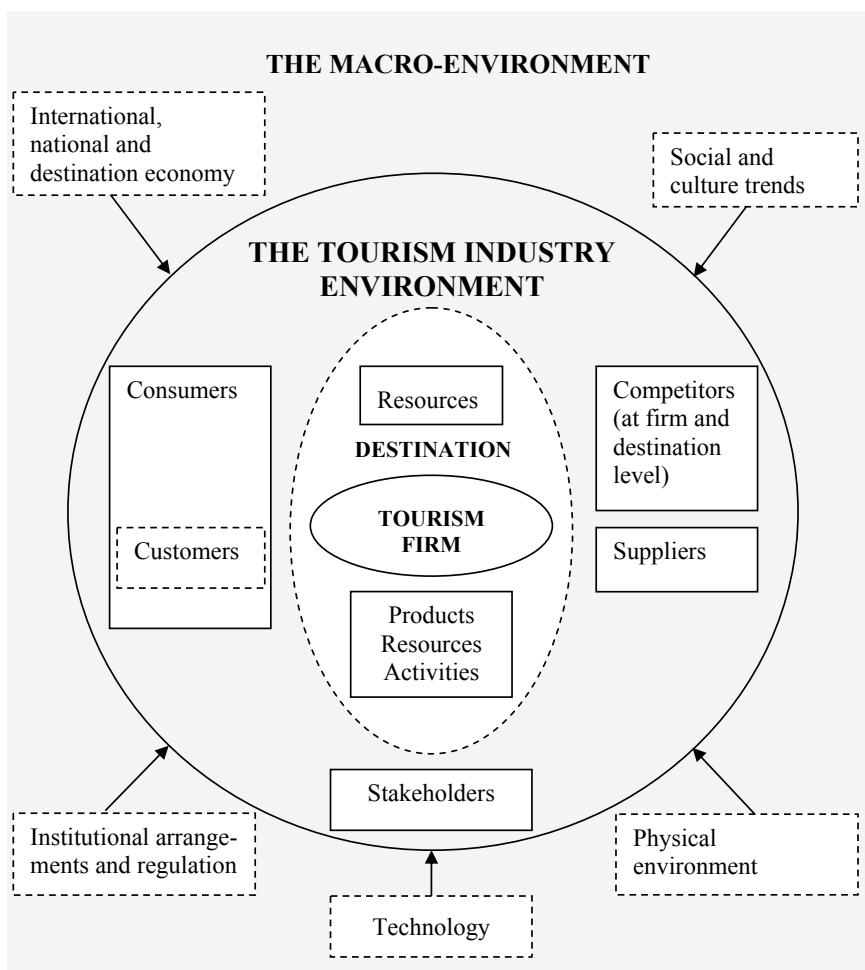


Figure 2 The International Business Environment of Tourism (Hall - Coles 2008, 10)

As Hall and Coles (2008, 10) point out, the *tourism industry's environment* is the core of the firm's business environment and comprises competitors, suppliers and other stakeholders such as government agencies, non-government organisations, interest groups and consumers. The tourism enterprise and its immediate business environment, again, are influenced by a number of macro-environmental factors – such as changes in international regulatory regimes, new transport technologies, and economic and demographic trends. These factors are regarded as critical determinants of future threats and opportunities that could have an impact on costs, product demand and, consequently, an individual tourism company's relative competitive position (Hall - Coles 2008, 11).

Tourism production involves a *co-operative collective body as well as individual competition* on the local or regional level (von Friedrichs Grängsjö 2003; von Friedrichs Grängsjö - Gummesson 2006). Competition may have many features in common with other industries, but there are also some distinctive aspects: the tourism product is dependent on the production and consumption of multiple elements. From the tourist's point of view, a tourism destination offers a unified product in relation to other destinations, but on the other hand, within the destination there is competition between the different elements.

A co-opetitive relationship is claimed to be the most mutually advantageous, however. Co-opetition means that competitors may have a competitive and a co-operative relationship at the same time. (Bengtsson - Kock 2000) According to Bengtsson and Kock (2000), the closeness of the activities to the buyer seems to matter in relationships involving simultaneous cooperation and competition, in that firms tend to cooperate more frequently when the activities are carried out at a greater distance from buyers, and to compete when they are closer. The driving force behind this phenomenon is the heterogeneity of resources, as each competitor holds unique resources that sometimes are a source of competitive advantage and sometimes are best utilised in combination with other companies' resources. Running a tourism enterprise in spatial fixity involves a combination of autonomy with inter-organisational interdependency. Competition has to be in balance against co-operation. (von Friedrichs Grängsjö 2003)

It should be noted that so-called far-reaching activities (UNCTAD 2007) come together in the production and consumption of tourism. The backward and forward linkages of the core business would therefore seem to be another issue of interest. A core activity within the tourism business – such as hotel accommodation – establishes backward linkages with suppliers of the inputs needed for immediate consumption, such as meat and fish, dairy produce and vegetables, and beverages. Backward linkages also establish longer-term



relationships with companies such as construction firms and manufacturers of equipment. When these goods are produced locally they may have a significant effect in terms of improving the value-added in the host country through multipliers associated with the value chain, as well as through consumption multipliers. Key forward linkages include the production of goods and services used by tourists, such as handicrafts and other articles for purchase, musical performances, spa and health treatments and the employment of tour guides. The more local forward and backward linkages there are, the more extensive is an individual country's tourism economy. It has been suggested that improvements in the depth and added value of a well-managed tourism strategy may also translate into economy-wide improvements. (UNCTAD 2007)

Tourism is a business sector that is highly influenced by globalisation (Shaw - Williams 2004). Tourist activity in general has an international character almost by definition, and according to Quer et al. (2007) this is why tourism is totally imbued with the phenomenon of globalisation. The smallest companies in the field may also face the challenges of globalisation, and may also benefit from it. Moreover, the fact that in the case of tourism the consumer comes to the producer, rather than the other way round, means that even the smallest transaction is part of the global economy, as everything that is sold to a tourist represents an export activity. This, again, offers major opportunities to small enterprises that would otherwise find it difficult to break into the global supply chain (UNCTAD 2007).

At the same time, tourism demand is in a developmental stage resulting from changes in leisure attitudes, and in the social and age structure of travellers, economic change, technological innovations and the new awareness of security. These behavioural trends and developments have implications for the tourism industry worldwide, which has to anticipate the determinants of future customer behaviour and meet the changing requirements of increasingly international customer segments (Petermann - Revermann - Scherz 2003).

Furthermore, it could be argued that the development of a tourism system is dependent on the effective utilization of ICT technologies. Due to market globalisation, higher levels of technological innovation, increasing supply differentiation and demand complexity, the competitive environment in the international tourism market has become increasingly uncertain, dynamic and turbulent (Morvillo et al. 2006). On the other hand, the application and dissemination of ICT technologies may effectively support new processes of integrating firms and services (Lazzaretti - Petrillo 2006). According to Matlay (2004), the widespread adoption of the Internet as a business platform has transformed the global economy, and has promoted the expansion of e-

business throughout the world. Recent research has shown that the tourism industry is undergoing a rapid and radical change from traditional means of trading with the increasing volume of e-business, and it is inevitable that it will also be significantly affected by the ongoing digital revolution (Buhalis 2003).

The industry therefore needs to adapt to the opportunities offered by the emerging Digital Economy (Buhalis 2003). According to Matlay (2004), ICTs offer small tourism firms benefits in terms of business efficiency, product and service differentiation, cost reductions and speed of operational response. Thus the need to achieve sustainable competitive advantage is driven by important demand and supply factors. On the demand side, sophisticated, knowledgeable and demanding customers are increasingly using the Internet in their search for flexible and specialised leisure destinations, while on the supply side, tourism SMEs are increasingly searching for innovative e-marketing tools and using the Internet. According to Matlay (2004), "It is mainly a question of "when" rather than "whether" small tourism firms would adopt e-business strategies alongside or instead of their more traditional business strategies". Consequently, it is obvious that small tourism companies need to adopt and utilise ICT in order to survive and prosper in a rapidly changing global economy, to improve their efficiency, enhance their products and services, and thus to better serve their chosen target markets (Matlay 2004). Morvillo et al. (2006) point out that ICT also contributes to differentiating destinations, making them more visible and, consequently, more visited by tourists. It therefore offers substantial opportunities for building and enhancing the competitive advantages of destinations through the creation of virtual communication and relationship environments (Morvillo et al. 2006).

Furthermore, tourism firms are embedded in tourism destinations and their business environments, comprising different scales of public governance from the local to the international (Hall and Coles 2008, 10). Accordingly, as Michael (2007, 33) notes, tourism should be considered in the context of regional development policy, in which micro-clusters are identified as a development mechanism that fosters the ability to build a local level of specialisation and competitive advantage for a small destination.

Thus, the role of the public sector is crucial in the development of the tourism sector in terms of initiating strategies that enable economy-wide improvements, private investments and growth via an improved business climate and market discipline (adapted from UNCTAD 2007). Seeking a better understanding of the governance process surrounding tourism development is one important and often neglected field of research (Svensson et al. 2006, 92). Given the focus of this study – to understand the

internationalisation of location-bound tourism SMEs - consideration should be given to the role of the public sector in this context. Consequently, the specific role of public actors in developing the tourism industry is discussed next.

### 2.3 The Role of the Public Sector in Tourism Development

According to Hall and Michael (2007, 18), the business of tourism is based on the existence of destinations, which are by definition set in particular locations and impose their effects on local communities, and are differentially accessible to consumers in different source regions. They also point out that municipal and local authorities have the responsibility to act as initiators of regional tourism planning with the resources the local communities can provide. Svensson et al. (2006, 92) note that the tourism industry is in many respects a highly political business in that governments at different levels often express both hope and ambitions concerning tourism, and the role and scope of governmental action may be extremely important. Tourism businesses depend on the actions of the public sector for setting favourable framework conditions for development (Nordin - Svensson 2005, 160).

Tourism is often identified as a future growth industry, and destination development has emerged as a key issue in local and regional development (Svensson et al. 2006, 83). Therefore, tourism is closely intertwined with the interests and functions of the state (Shaw - Williams 2004, 40). Although it is, in most cases, regarded as a private-sector activity, public actors from the international level down to the government level, and even in small towns and regional areas, have adopted a progressively more active role in its development (Hall 2000, 135). Svensson et al. (2006) thus introduced the concept of the *governance perspective*, implying that neither government nor business is in charge of the process, but that interdependency between them may be crucial. They base their argument on three assumptions: 1) there is a multi-actor complexity in the destination that needs to be taken into account; 2) it is likely that certain resource dependencies between the actors involved are important dynamic factors of the process and need to be understood; 3) the public-private dimension of the destination may be important, and the formal and informal relationships between local government and industry may have a considerable effect on destination development (Nordin - Svensson 2005; Svensson et al. 2006).

Indeed, in many parts of the world governments have an active role in tourism development because the complexity of the product makes it

unlikely that private markets will meet national policy objectives (Wanhill 2004). According to Wanhill (2004), the market mechanism and governance should not be seen as mutually exclusive activities, but rather as complementary: for example, investment incentives are policy instruments that may be used to correct market failures and to develop partnerships between the public and private sectors. Consequently, there are a number of identifiable roles in the involvement of the public sector in tourism: coordination, planning, legislation and regulation, entrepreneurship and stimulation (Hall 2000, 135).

*Coordination* is necessary in order to avoid the duplication of resources between the various public bodies and the private sector, as well as to develop effective tourism strategies. One of the main challenges for governments is to bring the various organisations and agencies together to work towards common policy objectives (Hall 2000, 135). Furthermore, tourism development needs *planning*, on both the national and the regional level. On these levels this involves development politics, structures, facility standards, institutional factors, and all the other elements necessary to its development and management (Inskeep 1994, 3). The planning covers many areas, such as development, infrastructure, land and resource use, promotion and marketing. It is recognised as an important element in tourism development, but still, according to Hall (2000, 136), the following of a plan or strategy does not in itself guarantee appropriate outcomes for stakeholders. Indeed, they suggest that one of the major problems in public tourism planning concerns the extent to which tourism-specific agencies, which usually have a very limited legislative base of responsibility, have the authority to direct other government organisations to meet tourism-specific policy goals.

Furthermore, governments have a number of *legislative and regulative* powers that directly and indirectly affect tourism, such as authority over passport and visa matters, and environmental and labour-relations policies (Hall 2000, 136). They have also traditionally had an *entrepreneurial function*: not only do they provide the basic infrastructure but they may also own and operate tourist ventures, including hotels and travel companies. They have also been involved in tourism promotion through marketing ventures, the development of transport networks, and national airline and rail systems. However, according to Hall (2000, 136), the entrepreneurial role of governments in tourism is changing in a climate in which less public-sector intervention is sought. This means increasing public-private arrangements in tourism-related projects, and development on the basis of commercial interests rather than the public good.

The public authorities also have an essential role in *stimulating tourism development*. This may take the form of financial incentives - such as low-interest loans or allowances - or of sponsoring research for the general benefit of the tourism industry rather than for specific organisations or associations. Moreover, the public sector's role in *marketing and promoting* tourism destinations, and in generating tourism demand, could be considered very important (Mill - Morrison 1985; Hall 2000, 138). One of the special features of the public actors in tourism promotion is that they have only limited control over the product they are marketing as they do not own the goods, facilities and services that make up the tourism product (Pearce 1992).

Concurrent with the need for an effective tourism policy organised by a network of public actors is the interplay between the public sector and private tourism companies, which is crucial in developing the tourism industry in a specific area. As Wanhill (2004) puts it, "Of critical importance to the progress of tourism is the position of SMEs, which dominate the operational aspects of the industry and can act, in many ways, as barriers to sustainable improvements of the product". He outlines an action programme for creating the right business environment in which SMEs can improve their quality, diversity, competitiveness and profitability. Moreover, according to Thomas (2000) and Komppula (2004b), the effectiveness of various dimensions of tourism policy would be enhanced if more attention were given to understanding small tourism businesses, the development of which is very much dependent on the support and investment of the public sector (Komppula 2000). Small enterprises in the tourism sector are acknowledged to play a specific role in achieving social, environmental and economic goals (e.g., Dewhurst - Thomas 2003; Johns - Mattsson 2005; Thomas - Thomas 2006). It has been suggested (e.g., Thomas - Thomas 2006; Bramwell - Lane 2000) that if local tourism policies are to be effective, key stakeholders – including small enterprises – need to be more than the recipients of policy decisions. In fact, they need to be part of the deliberative process that shapes interventions. According to Thomas and Thomas (2006), the distinction between locally dependent businesses – as typical tourism businesses are – and other micro businesses is valuable in terms of explaining why some owner-managers seek to influence the local policy agenda, whereas others do not.

It is important to realise that small, medium- and micro-sized companies make up the numerical majority of tourism businesses, and indeed, they characterise the tourism industry (Thomas 2004; Jones - Haven 2005). The special characteristics of tourism SMEs, and the role of the micro-sized companies in the internationalisation of the industry, are described next.

## 2.4 SMEs in the Tourism Industry

The tourism sector has a *dual economic structure* (e.g., Keller 2004; Meyer 2004). It involves large companies – hotel chains, airlines and tour operators - that organise travel services in an industrial manner and apply global international marketing strategies. These companies are relatively few in number, but they account for more than half of the total turnover (Keller 2004). Although the main developments in the industry tend to be dominated globally by large firms, the tourism industry is numerically dominated by small enterprises (e.g., Szivas 2001; Koh 1996; Page et al. 1999). Moreover, on the general level small, medium-sized and micro enterprises (SMEs)<sup>3</sup> are socially and economically important in that they represent 99 per cent of all enterprises in the EU, provide around 65 million jobs and contribute to entrepreneurship and innovation (European Commission 2005). Micro-businesses constitute 95 per cent of businesses operating in tourism, and generate one third of the total revenue (Middleton 2001). Shaw and Williams (2004, 55) propose two polar models of firm organisation within the tourism business: the trans-national company and the micro-firm. These should be understood as being located on a continuum extending from the smallest part-time one-person enterprises through small family firms, and independent small and medium-sized firms, to large nationally based companies and trans-nationals with a global reach.

In Finland, too, the tourism industry is characterised by small and micro-scale enterprises (Ministry of Trade and Industry 2004), which typically operate in local contexts. In 2006 there were 24,092 enterprises that could be regarded as typical tourism businesses (Ministry of Employment and the Economy 2008). Rural tourism in particular is characterised by part-time entrepreneurship, and tourism is the main source of income for only approximately 25 per cent of small and micro-sized enterprises. Around 40 per cent of these companies are estimated to be “part-time entrepreneurs”, their main occupations being farming and forestry. (Peltonen et al. 2004)

According to Shaw and Williams (2004, 55), there are various reasons for the existence of small and micro firms in the tourism industry. First, it is a sector that is relatively easily accessible, with low entry barriers in terms of

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<sup>3</sup> The standardised EU definition of small and medium-sized companies is used in this thesis. It was adopted in 2005 and is widely used in Finland. According to this definition, medium-sized enterprises have between 50 and 250 employees, and the annual turnover does not exceed 50 million euros, or the annual balance-sheet total is less than 43 million euros. Small enterprises, again, employ between 10 and 49 people, and their annual turnover does not exceed 10 million euros, or their annual balance-sheet total does not exceed 10 million euros. Micro-firms employ fewer than 10 employees, and neither their turnover nor the balance-sheet total exceeds two million euros. (European Commission, 2005).

skill requirements: there is thus a high start-up rate given the limited amounts of capital, skills and experience required to establish many types of micro-firm related to tourism (Shaw - Williams 2004, 56). Secondly, the nature of the tourism product (comprising a combination of different services) and the vertical disintegration of production have created opportunities for micro-firms, whether serving consumer markets or intermediate markets. Thirdly, the majority of the micro-firms are family businesses, which again has a major implication in terms of ownership and control. One of the reasons for establishing a micro-firm may be to create jobs for family members (Sharma et al. 1996; Shaw-Williams 2004, 56), and the return for owners may be social as much as material (Middleton 2001; Roberts – Hall 2001). The motivation for going into the tourism business is not necessarily profit and may be related to other personal, lifestyle or community goals (Middleton 2001; Roberts - Hall 2001). An increasing number of studies are identifying a complex combination of lifestyle factors and feelings of independence and status as motivating forces for starting a micro-tourism business (Shaw - Williams 2004, 55; Ateljevic - Doorne 2000). Fourthly, the location-boundness and the intersection of spatial fixity and small-scale niche or localised markets also favour micro-firms (Shaw - Williams 2004, 55). For example, the motives for starting rural tourism businesses in Eastern Finland are in many cases related to the existence of premises that offer an opportunity to earn extra income and/or employ one or even more family members (Komppula 2004a, 125). Micro-firms also benefit from the “small is beautiful” ideology in economic policy, as small firms are seen as the “seed corn” for growth companies, and as sources of innovation (Shaw - Williams 2004, 55).

Nevertheless, according to Erkkila (2004), tourism SMEs arguably offer some of the most highly desirable tourist products and services to holiday and business travellers, especially in rural and emerging destination areas where they are often family-owned, and develop, thrive and contribute to regional development. According to Middleton (2001), small businesses, at best, reflect most of the features and characteristics that are unique to the tourism destinations in which they operate. Furthermore, Middleton (1998a) argues that the sector has vibrancy and originality and can play a vital leading role in delivering excellence with the personal touch that big businesses cannot match.

In sum, tourism SMEs are predominantly small and micro-firms, family businesses and owner-managed enterprises, pursuing both commercial and lifestyle goals (Foley - Green 1989; Hornaday 1990). It could be argued that an individual micro-enterprise is an insignificant player in international and domestic tourism, but collectively such companies provide the bulk of the

essentially local ambience and quality of visitor experience at destinations on which the future growth of international and domestic tourism depends (Middleton 2001).

## 2.5 Location-Boundness and Spatial Fixity in Tourism Services

There are several distinctive features in the tourism industry that play a major role in shaping its production and consumption. One of them is the fact that in most cases *the tourism business is dependent on location factors*, which act as determinants of a region's competitiveness. Local dependence takes many forms, and incorporates production-related and consumption-related factors. The supply of reasonably priced and trained labour and access to nature-based facilities could be mentioned as examples of production-related factors, whereas concern about attracting the right kind of visitors is consumption-related. (Thomas - Thomas 2006)

The tourism business is therefore strongly characterised by location-boundness and spatial fixity, which may be highly significant in the context of internationalisation. According to Gordon and Goodall (2000, 292), it interacts with the place characteristics, and is both place-shaped and place shaping. The places are complex mixes of the material objects produced by past investments in facilities, such as piers, marinas or promenades and parks, various forms of tourism and non-tourism companies, host communities, the local state and various tourism and non-tourism practices. Over time these places develop identities and become more than just centres of production (Shaw – Williams 2004, 186). The spatial tradition emphasises the production of tourism-development plans that are based on the natural resources of a region and on the capacity or limitations of sites to withstand the tourism infrastructure (Hall 2000, 28).

Tourists essentially consume tourism services at particular sites, although it has been acknowledged that the anticipation before and recollection afterwards are part of the total experience. Spatiality, however, carries a number of implications (Shaw - Williams 2004, 22): a strong possibility of spatial polarisation, the need for host-guest relationships, direct environmental impacts, and the need to travel to the tourism site.

In most industries the effect of local-level and spatiality issues on innovations and business development may be insignificant. This is not the case with tourism, however, in that local knowledge may play a major role in the configuration and evolution of the destination as a product (Guia et al. 2006.). Tourism-dependent industries always operate in a specific economic environment, usually located in the vicinity of existing natural, cultural or



“manmade” attractions. The greater the attraction and the wider its appeal, the more developed will be the products and services offered by the destination. In any case, the opportunities for product development are limited by the existence of such attractions. (Keller 2005)

Cooper et al. (1998, 97) note that as the recipient of tourism the *tourism destination* is a key element of the system providing the focal point for tourism activity. According to them, the quality and mix of attractions, infrastructure and superstructure on offer provide the “pull” factors. In accordance with the resource- and knowledge-based approaches, the ability of a specific area to attract tourists mostly depends on the stock of factors at its disposal, i.e. its original natural, historical-archaeological and social resources (Smeral 1998). These resources may be the real source of competitive advantage, which is more sustainable the higher is the respect for local specialities. Very often these factors are unique, they cannot be reproduced, and they are linked to a specific site, nature or area. (Bonnetti et al. 2006)

Capone (2006) proposes a general tourism local system (TLS) model for analysing a tourism destination, which investigates a site as a system of actors and probes into the composition of the local supply. The existence of resources constitutes the pre-requirement for TLS. These resources may be tangible or intangible, and may, according to Lazzaretti (2004, 9), be divided into the following categories: artistic (monuments, architectural works), cultural (typical arts and crafts, city atmosphere, exhibitions and events) and environmental (urban and hillside landscapes, gardens, parks, flora and fauna). Tourists choose a destination according to the attractions it offers and the facilities it provides, such as transport to and from it, accommodation, restaurants, and the physical setting. The tourist’s decision to purchase a trip to a certain destination is largely the result of the marketing strategies adopted by the various actors, whereby they either individually or together market the destination and the activities and facilities it can offer. Thus, as von Friedrichs Grängsjö (2003) argues, in terms of tourist destinations, a unified, holistic organisational perspective is of great significance, not only from the perspective of the customer (the tourist), but also for the individual entrepreneur (von Friedrichs Grängsjö 2003).

Moreover, there are exogenous factors such as geographical location and the potential of the source markets that influence accessibility to the destination, and thus the transport and time costs. There is little that an individual tourism company can do about these factors. It can, however, try to take the fullest possible advantage of the existing exogenous growth potential of destinations through the introduction of new packages of services

and processes and the use of marketing organisations within these set limits. (Koch 2004)

The next section describes the development of international tourism flows, the aim being to illustrate the importance of the phenomenon under investigation.

## 2.6 The Development of International Tourism Flows in Finland

International tourism is a rapidly growing industry, and will remain such, with many opportunities for profitable gain (UNCTAD 2007). Tourism is also an international economic activity of considerable importance, with associated implications for international business and international relations. Consequently, its economic dimensions are significant on an international level (Hall - Coles 2008, 2-4). Travel and tourism account for 12 per cent of total world exports, and are expected to grow at a rate of 4.6 per cent yearly in the immediate future. According to the World Tourism Organization (WTO 2008), the growth in international tourism arrivals significantly outpaces the growth in economic output as measured in Gross Domestic Product (GDP). International tourism flows are projected to grow steadily over the next few decades: according to the worldwide long-term forecast, international arrivals are set to show an annual growth rate of 4.1 per cent between 1995 and 2020 (WTO 2005).

In Finland – as in many other countries – growth in the tourism business is based on increasing flows and growing numbers of foreign tourists. Consequently, the impact of globalisation may force many domestically operating tourism companies to develop their capabilities and international know-how.

Tourism development in Finland comes under the Government's decision-in-principle of December 21, 2006 (Ministry of Trade and Industry 2006a) on Finnish tourism policy, and the National Tourism Strategy, 2006 (Ministry of Trade and Industry 2006b). The main promotional responsibility rests with the Ministry of Employment and the Economy, and The Finnish Tourist Board is in charge of promoting Finnish inbound tourism and developing tourism services in Finland. Tourism development is linked not only to economic policy, but also to regional, employment, transport, educational research, the culture, and environmental and rural policies (Ministry of Trade and Industry 2004; Ministry of Trade and Industry 2006b).

The tourism industry has growth potential in Finland, and so it is treated and promoted as an export growth sector by the Ministry of Employment and

the Economy. The national tourism strategy defines the quantitative and qualitative objectives of the Finnish tourism policy up to the year 2020 (Ministry of Trade and Industry 2006b, see Table 2):

Table 2 Quantitative Objectives of Finnish Tourism Policy up to the Year 2020 (Ministry of Trade and Industry 2006b)

	<b>Overnights 2020 (2005)</b>	<b>Revenue 2020 (2005)</b>	<b>Employment 2020 (2005)</b>
Domestic Tourism	19.8 million (12.7)	6.5 billion euros (3.6)	
Inbound Tourism	9.3 million (4.5)	6.4 billion euros (2.7)	
Total	29.2 million (17.2)	12.9 billion euros (6.3)	207,000 (125,000)

There are also a number of regional organisations in Finland making contributions to tourism development both regionally and locally. Local and regional players hold the primary responsibility for the regional development. The Regional Councils are examples of public-sector organisations that are responsible for regional development as well as for drawing up and implementing the regional EU Structural Fund Programmes. Another example is the system of Employment and Economic Development Centres (TE Centres) and their business departments, which provide advice, finance and development services for tourism SMEs at different stages of their life cycles. The Rural Departments of the Economic Development Centres are responsible for developing rural industries and businesses, and for enabling them to adjust to a changing society. In addition to these are various trade associations promoting the tourism business either domestically or internationally, such as The Association of Finnish Travel Agents and the Association of Regional Tourism Organisations. The Association of Regional Tourism Organisations - VTOF - is an umbrella organisation and trade association representing the regional organisations. It has 25 full members throughout Finland, organizations of different types such as associations, Regional Councils and limited-liability companies operating as regional tourism bodies (Ministry of Trade and Industry 2004; Suoma ry. 2009).

Tourism is a young industry in Finland. It is nevertheless a growing business and has been expanding steadily during the past few decades. The attraction of Finland for foreign tourists intensified rapidly in the early 1970s. A major improvement in terms of international marketing was the

setting up of the Finnish Tourist Board in 1973. It was established under the former Ministry of Trade and Industry to promote tourism in Finland, and is now operating under the Ministry of Employment and the Economy. It is allocated a special appropriation from the State budget to finance its operations. Its main targets are: 1) to promote tourism in Finland, 2) to govern the market information and distribute it to the Finnish tourism business, and 3) to promote product development and product quality within the industry (Finnish Tourist Board 2008).

According to the Tourism Satellite Account in Finland 2007 (TSA), which analyses the significance of tourism to the Finnish economy, €10.2 billion was spent on tourism in the year 2006, including both domestic and foreign demand. International demand represents approximately 27 per cent of the overall amount of €2.8 billion. Furthermore, the added value provided by tourism amounted to €3.4 billion, which represents 2.4 per cent of the Finnish Gross National Product (Ministry of Employment and the Economy 2008).

The number of foreign visitors (registered overnights) to Finland in 2007 was 5.7 million, which was seven per cent higher than in the previous year. Most of them came from Europe, the main countries of origin being Russia, Sweden, Estonia, Germany and the United Kingdom. As in previous years, the highest number of foreign visitors came from Russia and the second highest from Sweden. There was strong growth in the number of visitors from Russia, where tourism to Finland increased by 19 per cent from the year before. Forty percent of the visitors to Finland were on a leisure trip, and twenty-nine per cent came on business. Twelve percent, again, came to visit friends and relatives. Foreigners stayed an average of 4.4 days in the country, and spent €287 per visit. This figure is four per cent higher than the year before. (Finnish Tourist Board 2008)

Figure 3 (Finnish Tourist Board/Statistics Finland, Border Interview Survey 2008) illustrates the development and shows the number of foreign tourists in Finland from five main countries of origin during the years 2003-2007. Russia was a considerable, constantly growing market area during that time period. Moreover, the number of Estonian visitors grew by 66 per cent in 2004 compared to the previous year, which was mainly attributable to Estonia's EU membership and the easing of travel restrictions. The growth in the numbers of Estonian travellers has continued, reaching 12 per cent in 2007, for example. Appendix 1 shows the number of foreign visitors to Finland from 20 main countries of origin. (Finnish Tourist Board 2008)

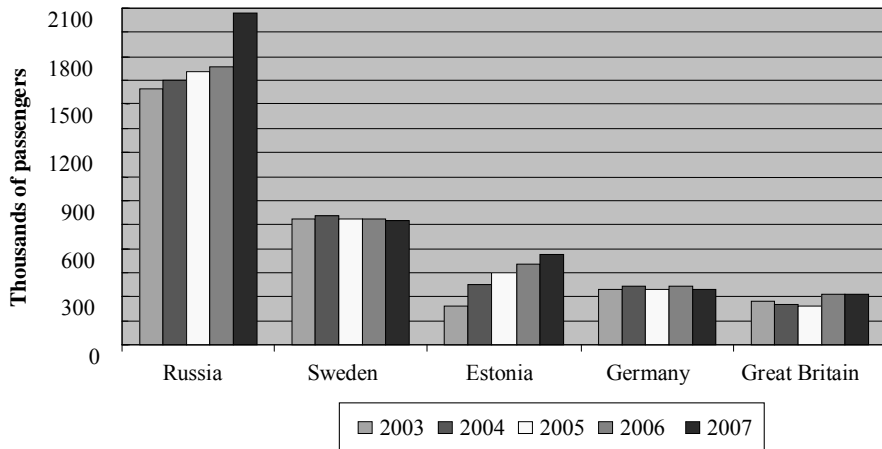


Figure 1 Foreign Tourists in Finland from Five Main Countries of Origin (Finnish Tourist Board 2008).

The statistics clearly indicate that the flow of incoming tourism has increased steadily in Finland during the last few years, and this is expected to continue in the future (Ministry of Trade and Industry 2006). The country's image, joint marketing operations, the role of the public authorities and the development of tourism destinations have aroused interest in Finland among foreign travellers.

Consequently, the Finnish tourism industry faces the challenges of globalisation and internationalisation. It is therefore important to understand the internationalisation process of location-bound tourism SMEs and the prerequisites of internationalisation among them. However, the internationalisation of tourism enterprises has not been a significant object of scholarship in the field of international business studies so far (Hall – Coles 2008, 5). The next section discusses tourism as a research subject, and connects the knowledge fields of tourism and international business.

### 1.1 Linking Tourism and International Business Research

Tourism as a research field has evolved over time. Drawing on other research fields in order to inform its research processes and its theoretical frameworks, it is only just emerging as a research area in its own right. Its beginnings lie in other areas such as economics, geography, sociology, social psychology, social anthropology, marketing and history. (Jennings 2001, 4) Moreover, tourism research is characteristically multidisciplinary (Selänniemi 1996; Tribe 1997). Various arguments have been presented

during the past few decades concerning whether tourism should be considered multidisciplinary or interdisciplinary (e.g., Jennings 2001; Jafari 1977; Przeclawski 1993; Echtner - Jamal 1997; Tribe 1997). Researchers seem to feel the need to establish a central ground that should be interdisciplinary (e.g., Weaver - Oppermann 2000, 7). Weaver and Oppermann (2000), for instance, suggest the evolution of tourism research towards a discipline status, representing a systematic, rigorous academic field with its own theories and methodologies. According to Jennings (2001, 5), while there appears to be a desire to move in an interdisciplinary direction in the future, as Weaver and Oppermann's (2000) illustration suggests, this is still a long way off and tourism research has still to move substantially beyond the descriptive and the application of theories. It seems, however, that the discussion continues, and the emerging tourism discipline is drawing its theoretical frameworks and methodological paradigms from other disciplines.

At this point of the study it would be interesting - and even necessary - to discuss the two research fields of tourism and international business, and to clarify how to build bridges between them. The nature of the tourism firm, and particularly the tourism SME, was of no interest to researchers until the late 1990s. International trade services in connection with tourism flows have been examined very little in international business, whereas it is the mainstay of tourism. According to Hall and Coles (2008, 12-13), international business has tended to give primacy to the firm, and especially to trans-national commercial entities. Tourism, again, has given primacy to the local area and the destination, as well as to the category of "the tourist". Tourism firms, and especially small and micro-sized enterprises, have attracted significant attention only since the late 1990s (Hall - Coles 2008, 14). Moreover, according to Veal (1997, 24), in the case of tourism, economists have focused on the macro level, including levels of economic output, multipliers, unemployment and international trade.

The lack of connectivity, according to Hall and Coles (2008, 12), lies in the fact that the fields have historically tended to occupy different knowledge spaces. Consequently, the need to build bridges between international business and tourism remains (Hall - Coles 2008, 14). Shaw and Williams (2004, 276) see tourism as being deeply embedded in all aspects of life, and understanding it enhances understanding of society. They suggest, therefore, that tourism researchers should actively seek to contribute to debates in the other social sciences. Furthermore, according to Davis (2003), tourism is not only a collection of diverse and varied attitudes about societal significance it is also an industrial activity with inter-firm relationships. This is widely recognised, but its significance is often neglected. As Hall and Coles (2008,

7) note, despite the apparently obvious connections there has been relatively little academic dialogue between the two study areas. There is therefore a need to connect cutting-edge research and critical thinking in tourism and international business in order to develop a greater understanding and clear conceptualisation of the former as a form of the latter, as well as to mutually inform the two academic fields.

Further, in the field of international business Buckley (2002) calls for interdisciplinary research, and notes that there is a need to understand the relationship between international business and other functional areas of management and social science. He also points out that without close interaction between theoretical development and empirical reality international business could become merely an area of application for applied concepts of other disciplines. According to Buckley and Lessard (2005), the key to international business is that it approaches empirical phenomena from a variety of levels of analysis, using a variety of theoretical frameworks. Hall and Coles (2008, 12) point out that exactly the same comment could be applied to the field of tourism studies. In their opinion, Buckley's (2002) comments about the trade deficit of international business – that it borrows more concepts from other disciplines in the social sciences than it produces – have direct parallels in tourism (e.g., Franklin and Crang 2001).

Veal (1997, 16-17) provides a framework of the social world within which leisure and tourism exist and which may assist in putting the various research approaches into perspective. The framework comprises five main elements: 1) people, 2) organisations, 3) services/facilities/attractions, 4) the linkages between these three, and 5) the physical environment within which everything takes place. Although these elements refer to different research fields - such as social psychology, political science or history - Veal notes that economics is concerned with the whole system, with different sub-disciplines (such as micro-economics and macro-economics). He suggests that the elements should not be seen as hermetically sealed, as, indeed, organisations are made up of people, and services / facilities / attractions are managed and provided by people. Consequently, people play a role and move between more than one of the elements of the system. Hall and Coles (2008, 7) also note that international business relates to people and organisations interacting with one another in order to transact exchanges of capital, labour and knowledge. This requires contact, social relations and the politics of intermediation. In the case of tourism, such processes and interactions result in spending, investment in tourist attractions and facilities, and the setting of regulatory frameworks and operating environments in which it can flourish and tourism-related businesses will function. (Hall – Coles 2008)

Hall and Coles (2008, 14) therefore suggest a typology of the knowledge fields of international business and tourism in which international business is divided into four categories: cross-border supply, consumption abroad, commercial presence, and the presence of natural persons. The integration of international business and tourism, again, could be understood from various perspectives: disciplinary, interdisciplinary, multidisciplinary and post-disciplinary. The scale of analysis forms a global – supranational – transnational – regional – destination continuum, and consists of elements such as the industrial field, the community, the firm and the individual. Tourism benefits from the internationalisation of business in terms of dimensions such as profitability, pricing, service delivery, product development and knowledge transfer (Hall - Coles 2008, 10).

The frameworks described above have similar features, but they also seem to have certain shortcomings, especially in terms of the current understanding of international business. It could be stated that they fail to recognise some of the most important linkages, such as international entrepreneurship, networks, resources and capabilities. Consequently, a renewed framework for building bridges between the two research areas is suggested in this thesis. Figure 4 illustrates this renewed framework, which is based on Veal's (1997, 17) framework of the social world and tourism, and on Hall and Coles' (2008, 14) typology of the knowledge fields of international business and tourism. The suggested linkages between the two research areas illustrate the benefits of bringing tourism and international business together.



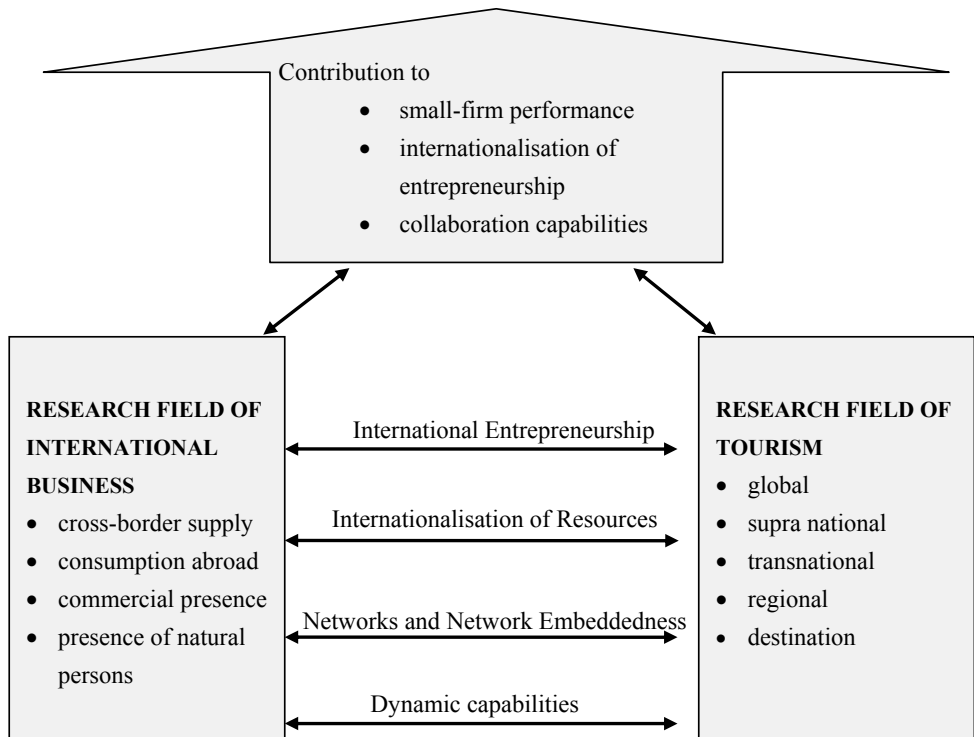


Figure 4 The Knowledge Field of International Business and Tourism

Figure 4 illustrates how the research areas of tourism and international business draw from other social sciences, and how they are inter-disciplinary or multi-disciplinary in nature. According to Hall and Coles (2008), the research field of international business incorporates elements such as cross-border supply, consumption abroad, commercial presence and the presence of natural persons, while tourism includes dimensions such as 'global', 'supra-national', 'trans-national', 'regional' and 'destination' (see Hall – Coles 2008). The linkages between the two study fields – international entrepreneurship, networks and network embeddedness, the internationalisation of resources, and dynamic capabilities - are of mutual interest and could benefit both areas. *International entrepreneurship* (e.g., Jones – Coviello 2005; Oviatt – McDougall 2005; Coviello 2006; Mort – Weerawardena 2006) is an emergent field of research aimed at enhancing understanding of internationalisation as a firm-level activity that crosses international borders and shows an entrepreneurial orientation; innovative, proactive and risk-seeking behaviour (Covin – Slevin 1989). *Networks*, again, are widely recognised as influential in the process (Coviello 2006). It is also important to understand the specific nature of the tourism business

that requires companies to utilise *various networks* in their internationalisation. This means that network embeddedness can offer unique opportunities relative to the markets, and companies organised in networks may have higher survival rates than firms that maintain arm's-length relationships (Uzzi 1996). Consequently, according to Gulati et al. (2000, 203), the performance of companies can be more fully understood by examining the network of relationships in which they are embedded. Further, international business in tourism companies requires the service processes to be internationalised, and therefore the need to *internationalise company resources* becomes acute. *Dynamic capabilities*, according to Teece, Pisano and Shuen (1997, 516), reflect an organisation's capability to achieve new and innovative forms of competitive advantage, and could be defined as "the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments".

It is thus suggested that linking the two research areas together could considerably enhance understanding of small-firm performance, entrepreneurial internationalisation and collaboration capabilities. This, again, will contribute to the research fields of international business and tourism.

As Hall and Coles (2008, 22) note, any understanding of tourism is inadequate without an understanding of the contributions that international business might make. At the same time, international business is substantially incomplete in its coverage of international trade unless tourism is considered. It is argued that a fusion of the two will have much to contribute to the understanding of contemporary economies, societies, cultures, environments and politics (Hall - Coles 2008, 273). Still, so far, where there has been closer dialogue, it has been between the fields of economic geography and international business (e.g., Buckley - Ghauri 2004), or between economic geography and tourism (e.g., Mosedale 2008). Hall and Coles (2008, 275-276) note that tourism is not easily accepted as a 'serious' area of study. In political terms too, it is not a major component of economic policy-making and research funding in most countries. Still, they argue that in many respects it seems obvious that tourism studies would benefit from more systematic treatment of the internationalisation of the business. There may also be important lessons to be learned in terms of how some major topics have recently been addressed in international business studies, and such a perspective could help tourism researchers to progress into topic areas that have traditionally been uncomfortable, unpopular, or plainly avoided. There is also a clear need to emphasise the tourism industry's role in international business. All this suggests that the research

field of tourism deserves the same type of academic treatment as any other field of international business and trade (Hall - Coles 2008, 280).

The aim of this thesis, therefore, is to integrate the research areas of international business and tourism through exploration of the internationalisation of SMEs in the context of tourism. The objective is to open up the dialogue between these two research fields, and at the same time to increase understanding of the contributions that international business may make to tourism, and vice versa.



### **3 THEORETICAL POINTS OF DEPARTURE**

The theoretical framework and the background theories of the study are introduced in this chapter. The theoretical framework is rooted in internationalisation theories of services, the resource-based view (RBV) of the firm and network approaches to internationalisation. It is suggested that all these theories have their strengths in explaining the internationalisation of small, medium- and micro-sized service companies, but there are context-specific issues that are not recognised, especially in the context of location-bound service SMEs.

This chapter is organised as follows. First the internationalisation of services is discussed from different perspectives. The characteristics of services are explained, and theories of service internationalisation are reviewed. The inward nature of the internationalisation of location-bound service SMEs is also discussed, and related to the concept of location-bound tourism services. Secondly, the resource-based view (RBV) of the firm is described and its impact on the internationalisation of location-bound tourism SMEs is assessed. Thirdly, network approaches to internationalisation are analysed, types of tourism networks are identified, and the importance of network embeddedness within the tourism industry is discussed. In conclusion, a theoretical framework of tourism SME internationalisation is introduced as a pre-understanding for the empirical research.

#### **3.1 The Internationalisation of Services**

##### **3.1.1 Characteristics of Services**

The unique characteristics of services (intangibility, heterogeneity, inseparability and perishability) are argued to separate manufactured goods from service products (e.g., Erramilli 1990; Payne 1993; Grönroos 1999; Gummesson 1995, 295-296). However, Lovelock and Gummesson (2004) challenge the validity of this so-called IHIP model, and propose a new service-marketing paradigm based on the idea of transferring ownership: services differ from goods in terms of access and temporary as opposed to full ownership (Lovelock - Gummesson 2004). Lovelock and Wirtz (2004) suggest that the key distinction between goods and services lies in the fact

that customers usually derive value from services without obtaining ownership of any tangible elements. In these cases they are offered the opportunity to rent a physical object – a car or a hotel room – or to hire the labour and expertise of people (Lovelock - Wirtz 2004, 9-10). Thus, according to Lovelock and Gummesson (2004,37), “those kinds of marketing exchanges that do not result in the transfer of ownership from seller to buyer are fundamentally different from those that do, services are presented as offering benefits through access or temporary possession, rather than ownership, with payments taking the form of rental or access fees”.

According to Grönroos (1998), the process nature of services is its most characteristic feature. Service firms do not have physical products or pre-produced solutions to customers’ problems, but rely on processes. *Services are produced in a process in which consumers and production resources interact* (Grönroos 1998). Edvardsson and Olsson (1999), again, point out that service companies do not provide services, but rather provide the pre-requisites. In other words they sell opportunities for services that are generated through partially unique customer processes. Consequently, service companies need to develop the best and right pre-requisites for well-functioning customer processes and attractive customer outcomes (Edvardsson – Olsson 1999).

The consumption of a service is regarded as a process rather than a consumption outcome in that the consumer is part of it. According to Grönroos (2007, 58): “The consumption process leads to an outcome for the customer, which is the result of the service process. Thus, the consumption of the service process is a critical part of the service experience”. This also means that the marketing of the service product is different because there are no ready-made, pre-produced objects: there is only the service process, which cannot begin until the customer enters the picture. Consequently, service firms offer processes as solutions to the problems of their customers. These processes are difficult to define and sell, as in many cases it is not known at the beginning exactly what the customer wants and expects. (Grönroos 1998) The service system constitutes the resources that are required to set the process in motion in order to realise the service concept (Edvardsson – Olsson 1999). What service firms possess is a set of resources, and an efficient way of using them as soon as the customer enters the arena (Grönroos 1998).

Grönroos (1998) ends with a discussion of “the case of a missing product”, and suggests a service-oriented marketing perspective (Grönroos 1998) based on the idea of the marketing triangle developed by Philip Kotler (1991). Grönroos’s service-marketing triangle is illustrated in Figure 5 (Grönroos 1998):

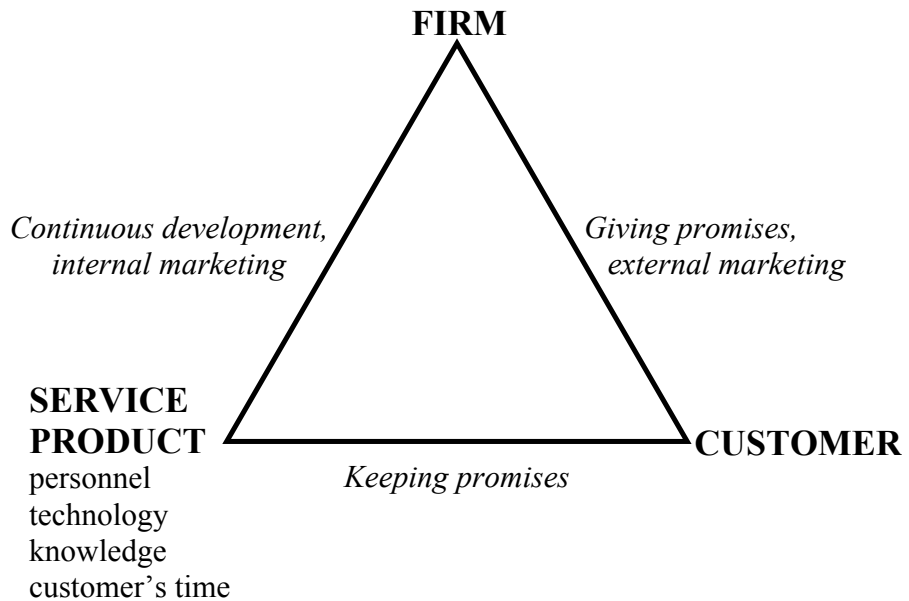


Figure 5 The Service Marketing Triangle (Grönroos 1998)

Grönroos (1998) concludes that service companies do not have physical products and can therefore only offer their customers processes. These processes lead to outcomes that are important for the customer, but given that the process is open, both it and the outcome have an impact on customer-perceived quality and value (Grönroos 1998). Samiee (1999), again, points out that successful services are based on processes that cannot be easily duplicated. Furthermore, customers experience service performance and quality at the time of delivery (Haber – Reichel 2005). In the tourism business in particular, the customer evaluates every single service module – accommodation, food, activities, for example - during the process. The overall value of the tourism product is experienced after consumption and is determined in terms of having satisfied the goals and purposes of the customer. (Komppula 2005) Consequently, tourism enterprises should develop service processes and systems that make it possible for the customer to experience *the expected value*. Their task, therefore, is to provide the best possible pre-requisites for the tourism experience: an attractive idea and a good description of the product – or service concept, a successful service process, and a reliable and well-functioning system. (Komppula 2005)

Medlik and Middleton (1973) conceptualise a tourism product as a bundle of activities, services and benefits that constitute the entire tourism

experience. This so-called “components model” consists of five components: destination attractions, destination facilities, accessibility, image and price. Smith (1994), again, presents a model of a generic tourist product, possessing a product concept that consists of the elements and the process by which they are assembled. The tourism product thus consists of five elements: the physical destination, the quality of the services, customer care, freedom of choice, and involvement and experience. Smith (1994) points out that the core of any tourism product is the physical plant, referring to the place and to the conditions of the physical environment such as the infrastructure and nature. Service input is needed in order to make the physical plant useful for tourists. The third component - customer care - means the hospitality that is needed to meet the expectations of the tourist. The tourist’s freedom of choice refers to the need to offer a range of options in order for the customer’s experience to be satisfactory. The fifth element, involvement and experience, represents the extent to which the tourist experiences satisfaction, involvement and reward. It also refers to the fact that customer participation is a relevant part of a service process.

Buhalis (2000), again, sees tourism destinations as amalgamations of tourism products, offering an integrated experience to customers. A destination could thus be regarded as a combination (or even a brand) of products, services and ultimately experiences provided locally.

Lovelock and Wirtz (2004, 14) consider service processes from the operational perspective, and suggest four categories. First, *people-processing services* are targeted at the customer’s physical person. In order to consume these services the customer must physically enter the system, or the provider’s equipment must come to the customer. This means that the service provider has to maintain a local geographic presence and ensure reasonably easy access to target customers. Customers are an integral part of the process, and must therefore be prepared to spend time interacting and co-operating with the service producers. Secondly, *possession-processing services* refer to service organisations that deal with physical possessions, such as in freight transportation, repair and maintenance, warehousing and cleaning. These services could also be geographically constrained (Lovelock - Wirtz 2004, 14; Lovelock 1999). Thirdly, *mental-stimulus-processing services* are those that interact with people’s minds. Education, professional advice, entertainment and cultural activities could be mentioned as examples (Lovelock - Wirtz 2004, 15-16). Fourthly, *information-processing services* depend on the transmission or manipulation of data in order to create value. Accounting, banking, market research, data processing and insurance are examples (Lovelock - Wirtz 2004, 16; Lovelock 1999). According to



Lovelock (1999), the nature of the service process affects the opportunities for globalisation.

Furthermore, Clark and Rajaratnam (1999) suggest a meta-classification of *international services* based on the question of *how, or in what form, services cross national borders*. They suggest that international services differ from domestic services in two ways: they involve something that crosses national boundaries and they involve some type of engagement with a foreign culture. Accordingly they list four types of international services: 1) contact-based, 2) vehicle-based, 3) asset-based and 4) object-based. Services become international when they cross national boundaries in accordance with one of these modes (Clark - Rajaratnam 1999). Contact-based services refer here to situations in which people cross borders in order to engage in transactions. Vehicle-based services are those in which communication crosses borders via radio, TV, satellite transmission and other facilitating vehicles. Asset-based services, again, refer to commercial service ideas tied to foreign direct investments involving the crossing of borders in order to establish an operating unit abroad: banking is an example. Finally, object-based services include repairs or modifications to objects.

Ball et al. (2008) distinguish between two types of soft services, based on the nature of the operations and products: location-intensive and information-intensive. Both types are characterised by the inseparability of production and consumption, but their functionalities differ in a fundamental way: the former involve intangible actions on tangible products, while the latter involve intangible actions directed at customers through the provision of information-based solutions arising from the transformation of input information into output information. The distinction between location and information intensiveness is argued to have important implications for how service firms internationalise.

Furthermore, Lovelock (1999) argues that the most significant dimension of service internationalisation comprises the issues of scale and diversity, and that internationalisation varies depending on the service category. Service processes range from relatively simple procedures to highly complex activities. Theories of service internationalisation, and the different viewpoints on the phenomenon, are discussed in the following sub-section.

### 3.1.2 Theories of Service Internationalisation

It has been suggested that there is no need for specific theories of service-firm internationalisation because the existing theories of internationalisation are directly applicable to the service context, or could be accommodated

through some relatively simple modifications (e.g., Boddewyn et al. 1986; Buckley et al. 1992). One group of researchers (e.g., Agarwal - Ramaswami 1992; Terpstra - Yu 1988), again, claim that the determinants of entry-mode choice for manufacturing firms are generalisable to service firms without much modification, while another group (e.g., Erramilli 1990; Erramilli - Rao 1993) argue that modification is required (Ekeledo - Sivakumar 2004). Further, some analysts (e.g., Carman - Langeard 1980; Root 1987) have insisted that any form of foreign-market entry is impossible for service companies due to the fact that the production and consumption of services cannot be separated.

Several researchers have found that patterns of internationalisation in the service sector differ from those in the manufacturing sector (e.g., Erramilli 1988; Lowendahl 1993; Erramilli - Rao 1993; Hellman 1996). Javalgi and Martin (2007) conclude that, although manufacturing-based theories provide a strong theoretical background for further extension and modification of the existing research to a multinational service context, there is still a need to develop new theories that integrate the various theoretical constructs in order to explain and predict a service firm's behaviour in the new service-oriented economy (Javalgi - Martin 2007). Others, however, see the difference between services and goods only as a difference of degree (e.g., Eriksson et al. 1997; Buckley et al. 1992), categorising service firms into companies offering product-related services and those offering pure service. Erramilli (1990), again, uses the categorisation of hard and soft services, and notes that managers face different feasible sets of entry modes as they go from one industry to another.

According to Erramilli (1990), *inseparability* is of particular importance to researchers in the field. In this context inseparability refers to the simultaneous nature of production and consumption, which is characteristic of many services. It is one of the factors responsible for distinguishing entry behaviour in the service and manufacturing sectors. It requires the producer and the consumer to be physically proximate, and is thus not open to entry modes such as exporting. Services in which production and consumption can be fully separated could be termed "hard services" and those for which they occur simultaneously could be described as "soft services". Hard services – such as financial services – can be exported, while soft services – such as healthcare, hospitality and advertising – cannot. Thus, the range of foreign-market entry modes for companies offering soft services is limited to contractual entry, licensing, franchising and foreign direct investment. (Erramilli 1990)

Lovelock and Wirtz (2004) point out that because services are inseparable from their users, in terms of internationalisation this increases the necessity

to establish and maintain a local presence in each market served. Inseparability also means that there is a strong interplay between service producers and customers, and the interpersonal skills, language skills, cultural background and experience of the service play an important role: this may be challenging in international settings (Javalgi - Martin 2007).

Furthermore, Ekeledo and Sivakumar (2004) suggest that the extent to which the determinants of the entry mode are generalisable from manufacturing companies to service firms depends on the service category: hard (separable) services versus soft (non-separable) services. *Non-separable* services – such as restaurant service – require simultaneity of production and consumption. They are therefore location-bound and can only be provided to consumers in a foreign market through foreign direct investment (FDI) or by a local firm under licence to the foreign producer. (Ekeledo - Sivakumar 2004)

Other researchers have also pointed out that *location-bound companies must be located within reach of customers in the target foreign market* (e.g., Dunning 1993; Palmer - Cole 1995). However, in the case of domestically location-bound tourism SMEs this cannot be the case: on the contrary, it is the customers who cross the borders and come to the tourist service.

Lovelock (1999) draws a distinction between domestic, multi-domestic and trans-national strategies. A trans-national strategy involves the integration of strategy formulation and implementation across all the countries in which the company chooses to operate, in contrast to multi-domestic strategies providing for independent development and management in each country. He identifies three perspectives on analysing the way of moving from multi-domestic strategies to the creation of a truly trans-national strategy within the service sector: first, the *nature of services*; second, the *drivers* that stimulate the internationalisation of an industry; and third, how the concept of *core and supplementary services can be applied to both standardisation and customisation in a global setting*. He considers scale and diversity to be the most important dimensions of service internationalisation (1999, 288): “Within each broad service category it is important to analyse each industry systematically to determine not only how specific drivers currently affect that particular industry but also to project how they might change over time.” He also notes that certain services can be delivered from a central location whereas others require localised delivery systems, involving local personnel and facilities. Again, in the case of tourism, it could be argued that Lovelock’s thinking has certain shortcomings: his definition of service internationalisation ignores the internationalisation of domestically location-bound SMEs.

Furthermore, *internalisation theory*, *the eclectic theory* and *the resource-based view* have recently been used to explain the international market-entry-mode strategies of service firms (e.g., Ekeledo - Sivakumar 2004; Javalgi et al. 2003). This has led some researchers to consider the applicability of the eclectic theory of internationalisation to the service industry (e.g., Buckley et al. 1992; Ekeledo - Sivakumar 2004; Patterson - Cicic 1995). According to Ekeledo and Sivakumar (2004), internalisation theory explains why a firm chooses FDI (foreign direct investments), but it fails to explain the role of location advantage. In order to overcome some of the shortcomings Dunning (1988) introduced the eclectic theory of FDI, comprising three key components: ownership advantage, location advantage and internalisation advantage. He constructed this eclectic paradigm with a view to identifying and evaluating the determinants of international business activity. It has been suggested, however, that despite its partial acceptance, the eclectic model does not provide a unified perspective on the explanation and prediction of entry-mode choice. For instance, it ignores the impact of broad product characteristics (manufactured goods versus services), home-country factors and boundary variables. (e.g., Ekeledo - Sivakumar 2004)

Moreover, as far as the tourism industry is concerned, although the eclectic paradigm seems to offer a useful framework of service internationalisation, it has certain shortcomings: for example, it focuses on internationalisation through FDI, and does not recognise the internationalisation of domestically located service enterprises. According to UNCTAD Current Studies on FDI and Development (2007), contrary to common perceptions FDI in tourism is relatively low, compared to other globalised activities such as telecommunications and finance, and also compared to domestic investment, and features in only a small number of the many diverse activities within the international tourism economy. The main investments are in the hotel and restaurant sector, and there is little FDI in airlines or high-profile activities such as tour operations and global reservation systems (UNCTAD 2007).

Ekeledo and Sivakumar (2004) suggest a framework of service internationalisation based on the resource-based view of internationalisation (RBV), in which they distinguish between hard (separable) and soft (non-separable) services (see Figure 6).<sup>4</sup> The framework presents the appropriate entry mode as a function of the interplay between firm-specific resources, host-country factors, the nature of the product and the degree of control sought by the firm.

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<sup>4</sup> The resource-based view of the firm (RBV) and its implications for the internationalisation of tourism services are discussed in more detail in Chapter 3.2 of this thesis.

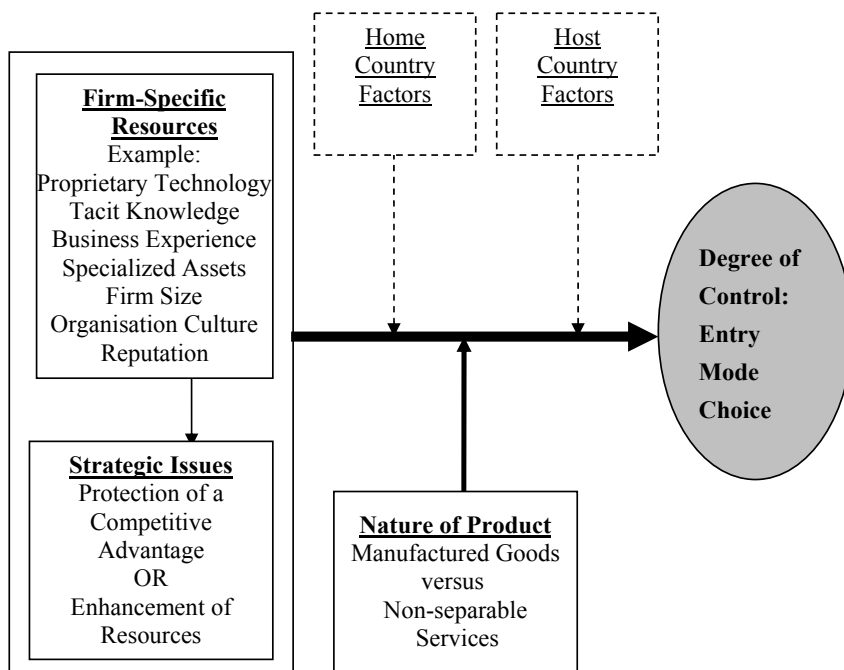


Figure 6 A Model of Resource-Based View of a Firm's Entry Strategies  
(Ekeledo - Sivakumar 2004, 74)

The model (Figure 6) describes firm-specific resources as the sources of competitive advantage that drive a firm's marketing strategy. These resources include its capabilities, organisational culture, specialised assets, large size, reputation, and business experience (Ekeledo - Sivakumar 2004; Amit - Schoemaker 1993; Barney 1991; Grant 1991; Hall 1992; Wernerfelt 1984). They may be used as drivers of competitive advantage, and affect strategic issues and the enhancement of company resources (Wernerfelt 1984).

Furthermore, the selection of a foreign market and of the appropriate foreign-entry mode may have significant and far-reaching consequences for a firm's performance and survival (Ekeledo – Sivakumar 2004). For example, the choice of entry mode is related to the *degree of control*, which is crucial in that it ensures the ultimate achievement of the strategic goals of service firms (e.g., follow clients, access to skills and other resources). Control also determines risks and returns, the degree of interaction between customers and providers, the degree of intangibility of service type, and finally the performance of the firm in the foreign market (Javalgi - Martin 2007; Ekeledo - Sivakumar 2004). According to Ekeledo and Sivakumar (2004, 75), each entry mode falls on one of two levels of control: 1) high or full

control (sole ownership) and 2) low or shared control (collaborative modes of operation). The full-control mode requires the highest commitment of company resources, exposes the company to the highest level of business risk, and allows the highest return on investment. As an example, a company-owned export subsidiary qualifies as a full-control model even though it is essentially a marketing organisation, and therefore represents sole ownership (Ekeledo – Sivakumar 2004, 76). The shared-control mode, again, requires low-to moderate commitment of resources, exposes the company to low-to-moderate business risk and allows low-to-moderate returns on investment. For example, according to Ekeledo and Sivakumar (2004, 82), service firms that go abroad in search of new customers and are not familiar with the region in which the target market is located may need substantial local help with understanding the culture of the foreign country if it is to quickly and successfully enter the market. Therefore, a non-separable service firm that lacks cultural knowledge about the prospective customers is likely to favour a collaborative mode of operation in the foreign market.

Although this model defines the internationalisation of firms in terms of “entry mode”, which refers to export operations, licensing and the joint ventures of subsidiaries in another country, it would seem to consist of elements that – at least partly – could be useful in analysing the internationalisation of location-bound tourism SMEs. In particular, firm-specific resources, strategic issues, and home- and host-country factors as well as the nature of the product could be assumed to have a strong impact. Additionally, there are various industry-specific resources within the tourism business that cannot be fully controlled by an individual firm (e.g., Pearce 1992), and this may significantly affect its internationalisation.

As Javalgi and Martin (2007) note, the resource-based view (RBV) of the firm has emerged as a useful framework within which to examine sustainable competitive advantage in the areas of service marketing and management. Services have several features that generally make their marketing different and potentially more challenging than marketing goods, especially on the international level: their uniqueness, their country and market characteristics, and the extent of the firm’s involvement in the internationalisation process (e.g., Javalgi - White 2002; Zeithaml et al. 1985). Javalgi and Martin (2007) propose a framework for service internationalisation (see Figure 7, Javalgi - Martin 2007, 393), comprising key elements such as firm-level resources, management characteristics, firm characteristics, competitive advantage, international advantage, the degree of involvement / risk, and host-country factors (Javalgi - Martin, 2007).

Javalgi and Martin’s (2007) model represents an attempt to explain how organisational strategic resources can be used in expanding internationally,

and how organisational resources can explain a firm's sustainable competitive advantage (SCA). *Firm-level resources* comprise elements such as market orientation, entrepreneurial orientation, service innovation and capability. Market orientation is a rare, valuable and inimitable firm-level resource (Day 1994; Javalgi – Martin 2007), the emphasis being on the organisational ability to understand and satisfy customer needs and wants. An entrepreneurial orientation, again according to Javalgi and Martin (2007), is a strategic resource that generates potential sustainable competitive advantage, characterised by the ability of a firm to proactively seek new opportunities and markets, and to develop innovative capabilities. *Management characteristics* include elements such as a global mindset and a favourable attitude towards internationalisation: managers with a global mindset acknowledge the interdependence of their firm within the global economy. *Firm characteristics*, again in the context of internationalisation, include its size, international experience and service type. *The competitive and international advantage* of a service firm comes from its capabilities, resources and skills. Service companies may achieve competitive advantage in a foreign market by matching their internal resources and complex bundles of skills with the changing external environment: in other words they need to create sustainable superior value for their customers. (Javalgi – Martin 2007) Further, the model shows how service firms may enter foreign markets using a variety of *international entry modes*, including exporting, licensing, joint ventures and wholly-owned subsidiaries (Root 1994; Javalgi –Martin 2007). Finally, *host-country factors* include the external variables connected with operating in a country or region and typically identified as affecting entry strategies. Cultural distance and political, technological, economic and market factors influence a service firm's commitment to internationalisation (Root 1994; Ekeledo – Sivakumar 2004; Javalgi – Martin 2007).

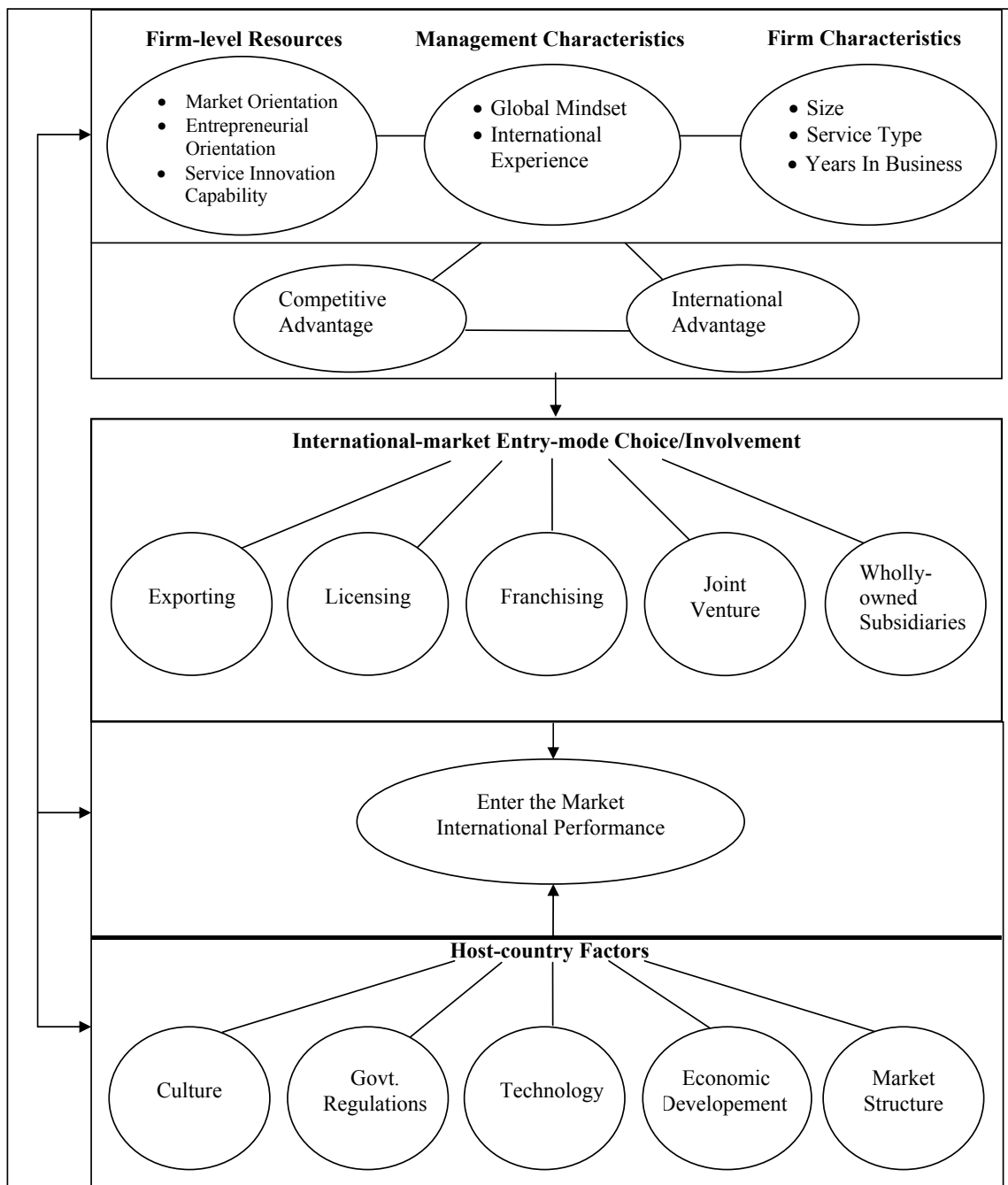


Figure 7 A Framework for Service Internationalisation (Javalgi - Martin 2007, 393)

In conclusion, the above literature review shows clearly that *existing theories of service internationalisation do not recognise the*



*internationalisation of location-bound service companies; the internationalisation of services rather refers to operations or processes that take place in another country.* Consequently, it could be argued that the internationalisation of domestically location-bound service SMEs is still an unknown phenomenon in theories of service internationalisation, and its potential benefits to information-intensive soft service firms, for example, has not been fully explored (Ball et al. 2008). Therefore, it would be important to identify the special features in the internationalisation of location-bound service companies, and to explore the inward nature of internationalisation in order to understand the entry-mode choices and prerequisites of international performance they face. The following sub-section therefore positions location-bound services within the service typology introduced by Patterson and Cacic (1995) and La, Patterson and Styles (2005), and discusses the inward nature of internationalisation within this service sector.

### 3.1.3 The Inward Internationalisation of Location-Bound Services

Patterson and Cacic (1995) developed a classification of internationally traded services based on two key dimensions: the degree of tangibility and the degree of face-to-face contact required between service production and delivery. This resulted in a four-cell typology of service types: 1) location-free professional services, 2) location-bound customised projects, 3) standardised service packages, and 4) value-added customised services.

Location-free professional services are location-free in the sense that the company does not need to maintain a permanent presence (foreign direct investment) abroad, and the market-entry strategy involves key personnel travelling to a foreign country for a relatively short period to complete a project. These services are generally low-to-medium contact, less customised assignments, typically rely on unsolicited orders, and follow the customer into international export markets (Patterson - Cacic 1995). Location-bound customised projects, again, refer to situations in which the service is highly customised and considerable personal interaction is required between the client and the service producer *over an extended period of time*. According to Patterson and Cacic (1995), these companies tend to be professional service firms requiring a high degree of executional latitude and situational adaptation. Moreover, the projects are long-term in nature and involve a high level of face-to-face contact. The companies involved invariably need to establish a permanent presence in the foreign market.

Standardised service packages comprise services embedded in physical goods such as software, compact discs, or standardised distance-education courses bundled with a physical good. Franchising, agency arrangements, and direct representation are the major entry modes used. Finally, value-added customised projects are services that require a high level of interaction with the customer for successful delivery, and often follow clients into international markets in order to maintain the current relationship. (Patterson – Cicic 1995)

La, Patterson and Styles (2005) refined the suggested model by including the determinants of service-export performance, and drawing on two theoretical perspectives: the resource-based view (RBV) of the firm and contingency theory. In addition to analysing the degree of tangibility and the degree of face-to-face contact in Patterson and Cicic’s (1995) framework, they developed a set of propositions that specify: 1) internal resources and capabilities that are drivers of export performance and 2) the relative importance of these variables to performance across different service types. The classification is illustrated in Figure 8 (La et al. 2005).

		<b>Degree of face-face contact</b>	
		Low	High
<b>Degree of tangibility</b>	Low	<p><b>Cell 1</b> Location-Free Professional Services e.g.: Market research, Transportation, Finance and Insurance, IT</p>	<p><b>Cell 2</b> Location-Bound Customized Projects e.g.: Project management, Consulting</p>
	High	<p><b>Cell 3</b> Standardised Service Packages e.g.: Software development, Distance education courses</p>	<p><b>Cell 4</b> Value-Added Customised Services e.g.: Facilities management, Accommodation, Catering, SW training and support</p>

Figure 8 The Organisational Profile of International Service Firms (La et al. 2005)

Similarly, although the frameworks developed by Patterson and Cicic (1995) and La et al. (2005) represent entry-mode strategies and the

characteristics of typical firms, as well as motivations for exporting, *they neglect to recognise domestically location-bound services – such as tourism – and the mode of inward internationalisation*. This inward nature – meaning that the international customer comes to the producer and not the other way round – calls for analysis of the internationalisation of domestically located services from a specific perspective. Accordingly, Ball et al. (2008), note that another flexible approach to serving overseas markets is to reverse the direction, in other words to bring consumers to the producer’s home country. Thus, domestically located exporting (Roberts 1999) is well recognised in industries such as tourism (Björkman – Kock 1997) and medical services (Orava 2005).

As a consequence of this and in order to produce a more comprehensive picture of service internationalisation, an *extension is suggested to the framework developed by La et al. (2005)*, comprising domestically located services (see Figure 9). Cell 5 represents the category of domestically location-bound services comprising service companies in which both the degree of face-to-face contact and the degree of tangibility are high. Tangibility in this context is connected to the special location, environment and location-bound resources of the company in its home base.

		Degree of face-face contact	
		Low	High
Degree of tangibility	Low	<b>Cell 1</b> Location-Free Professional Services	<b>Cell 2</b> Location-Bound Customized Projects
	High	<b>Cell 3</b> Standardized Service Packages	<b>Cell 4</b> Value-Added Customized Services

**Cell 5**  
**Domestically Location-Bound Services**  
 e.g.: Holiday villages,  
 tourist centres, destination based services

Figure 9 The Organisational Profile of International Service Firms Extended to Include Domestically Location-Bound Services (adapted from La et al. 2005)

Consequently, the internationalisation of location-bound resources requires an understanding of the inward nature of the internationalisation of location-bound companies. Existing theories of internationalisation focus on the outward operations of a company in international market areas, such as its operational methods, target markets and sales objects. The concept of internationalisation is more complex than previous theories suggest, however. Rather than emphasising a company's expanded operations in the target market, it could be defined as "the process of increasing involvement in international operations" (Welch - Luostarinen 1988). Further, international business is a two-way process involving outward and inward business operations. In the context of the tourism industry, and especially of domestically location-bound tourism SMEs, therefore, the internationalisation of company resources requires a focus on the inward perspective.

The outward internationalisation process attracted the attention of researchers in the 1970s and 1980s, whereas internationalisation through inward operations was more or less neglected in the field of international business (Welch - Luostarinen 1993). In the past few decades some research has focused on and acknowledged the significance of inward activities in internationalisation. The theoretical classification of inward operations originated in Finland, in fact, developed by Luostarinen between the 1970s and 1990s (Korhonen 1999). It is based on the notion of two-way internationalisation, the argument being that companies become increasingly involved in international business not only when they sell products abroad but also when they buy products from abroad, either alone or in co-operation with other players (Luostarinen 1979; Korhonen 1999).

The conceptualisation of outward-inward internationalisation discussed above focuses on the process of an industrial company. However, as mentioned in previous chapters, it is apparent from the growing interest in the service sector and the increasing amount of research in the area that service firms differ from manufacturing firms and face unique challenges in their internationalisation process (Erramilli - Rao 1993; Bowen et al. 1989; Larsson - Bowe 1989; Lovelock 1983). Some service firms, especially within the tourism industry, could be mentioned as examples of companies using different modes of internationalisation, and could therefore be considered from the inward perspective. Many tourism companies and networks expect foreign customers to come to their home country, where the services are produced and consequently must be consumed. They market their services abroad, often with the help of middlemen such as tour operators or travel agents (Björkman - Kock 1997). The internationalisation of these companies would therefore seem to be very much dependent on their ability to internationalise their domestic resources.

According to Luostarinen and Welch (1990), foreign tourists' visits to a country are classified as indirect export operations. In manufacturing, indirect exporting is when the firm does not directly take care of the exporting activities, and another company located in the home market conducts the international business. This alternative represents an indirect way for a company to export its products, or to allow its products to be exported. In such cases the exporting operations actually represent domestic business (Luostarinen - Welch 1990). This classification has been strongly criticised by Björkman and Kock (1997), however, who claim that foreign tourists consuming services in the service provider's home country should be regarded as an example of inward international operations. They base their argument on the fact that there is no outward flow of goods or services in the tourism business, and the only outward activity is the communication, including personal selling, advertising and promotion (Björkman - Kock 1997).

In macro-economic terms, incoming tourism is regarded as an export sector within the balance of payments. A tourist consuming tourist services in foreign countries, or transportation services owned by these countries, provides an "export" situation to the country in question (Bull 1996). According to traditional theories of internationalisation, inward internationalisation activities are "import" situations that increase the balance-of-payments deficit (Luostarinen - Welch 1990). In this sense the internationalisation of the tourism business could not be defined as an inward internationalisation process.

However, regardless of the money flows, the international tourism business seems to fulfil the criteria of inward internationalisation in many respects, especially in the case of location-bound tourism SMEs. From the micro-economic perspective, and especially from the viewpoint of the individual, locally operating company, international operations in tourism enterprises differ in essence from typical export operations, and could therefore be regarded as an example of inward international business operations (Björkman - Kock 1997). Further, locally operating tourism SMEs internationalise within their regional or national – or international - networks, which indicates a need to consider the inward perspective of internationalisation in terms of the tourism network.

It could thus be assumed that existing theories of service internationalisation are not directly applicable to location-bound tourism companies, and shifting the unit of analysis to company resources would give a better understanding of the firm's success and growth factors. Consequently, the resource-based view (RBV) is introduced in the following section, and further applied to the internationalisation of location-based tourism services.

### 3.2 The Resource-Based View of Internationalisation

According to the resource-based view (RBV) of the firm, resources and capabilities are primary determinants of a sustainable competitive strategy (Wernerfelt 1984; Barney 1991; Peteraf 1993). Firms are viewed in terms of their unique bundles of tangible and intangible resources, and it is the resources that are the source of competitive advantage and success rather than product-market combinations (Barney 1991; Galbreath 2005). The resource-based view has recently been adopted as a framework for analysing performance in international markets, focusing attention on international resources as determinants of firm success (Fahy - Smithee 1999; Galbreath 2004).

As noted previously, many service companies – and especially those within the tourism business - typically operate in a location-bound context. Consequently, their internationalisation could be expected to be dependent on their domestic resource base – both tangible and intangible resources. Furthermore, given the complex and co-operative nature of the tourism product, an individual company's capabilities and ability to become embedded in various networks could be regarded as an example of organisational capabilities and company resources.

This section traces the development of the resource-based view and reviews the literature. The different views of researchers in the field are analysed and put into the context of the tourism business, in particular location-bound tourism SMEs.

#### 3.2.1 The Development of the Resource-Based View of the Firm

A few decades ago, up until the late 1980s, the resource-based view of the firm was still undergoing a rather fragmented process of development, in which the emphasis was on firm-specific resources (Fahy - Smithee 1999). The early theory of firm growth introduced by Edith Penrose (1959) defined a firm as a collection of heterogeneous physical and human resources (Penrose 1959, 9). It has been argued that this theory provides the most detailed exposition of the resource-based view in the economics literature (Fahy - Smithee 1999), in that “a firm is more than an administrative unit; it is also a collection of productive resources the disposal of which between different users and over time is determined by administrative decision. When we regard the function of the private business firm from this point of view, the size of the firm is best gauged by some measure of the productive resources it employs” (Penrose 1959, 24). It is surprising how well this

argument describes business life today, and especially how well it can be adapted to the case of location-bound tourism.

The RBV, introduced by Wernerfelt (1984) in the literature on strategic management, was built upon the idea that a firm's success is very much determined by the resources it owns and controls. He referred to resources and products as "two sides of the same coin", and suggested that specifying a resource profile would be one way of finding the optimal product-market activity (Dhanaraj -Beamish 2003; Wernerfelt 1984).

The resource-based literature describes resources in terms of various special characteristics (Galbreath 2005). According to Barney (1991), a firm's resources are important factors of sustainable competitive advantage, and superior performance can be achieved only if they possess certain special characteristics. So-called *advantage-creating resources* must meet certain conditions, and require four key attributes: 1) value, 2) rareness, 3) inimitability and 4) non-substitutability (Barney 1991). Resources are *valuable* when they enable the firm to conceive of or implement strategies that improve its efficiency or effectiveness by meeting the needs of customers. *Rareness*, again, refers to resources that are not possessed by large numbers of competing firms, and could therefore be sources of either competitive advantage or sustainable competitive advantage. Further, advantage-creating resources are imperfectly *imitable* when the competitors are not able to duplicate their endowments. Finally, there must be strategically valuable resources that are rare or inimitable and, consequently, *cannot be substituted*. (Barney 1991) Similarly, Teece et al. (1997) emphasise the role of replicability and inimitability in organisational processes and positions. They argue that a firm's competences and capabilities rest fundamentally on processes. However, competences can provide competitive advantage and generate profits only if they are based on a collection of routines, skills and complementary assets that are difficult to imitate.

Modern resource-based thinking focuses on the distinctive resource profile of each firm, and also on the processes that lead to specific new resource combinations and reinforce heterogeneity among firms (Rugman - Verbeke 2002). According to the resource-based view, an individual company's ability to combine and mobilise resources leads to the creation of its core-competences. These core-competences, again, are the main drivers of the development of unique and inimitable sustainable competitive advantage (Wernerfelt 1984; Barney 1991; Galbreath 2004).

Fahy (2002) concludes that the advantage-creating conditions and characteristics of resources could be considered under the headings of value, barriers to duplication and appropriability. According to Fahy and Smithee (1999), once value is derived from a resource the key question concerns who

appropriates it. Fahy and Smithee (1999) note that value is invariably subject to a host of potential claimants, such as customers, suppliers, employees, shareholders and the government (Collis - Montgomery 1995; Kay 1993; Fahy – Smithee 1999).

One of the main contributions of the resource-based view to date has been the *theory of competitive advantage*, starting with the assumption that the desired business outcome within the firm is a sustainable competitive advantage (SCA) (Fahy – Smithee 1999). Most of the existing academic research on the resource-based approach to strategic management shares the following four characteristics (Rugman - Verbeke 2002):

- 1) the firm's objective is to achieve sustained, above-normal returns
- 2) a precondition for sustained, superior returns is a set of resources and their combinations, competences and capabilities, not equally available to all firms
- 3) firm resources lead to superior returns to the extent that they are firm-specific (imperfectly mobile), valuable to customers, non-substitutable, and difficult to imitate.
- 4) innovations, especially in terms of new resource combinations, can make a significant contribution to sustainable superior returns.

Company resources may, in the broad sense, comprise anything that could be defined as strengths or weaknesses (Stenberg 1996, 10). As an example, Lloyd-Reason and Mughan (2002) suggest that there are specific behavioural attributes that may advance or prevent the internationalisation of a small firm on the part of the owner, especially in relation to cultural orientation, language capabilities and degree of inter-cultural awareness. Moreover, according to Dhanaraj and Beamish (2003), a firm's resources are history-dependent, causally ambiguous, and socially complex (King – Zeithaml 2001; Eisenhardt – Martin 2000).

Consequently, the resource-based view of the firm addresses the central issue of how *superior performance* can be attained relative to other firms in the same market, and posits that superior performance results from acquiring and exploiting unique resources (Dhanaraj – Beamish 2003). Firm performance is constrained by internal factors such as resources and strategic choices, and external factors such as the carrying capacity of the environment or the competition (e.g., Komppula – Reijonen 2006).

### 3.2.2 The Firm's Resource Portfolio

The RBV literature divides resources into two fundamental categories: 1) tangible and 2) intangible (Galbreath 2005). According to Collis (1994),



again, resources have been typically defined as *assets* or *capabilities*. Assets, which may be tangible or intangible, are owned and controlled by the firm, whereas capabilities are intangible bundles of skills and accumulated knowledge within its organisational routines (Collis 1994; Teece et al. 1997). Galbreath (2005) refers to tangible resources as those that have financial or physical value and can be measured in the company's balance sheet. Intangible resources, again, are non-physical or non-financial assets, skills and capabilities (Hall 1992; Galbreath 2005). Hall (1992) conceptualises the resource construct as follows:

- 1) Tangible resources, which include financial and physical assets (Hall 1992; Grant 1991)
- 2) Intangible resources, which include a) intellectual property assets, b) organisational assets and c) reputation assets (Hall 1992; Barney 1991; Fernandez et al. 2000; Roberts - Dowling 2002)
- 3) Intangible resources, which are skills and include capabilities (Hall 1992; Amit and Schoemaker 1993; Day 1994).

According to many researchers (e.g., Barney 1986; Grant 1991; Galbreath 2005), tangible resources can be obtained in the factor markets, or may be easily imitated by competitors, and cannot represent a meaningful source of economic benefit and competitive advantage. Consequently, intangible resources are strong contributors to firm success due to their inimitable properties. Further, intangible factors such as organisational and reputational resources as well as capabilities seem to contribute more significantly to firm success than tangible assets. (Galbreath 2005) *Intellectual property assets* include copyrights, patents and trademarks. They are intangible assets that offer legal protection and create barriers to competitive duplication (Hall 1992). The so-called "held-in-secret" technology (technology specifically developed to fit the firm's unique strategy and business model) could be mentioned here as an example of intellectual property assets (Galbreath 2005; Hall 1992). *Organizational assets*, again, include contracts and agreements, but also refer to the company culture and human-resource-management policies (Barney 1991; Hall 1992). *Reputation assets* could be defined as trustworthiness, credibility and quality in the firm (Galbreath 2005). According to Galbreath (2004), reputational assets are among the most important the firm can develop in that a good reputation leads to positive performance, both financially and socially. Finally, *capabilities* are complex bundles of skills and collective learning, enabling business activities to be carried out (Day 1994). They are therefore argued to be the pre-eminent source of firm success (Day 1994; Teece et al. 1997).

Capabilities refer to the knowledge and know-how of employees and to the skills, expertise and know-how of managers (Grant 1996; Galbreath

2005). They are said to be tacit in nature because they are embedded in organisational experience, learning and practice. They are also said to be the most difficult resources to duplicate (Galbreath 2005). Teece et al. (1997) developed a *dynamic capabilities* approach, the aim of which was to analyse firms' sources of wealth creation and capture. They describe it as an emerging and potentially integrative approach to understanding the newer sources of competitive advantage. The term "dynamic" in this context refers to the capacity to renew competences, for example to achieve congruence with the changing business environment. Dynamic capabilities thus emphasise the key role of strategic management in appropriately adopting, integrating and reconfiguring internal and external organisational skills, resources and functional competences to match the requirements of a changing environment. (Teece et al. 1997)

According to Blomqvist and Levy (2006), global competition has reduced the role of traditional sources of competitive advantage. They suggest the concept of *collaboration capability*, which is based on relational factors such as trust, commitment and communication. In their view, theoretical approaches to collaboration capability are closely related to the developing theory of the firm, the resource-based view (Wernerfelt 1984; Barney 1991), the knowledge-based view (Nonaka - Takeuchi 1995), the dynamic-capability view (Teece et al. 1997; Eisenhardt - Martin 2000), and the competence-based view (Prahalad - Hamel 1990). Collaboration capabilities emphasise the relational perspective and facilitate knowledge creation in a risky and uncertain environment (Blomqvist - Levy 2006). Consequently, Blomqvist and Levy (2006) define the concept of collaboration capability as an essential source of competitive advantage in that it is valuable, difficult to imitate, rare and socially complex (Blomqvist - Levy 2006; Barney 1991). Such capabilities may compensate for gaps in an individual company's know-how, and consequently may have a critical role in its competitiveness. Network competence is considered a core competence, which has a direct effect on the firm's competitive strength and performance (Ritter et al. 2002, 119; Tyler 2001; Blomqvist 2002). Moreover, collaboration capability could be considered an integrative and cross-level concept explaining knowledge creation and innovation in networks. Its role – referring to the ability to build and manage relationships – is the most important issue in the search for continuous innovation. On the network level, both the actor's position and the structure of the network are significant: actors gain information and complementary competencies through co-operation. (Blomqvist - Levy 2006; Gulati et al. 2000.)

Consequently, collaboration capability entails the ability to build and manage relationships with other parties on the individual, team and

organisational levels in order to create continuous innovation (Blomqvist - Levy 2006). According to Blomqvist and Levy (2006), collaboration capability is especially important in dynamic and uncertain environments in which unusual situations demand coordinated action (Blomqvist - Levy 2006; Tyler 2001; Amit - Shoemaker 1993). Keller (2005) describes innovations as mechanisms that operate between co-operation and competition, suggesting that in a fragmented industry like tourism, customer surplus and added value are only achieved through collaboration. Collaboration capabilities in this sense refer to creativity among entrepreneurs and highly trained tourism managers, and extra input from research and development.

Indeed, capabilities are argued to be the most important of a firm's resources due to their high levels of casual ambiguity and strong barriers to duplication (Collis 1994; Day 1994; Teece et al. 1997). However, intangible resources have also been considered strong contributors to firm success due to their inimitable properties (Hall 1992). Moreover, Galbreath (2005) notes that, contrary to the opinions of most RBV scholars, tangible resources may, to some degree, play a relatively important role. He lists the following three normative implications for the firm:

- 1) Organisational resources, such as culture, human-resource-management policies and corporate structure, may have a significant impact on a firm's success. They have a synergistic impact on the development and utilisation of firm capabilities.
- 2) Reputational resources are among the most important a firm can develop, as a good reputation leads to positive performance, both financially and socially. Strategic effort aimed towards building and maintaining a good reputation is essential in the management of firm resources.
- 3) Contrary to the RBV, tangible resources may still have a viable place in the performance of enterprises. Companies that are able to generate high value-in-use of financial and physical assets may be able to leverage such assets for competitive advantage while creating barriers to duplication (Srivastava et al. 1998; Lippman - Rumelt 2003).

As the above literature review suggests, there have been diverse contributions in the field of economics and strategic management during the last few decades, refining the concept of the RBV and using it as a framework for conceptual and empirical investigation (Fahy - Smithee 1999). During the last few years the resource-based view of the firm has been increasingly adopted in the strategic management of the tourism business, too.

It is also suggested in this thesis that *the theoretical background of the RBV provides a better understanding of the internationalisation, growth and value creation of location-bound tourism companies than existing theories of service internationalisation*. Organisational resources such as tourism networks and co-operative actions play a crucial role in the tourism business, especially in terms of production. Furthermore, reputation resources such as the appeal of an area or destination may have significant importance in successful tourism marketing, production and customer satisfaction. Location-bound tourism is typically based on certain tangible resources, which in many cases are not fully owned and controlled by the company in question. Growth and value creation among foreign customer groups need a deep understanding – among both private enterprises and public authorities - of how to successfully combine and mobilise resources, especially in an industry in which companies are highly dependent on co-operation and, at the same time, on the development of joint resources in a tourism area or destination. This means that the advantage-creating resources that increase the sustainable competitive advantage of an individual tourism SME must be assessed not only from the firm's but also from the tourism system's perspective. Assessing value, rareness, inimitability and non-substitutability, and at the same time understanding the development of dynamic collaboration capabilities, may significantly enhance the performance and success of the tourism destination and the individual SME. The RBV offers an effective tool for strategic planning in the internationalisation of the tourism business.

For example, Cioccarelli et al. (2005) introduce the concept of local Resource-based Tourist Sustainable Development (RTSD), and Augustyn (2004) suggests two strategic approaches open to tourism SMEs in order to overcome the problem of scarcity. The impact of the RBV on the location-bound tourism business is discussed in the following section, and the theoretical background is applied to the internationalisation of location-bound tourism SMEs.

### 3.2.3 The Resource-Based Approach to the Internationalisation of Location-Bound Tourism SMEs

Cioccarelli et al. (2005) apply the theoretical background of the resource-based view of the firm to the specific case of the tourism industry. They identify the resources involved and combine them to create a set of core-competences within a tourism destination. They introduce the concept of *local Resource-based Tourist Sustainable Development, RTSD*, positing that

the main challenge for each tourism destination is to achieve the best balance between its resources, core competences and competitive advantages. Importantly, co-operation and networks are regarded as strategic resources as there seem to be symbiotic interdependences between the actors in the tourism business. These interdependences, again, imply the involvement of a wider range of services, and the sharing of common resources. The focus on local resources emphasises the creativity of tourism managers and entrepreneurs. Furthermore, the actors must continuously renew their core-competences in pursuit of reciprocal coherence with their environment. (Cioccarelli et al. 2005) Consequently, according to Cioccarelli et al. (2005), local tourism firms need dynamic capabilities, introduced by Teece et al. (1997), in order to develop unique and inimitable competitive advantage.

Augustyn (2004, 273) introduces two strategic approaches for tourism enterprises to follow in order to overcome the problem of resource scarcity and to enable company growth: resource leverage and the building of capability platforms. Both approaches are grounded in the resource-based view of the firm. *Resource leverage* focuses on searching for new, less resource-intensive means of achieving strategic objectives and multiplying the impact of the existing resource base. *Building capability platforms*, in turn, emphasises the creative integration of organisational resources into unique and long-lasting clusters of organisational abilities that lie behind the firm's products. Similarly, the RBV also focuses on managerial strategies for developing new capabilities (Teece et al. 1997; Wernerfelt 1984). As control over scarce resources is the source of economic profit, issues such as skill acquisition, the management of knowledge and learning are fundamental strategic concerns (Teece et al. 1997). Moreover, special relationships with actors such as other businesses, suppliers, customers and the public sector may open up new growth opportunities (Augustyn 2004, 267). However, due to the dynamic nature of the business environment, the value of organisational capabilities changes over time. Consequently, the process of building capability platforms that can create growth and value is never-ending (Augustyn 2004, 273). The successful identification and implementation of multiple sources of available skills and capabilities, however, will provide a set of firm-specific competences that could lead to superior performance (Powers – Hahn 2002). The performance profile of small firms is complex and multi-dimensional in scope and character, comprising owner-manager motivations, goals and capabilities, internal organisational factors, region-specific resources and infrastructure, and external relationships (Mitra - Matlay 2000; Storey 1994).

As mentioned previously, company resources may be tangible or intangible. Tangible resources include financial and physical assets, whereas

intangible resources refer to skills and capabilities, intellectual property, reputation and organisational assets (e.g., Grant 1991; Hall 1992; Barney 1991; Galbreath 2004). Although intangible resources are emphasised in the theoretical background of this study, *the role of tangible resources should not be underestimated in the tourism business*. The primary elements of a tourist destination's appeal may be the core resources and attractions of the area, such as the natural environment, the culture and the history (Crouch – Ritchie 1999). Unique facilities and a special environment – such as a natural or historical attraction - may, in some cases, be a source of competitive advantage. Tangible resources typically include the facilities and environments in which the services are offered – such as lodgings, accommodation, golf courses and riding stables. They also include the elements that are needed for the production of activity services – such as canoes, horses and snowmobiles. Furthermore, the most important physical resources of tourism companies, such as unique natural and historical attractions, - may be in the possession of another actor (the state, municipalities, or another company), and not under the control of the tourism company itself: nevertheless, they are resources that are very difficult – or impossible - to imitate and duplicate. They could still be characterised as a source of *comparative advantage*, however, while *competitive advantages* relate to the destination's ability to utilise such resources effectively in the long run (Crouch – Ritchie 1999).

It could thus be argued that intangible resources and dynamic capabilities also play a more crucial role than tangibles in the internationalisation of the tourism business. If, for instance, a tourism company or destination possesses attractive tangible resources – such as unique natural, historical or cultural attractions – but the entrepreneurs and other actors in the area lack a sense of co-operation and innovation, or the necessary skills and capabilities, it is difficult for the destination to develop and create sustainable competitive advantages (cf. Crouch – Ritchie 1999). Collaboration, co-operation and networks are key issues in the internationalisation of tourism SMEs.

This leads to the introduction of network theories of internationalisation as the third background factor in the internationalisation of location-bound tourism SMEs.

### 3.3 Network Theories of Internationalisation

#### 3.3.1 Network Approaches to Internationalisation – a Literature Review

Theories of internationalisation have been under development since the 1960s. According to the traditional approaches, the international operations of a firm evolve in an incremental process consisting of various phases. Internationalisation is defined as “the process of increasing involvement in international operations” (Welch - Luostarinen, 1988). The network approach, in turn, sees internationalisation as a cumulative process based on dynamic relationships, and explains why and how firms internationalise their operations (Törnroos 2004). Later theoretical development reflected an increasing interest in SME networks, international new ventures and “Born Globals” (e.g., Coviello – Munro 1995). The network approach is said to be an extension or an outgrowth of the Uppsala internationalisation-process model. Concepts such as “commitment”, “knowledge”, “current activities” and “commitment decisions” comprise an important intra- and inter-organisational aspect of the theory (Johanson - Vahlne 1990; Törnroos 2004). The network approach describes markets as networks of relationships between firms in industrial business-to-business contexts. Networks, again, are defined as sets of connected exchange relationships, and the concept of the connectedness of firms to other firms forms the core of the business-network approach (Törnroos 2004). An individual company is engaged in a network of business relationships with a number of different players in the field: customers, competitors, suppliers, distributors, consultants and public authorities.

According to Johanson and Mattsson (1988), a company and its internationalisation are dependent on the environment in which it operates, and its network offers various links and can be exploited in numerous ways. Consequently, the effective usage of networks facilitates SME internationalisation (Nummela 2004; Coviello – Munro 1995). The network perspective also holds that the nature of the relationships between various partners will influence strategic decisions, and the network involves resource exchange among its members (Coviello – Munro 1995).

With regard to internationalisation, the network view posits that the internationalising firm is initially engaged in a network that is primarily domestic (Johanson - Vahlne 1990). Internationalisation here means establishing and developing positions in relation to other players in foreign networks. This may happen by means of international extension (in national nets that are new to the firm), penetration (developing the positions in the

networks abroad in which the firm already operates), or international integration (increasing co-ordination between positions in different national nets). International integration seems to be an important addition to the traditional expansion and penetration concepts. (Johanson - Mattsson 1988)

The network approach introduced by Johanson and Mattsson (1988) identifies four stages or categories of internationalisation based on the degree of internationalisation in the market and in the firm: the Early Starter, the Late Starter, the Lonely International and the International Among Others (Johanson - Mattsson 1988). The first category, the Early Starter, refers to a firm with few international relationships, whose competitors and suppliers are also in the same position. A company in this category knows little of foreign markets and uses agents in order to acquire the necessary knowledge. The Lonely International is a company that is highly internationalised, but in a market environment with a domestic focus. It has an advantage over its domestic competitors because it has already established a position in the business network. The third category, the Late Starter, refers to a company operating in a market environment that is already internationalised. The firm has indirect relationships with business networks abroad, which drive it to internationalise. It is disadvantaged in relation to its competitors because they have more market knowledge, and because it is difficult for a newcomer to enter an existing network. The fourth category, the International Among Others, refers to a highly internationalised company operating in a highly internationalised environment. This firm is embedded in different international networks in order to obtain external resources. (Johanson - Mattsson 1988)

The network perspective draws on the theories of social exchange and resource dependency, and focuses on firm behaviour in the context of a network of inter-organisational and interpersonal relationships (Easton 1992). Such relationships involve customers, suppliers, competitors, and private and public support agencies, or even family and friends. Consequently, organisational boundaries may incorporate both formal business relationships and informal social relationships (Coviello - McAuley 1999). Furthermore, the internationalisation decisions and activities emerge as patterns of behaviour influenced by the various network members (Coviello McAuley 1999; Granovetter 1985), and the development of network relationships allows SMEs to overcome the size-related challenges that are often argued to restrain their growth (Coviello – McAuley 1999).

The network theory starts from the assumption that a firm's position in the network is a key factor in the achievement of its objectives (Törnroos 2004). An individual company's position, based on its earlier activities in the network, characterises its relations to other firms. Johanson and Mattsson



(1988) distinguish between micro-positions and macro-positions. A micro-position defines an individual company's relationship with a specific network partner, whereas a macro-position explains its relationship with the network as a whole. The former refers to the role the firm has for the other firm, its importance to it and the strength of the relationship with it. The macro-perspective, again, includes the identity of the other firms in the network, the role of the firm and its importance in it, and the strength of the relationships with the other firms (Johanson - Mattsson 1988).

Coviello and Munro (1995) and Holmlund and Kock (1998) found energy creation in networks, in that the relationships create a scenario that is greater than the sum of the parts. This means that developing and managing business and social relationships may increase a small firm's rate of international development. As firms internationalise the number and strength of the relationships between different parts of the co-operative network increase. The networks that develop are the result of a cumulative process of relationships being created, extended and terminated. Buckley (1989) and Coviello and McAuley (1999) argue that SMEs face *internal* constraints on international growth, such as limited capital, management, time, experience, and information resources. Furthermore, *external* barriers may take the form of entrenched firm or government actions (Acs et al. 1997; Coviello - McAuley 1999). It might therefore be expected that the internationalisation of SMEs and of large firms would differ due to 1) the firm characteristics and 2) the behaviours used to overcome size-related challenges (Coviello - McAuley 1999). However, as Calof (1994) concludes, company size is not necessarily a barrier to internationalisation, and SMEs have found unique ways of overcoming their smallness (Calof 1994; Bonaccorsi 1992; Gomes-Casseres 1997; Coviello - McAuley 1999). Coviello and McAuley (1999) argue that it is based upon the organisation's set of network relationships rather than company-specific advantages, and consequently it is a question of externalisation rather than internalisation. Consequently, the development of network relationships allows SMEs to overcome the size-related challenges that are often argued to restrain their growth (Coviello - McAuley 1999).

According to Björkman and Forsgren (2000), network theory leads to the conclusion that a firm's degree of internationalisation also reflects the degree of internationalisation in the business networks in which it is embedded. Companies may have most of their physical assets located domestically, but still be active in an international network (Björkman - Forsgren 2000). According to Buhalis and Cooper (1998), networking will allow small and medium-sized tourism enterprises to increase their competitiveness by pooling their resources. Further, networking may help in the drawing up of strategic management and marketing plans, reducing operating costs, and

increasing company know-how (Buhalis - Cooper 1998, 338). Consequently, the concept of network embeddedness is a core issue in the internationalisation of a company.

### 3.3.2 The Concept of Network Embeddedness

The concept of embeddedness originates from the social sciences, and refers to how different forms of economic integration are bound to certain structural and institutional conditions (Nielsen 2005). According to Granovetter (1985), individual economic action is embedded in social relationships and networks. Similarly, most firms are embedded in business networks. Thus embeddedness refers to how business networks are formed (Gulati 1998). According to Granovetter, the concept incorporates two main features. First, companies are embedded in larger social structures and networks of intra-personal relationships, and secondly, these relationships are ongoing processes and have their own histories (Granovetter 1985).

Uzzi (1996, 1997) defines embeddedness as the unique logic of exchange that results from the distinct social structure of organisational networks and the micro-behavioural decision-making process they promote. The logic is unique because network actors do not selfishly pursue immediate gains but concentrate on cultivating long-term cooperative relationships that are beneficial on the individual and the collective level in terms of learning, risk-sharing, investment and speeding products to markets. Trust acts as the primary governance structure in embedded exchange logic, and calculative risk or monitoring systems play a secondary role. This logic also holds that the network acts as a social demarcation line around the opportunities that arise from the embedded ties that define its membership and enrich it. Firms that are connected to their networks by embedded ties have greater chances of survival than those that are connected by arm's-length ties. Embedded networks constitute a competitive organisational form, but have their own pitfalls in that an actor's adaptive capacity is determined by a web of ties, some of which lie beyond his or her direct influence. This means that a firm's structural location may render it blind to the significant effects of the larger network structure, referring to its contacts' contacts.

Andersson, Forsgren and Holm (2002) define network embeddedness as a strategic resource influencing the enterprise's future capability and expected performance. As a strategic resource it has a relational as well as a structural dimension. The relational dimension refers to the role of direct ties as a source of information and as a source of learning, whereas structural embeddedness concerns the system and structure of business relationships.

Network embeddedness is assumed to develop over time from arm's-length relationships to relationships based on adaptation and trust, and should therefore be treated as a continuous variable (Andersson et al. 2002).

Bonner et al. (2004) also emphasise how network-relationship activities create strategic advantages. They identify a combination of different kinds of network-relationship practices that influence the development of strategic networks, such as network sensing, relational embeddedness, partner integration and network learning. Simsek et al. (2003) also explore the same phenomenon and emphasise the strategic nature of network embeddedness. They extend Granovetter's theory by developing an explanation of firm-level entrepreneurial behaviour, which they define as "the sum of the firm's innovation, venturing and strategic renewal activities". According to them, the social relationships comprising a firm's inter-firm network represent a sense-making community and are therefore driven by recursive cycles of individual and shared sense-making. They also suggest that entrepreneurial behaviour is embedded in the structure of the firm's ongoing inter-firm relations. (Simsek et al. 2003)

According to Halinen and Törnroos (1998), the concept of embeddedness offers a fruitful theoretical perspective for describing and explaining network dynamics. They define it as "companies' relations with, and dependence on, various types of network", focusing on how individual or groupings of companies are connected to different network structures, and how this affects network evolution. Companies are embedded in wider business networks that extend beyond the boundaries of the individual firm. These networks can be characterised by exchange relationships between business units and by the position the company occupies in relation to the other actors. The concept of embeddedness is useful in explaining change and development in business networks. (Halinen - Törnroos 1998)

Given the assumption that several networks exist simultaneously as different parts of a business network (e.g., Halinen – Törnroos 1998), these networks are somehow related. This, again, makes the concept of network embeddedness the core issue in network research. Halinen and Törnroos (1998) argue that the evolution of business networks can be explained and understood to a great extent in terms of embeddedness. Consequently, given the special nature of the tourism business, in order to understand the combination of profitable and successful networks in the internationalisation of tourism SMEs it is necessary to identify the different types of networks in which an individual company can be embedded: in most cases the tourism product and the whole system cannot exist without networks and co-operation. Gaining a deeper understanding of the types of networks needed in

the internationalisation of tourism SMEs could facilitate the strategic and operative development of the business.

Informal relationships between companies have provided a fruitful line of research in economic geography in recent years (Shaw - Williams 2004). Granovetter's (1985) theory has been extended to cover inter-personal relationships and social networks. Through these networks companies acquire information, and seek partners, sub-contactors and clients. Informal relationships constitute the background for formal business relationships because they provide the element of trust and reciprocity, and consequently a basis on which to build wider social networks. These networks, again, can be utilised for the benefit of the firm (Shaw - Williams 2004, 98-99).

A successful tourism product is typically based on co-operation among and networks of companies, organisations and public authorities (Middleton 2001). It could also be argued that tourism enterprises internationalise through and with the networks in which they are embedded. In conclusion, it could be assumed that *the internationalisation of a location-bound tourism company is strongly dependent on the networks in which it is embedded, and that the networks could be counted among its crucial and strategic resources*. In particular, collaboration capabilities (e.g., Blomqvist - Levy 2006) and the networks in which a tourism company is embedded could be considered significant resources and major success factors, both from the organisational and the reputational perspective (e.g., Galbreath 2005). Networks, again, could be characterised as crucial resources of an individual tourism SME.

### 3.3.3 Networks in the Tourism Business

As discussed in Chapter 2, tourism is a wide, complex phenomenon involving local and global networks, not only individual products and services. Therefore, the competitive game is no longer controlled by individual companies and organisations, but requires the multi-level co-ordination of resources, supply systems and co-operation in any tourism destination (Lazzeretti - Petrillo 2006).

From the management perspective, the *tourism destination* is a bundle of products supplied by a wide number of co-operating players – tour operators, travel agents, passenger carriers, hotels and other service producers – and the competitive advantage is increasingly dependent on the *system* of the local actors (Capone 2006). As Lazzeretti and Petrillo (2006) note, tourism firms are required to manage relations and resources, as achieving and retaining competitive advantage crucially depend on the firm's ability to include and

define its product/service within the local area, and to co-operate with other local stakeholders so as to provide an authentic, differentiated and unique tourism experience.

Lynch and Morrisson (2007, 43) define *networks* as social structures that enable the operators of small firms to build up the level of trust necessary for them to share in the development of the local tourism product, while *networking* is best understood as the process used by members of the network to mobilise relationships and to learn from each other. Networks are structured in different ways, entailing different degrees of formality, and consequently, each type of network will engage in a different networking process. (Lynch - Morrison 2007, 43) Being part of a network often involves going through turbulent stages of formation, frustration and compromise, however. Still, for its members network participation may in many cases mean making valued social contributions and the creation of a useful tool that facilitates local tourism development (Gibson - Lynch 2007, 108).

Networks in the tourism business refer to the development of relationships between different actors – organisations, individuals and public authorities - with mutual interests. According to Komppula (2000, 280), a net is a form of co-operation between several actors, in which all the parties involved know who belong to it, and in which the parties interact with each other. The nature of co-operation varies from loose connections to coalitions and long-lasting structural arrangements and relationships (Middleton 2001; Roberts - Hall 2001). Network relationships are of great significance in the case of tourism promotion and coordination. Furthermore, networking allows small and medium-sized tourism companies to pool their resources in order to increase their competitiveness, to draw up strategic management and marketing plans, to reduce operating costs, and to increase their know-how (Roberts - Hall 2001; Buhalis - Cooper 1998). The benefits to profitable business relationships include learning and exchange, increased business activity and community involvement (Lynch et al. 2000).

Various factors are predictors of network success: its objectives and purpose; its organisational structure and leadership; its human, financial and physical resources; and member engagement and inter-organisational learning (e.g., Augustyn - Knowles 2000; Halme 2001; Shaw - Conway 2000). According to Komppula (2000), successful co-operation in a tourism network depends on the coordinator of the net, the role of the local tourism organisations and municipalities, the mutual goals of the companies involved, and especially the attitudinal commitment to cooperation (Komppula 2000).

Different approaches and the literature identify several types of networks: technical, regional, social and business (Halinen - Törnroos 1998). Fletcher

and Barrett (2001) suggest two additional types: infrastructural and institutional/political networks (Fletcher - Barrett 2001). Furthermore, virtual tourism marketplaces are becoming competitive, and it is becoming increasingly important to develop virtual services and to promote tourism through this medium (Dale 2003). The ability and opportunity of tourism companies to become embedded in virtual networks is assumed to be one of the main factors in the promotion of their products and services, domestically and internationally, in the future. Gibson and Lynch (2007) also emphasise the role of *community networks* in tourism, in that tourism is connected to geographical places or communities with a social and cultural history. This, again, makes it very difficult to develop a tourism destination without being aware of, and taking into consideration, the relationship with wider societal developments. Consequently, tourism has important political, economic and social dimensions, especially in rural areas. Furthermore, its complex and multi-faceted nature makes it difficult to distinguish it from other kinds of phenomena and from other industries in modern societies (Gibson - Lynch 2007; Urry 1990). In terms of complexity it involves all societal actors - private enterprises, public organisations and voluntary associations. An important element in the success of community tourism networks is the vital role of entrepreneurs, and a core of key entrepreneurial operations is crucial for tourism and community development to take place (Gibson - Lynch 2007).

Michael (2007) also emphasises the concepts of *clustering* and *co-location* from an economic perspective, and explains how firms can extract commercial benefits by utilising the synergies that are generated from the coincidence of their co-location. This could provide the rationale for clustering as both a business strategy and a policy tool for enhancing economic growth. Especially in the context of small communities and a market limited in scale, the concept of micro-clusters could offer benefits as a development model. At least it offers one alternative in terms of enhancing the competitive advantage of a region through specialisation. The role of networks and the networking process is to act as mechanisms that enhance the ability of small-business operators to offer competitive products within a local region (Lynch - Morrison 2007, 43).

On the basis of the above discussion, the following classification of tourism networks in the context of internationalisation is suggested: 1) market networks, 2) social networks, 3) institutional networks, 4) infrastructural networks, 5) technological networks, 6) regional networks and 7) virtual networks. This classification is illustrated in Figure 10 (adapted from Fletcher - Barrett 2001).

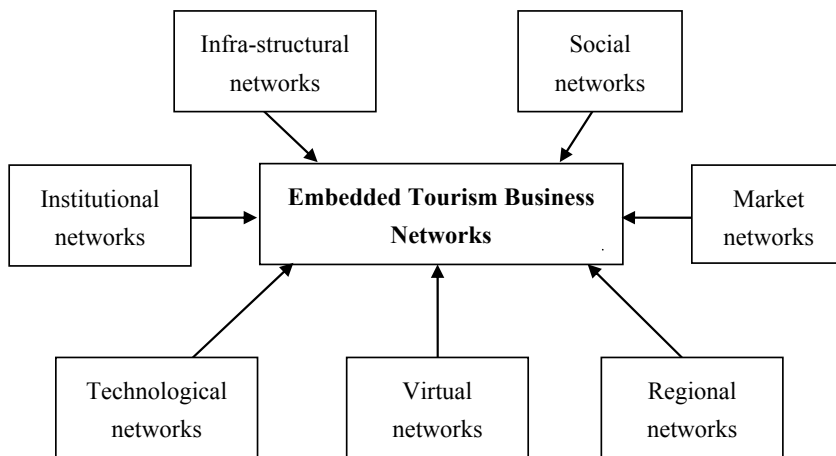


Figure 10 Different Types of Networks Coupled to Tourism Business Activities (adapted from Fletcher - Barrett 2001)

*Market networks* involve co-operation between other business partners on the horizontal level (in product development and customer service), and also vertical co-operation between the distribution and marketing channels. *Social networks* refer to the relationships between individual network members, and *institutional networks* to relationships with public actors on the local, regional and international levels. Companies are also dependent on the infrastructure and the infrastructural technology in the international market. Transport connections, timetables and capacity, for example, may significantly affect customer flows to a tourism-destination area. Co-operation in this area could be regarded as an *infrastructural network*. Further, *technological networks* in the tourism context refer to the common product development and complementary elements of the service. To some extent these networks are similar to horizontal market networks, but may also include other aspects. *Regional networks* focus on the role of space and geography in business networks, and on how the location affects business interaction (Halinen - Törnroos 1998; Fletcher - Barrett 2001). Komppula (2004b, 164) defines regional tourism networks as issue-based nets based on regional tourism marketing, the common goal of which is to make the region in question better known as a tourism destination, as well as to increase the revenue from tourism. Activities in such a network refer to the events in which the actors combine, develop, exchange or create resources by taking advantage of the joint assets of the network and the actors in it. Finally, the existence of *virtual networks* is a consequence of the fact that virtual tourism is becoming increasingly competitive, as consumers have the opportunity to

access and purchase tourism products from multiple channels (Dale 2003). Networks of firms, suppliers, customers and other partners in the virtual market space, in other words e-commerce, are expected to proliferate (Dale 2003). The widespread technological improvements and the cultural exchange among Internet users, as well as the rapid increase in online travel services, have a significant impact on the marketing efforts of the tourism industry. Furthermore, mobile technologies are estimated to play a major role in the growth of tourism e-commerce (Dale 2003).

Networks are clearly important in all sectors of the economy, but their significance is particularly strong in tourism, which is characterised by the independence and generally small scale of its many actors, and by the fragmentation of its markets (Pearce 1992, 5). Furthermore, collaboration capability (Blomqvist - Levy 2006) and an individual tourism company's ability to utilise its networks efficiently (cf. Nummela 2004) could be assumed to be among the main reasons behind successful international performance. Augustyn's (2004) strategic approach to tourism enterprises, which focuses on overcoming the problem of resource scarcity and facilitating company growth, as well as Keller's (2005) view of innovations as mechanisms of co-operation and competition, could be connected to the notion of collaboration capabilities. Augustyn (2004) notes that building capability platforms may lead to the creative integration of organisational resources into unique and long-lasting clusters of abilities that lie behind the firm's products. At best, the process of building such capability platforms creates growth and value, and is a never-ending cycle. This is closely connected to a relational orientation, associated with high levels of trust, communication and commitment (Blomqvist - Levy 2006). Lynch and Morrison (2007, 50) suggest that it is possible to identify certain environmental conditions and facilitators of trust: geographical isolation, organically grown networks, high social density, co-location within a locality, person familiarity, frequency of communication, dependency of relationships over time, and the development of inter-organisational norms of behaviour.

#### 3.3.4 The Role of Network Embeddedness in the Internationalisation of Location-Bound Tourism SMEs

The model of network embeddedness in the context of tourism internationalisation suggested in this thesis is based on the conceptual analysis introduced by Halinen and Törnroos (1998) and Fletcher and Barrett (2001), as well as the research findings of Kompulla (2000).



Halinen and Törnroos (1998) extend the theoretical base of industrial-network research, suggesting alternative concepts in order to enhance understanding of network evolution. They adopt a broad view of the concept of network embeddedness, emphasising that business actors are dependent on one another, but they also depend on a broader contextual setting, specific to each company and connected to a temporal reality – past, present and future. Fletcher and Barrett (2001) suggest that in the international business context, business transactions are embedded in networks of relationships across national borders. These relationships, again, are embedded in different national business environments. In order to analyse how international networks develop and function it is necessary to understand the complex and multifaceted setting in which they are embedded. Fletcher and Barrett (2001) also raise a number of important managerial issues connected to the application of the concept of network embeddedness to internationalisation: the relevance of relationships in international business, the role of interdependency between partners, the need for partners to build up knowledge about each other, and the need to treat the internationalisation of a firm as a dynamic and evolutionary process. As they put it, “by concerning the firm in the context of the network of relationships in which it is embedded, domestically and internationally, and by examining how the networks in which it is involved change over time, an understanding of the evolution of the internationalisation of the firm is facilitated” (Fletcher - Barrett 2001).

Further, Komppula (2000) distinguishes between an embedded and a representational structure in an issue-based regional network. An issue-based net refers to a net of local tourism businesses or a product-based net, and is created through relationships between actors who are interested in a particular issue and have a common goal. Some of the actors could be regarded as leading enterprises with behavioural influence over the network. The concept of a representational role is significant in this context, and is particularly emphasised when there are a great number of actors within a network (Komppula 2000). Hall (2004) points out that the further development of social capital through the creation of networks is extremely important in terms of reducing the level of uncertainty for entrepreneurs in the creation of new business. He further points out that network-based relationships may provide tourism entrepreneurs with critical information, knowledge and resources. However, it should be pointed out that co-operation on different levels and with different actors could become a success factor for an individual tourism SME. Therefore, analysis of its network embeddedness could be an important element in analysing its performance and success.

From the perspective of an individual tourism enterprise, factors such as trust, credibility and quality are important elements in assessing the attractiveness of various networks and forms of co-operation. According to Hall (2000, 185-186), trust is one of the basic factors to be considered in understanding co-operation and conflict among stakeholders in the tourism planning process. Trust is a set of social expectations, and when it is absent, co-operative voluntary collective action is impossible. Furthermore, credibility and the quality of the firm in this context reflect the identity of the strategic network and the representational role of each company within it. Identity in this context refers to the attractiveness of an organisation as a co-operative partner (Bonner et al. 2004; Andersson et al. 1994), whereas the representational role indicates how firms and individuals within them represent their country, industry, or enterprise in the eyes of other network members (Halinen - Törnroos 1998).

Figure 11 illustrates the suggested framework of network embeddedness in the internationalisation of small and micro-sized tourism companies. The model identifies three *attributes of embeddedness*: 1) entrepreneurial behaviour and a global mindset, 2) destination planning at the macro-level, and 3) a representational role and a network identity. The model also identifies *embedded tourism networks*, which comprise regional, social, institutional, technological, virtual and market networks. It is argued that a successful *network strategy* based on an individual company's ability to become embedded in profitable and dynamic relationships is one of the main aspects of internationalisation among tourism enterprises.

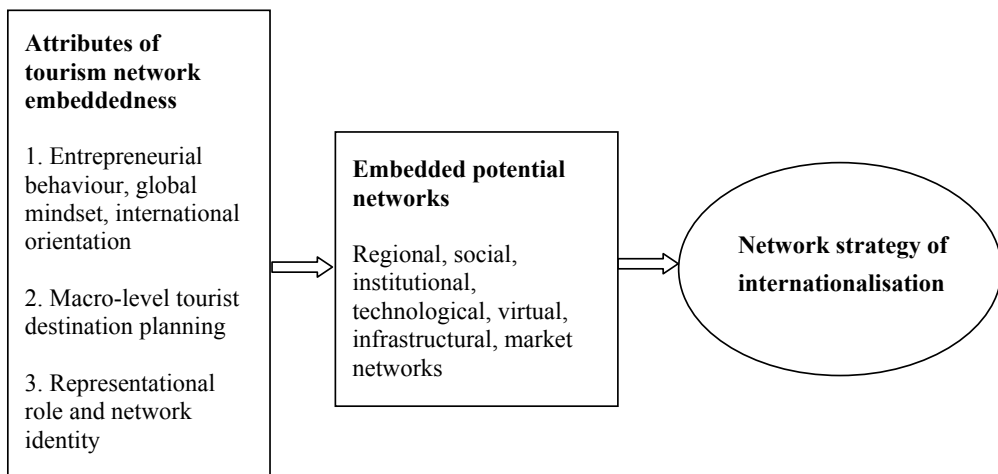


Figure 11 A Model of Network Embeddedness in the Internationalisation of the Tourism Business

The impact of entrepreneurial behaviour, as suggested by Simsek et al. (2003), is a crucial factor in an individual company's ability, attitude and willingness to become embedded in various types of networks. The concept of entrepreneurial behaviour in the internationalisation of small and micro-sized tourism companies is very much connected to the entrepreneur's global mindset and international orientation. Different dimensions of human capital affect the internationalisation of a firm, and especially the speed of entering the markets (Nummela et al. 2004). Importantly, human capital may become a significant source of differential advantage for internationalised small firms (Manolova et al. 2002). Entrepreneurial behaviour, in the form of a global mindset and an international orientation, could be regarded as a pull factor of internationalisation (Nummela et al. 2004). As the tourism industry is dominated by small and micro-sized enterprises, with restricted skills and resources (Peltonen et al. 2004), the global mindset and international orientation of entrepreneurs may be very modest. As a consequence, the surrounding network environment, destination planning, and the actions of the public sector may have a strong impact on the attitudes of the individual tourism entrepreneur towards international activities and internationalisation.

Another attribute of network embeddedness suggested in this model concerns the role of destination planning on the macro level, either within larger business networks or with the contribution of the public sector. Issues such as destination marketing, government support, and the use of new technology in order to promote a large area or tourism region, could be regarded as important elements in the network embeddedness of tourism companies. As Palmer and Bejou (1995) state, without government support there would be no effective marketing of the tourism destination. They suggest that alliances between private businesses and the public sector are particularly attractive in destination marketing in that there is congruence between the objectives of the two sectors (Palmer - Bejou 1995)

The concepts of a representational role and a strategic network identity form the third attribute of network embeddedness. The strategic network identity of a firm refers to its position within the network, and comprises a calculated and consolidated assessment of its set of existing and past relationships across partners over time (Andersson et al. 1994; Bonner et al. 2004). The concept is close to that of a representational role identified by Halinen and Törnroos (1998), referring to how firms and individuals within them represent their country, industry, firm or department in the eyes of other network members. However, a strategic network identity refers to the attractiveness of an organisation as an exchange partner (Bonner et al. 2004; Andersson et al. 1994)

It could therefore be assumed that the attributes of network embeddedness stem from dynamic capabilities and, furthermore, are the pre-requisites of joint product development, marketing and internationalisation. Therefore, they could be regarded as sources of innovation, growth and sustainable competitive advantage within location-bound tourism SMEs.

### 3.4 Synthesis: The Theoretical Framework of the Study

The theoretical background of this study is rooted in *theories of service internationalisation, the resource-based view (RBV) of the firm, and network theories of internationalisation*. Theories of service internationalisation focus on the inward internationalisation of location-bound tourism SMEs. This section presents the framework of this form of internationalisation, which is based on the theoretical pre-understanding.

The focus of this thesis is on the internationalisation of location-bound tourism SMEs, and more precisely of businesses offering their products and services in the service company's home base, in situations in which the customer crosses the border and participates in the service production in the service factory (e.g., Björkman – Kock 1997). In line with Erramilli's (1990) thinking, tourism services could be categorised as soft services, characterised by high inseparability of production and consumption. Further, they are processes, clearly involving the processing of people in most cases (Lovelock 1999). Processes, again, are driven by sets of various resources (Grönroos 1998), such as personnel, technology, goods, and customers and their time. Furthermore, dynamic capabilities (e.g., Teece et al. 1997) and the internationalisation of entrepreneurship (e.g., Oviatt – McDougall 2005; Jones – Coviello 2005) play an important role in the service context. Consequently, it is argued in this thesis that the internationalisation of location-bound tourism companies is a result of their ability to create both comparative (Crouch – Ritchie 1999) and competitive advantage (Barney 1991) in order to internationalise their location-bound company resources.

According to Lovelock (1999), there are certain drivers that stimulate the internationalisation of an industry. Moreover, the concept of core and supplementary services can be applied to both the standardisation and customisation of services in a global setting. He further notes that certain services require localised delivery systems, involving local personnel and facilities. In this sense in particular, domestically location-bound tourism services form a special case of service internationalisation. Internationalisation potential depends on industry characteristics, and especially on specific drivers such as market forces, cost, technology,

government policies and competitive factors (Lovelock 1999; Yip 1992). Given the differences between different service branches, it is obvious that in the special situation of the tourism industry (described in Chapter 2) these drivers could also be regarded as pre-requisites of internationalisation.

The internationalisation of a location-bound tourism company is very specific in nature: its services cannot be exported, they are bound to a certain location, and they are processes in which customers are involved. Roberts (1999) introduces the concept of *domestically located exports*, noting that a service firm providing output to foreign clients in the domestic market represents a case of exporting (Roberts 1999; Ball et al. 2008). All this leads to the assumption that the *internationalisation of the resource base* of location-bound tourism businesses is a crucial success factor in their internationalisation. It is important to realise that the concept of *inward internationalisation* – which traditionally refers to an *import situation* - is more applicable to location-bound tourism SMEs than any other concept of internationalisation.

In accordance with the resource-based view of the firm (RBV), sustainable competitive advantage and superior firm performance can be achieved only if company resources possess certain advantage-creating, special characteristics (Barney 1991). Barney (1991) suggests four key resource attributes: 1) value, 2) rareness, 3) inimitability and 4) non-substitutability. Furthermore, the main challenge for each tourist destination is to achieve the optimal balance between resources, core competence and competitive advantage (Cioccarelli et al. 2005). It could be argued that resource value, rareness, inimitability and non-substitutability in the domestically location-bound tourism business emanate to some extent from tangible / physical resources such as unique facilities or a special environment. It is also worth emphasising that in many cases the most valuable physical resources (such as historical attractions and unique nature) may be in the possession of the state, municipalities, or some other organisation. Indeed, the whole business idea of an individual company may well be based on these resources, even though it does not control them. It is suggested in this study that any analysis of the industry-specific internationalisation resources of domestically location-bound tourism SMEs should take into account their tangible resources, which are typically very location-bound.

Still, the existence of such resources is no guarantee of successful tourism business. As Crouch and Ritchie (1999) suggest, it is important to recognise the *nature of comparative and competitive advantage*: a destination endowed with a wealth of resources may not be as competitive as one lacking in resources but which exploits what it has much more effectively. They also

point out: "... a destination that has a tourism vision, and shares this vision among all stakeholders, understand both its strengths as well as its weaknesses, develops an appropriate marketing strategy and implements it successfully may be more competitive than one that has never asked what role tourism is to play in its economic and social development" (Crouch - Ritchie 1999, 143).

Given the special nature of the tourism business – especially of location-bound firms – it could be argued that the resource base of tourism companies, in terms of internationalisation, has some special features. On the basis of the theoretical pre-understanding, the internationalisation resources of a tourism company could be said to fall into three main categories (adapted from Galbreath 2005, see Figure 12, page 95):

- 1) Tourism-industry-specific resources (e.g., the company's environment and reputation, and the inseparability of production and consumption);
- 2) Networks as resources (e.g., collaboration capabilities, networks and network embeddedness); and
- 3) Entrepreneurial capabilities (e.g., a global mindset, language knowledge, culture knowledge, marketing know-how).

Industry-specific factors in the tourism business refer to companies' environment and the image of the company, the destination or country. Networks, in turn, refer to the types of networks and network embeddedness, whereas reputational factors include Finally, entrepreneurial capabilities consist of the global mindset of the entrepreneur, cultural and language knowledge, and know-how. The concept of collaboration capability (Blomqvist - Levy 2006) is another important element in understanding and explaining performance within the tourism industry. It is argued to be a focal concept in the context of knowledge creation and collaborative innovation (Blomqvist - Levy 2006). Furthermore, although Galbreath (2005) emphasises the role of reputational resources as a source of competitive advantage, they are seen as a sub-category of industry-specific resources in this study.

These resources comprise both tangible and intangible resources. The resources categorised above could also be regarded as *pre-requisites of the internationalisation* of a location-bound tourism SME. The classification is based on the resource-based view of the firm (RBV), and is adapted from the marketing triangle originally introduced by Kotler (1991) and Grönroos (1998). Furthermore, it *combines* the service-marketing triangle (see Figure 5, page 55) with the organisational profile of international service firms extended to include domestically location-bound services (see Figure 9, page 67). Figure 12 describes tourism products as sets of resources, comprising

industry-specific resources, networks, and entrepreneurial capabilities. A location-bound tourism company developing and utilising these resources could achieve sustainable competitive advantage and foster innovations, and consequently show growth potential in the foreign-customer segment.



Figure 12 The Internationalisation of Location-Bound Tourism Services: a Resource-Based Approach to the Internationalisation of Tourism SMEs (adapted from Grönroos 1998)

*Industry-specific internationalisation resources* refer to the environment of the firm, the attraction and reputation of the area, and customer participation in the process. Its tangible resources also belong to this category – the infrastructure, physical environment and equipment, for example. Indeed, as many tourism services are bound to a certain location, and consumed and produced in the home base of the tourism company, the environment of the company is influential in identifying the industry-specific resources. A location-bound tourism company's resource base may be very dependent on the *attractiveness* of the location: for example, without its medieval castle and its opera festivals the town of Savonlinna in eastern Finland would probably not be such an attractive area for so many tourism companies. *Reputation* in turn, could be defined as the firm's trustworthiness, credibility and quality (Galbreath 2005). In the case of the tourism business such resources comprise both macro- and micro-level elements. The country's image and the attractiveness of the area are the basic elements in analysing reputation resources from the international customer's point of view. For instance, the Lahti area in southern Finland has a strong reputation among sportsmen as a winter tourism centre – on account of the Lahti Ski Championships, which have been organised there for 80 years. Local tourism enterprises no doubt enjoy the benefit of this reputation, which therefore constitutes a reputation resource.

Consequently, *networks as internationalisation resources* comprise collaboration capabilities, networks, and network embeddedness within the

location-bound tourism business. Relationships between companies are considered a particularly important component of competitive advantage (Gulati et al. 2000). This is especially relevant in the tourism industry in that groupings of organisations co-operate on the destination level, on which complementary products such as accommodation, food, transport and different activities form a complex system of connections and interrelationships (Pavlovich 2003). The vertical and horizontal (Poon 1993) relationships and linkages between these counterparts create a diverse and fragmented supply structure (Pavlovich 2003). For example, a golf and country club in the Häme region of Finland has internationalised successfully by getting involved in international golf societies and networks.

Finally, the *entrepreneurial capabilities of tourism entrepreneurs as resources of internationalisation* refer to employee knowledge and know-how, as well as to the skills, expertise and know-how of managers (Grant 1996; Galbreath 2005). Capabilities are said to be tacit in nature because they are embedded in organisational experience, learning and practice. They are also said to be the most difficult resources to duplicate (Galbreath 2004). According to Keller (2005), the pre-requisites for improving existing structures and growth opportunities in a destination include creative entrepreneurs, highly trained managers and specialists and know-how that is specific to the field of tourism, plus the extra input from research and development. Moreover, in terms of internationalisation, a global orientation refers to a positive attitude to international affairs among entrepreneurs, and the ability to adjust to different cultures. It also includes other characteristics such as pro-activeness, innovativeness and risk taking (Nummela 2004). The internationalisation of an individual company thus appears to be based on its or the entrepreneur's attitude, ability and willingness to become involved in different networks, to choose the right networks, and to create trustful, long-lasting relationships with other organisations in the field.

Figure 13 illustrates the theoretical framework of the study.



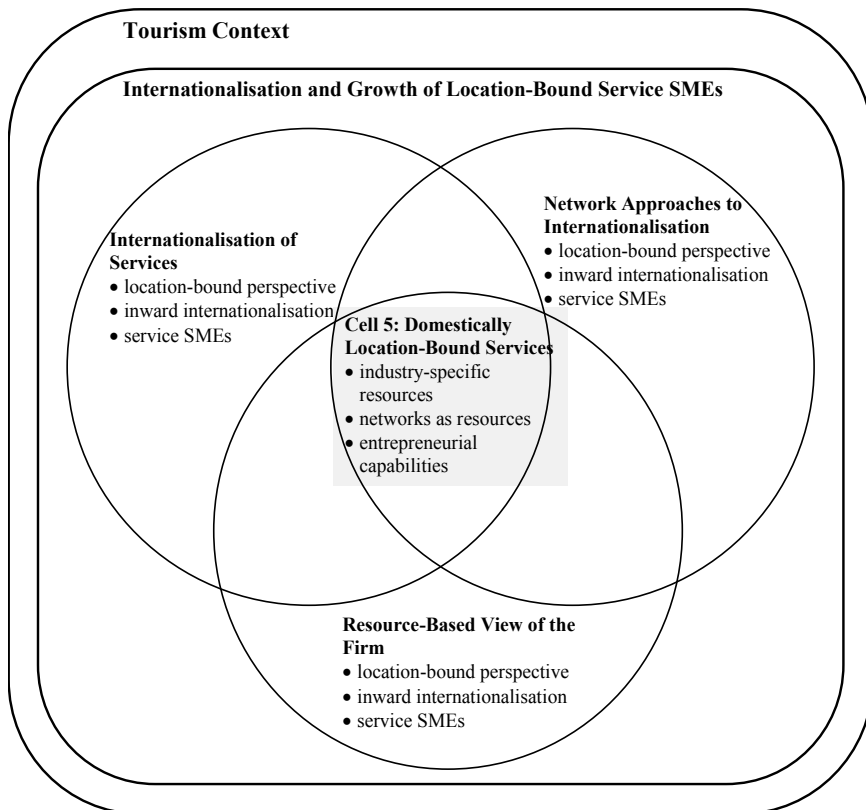


Figure 13 The Theoretical Framework of the Study

Figure 13 illustrates how the three background theories are linked together through the key concepts and limitations presented in the theoretical part of the study. It is argued in this thesis that although each background theory has its strengths, not one of them is adequate in terms of explaining and further understanding the internationalisation of location-bound service SMEs. It is suggested that changing the focus of each background theory to incorporate SMEs and the location-bound and the inward perspectives on service internationalisation will foster new knowledge and a deep understanding of the phenomenon. Furthermore, placing the research in the tourism context and studying the resource internationalisation of domestically location-bound services (see Cell 5) could have strong value in terms of developing theories of service internationalisation.

It should also be noted that there might be conceptual variations in the background theories given the somewhat different research assumptions in the three approaches. Some of the concepts used in the theoretical framework may have a different role, meaning and emphasis within each background

theory, for example, and on the other hand, although each approach may focus on the same issues, given the different objectives and motivations, they may adopt different viewpoints and different terminology. For example, the resource-based view of the firm (RBV) puts the emphasis on advantage-generating resources, which may be industry-specific: a resource may be a potential source of competitive advantage in enabling the creation of value for customers. Within the tourism industry advantage-generating resources are in many cases utilised in co-operation and in networks of various actors. Consequently, from the resource-based perspective the ability to co-operate with and become embedded in various networks could be regarded as a company resource. The network perspective, again, draws on theories of social exchange and resource dependency, and focuses on firm behaviour in the context of a network of inter-organisational and interpersonal relationships (Coviello – McAuley 1999; Axelsson – Easton 1992). Network theories thus emphasise how networks of actors, activities and resources are related to each other, being interwoven in a total network (Håkansson – Johanson 1992, 28). Industry-specific resources, again in RBV terminology, refer to the characteristics of the industry, whereas in network terms they could be regarded as contextual factors that interact with actors and activities.

In sum, it is argued that tourism service processes result from a combination of resources utilised by a tourism company on both the strategic as well as the operational level. According to this theoretical framework, a successful combination of company resources – with a special emphasis on intangible resources and capabilities – could create sustainable competitive advantage, innovation potential and growth prospects in international customer segments. These resources and their development could be identified as pre-requisites of internationalisation and growth within tourism SMEs.

## 4 RESEARCH METHODOLOGY

This chapter describes the methodology of the study and justifies the methodological choices and research design. The thesis aims at an in-depth understanding of the internationalisation of location-bound tourism SMEs. Qualitative research methodology is applied in addressing the research questions.

### 4.1 Philosophical Background

Philosophical aspects and questions need to be considered at the beginning of every research project because these issues affect the research method and methodological approach. All methods are closely connected to the philosophy and to ways of establishing new knowledge through research. It is therefore important for the researcher to recognise and understand the basic philosophical concepts, positions and traditions in order to be able to specify the *overall research design and strategy*. This, again, sets the research directions in terms of how to proceed from the questions to the conclusions. In the context of qualitative study in particular, this means making decisions about the type of empirical data to be collected, how the data will be analysed, the rules governing the interpretation, and how to present the findings of the study. (Eriksson - Kovalainen 2008, 10-11)

Burrell and Morgan (1979, 1) note that all social scientists approach their research subject through explicit or implicit assumptions about the nature of the social world. This, again, directs the way in which the phenomena may be investigated. These assumptions may be ontological, epistemological, human or methodological in nature, and the three foremost sets of assumptions have direct implications for the fourth (Burrell - Morgan 1979, 2-3). Furthermore, the theory and the research method interact with each other (Denzin 1989, 67). According to Eriksson and Kovalainen (2008, 12-13), ontology, epistemology, methodology and paradigm are the key concepts in the philosophy of the social sciences. These concepts are related to each other in various ways, depending on the more general philosophical position of the research in question.

Ontology refers to the nature of the social world and the phenomenon under investigation (Burrell - Morgan 1979, 1-2). It concerns the the

existence of and relationships between people, society and the world in general, and aims at answering the question, “What is there in the world?” Several qualitative research approaches are based on the ontological assumption according to which *reality is understood as subjective*. This holds that the understanding of reality is based upon perceptions and experiences that may be *different for each person*, and may *change over time* and according to the *context*. Furthermore, the term *constructionism* is often used instead of subjectivism to describe the social nature of reality, under the assumption that social actors produce social reality through social interaction. (Eriksson - Kovalainen 2008, 13-14) Lincoln and Guba (1985, 37) define ontology as “multiple constructed realities that can be studied only holistically; inquiry into these multiple realities will inevitably diverge (each enquiry raises more questions than answers) so that prediction and control are unlikely outcomes although some level of understanding (*verstehen*) can be achieved”. The aim of this study was to enhance *understanding* of the phenomenon in question. Consequently, the research approach was based on the ontological assumption that the understanding of reality results from its social nature (the tourism industry) and social interaction among the actors (co-operation and tourism networks). The understanding of the phenomenon in this study was based upon the perceptions and experiences of the persons interviewed during the research process.

Epistemology, again, refers to the basis of knowledge and how phenomena can be investigated (Burrell - Morgan 1979, 1-2). It defines how knowledge can be produced and argued for, and aims at answering the question, “What is knowledge and what are the sources and limits of knowledge?” (Eriksson - Kovalainen 2008, 14). Both ontology and epistemology embrace objectivist and subjectivist views, which refer to the study of conceptions of reality. Consequently, epistemological assumptions recognise the difference between whether knowledge can be objectively acquired from the outside world or whether the social world can only be subjectively understood from the viewpoint of the persons involved in the research subject (Burrell – Morgan 1979, 1-5; Pihlanto 1994, 373-377).

There are several epistemological concepts that are associated with the main philosophical positions in social science: positivism, post-positivism, critical realism, interpretativism, constructionism, hermeneutics, postmodernism and post-structuralism. These directions represent the differentiation between *subjectivist and objectivist research* as a basis of analysis, but they are all relevant to qualitative business research (Eriksson – Kovalainen 2008, 24). Positivism is rooted in the physical sciences and uses objective and value-free scientific procedures. The interpretative, critical and post-modern paradigms are all subjective, but their ontological views differ

(Jennings 2001, 57-58). From the ontological perspective the interpretative paradigm in the social sciences focuses on multiple realities, its epistemological status is subjective, and it requires a qualitative research method. According to Jennings (2001, 56), “the researcher might decide to interview key people, such as tourism operators, local residents and local government personnel in the region, to ascertain their perceptions of visitor patterns over the time period being studied. This would develop knowledge of visitor patterns based on the subjective viewpoints of those who are interviewed”. Consequently, a researcher with a positivist/objective approach emphasises the methods of the natural sciences and often adopts quantitative research methods, whereas a researcher with a constructivist or subjectivist orientation aims to get as close as possible to the phenomenon in question and therefore probably chooses the tools from the qualitative toolbox (Hurmerinta-Peltomäki – Nummela 2004, 162). This is linked to the action-oriented approach, the aim of which is to achieve a profound understanding of intentional human action (Pihlanto 1994; Lukka et al. 1984, 16-17). Furthermore, such research is based on hermeneutic philosophy.

*Hermeneutic philosophy* is concerned with the interpretation of understanding (Arnold - Fischer 1994) and, according to Eriksson and Kovalainen (2008, 20), hermeneutics refers to the necessary condition of interpretation and understanding as a part of the research process. This philosophy holds that understanding has an ontological status. It also emphasises that all understanding is linguistic (Arnold - Fischer 1994). Another of its premises is that human intentions crucially mould and change the reality. Thus, if the understanding of human actions is the foundation of all knowledge, it is necessary to understand human intentions. Consequently, much qualitative research focuses on human actions and understanding, and interpretation is an important part of it. (Eriksson – Kovalainen 2008, 20-21)

Arnold and Fischer (1994, 66) note that hermeneutic philosophy underdetermines the choice of methodological technique, the context of the application and the form of expression, and leaves the way open for methodological innovation. Nooderhaven (2004) also emphasises that hermeneutics does not dictate the research methods to be applied, any more than in any other perspective in the philosophy of science, and that the methods are determined by the research questions and the type of material studied.

The philosophical background of this study lies in the interpretative and constructionist social sciences. These philosophical positions posit that there are multiple explanations for or realities of a phenomenon and not just one causal relationship or theory. They also assert that the research process should be subjective rather than objective (Jennings 2001, 38). Furthermore,

qualitative methodology is used in the interpretative social sciences and constructionism. Data are collected from an insider's rather than an outsider's perspective, and in real-world or natural settings rather than under "experimental" conditions (Jennings 2001, 38). Research conducted according to these philosophical positions does not predefine dependent and independent variables. Instead, it is assumed that there are many possible interpretations of the same data, all of which are potentially meaningful. (Eriksson – Kovalainen 2008, 20)

Davies (2003, 97) points out that improved understanding of the *tourism business* requires a broader research methodology than is currently applied. The focus thus far has been on the quantitative approach, which refers to the positivist paradigm. During the last few years, however, other paradigms have begun to emerge. Qualitative methodology has been used recently, involving the posing of "why" and "how" questions in order to get at the deeper meanings of tourism, and tourism experiences, events and phenomena (Jennings 2001, 55). According to Davies (2003), as the boundaries of the tourism industry are not well defined, and because tourism could be considered not one industry but a composition of several sub-industries, research of the positivist type may not be able to accommodate characteristics such as the changing nature of the firms and industries involved. Positivism and Covering Law logic can only reveal, in its static world, trends and data-descriptive insights. (Davies 2003, 101)

The research focus of this study, i.e. understanding the internationalisation of location-bound tourism SMEs, could be characterised as a phenomenon that requires an interpretive social-science paradigm grounded in the social world of social actors. Furthermore, the approach could be characterised as inter-disciplinary: the international-business research tradition seemed to offer the most useful philosophical background, deeply embedded in the context of tourism. The purpose of this study demanded a deeper understanding of the research subject, and a qualitative approach was therefore used.

## 4.2 The Qualitative Approach

One of the major aims of qualitative research is to understand reality as socially constructed, produced and interpreted through cultural meanings. Therefore, many qualitative approaches are concerned with *interpretation and understanding*, as opposed to many quantitative approaches dealing with explanation, statistical analysis and the testing of hypotheses (Silverman 2001, 29). In the broader sense, interpretive research uses qualitative

methods and tools that focus on analysing the meanings and constructions of various texts such as narratives, media constructions, and socio-historical and political discourses (Jamal – Hollinshead 2001). Qualitative research is thus *subjective* in nature in that it relies on the texts and discourses of participants and involves small numbers of them in the research process (Jennings 2001, 21). The information is thus regarded as relative, subjective, fragmented and ambiguous, and reality is seen as social construction, created, modified and interpreted by individuals. (Burrell – Morgan 1979; Morgan – Smircich 1980; Pihlanto 1994, 375-380)

Qualitative business research draws on more than one philosophical and disciplinary root, and relies on several methods of data collection and analysis (Eriksson – Kovalainen 2008, 3). It is *grounded in the interpretive social sciences*, is *inductive in nature*, and is *based on textual representations* of the phenomenon under study. Qualitative research methodology also has some synergies with critical theory, feminist research, and post-modern approaches. (Jennings 2001, 21, 152) The approach gives the researcher the opportunity to focus on the *complexity of business-related phenomena in context*, producing new knowledge about how things work in real-life business, why they work in a specific way, and how one can make sense of them in a way that would enable them to be changed (Eriksson – Kovalainen 2008, 3). It thus potentially provides rich and thick descriptions for analysis (Jennings 2001, 152).

As Eriksson and Kovalainen (2008, 4) report, there are several approaches to qualitative research. For instance, Tesch (1990, 72-73) identifies four categories depending on whether the research interest is in characteristics of *language* (e.g., discourse analysis, symbolic interactionism), the discovery of *regularities* (e.g., grounded theory, critical research, ethnography), distinguishing *meanings* (phenomenology, case-study research, hermeneutics), or *reflection* (reflective phenomenology, heuristic research) (Tesch 1990, 72-73; Eriksson - Kovalainen 2008, 4). The purpose of this study - to gain an in-depth understanding of the internationalisation of tourism SMEs - required the distinguishing of meanings, which links the analysis and the interpretation of the findings to the hermeneutic approach.

Qualitative research, according to Miles and Huberman (1994, 6), is conducted through intense and prolonged contact with a “field” or real-life situation. Such situations are typically reflective of the everyday life of individuals, groups, societies and organisations. The researcher’s role is to gain a “holistic” overview of the context under study, the logic, the arrangements, and the explicit and implicit rules. Furthermore, the researcher aims at a process of deep attentiveness and empathetic understanding. (Miles – Huberman 1994, 6)

Interpretive social-science research often applies an *inductive approach*, and starts the study in the empirical world in order to develop explanations with regard to the research subject. It is common to use these generalisations as the basis of the theory building and generation (Jennings 2001, 39). As Neuman (2000, 61) also points out, “Inductive theorising begins with a few assumptions and broad orienting concepts. Theory develops from the ground up as the researchers gather and analyze the data”. Inductive theorising means that theories are outcomes of empirical research proceeding from empirical study to theoretical results. However, pure induction is rare, or even impossible, and many researchers use both induction and *deduction* - meaning that the theory is the first source of knowledge: the research proceeds from it, through hypotheses, to empirical analysis - in different phases of the study, moving iteratively between these two models during the process. A strict form of deduction is not necessarily suitable for qualitative research. (Eriksson – Kovalainen 2008, 22) As Glaser and Strauss (1967, 6) point out, “Generating a theory from data means that most hypotheses and concepts not only come from the data, but are systematically worked out in relation to the data during the course of research.” Consequently, generating a theory involves a process of research (Glaser – Strauss, 1967).

The basic assumptions in this study are rooted in the researcher’s pragmatic experience and knowledge of the tourism industry and tourism SMEs. These assumptions, again, guided the research in the development of an a priori theoretical background, building on theories of service internationalisation, the network approach to internationalisation, and the resource-based view of the firm (RBV). The resulting initial framework was presented in the previous chapter (see Figure 13). The utilisation of an a priori framework helps the researcher to focus the analysis and to identify the connections between context and content (Pettigrew 1990, 272). It was used in this study to focus and guide the themes of investigation in the empirical part of the research. The classification of resources needed in the internationalisation of tourism SMEs was generated on the basis of the theoretical framework and the first stage of the empirical research. The research followed *an iterative circle, from induction to deduction, moving between the theory and the empirical findings*.

### 4.3 Research Design

The purpose of this thesis guided the research strategy, as well as the methodological choices. The focus in the research was on analysing the pre-requisites of international business performance among small and medium-



and micro-sized tourism companies. An explanatory research design was used in order to reach a deep understanding of the phenomenon under study.

A concept emphasised in hermeneutic philosophy is *pre-understanding*, and the idea of the hermeneutical circle - or an iterative spiral of understanding. The hermeneutic circle has been applied widely in interpretive research seeking to describe the back-and-forth, specific-general-specific movement of interpretation. (Arnold - Fisher 1994) It refers to the methodological process of understanding, constructing and deepening a meaning in the interpretative phase of the research process. The researcher interprets the prior knowledge, which in that process can be modified and changed (Eriksson – Kovalainen 2008, 33). This study also followed an iterative process, moving between theory and empirical data from secondary and primary sources. The development of an understanding of the phenomenon during this process could be considered a hermeneutic spiral (Gummesson 1991, 62), an iterative process whereby each stage of research provides the researcher with knowledge. Furthermore, the researcher takes a different level of pre-understanding to each stage (Gummesson 1991, 62). Understanding is reflected in interpretations, and according to Gadamer (1999), “interpretation is the explicit form of understanding”. Hermeneutics is seen as especially important in determining the research agenda and the “fore-understanding” guiding the process (e.g., Noorderhaven 2004; Gadamer 1999). Gummesson (1991, 56-57), however, points out that researchers should use their pre-understanding, but should also understand that it is subject to change. In the focal study the research questions were reassessed at each stage. The iterative interplay between the data collection and analysis led to the development of the theory, and the outcome of the study was the development of a theoretical model of the internationalisation of location-bound tourism SMEs. The research design and hermeneutic circle of this study are illustrated in Figure 14.

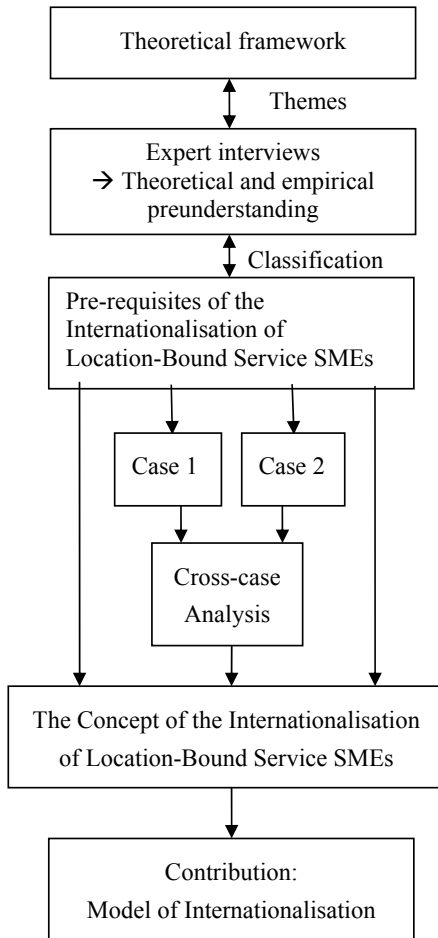


Figure 14 Research Design and the Hermeneutical Circle

Qualitative methodology was applied in addressing the research questions. The focus of the empirical research was on 1) the analysis of expert interviews among professionals involved in international tourism development and marketing, and 2) the entrepreneurial narratives of selected tourism cases, representing location-bound tourism SMEs. In the first phase of the analysis the results of the expert interviews were related to the theoretical background of the thesis. This formed the *theoretical pre-understanding* of the phenomenon, and facilitated the building of criteria for interpreting the findings of the second phase of the empirical analysis (cf. Yin 1994, 25). As a contribution to this, *a classification of resources needed in the internationalisation of location-bound tourism SMEs* was drawn up. In the next phase of the empirical research the pattern-matching technique was used to relate the theoretical framework and the classification of resources to the entrepreneurial narratives within the two tourism cases: it is a technique

that enables the relation of several pieces of information from the same case to some theoretical framework (Yin 1994, 25). Pattern models that emerge from single cases are compared to each other and to the models described in the literature, which helps to focus on the key factors and purposes to be fulfilled. The resulting models are described as chains of process propositions (Pauwels – Matthyssens 2004, 130), as they involve finding patterns from empirical data and comparing them with propositions pre-developed on the basis of existing theory (Yin 2002, 116-137).

The iterative process and the hermeneutical interpretation and understanding enabled a model of the internationalisation of tourism SMEs to be generated in order to meet the research objective set out in this thesis and to answer the research questions.

#### 4.4 The Case Study as a Research Strategy

A case study is usually seen as a specific research strategy investigating a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident (Yin 1994, 13). Case studies involve data collection through multiple sources, such as personal interviews, observation, and verbal and written reports. Therefore, the main features are the depth of understanding gained and the focus on the research object, whether it is an individual, a group, an organisation, a culture, an incident or a situation (Ghauri 2004, 110). Case studies do not offer statistical representativeness, but they can offer depth and comprehensiveness for understanding the phenomenon in question (Easton 1995; Halinen - Törnroos 2005). As Eisenhardt (1989, 548-459) notes, case studies are particularly well suited to new research areas or those for which existing theory seems inadequate. They also benefit from the usage of data triangulation, which can produce a more complete, holistic and conceptual understanding (Ghauri 2004, 115).

According to Ghauri (2004, 109), a case study is not a methodological choice, but rather a choice of object to be studied, and consequently may be both quantitative and qualitative. Moreover, case studies are both processes of learning about the case and products of that learning, the case being chosen because it is expected to enhance understanding of the research phenomenon. Ghauri (2004, 109) also notes that the case study is a useful method when the area of research is relatively less known, and the researcher is engaged in theory building. Case-study research nevertheless requires clear research questions, a thorough understanding of the existing literature, and a well-formulated research design with sound theoretical underpinnings. Case

researchers must be able to synthesise large amounts of quite diverse data, such as interview notes and transcripts, documents and observations, and to produce theoretically informed and convincingly argued conclusions (Scapens 2004).

The action-oriented approach emphasises the case-study method as a natural choice because of its hermeneutic and understanding nature. It is an approach that demands intimate contact between the researcher and the human actor, which the case study and other intensive methods facilitate (Pihlanto 1994; Burrell - Morgan 1979, 234-238). The case method therefore basically concerns the researcher's interpretation of events, information and reality, and depends on his or her perceptions about *meanings* rather than of some "objective reality" (Bonoma 1985).

Bonoma (1985) points out the need to be aware of the substantial differences between case research and more high-data-integrity methods. The first goal of data collection in case research is not quantification or even enumeration, but rather description, classification (typology development), theory development and limited theory testing. Consequently, it is focused on understanding. The aim is not breadth or representativeness either, as in more extensive research, but rather depth of knowledge. (Bonoma 1985)

Consequently, case studies are considered very useful in new situations in which only little is known about the phenomenon, and also when current theories seem inadequate (Yin 1994; Halinen - Törnroos 2005). Halinen and Törnroos (2005) thus suggest that the case strategy is most suitable for the study of business networks: "In the context of network research, the case strategy can be defined as an intensive study of one or a small number of business networks, where multiple sources of evidence are used to develop a holistic description of the network and where the network refers to a set a companies (and potentially other organizations) connected to each other for the purpose of doing business" (Halinen - Törnroos 2005, 1286).

Stake (1995, 3), again, distinguishes between *intrinsic* and *instrumental case studies*. The former focus on learning about a particular case, not about any general problem, while in the latter the interest is in arriving at a general understanding: "to understand something else" (Stake 1995, 3). The focal study could be characterised as an instrumental case study in that the primary research questions are dominant: an issue question is of more interest to the researcher than the case (cf. Stake 1995). A comparative or multiple case study examines the same questions in a number of organisations, and compares the results in order to draw conclusions. According to Yin (1994), the multiple case study as a research strategy does not differ much from a single case study, although the empirical support in the theory building is argued to be more challenging. The purpose of the data collection in this kind

of research is to compare the phenomenon in a systematic way, to explore different dimensions of the issues, or to examine different levels of research variables. Every case has to serve a particular study purpose, and consequently the researcher has to justify the selection of each one (Ghauri 2004, 114).

This study comprised two instrumental cases (see Stake 1995), both of which represented typical Finnish small, medium- and micro-sized tourism companies and networks of tourism companies. The role of the case studies in this research project was to verify the theoretical and empirical pre-understanding of the phenomenon arrived at in the earlier stages.

#### 4.5 Data Collection

Multiple sources of evidence (cf. Yin 1994) were used in this study in order to generate a holistic picture of the phenomenon in question. According to Denzin (1989, 237), researchers triangulate not only theory, but also data sources. He classifies *data triangulation* as one of the basic forms of triangulation, distinguishing three subtypes: 1) time, 2) space and c) person. All sociological observations relate to the activities of socially situated persons, however, whether they are in groups or organisations, or aggregately distributed over some social area. (Denzin 1989, 237)

Figure 15 shows the multiple data sources and their connection to the objectives of the study.

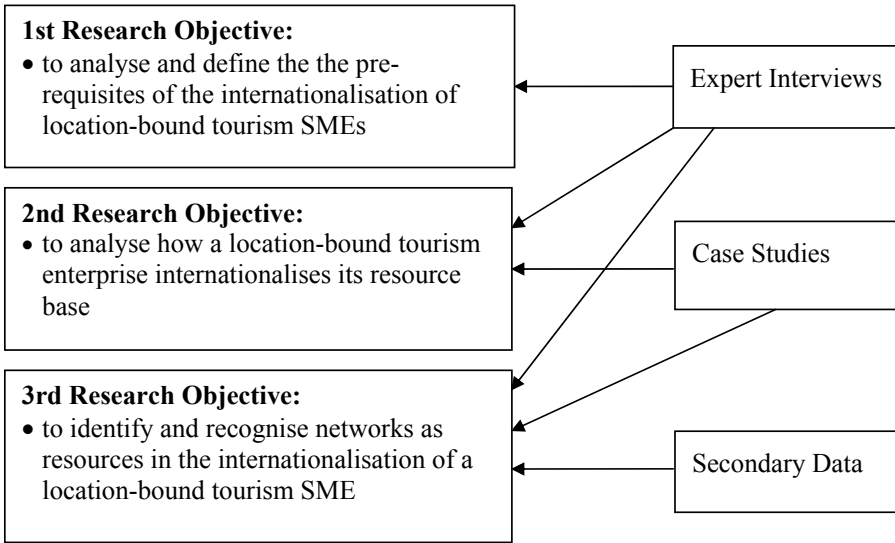


Figure 15 The Connections between the Research Objectives and the Multiple Sources of Empirical Evidence

The empirical data for the study was collected in two phases, and data triangulation was achieved by combining both sets of interviews, which represented various viewpoints on the phenomenon under investigation, and the secondary data including the tourism strategies, annual reports and marketing material of the destinations and individual companies. The first phase of the empirical study comprised *expert interviews* with actors operating actively within the international tourism marketing or development organisations. The second phase comprised an *instrumental case study* (cf. Stake 1995) involving two selected cases. The case data was collected mainly during interviews with key actors in each case company. These interviews, which were planned to be semi-structured (cf. King 1994), turned out as *entrepreneurial narratives*. According to Hytti (2003, 54), narrative interviewing, as opposed to thematic interviewing, has some advantages, including the fact that the plot and the main concepts are chosen by the interviewee rather than the researcher. Indeed, the entrepreneurial narratives produced wider and deeper empirical data than the thematic interviews, as the entrepreneurs were invited to provide narratives instead of answering short questions (cf. Hytti 2003).

#### 4.5.1 Expert Interviews

There are various types of interviews, ranging from the structured to the unstructured (Jennings 2001, 163). Silverman (2001, 86-89) introduces a typology that includes positivist, emotionalist and constructionist interviews, all of which focus on different types of research questions and, consequently, require different types of interview questions (Eriksson – Kovalainen 2008, 79). Interviews comprising positivist “what” questions are usually structured and standardised, whereas guided and semi-structured interviews are used when the focus is on both “what” and “why” questions. Furthermore, qualitative interviews may be unstructured, informal, open or narrative in nature, and are often used to explore a topic intensively and broadly from the participant’s point of view. The researcher may have some guiding questions or concepts to ask about, but does not use any formal structured interview instrument or protocol. He or she is also free to move the conversation in any direction of interest that may come up (Eriksson – Kovalainen 2008, 82-83). According to King (1994), there is no generally used term to describe interviews of this type. Consequently, he refers to them as “structured, open-response interviews”. They are most appropriate in situations requiring a quick, descriptive account of a topic rather than any formal hypothesis testing, in which factual information is to be collected but there is uncertainty about what and how much information the participants will be able to provide, and finally when the nature and range of the participants’ possible opinions about the research topic are not well known in advance and cannot easily be quantified (King 1994).

King (1994) also points to the fact that the interview is the most frequently used qualitative method in organisational studies: it is highly flexible, can be used almost anywhere, and potentially yields data of great depth. It is also a method with which most research participants feel comfortable. He also emphasises the fact that as much thought goes into the design and execution of a qualitative-research interview study as into one using any other type of methodology.

Semi-structured interviews were used in the first part of the field research. The themes were selected beforehand, but the interview itself lacked any precise form and order (see e.g., Hirsjärvi – Hurme 2000, 47). The themes were formulated on the basis of the theoretical pre-understanding of the phenomenon. Appendix 3 lists the selected themes and the semi-structured questions. However, other themes and issues arose during most of the interviews, and this had an affect on the analysis of the data. Similarly, Hart (1991) confirms that the precise nature of each interview will vary from company to company.

The 15 expert interviews took place in autumn 2006. The interviewees chosen for the study could be characterised as members of “corporate elites” (Welch et al. 2002) representing a wide and deep range of expertise in the internationalisation of Finnish tourism areas, destinations and firms. Corporate elites, according to Welch et al. (2002), tend to be visible individuals both within and outside their organisations, and this affects the interview situation and the quality of the data in many ways. The expert interviewees in this case could also be characterised as “outsiders”<sup>5</sup> who, according to Mead (2005), are persons that can supply useful data as they have worked and socialised with members of the group, either in the local environment or elsewhere. They know the culture, but they are also able to make objective assessments.

Five of the expert interviewees in the focal study represented tourism-destination planning authorities, and were actively involved in the internationalisation of the area, with many years of experience. Another six represented the international marketing channel of tourism, two of them operating outside Finland: all of these also had many years’ experience in the internationalisation of the Finnish tourism business. Three interviewees, again, contributed other types of tourism expertise, representing tourism-development organisations, but all of them had several years’ experience of internationalisation. Finally, there was one consultant in the area of tourism development who had operated successfully on a private basis with many successful and internationalised tourism companies and destinations in recent years. In sum, all the interviewees had extensive experience either in international tourism marketing or in the development of tourism products, networks and co-operation.

According to Hart (1991), the willingness of respondents to give freely of their time and experience greatly helps the interviewer, although the occasional problem should be sign-posted. This turned out to be very true in this study: in most cases the time reserved for the individual interview was exceeded because the topic was regarded as extremely important, up-to-date and rewarding, and the interviewee wanted to raise various new themes.

The purpose of the expert interviews conducted for this study was to gain a deep understanding of the internationalisation of the tourism business. What does internationalisation really mean in this context? What are the expectations of internationalised tourism services? In particular, and according to the first research objective, what are the pre-requisites of internationalisation from the marketing-channel and tourism developers’ points of view? The interviewees, their organisations and positions, and the

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<sup>5</sup> “Insiders” according to this conceptualisation and in this study refer to tourism entrepreneurs.



dates, times and durations of the interviews are listed in Appendix 4. The basic selection of the interviewees was based on the earlier experience and existing relationships of the researcher. However, many of those interviewed suggested other potential informants who represented different views. This offered a way of obtaining a more holistic picture of the phenomenon under study, and increased the trustworthiness and quality of the research.

The expert interviews were carried out as personal interviews on pre-selected themes. All except one, which was a telephone interview, were face-to-face. The researcher first contacted all the interviewees by telephone or e-mail in order to ask for permission to conduct an interview and to fix the date. All the contacted persons agreed to give an interview, and in fact they all seemed to be very interested in giving their views on the topic. Twelve of the 14 interviews took place in the interviewee's office or in a meeting room and the duration varied from one to two hours. Some unanswered questions were later checked via e-mail or telephone. One of the expert interviews was conducted over the telephone because the interviewee's office was situated abroad, and the researcher was not able to travel there. This informant had been recommended by another interviewee, on account of her long experience in the marketing of Finnish tourism products abroad, and it seemed very important to include her viewpoints in the data. Another interview took place in a cafeteria in Helsinki: in this case the interviewee's office was situated in eastern Finland, and his timetable made it possible to organise the interviewing situation in Helsinki. Two of the expert interviews were not tape-recorded due to some technical problems with the tape recorder at the time. The researcher made extensive and careful notes, however, and the transcriptions were sent afterwards to the interviewees for checking and approval. All the other interviews were tape-recorded and transcribed either the same or the following day. An analysis of all the interviews and the conclusions reached were sent to the interviewees for comment and correction by e-mail in December 2006: these were in the Finnish language. Three of the interviewees gave some comments, ideas and viewpoints, and these were carefully taken into account in the second round of the analysis process.

The results of the expert interviews were considered in the light of the a priori framework of the study, which was based on existing theories of service internationalisation, the resource-based view (RBV) and network approaches. This produced a classification of resources needed in the internationalisation of tourism SMEs. In the next phase of the empirical research – the two selected case studies - the theoretical and empirical pre-understanding of the phenomenon was applied in real-life situations. As a

result, a model of the internationalisation of location-bound service companies was developed.

#### 4.5.2 Case Selection

The cases in multi-case studies are chosen for several reasons: they may extend the emergent theory, they may comply with theoretical categories, they may provide examples of polar types, or they may replicate previously selected cases. Once the theoretical requirements have been met, pragmatic considerations such as access and feasibility can be addressed. The number of cases is influenced by the aims of the study and the research questions, but unlike statistical sampling, there are no rules covering the minimum number (Eriksson – Kovalainen 2008, 124). According to Stake (1995, 4), it may be useful to select cases that are typical or representative of other cases. However, as a case study is not sampling research he suggests that the first criterion should be to maximise what can be learned, and which cases are likely to increase the understanding, assertions or even modifications of generalisation. He also notes that as the time for and access to fieldwork are always limited, it is important to pick cases that are easily accessible and hospitable to the inquiry.

In this study the cases were selected according to the following criteria:

- they represented tourism companies or networks of companies that could be classified as *growth companies*, looking for growth mainly from abroad
- they represented tourism companies or networks of companies that had been *involved in international tourism for at least 15 years*
- they represented tourism companies and networks that were *bound to a certain location in their home base*: their internationalisation took place at their home base.

Furthermore, given the large number of tourism companies and networks in Finland meeting the above criteria, two more pre-requisites were set:

- the cases were *recommended* to the researcher by one or more interviewees during the expert interviews as an example of successful internationalisation in medium, small and micro-sized tourism companies
- *access* to the cases was facilitated through the networks of the researcher and the recommendations of the interviewees during the first empirical research stage.

The two cases could be characterised as instrumental (cf. Stake 1995), and consequently the number was limited to two. On the grounds of the theoretical pre-understanding, and also on the basis of the expert interviews,

these cases seemed to represent successful internationalisation in tourism SMEs, and as such they represented typical internationalisation processes within the Finnish tourism industry. The resulting entrepreneurial narratives offered valuable data in developing the model of internationalisation proposed in this study.

The first case describes the internationalisation process of the Luosto tourist centre in Lapland, which consists of a tight network of companies. This is an example of a systemically and intentionally internationalised tourism area. Its internationalisation started in the early 1990s and the area has become one of the Finland's most popular tourism destinations for winter activities. The case thus represents the *internationalisation process of a destination*, and comprises a *network* of companies. However, the case description is based mainly on the narratives of informants representing the two key companies in the area, Hotel Luostotunturi and Snow Games Ltd, which could be argued to be the driving forces behind the development and internationalisation of the tourism area of Luosto.

The second case, Loikansaaren Lomamökit in Savonlinna, represents the internationalisation of a small family business engaged in rural tourism for two generations. This company could be regarded as a typical example of pioneering work in the internationalisation of rural tourism, having started modestly as a subsidiary source of income in farming, and having developed gradually into a professional and target-minded growth business with a strong international orientation. In sum, the selected cases represent growth companies - location-bound tourism SMEs with a strong international orientation. They also represent active internationalisers, participating in and running their partner networks actively. The first one explores the internationalisation of a tourism destination, the emphasis being on the two key companies in the area, whereas the second is the story of the internationalisation of an *individual rural tourism company over two generations*.

The case-company entrepreneurs were interviewed, and if the owner was not the founder then the founders were also interviewed. The case studies were conducted during spring 2007, at Luosto in February – March and at Loikansaaren Lomamökit in April – May. Although the expert interviews conducted in the first phase of the field study followed a semi-structured pattern, the entrepreneurs' own life histories in the form of narratives turned out to be the most fruitful source of information in this second phase. Some secondary data was also used in order to give a more holistic picture of each case.

### 4.5.3 Case Studies: Entrepreneurial Narratives

Data triangulation (see Denzin 1989) was used in the case studies, the data being collected in the interviews, from Internet pages and from printed material such as annual reports, statistics, brochures and customer magazines. The focus was meant to be on theme interviews conducted with the entrepreneurs, but, interestingly, in every case they very soon turned into entrepreneurial narratives because the interviewees wanted very much to tell the development stories of their enterprises. Therefore, it was not possible to follow the pre-planned semi-structured format, and narrative methodology was considered very useful at this stage of the study. The case studies are thus reported in the form of entrepreneurial narratives.

According to Pentland (1999), narratives offer a particularly valuable source of insight into organisations in that process explanations that draw on narrative data are particularly close to the phenomena they aim to explain. Narrative approaches and methodologies are reflexive, as in the process of analysing other people's stories researchers also relate them to their own stories and to the question of how and why the research was conducted (Gartner 2007, 613-614). Gartner (2007, 614) describes three broad criteria that seem to characterise narrative analysis. 1) Stories are never complete; they are told in a particular context, to particular listeners and by a particular storyteller. 2) They are told in the larger context of other stories and ideas ("larger voices"); this may offer the opportunity to engage in interrelations with other stories, or other "larger voices" that the readers or listeners bring with them. 3) Narrative approaches come with their own epistemology, theories and methods that must be met on their own terms, and will thus play an increasing role in entrepreneurship scholarship. What is particularly valuable, both analytically and creatively, is the interrelationship between different stories and the "larger voices". Furthermore, every story is told from a particular point of view, and with a particular narrative voice that is not regarded as part of the deep structure (Bal 1985; Pentland 1999).

According to Eriksson and Kovalainen (2008, 213-214), a narrative approach can be applied in business research in at least four forms: in writing narratives (story-like descriptions of research, such as the research reports of classic case studies); collecting and analysing stories told by people (organisation members, consumers and entrepreneurs, for example); conceptualising aspects of life as story making and theories of business research as story reading (e.g., organising, consuming and entrepreneuring); and finally, offering disciplinary reflection in the form of literary critique. According to Czarniawska (1998, 16-17), organisational narratives, as the main mode of knowing and communicating in organisations, give researchers

a key focus in that “narrative forms of reporting will enrich organisation studies themselves, complementing, illustrating, and scrutinizing logico-scientific forms or reporting.”

Narrative interviews could be characterised as chronological relations of events that occurred within a specific period of time. Empirical data in narrative research takes different forms, and not all of it is originally in narrative form (Eriksson – Kovalainen 2008, 215). Indeed, it is often a natural development of serial interviewing, which usually starts with a thematically focused interview (Czarniawska 1998, 29). According to Eriksson and Kovalainen (2008, 215-216), in business-related research narrative interviews and conversations may be conducted individually or in groups, and they are usually transcribed into texts. The relation between the researcher and the participants creates one of the contexts in which meanings are constructed, and therefore involves the co-authoring of the narrative. Narrative interviewing concerns the production of stories, in contrast to other types of intensive and open interviews. According to Yin (1994, 97), in such situations each answer represents an attempt to integrate the available evidence, and to converge upon the facts the matter of their tentative interpretation. This is an analytic process, and could be considered an integral part of case-study analysis. Narratives usually fall within qualitative research methodology, as it is difficult to measure their structure. Nevertheless, they are concrete tools that potentially enhance understanding of organisations and organisational cultures (Koskinen et al. 2005, 193).

The second phase of the field study consisted of collecting entrepreneurial narratives among tourism entrepreneurs in Finnish Lapland and from the Saimaa-lake area in eastern Finland. These narratives were built on guided and open interviews, but also incorporated some additional information and documents such as annual reports, regional tourist strategies, and Internet and printed articles, in order to strengthen and confirm the interview data (cf. Hirsjärvi – Hurme 2000, 179-20; Yin 1994, 85). The entrepreneurial narratives in this study take the form of case descriptions.

#### 4.6 Data Analysis

According to Hart (1991), there is no one correct way of organising, analysing and interpreting qualitative data. Many analyses begin with the identification of the relevant concepts, key themes and patterns of the study (Coffey – Atkinson 1996, 26). Miles and Huberman (1994) suggest a systematic approach to the process, defining data analysis as three linked sub-processes: data reduction, data display, and conclusion drawing and

verification. They point out that in order to describe qualitative data it is necessary to work towards a set of analytical categories that are conceptually specified. These categories may be arrived at and explored deductively or inductively.

Neuman (2000, 420), in turn, notes that a qualitative researcher analyses data by organising it into categories on the basis of themes, concepts, or similar features. This results in the development of new concepts and conceptual definitions, and in the identification of relationships among the concepts. The identification of key concepts often depends on processes of *coding data*, and the researcher needs to organise, manage and retrieve the most meaningful bits (Coffey – Atkinson 1996, 26). Miles and Huberman (1994, 56) further argue that coding is a process that enables the researcher to identify meaningful data and set the stage for interpreting and drawing conclusions: as they put it, “Codes refer to tags or labels for assigning units of meaning to the descriptive or inferential information compiled during the study”. According to Coffey and Atkinson (1996, 30), coding should be thought of as essentially heuristic, providing ways of interacting with and thinking about the data. Coding was used in this study to identify and verify the key concepts involved in the internationalisation of location-bound tourism SMEs.

The analysis of the empirical data was a continuous process, requiring the researcher to move between the theoretical literature and the transcribed interviews, her notes and the secondary data. The analysis of the expert interviews took place in many phases. First, the descriptions were coded in order to organise the data into meaningful categories: the key concepts were identified based on the theoretical background of the study (cf. Coffey – Atkinson 1996). Secondly, issues that came up repeatedly in many interviews were identified as additional research categories. At this stage, however, it was more important to think about how to interact with the data to ensure rich and thick descriptions for interpretation and further analysis (e.g., Coffey – Atkinson 1996; Jennings 2001, 152). Hence, the researcher went back once more to the data in order to analyse the themes that reflected the interviewees’ views more closely (cf. Coffey – Atkinson 1996, 40). This resulted in the classification of factors affecting the internationalisation of location-bound tourism SMEs. The identified themes were then augmented with the informants’ ideas and comments.

The pre-selected themes of the study were rooted in the theoretical pre-understanding of the phenomenon, and formed the starting point of the analysis. Furthermore, sequential and thematic field analysis was used in the first phase. After this the identified themes were further organised in three main categories according to the theoretical framework of the study:

- 1) Industry specific resources of internationalisation
- 2) Networks as resources of internationalisation
- 3) Entrepreneurial capabilities as resources of internationalisation

These categories, again, are further divided into sub-categories, according to Table 3 below.

Table 3 A Classification of the Resources Needed in the Internationalisation of Location-Bound Tourism SMEs

<p><b>1. Industry-Specific resources:</b>  Appeal factors → Attraction, reputation, image  Accessibility and infrastructure  The special nature of the tourism product  The quality of the tourism products</p>
<p><b>2. Networks as resources of internationalisation:</b>  Types of networks  Network embeddedness</p>
<p><b>3. Entrepreneurial capabilities:</b>  A global mindset and an international entrepreneurial attitude  Language skills and cultural knowledge  International marketing competence  Collaboration Capabilities</p>

The second phase of the empirical research comprised a case study involving two instrumental cases. The data was collected from entrepreneurial narratives and secondary sources. The role of the cases in this research was to verify the findings from the earlier stages of the study, and to enrich the interpretation of the phenomenon in question. The case-study analysis was based on the pre-defined classification described above, and *coding* was also used. Pre-planned systematic coding is most often used in case studies when the research is grounded in existing theory and aims to improve the theory, or to test it. This kind of research requires pre-defined propositions, which offer the basis for a pre-developed thematic coding scheme to be used in collecting and analysing the empirical data. These codes are derived from the theory, not from the empirical data as such. (Eriksson – Kovalainen 2008, 128)

The hermeneutic reconstruction of texts and narratives follows two main rules: the principle of reconstructive analysis and the principle of sequentiality. The research process is inductive: it begins with the facts and proceeds to more general structures. Moreover, reconstructive analysis avoids the use of predefined systems of variables and classification (Rosenthal 1993, 66). Eriksson and Kovalainen (2008, 217-221) identify four alternatives for the focus of narrative analysis: *analysis of meaning* (focus on

the content, such as issues themes or patterns in the narrative), *analysis of structure* (focus on narrative devices, as well as on structural and linguistic elements), *analyses of interactional context* (focus on co-production through dialogue in context), and *analysis of performance* (focus on telling stories through words, gestures, silences and images).

Analysis of meaning was used in this study, given that the aim of the research was to answer the question “what is told”. This could also be described as *content analysis*. Furthermore, one concept used in organising empirical data is *thematic analysis*, which is also commonly used in narrative studies (Riessman 1993; Eriksson – Kovalainen 2008, 219). Thematic analysis in narrative research has at least two different purposes. First, it facilitates the examination of any empirical data for themes and the development of a storyline to integrate them into meaningful stories: the construction of the narratives is a central part of the analysis, and is done by the researcher. Secondly, it allows the narratives to be examined as they are told or written by other actors in the search for patterns of themes (Eriksson – Kovalainen 2008, 219).

#### 4.7 Evaluation

The research orientation of this study is hermeneutic, it is interpretative in nature, and a multi-theoretical framework is used. Understanding of the phenomenon is gained through data triangulation, and the qualitative approach is adopted. Furthermore, hermeneutic understanding is gained in the different phases through an iterative process in which deductive and inductive modes of inquiry are used. The primary assumption, based on the theoretical pre-understanding of the focal study, holds that existing theories of internationalisation do not recognise the special features of the phenomenon in the case of location-bound tourism SMEs. In fact, this was the starting point: to enhance understanding of what internationalisation is in this context.

The concepts of reliability, validity and generalisability are often regarded as the basis of evaluation in social-science as well as in business research (e.g., Patton 2002; Yin 2002; Eriksson – Kovalainen 2008). The validity and reliability of qualitative research is a much-debated topic, and various researchers have established a large number of criteria (e.g., Lincoln - Guba 1985; Miles – Huberman 1994). Some have applied the same terminology that is used in the evaluation of quantitative studies (e.g., Silverman 2001, 225-255; Yin 1994, 32-38), while others suggest adopting new terms that are better suited to qualitative research (e.g., Lincoln – Guba 1985, 290-237;



Patton 1990, 460-293). As Lincoln and Guba (1985, 37) point out, interpretive studies focus on experience and meaning, and cannot be judged on the positivist criteria of truth, validity and reliability. Tynjälä (1991, 388) also notes that the basic premise in qualitative research is that there is no single objectivist truth, and therefore the evaluation criteria should differ from those used in quantitative and objectivist research. However, although researchers use different terminology, the contents of the various evaluation criteria seem to resemble each other (Sandberg 2005).

Andersen and Skaates (2004) emphasise the importance for researchers in international business using qualitative methodology to explicate their procedure and the rationale behind it in order to ensure validity both during the research process and in the presentation of the results. Addressing validity issues is one way of ensuring strictness and rigour. The criteria for evaluating the validity of research efforts rely not on the methodologies themselves but rather on the underlying epistemological and ontological assumptions of the researcher, as well as the constraints of the qualitative methodology chosen. Outcome validity concerns how trustworthiness is communicated, with regard to how findings are selected and interpreted and how the interpretations are presented (Sandelowski 1986; Miles – Huberman 1994; Andersen – Skaates 2004).

Lincoln and Guba (1985) substituted reliability and validity with the parallel concept of “trustworthiness”, suggesting that in order to evaluate the trustworthiness of a qualitative study the researcher should assess aspects such as credibility, transferability, and dependability and confirmability. This is a criterion that has been especially designed for qualitative research, and consequently it is also applied in this study.

*Credibility* is related to the concept of internal validity, which is traditionally used in assessing quantitative studies (Tynjälä 1991, 390). It concerns the researcher’s ability to provide data that corresponds with the multiple constructions of reality (Lincoln – Guba 1985, 195-296). More precisely, from the perspective of naturalistic inquiry it could be seen as a measure of how well the researcher was able to represent the reality constructed by the interviewees (Lincoln – Guba 1985, 296). The researcher enhanced the credibility of this study by developing a deep theoretical pre-understanding of the phenomenon under investigation in the first phase, and using data triangulation as a data-collection method during the field research. The theoretical pre-understanding was formed before the field research was conducted, and consequently the research questions were operationalised through the theoretical framework developed in the earlier phase. The classification of the pre-requisites of internationalisation in location-bound services was based on the theoretical pre-understanding, and the interview

themes – for both the expert interviews and the case studies - were based on this classification. Furthermore, the use of data triangulation, i.e. combining the interview data with secondary data, could be assumed to have increased the credibility of the research (cf. Huber – Power 1985, 175-176).

The selection of interviewees is also an important issue in assessing the credibility of qualitative research in that it reflects the reliability of the empirical data (see Hirsjärvi – Hurme 2000, 189). The availability of and access to the data also influence the credibility (e.g., McKinnon 1988, 38). Access to the data was also an iterative process in this study. For one thing, the researcher's pragmatic experience and know-how in the field affected her choice of interviewees. Many of them recommended others, however, which, it could be argued, significantly improved the quality of the study. Furthermore, the motivation of the interviewees increased its credibility (Lincoln – Guba 1985, 302; Huber – Power 1985, 172-173). All the interviewees had long and deep expertise within the tourism business. On the other hand, they also represented different perspectives on tourism development, marketing and entrepreneurship. Without exception they were highly motivated by the research topic, and wanted to make a contribution to the study. Nevertheless, they all emphasised at the beginning of the interview that they could not share information on issues that were characterised as business secrets. The conversation was open and confidential, however, and the time reserved for the individual interviews was exceeded in most cases by a significant margin. It was also notable that at a very early stage of the field study (especially during the expert interviews) certain responses and topics started to come up repeatedly. According to Hirsjärvi and Hurme (2000, 60), this could be taken as a sign of the adequate gathering of interview data, and a high degree of saturation was detected.

Further, as the purpose of the case studies was to strengthen and verify the theoretical and empirical a priori understanding from the earlier stages of the study, it could be argued that the two instrumental cases served this purpose relatively well, making it possible to justify the theoretical framework and, importantly, to arrive at a deep interpretation and understanding of the phenomenon under investigation.

*Transferability* is related to the concept of external quality in quantitative research (Tynjälä 1991, 390), and refers to the extent to which the results of the study are applicable to other empirical or theoretical contexts (Lincoln – Guba 1985, 296-298). It is concerned with the researcher's responsibility to show the degree of similarity between his or her own research, or parts of it, and other research, in order to establish some form of connection between the focal research and previous efforts (Eriksson – Kovalainen 2008, 294). However, Lincoln and Guba (1985, 316) point out that it is difficult for

researchers to specify transferability in qualitative studies, although they can – and should – describe the data in such detail that the potential applicators are able to judge for themselves. Transferability also refers to the concept of generalisation, and Silverman (2000, 110) points out that the relative flexibility of qualitative research can improve the generalisability of the findings, for example by allowing the inclusion of new cases after the initial findings have been reported. According to Alasuutari (1995, 156-157), generalisability is the wrong word to describe what scholars attempt to achieve in qualitative research, and generalisation is a word that should be reserved for surveys.

It can be assumed, however, that the findings of this study are generalisable, at least to a certain extent. The reasoning behind this assumption is that the phenomenon in question, i.e. the internationalisation of location-bound service SMEs, follows a certain model and pattern of internationalisation that is typical of companies with strong resource internationalisation, successful co-operation, network embeddedness, and collaboration capabilities. In this sense the main results could be generalised, although the empirical data is based only on 15 expert interviews and two instrumental case studies. Consequently, it could be argued that transferability is relatively high.

*Dependability* concerns the process of inquiry, and indicates how dependent the findings of the study are on the enquiry itself (Lincoln – Guba 1985, 298-299). It is related to the concept of reliability, which is used in quantitative research (Tynjälä 1991, 391), and measures the researcher's ability to present consistently truthful and reliable information about the phenomenon (Lincoln – Guba 1985, 298-299; Tynjälä 1991, 391). Indeed, the influence of the interviewer in the results of qualitative studies is considerable (Sandberg 2005). Patton (1990, 279) also points out that interview quality is largely dependent on the interviewer. The challenges of dependability were highly respected during the whole research process in this study. In fact, the research influenced the findings at an early stage when the interviewer devised topics that were raised during the interviews. Thus the interview topics were based on the theoretical framework, and the data obtained was theory-laden (cf. Olkkonen 2002, 111). Consequently, special attention was paid to analysing the research data according to the relevant themes so that the role of the theoretical background could be maintained and justified during the empirical stage. It is difficult to achieve complete dependability (Tynjälä 1991, 391), but in order to maximise it the researcher gave freedom to the interviewees – both during the expert interviews as well as in the case studies – to discuss issues that were important to them, while

still following the interview plan and the classification based on the initial theoretical framework.

*Confirmability* is about linking findings and interpretations to the data in ways that can be easily understood by others (Eriksson – Kovalainen 2008, 294). It is closely related to the concept of objectivity, which is widely referred to in quantitative methods (Tynjälä 1991, 391-392) and assesses whether someone else would produce the same results and conclusions about the phenomenon in question (Tynjälä 1991, 391-392; Lincoln – Guba 1985, 299-301). The researcher's selective perception may inherently distort the results, however, which means that the reliability is also very much dependent on the researcher's ability to choose the essentials of the phenomenon and to remain objective (McKinnon 1988, 37-38; Eskola-Suoranta 1998, 213; Hirsjärvi – Hurme 2000, 189; Lincoln – Guba 1985, 299-300). As mentioned before, it is worth noting that in this case the researcher's earlier experience and pragmatic know-how in the field guided the research setting, which also influenced the gathering of the data and consequently could have affected the confirmability of the study. Therefore, a special effort was made during the whole research project to control the subjectivity of the researcher. The advice and suggestions for further interviews and the inclusion of case enterprises given during the first round of expert interviews were extremely valuable. These additional expert interviews, as well as the cases recommended by the interviewees, arguably increased the validity, reliability and trustworthiness of the study, and consequently strengthened the confirmability of the qualitative findings.

In sum, this chapter evaluated the trustworthiness and quality of the study in terms of credibility, transferability, dependability and confirmability. The aim was to explain why and how the methodological choice and decisions were made, and how the research was conducted in order to maximise the trustworthiness. Most weaknesses seem to relate to the empirical part of the study: the objectivity and the choice of the two case companies – indeed, they were chosen from hundreds of similar and equally valid cases. However, every effort was made during the research process (building the theoretical background, designing and conducting the field research, and finally analysing the findings) to minimise the weaknesses and maximise the strengths

## 5 PRE-REQUISITES OF INTERNATIONALISATION IN LOCATION-BOUND TOURISM SMEs

*“When can one say that a tourism company has internationalised? Is a tourism company international when it has translated its www-pages into English? However, it shows that the company clearly has made an attempt and has a desire to attract foreign customers.”*

(Interviewee, Tourism Development, Private Sector)

This chapter is based on the findings of the expert interviews conducted in the first phase of the empirical study, and on the theoretical pre-understanding of the phenomenon in question. The pre-understanding of the resources needed in the internationalisation of location-bound service companies was rooted in the theoretical framework. Consequently, in order to enhance understanding of the internationalisation of location-bound tourism SMEs it seemed necessary to identify the pre-requisites of internationalisation in this context. In many cases these pre-requisites act as drivers of internationalisation, and could also be characterised as resources.

It is posited in this thesis that the internationalisation pre-requisites of location-bound tourism SMEs differ from those in service branches that are not bound to a certain location. It could therefore be assumed that they are very specific in nature, with high dependence on the location-bound resources of the individual tourism company.

Furthermore, it is argued that tourism as a sub-sector of services applies industry-specific modes of internationalisation. Given the location-boundness and inward nature of internationalisation in tourism SMEs (discussed in Chapter 3.1.3), identification of its pre-requisites in location-bound service SMEs requires analysis of the individual company's resource base. According to the theoretical pre-understanding the resource base of location-bound tourism SMEs comprises *industry-specific resources, networks and entrepreneurial capabilities* (see Figure 12, page 95). As a result of the findings from the expert interviews these main categories were further divided into several sub-categories in order to allow more precise analysis and description of the phenomenon. This classification builds on the marketing triangle suggested by Grönroos (1998).

The *degree of internationalisation* of location-bound tourism SMEs, and particularly the existence of “active” and “passive” internationalisation emerged as an important issue in the expert interviews. The interviewees clearly recognised the existence – and importance – of tourism companies that could be characterised as “passively internationalising”, but that still received and served foreign customers and could have an essential role within the network of companies. The focus in the first section of this chapter is on degree of internationalisation, and especially on the phenomenon of active and passive internationalisation and how it affects the tourism business.

### 5.1 Active and Passive Internationalisation

It is clear from the empirical data collected in the expert interviews that the tourism business comprises different types of enterprises that could be placed on a continuum from passive to active internationalisation (see Figure 16).

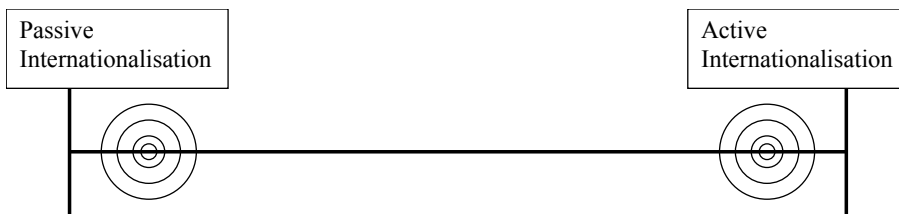


Figure 16 A Continuum from Passive to Active Internationalisation

Not all tourism companies look actively for new international markets, but for many reasons they are more or less forced to adjust their operations internationally. They may get involved in the international tourism business even it is not among their first priorities. It is therefore justified to describe this phenomenon – i.e. passive internationalisation - as one aspect of the internationalisation of location-bound tourism SMEs. As discussed in the expert interviews, there are three ways in which a tourism company may internationalise passively.

First, internationalisation in its simplest form starts when a foreign customer visits the company, either by chance or with a domestic customer. International contacts may increase through existing domestic customer relationships, and the internationalisation process may start without any active international marketing activity. International customers come to the company with a friend or through a friend – this “friend” may be a tour operator or a travel agent. The internationalisation of many holiday villages

and cottage-rental companies in Finland has followed this pattern: it was not conscious or active at the beginning, and happened merely by chance. Later, having realised the growth potential in the foreign markets, the company may participate actively in different kinds of development projects.

Secondly, passive internationalisation may take place in areas and destinations with a special tourism attraction, hosting an international event or with a strong international business life. In Lahti, for instance, the annual winter games have been bringing foreign visitors to the area for 80 years. Tampere, again, is a good example of a business town with a long industrial tradition. Many multinational companies bring their international customers to the area and the local tourism services are used and needed in promoting the wellbeing of the visitors. Furthermore, international conferences and congresses organised by universities and research centres bring international travellers to many areas. In all these cases companies involved in the tourism business have learned to serve international customers even if they are not active in international marketing. They could thus be characterised as passively internationalised.

Thirdly, in tourism centres and areas in which one or two larger companies or regional tourism-development organisations are actively engaged in the internationalisation process the smaller companies may be part of it but in a passive sense. These, so-called passive companies, may not have any special need or motivation to internationalise, but they follow the developments in the area and become part of the network. When a large tourism company internationalises many small companies in the area may benefit. At best this leads to a win-win situation, with common targets and operational models. Nevertheless, it requires a standardised quality concept, mutual respect and recognition of each other's value – without which the co-operation and networks easily choke to death.

A tourism company that internationalises passively cannot be regarded as an example of an internationalised company, however, although it may have an important role in an international business network. It is therefore important to understand the place of passive internationalisation in the context of tourism. These companies may be the ones that offer the most authentic experiences to foreign customers – and have an important role in securing the quality of the tourism product.

Furthermore, there seem to be enterprises that have developed – or are developing - from the passive to the active in terms of internationalisation. This may be due to changes in the environment, or to an effective tourism policy in the area. Typically, in such cases tourism has not provided the main income for the entrepreneur, but the developing business environment and

market potential have made it possible to concentrate on it. This, again, has led to an increasing interest and engagement in internationalisation.

There are also examples of tourism enterprises that have segmented their products and services in international markets from the beginning, and are therefore “Born Globals” in the context of tourism. They produce high-quality services at a high price level, which does not accord with domestic demand. Typically this kind of product development includes some speciality, exotic elements aimed at markets abroad.

*“A good example of such a company is the hotel Kakslauttanen in Inari; 95 per cent of its customers come from foreign countries. It offers – among other products - a honeymoon in an ice igloo, which cannot be found anywhere else and is clearly targeted at foreign wedding couples.”*

(Interviewee, Tourism Development, Private Sector)

The production and marketing of international tourism require keen co-operation at different levels among tourism enterprises, other service producers, public authorities, tour operators and other marketing channels. Consequently, the tourism business cannot exist without effective networks. In particular, the internationalisation of tourism areas or destinations requires different types of networks and the ability of tourism companies to become embedded in them. The next section analyses the findings from the expert interviews on how networks facilitate the internationalisation of location-bound tourism SMEs.

## 5.2 Networking as a Pre-requisite of Internationalisation

Networking as a pre-requisite of internationalisation refers to different types of co-operation and to network embeddedness, which could also be seen as company resources. In fact, it could be argued that networks form an essential part of an individual tourism company’s resource base. In accordance with the theoretical framework of this study, a successful network strategy of internationalisation and an individual company’s ability to become embedded in profitable and dynamic relationships are among the main factors in the internationalisation of tourism enterprises (see Chapter 3.3.4).

It turned out during the expert interviews, however, that the concept of networking is unclear among the actors in the field. The interviewees seemed to have different ideas of what a network was. For some of them, networking



clearly referred to business networks, whereas others included very wide, even informal networks in the concept. One of them said:

*“The tourism business should not talk about networks at all; it is co-operation. Networking refers to concrete actions, it must lead to business and, for instance, many development projects have not led to any permanent international co-operation. Municipalities and other public actors are not part of the network, they are supporting partners. On the other hand, there must be support and commitment from the public sector in order to produce tourism services.”*

(Interviewee, Tourism Marketing)

Another interviewee asked:

*“What does networking actually mean? Does it mean agreements between partners, and should the network be somehow organised?”*

(Interviewee, Tourism Development, Private Sector)

The above comments clearly indicate that although the concept of networking is widely used in the tourism business, the actors in the field seem to lack a common understanding of it. The analysis of tourism networks and network embeddedness in the following sections is meant to clarify the concept.

### 5.2.1 Types of Networks

The following classification of networks in the context of internationalisation in tourism SMEs was suggested in the theoretical framework of this study (see Figure 10, page 87): 1) market networks, 2) social networks, 3) institutional networks, 4) infra-structural networks, 5) technological networks, 6) regional networks and 7) virtual networks (see Chapter 3.3.3).

The results of the expert interviews partly support this theoretical pre-understanding. The interviewees identified *local networks*, *marketing and promotion networks* and *Internet networks*, all of which feature in the theoretical framework. However, additional elements were also identified: *theme-based networks*, *foreign networks*, and *co-operation in the form of a tourism centre*.

Tourism networks can be categorised as horizontal or vertical. Distribution and marketing channels are vertical, whereas co-operation in tourism production or joint marketing could be considered examples of horizontal co-operation. On the basis of this classification, the following types of networks occur within the tourism industry.

*Local networks (regional networks)* include production or sub-contractor networks and are examples of horizontal networks. This kind of network consists of actors who produce the tourism service as a whole and, according to the theoretical framework, could also be classified as *issue-based* (Komppula 2004a) or *technological networks* (Fletcher – Barrett 2001). An example of such a network is a rural tourism company that serves customers on its own premises, but the services are produced by five different enterprises. The customer buys the product as a package and does not even realise that the producer is a business network. Local networks enable partners to distribute the work efficiently, and to raise the quality of the products and services to a high level by concentrating on their core businesses. Local networks may also be formed among competitors: if the company cannot meet the demand at the time it directs visitors to other companies in the region. It is important to keep the customer in the area: this benefits all partners and the whole region in the long run. This form of co-operation could be characterised as co-opetition, in which competition and co-operation interact (e.g., Bengtsson – Kock 2000; von Friedrichs Grängsjö 2003).

Other types of networks include *marketing and promotion networks*, involving co-operation with tour operators and sales and marketing organisations. In most cases an individual tourism SME cannot afford to carry out marketing operations by itself and co-operation is needed, on both the horizontal and vertical levels. These networks often differ from the local networks described above. According to one of the interviewees:

*“A marketing and promotion network can sometimes be a very indistinct network, especially when there’s a big number of members involved. In this kind of network it’s very important for the individual tourism SME to define the benefits of the co-operation – is the marketing co-operation useful and is it worth getting involved? There are always two aspects of joint marketing projects: the joint benefit and the individual benefit. This means that an individual tourism company has to go along with the joint benefit even if it doesn’t directly benefit itself”.*

(Interviewee, Tourism Development, Private Sector)

From the perspective of the individual tourism SME, regional tourism organisations and public developmental organisations are important co-operative actors, and therefore essential parts of the marketing and promotion network. These are organisations that may give an individual tourism company access to larger networks. Further, *the Internet* could be classified as a marketing and promotion network, and its role in the marketing of tourism products is increasing rapidly. It is clearly an example of a *virtual network* as defined in the theoretical framework.

*Theme-based networks, such as* tourist routes, are another example of co-operation within the location-bound tourism industry. The tourism companies are situated along an historical road, such as the Kings Road or the Ox Road in Finland. They share a common quality concept, and represent the philosophy of the theme visually and also in their business ideas. Cooperation may be very effective in this type of network. For instance, so-called “cycling tourism” could easily benefit in that a cycling tourist moves daily from one place to another, and consequently the same type of accommodation business in another region may be a profitable partner. This requires co-operation between larger areas, over provincial borders. *The interviewees pointed out the higher importance of theme-based networks than of local or regional networks.* This is particularly relevant in international tourism as foreign customers often wish to experience different parts of Finland. Theme-based networks include both vertical and horizontal partners, and the co-operation includes joint horizontal marketing through joint vertical channels. Networking and co-operation have traditionally been based on local or regional co-operation, but it should be understood in the tourism business that there is also a need for specific theme-based networks spanning larger geographical areas. According to one interviewee:

*“As an example, in middle Europe one of the most popular Finnish products is a theme-based tour around Finland. It would be much easier to develop such products if there was more cooperation between the regional tourism organisations, and the operations of an individual regional organisation also extended to other areas. For an American, for instance, Finland is a fairly unfamiliar destination and may be just one part of his or her Scandinavian tour. You can understand that a local tourist area – or even the regional organisation’s area – is far too small to be managed independently in the international competition”.*

(Interviewee, Tourism Marketing)

*Foreign networks* may also be important in the internationalisation of the tourism business. Joint projects with enterprises in the EU area, for example, could open up new market areas for Finnish tourism, and could lead to exchange operations and marketing co-operation, for example. Cultural exchange organised by voluntary activity groups was considered an important factor in the creation of foreign networks.

Finally, the most organised form of networking involves *co-operation in the form of a tourism centre*. The partners complement each other, the co-operation is based on business, and it is conscious and target-minded. The partners in this kind of network are physically closer to each other than in theme-based networks. It could be argued that aiming at international markets requires close partnership and strong, well-organised co-operation. The companies involved must also be embedded in a larger marketing network as well as in development networks.

Some networks *change over time*. They are typically education and development-related, and have been tailor-made for a certain purpose.

### 5.2.2 Network Embeddedness

The concept of network embeddedness was defined earlier in this study (see Chapter 3.3.2.) as “companies’ relations with, and dependence on, various types of network” (Halinen - Törnroos 1998). Tourism SMEs are embedded in wider business networks that extend beyond the boundaries of the individual firm. These networks, again, are characterised by exchange relationships between the business units and other players in the industry, and by the position the company occupies in relation to other actors in the network (adapted from Halinen - Törnroos 1998). The inner circle of an embedded network constitutes the core actors who collectively make decisions in order to start, maintain, increase or possibly end certain relationships. These core actors could also be termed the key members of the network, and the core or the network describes other key actors. The outer circle includes actors who are not involved in the core activities of the business but who may be able directly or indirectly to influence the activities of the network. (Komppula 2004b) According to Komppula (2000, 286), network actors include local and issue-based nets formed by small enterprises, and leading enterprises with significant resources in regional terms. Many tourism SMEs are active simultaneously in various co-operative bodies and are embedded in different kind of networks. The concept of network embeddedness thus explains business change and development. According to one interviewee:

*“This should be the case because there is not a finite line in a network, it should be flexible and open to change. Moving in networks, requires a critical view from an entrepreneur, however.”*

(Interviewee, Tourism Development, Public Sector)

The traditional view of co-operation within the tourism industry is based on local networks, but it is obvious that there must be various types of co-operation at the same time. There are some networks in which the partners complement each other, the co-operation is very conscious and target-minded, and the companies involved constitute a concentrated tourist attraction. These actors are physically closer to each other than partners in theme-based networks, for example. However, according to the interviewees, internationalisation requires the competence to build larger co-operative entities. They pointed out that in order to internationalise an individual tourism company has to join networks that communicate with markets, and to co-operate with international networks. Moreover, it was suggested in the expert interviews that small tourism enterprises should also participate in knowledge-development networks, such as educational forums.

It is also important for the individual entrepreneur to consider which networks are the most important for the company. In many cases it would be profitable to join a large provincial tourism network in order to gain new, valuable contacts and support.

*“When it operates in networks a company can find out what are the most valuable and profitable types of co-operation. A network is a living entity, and successful networking is based on the entrepreneur’s ability to distinguish right and wrong. Openness and regeneration affect the choice of networks and how they change over time”.*

(Interviewee, Tourism Development, Public Sector)

Three attributes of network embeddedness are identified in the theoretical framework of this study (see Figure 11, page 90): 1) entrepreneurial behaviour, a global mindset and an international orientation; 2) macro-level tourist destination planning; and 3) a representational role and network identity.

The first of these emphasises the impact of entrepreneurial behaviour and attitudes on co-operation. Very small firms dominate the tourism industry, and as a consequence the skills and resources of the entrepreneurs may be restricted and modest (Peltonen et al. 2004). In this situation the surrounding

network environment and the individual entrepreneur's ability to become embedded in various networks may have a strong impact on the internationalisation of location-bound tourism enterprises. This was also emphasised in the expert interviews.

The second attribute refers to destination planning and public networks. Consequently, the extent of local, regional, national and even international tourism planning may affect the network embeddedness of an individual company. The roles of the regional tourism organisations and the Finnish Tourist Board were particularly emphasised in the expert interviews. The regional tourism organisations in different parts of Finland operate on different bases: most of them are limited companies, but there are also organisations working on a project basis. As these organisations have a different financial set-up, and their patterns of operation are not the same, they do not contribute to the development of the regional tourism-planning system as a whole. *According to the interviews, the regional organisations do not co-operate enough with each other.* This should be considered in the development of international tourism products and services in Finland.

The third attribute of embeddedness – a representational role and strategic-network identity - concerns how companies and individuals within them represent their country, industry or firm in the eyes of other network members (Halinen - Törnroos 1998), and refers to the attractiveness of an organisation as a co-operative partner (Bonner et al. 2004; Andersson et al. 1994). This issue did not arise directly during the expert interviews, however, although the analysis showed that it was touched upon indirectly in connection with other themes related to the individual tourism company's ability to recognise the most profitable networks, for example. Furthermore, it was emphasised that a good network was based on need and on common, long-term targets, thereby ensuring that all the service producers within it have a clear vision of why it exists. This also reflects the fact that all network members must have a distinct idea of the roles of each partner, and especially of their own role. Here again, the need to recognise the core business areas is important, as is the quest for collaboration capabilities.

In sum, it was emphasised in the interviews that co-operation and networking needed know-how, target-minded consideration, a critical attitude and flexibility. Figure 17 depicts networks as pre-requisites of internationalisation in location-bound tourism SMEs.

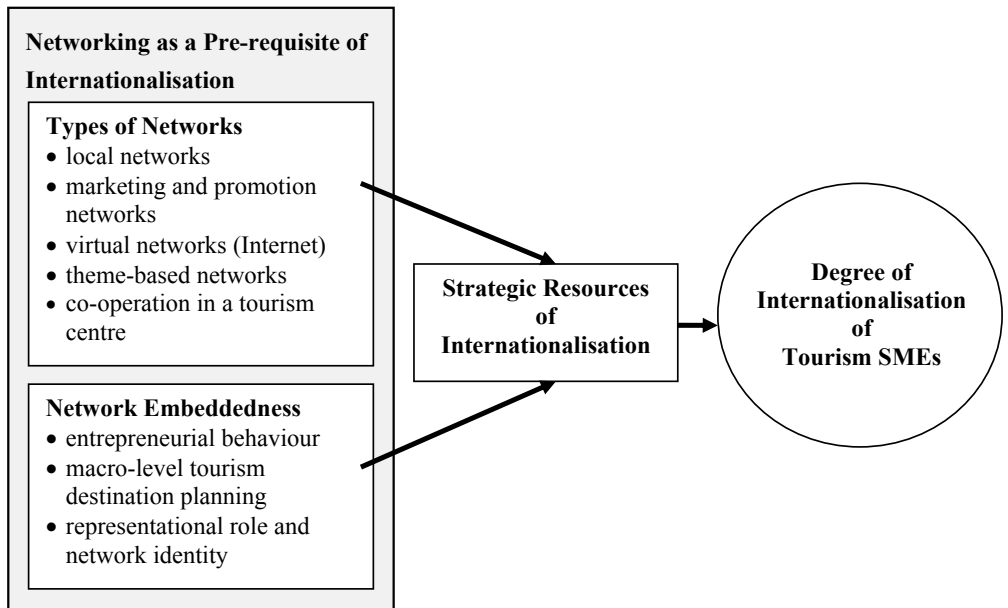


Figure 17 Networking as a Pre-requisite of Internationalisation in Location-Bound Tourism SMEs.

As Figure 17 indicates, the degree of internationalisation of an individual tourism SME – and consequently of a tourism area or destination - may be strongly affected by networks and co-operation, and by an individual tourism company’s ability to utilise and develop networks as strategic resources. Here, the role of passive and active internationalisation within the networks should be recognised, and the work should be distributed accordingly. It could be concluded that the existence of the above-mentioned types of networks within a tourism business is a necessary antecedent of internationalisation. Entrepreneurial and collaboration capabilities, network identities and macro-level tourism planning are also necessary pre-requisites in developing these networks in order to operate successfully on the international level.

Although the importance of networks is highly emphasised in this context, there are certain industry-specific pre-requisites that could also be considered antecedents of internationalisation. Such pre-requisites in the internationalisation of location-bound tourism SMEs are thus analysed in the next section.

### 5.3 Industry-Specific Pre-requisites of Internationalisation

In accordance with the findings from the expert interviews the industry-specific pre-requisites of internationalisation were divided into the following four sub-components: *appeal factors* (attractiveness, reputation and image), *accessibility and infrastructure*, *product factors* (the special nature of the tourism product, and inseparability, perishability and customer participation in the service process), and, in parallel with them, *service quality*. These pre-requisites may be both tangible and intangible by nature, and due to their location-boundness they could be argued to have a specific role in the internationalisation of tourism SMEs.

#### 5.3.1 Appeal Factors

This first group of pre-requisites, *appeal factors*, concern the *attractiveness, reputation and image of the location*. Attractiveness refers to both the regional development atmosphere and the physical environment. The internationalisation of the location-bound tourism SMEs is often based on the attraction and appeal of the area, destination or tourism centre to tourists.

*“Yes, the appeal comes first, the appeal and the attractiveness of the area, destination or tourist centre. Only after that comes the decision in the tourist enterprise to enter foreign markets.”*

(Interviewee, Tourism Marketing)

Crouch and Ritchie (1999) point out in their conceptual model of destination competitiveness that there are certain key motivations for visiting a destination, which act as primary elements of its appeal. These factors fall into six categories: physiography (landscape, climate, for example), culture and history, market ties, activities, events, and the tourism superstructure (e.g., accommodation, food services and transportation). Similarly, Capone (2006) analyses tourist local systems (TLS), and classifies the attraction of a destination in three categories: artistic resources, cultural resources and environmental resources. As Crouch and Ritchie (1999) state: “To succeed, destinations must ensure that their overall attractiveness, and the integrity of the experiences they deliver to visitors, must equal or surpass that of the many alternative destination experiences open to potential visitors”. Thus the development of tourism business is based on existing productive resources in each location. If these lack an innate appeal to tourists, heavy investment would be required in order to create compensatory appeal (Komppula 2007).



Accordingly, many of the expert interviewees emphasised the fact that the attractiveness of the tourism destination must be such as to distinguish it from other countries or destinations. Finland's attractiveness is apparently based on safety, cleanliness, nature and peacefulness. In any case, attractiveness must be based on the area's own strengths – copying others does not lead to success in the tourism business. For instance, the appeal of Lapland is strong. The development of the tourism business there is rooted in interest and demand, and the activities have gradually been transformed into a profitable and professional package.

*“There'll be no growth from foreign markets if there's not enough appeal. Compare, for instance, Lapland with other parts of Finland. The appeal must be clear and strong, so you don't have to make any extra effort there. The appeal of Finnish tourism destinations must differ from the appeal of other countries.”*

(Interviewee, Tourism Marketing)

Consequently, it is important in assessing the attractiveness, reputation and image of a tourist destination to analyse the decision-making process of a foreign customer. According to one interviewee:

*“It is important to understand the decision-making process of a foreign visitor. It can go like this: Finland – Helsinki – nature. The tour operators have this knowledge and expertise, they know how their customers think and how they choose. For many foreign travellers Finland is a strange country.”*

(Interviewee, Tourism Marketing)

According to Galbreath (2004), a good reputation leads to positive financial and social performance, and therefore reputational resources are among the most important the firm can develop. Within the tourism business reputation and image factors include the image of the country, the destination, the company and the network in which the tourism SME is embedded. According to the results of the image research carried out by Komppula et al. (2006), the biggest challenge in developing Finland's image is to make the country generally better known in the target markets, not only as a tourist destination. Marketing activities carried out jointly with other branches of industry and cultural life could add value to Finland's tourism image by creating an image of Finnish culture, its people, atmosphere and way of life (Komppula et al. 2006). Grönroos (2007, 340-341) notes that a

favourable and well-known image, an overall company image and a local image are assets to any firm in terms of the impact on customer perceptions of its communications and operations, suggesting that it has at least a fourfold role: it communicates expectations, it is a filter that influences the perception of the firm's performance, it is a function of expectations as well as of experiences, and it has an internal impact on employees as well as an external impact on customers.

However, according to one interviewee, the Finnish tourism business cannot answer the question of why foreign tourists come to Finland. It was suggested that Finland needed to improve its attractiveness, reputation and image as an international tourist destination by creating a sharper profile and deepening the segmentation, based on winter activities or the utilisation of darkness, for example.

### 5.3.2 Accessibility and Infrastructure Factors

The second of the industry-specific internationalisation pre-requisites concerns *accessibility and the infrastructure*. Accessibility is crucial in the tourism business, given the emphasis on geographical location and international connections. For example,

*“...Sirkankylä at Levi was just an ordinary village in Lapland in the 1970s, but establishing the airport at Kittilä opened the area up to international tourism and made the internationalisation and development of the tourism business possible”.*

(Interviewee, Tourism Development, Public Sector)

Consequently, when the Finnish Tourist Board evaluates tourism centres and their potential in terms of international business, one of the criteria is accessibility: an international airport should be located not further than one hour's drive from the destination (Finnish Tourist Board 2004).

The infrastructure of a destination comprises all forms of construction needed in an inhabited area, extensive communication with the outside world being the basis of tourism activity. An adequate infrastructure is essential and mainly takes the form of transportation (roads, railways, airports, car-parks), utilities (electricity, water, communication) and other services (health care and security) (Cooper et al. 1998, 108). Crouch and Ritchie (1999) mention the concept of “supporting factors and resources”, referring to the extent and condition of a destination's general infrastructure. The range and quality of

local transportation services and communication systems, for example, are all critical to any economic and social activity. They also refer to accessibility as a supporting factor in that the destination is subject to a wide variety of influences, many of which may depend on much broader economic, social or political concerns. For example, the regulation of the airline industry, requirements for entry visas and permits, route connections, hubs, landing slots and airport capacity affect the accessibility of a destination beyond what is imposed by its mere physical location (Crouch - Ritchie 1999).

Clearly the development and maintenance of efficient transport systems to tourism areas are essential success factors. According to Cooper et al. (1998, 107), there are examples of destinations in which transport has made or broken the tourism industry. Small islands are dependent upon their carriers to provide market access, for example, whereas some urban destinations are ideally situated to take advantage of international tourism flows. According to one interviewee:

*“We have started a project in our area aimed at developing air travel. The need for this came through RyanAir, who are continuously increasing their international connections. Soon there’ll be 35 flights a week from and to Pirkkala, when they start flights to Dublin, Liverpool and Bremen. There’ll be new openings all the time. These connections open up access to our area for new customer segments, and we want to develop our tourism supply accordingly.”*

(Interviewee, Tourism Development, Public Sector)

Cooper et al. (1998, 107) also point out that physical and market access to the destination are important, but so is the provision of services such as car rental and local transport in order to service excursion circuits and provide transfers to accommodation at the destination. They suggest that an increasingly creative approach to transportation at the destination increases the quality of the tourist experience.

### 5.3.3 Product Factors

Thirdly, *tourism product factors* refer to the special nature of the tourism product and the customer’s participation in the production. The tourism product is argued to differ from physical products in at least three aspects: 1) the tourist must be imported to the production site or destination (location-bound services), 2) the product is service intensive, and production and

consumption often take place simultaneously (there is a strong inseparability of production and consumption, and the customer becomes a part of the production), and 3) the production involves active co-operation, and also business competition in local proximity (co-opetition) (von Friedrich Grängsjö - Gummesson 2006). Furthermore, the strong location-boundness of tourism companies means that the products and services, and especially the service processes, are connected to a certain area or destination. Additionally and more importantly, they are contact-based, people-processing processes entailing customer participation in the service production. The results of the expert interviews strongly reflect the above-mentioned features of tourism products. The following criteria emerged when the requirements of an internationally successful tourism product and service were analysed:

- the tourism product must be well-known and tested
- the product must be based on the visitors' cultural points of departure, combined with Finnish exoticism
- the product has to tell its own story, which must be interesting
- the product must be profitable
- the service quality should meet the requirements of international customer segments

When a tourism enterprise aims at international markets its products must be *well known and tested*. For instance, the Finnish Tourist Board's criteria for an international summer tourism product in 2004 were that it should be based on customer needs, was customer oriented, and had been tested and found adaptable to foreign markets. Furthermore, the customer segments and their special needs in the service production should have been carefully defined (Finnish Tourist Board 2004). According to one interviewee (representing the international marketing channel), the Finnish tourism business still operates in a production-oriented way, and does not recognise the customers' needs. The enterprises need to pay more attention to the markets, and to deepen their knowledge about what customers want to buy. The product development should be continuous, and the products must be tested before they are sold in foreign markets. Furthermore, Finnish tourism enterprises should understand more about the contents of the products in order to be better able to meet the customers' needs.

*“For instance, if a fisherman buys a fishing trip, catching fish is much more important than the accommodation. A customer should, however, know beforehand what he/she can expect from his or her trip”.*

(Interviewee, Marketing Channel)

When a tourism product is designed for customers coming from other cultures the product development should be based on *that culture's points of departure, combined with some Finnish exoticism*. This requires deep customer orientation, and knowledge about the target customer group. Finnish exoticism may in many cases be something simple, such as a walk in the forest, watching the stars or listening to the silence – something that is very ordinary and common to a Finnish person but may be a great experience for a foreigner. An international tourism product should be exotic, but not primitive. Exoticism in an international tourism product may imply simplicity, such as pure nature, but it must include high-quality services – transport, accommodation and restaurant services. Hence, an augmented tourism product, according to Komppula (2006), is actually the company itself, its reputation and image.

The interviewees agreed that international tourism products should not be based on artificial elements, but should have their roots in real life, history and stories. *A good international product tells its own story*. Stories build images in customers' memories, and this again strengthens the positive experience. An example of a good story is the "Smuggler's trip" at Herrankukkaro in Rymättylä: a boat trip to the smugglers' world, during which an elderly gentleman tells interesting and amusing stories, in good English, from the time of the Prohibition. The product itself is very simple, but it is based on real history and it includes a good story. According to one interviewee, product development in the international tourism business should turn more towards a "story-telling society". Furthermore, for international markets it would be important to find a common story combining different tourism products and even tourist areas. This, again, could have a strong impact on reputation and image.

Further, a good international tourism product is *profitable*, and *also economically interesting to the marketing and distribution channel*. The pricing system in the international markets must also be clear, and the price for the tour operator should include the sales commission (Finnish Tourist Board 2004).

#### 5.3.4 Quality Factors

Issues concerning the quality of tourism products featured strongly in the interviews, reflecting their special nature and special quality requirements. Product quality is often seen as the key to customer value, meaning that the expected outcome of the tourism experience is based on an expectation of a certain type of feeling or emotion (Komppula 2006). Defining the quality of

services in the international tourism business is not quite unambiguous. Services are, according to Grönroos (2007, 73), more or less subjectively experienced processes in which production and consumption activities take place simultaneously. Basically, service quality as perceived by customers has two dimensions: *a technical or outcome dimension* and *a functional or process-related dimension* (Grönroos 2007, 73). In the tourism business it also depends on the product whether or not the quality requirements of domestic customers differ from those of international tourists. For example, the quality expectations of a summer cottage may differ radically between Finnish and foreign customers: what is good for Finnish customers may not be adequate for foreigners.

*“Quality is something that is expected to be good; it doesn’t have to show in any particular way – it exists comprehensively”.*

(Interviewee, Tourism Development, Public Sector)

*“The quality is good when a foreign visitor comes to Finland and wants to come again – the products and services meet, or even exceed, the expectations of the customer”.*

(Interviewee, Tourism Marketing)

On the other hand, the interviewees who represented the international marketing and distribution channel emphasised the need to understand the “*product promise*” in international tourism marketing. Marketers and distributors require producers to know and understand what foreign customers want. If they feel that the quality of the tourism products does not live up to the promises or the price level, it may have long-term effects on the image of Finland. As one of the interviewees put it:

*“It seems sometimes to be a matter of Finnish pride: you think what on earth, if this is good enough for Finnish people why shouldn’t it do for foreigners?”*

*“If you have a holiday village, the cottages must meet the product promise given in the international markets. You can’t have an alcove for sleeping and coffee cups that don’t match.”*

(Interviewee, Tourism Marketing)

The Finnish Tourist Board has defined *quality know-how as the most important competitive factor in the Finnish tourism business*. It has

developed the “Quality1000” system<sup>6</sup>, which fulfils the European quality criteria and makes it possible to compare quality issues internationally and objectively. Generally, the interviews indicated that the quality work carried out by the Finnish Tourist Board was highly respected among the actors within the tourism industry. Some of them, however, criticised the centralised quality system, and pointed out that “Quality1000” need not be the only option for an individual company. It is important, however, for tourism companies aiming at international markets to use *some* system in order to develop and guarantee a certain level of quality.

Quality could also be regarded as a matter of life-style: if a company does not aim at being a five-star enterprise it is free to choose to operate on a lower quality level. Consequently, *the level of quality may be a strategic choice*. This implies that the company has to be conscious of its quality level, and furthermore to be able to position itself among its competitors. For example, low-price airlines bring international customers to Finland, who might also expect to buy other tourism services (e.g., accommodation and restaurant services) at low prices, and consequently the quality expectations correspond to the price level.

The feeling of security is one of the main elements of quality in the international tourism business today. Foreign customers must feel secure when using a tourism service, a canoeing trip or a Finnish smoke sauna for example, even though the circumstances may be very unfamiliar. According to one interviewee,

*“There’s a story about a German family who got into a panic in a silent forest – the silence was so different compared to their own hectic life at home. A Finnish person needs privacy and solitude, and goes to a cottage in the wilderness, but for a German person there’s too much solitude and this produces a feeling of insecurity.”*

(Interviewee, Tourism Development, Public Sector)

Figure 18 summarises the industry-specific pre-requisites of internationalisation, comprising appeal, accessibility and infrastructure, product, and quality factors.

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<sup>6</sup> “Quality1000”, aims at involving a total of one thousand Finnish tourism companies in the project.

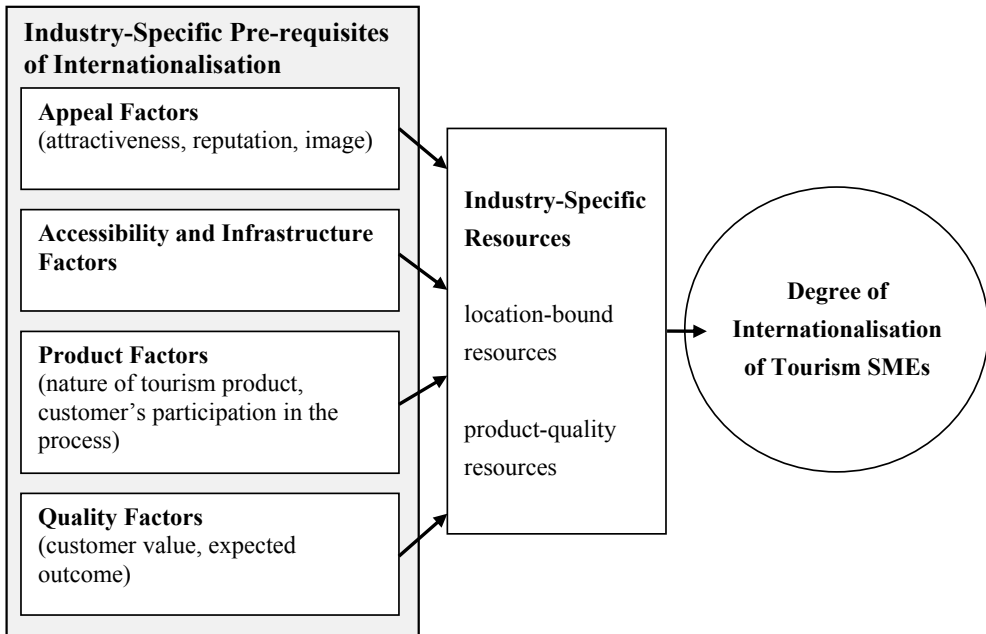


Figure 18 Industry-Specific Factors as Pre-requisites of Internationalisation in Location-Bound Tourism SMEs.

These industry-specific pre-requisites of internationalisation in location-bound tourism SMEs may significantly affect the degree of internationalisation. They could also be seen as the source of operational resources for internationalisation. Thus, the factors described above could be considered antecedents of the tourism business. However, although accessibility to the area and the existence of an airport or good railway connections are important antecedents of international tourism development, they could be regarded as supporting factors of internationalisation.

On the other hand, appeal, product and quality factors are necessary prerequisites, and at the same time could be argued to constitute the necessary conditions for internationalisation. An internationalising tourism area or destination requires a strong appeal, a good reputation and a positive image. Furthermore, the ability of the actors to offer internationally interesting products carrying customer value and giving the expected outcome is a necessary factor of industry-specific internationalisation.

It could thus be concluded that entrepreneurial capabilities are important in terms of understanding the internationalisation of location-bound tourism SMEs. Such capabilities comprise the second main category of the internationalisation pre-requisites discussed in this study, and are considered next.



## 5.4 Entrepreneurial Capabilities as Pre-requisites of Internationalisation

Entrepreneurial capabilities are both *pre-requisites* of and *resources* for internationalisation. Such capabilities are therefore the focus of the analysis in this third section on the classification of the pre-requisites of internationalisation in tourism SMEs, which is based in the findings of the expert interviews and the theoretical pre-understanding. Capabilities in this context refer to the personal capabilities of tourist entrepreneurs, and include a global mindset, language skills and cultural knowledge, international-marketing competence and collaboration skills.

The interviewees were asked to define the most important capabilities tourism entrepreneurs needed when operating in international markets. The results strongly supported the theoretical pre-understanding of the phenomenon. Consequently, analysis of the interviews gave a deeper insight into the personal capabilities required in the internationalisation of tourism SMEs.

### 5.4.1 A Global Mindset and an International Entrepreneurial Orientation

In theories of internationalisation a global mindset reflects the manager's commitment to international markets, an international vision and pro-activeness, marketing competence and the use of advanced communication technologies (Nummela et al. 2004; Moen 2002; Moen - Servais 2002). The narrower concept, an international entrepreneurial orientation, focuses on the behavioural elements and includes several basic dimensions of entrepreneurship in general: risk taking, innovativeness and pro-activeness (Nummela et al. 2004). According to Knight and Cavusgil (2004), the concept of a global mindset is linked to firm performance, especially among managers of Born Globals. Harveston et al. (2000) distinguish between them and managers of gradually globalising firms, positing that the former have significantly higher levels of global orientation, international experience and risk tolerance.

Many tourism SMEs are family businesses, with manager-owners whose motivations often lie both in commercial goals and in lifestyle factors, combined with the feeling of independence (Foley - Green 1989; Hornaday 1990; Shaw - Williams 2004). According to many of the interviewees, there are good examples of such tourism enterprises in Finland that have internationalised in a professional way and have had success in international

markets. Still, it was also a common opinion among them that there were only a few tourism SMEs with an international vision and orientation. Furthermore, *the majority of Finnish tourism SMEs did not give much thought to the matter, to what internationalisation required from the company, and what it meant in terms of its marketing operations and service processes.* In this sense, tourism firms very easily take situations as they come, and prefer to have a passive role in the internationalisation process. It appears from the expert interviews that there is a lack of a global mindset and an international entrepreneurial orientation among Finnish tourism SMEs.

It is obvious that the company's internationalisation and growth targets must correspond to the pre-requisites and resources it possesses. Growth in international tourism markets often requires heavy investments and the upgrading of the service process and product quality to an international level. According to the interviewees, there are companies in the business that actively aim at foreign markets and want to serve international customers, but have not considered how they should adjust their products and processes accordingly. On the other hand, there are companies that have made changes in their service production in order to serve international customers but do not have the know-how or capabilities to sell their products and services on foreign markets. Marketing know-how in these cases is very modest, and as a consequence the marketing operations are transferred to the regional tourism organisations, development centres, or other corresponding bodies.

Thus, according to one interviewee, limitations in the capabilities of tourist entrepreneurs may manifest as amateurish action: they may be enthusiastic about internationalisation, and they may be eager to serve foreign customers, but they are not able to manage the business side of tourism. They are therefore not able to modify their products and services to correspond with foreign demand, and they are not able to ensure a continuous service process – it depends too much on one person. As another of the interviewees put it:

*“Even if you have a one-man office you have to safeguard the operations so that even behind the backup there still is something, in case alternative B fails.”*

(Interviewee, Tourism Development, Public Sector)

However, most tourism entrepreneurs clearly recognise that growth in the business must be achieved in foreign markets. They have also understood that internationalisation requires making choices, focusing and profiling the core competences of the company. According to one interviewee:

*“Internationalisation requires a change in mental thinking and the ability really to understand foreign cultures and how much conflict there is in the current world. A narrow-minded person cannot operate in the tourism business: you have to be international and unbiased when you produce experiences for the customer”.*

(Interviewee, Tourism Marketing)

The interviewees emphasised the capabilities of tourist entrepreneurs, and especially the entrepreneurial attitude towards internationalisation. An important mental resource in a tourism business is the atmosphere in the company. People create the atmosphere, and therefore it is important that the entrepreneur and the personnel have the right attitudes to customer service. According to one interviewee:

*“As the tourism business could be characterised as “business between the ears”, the wellbeing of the personnel, flexibility and the ability to react fast are crucial.”*

(Interviewee, Tourism Development, Public Sector)

In many regions there are part-time tourism entrepreneurs whose main income may be from agriculture, for example, and who have chosen the tourism as an additional source, with some external financial support. The skills and know how of these entrepreneurs are often limited in many ways – they do not know the pricing system in the international marketing and distribution channels, and they lack many of the capabilities and skills needed in international customer service.

It is also typical in tourism for the business idea of the company to be based on the entrepreneur’s own hobbies and interests. Still, the operations should not be on an amateurish level. Amateurism may appear as over-enthusiasm towards internationalisation: it may take many years of active action before the results of marketing operations are realised, and this may cause frustration.

One of the barriers to internationalisation among tourism entrepreneurs is certainly the lack of time. Those in micro companies in particular are so involved in everyday routines that it is difficult for them to find the time to develop networks or improve their internationalisation knowledge and know-how. Some of the interviewees pointed out that in many cases this was also a matter of organisation – the ability to prioritise could be regarded as an important aspect of expertise and competence, and could enhance co-operation and effective work distribution in the tourism business.

#### 5.4.2 Language Skills and Cultural Knowledge

According to the interviewees, language skills – or the lack of them - should not be a barrier to internationalisation. Sometimes it may even be an exotic experience for a foreigner that there is no common language other than body language. Language knowledge in general is naturally desirable in the internationalisation of tourism SMEs, but in most cases knowledge of English is all that is needed. However, knowledge of the customer’s language may increase the feeling of security among the visitors, which again is a sign of good quality. Furthermore, language knowledge is very often combined with cultural know how – if a tourism entrepreneur knows a certain language it is obvious that he or she has also become acquainted with the culture and habits of that specific language area. According to the interviewees:

*“Naturally it is good if you know the customer’s language. But remember, in Spain we aren’t served in Finnish and still we can manage”.*

(Interviewee, Tourism Development, Public Sector)

*“Of course it helps if you can speak and understand the customer’s language. For instance, Germans don’t speak foreign languages very well, and for them it gives a feeling of security if they’re served in their own language. This is especially important for older German people. Germans are very experienced travellers, and when they have visited traditional tourism destinations they have been spoilt in terms of being able to communicate in their own language. This is also the case with French and Italian travellers”.*

(Interviewee, Marketing Channel).

The interviewees were concerned about the continuity of language knowledge in tourism enterprises. It is typical in the tourism business for companies to take on temporary workers in the high season, students with good knowledge of different languages, for instance. This does not guarantee the continuity and development of the company’s language skills, however. Still, some interviewees considered students an important resource of internationalisation.

Two of the interviewees mentioned *immigrants* as a potential resource in this context. The tourism industry in Finland has so far not been able to utilise the language skills and cultural knowledge of immigrants. They are a growing group, familiar with not only their own language and culture, but

also with Finnish culture and habits. Furthermore, they may have valuable business and potential customer contacts in their own countries of origin.

### 5.4.3 International Marketing Competence

Ylikortes and Möller (1996) define the marketing competences of SMEs as *customer know-how, competitor know-how, distribution know-how and operational know-how*. According to Carlson et al. (1995), three broad types of constraints on marketing can be identified: limited resources, specialist expertise, and a limited impact in the marketplace. These constraints may have a significant effect on the way marketing is carried out. It seems from the findings of the expert interviews in this study that this is also the case among tourism SMEs. The interviewees emphasised the fact that Finnish tourism SMEs do not know their target markets, and knowing the customer profile is not considered important at all. Consequently, they cannot direct their products effectively. Small and medium-sized companies often utilise the existing market information very inefficiently: they do not have the know-how to find and use market research and customer analysis. The expertise of the marketing and distribution channel is an important source of market information for tourism companies.

Although marketing operations are, in many cases, taken care of by a regional marketing organisation or an incoming agency rather than by the individual tourism enterprise, internationalisation also requires *basic know-how about distribution and marketing channels, and the ability to co-operate with the distribution and marketing network*. As far as the distribution channel is concerned, it is important for the tourism company to have enough capacity, or to secure the capacity through co-operation with other companies operating in the same field. According to one of the interviewees:

*“The distribution channel sometimes finds it problematic that Finnish tourism companies don’t respond to their offer requests, or if they do they take a long time about it. When co-operation with the distribution channel is managed properly, it decreases the need for consumer marketing in the company significantly.”*

(Interviewee Tourism Marketing)

Marketing a tourism region internationally requires *regional decision-making and a commitment to internationalisation from all the actors in the area*. Individual tourism companies’ economic resources are often modest

compared to the marketing efforts needed in the international tourism business. It is therefore important for the regional developers and the municipalities to invest in common internationalisation efforts. According to one interviewee, the internationalisation strategies in different areas should take the special features of the region and the existing companies into account. Traditional market-area-based segmentation should be forgotten, and the marketing and product development should focus on the core competences of the local enterprises and on the specialities of the region. International marketing needs time, and the efforts must be planned a long way ahead. In many cases this means at least two or three years of systematic work before any results are achieved. This, in turn, requires tolerance from the companies as marketing efforts require economic results even if the turnover remains modest.

One of the interviewees pointed out that, although the Internet as a marketing channel was still quite young, it had speeded up and extended the internationalisation process of many companies. Internet pages are not an active means of marketing, however. Tourism regions and companies must find marketing activities that lead potential customers to get acquainted with the tourism supply in the area. On the other hand, the Internet makes it possible to reach very narrow target groups globally, and it is not necessary to direct marketing efforts to certain geographical areas. For instance, an activity producer is able to reach a certain interest group – such as mountain climbers or bird watchers – all over the world via the Internet. Furthermore, it is becoming more and more important for tourism destinations and enterprises to establish a presence in Internet search engines.

Some interviewees also wondered why some public organisations had started to market and sell tourism products in international markets even though they did not have marketing expertise. They considered the role of travel agencies and incoming agencies crucial in successful product marketing abroad. Furthermore, the regional organisations in different areas did not co-operate enough. In terms of developing international tourism products this was a very important issue. For example, it would be easier to develop theme-based products if the regional organisations co-operated more and if they also directed their operations towards other tourist regions.

In sum, international marketing requires strong co-operation between tourism companies, but it also requires co-operation between the public actors and enterprises in the area. The Finnish Tourist Board, for instance, imports approximately one thousand journalists to Finland on a yearly basis. International marketing also requires expertise, market knowledge and international capabilities. For example, access to the international media could be a common goal among the tourism actors in a region. This turns the

attention to the collaboration capabilities of individual tourism entrepreneurs, which could be regarded as one of the most important pre-requisites of internationalisation in location-bound tourism SMEs.

#### 5.4.4 Collaboration Capabilities and Network Competence

As tourism companies appear to internationalise through and with the networks in which they are embedded, it is important to distinguish *collaboration capabilities and network competence*. These could be regarded as core competences in that they have direct effects on the firm's competitive strength and performance (Blomqvist 2002). According to the theoretical framework of this study, collaboration capabilities are essential sources of competitive advantage in that they are valuable, difficult to imitate, rare and socially complex (Blomqvist - Levy 2006; Barney 1991). It was suggested in the expert interviews that this is also the case in the tourism business. Such capabilities may have a critical role in an individual company's competitiveness as they may compensate the lack of know-how in the tourism SME and thus become a source of sustainable competitive advantage. Networking and co-operation compensate the limitations in the entrepreneur's own capabilities. As one of the interviewees noted:

*“It is a fact that tourism SMEs must operate in networks. Maybe it was enough in earlier days that there was an airport, a hotel, a bar and a skiing track. Today there must be a canoe trip and a dog team. Co-operation is needed between tourism companies, but also with the municipalities and other public organisations”.*

(Interviewee, Tourism Development, Public Sector)

Collaboration capabilities, according to one interviewee, refer to the ability of an individual company or entrepreneur to recognise and analyse its *resource dependence*. The better it is able to do this, the better it can control and deploy its resources.

*“Your co-operative partners determine to whom you want to sell. Here it's important to understand the needs of the distribution channels, and the fact that you can achieve additional capacity through networking. If you want to have a whole service offering, and you yourself run a hotel-restaurant but don't have any activity products, you have to co-operate*

*with them. I've noticed that membership of a regional tourist organisation helps this resource dependence. On the other hand, resource dependence can also offer more options and alternatives”.*

(Interviewee, Tourism Marketing)

According to the interviewees, collaboration capabilities require serious involvement in the tourism business, and each partner has its specified role in the co-operation. As a result, a good network increases income and decreases costs. It is important in both domestic and international tourism marketing to get visitors not only to come to a tourist area but also to stay there several days and nights. Thus, the best network is one that includes all the elements a customer needs: an activity programme, accommodation, restaurant services and wellbeing services, for example. A good internationalisation network consists of both large and small actors. It is easier for a large company to get its message through in international markets, and it operates as a “magnet” drawing international customers to the area. Smaller companies may benefit from their co-operation with this so-called “engine company”, but the engine company also benefits.

It is important for tourism SMEs involved in networking and co-operation to specialise in their own core competences. The value of belonging to the network, again, is in gaining know-how from different sectors of the business, and complementing each other. Many tourism entrepreneurs have not understood that it is not necessary – or even profitable – to produce the whole tourism service by themselves. A profitable business is based on good networking and the effective distribution of work and expertise. According to the interviewees:

*“A networking model in the tourism business demands that each partner company recognises its own core competences. This hasn't been emphasised thus far: a company must have a core business area, and it has to concentrate on it. Other business sectors understand this much better.”*

(Interviewee, Tourism Development, Private Sector)

*“For example, today it's possible for a buggy safari entrepreneur to hire a guide with language skills to serve his or her international customers, and not to try to manage the whole service process by him- or herself. Authenticity and natural behaviour are important in international tourism*



*services –trying too hard and overacting don't lead to the right kind of internationalisation”.*

(Interviewee, Tourism Marketing)

The tourism network must be flexible and dynamic. It must be able to change over time, as it needs continuously to develop something new for the customers. From the individual entrepreneur's point of view it is important to look for new contacts all the time. However, it is also important to recognise so-called “time-killers”, and to identify the networks that are essential and profitable. Again, *understanding one's own core business area is a central issue.*

The findings of the expert interviews suggest co-operative networks in the tourism business often start quite easily because they are typically based on social relationships and friendship. Although networking is one of the main issues, however, many Finnish SMEs still have a lot to learn. Many entrepreneurs “protect their own nest jealously”, and do not recognise any synergy advantages. The reason for this may be connected to “Finnish envy”, or the fact that the entrepreneurs do not have networking know-how. They do not know how to look for partners – and horizontal cooperation is especially difficult. In fact, a horizontal business network often starts only when the individual company's capacity is inadequate.

According to the interviewees, the idea of co-operation should start from the entrepreneurs. This has been found to be somewhat problematic in the tourism business, however. First, many entrepreneurs are shortsighted in their operations and are not committed to long-term co-operation. It may take years before international marketing efforts show any results, and this may be untenable for a micro-entrepreneur. Secondly, various EU projects during the last few years have somewhat distorted the advantages of networking among tourism SMEs. A number of development and marketing projects have been financed by various public organisations, and the financial input of the individual entrepreneur has been very small. As a consequence, when the public financing dried up the entrepreneurs involved often did not wish to continue with the joint development and marketing operations.

It was suggested in the interviews that Finnish tourism companies should develop their collaboration capabilities and network competences in general. Management – or rather the lack of it – was seen as a barrier to internationalisation. According to one of the interviewees, tourism entrepreneurs expect a regional tourism organisation or some other neutral co-operative body to take responsibility for joint marketing operations and tourism management, and to co-ordinate the co-operation in the area.

Figure 19 depicts entrepreneurial capabilities as pre-requisites of internationalisation.

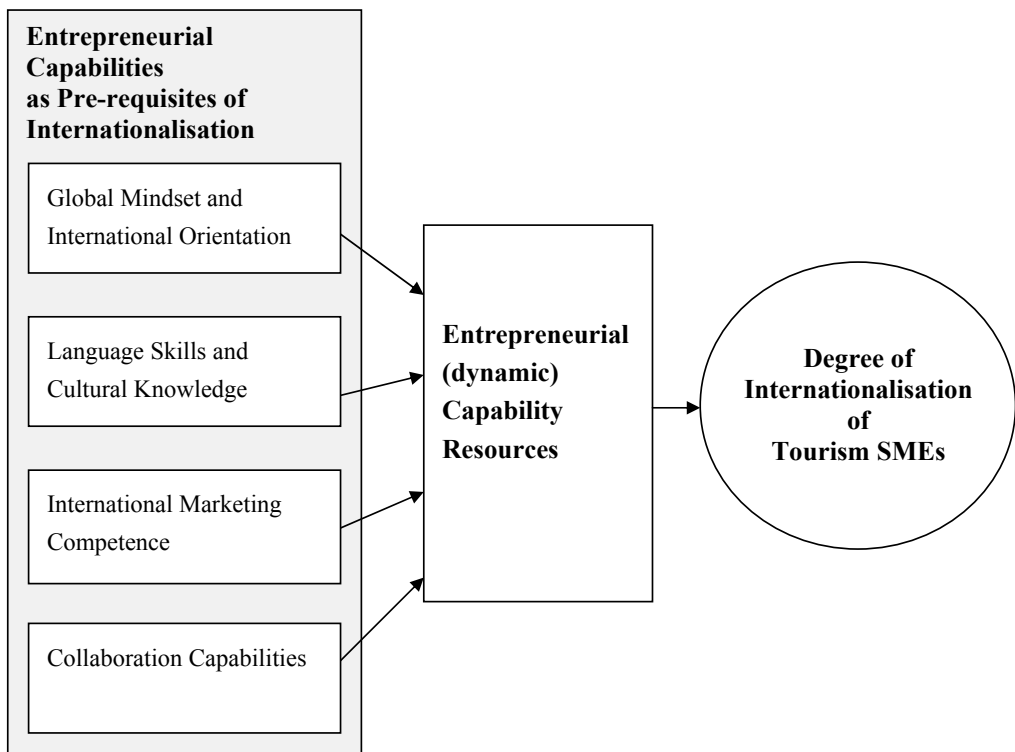


Figure 19 Entrepreneurial Capabilities as Pre-requisites of Internationalisation in Location-Bound Tourism SMEs

In conclusion, and based on the earlier findings of the study, it could be argued that collaboration capabilities are the most important pre-requisites of internationalisation. In fact, they could be classified as necessary in the internationalisation of location-bound tourism SMEs in that they are required from all members of the system. A global mindset and an international orientation are also necessary, but mainly apply to those engaged in active internationalisation. Similarly, it is important to have a sufficient level of language skills and cultural knowledge, although these are not among the necessary pre-requisites because, for example, a high level of customer service may compensate for insufficient language skills. Furthermore, a sufficient level of marketing competence is enough for most enterprises, as not all actors in the tourism system need international marketing and distribution skills. In many cases, international marketing is the responsibility of a specific tourism-marketing organisation.

## 5.5 Synthesis

It is typical for tourism SMEs to operate in a location-bound context and to move between competition and co-operation (e.g., Keller 2005; von Friedrich Grängsjö 2003). A tourism destination's competitive micro-environment includes the destination itself, and also members of the travel trade, tourism markets, and the destination's public stakeholders. As components of the *tourism system* they shape the immediate environment within which the destination must adapt in order to compete internationally (adapted from Crouch and Ritchie 1999). Hence, the internationalisation of a tourism system could be seen as the result of inter-play between the various actors in the area and their ability to utilise the pre-requisites of tourism, and to turn them into resources of internationalisation.

According to the empirical findings of this study, it could be stated that growth in Finnish tourism enterprises will come from the international market. This, again, requires them to internationalise both their marketing operations and their service processes. Consequently, the internationalisation of location-bound tourism SMEs is not restricted to the marketing operations in the international distribution channels, but truly takes place at the individual company's home base through the internationalisation of its resource base. The internationalisation of small and medium-sized tourism enterprises is firmly based on their tangible and intangible resources, and success in international markets requires the internationalisation of these resources, too. It could be argued that the ability to internationalise *intangible resources* is the main pre-requisite, although – due to their value, rareness, inimitability and non-substituability – the importance of *tangible* resources should not be underestimated. In fact, it is characteristic of the tourism business for intangible and tangible resources to go hand in hand: the macro-environment, political and economic decisions, community planning, and the environment of a location-bound tourism company may have a notable impact on its *comparative advantage*. The ability to utilise such resources and to combine them with the intangibles affects competitiveness and *competitive advantage* in international markets.

The internationalisation prerequisites of location-bound SMEs were divided into three main categories: 1) networks, 2) industry-specific pre-requisites and 3) entrepreneurial capabilities. Furthermore, the existence and role of passive and active actors affect the degree of internationalisation of a tourism area or destination, as different types of companies have different roles in the service process. In many cases the passively internationalising companies are those that can provide their foreign customers with authentic tourist experiences.

Networks as pre-requisites of internationalisation refer to the types of networks within the tourism business and to the role of network embeddedness. Indeed, co-operation with other tourism companies, the public sector and marketing channels was considered a necessary element in the analysis. The findings of the expert interviews indicate that *Finnish tourism companies need to increase their collaboration capabilities and network competences*. In particular, regional actors should operate together and develop tourism products such as theme-based round trips jointly. A tourism region may be far too small an area to be competitive in international markets, and co-operation over regional borders is needed.

Many regions do not possess the pre-requisites for a tourism brand, especially on international markets. They should therefore rather concentrate on developing theme-based products – brand marketing is very expensive and therefore it is more profitable to direct resources to product marketing. Internationally attractive theme-based networks require co-operation across regions on many levels. This, again, requires individual companies and their local networks to become embedded in larger development and marketing networks. Tourism companies should therefore develop their network competences and be able to operate in different kinds of networks simultaneously. *An individual company's ability to become embedded in various networks could be regarded as a strategic internationalisation resource*.

Industry-specific pre-requisites of internationalisation comprise intangibles such as appeal factors, accessibility and infrastructure factors, and product and quality factors. *Among these are tangible factors that, in many cases, an individual company cannot control by itself*. Hence, the actions and decisions of public authorities and municipalities – or their co-operative partners - are crucial in terms of creating the pre-requisites for international tourism and comparative advantage for the tourist area or destination. Furthermore, it could be argued that the tourism product has a special nature: it is often consumed and produced simultaneously, and it involves the tourist as a co-producer and active participant in its production (von Friedrichs Grängsjö - Gummesson 2006). Consequently, the tourist and his or her time and participation could be considered a resource in the production of tourism services. The quality of tourism products is an important, industry-specific issue in both domestic and international markets.

Finally, entrepreneurial capabilities were analysed as pre-requisites of internationalisation. Such capabilities include a global mindset and an international entrepreneurial orientation, language skills and cultural knowledge, international-marketing competence and collaboration capability. It is noteworthy that the categorisation into passive and active

internationalisation sets different requirements on entrepreneurial capabilities: active internationalisation requires more of a global mindset and an international orientation, better language and cultural skills, and better marketing competence. However, quality issues within the tourism business affect all participants to the same extent. Furthermore, collaboration capabilities are required from all actors in the system.

Grönroos's (1998) service-marketing triangle depicted in Figure 5 (see page 55) provided the starting point for the theoretical and empirical analysis of this study, and formed the basis for the classification of the pre-requisites of service marketing. However, given the focus on location-bound service SMEs, and especially on their internationalisation, there seems to be a need to modify this triangle to fit this context. The findings of the expert interviews conducted in the first phase of the empirical research strongly justified the main points of the classification developed from the theoretical pre-understanding. However, as additional issues arose in the expert interviews the classification was modified. By way of a conclusion, the modified classification of the internationalisation pre-requisites of location-bound tourism SMEs is illustrated in Figure 20.

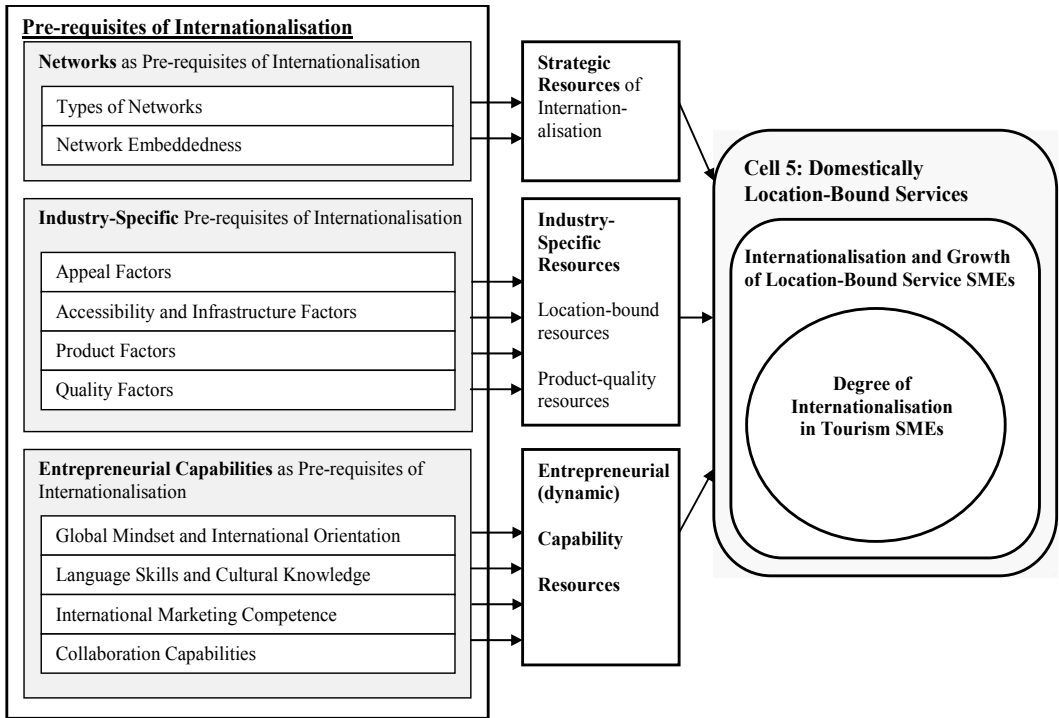


Figure 20 A Modified Classification of the Resources Needed in the Internationalisation of Location-Bound Tourism Services (adapted from Grönroos 1998)

Welch and Luostarinen (1988, 36) define internationalisation as “the increasing involvement in international operations”, and according to them a broader concept is needed now that both sides of the process, i.e. inward and outward, have become more closely linked in the dynamics of international trade. This study challenges Welch and Luostarinen’s definition in introducing a *location-bound definition* of the internationalisation of location-bound service companies. As Figure 20 shows, internationalisation in such a context is based on the networks (strategic resources), industry-specific pre-requisites (operational resources) and entrepreneurial capabilities (capability resources). Consequently, it could be argued that the internationalisation of location-bound tourism SMEs is dependent on the internationalisation of the domestic and location-bound resources of the firm. Importantly, increasing involvement in international operations takes place in the individual service company’s home country and home base. Internationalisation in this case could therefore be defined as increasing involvement in incoming tourism operations.

It could be concluded that tangible and intangible resources, such as the tourism company's physical environment, its collaboration capabilities, networks and network embeddedness, and its entrepreneurial capabilities have an essential role in the degree of internationalisation in this context and, consequently the internationalisation of an individual location-bound SME is dependent on its ability to utilise these resources.

In the next phase of the study the classification of pre-requisites affecting the internationalisation of location-bound tourism SMEs described above is applied to two empirical cases within the tourism business. The aim of the two instrumental case studies is to verify the definition of internationalisation described in this chapter, and to justify the conclusions of the study, drawn from the theoretical pre-understanding and the findings of the expert interviews. The findings of the two instrumental case studies are presented in the following chapter





## 6 INTERNATIONALISATION IN THE SELECTED CASES

This chapter describes and analyses the internationalisation of location-bound tourism SMEs in two selected cases. The first case is Luosto, a tourist centre in Finnish Lapland, and the second is Loikansaaren Lomamökit, a holiday village in Savonlinna, in the Lake Saimaa district. The phases of internationalisation are described first, and then the findings of the case studies are considered in the light of the theoretical and empirical pre-understanding. Finally, the results of the cross-case analysis are presented.

The two case studies analysed in this chapter are instrumental in nature (see Stake 1995), and the aim is to verify the definition of the internationalisation of location-bound tourism companies in the light of the theoretical pre-understanding and the findings from the expert interviews discussed in the previous chapter.

### 6.1 Case 1: A Tourist Centre in Lapland

The first case study was conducted at Luosto, a tourist centre in Lapland. This centre has internationalised remarkably during the last 15-20 years. The number of foreign visitors has grown steadily, and in 2006 there were 30,000 foreign travellers in the area. The biggest number came from Great Britain (11.9%), followed by France (5.7%) and the Netherlands (2.5%). The busiest season for British tourists is around Christmas, from late November to early January. During the summer season French, Dutch and German tourists are the main nationalities represented. Russia and Japan are regarded as new potential market areas for the future (Pyhä-Luosto Tourism Association 2007).

The tourism business at Luosto comprises approximately 60 companies. These companies are members of the regional Pyhä-Luosto Tourist Association, and the main proportion of their turnover comes from the tourism business. The companies in the area are mainly micro-sized, the average number of employees being 3.3, although most of them employ only one or two persons. There are also companies that operate only part time and on a seasonal basis. Typically for the tourism business, more than half of the employees are seasonal workers and only a small number are permanently

employed. The tourist centre accounts for a total of 280 working years per annum. The busiest season starts at the end of November and lasts until January / February (Pyhä-Luosto Tourism Association 2007).

The key companies at Luosto are the Hotel Luostotunturi, operating in the hotel and spa business, and Snow Games Ltd, operating in activity production and the accommodation business. The international hotel chain Scandic is also an influential actor in the international tourism business. These companies are also the biggest employers in the area. Furthermore, a British tour operator, Canterbury Travel and its Finnish subsidiary A la Carte Lapland play an important role in the development of tourism at Luosto. The company owns a restaurant in the area and has accommodation capacity in three large cottages. During their high season – around Christmas time – all the other companies in the area act as sub-contractors for Canterbury Travel. The company brings approximately 5,000 travellers to the area on a yearly basis. The aim is to develop new products and services extending to the summer season, and the main target group is British families with children.

### 6.1.1 The Development of the International Tourism Business

Downhill skiing started in the Luosto area in the late 1960s, and a few years later one of the Finnish hotel chains, Kantaravintolat, opened a new hotel next to the hillside. Tourism in the area at that time was based purely on domestic demand. Figure 21 shows the main phases in the internationalisation of the Luosto tourist area.

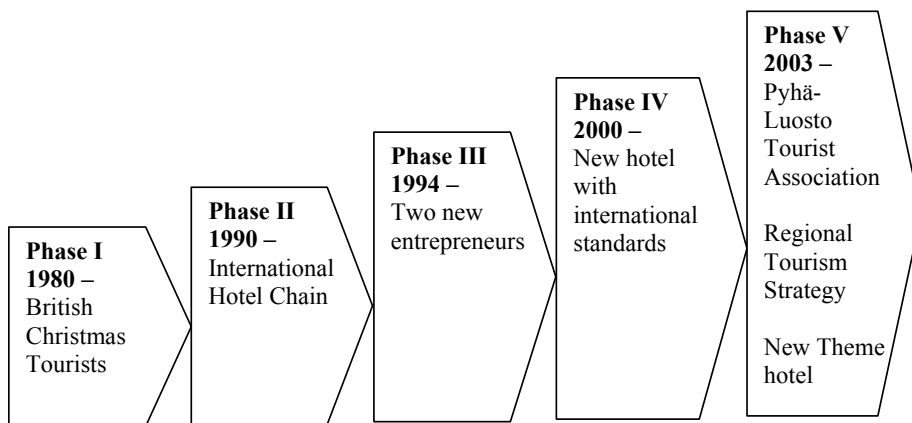


Figure 21 Phases of Internationalisation at Luosto

*The early 1980s was the starting point* for the international tourism business in the area. At that time an Irish travel agent, Adrian Collins from Canterbury Travel, discovered Lapland, and became interested in the Lappish culture, mentality and habits. As a consequence, he started to organise package trips for British families to discover Lapland and to meet Santa Claus. Luosto was the first target area for British Christmas travellers. Since that time the travel agency has worked purposefully to develop the tourism business in Lapland, with a special emphasis on the Christmas product.

*Later, in the early 1990s, changes in the ownership of the Kantaravintolat hotel* increased foreign influence in the area. Ownership was transferred, first to Swedish Scandic Hotels and finally, in 2001, to the British Hilton chain. The development work that these hotel chains have done has significantly affected the growth and internationalisation of the tourism centre. Their distribution channels and hotel networks have played an important role in marketing the area to expanding foreign-customer groups. Today, the share of foreign customers in the Scandic Luosto hotel is 65-67 per cent, the biggest groups being British, Dutch, German, Japanese and Russian tourists. These customers come mainly through the hotel chain's marketing operations. The hotel has extensive co-operation with the other tourism companies in the area, participating in the joint marketing and product-development projects organised by the local tourism-development association.

*The third important phase* in the internationalisation, development and growth of Luosto was in 1994. Two innovative tourism entrepreneurs – one of them an activity producer and the other one concentrating on the restaurant and accommodation sector - started up tourism businesses in the area, and increased the supply of services significantly by offering various snow activities as well as high-quality restaurant and accommodation services. Snow Games Oy was founded by Jukka Hirvonen in 1994, and today operates as a group of three family businesses under the name Snow Games Ltd. At the same time, Juha-Pekka Tuominen and his family started an accommodation business by renting cottages in the Luosto area. Both entrepreneurs were very much internationally oriented, already had tour-operator contacts abroad, and aimed at operating in international markets. The area seemed to offer a business environment with growth potential, and existing tour-operator contacts, especially in France, gave good opportunities for attracting new customer groups.

During the last 15 years both entrepreneurs have been able to diversify their operations by developing new product/market combinations, and by starting new businesses in the area. Furthermore, they have actively been co-

operating with smaller companies in the tourist centre, selling these companies' services as a part of the tourist package.

*The fourth phase of internationalisation* of the tourist centre was achieved when Juha-Pekka Tuominen decided to invest heavily in the hotel business in order to increase the amount of international-quality-level accommodation in the area. He started his marketing and developing project in 1997, and opened the Hotel Luostotunturi in the year 2000. The enlargement of the hotel was complete by the end of 2007. The room-utilisation rate in 2006 was 56 per cent, and the main foreign customer groups came from Great Britain, France and the Netherlands. The international marketing is based mainly on the entrepreneur's own personal contacts with tour operators, and there is co-operation with Lapland Marketing<sup>7</sup> and The Finnish Tourist Board. The other key entrepreneur in the area, Jukka Hirvonen, invested in the hotel business in 2004, and opened a high-quality theme hotel, Oy Aurora Chalet Ltd. According to him, the growth possibilities of Snow Games Oy were very limited without any accommodation capacity of its own.

*Establishing the local tourism-development association, the Pyhä-Luosto Tourist Association, in 2003* was a remarkable sign of the common will to foster a spirit of co-operation, to start joint product-development projects and to promote a common understanding of image, quality, pricing and marketing.

### 6.1.2 Networking as an Internationalisation Resource

Networking as an internationalisation resource refers to types of networks and the concept of network embeddedness. It was argued in the previous chapter that networks in the tourism business were antecedents of internationalisation. Furthermore, different types of networks and an individual tourism SME's ability to embed itself in them were regarded as strategic resources of the firm.

*Types of networks:* According to the theoretical and empirical pre-understanding, the most organised form of networking is *co-operation in the form of a tourism centre*. The partners complement each other, the co-operation is based on business, and it is conscious and target-minded. In this kind of network the partners are closer to each other than in a theme-based network, for instance. It could be argued that aiming at international markets

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<sup>7</sup> Lapland Marketing went bankrupt in 2008. At the time of the interviews at Luosto (February 2007) it was still mentioned as an important co-operative body, although the interviewees were aware of the unclear situation of the company.

requires close partnership and strong, well-organised co-operation. Companies involved in this kind of network must also be embedded in larger marketing and development networks.

The cooperation in the Luosto area is based on business and it seems to be conscious and target-minded. According to the interviewees, the partnerships between the various co-operative companies and among the public actors have developed into close, strong and well-organised co-operation. The regional tourism development organisation, the Pyhä-Luosto Tourist Association, was founded in 2003, and this could be considered one of the turning points in the development of co-operation within the tourism centre.

The types of networks identified on the basis of the theoretical and empirical pre-understanding of the internationalisation of location-bound tourism SMEs are also evident in the case of Luosto. *Local networks (regional networks)* comprise the key companies and their sub-contractors. The regional Pyhä-Luosto Tourist Association is gradually becoming the core of the local co-operation. *Marketing and promotion networks* are based on the key companies' relationships with tour operators, and on co-operation with the Finnish Tourist Board and with Canterbury Travel and its Finnish subsidiary. Furthermore, the Scandic Luosto hotel has its own marketing and promotion networks, and is also engaged in joint marketing operations with other local actors. *Theme-based networks* are very typical at Luosto: during the Christmas season all the actors are involved in the tourism production in the area. Moreover, the snowmobile and forest safaris, visits to reindeer farms and the amethyst mine, and wellness production all require theme-based co-operation among the actors. *Foreign networks* are evident in the key companies' co-operation with tour operators in different countries. Foreign networks also exist through the Finnish Tourist Board. Furthermore, the Scandic Luosto hotel is inherently involved in a foreign network because of the international ownership of the chain. In sum, the local, marketing and promotion networks, and the theme-based combined with the foreign networks, form the basis of *co-operation in the form of a tourist centre*.

This is indicative of the fact that the tourism actors at Luosto are involved in many kinds of networks in their efforts to develop an internationally competitive tourist centre. It could thus be said that all the players in the field are more or less embedded in various networks. Network embeddedness in the Luosto area is discussed next.

The two key companies (Hotel Luostotunturi Oy and Snow Games Ltd) have marketing co-operation with tour operators, airlines, and The Finnish Tourist Board. The Pyhä-Luosto Tourist Association is also an important co-operative body in both marketing operations and joint product development. According to the entrepreneurs in the area, the association has been able to

create a standardised image for the tourist centre and to increase the co-operation, product development and communication among the actors.

The Pyhä-Luosto Tourist Association was founded in 2003, mainly to improve co-operation among the different local actors. It was not originally internationally oriented, but it has had a remarkable impact on the internationalisation of the area. Its members wanted to create a model of internationalisation together with their international co-operative partners. Special emphasis is put on organising and capitalising on media visits, mainly in co-operation with the Finnish Tourist Board. The main purpose of these visits is to contact tour operators through the media, not the consumers directly. The role of the regional tourism association lies in the image building and promotion of the area, which is done in conjunction with the Finnish Tourist Board's campaigns and workshops. Earlier there was also keen co-operation with Lapland Marketing, which in turn was embedded in the promotion and sales projects of the Finnish Tourist Board.

Hotel Luostotunturi Oy and Snow Games Ltd. have their own tourism service production, and direct contacts with international distribution channels. They sell packages, produced in keen co-operation with their sub-contractors and members of the network. As an example, visits to reindeer farms and other special attractions are included in the packages as part of a one-week programme for foreign tourist groups. Jukka Hirvonen recalled that when he founded Snow Games he already had a good relationship with a French tour operator, which is still his most important partner in the international business. The company was dependent on that one operator for a long time, as 80-90 per cent of its customers came through it. Hirvonen realised that it was too risky to be dependent on one partner, which led him to expand into markets across the French border. As a consequence, during the last 15 years and due to the good reputation and effective marketing operations, the number of co-operative partners inside France has increased. At the same time, the network of tour operators expanded to Holland and other Benelux countries, followed by Switzerland.

The key entrepreneurs at Luosto see the tour operators as their customers. Airlines, especially Finnair, are also among the clientele of the tourism producers.

Important networks for all the actors in the area naturally include the Scandic-Hilton chain and its global organisation, as well as Canterbury Travel and its subsidiary A La Carte Lapland. A La Carte Lapland has practically no other clients than those who arrive through Canterbury Travel, and the company is not a member of the regional tourism-development association. According to the key entrepreneurs at Luosto, this is somewhat problematic, but it is a fact that has to be accepted. Furthermore, Hotel

Luostotunturi has also entered into co-operation with the Finnish S-chain, and this has had a decisive impact especially on domestic tourism markets.

In sum, the key entrepreneurs, as well as many other actors at Luosto operate in various networks. Issues drawn from the theoretical framework (see Figure 11, page 90) also seem to have a role in this case: a global mindset, entrepreneurial behaviour, an international orientation as well as macro-level tourist-destination planning and, finally, a representational role and network identity. The attributes of network embeddedness are clearly identifiable. *It could thus be stated that the embedded tourism networks at Luosto affect the network strategy of internationalisation, and vice versa.*

Figure 22 illustrates the co-operative relations and networking at Luosto.

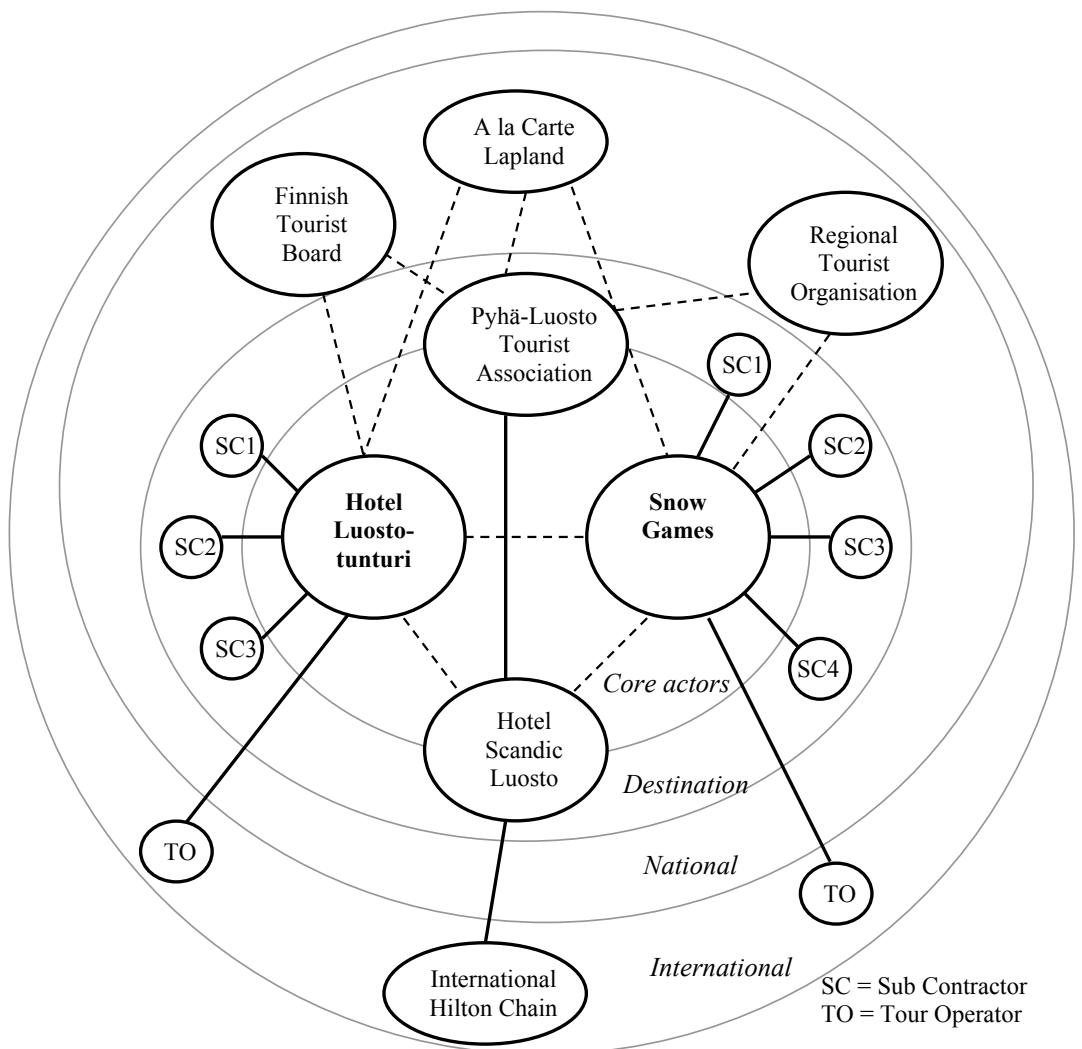


Figure 22 Networking at Luosto

The two key companies (Hotel Luostotunturi and Snow Games Ltd) form the central body of internationalisation in terms of marketing and packaging the tourism services in the area. Canterbury Travel, with its subsidiary A la Carte Lapland, could be considered a temporary (during the Christmas season) key company in that all the other actors act as sub-contactors for them. The key companies are responsible for the international marketing, and have strong links with the regional marketing channels and the Finnish Tourist Board. However, the two key companies, Hotel Scandic Luosto and A la Carte Lapland have the most influential international marketing relationships. An essential co-operative body is the Pyhä-Luosto Tourist Association.

### 6.1.3 Industry-Specific Resources of Internationalisation

This section describes the tourism-industry-specific resources of internationalisation in the Luosto area, i.e. the appeal factors, the accessibility and infrastructure factors, the product factors and the quality factors.

*Appeal factors:* It is obvious that appeal factors (attractiveness, reputation and the image of the environment) are among the most important industry-specific resources within the tourist business. The attractiveness of Luosto is based on the atmosphere and services in the two complementary arctic hill areas. A national park between the two hills offers a versatile environment for different nature activities. Its facilities for skiing activities – both downhill and cross-country skiing - also give it a competitive advantage over other ski resorts in Finland.

According to the tourism strategy in the area, its attractiveness is based on the high quality of the products and services, and on offerings that are produced by a network of companies. Furthermore, its nature makes it especially suitable for various happenings and festivals on specific, nature-based themes. The architecture also has its special features, and distinguishes the tourism centre from other centres in Finland. The combination of nature, the short distances between the services and the peacefulness could also be regarded as an attractiveness factor (Pyhä-Luosto Tourism Strategy 2008).

The main reputation factor is the *image building and branding of the tourist area*. The “Lapland brand” is the main message in the international marketing of Luosto. The image of an individual tourist centre is not strong enough to attract and achieve a breakthrough in international markets. The name “Finland” is not strong enough in international marketing promotion, either. The brochure materials, for instance, are adjusted for foreign markets.



The “Lapland-Finland” brand is emphasised in international promotion, for example, and only thereafter is the name Luosto mentioned, whereas the domestic brochures emphasise Luosto rather than “Lapland”. Foreign customers want to buy the Lapland product: Lapland is the attraction that appeals to customers from abroad, not the destination itself.

*Accessibility and infrastructure: Easy access to a tourist area* has also been defined as an essential industry-specific resource in the tourism business. In fact, access is considered to be one of the most important attractiveness factors when operating in foreign markets. The location of the airport and its connections may in many cases define the target group.

*“If the travel connections don’t work well there must be some special supply in the area to make the customer sit for 12 hours getting to the destination. From Frankfurt he can get anywhere in the world in 12 hours, and for the same price.”*

(Interviewee, Managing Director)

There are already numerous flights to Helsinki from many European airports at reasonable prices. However, the connections from Helsinki to Northern Finland are still difficult and expensive. The increasing number of charter flights being organised by a British travel agency and its Finnish subsidiary has made the area accessible to new target groups. At the same time, the price level of the flights has become more reasonable and the connections better. There are, however, still some accessibility problems to solve at Luosto: for example, there is an increasing interest among French tourists in the area but the bottleneck remains the flight schedules.

Accessibility is further connected to the *infrastructure*: how customers find the destinations in the area and where the different services are located. Tourism services must be easy to find and easy to buy, and the products should not be too complicated for people who come from different cultures. The destination planning in Luosto is based on internationally accepted criteria: 1) small-scale, tourist-friendly and compact villages at the heart of the tourism centre (pedestrian villages); 2) accommodation facilities in the core area exclusively serving the tourism business (the hot-bed principle); and 3) skiing facilities (both downhill skiing and access to cross-country tracks) not further than 500 metres from the accommodation (the ski-in – ski out principle) (Pyhä-Luosto Tourism Strategy 2008).

*Product factors of internationalisation*: According to the theoretical and empirical pre-understanding, an internationally successful tourism product and service must meet the following criteria:

- 1) The products are well known and tested.

- 2) The product development should be based on the customer's cultural points of departure, combined with some Finnish exoticism.
- 3) The product should tell a story – a good international tourism product has its own story
- 4) The product must be profitable, and economically interesting to the marketing and distribution channel.
- 5) The service quality should meet the requirements of international customer segments

In the case of Luosto, the tourism products seem to meet the above criteria well. The key entrepreneurs have a very clear idea about international product development, and understand the needs of the different customer segments. The joint product-development project in the area aims at a joint understanding of cultural differences, taking Finnish – and Lappish – exoticism into consideration. This, again, has an important effect on the quality of the tourism products. The local culture is included in the products, but according to the interviewees, compromises must be made. In the opinion of one of them, however, international customers do not differ from domestic visitors as much as they used to. Still, there are issues to be taken into consideration. For example, a Finnish person's know-how about snow is often much better than a foreigner's, and there is a need for product differentiation.

The empirical pre-understanding emphasises *stories* as an important element of an international tourism product. No stories behind the products came up directly during the interviews at Luosto. However, it can be assumed that they exist, and that due to the special environment and the atmosphere of the area they are more or less built into the products. For example, the Northern Lights are an important part of the tourism experience, and the business idea of the Aurora Chalet hotel is based on this theme. According to the managing director:

*“There is a Northern Lights research centre in Sodankylä, belonging to the University of Oulu. We have good contacts with them. We give our customers a Nokia mobile phone that alerts you about the Northern Lights. This is based on the data the researchers at the university use in their own work. This idea is living and developing, as there are plenty of issues around this theme”.*

(Interviewee, Managing Director)

Similarly, the visits to reindeer farms and the amethyst mine that are included in the tourism packages are part of the story of Luosto.

Furthermore, the interior and the design of Hotel Luostotunturi reflect the environment of the hotel, and thus also tell the story as part of the service.

The Luosto tourism actors participated in an EU-funded project during 2004-2007 aimed at creating the basic pre-requisites for international product development. During the project the different practices and procedures were standardised in order to make the tourism products meet the pricing and quality requirements of international distribution channels. The pricing requirements, for instance, include equal pricing for tour operators and other customers. Earlier, smaller activity producers applied different pricing policies in different markets. Now that they have unified their pricing system, and the price includes the tour operator's share, it is also possible for the bigger companies (the key companies) to offer the products of the small activity producers as part of their packages.

According to the interviewees, international business in the tourism industry also requires a constant stream of new product ideas and new ways of producing the services. It has been understood at Luosto that the product development must be persistent, covering a time span of several years. Furthermore, the tourist area must ensure it has sufficient capacity when it sells its products to tour operators. It is important to guarantee the quality of the product as well as its availability at a certain time. Business is contracted one and a half years in advance, which requires orderliness and long-term planning.

*Quality factors of internationalisation:* The quality of the tourism services at Luosto has developed in a goal-oriented way over many years. According to the Tourism Strategy of Pyhä-Luosto 2008, the goal is to be the quality leader among Finnish tourism centres. The Pyhä-Luosto Tourist Association has been involved in an EU-funded project since 2004, aiming at internationalisation and raising the quality of the tourism services to the international level. At the time of the interviews (in February 2007) the project had focused mainly on creating the basic elements of quality: increasing co-operation between the different actors in the field, and developing the tourism services and products to meet the quality requirements of the international distribution channel. According to the interviewees, the tourism quality at Luosto incorporates the pledge that the customer will get what the marketing promotion has promised. The "product promise" is a genuine Lappish experiment, with a strong feeling of security. The idea of the so-called "Luosto quality" also differentiates the tourist centre from large Alpine-style centres in which downhill skiing is the main attractiveness factor. One of the interviewees found, however, the concept of quality somewhat old-fashioned and worn, and required a new definition.

*“...the word “quality” gives different signals to different people. It is work that has to be done on a long haul, you cannot just say that you are the quality leader and now the quality is good. Improving the quality means sometimes very small progresses and steps, and sometimes even steps backwards. Quality is something that exists all the time, and is all the time somewhere in the background. It means that we must be able to meet the changing challenges, and we must be able to show the customers that we appreciate them, and also to show to our interest groups that this is the quality level we have.”*

(Interviewee, Managing Director)

Furthermore, quality means that the area as a whole has the same quality level, and that the products and services on offer are reliable. Good quality, in both domestic and international business means that the company succeeds in its customer service every day, and the quality is not dependent on individual customer-service people. A tourism product is a service product, and the service producer has to succeed every time and immediately; *“one cannot send the product back to the factory”*. Snow Games Oy is not a member of the Laatuonni Qyality1000, a quality system set up by the Finnish Tourist Board: they have had their own quality system 2001. Hotel Luostotonturi, again, is a member of Laatuonni, and the entrepreneur is very satisfied with it. Laatuonni involves the analysis of different business processes, which was considered very useful. The good quality achieved at Hotel Luostotonturi, for instance, requires a lot of work in the background, as the service experience consists of very small details.

*“It is typical for our products that they are processes that are produced day after day. This requires that different people must be able to serve customers with equal quality, and this is quite difficult. If an individual customer-service person does his or her best, this often is not enough, there must be a common understanding about the quality.”*

(Interviewee, Managing Director)

Figure 23 summarises the industry-specific resources of internationalisation in the case of Luosto.

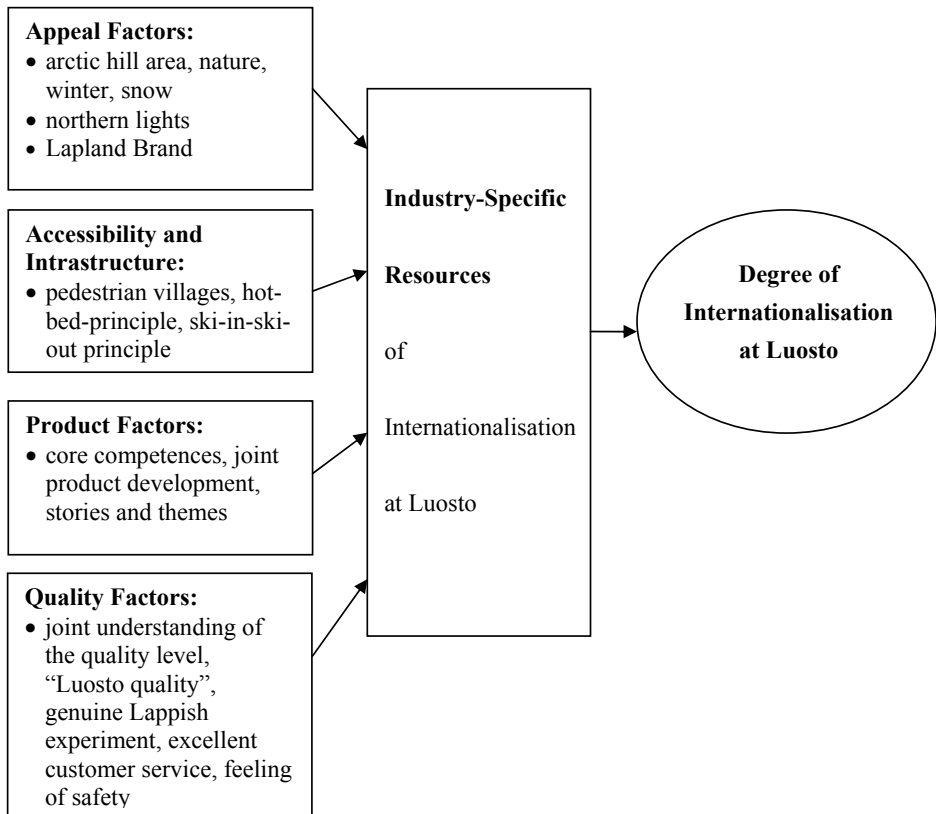


Figure 23 Industry-Specific Resources of Internationalisation at Luosto

The effective and target-minded use and development of industry-specific resources can increase the degree of internationalisation of the tourism destination and, at the same time, the internationalisation of individual tourism companies.

#### 6.1.4 Entrepreneurial Capabilities as Resources of Internationalisation

Entrepreneurial capabilities in this analysis refer to a global mindset and an international orientation among tourism entrepreneurs, language skills and cultural knowledge, international-marketing competence and collaboration capabilities.

*A global mindset and an international orientation:* The internationalisation of a tourist company requires sufficient physical resources and enough capacity. However, the crucial success factor is the entrepreneur’s attitude towards internationalisation and growth. This also means that the whole personnel must be committed to serving international customers. For

example, Snow Games Ltd was oriented towards foreign markets from the very beginning, and seeking growth from abroad was regarded as a natural strategic choice; the products and services were better suited to international than to domestic customers. As the entrepreneur noted:

*“The most important thing is your own attitude and the enthusiasm to grow into those markets”.*

(Interviewee, Managing Director)

Furthermore, when an entrepreneur gains more experience he or she also starts to rely more on his or her own vision than on the vision of others. It is nevertheless important to listen to others and to consider different views, but in the end it is the entrepreneur him- or herself who takes the responsibility.

*“When I was a student entrepreneurship was a distant dream for me. I imagined that I could found a company where I could combine my hobbies and business at the same time. Quite soon it became clear that these two things do not go hand in hand, the hobby part disappears quite quickly. I attended a course on entrepreneurship at the Adult Education Institution in Sodankylä. First I founded the company in Sodankylä, and the customers were there. At that time there were lots of French visitors. I inherited them from another company – my heritage donor. Luosto offered me the chance to grow, although at that time there was only Scandic, some cottages and the LuostoHovi restaurant with a few cottages”.*

(Interviewee, Managing Director)

A growth orientation reflects a global mindset and an international attitude. It is challenging for entrepreneurs to control growth, and especially its speed.

*Language skills and cultural knowledge:* Language knowledge, and especially a deep understanding of different cultures, is one of the key capabilities in the international tourism business. According to the interviewees, language knowledge is needed, although in most cases the customers can be served in English. It is not realistic to expect a small company to have local personnel with multiple language skills. However, it is important for the customer to receive the information in his or her own language. The key companies at Luosto have therefore translated the information and guidance material into seven different languages. According to one interviewee, if the companies hired a French alpine guide it would no

longer be a genuine Lappish experience. *In this case a genuine and credible Lapland experience is considered more important than perfect language skills.*

In addition to having language skills, the personnel should also know how people representing other cultures might react in different situations: what is self-evident to Finnish customers may not be so to a foreigner. A professional customer service requires *situation sensitivity*: coffee by a campfire rather than a day on a snowmobile might be the most unforgettable emotional experience, for example. Food also plays an important role, especially among French tourists: it should be genuine Lappish food, but it should be served in a French way. Even the meals should incorporate some international aspects. Situation sensitivity develops through learning and experience, the aim being to ensure that the tourism products are put together correctly, taking the customer's or customer group's special character and culture into consideration.

*“The most important issue is the company's attitude and philosophy. Do we think like a person from Savo, or like a Parisian? This is where it starts, from the company's own objectives. Who do we want to come here? What does it mean for us that every culture has its own special features? And the product must be suitable for them. If you serve Finnish Easter pudding to a Frenchman he would give you a piece of his mind!”*

(Interviewee, Managing Director)

*International marketing competence*: International marketing and sales at Luosto are based on the personal contacts of the key entrepreneurs with the distribution channel. It is thus based on trust. International marketing also requires a lot from an individual tourism producer: it may take a long time before a tour operator or some other distribution channel is convinced about the product and understands the contents of the services. International business in the Luosto area is based on good personal contacts and long-term relationships with tour operators.

The ability to price products in the correct way is also important in international marketing. As already discussed, the small activity producers in the area in particular have had to learn how to price their products for an international tour operator. Pricing know-how requires, for example, that the distribution channel's share is included, as is provision for the dealer. This ensures that companies selling directly to tour operators can offer packages that include the products of small activity producers as part of the service as

there are provisions in the price. On the one hand, companies should not have many different ways of pricing, but on the other hand there are factors that affect it, such as the target group and the size of the tourist group. For example, pricing incentive products differs from pricing for families, just as pricing for four customers differs from pricing for a group of 200.

*Collaboration capabilities and network competence:* One of the main issues in the development of a tourist area concerns the *distribution of work*, and how the players connected to the tourism business organise their responsibilities. Moreover, according to the interviewees, the actors in the Luosto area have understood that the results are different if development and marketing efforts coincide. Co-operation brings more resources to the development work. For instance, private funding would not cover the maintenance of the infrastructure or the provision of lighting in the area, and in this case the contribution of the public sector is crucial. A tourist area cannot develop if the municipalities are not interested in investing in it.

Cooperation in the production of tourist services in Luosto is based on subcontracting, organised and led by the two key companies, Snow Games Ltd and Hotel Luostotunturi Oy. At the time of the interviews there was also some cooperation through the Lapland Marketing organisation. Although co-operation between the companies in the area has developed significantly during the past few years, it still seems to be lacking between the competing actors and the tour operators. However, the companies have started to see international marketing from a holistic perspective, and co-operation is increasing in this respect, too.

The concept of collaboration capability emphasises trust, communication and commitment (Blomqvist - Levy 2006). *Trust between the entrepreneurs and the tour operators* was particularly emphasised in the interviews. The tourism business is based on trust, which is attributable to the personal contacts and the entrepreneurs' ability to convince the tour operators, and the ability to keep promises. According to one interviewee:

*“This is based on trust, this is trust business. The hill doesn't become crowded with foreign people just like that, and you need to convince the tour operators first. You must be able to offer what you have promised. It's important to keep your promises.”*

(Interviewee, Managing Director)

*“These personal contacts are extremely important, because there are 50 others in the field competing for the same contacts. It's the most valuable mental capital you can have in*



*this business. It's important in a small company like ours for me to keep all the contacts we have, for better or for worse. We have to minimise the risks."*

(Interviewee, Managing Director)

According to the interviewees, the creation of trust is a long process, and gaining access to foreign tour operators can take years. The first contact does not necessarily lead to any results, and the fostering of the relationship often requires publicity in the media combined with positive feedback from customers. For example, it took five years for Snow Games Ltd. to reach Italian markets, and 10 years to establish the image and build up trust as a reliable incentive producer. Both the key entrepreneurs at Luosto emphasised the importance of good personal relations, and the fact that gaining access to foreign markets is a long process that does not happen in one or two years. Personal, active relationships with tour operators and the distribution channel guarantee open information and speed up the process.

Figure 24 summarises the findings on entrepreneurial capabilities as resources of internationalisation in the case of Luosto.

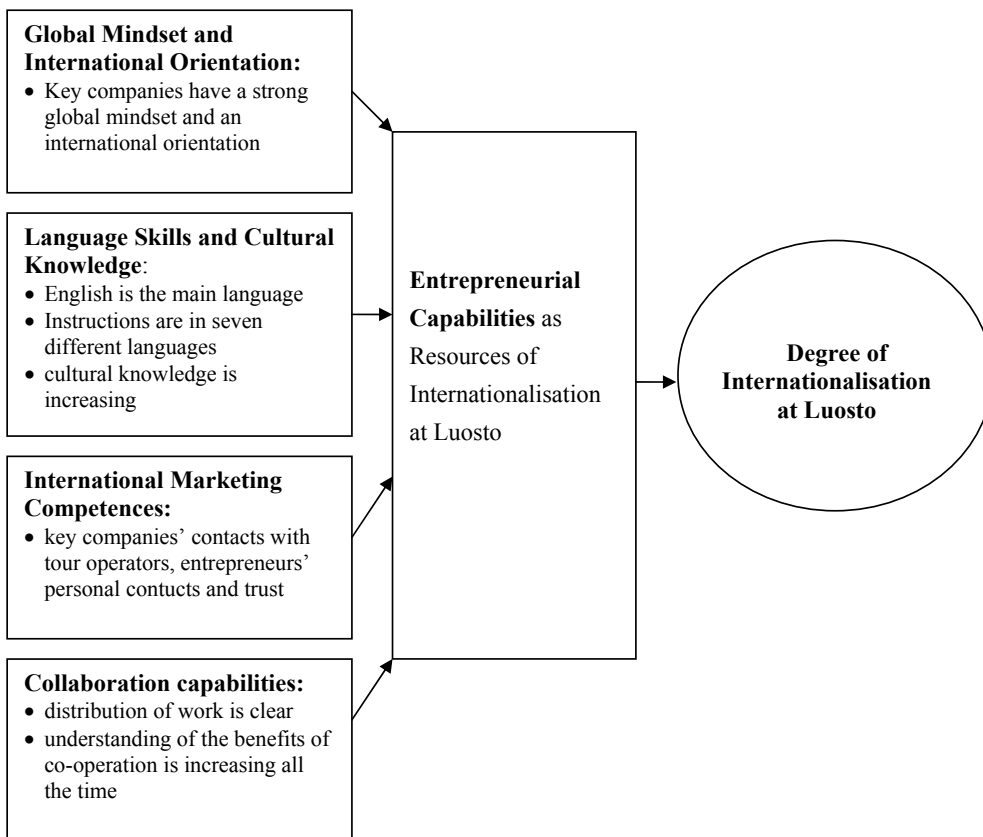


Figure 24 Entrepreneurial Capabilities as Resources of Internationalisation at Luosto

The above figure depicts entrepreneurial capabilities, such as a global mindset and an international orientation, language skills and cultural knowledge, international marketing competence and collaboration capabilities as dynamic capability resources (Teece et al. 1997). This, again, affects the internationalisation of the tourism destination and the individual tourism companies at Luosto. The role of the two key companies is essential, in co-operation with the Pyhä-Luosto Tourist Association, in developing the dynamic capabilities of various actors in the area.

### 6.1.5 Synthesis

The Luosto area represents a typical tourism centre (see Chapter 5.1.1), in which a few larger companies or regional tourism-development organisations actively drive the internationalisation process. The smaller companies join in,

but in terms of internationalisation they could be characterised as passive. The two key companies in this case, Snow Games Ltd and Hotel Luostotunturi Oy, could be characterised as active operators in the international business, whereas the smaller companies act as sub-suppliers and internationalise passively, and could thus be classified as “passive developers”. The Scandic Hotel Luosto and A la Carte Lapland could also be classified as active in internationalisation in that they use their own marketing channels and develop their services at an international level. However, they have their own business models and participate in the joint international development only on a temporary basis.

Passive developers of internationalisation could be argued to have an important role in the development and production of tourism services, however, as they are the ones that can offer an authentic experience to foreign customers in the form of visits to reindeer farms and the amethyst mine, for example.

According to the interviewees, it is important for all the actors in the tourism business at Luosto to know each other and to be familiar with each other’s businesses. However, the players in the field should recognise their own strengths and concentrate on their core competences. International marketing, for instance, should be carried out by companies that are active in internationalisation and already have tour-operator contacts abroad. The smaller companies could remain passive actors: instead of putting effort into marketing they should concentrate on their core competences and on their specific role in tourism production. The companies at Luosto have gradually understood this, but they also admit that there is still much to learn. However, they have learned to develop their product packages in collaboration, and they also have learned to offer their products at the right time to the right distribution channels. There is a strong will for co-operation and the companies seem to be truly committed to the joint development projects.

It could be concluded that the degree of internationalisation at Luosto is reasonably high, due to the fact that the key entrepreneurs in the area have a strong global mindset and an international orientation. International entrepreneurship is evident especially among the two key companies, Hotel Luostotunturi Oy and Snow Games Ltd. Consequently, on the passive-active internationalisation continuum the entrepreneurs of these companies could be classified as active, with new ideas and visions concerning the future development of their own businesses and of the Luosto tourism area as a whole. The key entrepreneurs also have international marketing competence, including personal and trustful contacts with tourism marketing and distribution channels. It could be argued that their entrepreneurial capabilities

have significantly affected the degree of internationalisation in the area, and have been the antecedent of effective networking and co-operation among the various actors. Emerging developers of internationalisation are also to be recognised among the tourism SMEs at Luosto. A stronger international orientation among these companies will have a considerable effect on the degree of internationalisation in the future.

In sum, internationalisation in the case Luosto is based on the actions and capabilities of the key entrepreneurs, and on the increasing and improving co-operation between the various actors in the area. Networking and co-operation have increased significantly during the last few years. One of the reasons for this is the establishment of the Pyhä-Luosto Tourist Association, which has organised joint product-development projects and joint marketing campaigns. Most of the tourism actors are members of the association, and this has increased common understanding about the benefits of co-operation. It seems to be playing an increasing role in the development of the co-operation.

There are industry-specific resources of internationalisation at Luosto – appeal, accessibility, infrastructure, interesting products and a high quality level. Finally, it could be said that there has been collective development in entrepreneurial capabilities during the many development projects carried out in the area. These projects have fostered increased understanding of each company's core competences and, consequently, have led to the effective distribution of work. This has had a strong effect on the degree of internationalisation as each actor has its own role in the process.

## 6.2 Case 2: A Holiday Village by Lake Saimaa

The second case study was conducted in a rural tourism company, Loikansaaren Lomamökit, situated in Savonlinna, in the Lake Saimaa district of eastern Finland. This company is a small family business, which started as a sideline to farming, and gradually became more focused on tourism. The company offers accommodation in high-class holiday homes: five lakeside cabins were built in 1977 and renovated in 2000, and five new lakeside villas were built in 2004. It has recently expanded its operations by offering catering services and water-based activities in co-operation with two local companies. The main customers are families and small groups both from Finland and abroad. At the time of the research the proportion of foreign customers was approximately 50 per cent. The largest numbers came from Russia, followed by Germany, Switzerland and Holland. Great Britain, Spain and Italy are expected to be growing marketing areas in the future.

The business has developed over two generations. In conducting the case study the researcher interviewed both the founder couple and the current entrepreneur couple, which gave it a longitudinal perspective. She also interviewed a partner entrepreneur operating in the same area who represented a similar type of tourism company and had experienced a similar process of internationalisation. Further, printed material, articles, brochures and www-pages were used in order to obtain a full picture of the case.

The company started operating in 1977 when the current entrepreneur's parents became involved in the tourism business by renting summer cottages on their farm. Gradually they gave up animal husbandry and expanded into tourism as a subsidiary activity to farming. A generation change came in 1994 when the farm was passed over to the current entrepreneur, and since 1997 his wife has also been involved in the business as a partner.

During the last ten years the tourism business at the Loikansaari farm has been purposefully developed to become the main source of income. The business idea of Loikansaaren Lomamökit is to offer peaceful cabin and villa nature holidays by a Finnish lake, close to the town of Savonlinna.

### 6.2.1 The Development of the International Tourism Business

Loikansaaren Lomamökit has served foreign customers since the beginning of its existence. The founders did the pioneering work in developing international rural tourism at the farm. Co-operation with organisations such as Lomarengas, Savonlinna Tourist Service and the Finnish Tourist Board gave a good basis for its future development. There were some turning points in the history of the company that helped to make it a profitable and professional rural tourism business with a clear vision and an international orientation. These turning points represented four phases in the internationalisation of Loikansaaren Lomamökit, which are illustrated in Figure 25.

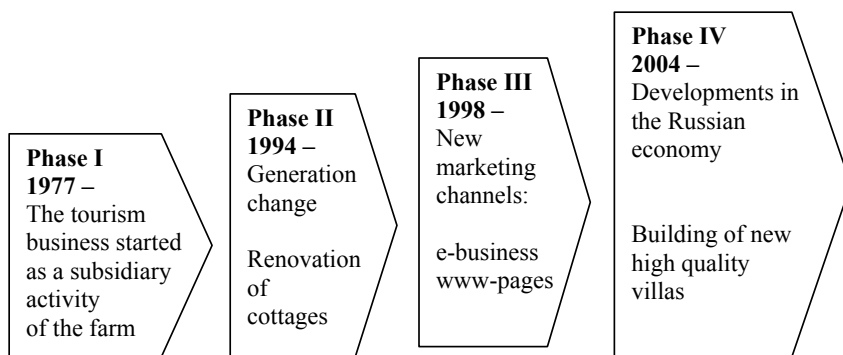


Figure 25 Phases of Internationalisation at Loikansaaren Lomamökkit

*The idea to start a rural tourism business at Loikansaari came in the 1960s from a co-operation committee that was set up in the Savonlinna region in order to develop tourism in the area. This committee was a joint co-operative body representing the municipalities, and the members were chosen on political grounds.*

*The first phase of internationalisation started in 1977 when the founders of the company became involved in the rural tourism business on a small scale, and developed it gradually during the next 15 years. The first customers came through Lomarengas, which was the only agency offering summer-cottage rental in Finland at that time. The first international customers came from West Germany and Switzerland. Lomarengas was a very important partner: it was an agency, but it also consulted small rural tourism companies on many issues. The managing director had good personal contacts in Germany, Austria and Switzerland, and knew the rural tourism business in these countries very well. Consequently, he was able to apply this know-how and his ideas to the development of Finnish rural tourism.*

In the middle of the 1970s the accommodation capacity of the farm was increased through the renovation of an old outbuilding in the farmyard and the building of four new cabins at the tip of a headland. The accommodation in the outbuilding turned out to be a very profitable investment, and the new cabins increased the volume of tourism business significantly. The growth came from international markets, mainly German families who came through Lomarengas and its German co-operative partners. The markets expanded rapidly to Switzerland, where Loikansaaren Lomamökkit co-operated with a Swiss travel agent. This agent operated in co-operation with Swissair, and for many years this connection brought customers from Switzerland.

*The second phase of internationalisation started in 1994* when there was a generation change at the Loikansaari farm and the son of the family took responsibility for the farming and the tourism business. It was then that the strategic choice was made to develop rural tourism as the main source of income. All the cottages were renovated during 1999-2000. This resulted in a remarkable increase in tourism income: there was a fourfold increase in turnover over four years.

The development of the Internet and electronic business was clearly a turning point in the international marketing at Loikansaaren Lomamökit too, and this could be regarded as the start of the *third phase of internationalisation in 1998*. It advanced little by little. The first stage was when the telefax replaced letters, then e-mail soon replaced the telefax. Finally, the setting up of the company's own Internet pages in 1998 was a real turning point. Its www pages brought plenty of new connections, both travel agents and customers. At the time of the interview (spring 2007) an online-reservation system was under development in the Savonlinna region, which was expected to open up new opportunities for the tourism enterprises in the area.

*The fourth phase of internationalisation started in 2004*, for two reasons. First, new high-quality villas were built, which doubled the accommodation capacity and increased the income of the company significantly. At the same time the proportion of foreign customers was growing steadily. At the time of the interview (spring 2007) income from the tourism business had increased almost tenfold since the new entrepreneurs took over. Secondly, the economic situation in Russia and the increasing interest in Finnish tourism products in the country were instrumental in the internationalisation process. The number of Russian tourists had increased remarkably during the previous two years. The holiday seasons in Russia differ somewhat from those in Finland, and this offsets the domestic low seasons. Moreover, many customers from the St. Petersburg region come to spend the weekend in the Savonlinna area. The New Year period is a high season as far as Russian tourists are concerned.

According to the entrepreneurs, growth in the company will be based on increasing the numbers of international customers in the future. During the low seasons the markets in Finland are very quiet, and achieving growth from the domestic market would be quite difficult, but it may be possible to find new target groups abroad to fill the seasonal gap. Taking advantage of the expanding Russian market will thus be one of the main objectives in the future. However, it would be necessary to look for new customers in other areas too, as the economic situation may change quickly in different parts of Europe, and this would immediately affect the tourism business. Central and

southern Europe will offer new opportunities in the leisure segment, and Estonia is interesting. Loikansaaren Lomamökit targets these markets through travel agencies, and in marketing activities organised by the Finnish Tourist Board.

The development of activity products (including safaris, water-based activities and nature trips) for new target groups is also one of the strategic goals of the company. Russian business-to-business markets may offer interesting potential in this area. Savonlinna's tourism strategy emphasises the potential of Russian tourists in terms of new possibilities for business development in the area (The Tourism Strategy of Savonlinna 2006-2015).

The history of Loikansaaren Lomamökit follows the typical pattern of rural tourism start-ups. According to Komppula (2004), the motives for starting such businesses in eastern Finland are in most cases related to having *available premises*, which make it possible to offer accommodation or activity services in order to earn extra income or employ one or more family members. The existing premises comprise the lakeside environment and the untouched natural habitat. Furthermore, the strengths of the Savonlinna area in terms of tourism business include nature, lakes, the location, its rich cultural heritage and history, its international image as a tourism destination, and high-quality happenings and tourist attractions. There is also a strong tourism education sector in the area, and some networks are very active. Nevertheless, the short season, a lack of product packages, the lack of segmentation, limitations in the infrastructure and insufficient accommodation capacity are defined as weaknesses (The Tourism Strategy of Savonlinna 2006-2015).

The strategy promotes a vision of tourism in the year 2015: "*Savonlinna is the capital of the Finnish summer, the number-one destination of lake tourism in Finland, an international culture-tourism area and an idyllic and multi-faceted winter-tourism destination*" (The Tourism Strategy of Savonlinna 2006-2015). It defines three strategic objectives: 1) the development of three seasons (summer, Christmas and New Year, and winter), 2) the development of the infrastructure so as to better serve the tourism industry, and 3) networking.

These same objectives featured in the entrepreneurial narratives in the case of Loikansaaren Lomamökit. The company is intensively developing the summer season and its water activities. It has expanded the New Year season to meet the increasing demand from Russia. The entrepreneurs were concerned about the infrastructure, especially the lack of air connections to the area. On the other hand, they were quite satisfied with the train connections, and also with the fact that the area was more accessible by car than Lapland, both of which gave it a competitive advantage. The



entrepreneurs themselves are active in local production and marketing networks. In their view, although co-operation had improved a lot recently, there was still a need to improve the collaboration capabilities of entrepreneurs and public actors, as well as the quality of the networks in the region. These issues are analysed next.

## 6.2.2 Networking as an Internationalisation Resource

*Types of networks:* In recent years Loikansaaren Lomamökit has developed new customer services in co-operation with other companies in the area. There are currently two main co-operative partners, one of them is a catering company and the other concentrates on water activities. There is a strong intention to expand the network significantly in the near future. These networks could be characterised as *local or regional*. They could also be considered technical or production networks in that they form the basis of cooperation in the production and development of tourism packages.

*Marketing and promotion networks* at Loikansaaren Lomamökit include co-operation with Savonlinnan Matkailu Oy and the Finnish Tourist Board. Savonlinnan Matkailu Oy is currently the closest partner in terms of marketing. It is a regional tourism organisation owned by the municipalities and 50 tourism companies, and its main responsibility is to market and sell tourism services in the area.

The most important networks in terms of marketing are *Internet-based*. Since 2005 the company has established a presence on several tourism portals and joint www-pages. One of the most profitable electronic business sites has been the Huvila.net portal, which according to the entrepreneur was also one of the main turning points in its business development.

*Theme-based networks* were not identified directly in this case. However, given the company's strong intention to develop water-based activities, it is to be assumed that such networks will play an important role in the future.

*Network embeddedness:* In the early years of tourism activities at Loikansaaren Lomamökit co-operation activities with Lomarengas and Savonlinnan Matkailupalvelut (Savonlinna Tourism Services) were the most significant in its business development. Lomarengas functioned as an agency during the first years of operation, but the co-operation ended in the 1980s. By that time Loikansaaren Lomamökit had secured a permanent clientele, visitors who wanted to reserve summer cottages directly from the entrepreneur year after year. In this situation there was no need for a middleman, and in any case the entrepreneurs realised that the commission charges were quite high. The same customers came back every year, and they

told their friends and relatives about Loikansaaren Lomamökit. The clientele grew and reservations were made directly, without any agency involvement. For some years there was still an agreement with a German travel agency that brought German customers to Loikansaari, but that agency went bankrupt and the co-operation ended. At this stage the clientele was already relatively steady, and the customers formed the most important co-operative marketing network. Thus there are customers who have been coming to Loikansaari for many years – even decades - and whose children have continued the customer relationship. *In fact, a generation change has also taken place among the customers.* Some of them have become friends who feel at home at Loikansaari. The first-generation entrepreneur tells the following story:

*“There was a German family whose daughters spent nights at our home sometimes. They wanted to experience an original Finnish farmhouse. One of the daughters came back to us last summer, and she had small children with her. We have had good contact with the whole family during all these years. Now they come here together with their families and friends – they reserve all the cottages at the headland. They know our systems, and if they have some technical problems at the cottages they know about our workshops and tools and don’t need our help at all.”*

(Interviewee, Founder of the Company)

Customer networks still comprise an important marketing asset in that the customers represent various networks and organisations in their home countries. In this sense, word-of-mouth remains an important marketing tool.

Figure 26 describes the networks of Loikansaaren Lomamökit.

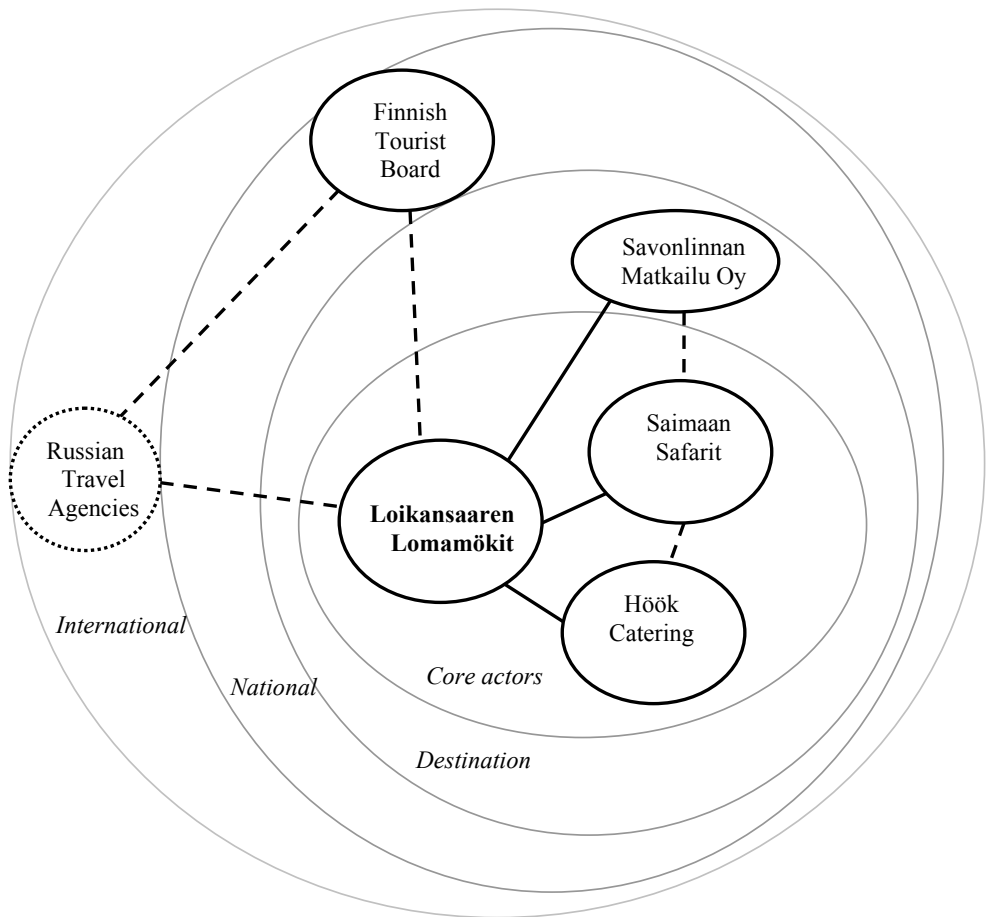


Figure 26 Loikansaaren Lomamökit's Networks

As mentioned above, Savonlinnan Matkailu Oy is currently the main co-operative body. In terms of network embeddedness, it is further connected to many other organisations, such as Saimaan Matkailu Oy and The Finnish Tourist Board. This co-operation has made it possible for small companies such as Loikansaaren Lomamökit to get their products to various tourism fairs and exhibitions, as well as to different workshops. The company is also an active partner in the production of brochures and on electronic market places. For example, it joined the Finnish Tourist Board's Visit-Finland portal during a three-year development project coordinated by Savonlinnan Matkailu Oy in the Savonlinna region.

### 6.2.3 Industry-Specific Resources of Internationalisation

*Appeal factors (attractiveness, reputation and image):* Loikansaaren Lomamökit is based in Savonlinna. The attractiveness, reputation and image of the town are major appeal factors for its customers. Savonlinna is situated in the lake area of Finland, on the islands of Lake Saimaa, which is the largest lake area in Europe. It is rich in nature, animal life and flora and offers excellent opportunities for developing lake tourism and creating different kinds of water activities. The region of Savonlinna comprises seven municipalities (Enonkoski, Kerimäki, Punkaharju, Rantasalmi, Savonlinna, Savonranta and Sulkava).

The medieval Castle of Olavinlinna is the most famous tourist attraction in the area, and travellers from all over the world have visited the castle over the decades. There is also a long tradition of spa and cultural tourism. Savonlinna started to develop as an international tourist destination at the end of the 19<sup>th</sup> century, when the Savonlinna Spa, Olavinlinna Castle and the Opera Festivals, organised in 1912 for the first time, attracted people especially from St. Petersburg. As stated in its tourism strategy, the Savonlinna area is well known for its lake district and its cultural life, and its profile is clearly concentrated on holidays and leisure (The Tourism Strategy of Savonlinna 2006-2015).

From the case company's point of view, Finland – Saimaa – the Savonlinna region are the most important reputation factors of internationalisation. The “Lakeland Finland” brand is a significant factor in its international marketing, but the image of Saimaa as a large lake area is still more prominent abroad. Foreign customers do not come only to Kuopio or Savonlinna, they must be interested in Finland first, and in the lake district thereafter. According to the entrepreneurs, Lakeland Finland is the smallest possible unit in their international marketing. It is important for potential customers to understand first what Scandinavia is, and secondly Finland as a part of Scandinavia. The brand “Lakeland Finland” is, however, still quite weak and relatively unknown. One possible reason for this is that the regional tourism development organisations in different parts of Finland have not been unanimous about its content.

The entrepreneurs appreciate the Savonlinna Opera Festival and Olavinlinna castle as extremely important appeal factors of tourism in the area. Still, although the Opera Festival is significant in the international tourism business environment, it is not attractive enough in the *international marketing of the tourism SMEs* in the area. The main attraction from the viewpoint of the Loikansaari entrepreneurs is, therefore, the untouched nature and ‘everyman’s rights’ of access, which may be very novel elements

for a foreign customer. Fishing and looking for berries and mushrooms around the cottage may be very exotic and new experiences. However, the attraction, reputation and image of Savonlinna are still prerequisites to tempt foreign visitors to choose the area, and only then to choose a specific service producer.

The interviewees also pointed out that the climate could become an appeal factor for the Finnish tourism industry in the future, especially for tourists from southern Europe: there are already signs that people living in southern Europe are escaping from the heatwaves and dryness to the more pleasant climate in the north.

*Accessibility and infrastructure factors:* The Savonlinna region is quite remote, and is not very easily accessible to the European tourist: for example, it is possible to get from Munich to Prague or northern Italy in one hour by train. Still, the entrepreneurs pointed out that the region was much closer for European tourists than Lapland, and coming to Savonlinna saved one day of travel if they came by car. However, the flight connections with many Lappish destinations are much better than with Savonlinna. Consequently, the Savonlinna tourism strategy emphasises the development of the infrastructure, especially of the airport, and attracting international charter flights to the area are issues for the future (The Tourism Strategy of Savonlinna 2006-2015).

Loikansaari is an island surrounded by Haapavesi, part of the large lake district of Saimaa. Loikansaaren Lomamökit emphasises its closeness to Savonlinna, only 16 km from the town centre. The road connection to the island was established in the 1960s through the active actions of the current entrepreneur's father and grandfather. Customers normally come to the holiday village by car, and those who fly to Helsinki usually rent a car at the airport. Still, the company's future success may be dependent on the existence of an international airport in the region and the availability of charter flights in the future.

An increase in the number of charter flights, however, will require more capacity (accommodation, activities, catering) in the area – therefore larger areas should engage in extensive co-operation within the tourism business. Savonlinna airport has not been of very high importance to Loikansaaren Lomamökit so far, but according to the entrepreneurs its development could offer enormous opportunities for developing the international tourism business in Savonlinna in the long term. At present flight traffic to the area is random, which is seen as a bottleneck in terms of international tourism development. There is a need for an international airport in order to increase international tourism flows. This, again, will require solid co-operation between the entrepreneurs and the public actors in the area: all actors must be

able to meet the increased capacity, quality and customer.service requirements.

Train connections to Savonlinna have improved during the last few years, which was a significant factor in increasing the number of Russian tourists. St. Petersburg is relatively near: it is approximately the same distance to Savonlinna from St. Petersburg as from Helsinki.

*Product factors:* According to the tourism strategy of Savonlinna, the future of the tourism industry in the area lies in the development of *theme-based and seasonal products, lake tourism and wellness*. The industry could also exploit the smallness, cleanliness, space and idyllic nature in its international product development (The Tourism Strategy of Savonlinna 2006-2015).

Activity products have been part of the Loikansaaren Lomamökit service offering from the very beginning. In the 1970s and 1980s, for instance, groups of elk hunters came from Austria and had full-board accommodation on the Loikansaari farm. They were also offered guided tours to Punkaharju and Savonlinna. At that time the company organised guided forest and nature trips for their guests, which were called “friendship tours” and were part of the hospitality at no extra charge to the customers. They were either two-hour nature trails, or five-to-six-hour boat trips to an island to see the sunset and grill sausages around a campfire.

These friendship tours gradually turned into professional activity products, which were sold to customers as a supplementary service on top of the accommodation costs. Currently accommodation is clearly defined as the company’s core product, but tourism packages are an important aspect of its business development. These packages include accommodation at Loikansaaren Lomamökit, and other services are bought from partner companies.

*“Our core business is accommodation, and we buy the supplementary services from other entrepreneurs. We’re partners in Saimaa Safaris, and through this connection we’ve started to produce activity services. We tested this last summer (2006) on some products, but this summer (2007) we’ll be active in this sense”.*

(Interviewee, entrepreneur)

An example of the activity products:

*“It may be a group from a company, for instance. They come to relax, and they spend the night here. Last summer my partner*

*and I organised a fishing-trip package to Saimaa for such a group: two days fishing, an overnight stay, and preparing a meal from the catch.”*

(Interviewee, Managing Director)

Furthermore, the Loikansaaren Lomamökit entrepreneurs want to base their product and services on a domestic, Finnish image. It is important to them to emphasise Finnish design, Finnish culture, Finnish materials and the Finnish way of life to their foreign customers. They have had plenty of good feedback about this, which they find very encouraging and rewarding. One of the partner entrepreneurs also insists that the tourism product must be based on real and genuine Finnish elements.

*“There must be original Finnish elements in the product, though. You can’t offer spaghetti to an Italian, you must be able to keep your own identity, and show the visitors the local way of living. It’s also important in tourism production not to offend anybody. For example, you have to keep the presents and souvenirs you get from customers on show in case they come again. It would offend them if their presents weren’t there.”*

(Co-operative entrepreneur, Managing Director)

*Quality factors:* The founder generation of Loikansaaren Lomamökit understood very early that the requirements of international customers were clearly higher than those of Finnish customers. Internationalisation increased the quality requirements in the late 1970s. This led to many renovations at the cottages: during the first active years of operations they were all equipped with warm water, showers and a private lake-side sauna.

Furthermore, according to the interviewees, foreign customers often require different kinds of customer service than domestic customers, especially in the rural-tourism and summer-cottage business. They may need a lot of advice and information about living in a summer cottage, such as how to make a fire, how to use a rowing boat and how to heat up a sauna.

Loikansaaren Lomamökit is a member of the Finnish Tourist Board’s Laatu-tonni (Quality1000) quality system. This has proved to be very useful in developing the company. Of particular importance was the realisation that although many of its business processes were well planned they were not documented. Still, the entrepreneur admitted that, to some extent, the Laatu-tonni quality system is too demanding for this size of company.

Good quality in a rural tourism company comprises both technical competence and excellent, personal customer service. Excellent customer service, again, is based on personal contacts, and on the relationship between the customer and the hosts. According to the Loikansaaren Lomamökit founder couple:

*“Quality of services includes – in a small company like ours – cleanliness, good organisation and working systems, but especially good communication between the guests and the host family. Little things mean a lot: fresh flowers on the table, firewood carried to the sauna, and so on. And one thing is crucial: to accompany the visitor to the cottage, and not only to give them the key and a map. This is personal service.”*

(Interviewee, Founder of the Company)

According to the interviewees, good quality in a rural tourism company requires technical quality, but personal contact and a positive attitude to customer service are also important. Loikansaaren Lomamökit is a “Malo” qualified holiday village. Malo is a national classification system for country holiday accommodation, and includes separate classifications for rentable holiday cottages, farmhouse holidays and bed-and-breakfast establishments. The system is managed by the Pro Agria Association of Rural Advisory Centers in Finland (Pro Agria 2009).

Over two generations the entrepreneurs at Loikansaaren Lomamökit, have been able to adjust to the increasing quality demands of international customers, and to develop their products, services and networks accordingly. They acknowledge that, unfortunately, there are companies involved in the tourism business that have a negative impact in terms of quality. The existence of such companies could easily damage the image building and the idea of international quality within the industry.

Figure 27 summarises the industry-specific internationalisation resources in the Loikansaaren Lomamökit case.



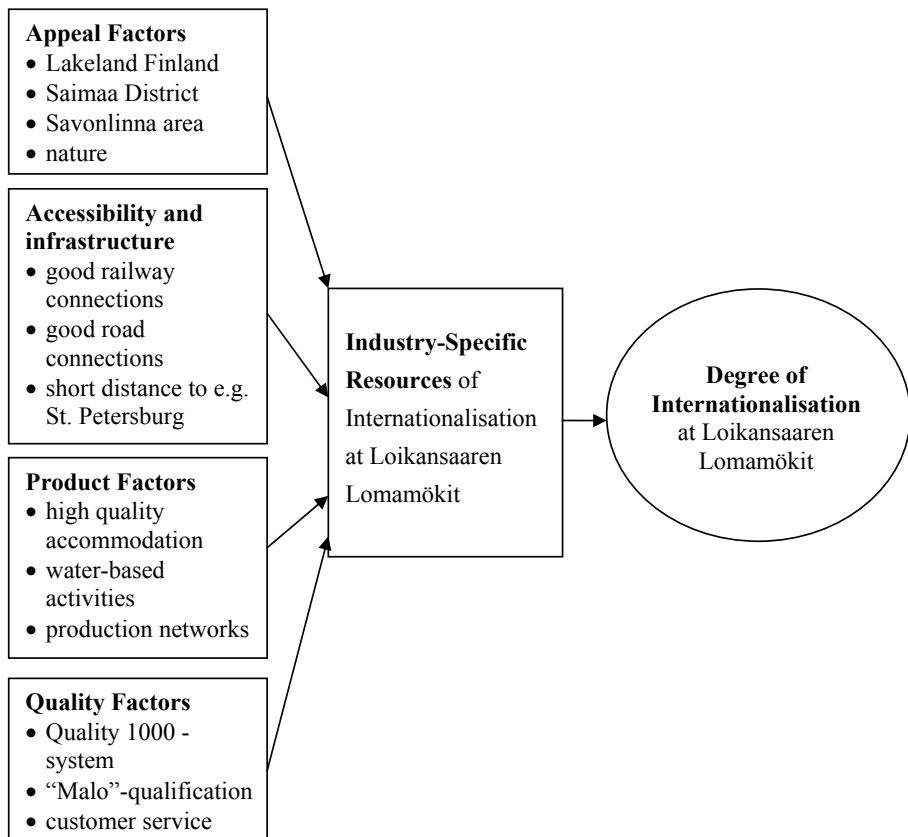


Figure 27 Industry-Specific Resources of Internationalisation at Loikansaaren Lomamökit

#### 6.2.4 Entrepreneurial Capabilities as Resources of Internationalisation

*A global mindset and an international entrepreneurial orientation:* It is clear from the entrepreneurial narratives that there was a strong global mindset and an international orientation among the first entrepreneur generation of Loikansaaren Lomamökit, which has carried on in the second generation. This, again, could be argued to be the basis of the current business idea and business success.

The founders did the pioneering work in developing international rural tourism at the Loikansaari farm. In fact, they were pioneers in developing Finnish rural tourism. Without any marketing experience they discovered the essential networks and participated in many marketing projects, domestic and international. For example, in 1984 they went on a trip to Germany organised

by the Finnish Tourist Board in order to promote rural tourism. Even though they were not quite sure about the marketing value of this trip as far as their company was concerned, they learned a lot about tourism marketing in large international markets. According to the founder:

*“The Finnish Tourist Board gave us tourism entrepreneurs a lot of information about the bigger picture. We understood very clearly that it was impossible for an individual entrepreneur to operate in those markets alone; your brochure is mixed in with all the others and you don’t get any result. If we send a package of brochures to a travel agency by post there’s no hope of getting any customers through that channel”.*

(Interviewee, Founder of the Company)

The trip to Germany was significant: it gave the rural tourism entrepreneurs a better understanding of international marketing, profiled their identity and boosted their professional growth. They also understood that success in the tourism business required the ability to offer *experiences* to the customers. Loikansaaren Lomamökit had clearly succeeded in this: those who had spent their holidays at Loikansaari turned out to be the best marketers. Moreover, the main elements of a rural tourism experience were analysed during the trip:

*“We learned: Remember, you sell experiences to the mid-Europeans. And this experience is not an artificial amusement park. It’s there, just around the cottage. You might think that you have to have some tennis courts and so on - of course such things are good but they don’t belong to the nature of rural tourism.”*

(Interviewee, Founder of the company)

Even though the founders of the company did not have any experience or know-how of the international tourism business they developed their competences with an open mind. They were among the first rural entrepreneurs in the Savonlinna area to go into tourism on an international basis. Although it was only a subsidiary activity they saw its future potential. They also wanted to learn more, and appreciated the experience and know-how shared by Lomarengas and the Finnish Tourist Board.

The second generation is showing the same kind of pioneering spirit. They have continuously and purposefully developed the company with a view to making it an international tourism business, making the right strategic

choices and being actively involved in the development of tourism in the Savonlinna region through participation in many joint development projects. They regularly take courses and attend workshops in order to improve their knowledge of the international tourism business. They have a clear vision in terms of increasing the numbers of Russian guests, but they also want to diversify the business to other market areas.

*Language and cultural skills:* According to the Loikansaaren Lomamökit entrepreneurs, the internationalisation of the tourism business requires some knowledge of languages, but it is possible to manage with English. In fact, the founder generation did not have any foreign-language skills at all when they started the business. Gradually they acquired some knowledge, especially of German, so that they could at least greet their guests.

Although Russian tourists are a growing customer group at Loikansaari, the entrepreneurs do not have any knowledge of Russian. So far they have managed well with their Russian customers because someone in the group has always been able to understand and speak English. It is possible to manage with rather modest language skills, the most important thing being to show friendliness and to maintain contact with the host family. A high level of customer service may compensate for the lack of language skills.

The entrepreneurs also considered cultural awareness to be very important. A tourist entrepreneur must become acquainted with his or her customers' cultures, values and habits. It is important to know what you must do and what you must avoid. They also emphasised the importance of Finnish culture as part of the tourism product: exposure to Finnish habits and the Finnish milieu is a strong element of the international tourism business.

*International marketing and distribution skills:* These skills are considered very important at Loikansaaren Lomamökit, and have to be developed continuously and actively. The entrepreneur has to be aware of emerging and developing marketing and distribution channels. This is sometimes difficult, especially in small companies when he or she is often involved in everyday business activities and it is difficult to find the time for long-term marketing planning. It is therefore extremely important to participate in joint marketing efforts in the area and to be visible in tourism brochures and portals. The ability to exploit these channels may compensate for a lack of marketing and distribution skills.

Russian tourists come to Loikansaari both via tourist agents and individually, reserving their accommodation independently. The company has some co-operative partners in Russia, and this is clearly a growing target area that offers growth possibilities. However, it requires investments and increased capacity. The entrepreneur told the following story:

*“Last summer we did a “Fishing trip to Saimaa” package for our Russian guests: two days fishing, one overnight, and on the second day preparing the fish for a meal. Two weeks ago a representative of a Russian travel agency visited us and told us that the product was really good, and that it had had excellent feedback. The only problem in the future is that we should have the capacity to offer this product to groups of 50 people”.*

(Interviewee, Managing Director)

Consequently, according to the interviewees, successful marketing, product development and capacity issues go hand in hand. This, again, requires a common will among the actors in the field and, importantly a joint vision of tourism development in the Savonlinna region.

*Collaboration Capabilities:* The Loikansaaren Lomamökit entrepreneurs have clearly understood that networking and the distribution of work are important in the internationalisation of the tourism business. Networks are essential because it is impossible for a tourism company to proceed alone. Many contacts are made by chance and on account of “good luck”, but it is important that the co-operative partners *get to know each other well*, can *trust* each other and are *committed* to the co-operation.

In order to increase the tourism flows to the area there must be enough capacity to meet the demand in the international markets. According to the interviewees, this seems to be problem in the internationalisation of the tourism business in the Savonlinna area. Co-operation is needed, but there have not been enough joint projects in this sense. Recently, however, the common understanding of co-operation has increased significantly. The various actors in the field seem to understand what it means far better than they used to. The distribution of work seems to be clear: Savonlinnan Matkailu Oy takes care of the marketing and the product development is done in a co-operation between the entrepreneurs.

*“We don’t have enough capacity in the area to take big tourist groups. And when I think of the skiing centres in Lapland, we have the same possibilities here to offer different snow activities. Take the Ruka services for example: they own 160 snowmobiles. Why couldn’t we have 160 water mobiles one day? In fact, why don’t we have an activity producer like that in our area? It would give us better chances of selling our services abroad.”*

(Interviewee, Managing Director)

*“Now there are new cottages in Oravi, and Kerimaa is also expanding its accommodation capacity. New villas will be built at Porosalmi and Tuunaansalmi is expanding, too. The more one region can offer, the more demand there will be. One unknown entrepreneur in an unknown village can’t act meaningfully and profitably”.*

(Interviewee, Managing Director)

Figure 28 shows the entrepreneurial capabilities of Loikansaaren Lomamökit.

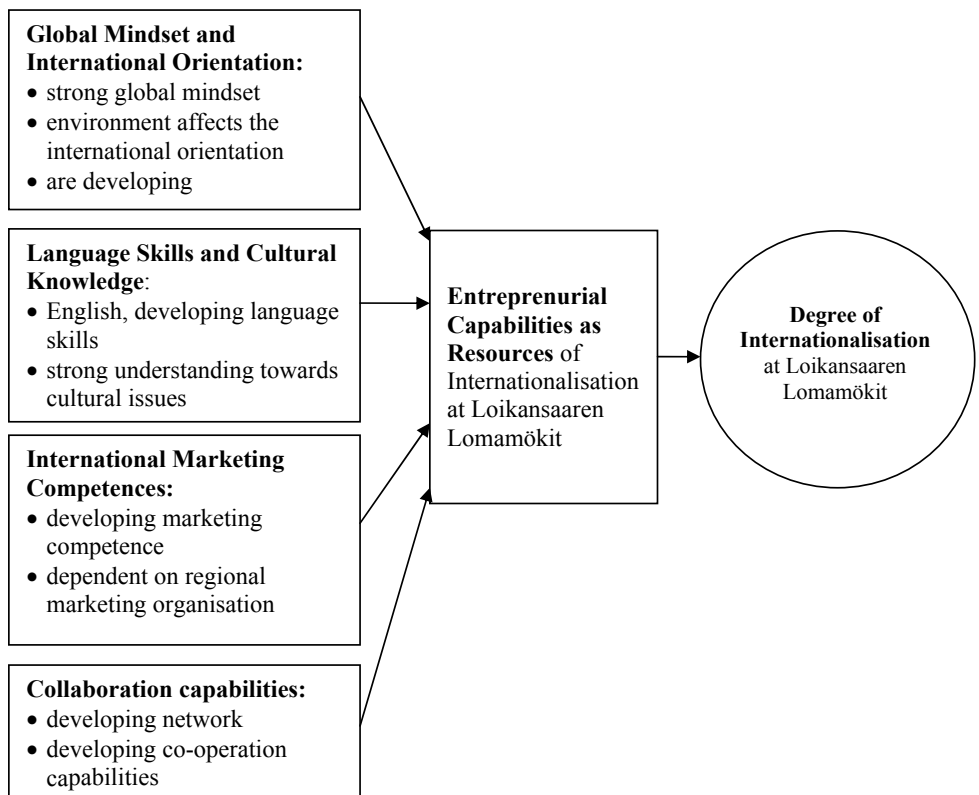


Figure 28 Entrepreneurial Capabilities as Resources of Internationalisation at Loikansaaren Lomamökit

Various marketing networks exist in the area, and co-operation in service production has also increased little by little. There were some attempts to develop co-operation with other tourism companies during the first two decades of the company’s existence, but this did not have any noticeable

effects on the business. During the last few years, however, the situation has improved a lot. The need for more capacity in activity production in particular has increased the need for co-operation and networking. Competition is turning into co-operation, and the entrepreneurs seem to understand advantages of scale.

### 6.2.5 Synthesis

Loikansaaren Lomamökit internationalised early, at its establishment. The process was not very intentional in the beginning however, as the tourism business was only a subsidiary income generator. Its development at the farm was based on the existence of suitable premises and possibilities offered by the physical environment. Internationalisation happened by chance and developed gradually through a few internationally oriented co-operative bodies. It could be argued that at this time the company was a passive developer, although there were signs of a willingness to engage in international business. The entrepreneurs understood the importance of foreign visitors and participated temporarily in an internationally oriented development project. Gradually, they increased their understanding and knowledge of internationalisation and created a good basis on which the next generation could develop an internationally successful, professional tourism company.

The second generation of entrepreneurs made the strategic choice to concentrate on the tourism business as the main source of income for the Loikansaari farm. This was one of the turning points in the internationalisation of the company, as new foreign target groups, especially from Russia, were contacted. The environment could be said to offer a fruitful basis for internationalisation - both the premises of the company and the surrounding international tourism area of Savonlinna. In fact, the environment of Loikansaaren Lomamökit could be considered a resource of internationalisation that could significantly affect its degree.

The company appears to be situated between the passive and active ends of the internationalisation continuum, and could be characterised as a “emerging developer”, for the following reasons. Its environment was the reason for establishing a tourism business, which gradually led to a global mindset and an international orientation in the entrepreneurs. The company is dependent on the marketing operations and distribution channels of the regional tourism-marketing organisation, Savonlinnan Matkailu Oy, but the entrepreneurs are very active in establishing personal contacts with tour operators and other marketing organisations. Moreover, the product and

quality development are aimed at expanding international markets, and joint product-development projects with some co-operative partners are underway. Although classified as a “emerging developer” of internationalisation, Loikansaaren Lomamökit seems to have a clear vision and the will to develop into an actively international entrepreneur. This requires expansion in terms of developing bigger international marketing and local production networks in the first phase, and forming co-operative capacity networks.

### 6.3 Cross-case Analysis

The cross-case analysis is given in this section of the study in order to identify the similarities and differences and to provide further insight into issues affecting the internationalisation of location-bound tourism SMEs. The theoretical framework and pre-understanding of the phenomenon under investigation are rooted in the theory of service internationalisation, the resource-based view (RBV) of the firm, and network approaches to internationalisation (see Chapter 3). The classification of the pre-requisites was developed on the basis of the theoretical framework and the expert interviews carried out in the first phase of the empirical research. This classification fostered understanding of the inward internationalisation of location-bound tourism SMEs, and turned the focus of the research to the resources needed. The findings from the expert interviews and the classification of resources were presented in Chapter 5, and the analysis of the case studies was based on this classification.

The entrepreneurial narratives from the Luosto tourist area seem to support the theoretical framework and the suggested classification. Furthermore, the internationalisation of Loikansaaren Lomamökit supports the theoretical and theoretical pre-understanding.

#### 6.3.1 The Role of Active and Passive Internationalisation

The nature of active and passive internationalisation also has to be understood in international product development and marketing. Some companies internationalise actively and are able to use their own international marketing channels to benefit the whole tourism area or destination. This, naturally, requires successful and keen co-operation in product development, production, and the joint understanding of quality issues. There are also companies in the system that are part of the tourism

production but do not internationalise actively. Furthermore, some firms strengthen their international orientation through networks and co-operation.

Table 4 summarises the aspects of passive and active internationalisation within the two cases.

Table 4 Degree of Internationalisation: Cross-case Analysis

<i>Degree of Internationalisation</i>	<i>Case 1: Luosto</i>	<i>Case 2: Loikansaaren Lomamökit</i>
Passive and Active Internationalisation	<ul style="list-style-type: none"> <li>• active internationalisation involves market creation and direct tour-operator contacts</li> <li>• passive internationalisation involves active cooperation in product development and service production</li> </ul>	<ul style="list-style-type: none"> <li>• the issue did not feature strongly during the interviews</li> <li>• the case company actively participates in joint projects</li> <li>• tour-operator contacts abroad are just starting to develop</li> </ul>

The actors at Luosto seem to have a common understanding of the distribution of work, which enables the different players in the field to concentrate on their core competences. The establishment of the regional Pyhä-Luosto Tourist Association in 2003 was a concrete sign of the common will to develop the Luosto area as one of the main winter-tourism destinations in Finland. The development work is being done in co-operation, through a network consisting of passively and actively internationalising actors.

The issue of active and passive internationalisation did not arise as clearly in the Loikansaaren Lomamökit case as in the Luosto case. This was probably because Loikansaaren Lomamökit does not operate in a tourism centre, but it is part of the larger tourism system of Savonlinna. This is not as enthusiastic and co-operative a body as the Luosto system, however.

Generally, the interviewees understood the role of active and passive internationalisation. The degree of internationalisation could be considered from the perspective of individual tourism companies, but as the tourism product in most cases consists of a network of companies it is obvious that it should also be considered from the perspective of the destination. However, given that the tourism system, or destination, consists of individual companies, it could be argued that the degree of internationalisation of the destination is a result of the degree of internationalisation of the individual firms, and furthermore that the internationalisation of the system is a result of successful networking, among both actively and passively internationalising



actors. Successful networking, again, increases entrepreneurial capabilities among all the players in the field, which could have a positive effect on industry-specific resources of internationalisation, especially product development, quality issues and reputation and image. The internationalisation of location-bound tourism SMEs could thus be defined as increasing involvement in incoming tourism operations through increasing internationalisation of the resource base. Internationalisation increases collectively, within the system, through effective networking among committed actors with joint objectives.

### 6.3.2 Networking as an Internationalisation Resource

Networking is the first main category in the classification of the resources needed in the internationalisation of location-bound tourism SMEs. The cross-case analysis of networking (see Table 5) comprises two sub-categories: types of networks and network embeddedness.

Table 5 Networking as a Resource: Cross-case Analysis

<i>Networking as a Resource</i>	<i>Case 1: Luosto</i>	<i>Case 2: Loikansaaren Lomamökit</i>
Types of Networks	<p>Case 1 represents a network in the form of a tourist centre in which:</p> <ul style="list-style-type: none"> <li>• local and regional networks are strong in product development and service production (characterised by sub-contracting).</li> <li>• Pyhä-Luosto Matkailuyhdistys is a coordinating body, and is becoming the centre of the co-operation</li> <li>• marketing and promotion networks are based on the key companies' relationships.</li> <li>• theme-based networks are typical</li> </ul>	<p>Case 2 represents an individual rural tourism company operating in a regional tourism system in which:</p> <ul style="list-style-type: none"> <li>• local and regional networks comprising a few companies are needed in the production of the services</li> <li>• marketing and promotion are done by Savonlinnan Matkailu Oy, and through the Internet</li> <li>• theme-based networks are about to develop, especially for water-based activities</li> </ul>
Network Embeddedness	<ul style="list-style-type: none"> <li>• co-operation with larger networks, e.g., the Finnish Tourist Board and Canterbury Travel and its subsidiary A la Carte Lapland.</li> <li>• the two key companies in the area govern the larger networks</li> <li>• Pyhä-Luosto Matkailuyhdistys is also important as a collective and coordinating body.</li> <li>• affects the internationalisation strategy</li> </ul>	<ul style="list-style-type: none"> <li>• participation through Savonlinnan Matkailu Oy in joint marketing projects in the area</li> <li>• participation through Savonlinnan Matkailu in workshops and promotion events organised by the Finnish Tourist Board</li> </ul>

The entrepreneurial narratives from Luosto show that different kinds of co-operation are needed in order to succeed in international tourism markets. Networks are required on many levels, and an individual company's ability to become embedded in different ones could be regarded as one of the most important success factors in the internationalisation of tourism SMEs. Long-term co-operation requires trust and commitment, and it also requires companies to focus on their core business and to specialise. According to the interviewees, collaboration capability and network competence among the actors in the area seem to have grown significantly during the last few years. The regional tourism-development association has had a specific role in this, and tourism companies have learned that networking and co-operation lead to better results than acting alone. This concerns international marketing, product development and quality and is, in the end, evident in the increased tourist flows and increased profitability. Consequently, collaboration capabilities, networks and network embeddedness could be regarded as resources of internationalisation at Luosto.

Networking as an internationalisation resource, various types of networks and embeddedness could also be identified in the case of Loikansaaren Lomamökit. The core business is defined as accommodation, and other services are organised among a small network of companies. The target is to expand the international tourism business to include packages comprising catering services, water and fishing safaris, and other water-based activities.

In general, it could be concluded that certain types of networks are antecedents of internationalisation, especially in the case of location-bound services. The co-location of companies enables tourism products and services to be developed locally, and consequently the local and regional networks become the starting point of international product development. They could also be characterised as technical networks, allowing companies to complement each other and to concentrate on their own core competences. Effective marketing networks are needed, but it is important to note that not all actors in a network require international marketing competence. However, in order to internationalise a location-bound tourism SME needs to be embedded in larger marketing and developing networks.

### 6.3.3 Industry-Specific Resources Needed in Internationalisation

Table 6 illustrates the industry-specific resources needed in the internationalisation of location-bound tourism SMEs. According to the classification presented in the previous chapters, such resources consist of appeal factors, accessibility and infrastructure factors, and product and quality factors. The main findings are compared across the two empirical cases and presented in Table 6.

Table 6 Industry-Specific Resources Needed in Internationalisation: a Cross-case Analysis

<b><i>Industry-Specific Resources</i></b>	<b><i>Case 1: Luosto</i></b>	<b><i>Case 2: Loikansaaren Lomamökit</i></b>
Appeal Factors	<ul style="list-style-type: none"> <li>• Lapland brand</li> <li>• Arctic hill area</li> <li>• nature</li> <li>• winter / snow</li> <li>• Northern Lights</li> </ul>	<ul style="list-style-type: none"> <li>• Lakeland Finland</li> <li>• Saimaa</li> <li>• image of Savonlinna</li> <li>• untouched nature</li> <li>• water</li> </ul>
Accessibility and Infrastructure Factors	<ul style="list-style-type: none"> <li>• accessibility needs to be improved (flight connections are the bottleneck)</li> <li>• the architecture of the area is excellent (pedestrian villages, hot-bed principle, ski-in–ski-out principle)</li> </ul>	<ul style="list-style-type: none"> <li>• accessibility is not good enough by air, train connections have improved</li> <li>• most customers arrive by car</li> <li>• a common will in the area to improve accessibility</li> </ul>
Product Factors	<ul style="list-style-type: none"> <li>• the core competences of various actors have been recognised</li> <li>• active joint product development</li> <li>• a deep understanding of the cultural factors involved in product development</li> <li>• unified pricing system</li> <li>• tourism products include stories and themes</li> <li>• continuous product development, new ideas</li> </ul>	<ul style="list-style-type: none"> <li>• core product is accommodation</li> <li>• strong development of water-based activity products</li> <li>• joint product development with a few partner companies</li> </ul>
Quality Factors	<ul style="list-style-type: none"> <li>• goal-oriented development</li> <li>• joint understanding of the quality level (“Luosto quality”)</li> <li>• some enterprises are members of the Quality1000 system.</li> <li>• genuine Lappish experiment</li> <li>• excellent customer service without exception</li> <li>• feeling of safety with regard to the snow activities</li> </ul>	<ul style="list-style-type: none"> <li>• member of the Quality1000 system (Finnish Tourist Board)</li> <li>• personal and caring customer service, entrepreneurs are very aware of quality issues</li> <li>• Finnish design</li> <li>• technical quality and safety in the context of water activities</li> </ul>

On the basis of the cross-case analysis it could be argued that the industry-specific resources of internationalisation contribute to the theories of service internationalisation. The internationalisation of tourism SMEs is highly dependent on appeal factors, the attractiveness of the environment, image factors, and accessibility and infrastructure. These are location-bound factors, which in many cases are not controlled by an individual

entrepreneur, and rely on intensive co-operation with other business actors and public authorities.

There seem to be many similarities in industry-specific resources of internationalisation between the two cases. In both there is a strong regional tourism brand, which helps the marketing and image building of an individual firm significantly. In both cases too, the tourism business is based on nature and the development of nature-based services, and their development is a question of innovation, new ideas and imagination. Accessibility was considered somewhat problematic, however, especially with regard to air connections. Effective internationalisation requires an airport and good train connections in the area.

It could be argued that, in general, in the case of location-bound services, industry-specific resources of internationalisation have an essential role. The appeal factors create the basis of the tourism industry's existence in a certain area or destination. Accessibility and infrastructure, again, may have a strong effect on tourism flows both domestically and internationally. In fact, these three factors may constitute the trigger for establishing a tourism company. The main motivation may be to utilise the existing premises and environment. In such cases aiming at international markets may not be very active, and indeed, it could be said that many of these tourism companies start out as "passive developers" of internationalisation. Co-operation with an internationally oriented tourism entrepreneur may open up new markets, however, and increase the degree of internationalisation in individual companies.

#### 6.3.4 Entrepreneurial Capabilities as Resources of Internationalisation

Table 7 presents the cross-case analysis of the entrepreneurial capabilities facilitating the internationalisation of location-bound tourism SMEs. Entrepreneurial capabilities in this thesis comprise a global mindset and an international orientation among the entrepreneurs, language skills and cultural knowledge, international marketing competence, and collaboration capabilities.

Table 7 Entrepreneurial Capabilities: Cross-case Analysis

<i>Entrepreneurial Capabilities</i>	<i>Case 1: Luosto</i>	<i>Case 2: Loikansaaren Lomamökit</i>
Global Mindset and International Orientation	<ul style="list-style-type: none"> <li>the key companies were oriented to international markets from the beginning</li> <li>an international orientation was a strategic choice</li> <li>products and services are better suited to international than to domestic customers</li> <li>the key entrepreneurs in the area had strong visions</li> <li>growth orientation is strong</li> <li>the tourism business is developed on a professional basis</li> </ul>	<ul style="list-style-type: none"> <li>although the founders of the company became involved in international tourism “by chance”, they had a very strong global mindset and a positive attitude towards internationalisation</li> <li>the second generation made the strategic choice to make tourism the main income of the farm, and to aim strongly for growth in foreign markets</li> </ul>
Language Skills and Cultural Knowledge	<ul style="list-style-type: none"> <li>language knowledge is needed, but in most cases customers can be served in English</li> <li>a deep understanding of different cultures is regarded as one of the key capabilities in the international tourism business</li> <li>information and guidance documents have been translated into seven different languages</li> <li>situation sensitivity is needed with customers arriving from foreign countries</li> </ul>	<ul style="list-style-type: none"> <li>knowing the customer’s language was not considered very important: in most cases it is possible to manage with English.</li> <li>more important than good language knowledge is friendliness and good communication with the host family</li> <li>a high level of customer service can compensate the lack of language skills</li> </ul>
International Marketing Competences	<ul style="list-style-type: none"> <li>based on personal contacts with the distribution channel and trust</li> <li>the ability to price the products appropriately from the marketing and distribution perspective is important (the share of the distribution channel must be included)</li> </ul>	<ul style="list-style-type: none"> <li>the founders of the company did the marketing successfully through Lomarengas, and later through their personal contacts</li> <li>today marketing is carried out mainly through Savonlinnan Matkailu Oy.</li> <li>the Internet and direct contacts are important marketing channels</li> <li>co-operative partners in Russia</li> </ul>
Collaboration Capabilities	<ul style="list-style-type: none"> <li>the distribution of work and responsibilities has developed significantly during the last few years</li> <li>understanding the need for co-operation and its effect on the result has increased significantly</li> <li>there is a lack of co-operation with tour operators</li> <li>trust between entrepreneurs and tour operators is a key issue and building it is a long process</li> </ul>	<ul style="list-style-type: none"> <li>the need for co-operation and networks was understood in the early phases of the company’s existence</li> <li>many contacts have been established “by chance”</li> <li>trust and commitment are considered key issues in co-operation</li> <li>co-operation and collaboration capabilities among tourism actors are improving all the time</li> </ul>

The key actors at Luosto represent entrepreneurs with a strong global mindset and an international orientation: from the early years of its existence the business was targeted – at least partly – on foreign markets. Both key entrepreneurs have expanded their operations substantially during the last 15 years by creating new business areas with a clear international orientation. Furthermore, they have a strong co-operative attitude, and consequently they have been able to build internationally successful product packages with other companies in the area.

Entrepreneurial capabilities could also be identified in the case of Loikansaaren Lomamökit: the business development has been target-minded for two generations. The tourism services were targeted on international markets from the beginning, although at the time tourism was a subsidiary business activity on the farm. During the early stages no special effort was put into developing international marketing or tourism production: foreign customers came through one or two rural-tourism marketing organisations. After 1994, following the generation change at the farm, the new entrepreneur started to develop the tourism business as the main income source. Today the growth of the company is clearly based on the increasing numbers of international customers. The developing Russian markets play an important role, but the company also intends to increase the numbers of Middle-European customers.

Language skills and cultural knowledge were considered relatively important entrepreneurial capabilities in both cases. However, it was the common opinion that insufficient language skills could be compensated by friendliness and good customer service. The Finnish tourism business is able to internationalise through the English language, there seems to be no need to speak the language of every foreign customer group fluently: it is more important to understand their cultures and the cultural differences between various customer segments. However, the feeling of security – which is an important element of quality – is stronger if customers are served in their own language.

International marketing competence was considered necessary in both cases. The entrepreneurs emphasised the need to create and maintain long-term, personal and trustful relationships with marketing and distribution channels: it is important to convince the tour operators first in order to get foreign customers to the area. This work could be the responsibility of a few key companies, and other co-operative actors in the tourism network could act as sub-contractors within the production chain, and consequently remain passive in international marketing. The two key enterprises at Luosto have been target-minded in developing their personal relationships with international tour operators for decades. At Loikansaaren Lomamökit, on the

other hand, this issue has emerged during the last few years, and so far the marketing operations have been carried out by the regional tourism-marketing organisation. Consequently, the entrepreneurs could be characterised as emerging developers of internationalisation in this respect, whereas the two key actors at Luosto could be classified as actively internationalising.

Generally, entrepreneurial capabilities play an essential role in the internationalisation of tourism SMEs. It seems, however that internationalisation in the environment of an individual firm, as well as in the networks in which it is embedded, may substantially and collectively enhance entrepreneurial capabilities. This, again, affects the degree of internationalisation of a tourism destination in the long run, and significantly increases international performance, entrepreneurial internationalisation and collaboration capabilities.



## 7 THE CONCEPT OF INTERNATIONALISATION REVISITED

This chapter builds on the theoretical and empirical findings of the study and challenges the theories of service internationalisation with the introduction of a *location-bound, resource-based perspective*. It is thereby suggested that the internationalisation of the tangible and intangible resources of the firm is a pre-requisite for the internationalisation of location-bound service companies. It is argued in this thesis that the internationalisation mode of location-bound service companies is industry-specific and should be seen as a process of strengthening inward internationalisation. Consequently, the focus of the analysis lies in the internationalisation of the resource base of an individual company.

At the same time, the results of the study contribute to the research in the emergent field of international entrepreneurship, which in the case of tourism seems to offer a fruitful basis for understanding the internationalisation of SMEs. It was suggested earlier (see Chapter 3) that existing theories of internationalisation have their strengths in this regard, but there are context-specific issues that are not recognised in them, especially in the context of location-bound service SMEs.

The internationalisation of tourism companies has often been seen in terms of external marketing activities and the ability to utilise international marketing and distribution channels (e.g., Björkman - Kock 1997; Saraniemi 2006). The expert interviews and the case studies in the focal study, however, clearly indicate that a tourism company's internationalisation process has to be twofold: on the one hand it has to be able to choose the right marketing channels, but on the other hand, and even more importantly, it has to develop its service processes and location-bound resources in order to be attractive on foreign markets in terms of offering internationally successful tourism products for foreign customer groups.

Indeed, outward tourism-marketing operations are in many cases taken care of not by the individual enterprise but by some other body such as a regional tourism-marketing organisation, an incoming agency or another tourism company. It could therefore be argued that shifting the focus to inward internationalisation – of the resource-base of an individual company or a network of companies producing tourism products and services in co-

operation - could significantly enhance understanding of the internationalisation of tourism SMEs (see Chapter 3.1.3).

Thus theories of service internationalisation are developed in this study, and consequently a model of the internationalisation of location-bound tourism SMEs is introduced in this chapter. The fingerprint pattern of internationalisation (Jones 1999) is applied in order to complement the model, illustrating three types of tourism companies representing different roles in the distribution of work in an internationalising area or destination. The aim is to help tourism enterprises, public actors and international tourism-marketing channels to assess and analyse the pre-requisites and resources facilitating the internationalisation of tourism SMEs, and to offer tools for the development of the international tourism business.

In conclusion, a resource-based perspective on the internationalisation of location-bound services is presented as a contribution to the theoretical discussion on service internationalisation.

## 7.1 A Model of Internationalisation in Location-Bound Services

Jones (1999) suggests that the nature of the product and the industry, and the orientation and experience of entrepreneurs influence the speed and nature of internationalisation. Due to the shortening product life cycles, the drive for innovation and the rapid development of information technology and global telecommunications, resource-based and network motivations would seem to be important in the internationalisation of small firms. Innovative entrepreneurs with new visions and business models play an important role within the tourism industry as at higher levels of economic development innovations inevitably become a production factor – and indeed, a *resource factor* for which co-operation is needed on many levels (Keller 2005). Several researchers have identified resource effects and the transfer of knowledge as important elements of firm growth (e.g., Penrose 1959; Teece 1977; Jones 1999). According to Jones (1999), small firms are renowned for their resourcefulness and networking capabilities, and it can be assumed that these skills are easily transferable to an international business environment.

Accordingly, the theoretical framework and the empirical findings of this study suggest that the internationalisation of location-bound tourism SMEs is based on the resources the firm possesses and can govern, either alone or jointly with other players in the field. The degree of internationalisation in a company could be argued to be a result of the degree of internationalisation of its resources. The main categories of resources needed in the internationalisation of tourism SMEs are illustrated in Figure 20, page 158,

in order to demonstrate the connection between resource dependence and the degree of internationalisation.

The industry-specific resources of location-bound tourism SMEs include factors such as appeal, accessibility and infrastructure that cannot be controlled by an individual enterprise. They also include factors that can be partly controlled, such as joint product development with co-operative partners and joint quality definitions.

Entrepreneurial capabilities in this context comprise a global mindset and an international orientation among the entrepreneurs, language skills and cultural knowledge, international marketing competence and collaboration capabilities. A global orientation refers to a positive management attitude to international affairs and the ability to adjust to different cultures (Nummela 2004). An international entrepreneurial orientation, again, includes pro-activeness, innovativeness and risk-taking (e.g., Harveston et al. 2000; Nummela 2004).

Networks as resources of internationalisation refer to the type of network and its embeddedness. Effective networks within the tourism business could be seen as company resources leading to increased know-how, innovation capacity and sustainable competitive advantage in international markets.

It is suggested in this thesis that the degree of internationalisation of location-bound tourism SMEs increases if the *pre-requisites exist* and if the entrepreneurs and the public authorities have the competence, know-how and common will to *convert them into internationalisation resources*. The existence and utilisation of the pre-requisites, again, follows a three-stage pattern. First, industry-specific pre-requisites – especially appeal factors such as the attraction, reputation and image of the area as well as its accessibility and infrastructure - are necessary in terms of attracting international customer segments: at this stage the role of the public sector and tourism policy is crucial. Secondly, individual companies and their co-operative partners – or competitors – have to ensure the quality, level and contents of the tourism product and the processes involved: this stage requires the development of entrepreneurial capabilities, especially collaboration skills. Thirdly, from the individual company's point of view the ability to co-operate and choose the right networks is a core issue. Finally, in order to develop the degree of internationalisation in a company, a network of companies or a tourism area or destination, the three stages have to interact cyclically. Thus, the internationalisation of a tourism company is a cyclical, iterative process involving building on existing resources and developing new capabilities and competences. This will turn a comparative advantage into a competitive advantage. A framework for the internationalisation of location-bound tourism SMEs is illustrated in Figure 29.

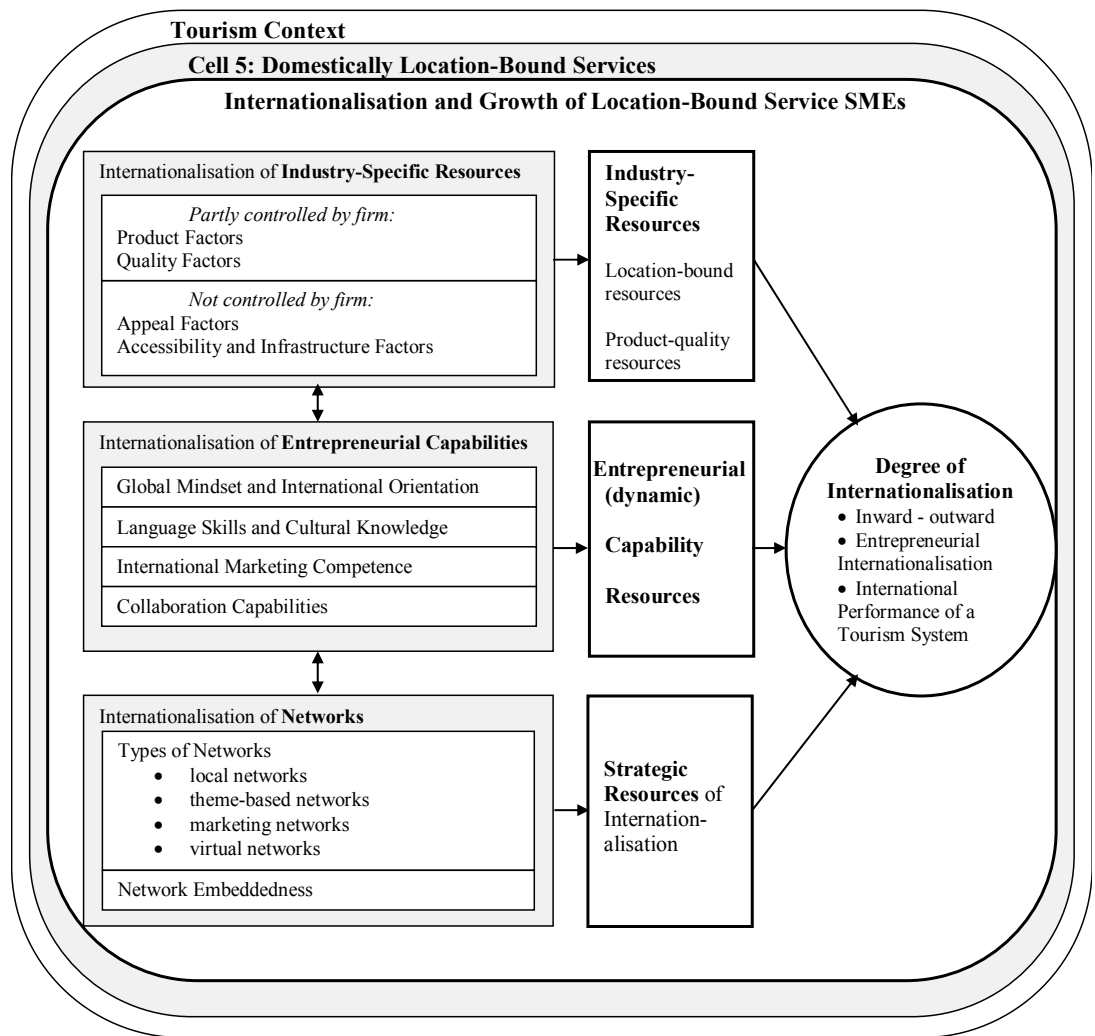


Figure 29 A Model of Internationalisation in Location-Bound Services

As the figure illustrates, the internationalisation of an individual location-bound service SME is dependent on industry-specific resources, entrepreneurial capabilities and networks. The development of these resources is an iterative process: networking and co-operation can have an effect on capabilities, and vice versa. In the long run this could have an effect on tourism industry-specific resources such as the reputation and image of the destination, accessibility and infrastructure. Increasing the degree of resource internationalisation increases the degree of internationalisation in the firm. This, however, requires co-operation, destination planning and support from the public authorities. The model of internationalisation in

location-bound service SMEs also identifies the role of tangible and intangible tourism resources, and emphasises the firm's advantage-creating resources: value, rareness, inimitability and non-substitutability. Internationally successful tourism products and services offer value and rareness to customers, and combined with inimitability and non-substitutability (Barney 1991) can create a strong competitive position among other tourism companies, areas or destinations.

## 7.2 Patterns of Internationalisation in Location-Bound Service SMEs

In addition to the three-stage process model of internationalisation presented above, *three illustrative types of tourism enterprises* are distinguished in this study, assessed according to the degree of internationalisation of various resources<sup>8</sup>. It is obvious that all three types of company can be recognised in each tourism area or destination. Furthermore, it is important for an individual tourism SME to be able to position itself, its co-operative bodies and its competitors in these categories in order to understand the pre-requisites of the distribution of work. The analysis is based on the fingerprint pattern developed by Jones (1999), the aim being to identify typical sequences of patterns in the international expansion of tourism SMEs.

The three types of company are classified in this study as 1) "passive developers of internationalisation", 2) "emerging developers of internationalisation" and 3) "international entrepreneurs". Given the qualitative nature of the study these patterns could be described as illustrative, aiming at enhancing understanding of different types of companies within the tourism business. Understanding the pre-requisites of *co-operation and co-opetition* requires knowledge of the different roles and their potential contribution to the degree of internationalisation in the tourism area.

The first illustrative pattern - "*passive developers of internationalisation*"<sup>9</sup> - represents tourism enterprises that mainly operate in domestic markets, but which are part of an internationally operating tourism system or destination. They may have been involved in the international tourism business for a long

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<sup>8</sup> The typical types of entrepreneurs illustrated in this thesis are based on the evaluations of the researcher.

<sup>9</sup> Passive developers of internationalisation and their role in the internationalisation process were strongly recognised during the empirical study. Consequently, the "passive developers of internationalisation" pattern was built on the data generated in the expert interviews and the entrepreneurial narratives. The classification may have some shortcomings, as the so-called "passive developers of internationalisation" were not interviewed for this study.

time, but they do not consider themselves international enterprises. They may have developed their language skills and cultural knowledge to some extent, so that they can be part of the tourism production, but they are not active in developing the industry-specific resources of the area – its attraction, reputation, image, accessibility and infrastructure. Nor are they actively looking for new partners or increasing the network embeddedness of their company. On the other hand, they deal with the situations, in terms of internationalisation, as they come up. In many cases they act as sub-contractors for the key companies in the area. The appeal factors of the area or the existence of the key companies have made it possible for them to establish a tourism company, and they take advantage of it. In many cases they also operate on a part-time basis, their main income being generated in some other field (such as farming, animal husbandry or catering). Tourism entrepreneurship is often called “opportunity entrepreneurship” in that tourism activities may start on the rural level because the owners want to preserve empty buildings and other facilities for posterity (Komppula 2007). The illustrative fingerprint pattern of passive developers of internationalisation, based on the existing data, is presented in Figure 30 below.

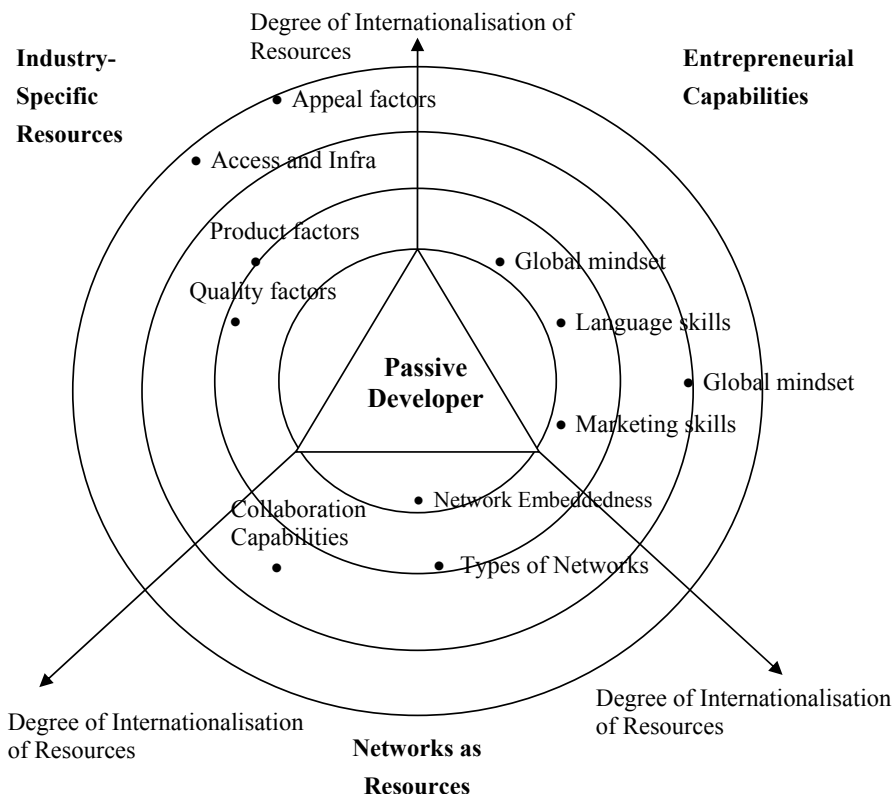


Figure 30 An Example of a Passive Developer of Internationalisation

The second illustrative pattern, “emerging developers” is rooted in the findings from the expert interviews and the narratives in Case 2. Entrepreneurs running this type of tourism company have excellent physical pre-requisites combined with an increasingly global mindset and an international orientation. In many cases the tourism business started in the first place because the premises were there, in other words the environmental pre-requisites existed. In this sense the environment of the company strongly affected the entrepreneur’s decision to get involved in tourism. This type of entrepreneur has gradually come to see the potential of the growing markets and of being an essential element in the business. Consequently, he or she will have started actively to develop co-operation in local, marketing and electronic (virtual) networks in order to be ranked among the key operators in the area. Nevertheless, direct contacts with tour operators and other distribution channels are still at a low level, but the entrepreneur has a *clear vision and a strong will* to develop them. Theme-based networks are springing up, and there is budding commitment to and communication with the surrounding tourist destinations. Developments in this sense are target-

mindful. These entrepreneur types have strong feelings about tourism development, and about the internationalisation of the business within their own companies and in the surrounding system. Indeed, they are the entrepreneurs the tourism industry needs in order to grow and internationalise in the long run. Their success is very much dependent on the actions defined in and carried out according to the public tourism policy in the area and, furthermore, on their network embeddedness. The fingerprint pattern of the emerging developers of internationalisation is illustrated in Figure 31.

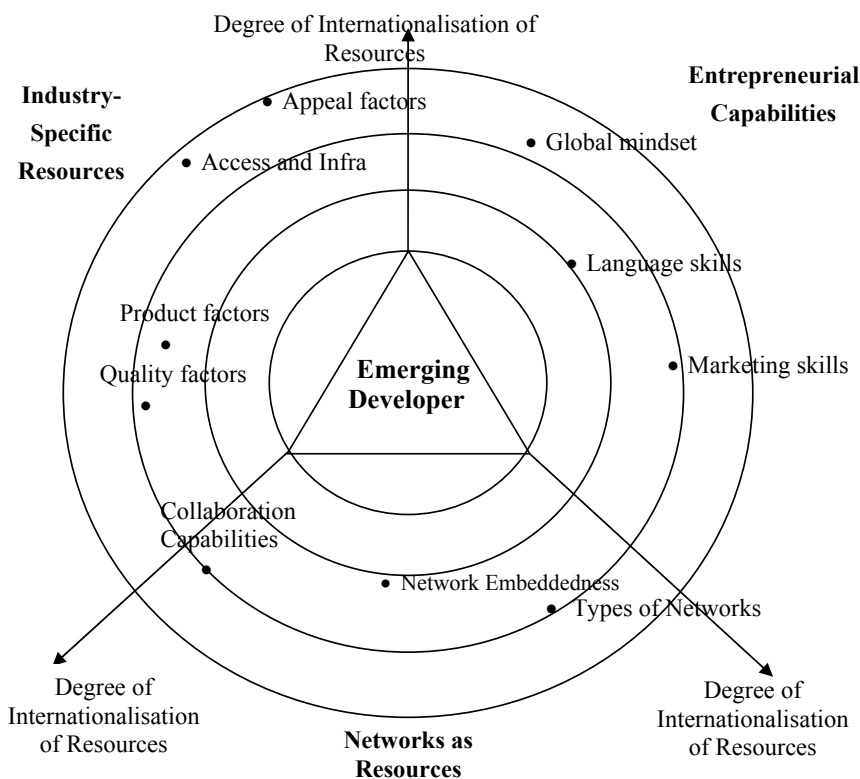


Figure 31 An Example of an Emerging Developer of Internationalisation

The third illustrative pattern, “the international entrepreneur”, is also based on the theoretical background of the study, the expert interviews and the entrepreneurial narratives. This pattern mainly follows the findings from the narratives that emerged in Case 1. International entrepreneurs could be characterised as “Born Globals” or “International New Ventures” (see e.g., Oviatt – McDougall 1994; Knight – Cavusgil 2004; Jones – Coviello 2005), in that they have been operating in foreign markets since the early years of their existence and have targeted their outward and inward operations



towards international customer groups. They are typically especially innovative in their internationalisation. Unlike the emerging developers, they have been target-minded in their search for an area and environment that could offer the best physical resources and pre-requisites for establishing and developing a tourism business. Starting the business is based on professional motivation and not on the existing premises. These entrepreneurs have operated on a very professional basis from the start, exhibiting a strong growth orientation and a global mindset. In many cases they are already active in large networks, and have trustful contacts especially with marketing and distribution channels. They are able to create their own markets, and if they operate in a tourism area or system they could be characterised as key companies within it: they have a leading role not only in the marketing of the products but also in the product development, and a strong impact on the local or regional tourism policy. An illustrative example of the “international entrepreneur” is presented in Figure 32.

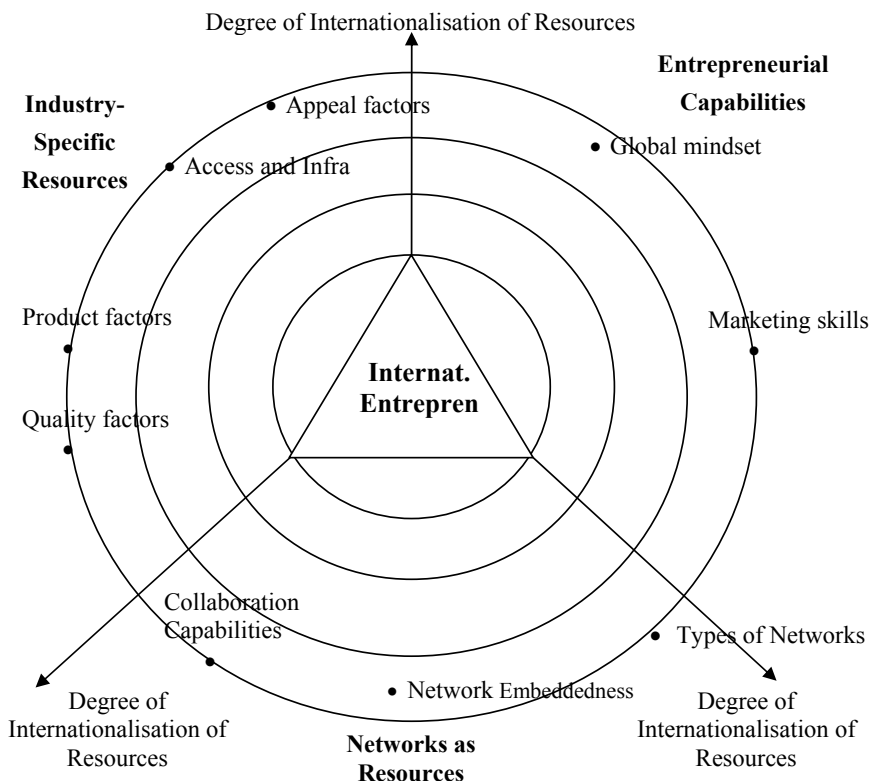


Figure 32 An Example of an International Entrepreneur

These three illustrative types of tourism entrepreneurs could be located on a continuum of enterprises ranging from passive developers of internationalisation to international entrepreneurs (see Figure 33).

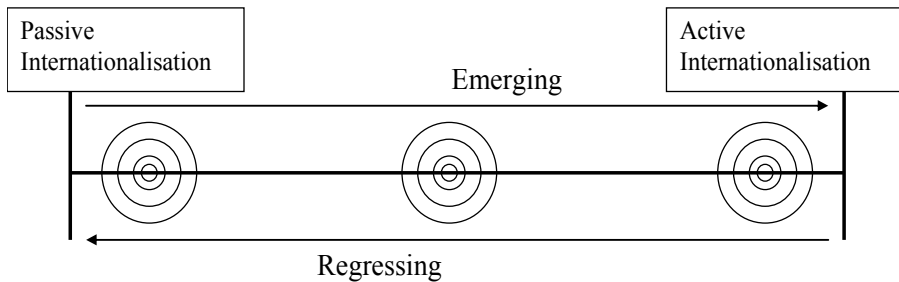


Figure 33 A Continuum of Internationalisation

It is obvious that there are differences *within* the three categories as the degree of experience, commitment and communication differs from one firm to another. The illustrative patterns above represent an average tourism company in each category, but there may be variations in these basic types within the system. However, according to the expert interviews and the case studies, these basic types of entrepreneurs exist in successful tourism areas, destinations and systems. In co-operation with each other and the surrounding tourism system they build up the success, growth and profitability of the business. In this sense it could be argued that the different types of co-operative entrepreneurs in the area are an essential element of the resource base of a location-bound tourism company, and it is therefore important to identify them and to analyse their different roles in a tourism system.

Furthermore, it can be assumed that the *internationalisation of entrepreneurship* tends to grow, especially among “emerging developers”, but also among “passive developers”. This, again, could be seen as an essential intangible internationalisation resource among location-bound tourism SMEs, directly and indirectly affecting their entrepreneurial and collaboration capabilities and, consequently, their performance.

Jones and Coviello (2005) see internationalisation as a process of entrepreneurial behaviour, and in order to move the research forward they suggest a general model that represents *entrepreneurial internationalisation* as a time-based behavioural process. They suggest that entrepreneurial internationalisation is linked, directly and cyclically, with various aspects of firm performance, and account for the competences and resources that are

specific to the entrepreneur. They provide a basis for the development of an entrepreneurial theory of internationalisation, in which entrepreneurship and internationalisation are considered interdependent processes. In their model they identify two primary process dimensions (time and behaviour), and four key constructs (the entrepreneur, the firm, the environment and performance). Jones and Coviello (2005) encourage future investigation of the entrepreneur's influence along with that of the firm and the environment. Indeed, in the case of location-bound tourism SMEs it could be argued that increasing the degree of resource internationalisation (industry-specific resources, entrepreneurial capabilities and networks) will significantly increase entrepreneurial internationalisation, especially among the "emerging developers" and the "passive developers".

It could thus be concluded that the degree of internationalisation of an individual tourism SME is based on the entrepreneur's global mindset and international orientation, and defines the company's position on the passive-active continuum. It is also very much affected by other entrepreneurial capabilities such as language skills, cultural knowledge and collaboration. However, increasing the degree of internationalisation requires industry-specific resources such as appeal, accessibility, product attributes and quality factors. The existence of tourism networks could be seen as an antecedent of internationalisation.

The challenge for tourism SMEs and destinations is to create measures by which to analyse these resources in order to position the area or destination in question among others. There is also a need to develop destination-specific measurements in order to position various actors in the area in terms of internationalisation.

### 7.3 The Resource-Based Perspective on the Internationalisation of Location-Bound Service SMEs

The focus of this study is on the internationalisation of location-bound tourism SMEs, companies with strong spatial fixity and resource dependence on their environment and co-operative networks.

The term "internationalisation" has traditionally been used to describe the outward movements in an individual firm's or larger grouping's international operations (Welch – Luostarinen 1988). Welch and Luostarinen present a framework of internationalisation comprising the following dimensions: operational method, organisational structure, sales objects, target markets, organisational capacity, personnel and finance. They also extend the theory

in defining internationalisation as “the process of increasing involvement in international operations” (Welch – Luostarinen 1988, 36).

It was suggested earlier in this study that Welch and Luostarinen’s model should be challenged, especially in the case of location-bound services. This being the case, a valuable contribution to the theories of internationalisation would be to introduce a new definition covering the internationalisation of location-bound tourism SMEs. The following definition is based on the theoretical and empirical findings of this thesis:

The internationalisation of location-bound tourism SMEs is a process of increasing inward internationalisation, *of increasing involvement in inbound tourism operations* carried out by a network of tourism companies and public authorities. From the perspective of the individual SME, internationalisation requires its resources – both tangible and intangible – to be internationalised. Consequently, the degree of internationalisation of a firm is dependent on the degree of internationalisation of the resources it possesses. Hence, it is strongly dependent on the degree of internationalisation of the networks in which it is embedded, on its industry-specific resources, and on the entrepreneurial capabilities of tourism entrepreneurs. The internationalisation of an individual company – and likewise of a tourism area or a destination – is a cyclical process in which the iterative actions between the different resources can increase the degree individually and collectively. The ability to utilise the tangible resources and to convert the factors of comparative advantage into sustainable competitive advantage requires co-operation and networks. Furthermore, it requires various entrepreneurial capabilities among tourism entrepreneurs.

The internationalisation of location-bound tourism SMEs also requires identification of the various actors and their roles within the system. The suggested framework identifies the existence of “international entrepreneurs”, “emerging developers” and “passive developers”. SMEs have to be positioned within these categories and the work distributed accordingly.

The findings of the study show that successful international tourism business networks are based on a real need for co-operation, common, long-term targets, and mutual understanding of why the network exists. Collaboration capability in this context also means that the co-operative actors specialise in their own core competences and the network is able to distribute the work effectively. Additionally, management – or the lack of it – in a network may sometimes become a barrier to internationalisation within the tourism business.

The purpose of this study was to enhance understanding of and to analyse how location-bound tourism SMEs internationalise. In order to meet this objective a model of internationalisation was developed, and further

enhanced with the addition of three illustrative patterns of different types of internationalising SMEs in location-bound tourism. The resource-based view (RBV) of the firm and network theories of internationalisation offered a fruitful basis for understanding the internationalisation of tourism SMEs, which indeed requires analysis of the resources of internationalisation, and a strong emphasis on the networking and collaboration capabilities of entrepreneurs.

In sum, given the inward nature of internationalisation, it was assumed in the theoretical framework of the study that the internationalisation of location-bound tourism SMEs was strongly bound to the internationalisation of the company's resources. Given the theoretical pre-understanding and the empirical findings therefore, *the internationalisation of location-bound service SMEs could be defined as the process of increasing involvement in incoming tourism operations, and the result of the successful internationalisation of intangible and tangible resources*. It thus takes place in this context in an individual company's home base, and is strongly dependent on the appeal, accessibility and infrastructure of the region. Heavier involvement in various tourism networks and enhanced entrepreneurial capabilities among the actors in the area lead to improved international performance. In particular, it could be argued that an individual entrepreneur's collaboration capabilities and an ability to improve his or her international network competences are crucial pre-requisites and resources of internationalisation in location-bound service SMEs. Furthermore, improving entrepreneurial capabilities (a global mindset and an international orientation, language skills and cultural know-how, and marketing and distribution skills) on the road to the *internationalisation of entrepreneurship* could be considered an essential pre-requisite and an intangible resource.



## 8 SUMMARY AND CONCLUSIONS

The aim of this study was to analyse how location-bound tourism SMEs internationalise and to develop a theoretical framework of service internationalisation. In order to gain a deep understanding of the phenomenon the main objective was divided into the following sub-objectives:

- To define and analyse the pre-requisites of internationalisation; it was assumed in the theoretical framework that these pre-requisites are resources of internationalisation
- To analyse how a location-bound tourism enterprise internationalises its resource-base
- To analyse networks as resources of internationalisation in a location-bound tourism company.

The theoretical contribution of the study is discussed first in this chapter. More specifically, the theoretical contribution to each background theory is introduced, and assessed in terms of the development of theories of service internationalisation. Secondly, the managerial implications are assessed, methodological considerations are addressed, and suggestions for further research are given.

### 8.1 Theoretical Contribution

This study challenges existing understanding of the internationalisation of a firm, and especially the theories of service internationalisation, the resource-based view and the network approaches, by introducing a location-bound, resource-based, and inward perspective in the context of location-bound tourism SMEs, representing *domestically located exports* (Roberts 1999; Ball et al. 2008) as a mode of internationalisation.

It was argued that the internationalisation of service companies with strong spatial fixity and location-boundness is still an unknown phenomenon in the service context. Earlier theories of service internationalisation are only of limited relevance to location-bound tourism enterprises as they are based on the assumption that a company has full control over the marketing and image-creation of its product (von Friedrichs Grängsjö 2003; Pearce 1992). Moreover, existing theories do not recognise the internationalisation of

domestically location-bound service companies: internationalisation typically refers to service operations and processes that are transferred across borders. Given that tourism production is physically bound to a particular location (Ball et al. 2008), in most cases it is the customer who comes to the service and not the other way round (see e.g., Björkman – Kock 1997). Furthermore, according to Welch and Luostarinen (1988), internationalisation could be defined as “the process of increasing involvement in international operations”. It is argued that this definition is insufficient in terms of explaining the internationalisation of location-bound service SMEs, which has a strong inward and inbound nature. Consequently, it is also argued that the internationalisation of location-bound service companies follows different modes than conventional theories recognise, and should be regarded from the location-bound, inward and resource-based perspectives. Parallel with the findings on the process of inward internationalisation, the *internationalisation of entrepreneurship* as a concept was identified as an essential factor in the international development of individual tourism SMEs, tourism areas, networks and destinations.

The main research objective of this study was to analyse how location-bound tourism SMEs internationalise. As a result, a renewed definition of internationalisation was developed stressing the inward nature of the process in this context. More specifically, it is a *cyclical process of increasing involvement in inbound tourism operations, with a strong interplay between intangible and tangible resources*. In fact, it could be assumed that domestically location-bound services *in other branches also internationalise through a process of increasing involvement in inbound tourism*, which again requires increasing internationalisation of the resource base of a location-bound service SME. It also requires embeddedness within an internationally oriented tourism system and network.

Many of the success factors in the international development of the tourism business are dependent on the environment of the SMEs and the existing pre-requisites of tourism, which include decisions made by public authorities and other co-operative organisations concerning an individual enterprise. In fact, the tourism business differs significantly from other industries in this sense; the basic and necessary resources of internationalisation are in many cases possessed and governed by others, and the individual company does not have full control over them. In tourism in particular, the firm’s environment could be considered a source of resources, and consequently internationalisation is a process of utilising these resources in co-operation with other firms (adapted from Nummela 2004; Madsen - Servais 1997). The inward nature of internationalisation should also be understood in terms of tourism production and product development. It is



argued that the service processes are the results of a combination of various resources, both tangible and intangible, utilised by a tourism company on both a strategic and an operational level. Characteristic of these services is the inseparability of production and consumption, meaning that customers are important factors in the production of the services. The service-marketing triangle, introduced by Grönroos (1998), provided a starting point in developing the theoretical framework of this study. Service companies do not have physical products: they only have processes to offer to their customers (Grönroos 1998). Internationalisation of these processes, again, requires the internationalisation of location-bound resources, with a special emphasis on entrepreneurial capabilities, co-operation and networks. Indeed, the task of a service enterprise is to provide the best possible pre-requisites for the service experience (Komppula 2005). In terms of internationalisation, and in the field of tourism, this means an internationally attractive environment, business idea and service concept, as well as a well-functioning process and system (adapted from Komppula 2005).

Furthermore, the degree of internationalisation includes the identification of different types of tourism companies within a system, situated on an active-passive continuum. Accordingly, three illustrative types of entrepreneurs in tourism SMEs were identified in the study: “the passive developer of internationalisation”, “the emerging developer of internationalisation” and “the international entrepreneur”. Those engaged in active internationalisation create the markets and act as key companies in the tourism production and product development, whereas the passive ones may have an essential role in developing the quality and contents of the products in terms of offering authentic tourism experiences to visitors. The interplay between passive and active internationalisation requires a clear vision of the distribution of work within a tourism system.

With regard to the first sub-objective of the study the pre-requisites of internationalisation in location-bound tourism companies were identified. They were then divided into three main categories, which again could be argued to affect the internationalisation of location-bound tourism SMEs through a cyclical and iterative process. These three main categories comprise *networks as pre-requisites*, *industry-specific pre-requisites* and *entrepreneurial capabilities*.

Tourism services are typically produced by networks of companies. Consequently, it could be argued that the existence of tourism networks is an antecedent of the internationalisation of tourism SMEs. This, again, leads to the conclusion that an individual company’s ability to become embedded in various networks is a strategic resource. Networking could be seen as a source of successful product development, innovation and sustainable

competitive advantage. Furthermore, tourism production involves active co-operation with other tourism companies, but also competition in the local area on an individual-business level (von Friedrichs Grängsjö – Gummesson 2006). Significantly, however, in the case of tourism embedded networks of internationalisation are, in most cases, domestic in nature.

The industry-specific pre-requisites of internationalisation in location-bound tourism SMEs comprise resources that cannot be controlled by an individual tourism enterprise. These are categorised as *appeal factors* such as the attraction, reputation and image of the area, and the accessibility and infrastructure of the destination. Here, public-sector co-operation and networks are important sources of resources. Industry-specific resources also include factors that the individual entrepreneur can partly control, and which are typical of the tourism sector: the tourism product (e.g., von Friedrichs Grängsjö – Gummesson 2006) is service-intensive and production and consumption takes place simultaneously.

Entrepreneurial capabilities as pre-requisites of internationalisation comprise a global mindset and an international orientation, language skills and cultural knowledge, international marketing competence and collaboration capabilities. These are essential requirements in the key companies in a tourism area or destination, and could be considered antecedents of internationalisation in that they represent the resources required by other actors in the area. They have a tendency to develop among the other players in the field, however, due to the increasing level of internationalisation and international tourism flows.

The second sub-objective of the study was to analyse, how a location-bound tourism SME internationalises its resource base. Tourism products – like most services – have a process nature, and these processes could be considered combinations of sets of resources (e.g., Grönroos 1999). Barney (1991) emphasises the existence of so-called advantage-creating resources, representing value, rareness, inimitability and non-substitutability. Consequently, the inward nature of the internationalisation of location-bound tourism companies requires them to internationalise their internal service process by utilising their location-bound resource-base. This, again, requires international entrepreneurial capabilities, co-operation and networking.

The findings of the empirical study show that the internationalisation of entrepreneurship in the case of tourism starts if there is comparative advantage (see Figure 34). This means that the environment of a firm offers the pre-requisites for internationalisation and international tourism services - such as the physical premises and environment that make the service and the destination internationally attractive. Many industry-specific resources could be characterised as tangible, such as the facilities and the special

environment. As mentioned earlier, the company has full control over some of these resources, and only partial control over others. Furthermore, in many developing and successful tourism areas and destinations the location or environment makes the service unique and impossible to replicate elsewhere. Significantly, however, tangible resources are sources of *comparative advantage* (Crouch - Ritchie 1999), providing the tourism area or destination with a unique or special appeal compared to other destinations. Comparative advantage concerns a destination's factor conditions, both naturally occurring and created. Naturally-occurring resources are of two types: those that are renewable and those that are not (Crouch - Ritchie, 1999).

Consequently, the capability to utilise these resources in co-operation with public authorities and other tourism enterprises, leading to profitable tourism business and *competitive advantage*, has an effect on the development of entrepreneurial internationalisation among the different actors in the field.

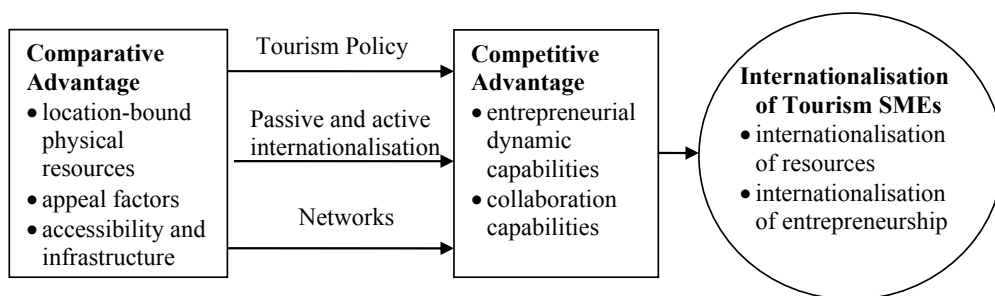


Figure 34 Comparative and Competitive Advantage in the Internationalisation of Tourism SMEs

The ability of tourism actors to utilise and develop their unique tangible resources effectively and successfully over the long term could be considered a source of competitive advantage within the tourism business (Crouch – Ritchie 1999). This, again, requires the importance of intangible resources to be taken into account in this context. According to Galbreath (2004), intangible resources are strong contributors to firm success due to their inimitable properties. For example, organisational and reputation factors and capabilities seem to contribute more significantly to firm success than tangible assets (Galbreath 2004). However, in the case of the tourism business it could be argued that the interplay between tangible and intangible resources and the actors' abilities to develop and utilise both significantly affect the success of an individual company and of a tourism area or destination. Consequently, attention should also be paid to the entrepreneurial and collaboration capabilities of tourist owner-managers in

order to understand how comparative advantage can be developed into competitive advantage, and finally into sustainable competitive advantage.

The third sub-objective of the study was to analyse networks as resources of internationalisation in location-bound tourism SMEs. The competitiveness of the tourism industry lies in the multi-level co-ordination of resources and supply systems, and co-operation within the areas and destinations (Lazzaretti – Petrillo 2006). In terms of production there is a particular need for co-operation and networking given the combination of different products and services. Internationalising these networks challenges the companies to develop a common will, engaging, for example, in joint product development, marketing operations, quality assurance and pricing. Furthermore, networks and relationships are important internationalisation resources for firms of all sizes because they enable them to link activities and to tie resources together (cf. Chetty 2003; Coviello and Munro 1995; Mort – Weerawardena 2006). Local and regional, as well as many issue-based networks (see Komppula 2004b) could be regarded as location-bound resources in the tourism business in that companies take advantage of the *co-location* (Michael 2007) with other companies, and the internationalisation of such networks requires an inward perspective. Working together successfully in tourism networks is an evolutionary process in which the role of the owner-managers of small enterprises is to deploy their social capital in order to develop and exploit their networks of social, professional and exchange relationships (Lynch - Morrison 2007). Lynch and Morrison (2007) argue that trust is frequently dependent upon the strength of the social relationship, and networking is a process acting as the mechanical structure that permits owner managers to develop the required level of trust.

The types of networks identified in the internationalisation of tourism SMEs were classified as follows: local (or regional/production) networks, marketing and promotion networks, electric (or virtual) networks, and theme-based networks or co-operation in the form of a tourism centre. These could be characterised as issue-based networks (see Komppula 2004a), which are created through relationships amongst actors who are interested in a particular issue and have either common or conflicting interests.

Local and regional networks in the tourism business could be regarded as strategic resources of inward internationalisation, influencing the enterprise's future capability and expected performance (adapted from Andersson et al. 2002). Outward internationalisation takes place through marketing and distribution networks. Network embeddedness is important in this context in that tourism companies appear to internationalise through and with the networks in which they are embedded. It could be assumed that the internationalisation of a location-bound tourism company is strongly

dependent on such networks, which again could be characterised as crucial resources.

The concept of network embeddedness refers to an individual company's ability to co-operate in various networks at various levels. On the basis of the theoretical framework of this study, it is argued that network embeddedness in terms of internationalisation requires the following attributes: entrepreneurial behaviour (a global mindset and an international orientation), macro-level destination planning (tourism policy), a representational role and network identity. The impact of entrepreneurial behaviour and attitudes on the co-operation is considered one of its main pre-requisites. As the tourism industry predominantly comprises small firms, often with limited skills and resources (cf. Komppula 2003, 69), the surrounding networks may compensate for the lack of know-how of an individual entrepreneur. Macro-level destination planning emphasises the essential role of the public sector, regional tourism organisations and municipalities in the co-operation in coordinating, planning, regulating and stimulating the business and associated networks in the area (see Chapter 2.2.1). The findings of this study show that co-operation, networking and the ability to become embedded in various networks require know-how, target-minded consideration, a critical attitude and flexibility from the entrepreneurs. Internationalising tourism SMEs in particular need these capabilities: a growth orientation, clear joint visions, the ability to analyse the pre-requisites and outcomes critically, and a flexible attitude towards changes in the firm's environment.

In sum, it could be concluded that existing theories of service internationalisation, the resource-based view of the firm and network approaches to internationalisation have their strengths in explaining the internationalisation of SMEs, but, individually they seem to be insufficient in terms of explaining and understanding the location-bound and inward nature of internationalisation in tourism SMEs. One of the challenges in this study was to integrate the three different theoretical approaches, which represent different research assumptions, viewpoints, emphases and terminology. Therefore, its contribution is introduced first in terms of each background theory, and then by way of a conclusion the developed theory of internationalisation is introduced and discussed. This theory builds on the three background theories, links them together, and thereby enhances understanding of the internationalisation of location-bound service SMEs.

Hence, as a *contribution to the theory of service internationalisation* it is held that here are context-specific issues that are not recognised in the existing approaches. This study introduces a context-specific approach by linking the three background theories and analysing the internationalisation of tourism SMEs from the location-bound, inward and resource-based

perspectives. Figure 29 presents a model of the internationalisation of tourism services, emphasising the cyclical and iterative interplay between the various resources in order to strengthen the internationalisation of a tourism system – *and also of the service industries that are dependent on it*. Furthermore, in order to analyse the internationalisation of the system the roles of various tourism entrepreneurs are defined along a passive-active continuum. It is argued that the increased understanding of the core competences and of the place and role of each actor within a service system, combined with the cyclical interplay of the resources required, will enhance knowledge about the internationalisation of location-bound services, and will simultaneously contribute to theories of service internationalisation.

*The contribution to the theory of the resource-based view of the firm (RBV)* is in enhancing understanding of advantage-creating resources as pre-requisites of internationalisation within the specific context of location-bound tourism SMEs. Analysis of such pre-requisites increases the knowledge and understanding of the drivers and pull factors of internationalisation among tourism actors, especially in terms of value, rareness, inimitability and non-substitutability. This study distinguishes three categories of pre-requisites of internationalisation within the tourism business: industry-specific pre-requisites, networks and entrepreneurial capabilities. It thereby enhances understanding of the internationalisation of a company's *location-bound resources*. In shedding further light on these pre-requisites it contributes to the resource-based view (RBV) of the firm in terms of recognising the role of comparative and competitive advantage within the tourism business. Comparative advantage is for many tourism entrepreneurs the starting point and motivation for establishing and developing tourism services, either as a main or an additional source of income. Competitive advantage, and especially sustainable competitive advantage in the international tourism business, however, depends on the various actors' ability to cooperate in turning the existing comparative advantage into the competitive advantage of a tourism system, area or destination. A deeper understanding of these issues within a tourism system will help the actors to innovate and develop unique and appealing products and services internationally. Furthermore, it will help the marketers to find unique sales arguments and product promises in the international arena.

The findings of this study contribute to the *network approaches to internationalisation* in introducing a context-specific perspective on co-operation: the crucial role of network embeddedness and identification of the types of networks required in the internationalisation of location-bound tourism SMEs. There is particularly strong resource dependence in the tourism business between the different actors in the field – both private and

public. This is due to the fact that the product is a combination of various elements, produced by various enterprises representing different sectors of services and, in many cases, in co-operation with the local public authorities. The traditional network approach recognises a business and an industrial network (e.g., Johanson – Mattson 1988). However, it is argued in this study that in an industry like tourism an individual company's ability to become embedded in different types of networks is an essential internationalisation success factor, and it is therefore necessary to identify the types of networks involved.

Furthermore, it should be emphasised that even if the aim of the co-operation is to be part of an international business, the networks in most cases are *domestic*, and the internationalisation of location-bound tourism SMEs is based on domestic forms of co-operation. Internationalisation takes place through network members who are personally embedded in international networks or have some international contacts of their own. The internationalisation of an individual tourism company, especially in the cases of the “passive” and the “emerging developer”, is arguably based on an individual company's domestic network supported by the “international entrepreneur” within the tourism system. This means that an individual tourism company's place along the continuum from passive internationalisation to heading an international tourism enterprise has a significant effect on its influence and power in bringing the individual and joint resources within a tourism system to the international level. It also means that each tourism company needs different types of networks in order to internationalise its operations. The specific character of the tourism industry, especially in terms of the small firms involved, means that co-operation often starts and develops through friendship or co-location rather than through commercial arrangements. Consequently, the developed understanding of professional and profitable co-operation as well as profitable networking among tourism entrepreneurs may provide the key to successful performance in international markets.

It is clear from the findings of the study that entrepreneurial capabilities in terms of internationalisation have a tendency to grow within an internationally oriented tourism system, and indeed could be regarded as one of the key resources in the internationalisation of the tourism industry. International entrepreneurs in tourism could be characterised as “international new ventures” or “Born Globals” with a strong mindset in terms of international entrepreneurship. It is argued in this study that the *existence of international entrepreneurs* is a *pre-requisite* for the *internationalisation of entrepreneurship* within a tourism system, incorporating both passive and emerging developers. On the other hand, it

could be argued that its development among different types of companies is a pre-requisite for the internationalisation of a tourism area or destination.

Consequently, the findings of this study also contribute the *concept of integration to the emergent field of international entrepreneurship* and international new ventures (e.g., Jones - Coviello 2005; Oviatt - McDougall 2005; Coviello 2006; Mort – Weerawardena 2006). International new ventures have been distinguished from small firms both conceptually (Oviatt-McDougall 1994; Knight – Cavusgil 1996; Madsen – Servais 1997; Coviello 2006) and empirically (Jones 1999; Madsen et al. 2000; McDougall et al. 2003) in the literature on international business. One distinguishing feature is that the former have a global focus and commit resources to international activities from their very founding (Oviatt – McDougall 1994; Knight – Cavusgil 1996; Coviello 2006). They are highly entrepreneurial small firms that challenge conventional theories of incremental internationalisation (Mort – Weerawardena 2006).

As a contribution to existing theories of internationalisation it could be stated that the internationalisation of entrepreneurship among tourism SMEs is tending to increase as a result of organisational learning in and with the networks in which the companies are embedded, and also due to the possibilities offered by the changing and developing environment. Such changes result from the actions of the public sector, for instance, or of key companies (“international enterprises”), thereby creating international tourism markets for passive developers of internationalisation and offering opportunities to emerging developers. From the individual entrepreneur’s point of view (especially in the case of passive and emerging developers), the internationalisation of entrepreneurship is a result of the interplay between industry-specific resources, entrepreneurial capabilities and networks. This requires not only a joint vision of the internationalisation of the area, but also commitment, trust and communication. Consequently, developing collaboration capabilities within the tourism business could be considered a pre-requisite of the internationalisation of entrepreneurship, which again is a pre-requisite of the internationalisation of tourism SMEs.

Finally, it could be concluded that the developed theoretical framework, rooted in theories of service internationalisation, the resource-based view (RBV) of the firm and network theories of internationalisation, has a strong value in terms of explaining the internationalisation of location-bound service SMEs, both individual tourism firms and those dependent on inbound and international tourism systems. Ekeledo and Sivakumar (2004) depict



internationalisation (see Figure 6, page 61)<sup>10</sup> as a function of the interplay among firm-specific resources, host-country factors, the nature of the product and the degree of control sought by the firm. This model, combined with the framework for service internationalisation (see Figure 7, page 64) devised by Javalgi and Martin (2007), seemed to offer a fruitful basis for explaining the inward internationalisation of location-bound tourism SMEs. The model of internationalisation presented in this study (see Figure 29, page 212) is therefore based on these frameworks.

The findings of this study increase knowledge of service internationalisation by enhancing understanding of the success factors – and pre-requisites - of internationalisation in an interdependent service system and the resource dependence between the various actors. For researchers in the fields of tourism and international business the conclusions may offer valuable insights into the inward nature of internationalisation in explaining the internationalisation of a location-bound service company from the resource-based view (RBV). It is important to understand that many of these resources are domestic, and thus it could be argued that the internationalisation of location-bound tourism is based on domestic, location-bound resources. In this sense the tourism networks could be seen as essential resources for internationalisation as well as for the development of entrepreneurial capabilities.

Thus the findings could be of use to tourism managers in terms of developing cyclical and iterative interplay between the location-bound resources of internationalisation. This, again, will have an effect in increasing the various tourism actors' ability and know-how to convert existing comparative advantage into sustainable competitive advantage within a tourism enterprise, system or destination. The specific analysis of the resources of internationalisation as well as the increased understanding of tourism networks as strategic resources will help managers to develop tourism systems and destinations to an international level, and to compete with other tourism areas. At the same time, the study adds to the knowledge about an individual tourism entrepreneur's place and role along the passive-active internationalisation continuum. This deeper understanding, again, shifts the focus of the internationalisation of a tourism system to the development of entrepreneurial capabilities and, as a consequence, the internationalisation of entrepreneurship.

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<sup>10</sup> More precisely, the concept Ekeledo and Sivakumar (2004) used in their model was "entry mode" rather than "internationalisation".

## 8.2 Managerial Implications

As international tourist flows will continue to increase in the coming decades (WTO 2005), tourism destinations will be challenged to internationalise and develop the tourism services in the area in order to meet the global demand. This, again, will require increasing efforts in terms of destination planning in order to create internationalisation strategies. It is, however, open to question whether small, medium and micro-sized tourism enterprises are ready to meet these challenges and to develop their resource base, products and know-how to an international level.

It is argued in this study that dynamic entrepreneurial capabilities and the ability to govern both intangible and tangible resources, networking and network embeddedness are the core issues in the management and planning of internationalisation in the context of location-bound service companies, focusing on the tourism business. In terms of managerial implications, the study offers tools to tourism SMEs and public authorities operating in tourism development with which to assess and analyse the pre-requisites and success factors. This, again, could help in the strategic planning of internationalisation on both the business level and the tourism-destination level. Three managerial implications are discussed in this section.

First, the classification of pre-requisites of internationalisation developed in this study distinguishes the sources of comparative and competitive advantage within tourism enterprises, areas and destinations. The local system is characterised by a large endowment of artistic, natural and cultural resources, and a network of economic, non-economic and institutional actors who are specialised in tourist activities (Lazzaretti - Capone 2006). Comparative advantage (e.g., Crouch – Ritchie 1999) comes from the tourism environment or system (industry-specific resources of internationalisation), which cannot be governed by an individual player. The development of comparative advantage requires strong input and commitment from the local authorities and tourism companies, a clear vision, joint regional planning and a common understanding of future goals. It is therefore important that all the actors within a tourism system recognise and appreciate location-bound resources as pre-requisites of joint development, and see their potential for creating tourism services for international markets. The role of the public authorities in the regional and local tourism *planning, coordination and stimulation* is crucial in this context. It appears from the empirical findings of this study that public actors are encouraged to develop and secure the infrastructure needed for international tourism to emerge. Accessibility to the area, in terms of internationalisation, requires an international airport nearby, good railway connections to the destination and

a sufficient road network. This, again, needs a clear vision, target-minded, committed decision makers and a strong feeling for international tourism development in the area. As the empirical findings indicate, it also requires strong persons whose impact on the development of the tourism business may have long-term influence.

Secondly, the model of the internationalisation of location-bound SMEs introduced in this study could help tourism developers to analyse the cyclical and iterative process of internationalisation. Understanding its cyclical nature could, for example, help in identifying the need for entrepreneurial training or joint development at a particular stage of the process. The internationalisation of tourism SMEs could be seen as a three-stage process, starting with the physical pre-requisites and gradually developing the entrepreneurial capabilities. These capabilities, again, could be argued to affect the network competence of an individual company, and comprise a pre-requisite of co-operation, networking and network embeddedness. Small-firm performance is strongly influenced by the individual characteristics and behaviour of the owner (Komppula – Reijonen 2006; Keats – Bracker 1988). According to Manolova et al. (2002), “personal factors matter” in the internationalisation of small firms, but more importantly, “some personal factors matter more than others”. They suggest that managerial skills and environmental perceptions are the most important dimensions of human capital. Owners or managers who have more positive perceptions of the international environment will also be more likely to internationalise their own small businesses (Manolova et al. 2002).

Consequently, actors within a tourism system – both private entrepreneurs as well as public authorities – should create a common understanding of the existing joint resources of internationalisation – including both tangibles and intangibles. Conversion of these resources into international competitive advantage requires joint targets and a joint understanding of product development, quality and customer service. This, again, needs active co-operation on many levels, and the open exchange of information. All the actors must be committed to the co-operation in the long term. This requires the organisation of training programmes and workshops and the exchange of ideas among entrepreneurs on a regular and continuous basis. A joint tourism-development organisation could also play a significant role in the joint product-development, marketing and promotional activities as well as in the creation of common quality standards in the area. It should be emphasised, however, that the main responsibility in such organisations should be carried by the entrepreneurs or others actively operating in the tourism business, and not the public authorities.

Thirdly, different types of tourism SMEs were identified in this study, the aim being to understand the dependence between a company's resources and its degree of internationalisation. This typology could help SMEs to position themselves and their co-operative and co-opetitive partners within a tourism system. This, again, could offer tools for identifying gaps in quality issues or the entrepreneurial capabilities required for internationalisation. Lazzarretti and Petrillo (2006) point out that achieving and retaining competitive advantage strictly depends on the firm's ability to include and define its product/service within the local area, and to co-operate with other local stakeholders so as to provide an authentic, differentiated and unique tourism experience. Consequently, the successful distribution of work in a tourism system requires the individual companies to recognise their core business, as well as their strengths and weaknesses. The empirical findings of the study clearly prove that identifying the core-competences of each actor within the tourism business, and concentrating on them, could be the main drivers of unique sustainable competitive advantage, and consequently increase the profitability of the business.

The typology also helps SMEs and public authorities to create methods for compensating for any gaps in entrepreneurial capabilities in order to develop an internationally successful tourism area. Keller (2005, 17) proposes the following pre-requisites for improving existing structures and making the best of the growth possibilities of a destination: creative entrepreneurs, highly trained, know-how-specific tourism managers and specialists, and extra input from research and development.

Thus, *innovation* and *learning* could be considered important issues in developing sustainable competitiveness in an individual company or a tourism area or destination. Hence, the *product factors* together with the *quality factors* are key industry-specific resources of internationalisation in the location-bound tourism business. The findings of the study show that an internationally successful tourism product requires specific know-how from the entrepreneurs: it must be well known and tested, it should be based on the visitors' cultural points of departure, and it should include some local exoticism. Furthermore, a good international tourism product tells its own interesting *story*, and at best this story is *connected to other stories*. Successful products are profitable, and in terms of both technical quality and customer service meet the requirements of international customer segments. Stories and the storytelling behind the products and areas comprise an important form of innovation and quality in the tourism business. Especially in terms of internationalisation, developing theme-based networks and stories connecting various products, areas and destinations could be one of the success factors in the future. Furthermore, co-operation could help in

overcoming the *disadvantages of insufficient size* (Keller 2005), which again in the long run could lead to effective and profitable *supply-network planning*.

### 8.3 Methodological Considerations and Suggestions for Future Research

The initial framework of the study was developed from the theoretical pre-understanding, which was based on theories of service internationalisation, the resource-based view (RBV) of the firm and network approaches to internationalisation. The classification of necessary resources was modified on the basis of the expert interviews carried out in the first phase of the empirical study. The modified classification was applied in the case studies, which took the form of entrepreneurial narratives.

This study also aimed at building bridges between the research fields of tourism and international business (see Chapter 2.4). It was suggested that linkages such as international entrepreneurship, the internationalisation of resources, networking and network embeddedness, as well as dynamic capabilities, could enhance understanding of small-firm performance, entrepreneurial internationalisation and collaboration capabilities in the fields of tourism and international business. In this sense, the theoretical and conceptual findings of the study seem to be relatively strong, increasing the knowledge base of SME internationalisation in a specific sub-sector of services.

There were certain methodological limitations. The number of cases was restricted to two, which in this type of study was quite modest. However, the expert interviews carried out in the first phase of the empirical study were the main source of empirical evidence, and all the interviewees had experience, know-how and understanding of the international tourism business and its requirements. Consequently, the role of the case studies was to verify the findings of the theoretical and empirical pre-understanding, and the cases could be characterised as instrumental (Stake 1995) in nature. The two cases represent very typical tourism networks and enterprises in terms of internationalisation. In this respect it could be argued that the information gained from them is valuable in terms of understanding the internationalisation process of a location-bound tourism SME. Given the small number of cases there is no possibility of generalisation, but the case companies played an important role in verifying the findings of the theoretical pre-understanding and the expert interviews.

Furthermore, given the qualitative methodology used, it was not possible to develop a quantitative instrument measuring the degree of internationalisation in the suggested model of internationalisation in tourism SMEs. Consequently, there seems to be a need for future research. First, the degree of internationalisation requires quantitative research in order to define exact *measures* for resource internationalisation. The necessary resources and the types of enterprises in a tourism system were identified in this study, but the need to develop precise tools for positioning and assessing companies systematically remains.

Furthermore, the concept of entrepreneurial internationalisation seems to offer interesting paths for future investigation, especially in an industry such as tourism, in which the co-location of companies often results in co-operation within the system. Internationalisation of the system requires an increasingly global mindset and an international orientation from all the actors. Consequently, a deeper understanding of issues connected to *collective entrepreneurial internationalisation* and of the implications for a location-bound service system may add to the existing knowledge base with regard to the internationalisation of service SMEs.

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## APPENDIX 1 FOREIGN PASSANGERS VISITING FINLAND IN 2007

Foreign Passengers Visiting Finland in 2007<sup>11</sup>

<i>Country of Residence</i>	<i>Number of Arrivals in Finland</i>	<i>Share %</i>	<i>Change % (from 2006)</i>
Russia	2,070,000	36	+19
Sweden	768,000	13	-1
Estonia	561,000	10	+12
Germany	350,000	6	-5
Great Britain	312,000	5	-2
Norway	194,000	3	+4
France	131,000	2	-1
United States	120,000	2	+1
Denmark	106,000	2	0
Japan	103,000	2	+16
Italy	91,000	2	-19
Netherlands	90,000	2	-16
China	78,000	1	+13
Spain	69,000	1	-17
Switzerland	65,000	1	+1
Belgium	57,000	1	-9
Poland	53,000	1	+10
Latvia	41,000	1	+26
Australia	41,000	1	+37
Austria	38,000	1	-20
Others	398,000	7	
<b>Total</b>	<b>5,736,000</b>	<b>100</b>	<b>+7</b>

<sup>11</sup> The top 20 countries of origin (Border Interview Survey 2008, Statistics Finland/Finnish Tourist Board)

## APPENDIX 2 EXPERT INTERVIEWS

## Expert Interviews, Autumn 2006

<i>Interviewee</i>	<i>Company</i>	<i>Position</i>	<i>Date and duration</i>
Korolainen, Matti	Loppi	Project Manager	6.9.2006, 2 hours
Pitkänen, Leena	Development Centre Häme, Hämeenlinna	Travel Manager	8.9.2006, 2 hours
Forsman, Raija	Hämeen Matkailu Oy	Managing Director	14.9.2006, 1 hour
Alaluukas, Essi	Lahti Travel Oy	Managing Director	14.9.2006, 1.5 hours
Niemi, Anne-Marget	Turku Touring Oy	Managing Director	21.9.2006, 1.5 hours
Saikkonen, Kari	City of Tampere	Director of Tourism	27.9.2006, 1.5 hour
Haili, Tarja	Uudenmaan liitto	Specialist, Tourism and Culture	4.10.2006, 2 hours
Tiainen, Kaija	Finnish Tourist Board, Stockholm	Tourist Manager	18.10.2006, 1.5 hours
Hentinen, Liisa	Finnish Tourist Board, Helsinki	Marketing Researcher	21.11.2006, 1.5 hours
Kokkila, Taneli	Finnish Tourist Board, Helsinki	Contact Manager	21.11.2006, 1.5 hours
Komu, Hannu	Onvisio Oy	Consultant in the Tourism Business	3.11.2006, 2 hours
Vakkamaa, Juhani	Finnish Tourist Board, Helsinki	Administrative Manager	3.11.2006, 1.5 hour
Pura, Martti	Hattula Sodankylä	Mayor Mayor in the 1990s	30.11.2006, 1 hour
Seppälä-Esser, Raija	Finnish Tourist Board, Frankfurt	Tourist Manager	12.12.2006, 1.5 hours (telephone)

## APPENDIX 3 CASE INTERVIEWS

### The Luosto Case

<i><b>Interviewee</b></i>	<i><b>Company/ Organisation</b></i>	<i><b>Position</b></i>	<i><b>Date and Duration</b></i>
Pura, Martti	Hattula (Sodankylä)	Mayor (Mayor in the 1990s)	31.11.2006, 1 hour
Tuominen, Juha-Pekka	Hotel Luostotunturi Oy	Entrepreneur, Managing Director	27.2.2007, 2 hours
Summanen, Anu	PyhäLuosto Travel Association ry.	Operative Manager	27.2.2007, 1 hour
Hirvonen, Jukka	Snow Games Oy and Aurora Chalet Ltd	Entrepreneur, Managing Director	28.2.2007, 1.5 hours
Karvonen- Willman Raili	Scandic Luosto Oy	Hotel Manager	27.2.2007 15 minutes 27.3.2007 0.5 hours (telephone)

### The Loikansaaren Lomamökit Case

<i><b>Interviewee</b></i>	<i><b>Company/ Organisation</b></i>	<i><b>Position</b></i>	<i><b>Date and Duration</b></i>
Hämäläinen Antti	Loikansaaren Lomamökit	Entrepreneur, Managing Director	17.5.2007, 1.5 hours
Hämäläinen Pirjo	Loikansaaren Lomamökit	Entrepreneur	17.5.2007, 1.5 hours
Hämäläinen Heikki	Loikansaaren Lomamökit	Senior Entrepreneur, Founder of the company	19.5.2007, 2 hours
Hämäläinen Meeri	Loikansaaren Lomamökit	Senior Entrepreneur, Founder of the company	19.5.2007, 2 hours
Björn Kalle	Lomamökkila	Entrepreneur, Managing Director	18.5.2007, 1 hour

## APPENDIX 4 THEMES COVERED IN THE EXPERT INTERVIEWS

1. On what strengths does the Finnish tourism industry base its internationalisation?
2. What does internationalisation in the tourism sector actually mean? When could a tourism company be considered an international or an internationalising company?
3. What are the pre-requisites of internationalisation for tourism SMEs?
4. What kinds of resources are needed in the internationalisation of tourism SMEs? How can these resources be internationalised?
5. What kind of co-operation is needed in the internationalisation of the tourism industry? In what types of networks should a tourism company be embedded in order to internationalise?
6. How would you describe a good, internationalising network within the tourism business?
7. Is it possible for an individual tourism company to act successfully in many networks at the same time?
8. How does a good, internationally oriented net of companies start? What are the pre-requisites?
9. Can Finnish tourism entrepreneurs internationalise? Are they internationally oriented?
10. In conclusion, in your opinion what does internationalisation mean for a tourist SME?



## APPENDIX 5 THEMES COVERED IN THE CASE INTERVIEWS

1. Phases of internationalisation
  - how did the international business start?
  - what kind of turning points have there been?
  - how did the amount of foreign tourism develop?
  - what are the main countries of origin?
  - what are the most important customer segments?
  - what lies in the future?
  
2. What have been the pre-requisites of internationalisation?
  - know-how? Special know-how?
  - physical resources?
  - co-operation, networks?
  - distribution of work?
  - something else?
  
3. International marketing?
  - sales and distribution channels?
  - fairs, exhibitions, workshops?
  - personal contacts?
  - something else?
  
4. How does the environment of the firm affect the international business?
  - the image of Finland
  - the image of the region
  - the image of the destination
  - the physical environment
  - accessibility
  - something else?
  
5. What does internationalisation mean for a tourism company?

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