



Internationalisation of Small and Medium Sized Enterprises in the Tourism Industry Towards a Resource Based View of Location Bound Companies

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The purpose of this article is to analyze the internationalisation of location bound tourism SMEs - small and medium sized enterprises - from the resource based view (RBV) of the firm. The tourism products are service intensive products which are typically bound to a certain location or a destination. The prerequisites and modes of internationalisation within the tourism business are argued to differ from those within other business sectors. The tourism production is based not only on an individual company's resources, but on the resource base of a network or a destination the company is embedded in. It is suggested in this article that the theoretical background of the RBV leads to a better understanding of the internationalisation, growth and value creation of location bound tourism companies than the existing theories of service internationalisation. In this conceptual paper, organisational assets, reputation assets, capabilities, and industry specific assets are regarded as key resources in the internationalisation of location bound tourism SMEs.

Introduction

The resource based view (RBV) of the firm views resources and capabilities as primary determinants of the company's sustainable competitive strategy (Wernerfelt 1984; Barney 1991; Peteraf 1993). According to this theory, firms are viewed in terms of their unique bundles of tangible and intangible resources. These resources, again, can be seen as the source of the competitive advantage

and firm success, rather than the product-market combinations (Barney 1991, Galbreath 2005). The resource based view has recently been adopted as a framework for analyzing performance in the international markets, focusing attention on *international* resources as determinants of firm success (Fahy and Smithee 1999, Galbreath 2004). Many service companies, however, – and especially those within the tourism business – typically operate in a location bound context. Consequently, internationalisation of these companies is very much dependent on the *domestic* resource base a company possesses – both tangible and intangible resources. It is suggested in this article that shifting the focus from market orientation to the domestic resource base of the location bound tourism businesses can offer tools for company growth, innovation and success in the international tourism business.

Due to the complex and co-operative nature of the tourism product, an individual company's ability to embed in various networks can be regarded as an example of organisational capabilities and company resources. However, research and literature in this field is still relatively sparse. 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 in this topic. Also, according to Cicic, Pattersson and Shoham (1999), although there are studies of the service sector, few analyze international performance factors.

The purpose of this article is to discuss the resource based view (RBV) of the firm as a framework for the internationalisation of location bound tourism SMEs (small and medium sized enterprises). Resources have been typically defined as either assets or capabilities. Assets, which may be tangible or intangible are owned and controlled by the firm, whereas capabilities are intangible bundles of accumulated knowledge within the company's organizational routines (Collis 1994, Teece & al. 1997). A special emphasis in this article is put on intangible resources – *organisational assets, reputation assets, capabilities, and industry specific assets* – as key resources of sustainable competitive advantage. These, intangible resources, can be seen as long lasting bundles of integrated resources that form a unique set of organisational abilities and enable a company to undertake a particular *international productive activity* and provide a particular benefit to *international customers* (adapted from Augustyn 2004, 257).

The article is organized as follows: First, the concept of internationalisation is discussed in the context of the tourism business. Second, the resource based view (RBV) of the firm is introduced, and suggested to offer a successful theoretical framework for the internationalisation of the location bound tourism business. Finally, the resource based view of the firm is applied to the internationalisation of location bound tourism SMEs. The tourism product is

analyzed as a set of resources, with a special emphasis on intangible assets – such as organisational assets, reputation assets, capabilities, and industry specific assets.

What is Internationalisation in the Context of the Location Bound Tourism SMEs?

As tourism is a global phenomenon with an international character, it can be questioned, if such concept as “internationalisation of the tourism business” exists? Should tourism enterprises – even the micro-sized companies with part-time entrepreneurship – be classified as “Born Globals”? Further, the inward nature and location boundness of tourism services require the concept of service internationalisation to be redefined in the context of the tourism business.

However, as the tourism business consists of several different business sectors – e.g. accommodation, transportation, activity services, restaurant services etc. – it can be assumed that the internationalisation of these subsectors employs different strategies and operation modes, too. Still, many tourism companies share some special features: First, they operate in a very location bound context and in a keen co-operation with other players in the field. Second, as production and consumption of these services can not be separated, and the core of the tourism service is based on a specific location, it is in most cases the customer – not the product – that crosses the border and comes to the service producer’s home country (Björkman and Kock 1997). Third, bringing customers to the service producer’s home base may allow foreign customers to be served almost as easily as domestic customers (Ball, Lindsay and Rose 2005). Consequently, internationalisation of these companies can be argued to have a very context specific nature, employing domestically located modes of export (Roberts 1999). Fourth, the majority of tourism enterprises are either small or micro-sized enterprises, with limited skills and resources. For example, according to Komppula, a typical rural tourism entrepreneur rather avoids economic risks than wants to make rapid growth investments. There seems to be a great number of entrepreneurs within the tourism business, who are not motivated by a desire to maximise economic gain, and whose managerial decisions are often based on a highly personalised criteria (Komppula 2004b, 116, 125; Dewhurst and Horobin 1998). Therefore, these entrepreneurs often lack the global mindset and entrepreneurial attitude towards internationalisation, and going international may not be among their top priorities at all. As a member of a network or a representative of a certain tourism destination, they, however, are forced to face the challenges of globalization.

On the other hand, globalization, the digital economy and the increasing international tourism flows may encourage many local tourism businesses to

search for the growth prospects and value creation by operating internationally (applied from Cicic, Patterson and Shoham 1999). According to Grönroos the technological development has created totally new forms of internationalisation. Also, in many cases, internationalisation is not a choice of the service company any more. The advanced technology has opened up services for consumers all over the world (Grönroos 1999).

A typical tourism product is a package of different services, produced by a network of companies and influenced remarkably by public actors locally, regionally or internationally (e.g. Komppula 2000, Roberts and Hall 2001). As a consequence, internationalisation of an individual tourism company is very much dependent on the internationalisation of the networks in which it operates and on an individual tourism company's ability to embed in different networks. The network of a small firm is also an iterative process, with gradually deepening relationships. These relationships and networks most probably change during the internationalisation process of the small enterprises involved. New relationships are established in order to reach the objectives and gain the necessary resources while some old relationships may be dissolved (Nummela 2004). *Consequently, networks can be seen as an important element in an individual company's resource base.* According to Komppula (2000 and 2004a), networks in the tourism industry are very often created as a result of regional development projects starting for some specific purpose and operating only for a couple of years. It can be concluded that the network strategy of internationalisation of a tourism destination or an area is, in many cases, created with the help and support of the public sector and the tourism planning authorities.

In sum, internationalisation of a location bound tourism company can be argued to have a very specific nature; such services can not be exported, they are bound to a certain location and they can be regarded as processes in which customers are involved. Location bound tourism services are soft services, characterized by strong inseparability of production and consumption (Erramilli 1988), they are people processing services (Lovelock 1983), and the process comprises a *set of resources* offering customer-perceived quality and value (Grönroos 1998). According to Grönroos, the process nature is the most important characteristic of services. Grönroos concludes that service companies do not have physical products, and therefore they only have processes to offer their customers.

As a conclusion it can be stated that the resource base of the location bound tourism business is a crucial success factor in the internationalisation of tourism SMEs. Also, it can be concluded that the existing theories of service internationalisation are not directly applicable to the location bound tourism companies, and shifting the unit of analysis to the company resources would give a better understanding of the success and growth factors of a firm. Further, Fillis (2001)

and Mungall and Johnson (2004, 279) suggest that “the current models of internationalisation do not have many of the answers regarding small firm internationalisation”. Consequently, the resource based view (RBV) of a firm is introduced in the following chapter and further applied to the internationalisation of the location based tourism SMEs.

Development of the Resource based View

A few decades ago, until late 1980s, the resource-based view of the firm was still characterised by a rather fragmented process of development, emphasizing the firm specific resources (Fahy and Smithee 1999). Early theory of the growth of the firms by Edith Penrose (1959, 9) defined a firm as a collection of heterogeneous physical and human resources. Penrose’s theory has been argued to provide the most detailed exposition of a resource based view in the economics literature (Fahy and Smithee 1999), noting 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).

Furthermore, the resource-based view of the firm (RBV) first posited in the literature of the strategic management by Wernerfelt. The theory was built upon the idea that a firm’s success is very much determined by the resources it owns and controls. Wernerfelt suggested that resources and products are “two sides of the same coin” and by specifying a resource profile would be a way of finding the optimal product-market activity (Wernerfelt 1984; cf. Dhanaraj and Beamish 2003).

Barney (1991) sees firm resources as important factors of sustainable competitive advantage. He suggests that a superior firm performance can be achieved only if firm resources possess certain special characteristics. Barney proposes that these, so called advantage-creating resources, must meet certain conditions, and provides four key attributes of the firm resources: 1) value, 2) rareness, 3) inimitability and 4) non-substituability. According to Barney, resources are *valuable* when they enable a firm to conceive or implement strategies that improve its efficiency or effectiveness by meeting the needs of customers. *Rareness*, again, refers to such resources that are not possessed by large numbers of competing firms, and can therefore be sources of either a competitive advantage or a sustainable competitive advantage. Further, the advantage-creating resources are imperfectly *imitable* when the competitors are not able to duplicate resource endowments. Also, there must be strategically valuable resources which are rare or inimitable and, consequently, *can not be substituted*.

As the literature review above describes, there has been a diverse collection of 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 questions (Fahy and Smithee 1999). The principal contribution of the resource based view of the firm to date has been *a theory of competitive advantage*, starting with the assumption that the desired business outcome within the firm is a sustainable competitive advantage (SCA). Most of the academic research on the resource based approach to strategic management to date shares the following four characteristics (Rugman and 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 for all firms
- 3) firm resources lead to superior returns to the extent that they are firm specific (imperfectly mobile), valuable to customers, non-substituable and difficult to imitate.
- 4) innovations, especially in terms of new resource combinations, can contribute to sustainable superior returns remarkably.

Company resources can, in the broad sense, comprise anything that could be defined as strengths or weaknesses of a firm (Stenberg 1996, 10). As an example, Lloyd-Reason & Mughan (2002) suggest that there are specific behavioural attributes that can advance or prevent 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. Also Galbreath (2005) confirms that capabilities contribute more significantly to firm success than either intangible or tangible assets.

During the last few years, the resource based view of the firm has been increasingly adopted to the strategic management of the tourism business, too. Cioccarelli, Denicolai and Francesconi (2005) introduce the concept of local Resource-based Tourist Sustainable Development (RTSD). Also Augustyn (2004) suggests two strategic approaches open to tourism SMEs in order to overcome the problem of scarcity. These approaches will be described more in detail in the following chapter, and further, a theoretical background of the resource based view is applied to the internationalisation of location bound tourism SMEs.

The Resource Based View of Internationalisation – the Tourism SMEs in Focus

Cioccarelli, Denicolai and Francesconi apply the theoretical background of the resource based view (RBV) of the firm to the specific case of the tourism industry, by exploring tourism resources and combining them to create tourist core-competences within a tourist destination. They introduce the concept of local Resource-based Tourist Sustainable Development, RTSD. The network approach is seen as another important cornerstone of RTSD; there seem to be symbiotic interdependences between the tourist operators. These interdependences, again, imply the involvement of a wider range of tourism services, and sharing of common tourist resources. The focus on local resources emphasises the creativity of tourism managers and entrepreneurs (Cioccarelli, Denicolai and Francesconi 2005). Further, tourist operators must renew continuously their core-competences to pursue a reciprocal coherence with their environment. Consequently, local tourism firms need dynamic capabilities (Teece, Shuen, Pisano 1997). According to this theoretical framework – the RTSD – customer needs are very important, but the main problem for each tourist destination is to reach the best between own tourist resources, core competence and competitive advantage (Cioccarelli, Denicolai and Francesconi 2005).

Augustyn introduces two strategic approaches for tourism enterprises in order to overcome the problem of resource scarcity and to enable company growth; resource leverage and building 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 capacity platforms*, again, emphasises the process of a creative integration of organisational resources into unique and long lasting clusters of organisational abilities that lie behind the firm's products (Augustyn 2004, 273). Also, special relationships with e.g. other businesses, suppliers, customers and the public sector can open new growth opportunities (Augustyn 2004, 267 and Baghai et al. 1999). However, due to the dynamic nature of the business environment, the value of organisational capabilities changes over time. Consequently, the process of building such capability platforms that can create growth and value creation, is a never-ending cycle (Augustyn 2004, 273). Accordingly, Keller (2005) notes that innovations are seen as mechanisms that operate between competition and co-operation, and therefore, the pressure of competition is a motor of innovation. However, in a fragmented industry – like the tourism industry is – without co-operation there can be nothing new capable of creating consumer surplus. Co-operation can help to overcome the disadvantages of insufficient size.

Galbreath divides resources into two fundamental categories: 1) tangible resources and 2) intangible resources. According to Galbreath, tangible resources refer to such resources 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. (Galbreath 2005; cf. Hall 1992; Amit and Schoemaker 1993). Hall (1992) conceptualizes the intangible resource constructs as assets, including organisational assets, reputation assets, skills and capabilities.

Although the intangible resources are emphasized in this article, the role of tangible assets, however, should not be underestimated in the field of the tourism business. Unique facilities and special environment – e.g. unique nature or historical attraction – can, in some cases, be the source of the competitive advantage. Tangible assets in the tourism business are typically facilities and environments where the tourism services take place – e.g. lodgings, accommodation, golf-yards or horse-stalls etc. Tangible assets can also be elements that are needed for the production of activity services – e.g. canoes, horses, snow-mobiles etc. Furthermore, tourism companies' most important physical resources – e.g. unique nature destinations or historical attractions – can be possessed by someone else (state, municipalities, or some other company), and are therefore very difficult to imitate.

Nevertheless, *the importance of intangible assets may be more crucial than the role of tangibles, also in the internationalisation of the tourism business.* If, for instance, a tourism company or a tourism destination possesses attractive tangible assets – such as unique nature or unique historical or cultural premises –, but the entrepreneurs and other actors in the area lack the sense of co-operation, innovation and skills or capabilities, it is difficult for a tourist destination to develop.

It is suggested in this article that the internationalisation of location bound tourism SMEs is based on the internationalisation of both tangible and intangible resources. A special emphasis in this article is put on intangible assets, which can, according to Galbreath (2005) be divided into four categories: 1) Organisational assets (company structure, personnel, know-how, networks and network embeddedness), 2) reputation assets (company image, destination image, country image, image of networks), 3) capabilities and skills (global mindset, language knowledge, culture knowledge) and 4) industry specific assets (customer's time, customer-perceived quality, company's environment).

The intangible resources categorized above can also be regarded as *pre-requisites* – or barriers – *of internationalisation* of a location bound tourism SME. As a conclusion, a framework for internationalisation of location bound tourism companies is illustrated in Figure 1. This framework is based on the resource based view of the firm, and adapted from the marketing triangle

originally introduced by Kotler (1991) and Grönroos (1998). The figure describes the tourism products as sets of resources, comprising organisational assets, reputation assets, capabilities and industry specific assets. Developing and utilizing these assets, a location bound tourism company can achieve sustainable competitive advantage and innovations and, consequently, growth potential among the foreign customer segments.

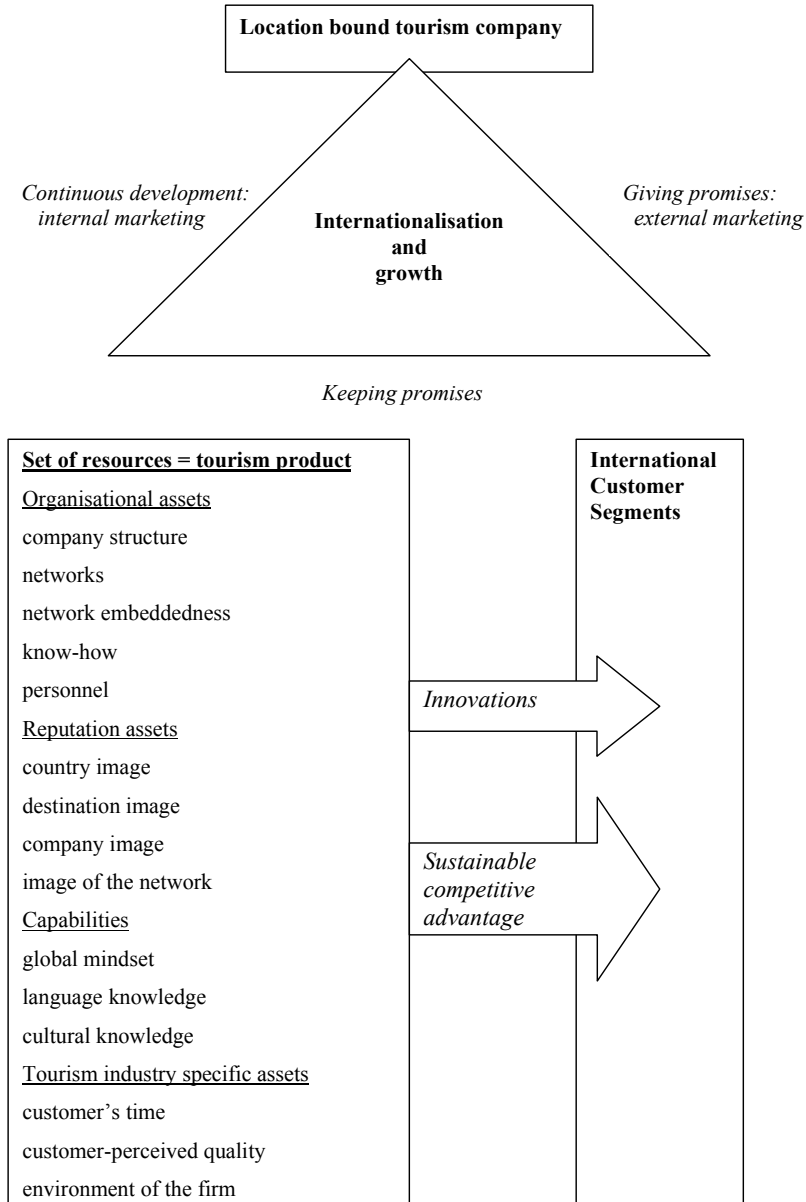


Figure 1. Prerequisites of internationalisation. A resource based approach to the internationalisation of the tourism SMEs. (adapted from Grönroos 1998).

The figure illustrates that company structure, personnel, networks and network embeddedness act as important *organisational assets* within the location bound tourism business. Particularly, relationships between companies are seen as an important component of competitive advantage (Gulati et al 2000). This is especially relevant in the tourism industry, as groupings of organisations cooperate in a destination context. Complementary products of accommodation, food, transport and different activities form a complex system of connections and interrelationships (Pavlovich 2003). Generally, a tourism destination comprises different types of organisations; complementary and competing enterprises, multiple sectors of industry as well as public actors. The vertical and horizontal (Poon 1993) relationships and linkages between these counterparts create a diverse and fragmented supply structure (Pavlovich 2003). Co-operation and network embeddedness in the internationalisation of small and micro-sized tourism companies can be regarded as one of the key resources of internationalisation of the location bound tourism SMEs. Co-operation and networks are examples of intangible organisational assets. As an example, a golf and country-club in Häme region, Finland, has internationalised successfully by embedding in international golf-societies and networks.

Reputation assets can be defined as trustworthiness, credibility and quality of the firm (Galbreath 2005). In the case of the tourism business the reputation assets comprise both macro- and micro-level elements. Country image and the attractiveness of the tourism area act as basic elements in analyzing the reputation assets from international customers' point of view. For instance, Lahti area in Southern Finland has a strong reputation among sportsmen as a winter tourism centre – due to the Lahti Ski Games which have been organised already for 80 years. Most probably, the local tourism enterprises can benefit from this reputation remarkably; therefore, it can be regarded as a reputation asset. From an individual tourism enterprise's viewpoint, such factors as trust, credibility and quality become important elements when assessing the attractiveness of various networks and co-operation. According to Hall (2000, 185–186), trust is one of the basic factors of understanding co-operation and conflict among stakeholders in the tourism planning process. Trust is a set of social expectations, and where trust is absent, co-operative voluntary collective action is impossible. Also, credibility and quality of the firm in this context reflect the strategic network identity and the representational role of each company within the network. Strategic network identity refers to the attractiveness of an organisation as a co-operative partner (Bonner, Kim and Cavusgil 2004, Andersson et al. 1994), whereas representational role indicates how firms and individuals within these firms represent their country, industry, or firm in the eyes of other network members (Halinen and Trönroos 1998).

Further, *capabilities* are argued to be the pre-eminent sources of firm success (Day 1994, Teece et al 1997, Galbreath 2005). Capabilities refer to knowledge and know-how of employees as well as to skills, expertise and know-how of managers (Grant 1991, Galbreath 2005). Capabilities are said to be tacit in nature because they are embedded in organizational experience, learning and practice. Capabilities are also said to be the most difficult resources to duplicate (Galbreath 2004). According to Keller (2005), the prerequisites for improving existing structures and growth possibilities of a destination are: creative entrepreneurs, highly trained managers and specialists, know-how specific to the field of tourism plus the extra input from research and development. Also, in terms of internationalisation, global orientation refers to entrepreneurs' positive attitude to international affairs and the ability to adjust to different cultures, but it also includes other characteristics, such as proactiveness, innovativeness and risk taking (Nummela 2004). Internationalisation of an individual company may be based on the company's or entrepreneur's attitude, ability and willingness to embed in different networks, to choose the right networks and to create trustful, long lasting relationships with other organisations in the field.

Finally, the *industry specific assets* refer to the process itself; customer's participation, customer perceived value and environmental aspects. The importance of consumers and consumer communities as a source of competence as co-creators and as testers and buyers has also been identified in the recent research (Go, 2005). Consequently, customers and consumers become an essential part of the company's network and also a part of its resource base. As Grönroos (1998) concludes, service companies do not have physical products, and therefore they only have processes to offer to their customers. Consequently, tourism services are produced in a process, in which consumers and production resources interact, and the customer becomes a part of the service process. These processes lead to an outcome that are important to the customer, but as the process is an open process, both the process and its outcome have an impact on the customer-perceived quality and value (applied from Grönroos 1998). Therefore, customer's participation and customer's time as well as the customer-perceived quality can also be defined as industry specific assets. Further, 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 forms an important element in identifying the industry specific resources and assets. A location bound tourism company's resource base can be very dependent on the attractiveness of the location: As an example, without its medieval castle or without the Opera Festivals, the town Savonlinna in Finland would probably not represent such an attractive area for many tourism companies as it does now.

In sum, the tourism service processes are argued to be results of a combination of various resources, utilized by a tourism company both at a strategic as well as at an operational level. According to this theoretical framework, a successful combination of company resources – with the special emphasis on intangible assets and capabilities – can create sustainable competitive advantage, innovations and growth prospects among the international customer segments. These resources, and their development, can be identified as pre-requisites of the internationalisation and growth within the tourism SMEs.

Conclusions

The focus of this article has been in the internationalisation of location bound tourism services, businesses offering their products and services in the service company's home base, in situations where the customer crosses the border and participates in the service production in the service factory. Following Erramilli's (1988) thinking, tourism services can be categorized as soft services, characterized by high inseparability of the production and consumption. Further, tourism services are processes, being quite clearly people processing (Lovelock 1999) in nature. Processes, again, are results of a set of various resources (Grönroos 1998).

The resource based view (RBV) of the firm argues that a company's ability to combine and mobilize resources leads to the creation of company's core-competences. These core-competences, again, are the main drivers to develop a unique and inimitable sustainable competitive advantage (Wernefelt 1984, Barney 1991, Galbreath 2004). It has been suggested in this article that the theoretical background of RBV leads to a better understanding of the internationalisation, growth and value creation of the location bound tourism companies than the existing theories of service internationalisation.

Tourism products – like most services – have a process nature, and these processes can be seen as combinations of a set of resources. Company resources, again, can be tangible or intangible by nature. Tangible resources include financial or physical assets, whereas intangible resources refer to skills and capabilities, intellectual property assets, reputation and organizational assets (e.g. Grant 1991; Hall 1992; Barney 1991; Galbreath 2004). According to Galbreath, intangible assets are strong contributors to firm success due to their inimitable properties. Further, such intangible assets as organizational and reputation assets and capabilities seem to contribute more significantly to firm success than tangible assets (Galbreath 2004).

Due to the special nature of the tourism business – especially that of the location bound tourism firms – also the resource base of the tourism companies can be argued to have some special features: The resource base of a location

bound tourism company can be characterized by organizational assets, reputation assets, capabilities and industry specific assets. Organizational assets refer to culture, human resources and corporate structure, whereas reputation assets refer to company image, network image or the image of destination or country. Capabilities, again, consist of the global mindset of the entrepreneur, cultural and language knowledge and know-how. Industry specific assets, again, refer to the process itself; customer participation, quality and the environmental aspects.

Particularly, those networks a tourism company is embedded in, can be seen as significant resources, both from the organizational and the reputation point of view. Galbreath (2004) states that reputation assets are among the most important the firm can develop, because a good reputation leads to positive performance, both financially and socially. As tourism enterprises can be argued to internationalise through and with the networks they are embedded in, *networks and network embeddedness in the tourism business can be regarded as a strategic resource of a firm*. As a conclusion, it can be assumed that *the internationalisation of a location bound tourism company is strongly dependent on the networks the company is embedded in, and the networks, again, can be characterized as crucial resources of a firm*.

Finally, it can be argued that the resource based view (RBV) of the firm can offer a successful theoretical background for the internationalisation of location bound tourism companies. However, some further research is needed in order to define the industry specific key resources and their combinations. Growth and value creation in foreign markets needs deep understanding of combining and mobilizing company's resources successfully. The resource based view (RBV) of the firm can be seen as an important tool for strategic planning within the tourism business internationalisation.

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