Management and micro firm flashcard

1. 0 INTRODUCTION

This paper is the product of ongoing work into managerial capability for innovation in Irish tourism micro firms and aims to achieve academic output as doctoral research. Tourism is a major Irish industry and at the level of the national economy it contributes 2. 7 billion euro to G. D. P. from foreign reserve earnings and employs over 180, 000 people (Department of Arts, Heritage and Gaeltacht, 2011).

At regional and local levels, tourism sustains economic development outside the centres of major population (Failte Ireland, 2012) and is indigenous in nature, counterbalancing the relatively high dependence on foreign direct investment, which characterizes the Irish economy (Tourism renewal implementation group, 2011). However, while these features of the Irish tourism industry are salient, perhaps the feature which gives it greatest contemporary significance, hinges on recent arguments placing the development of the industry at the coalface of economic regeneration (Department of Taoiseach, 2008).

2. 0 TOURISM INDUSTRY INNOVATION

Irish tourism faces multiple and deep competitiveness challenges (Failte Ireland, 2011). Firms face external challenges manifest as relatively high labour costs; high costs of utilities; problems of market access, resulting from Ireland’s limited land connections and currency movements. Internally challenges include limited managerial capability; under developed human resources; limited development of quality management and customer service (Failte Ireland, 2011; Baum, 2007).

The impact of the economic recession on the Irish economy has brought many of these competitiveness challenges into sharp relief, in effect rapidly reshaping fundamental characteristics of both internal and external environment's of tourism firms, and of necessity, posing new and challenging problems for managers of these firms. One means of meeting and overcoming competitiveness challenges is through the generation of innovation which enables firms to address management capability challenges, to identify and utilise new markets, and to build longer term sustainable competitive advantage (Failte Ireland, 2010).

3. 0 TOURISM MICRO FIRMS

Micro firms are the smallest type of business organisation, by definition employing less than ten people (EU, 2011). Within the Irish tourism industry, micro firms dominate the landscape numbering around 16, 500 enterprises, and comprising almost ninety percent of the industry population (Kelliher and Reinl, 2010). Micro firms contribute to economic development through both the narrow measure of G. D. P. contribution, but also indirectly through sustaining families (Wheelock and Baines, 1998); local communities (Phillipson et al. 2004) and through providing a level of dynamic competitiveness, encouraging business activity and stimulating competition (Liberman-Yaconi et al. 2010).

Micro firms are unique, possessing characteristics which sharply distinguish them from small, medium sized and large firms and this is summarised at appendix one. At structural level they suffer limited assets, absence of scale economies and small numbers of employees (Liberman-Yaconi et al. 2010) and are contextualised in an environment of harsh competition where the firm has little influence (Kelliher and Reinl, 2009). Structurally there are aspects of the micro firm which enable improving business performance, including low levels of bureaucracy (Devins et al. 2005) and an environmental closeness (Greenbank, 2000). At management level, there is an absence of the agency problem, with the owner/ manager performing, at times, a tripartite role of resource owner, resource allocator and operational employee.

Managers are faced with time management challenges (Samujh, 2011), as they grapple with long hours and are stretched between operational and strategic work (Greenbank, 2000). However there are opportunities for managers to improve the performance of the micro firm, often manifest in their development of unique leadership (Kelliher and Reinl, 2009) to influence employees towards organisational goals. Micro firm relationships' with their environment is unique: They are embedded in local communities (Phillipson et al. 2004) and families (Oughton et al. 2003) and rely heavily on local sources of information (Devins et al. 2005).

4. 0 TOURISM MICRO FIRM INNOVATION

Innovation in large firms entails the use of formal management methods across large, often complex, organisational structures (Smith et al. 2008) in order that communication improves and that new thinking is surfaced (Salaman and Storey, 2009). In contrast the micro firm environment shapes innovation differently (Simpson, 2001). The process of micro firm innovation is often informal in nature with innovation emerging in response to environmental contingencies to which owner/ managers respond with a mixture of intuition (Greenbank, 2000) and reliance on stakeholder information (Devins et al. 2005).

Micro firm innovation is often incremental, rather than radical (Simpson, 2001). The micro firm innovation process is reactive to pressures of the environment, and particularly the pressures of key suppliers and customers (Corrocher et al. 2009). The owner/ manager plays the vital role in micro firm innovation, due to the lack of employees (Matlay, 1999), the resource control of the owner/ manager (Devins et al. 2005) and the dynamic interaction between the market environment of the micro firm and the owner/ manager who plays an active part in this environment through day to day interaction with stakeholders (O’Dwyer and Ryan, 2000).

For the purposes of the present study micro firm innovation is defined as the creative use of resources and development of firm level capabilities which generates new commercial outcomes through the development of new products and services and the development of new modes of market access. Inherent in this innovation is the important role of the owner/ manager, who through the development of innovation, continuously develops managerial capability for innovation, which of itself becomes a source of sustainable competitive advantage within the micro firm. Micro firms face unique barriers to innovation. These may be classified into those which are external to the firm; those internal to the firm and those associated within the person of the owner/ manager.

There are two external barriers: the embedded nature of the firm (Atterton, 2007) and environmental turbulence (Kelliher and Reinl, 2009). The embedded nature of the firm is argued by Atterton (2007) to create a sense of solidarity within a local business community which actively resists ideas from outside the community, and develops social norms and practices to support this resistance. Environmental turbulence buffets the micro firm, and lack of micro ability to influence this environment (Greenbank, 2000) combines with limited micro firm resources (Phillipson et al. 2004) to make innovation risky, and potentially damaging to the firm’s longer term survival. There are two internal barriers. Human resources are argued in larger organisations (Salaman and Storey, 2009; Barnett and Storey, 2000) to constitute an enabler of innovation.

In contrast, in micro firms they are often underutilised and a source of conflict (Matlay, 1999), potentially frustrating the achievement of managerial objectives. Similarly, micro firm assets form a barrier to innovation, as their limited, and often family owned nature (Oughton et al. 2003) conspire against change. Finally there are five innovation barriers associated with the person of the owner/ manager. Lifestyle motivation (Greenbank, 2000) creates a barrier as owner/ managers avoid engagement with a business philosophy (Beaver, 2007), preferring to satisfy the achievement of lifestyle objectives, and inhibiting the development of relationships, premised on business philosophy which is mutually understandable to suppliers, customers and investors.

The dominance of the owner/ manager (Devins et al. 2005) can be a barrier, as this figure becomes unable to act on advice and becomes ossified by the need to maintain personal power (Chell, 1985). Risk intolerance (Tregear, 2005; Wheelock and Baines, 1998) disables the owner/ manager from engaging with risk, and subsequently from implementing risk base strategies conducive to innovation. The nature of the owner/ managers role (O’Dwyer and Ryan, 2000) engages the owner/ manager excessively in operational work, to the detriment of strategic thinking associated with innovation (Beaver, 2007). Finally, owner/ managers experience time management problems (Samujh, 2011), allowing little time for engagement with newness.

5. 0 THEORETICAL FRAMEWORK

The research uses as its theoretical framework the resource based view (Barney, 1991; Wernerfelt, 1984) and the dynamic capabilities approach (Eisenhardt and Martin, 2000; Teece et al. 1997). Micro firm owner managers create and develop resources through their own unique management skills (Greenbank, 2000). Similarly, owner/ managers unique environmental awareness (Phillipson et al. 2004) enables the shaping of dynamic capabilities in micro firms, which enable the development of more sustainable forms of competitive advantage, where these dynamic capabilities confer on the firm the ability to learn and proactively engage with environmental change (Winter, 2003).

There is potential for managerial capability, where well honed, to become a dynamic capability, contextually embedded in the firm (Groysberg, 2006) and which is capable of steering the firm’s competitive path and, contemporaneously, being shaped by interaction with this path.

6. 0 MANAGERIAL CAPABILITY FOR INNOVATION: RESEARCH GAP

There is growing interest in the management of innovation in the academic literature (Smith et al. 2008) and specifically in the managerial capability which develops innovation. Moss Kanter (2006) argues the importance of managerial restructuring of organisations so that latent innovation can be released. Mol and Birkinshaw (2008) highlight how formal management tools, such as TQM, play a role in this restructuring. Salaman and Storey (2009), taking human resource perspective, posit the importance of top management leadership in reshaping managerial mindsets and organisational culture.

However there are difficulties in applying the models of managerial innovation from the research into larger firms in the context of the tourism micro firm. Tourism micro firms, are poorly endowed in terms of human capital, possess limited resources (Thomas et al. 2011). Moreover, their organisational structure, necessitates active engagement of the owner/ manager in the life of the firm and the deployment of informal communication in a context where organisational structure is simple (Devins et al. 2005), as opposed to the more distant and formal communication of the large firm.

Finally, caution is necessary, when applying concepts from the larger organisation, such as leadership and advocating their use in the context of the micro firm. Specifically, a context based leadership is argued to be useful to developing management competence, in a micro firm context (Kelliher and Reinl, 2009); in contrast to the leadership of the larger firm, which necessitates a more public, engagement (Salaman and Storey, 2009). Therefore a research gap has been identified, as to what constitutes micro tourism firm managerial capability for innovation and how this is manifest in organisations.

7. 0 MICRO FIRM MANAGERIAL CAPABILITY FOR INNOVATION

Managerial capability is defined as that human capability which builds an organisation's long term competitive advantage (Barney et al. 2001). In the micro firm context the dominance of the owner/ manager places higher responsibility for managerial work on the owner/ manager figure (Greenbank, 2000). The nature of the micro firm environment presents owner/ managers with three primary sources of resources. One source exists in the form of endowments such as emerge from family (Wheelock and Baines, 1998) or local community embeddedness (Phillipson et al. 2004), and these endowments provide the owner/ manager with a resource capable of being leveraged by the owner/ manager and thus developing the firms' competitive advantage.

A second source emerges from a stakeholder environment, theorised as strong and weak ties (Granovetter, 1973) which provide the owner/ manager with a source of resources manifest as business advice (Phillipson et al. 2006) and innovation opportunities (Devins et al. 2005), which managerial capability may leverage. The third source of resources is predicated on the closeness of the owner/ manager to the market environment of the firm (O'Dwyer and Ryan, 2000), whereby the owner/ manager is given the opportunity to observe and interact with potential innovation, by direct contact with and proximity to market. One perspective through which micro firm managerial capability may be evaluated is through a critical examination of the traits which owner/ managers which characterise owner/ manager behaviour.

A critical review of literature has enabled the development of a table of traits (Table, 3) and analysis of this table has led to the development of four capability criteria argued to comprise micro firm managerial capability. The leadership criterion provides a mechanism through which owner/ managers influence micro firm members towards organisational goals, through the creation of shared meaning (Kruse cited in Devins et al. 2005). Business philosophy as a criterion enables the owner/ manager apply business tools such as formal planning, accounting methods and marketing techniques, in the practice of organisational work (Beaver, 2007). Problem solving enables the owner/ manager to proactively engage with operational work (Greenbank, 2000) and transform this work into commercial knowledge.

Finally, where the owner/manager develops a criterion of people relationships it is possible to develop aspects of relationships with stakeholders and employees. Based on the interaction of the owner/ manager capabilities and micro firm resources, a taxonomy of micro firm managerial capability for innovation is proposed (Figure 1). The owner/ manager provides the input to the taxonomy and managerial capability for innovation provides the output. It is proposed that the three criteria of managerial capability enable the owner/ manager to interact with the resources. In essence micro firm resources in the form of endowments, stakeholder ties and the close nature of the market are argued to present as opportunities to owner/ managers whose development of managerial capability for innovation, is premised on levels of managerial capability manifest in capability criteria.

This taxonomy leads to the development of a model of managerial capability for innovation (Figure 2) in which the micro firm market environment forms the outer circle. It bounds and interacts with stakeholder environments, shaping and to an extent being shaped by these. Inside this lies the near environment, within which endowments such as the family are found, and inside this lies the internal environment of the firm and, finally, the owner/ manager.

The owner/ manager's capability for innovation is shaped by these environments, and though the owner/ manager is closest to the internal environment of the firm, this does not imply this environment influences innovation capability most. Innovation capability depends on people relationship communication mechanisms, which are established throughout the various environments. The business philosophy is internal to the owner/ manager but can be developed through interaction with an appropriate environment and business philosophy helps to shape the owner/ manager's interaction with the external environments, towards building managerial capability for innovation.

8. 0 RESEARCH QUESTONS AND METHODOLOGY The overarching aim of the research is to build a model of managerial capability in Irish tourism micro firms. Dovetailed within this aim are four research questions. The first asks: what is the nature of Irish tourism micro firm innovation? The question emerges from arguments that relatively little is known about the nature of

micro firm innovation (Simpson, 2001). Furthermore, research to date at the level of the micro firm, concentrates on relatively well endowed firms in terms of human capital and technological assets (Corrocher et al. 2009), and suggests that micro firm innovation possesses uniqueness, by way of contrast with the innovation process in larger firms.

Question two asks: What is the nature of Irish tourism micro firm managerial capability? The academic literature posits that there are significant differences between the environment experienced by managers in micro firms and in larger firms (Liberman-Yaconi et al. 2010; Kelliher and Reinl, 2009; Devins et al. 2005), specifically highlighting the uniqueness of the role of the manager as owner and manager of resources (Greenbank, 2000). Question three asks: What is the nature of Irish tourism micro firm managerial capability for innovation? The question develops the research seam opened by Simpson (2001) who posits the potential link between owner/ managers of micro firms and innovation.

The final question, which asks " How does managerial capability for innovation impact on innovation in Irish tourism micro firms" reflects the logic of linking questions three and one, and fulfilling the aim of the study, with a comprehensive model. It is proposed to use a qualitative approach to the research. Micro firms are unique social contexts, where managerial work is best understood contextually, as opposed to in terms of narrow economic rationality (Phillipson et al. 2004). Hakim (2000) argues that qualitative methodology enables the accessing of data where the variables are " complex, interwoven and difficult to measure". Moreover, micro firm owner/ managers are often motivated by lifestyle, as opposed to business motivation, (Greenbank, 2000) and qualitative methodology offers a “ window on lives”, enabling the capturing.

This is exploratory research and Silverman (2005) posits the benefit of qualitative research in mapping out a new research area. In depth interviews are the proposed research method. This facilitates gathering in depth data from the owner/ manager who is the dominant influence on the life of the micro firm (Devins et al. 2005). This dominant influence entails the creation and shaping of the unique culture of each micro firm (Kelliher and Reinl, 2009) and capturing the experiential nature of the work of this individual (Deakins et al. 2002).

9. 0 CONCLUSION

The study promises to make a three-fold contribution. Practitioners and industry thought leaders are offered a model of managerial capability for innovation, with which they can engage and enhance their own managerial capability. For the first time this model will be unique to the industry context and firm type. Policy makers will also benefit through interaction with the model, enabling them to allocate scarce resources, in the form of grants and training, more efficiently and effectively. Finally, from an academic perspective, a notable gap in the academic literature will be filled and there will be scope for publication of the work.