DYNAMIC STRATEGIES IN A TOURISM GROWTH INDUSTRY

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INTRODUCING A RESEARCH PROJECT ON SMEs IN THE EYJAFJORDUR AREA IN ICELAND
A SPIN OFF FROM OUR FORMER PROJECT ON

• How small locally owned Northern firms view their relationship to their local communities and how firms construals of relationships influence strategies over time?

With a Research Grant from NordRegio’s Nordic Arctic Co-operation Program

Helgi Kristinarson Gestsson, University of Akureyri
OUR FORMER PROJECT FOCUSED ON

- SMEs (mostly small) locally owned firms operating in Northern, rural communities (Northern Finland, Northern Iceland and Northern Norway - case studies of two firms in each country)

- Theory building (typology) as opposed to theory testing

- Additional insights provided through the inclusion of different industries and countries
FORMER PROJECTS TYPOLOGY

• Miles´ and Snow´s Strategy Typology
  • Prospector, Defender, Analyzer, Reactor

• Combination of Miles´ and Snow´s Strategy Typology and Teece´s modeling of Dynamic capabilities
  • Adding: Sensing, Seeing, Managing Threats/Transforming

• Fiske´s Elementary Forms of Sociality
  • Communal sharing, Authority ranking, Equality matching, Market pricing

  – a continuum from *The firm and the community is the same thing* to *Transactional vision* of the firm

• This led to Focused builder, Broad builder, Harvester and then place driven or transactional Contributor or Utilizer
## Relationship and Networks

<table>
<thead>
<tr>
<th></th>
<th>Place Driven Contributor</th>
<th>Transactional Contributor</th>
<th>Place Driven Utilizer</th>
<th>Transactional Utilizer</th>
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<tbody>
<tr>
<td><strong>Relationship to community</strong></td>
<td>A very specific notion of the home-community. The firm = the place. Main reasons for operating in the region/community is something other than a local resource base</td>
<td>Operations in and/or out of the region. A focus on being local and supporting local causes – the home-community is defined in broader and less specific ways</td>
<td>The home community constitutes a business opportunity or resource-base for the firm Still the firm = the place.</td>
<td>The community/region constitutes first and foremost a business opportunity or resource-base</td>
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<tr>
<td><strong>Network characteristics</strong></td>
<td>Strong, and continuous relationships with local stakeholders that form around a strong common identity ('we are all in this together')</td>
<td>A mix of tight place relationships combined with largely transactional relationships with external partners (local- and non-local)</td>
<td>Tight inner nexus of relationships (e.g. family) to local stakeholders varying in strength. Relationships are maintained on a regular basis</td>
<td>Transactional relationships with external partners (local- and non-local)</td>
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<tr>
<td>Strategies</td>
<td>Place Driven Contributor</td>
<td>Transactional Contributor</td>
<td>Place Driven Utilizer</td>
<td>Transactional Utilizer</td>
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<td>A focused build strategy – Building the business equals building the place</td>
<td>A broad build strategy – Supporting/building up the local community will ultimately rub off on my company</td>
<td>Dependency – Securing the critical input-factors from the local community by using and paying “justly” for local resources</td>
<td>Self-sufficiency – Maintaining full control over the business while securing the best possible deals on critical input-factors both locally and elsewhere</td>
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<table>
<thead>
<tr>
<th>Risks</th>
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<tbody>
<tr>
<td>Becoming over-embedded, nepotism, tunnel vision, a narrow focus on place clouds sound business-decision making</td>
<td>Straddling – being too much of too little</td>
<td>Possibility of impractical dealings and impaired quality. Inability to secure vital resources</td>
<td>Rootlessness, Isolation and impeded growth.</td>
<td></td>
</tr>
</tbody>
</table>
THE NEW ICELANDIC PROJECT (NIP) IS INSPIRED BY THE BEER SPA OF BREWERY KALDI IN ÁRSKÓGSSTRÖND

Helgi Kristínarson Gestsson, University of Akureyri
THE NEW ICELANDIC PROJECT (NIP) IS INSPIRED BY EKTAFISKUR IN HAUGANES

Helgi Kristinarson Gestsson, University of Akureyri
THE NEW ICELANDIC PROJECT (NIP)
INSPIRED BY OUR ENTREPRENEURIAL COMPANIES

• Entrepreneurial Orientation
• Importance of place
• Family base
• Region or community
• How are the strategic growth processes of SMEs in the arctic region of Eyjafjordur similar/dissimilar to Penrose’s growth model and Teece’s Dynamic capabilities and how does the embeddedness of place affect their growth
(NIP) INTERVIEWS WITH OWNERS/MANAGERS OF COMPANIES THAT STARTED OUT MICRO/SMALL

• Eight to ten companies in the Eyjafjordur area
SURVEY OF 108 FIRMS FROM THE REGION MEMBERS OF THE VISIT NORTH ORGANISATION (THE ARCTIC NORTH)

Entrepreneurial orientation of family firms: Family and environmental dimensions
Jose´ C. Casillas, Ana M. Moreno, Jose´ L. Barbero (2011)
THE NEW ICELANDIC PROJECT (NIP)
FROM FINANCIAL CRISIS TO A TOURISM GROWTH INDUSTRY

• Critical events
  • Reaction to crisis and opportunities

• Embeddedness to community
  • Founders, owners, managers, family, community
  • Engaging with the local community and competitors

• Entrepreneurial orientation
  • Innovativeness, risk taking, proactiveness, [competitive aggressiveness, autonomy]
  • Mapping: Differentiation, Cost leadership

• Strategic mapping
  • Similarities/dissimilarities to Penrose´s and Teece´s models
  • Penrosian mapping: vertical integration vs. diversification

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THE ICELANDIC FINANCIAL (BANKING) CRISIS OF 2008

• relative to the size of its economy, Iceland’s banking collapse is the largest suffered by any country in economic history

• The total assets of the banking system went from 174% of GDP at the end of 2003 to 744% of GDP at the end of 2007, a period during which real GDP rose by 5.5% each year on average

• The banking sector, with over 80% part in the country’s external debt that was more than 5,9 times that of its GDP, crashed

• The national currency fell at once by around 45% in value as foreign currency transactions were virtually suspended
REBUILDING THE BANKING SYSTEM CONT.

- Inflation rose from a single figure to 18 percent and unemployment rose, from full employment, to 8 percent.
- In 2009, GDP decreased by 6.8 percent.
- Food prices rose by nearly 40 percent in the 2-year period from early 2009.
- The everyday functioning of banks and shops was almost from day one business as usual for the typical Icelander.
- The international bailout support programme led by IMF officially ended on 31 August 2011, while the capital controls which were imposed in November 2008 are lifted in March 2017.
THE LOTTO WIN EFFECT OF TOURISM AS SEEN IN 2016

– In three years the number of foreign visitors has almost doubled, from 560 thousand in 2011 to about one million in 2014 with over 1.7 million expected in 2016
– The shift is not caused by any single reason
– The Tourist sector is becoming a leader in Iceland’s economy in the labor market, currency market, as the main source of new export revenue and housing market
– Tourism is expected to generate nearly 34% of total export revenues in 2016, as opposed to 18% in 2010

https://www.islandsbanki.is/library/Skrar/English/Products-and-Services/Publications/tourism_in_iceland_2016.pdf
EXPORT OF GOODS AND SERVICES 2013 – 2017
IN BILLION IKK 2017 TOT. 1199.721 TOURISM 503.349

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NUMBER OF INTERNATIONAL VISITORS TO ICELAND
2010 – 2017

SOURCE: FERÐAMÁLSTOFA 2018

- International visitors to Iceland
  - Sources: Icelandic Tourist Board, Austfar, Isavia and Air Iceland Connect

- International Cruise ship passengers to Iceland
  - Sources: Faxaport and Cruise Iceland

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%GROWTH OF AIRBNB GUEST NIGHTS 2015 TO 2017

Guest nights in thousands

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<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tr>
<td>Capitol region</td>
<td>468</td>
<td>1314</td>
<td>1870</td>
</tr>
<tr>
<td>Outside of the Capitol region</td>
<td>18</td>
<td>311</td>
<td>1313</td>
</tr>
<tr>
<td>Airbnb in Iceland total</td>
<td>486</td>
<td>1625</td>
<td>3183</td>
</tr>
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</table>

Helgi Kristínarson Gestsson, University of Akureyri
GDP per Capita
Yearly current PPT rate €

GDP per Capita
Yearly current exchange rate €

source: statistics Iceland
PENROSE ON GROWTH OF THE FIRM

• Firms use a combination of external and internal resources to grow, but growth is limited essentially by the capabilities of management, and whether entrepreneurial managers see opportunities for growth arising from other possible uses of resources (Penrose, 1959).

• As the firm makes the best possible use of its resources, “a truly dynamic interacting process occurs” (Penrose, 1959, p. 5). This process improves efficiency, which produces surplus management resources that can then be used to take advantage of other ‘productive opportunities’

• Since this is a continuous process and the opportunity cost of these surplus resources is zero, there is a strong incentive to grow, in spite of the challenge to innovate.
Top ‘entrepreneurial’ management team including the entrepreneur – the necessary actor for growth. In search of profitable productive opportunities, for the sake of the firm.

The Managerial Limit
“...the capacities of the existing managerial personnel of the firm necessarily set a limit to the expansion of the firm in any given time period” (p.43)

As management make the best use of resources a truly dynamic interacting process occurs” (p.5)
As management gain experiential knowledge about other potential goods/services their resources can create, surplus management resources is produced. This provides the motivation to use these surplus resources to take advantage of new opportunities. A continuous process encouraging growth through scale and/or diversification results

The ability to increase managerial services is fundamentally limited by:
- A lack of forward planning capabilities by the existing managerial team
- The speed that new management can be absorbed into the firm i.e. time for managers to gain firm-specific experience and skills

Governed by:
Economic growth
Large firms – ‘artificial entry barriers’
Interstice opportunities

But, the maximum rate of growth is proportionate to the availability of managerial services

Constraints on Growth

Increasing uncertainty and risk governed by managerial-research capability

Managed decision to grow requires intuition and imagination. Environment is an ‘image’ in the entrepreneur’s mind.

The most important entrepreneurial capabilities
- Entrepreneurial versatility - Imagination and vision
- Fund-raising ingenuity
- Entrepreneurial ambition
Product-minded
- Entrepreneurial judgment
- Organisation of information-gathering

A collection of internal and external resources used to ‘best advantage’ to produce a bundle of productive heterogeneous unique services. Services produced are a function of the way in which resources are used.

Service and factor/input markets

The changing nature of the productive opportunity cost, of its resources, encourages diversification through:
- R & D
- Market pull
- Technological base
- Competition
- Demand fluctuations
- Vertical Integration
- Acquisitions
- Mergers

Profitable Growth, with no limit to a firm’s size

PT framework (Growth Theory and Dynamic Capabilities)

Dynamic Capabilities

Sensing/Seeing

Seizing/Taking advantage of

Managing Threats/Transforming/Enhancing

Selected Micro-Foundations

Processes to direct internal R&D and select new technologies

Processes to tap developments in exogenous science and technology

Processes to tap supplier and complementor innovation

Analytical systems (and individual capacities) to learn and sense, filter, shape, and calibrate opportunities

Delineating the customer solution and business model

Selecting the technology and product architecture

Designing revenue architectures

Selecting target customers

Designing mechanisms to capture value

Selecting enterprise boundaries to manage complements and ‘control’ platforms

Calibrating asset specificity

Controlling bottleneck assets

Assessing appropriability

Recognising, managing, and capturing co-specialisation economies

Enterprise structures, procedures, designs and incentives for seizing opportunities

Decentralisation and near decomposability

Adopting loosely coupled structures

Embracing open innovation

Developing integration and coordination skills

Continuous alignment and realignment of specific tangible and intangible assets

Governance

Achieving incentive alignment

Minimising agency issues

Checking strategic malfeasance

Blocking rent dissipation

Cospécialisation

Managing strategic fit so that asset combinations are value enhancing

As there is a continuous incentive to grow, the process repeats as each opportunity is seen, taken advantage of, and enhanced

Created by Glenn Simmons from: Penrose (1959) and Teece (2009).
INTERESTED IN THIS PROJECT?
CONTACT DR. ÖGMUNDUR KNÚTSSON, ASSOCIATE PROFESSOR AT UNAK AT ogmundur@unak.is

• Is there already a similar research conducted by colleagues?
• Is there an interest from other arctic regions in taking part in such (comparative) studies?
• Do you have a suggestion for us for improving our research project?
• Studies on rural SMEs’ strategies need to pay greater attention to the community relationship as an important part of the firms strategy formation
  – Northern, Arctic or Rural?
  – Cultural differences (uncertainty avoidance)?
  – Size, Family, Gender, Education, Fear of relocating etc.?
THANK YOU