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Networking and cooperation practices in the Italian tourism business

Marco Valeri
Niccolò Cusano University, Italy

Abstract: The aim of the paper is to study the factors influencing the development of networked collaboration between small and medium-sized businesses in the Italian tourist industry. These businesses are obliged to choose networking when faced with difficulties of growth and the need to improve their offer for increasingly discerning customers. The paper aims to add to the recent studies on the management and governance of small and medium-sized tourism businesses, and to pinpoint new development processes to deal with the notable difficulties that the sector is subjected to. A survey was carried out by administering a questionnaire to a sample of Italian travel agencies and tour operators, specialising in incoming and outgoing activities. The sample consisted of 2,200 enterprises (or 70% of the total operating in Italy) and was addressed only to small or medium-sized businesses (with less than 250 employees and a turnover less than 40 million euros a year). The narrowness of the sample analysed constitutes a limit to the work, and eventual future studies should try to analyse all tourism companies with a view to discovering new business opportunities, relieve critical situations and above all, call attention to appropriate issues of governance.

Keywords: Small and medium-sized enterprises, innovation, competitive advantage.

JEL Classification: L83, M1, O1

Biographical note: Marco Valeri is a research fellow in organizational behaviour at the Faculty of Economics, Niccolò Cusano University, Italy. Corresponding author: Marco Valeri, e-mail: marco.valeri@unicusano.it.

1 INTRODUCTION

In the management literature, the idea of networking has been for some time at the centre of a debate at an international level. Despite this, to date we have not yet reached a widely-shared definition (Grandori and Soda, 1995; Nohria and Eccles, 1992). The debate also focuses on what advantages may be gained by membership in such a network. Generally speaking, we can say that the network is an organisational model which can stimulate cooperation and coordination, combine resources and particular skills (Powell, 1990; Eisenhardt and Schoonhoven, 1996) and encourage joint management of the production and provision of goods and services (Gulati, 1998) among the members of the network. (Fombrun, 1982). Looked at in this way, the network can be seen as a valid alternative to strategies of internal growth, and it would enable small businesses to survive and face increasingly complex competitive environments (Hansen-Bauer and Snow, 1996).

A large number of research papers have examined in detail the strategic importance of interactive relationships for improving the competitiveness of small and medium-sized businesses (Pfeffer, 1972). By belonging to a network, smaller businesses can share resources and skills, and overcome the limitations of size, which hinder innovation in certain economic areas. The network idea has also been analysed on the basis of theories dealing with inter-organisational relationships (Levin and White, 1961; Evan, 1966; Hall et al, 1972; Benson, 1975; Van de Ven, 1976; Van de Ven and Ferry, 1980; Aldrich and Whetten, 1981), and such studies have provided information on their motivation and the benefits derived from them (Lomi, 1991; Nohrin and Eccles, 1992; Loerntzoni, 1992; Lipparini, 1995; Grandori, 1996; Lorenzoni and Lipparini, 2000). They have also focussed on the competitive and cooperative strategies carried out by members of a network, on rules of behaviour and to what extent the network has been institutionalised, on power relationships and how such variables have varied over time (Atkinson and Coleman, 1992; Howlett and Ramesh, 1998).

Despite the attention shown by scientific studies on the analysis of networking, we still lack a specific examination of the complex dynamics that drive the development processes of collaboration between small and medium-sized
tourism enterprises. The aim of the paper is therefore to study the factors which influence these development processes. In this way, the paper aims to fill in the gaps in the literature on the subject of networking (Sherer 2003; Human and Provan 1997; Brunetto and Farr-Wharton, 2007), and also to provide guidance to the policy makers of small and medium-sized businesses involved in managing and governing networks. In tourism, as in many other economic sectors, competitiveness is influenced by factors such as:

a) the widespread dissemination of ICT and its effect on supply and demand of tourism services;
b) the development of managerial skills in the tourism field;
c) the strongly personalised nature of tourism products and services, to respond to the increasingly discerning needs of tourists;
d) the fact that tourists now have a better knowledge of national and international tourism markets and demand more sophisticated products and services;
e) the need to improve territorial resources in order to heighten the potential of the traditional tourist offer.

The first part of the paper concentrates on a systematic overview of the literature regarding the factors which influence the creation of networks and how they evolve. The second part presents a survey of 2,200 tourist agencies and tour operators; its purpose is to analyse the factors affecting the process of collaboration between small and medium sized tourism businesses.

2 RESEARCH FRAMEWORK

In an increasingly competitive environment, businesses need to possess a suitable fund of knowledge and resources in order to cope with increasingly fierce competition. This need has led to an increase in specialisation among businesses, and has reduced the amount and type of communal knowledge and competences. The great cognitive distance between individual companies and the simultaneous lack of resources to acquire new knowledge can cause friction in any attempt at cooperation. In such cases, networking represents the best organizational model for promoting the growth of small and medium-sized enterprises who find themselves limited by lack of resources and knowledge that are essential if they are to compete in ever more complex markets. The ability of a network to innovate and compete successfully depends not only on the skills of the individual companies but also on the ability of the network to coordinate the relationships between the participating businesses. As confirmed for some years now by the management literature, the ability to control the dynamics of internal and external relations to the network is a way by which businesses can successfully compete with others in a hyper-competitive economy (Hanssen-Bauer and Snow, 1996).

Several studies have concentrated on analysing the dynamics of network development, and which factors are responsible for their eventual success (Gulati 1998; Gulati and Gargiulo 1999; Soda, Usai, Zaher, 2004; Yin, Wu, Tsai, 2012; Das, Teng, 2002; Sakakibara, 1997).

Thanks to the increasingly inter-disciplinary nature of the ongoing debate on networking theories (Parkhe, Wasserman, Ralston, 2006), mention can be made of studies that describe the development stages of inter-organisational affiliation (Larson, 1992; Ring, Van de Ven, 1994), for example: 1) the preconditions of exchange, or the reasons that led to the birth of the network, in which there is, on the one hand, great importance placed on the reputations of individuals and businesses, as well as the existence of previous forms of relationship, and on the other, the importance of factors affecting possible investment, such as business uncertainties and how to react to them; 2) the conditions for creating some form of relationship between businesses, starting with the selection of members on the basis of certain factors (for example, mutual advantage, expectations, reciprocation and trust) and the willingness of the partners to meet each other and reach an agreement on the rules of future conduct, and 3) how the network operates in order to reach such an agreement on the rules of future conduct and on the control mechanisms to be set up, by means of a written agreement, to regulate conflict management.

2.1 The creation and development of a network

Complexity and the increasing competitive pressures of the market stimulate the formation and development of inter-organizational relationships. They allow businesses to acquire and exploit new resources and new knowledge, reducing environmental uncertainty (Weaver and Dickson, 1997; Street and Cameron, 2007). In particular, cooperation between small and medium-sized firms is crucial for their survival over time (BarNir and Smith 2002; Bruderl, Preisendorfer, Ziegler, 1992; Slak Valek, 2015). A network is a necessary organizational model for small and medium-sized enterprises to defend themselves from strong competitive pressures, and compensate for their limited resources and knowledge (Oliver 1990; Park and Zhou 2005). In other cases, networks are created to improve the competitive position of single businesses and not in order to avoid threats from the competition. In this way, they are able to take on market challenges that they could not handle on their own.

In the tourism sector, networks were created to:

a) improve the designing and promotion of tourist initiatives (Lemmetynen and Go 2009; Cawleya, Marsath and Gillmor 2007; Pforr 2006; Braun 2003);
b) develop a tourism product or service able to satisfy an increasingly demanding consumer (Sfandla and Bjork 2013; Novelli, Schmitz e Spencer, 2006; Mitchell and van der Linden, 2010; Petrou et al., 2007).

A basic prerequisite for the creation and development of networks is mutual trust between the participants. Trust is essential in establishing relationships between partners (Dubini and Aldrich, 1991; Gulati and Singh, 1998; Mohr and Spekman, 1994; Morgan and Hunt, 1994; Gabor, 2015). In inter-organizational relationships, trust involves not only expecting correct behaviour from other members but also having confidence in their competence (Das and Teng 2002). Interaction, and all that it entails, including the costs of supervision and coordination, becomes much easier when the trust between participants is based on previous common experience of collaboration (Powell 1990; Gulati and Singh 1998).
2.2 The selection of potential partners and the governance of the network

Once a network has been set up, the role of its promoter becomes paramount. The long-term success of the business relationship depends largely on the ability of the participants to cooperate and coordinate (Adair and Brett, 2005). Therefore, a set of negotiation strategies is needed to select and include in the network participants who are willing to cooperate with one another, even if they have no previous experience of working together (Yin, Wu, Tsai, 2012, Weaver and Dickson, 1997; Sherer, 2003; Park and Zhou, 2005; Parkhe, Wasserman, Ralphson, 2006). The promoter of the network (who could be a small business owner or group of entrepreneurs) guides the early stages proactively or reactively by trying to persuade other owners of small and medium sized firms to join the project. The role of governance should not be underestimated: As a network evolves, governance becomes very important in encouraging coordination between, and supervision of, the members of the network (Sherer, 2003; Gulati, Nowria, Zaheer, 2000; Zafiropoulos et al., 2015) and to devise strategies focused on relational income (Dyer and Singh, 1998). As regards property, governance can involve:

a) partners who share or exchange capital or partners who create new businesses in which other network participants can invest;

b) contractual elements that do not involve the exchange of capital (e.g. joint ventures, licensing, legal contracts, internal price mechanisms, etc.) (Kuittinen, Kylaheiko, Sandstrom, Jauntunen, 2008; Gulati and Singh, 1998; Powell, 1990; Ring, van de Ven, 1994);

c) mechanisms that help ‘reduce the potential opportunism of the parties’ (Hoetker and Mellewijt 2009) such as the creation of teams and task forces (Grandori, 1997) who can strengthen the trust between network participants.

Apart from specifying the governance mechanisms most appropriate for different circumstances, the selection of individual members of a business network depends on a) the level of trust between the players involved b) the purpose of the network c) the equality of assets between partners (Kuittinen, Kylaheiko, Sandstrom, Jauntunen, 2008), d) the amount of capital and knowledge based investment in the network (Hoetker and Mellewijt, 2009), e) the costs of coordination (Gulati and Singh, 1998).

4 RESULTS

From the survey results, it would appear that micro and small enterprises, compared to medium-sized enterprises, would be more interested in establishing networking partnerships. In general, according to the companies interviewed, the setting-up of a network does not presuppose a clear awareness of organizational or economic factors: an idea of informal and temporary relationships is prevalent, deriving from the contingencies of a specific situation in which cooperation appeared to be a logical solution. One important aspect that emerged from the survey is the need for control and coordination of the partners in the network. In fact, it is important to determine whether the network is coordinated by a central body with strategic decision-making power, or if there is a minor central position taken by one business, and decisions are taken on the basis of equality.

44% of the sample firms recognize the importance of networking collaboration especially in the customer-supplier chain: the main experience of networking involves relationships with partners such as service providers, with whom cooperation is necessary to achieve tourist satisfaction. 23% of the companies surveyed were less inclined to cooperate with competitors, seeing them as rivals to defeat, or from whom to distance themselves. Businesses who think this way however lose the potential advantages of the cooperation agreements concluded between competitors. Furthermore, the companies surveyed see the customer-supplier network as a model that involves collaboration with five companies or more with whom they have a
subcontracting relationship. With this structure, the network can be less formal, both in its organisation and in its contractual and societal aspects. This encourages companies to seek out unofficial channels and keep strategic and economic relations informal. 30% of firms in the study said that their main reasons for collaboration were commercial, either to increase the variety of tourism products or as an access to new markets/customers. On the other hand, all the firms agreed that there was resistance to sharing financial objectives within the network. This would require a high degree of mutual trust. The data collected shows that the potential advantages of the network do not include economic risk sharing, which could relieve the pressure on individual companies of the responsibility of management.

If we examine the types of cooperation actually chosen by firms operating on the market, we see that the network concept is still uncommon: in fact, 80% of companies surveyed did not rely on any form of cooperation, while only 10% and 6% chose to use commercial distribution networks. This information confirms that the forms of networking tried out by the companies are provisional: in fact, they prefer to establish weaker ties that help achieve production goals, while maintaining the space of action and the autonomy of the individual business: collaboration agreements which involve greater formalisation and consolidation of cooperation are less present, precisely because they tend to become stabilised over time and then require a greater commitment in terms of resources used.

An interesting aspect that emerged from the survey is that 30% of the companies investigated declare their interest in establishing cooperative relationships with other representatives of the market, who are not part of the customer – supplier chain, partners with competences required by tourism businesses (horizontal networks). Horizontal networks are perceived as alliances with competitors, to enter into agreements for the control of sales areas and for the setting of prices. In contrast, 40% of the firms in the survey say they are interested in activating vertical collaboration relationships. The main criteria that lead companies to choose to collaborate with supplier networks (vertical networks) are based on trust and reputation rather than technical or organisational aspects. This shows that establishing collaboration relations presupposes mutual trust between the partners.

As for the benefits accruing from vertical networks, almost all of the companies surveyed declared that the network was set up as a tool to increase turnover; 90% considered it essential for accessing new markets and 70% for launching innovative tourist services or products. If we compare this question with one addressing the reasons for setting up a network, we notice that expectations that the network would result in a significant economic development for the firm and an expansion of the market were partially met (in particular, partnerships with other companies gave them the possibility to increase their own range of products and reach new customers and territorial markets).

40% of the respondents confirmed the difficulty of using forms of participation based on non-verbal or temporary contract agreements, limited to the time period agreed between two or more firms: these companies were interested in temporary contracts that, for the period of cooperation, ensured a higher level of protection. The majority of contracts, compared to those that do not give any kind of security, show that the predominant choice is about intermediate measures, not only verbal ones, to ensure compliance with specific standards, but at the same time not binding for too long a time. In the case of horizontal collaboration, the criteria on the choice of business partners considered to be the most important were: how they treated their customers (60%) and the quality of the supplier (68%).

5 DISCUSSION

The survey showed that the network organizational model allows each enterprise in it to enjoy the same benefits it would receive if they were bigger in size or if they had formal and permanent ties with other companies, but without losing their strategic and economic autonomy. This form of organization can have an effect on a business’ competitiveness, for example by increasing the productivity of those that are part of the network, or by facilitating access to the procurement of economic and human resources. In the specific case of the tourism business the benefits of belonging to a network can be classified as follows:

1. economic benefits: differentiation or diversification of the tourism offer, personalisation of the tourism product according to the specific needs of different kinds of customer, growth through earlier or later expansion or integration into new emerging markets, design of tourist products through the exploitation of territorial resources.

2. benefits of design and tourist services/product development: more access to sensitive information with the activation of Intelligence systems and greater efficiency and effectiveness in production (purchases, supply, marketing and sales), cost optimisation.

Belonging to a network may stimulate innovation on the part of the participants; it can also encourage the formation of new businesses operating in alternative markets, because within a network it easier to capitalise on new knowledge, new customer contacts and tourist bodies.

Finally, we should not underestimate the problems faced by the businesses in our survey in planning partnerships and designing and implementing technological infrastructures. 30% of them said that it was necessary to establish rights and responsibilities between each company in the network; this was especially the case in horizontal networks where, as often happens, a coordinating body is missing or not clearly defined, and it was difficult to supervise the role played by each member of the network. They felt that the important issue was not to establish roles and tasks but to formulate them according to the specific needs of each company and the relationships that had been set up between them.

How? By not exaggerating the interdependence between the collaborating companies and relying on a centralised management capable of presiding without limiting the freedom of initiative of each company. As regards technological infrastructure, 90% of the companies interviewed considered it appropriate to have centralised management of data, to provide themselves with shared
procedures and an information system able to communicate in a timely manner.

6 CONCLUSIONS AND LIMITATIONS

The paper provides an opportunity for reflection on the competitive potential of networking collaboration among small and medium-sized enterprises operating in the tourism sector. The review of the literature discussed in the paper argues that small and medium-sized enterprises can be competitive if they are able to generate and guarantee over time a tourist experience greater than that offered by other local contexts and other competing tourism businesses. An important aspect that emerged from the survey shows that all the companies surveyed are interested in collaborating with other firms, whether competitors and not. The network is a necessary choice for small and medium businesses that aim at achieving growth. This shows that the benefits experienced or reported by others are outnumber the disadvantages, and especially that the overall size of the tourism business tends to activate cooperative relationships needed to survive in an increasingly competitive market. Why? Through cooperative relationships, companies have the ability to share technological and production resources, plan new business strategies with others, and especially to design new tourism products and services.

As in all economic sectors, in the tourism sector competitiveness is influenced by particular phenomena such as a) the widespread diffusion of ICT and its effects on the supply and demand of tourism products and services; b) the development of management skills in the tourism sector; c) the increasing personalisation of tourism products and services to meet the more sophisticated needs of tourists; d) a greater knowledge of the national and international tourism market by tourists who require increasingly elaborate products and services; e) the need to exploit an area's resources to improve the traditional tourism offer. The competitive advantage of tourism businesses depends therefore on the allocation of available resources and the ability to improve established relationships over time. The narrowness of the sample and of the economic sector of the companies surveyed constitutes a limit to the work, and eventual future studies should try to analyse all tourism companies with a view to discovering new business opportunities, relieve critical situations and above all, call attention to appropriate issues of governance.

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