

**COMPETITIVENESS AND STRATEGIC CHANGE – A
LONGITUDINAL STUDY OF THE INTERACTIONS BETWEEN
TOURISM INDUSTRY AND AIR SEYCHELLES 1970 TO 2007**

by

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Submitted in accordance with the requirements for the degree

of

DOCTOR OF BUSINESS LEADERSHIP

at the

UNIVERSITY OF SOUTH AFRICA

SUPERVISOR: PROF VI MAKIN

June 2010

ABSTRACT

In studying organisational change in Air Seychelles, the context, content and process of change together with the interconnections of the airline and the tourism industry in Seychelles through time is explored. The literature review shows that the substantive issues of interest to this study, contextualism as a theory of methods in management research, requires a case based research in particular with regards to the following gaps in the literature: the integration of inner and outer perspectives on sustaining competitive advantage, and conceptual insights on how strategy links firms and their environment. The study adopted a contextual and processual framework to build a theoretical perspective of competitive advantage.

The study contributes to the field of strategic management and tourism development in Seychelles in the following ways: firstly, the development of a contextual and processual framework to explain the transformation of firms over time; secondly, the development of an understanding of the historical context of the tourism industry and its interactions with other sectors of the Seychelles economy; thirdly, developing an understanding of how Air Seychelles developed its resources and capabilities to sustain competitive advantage; fourthly, linking change processes and action to performance and in a sense developing an understanding on strategy implementation of strategic management practice in Air Seychelles.

The study sheds some light on strategy formation and implementation at the firm level, and the dynamics between the firm and the industry. The findings suggest that firms respond opportunistically to external discontinuities in a dynamic environment - the entrepreneurial leadership of a firm prepares and support managers to operate under conditions of great uncertainty and ambiguity and allows them to behave opportunistically.

Key Words:

Sustainable competitive advantage; Industry-based view; Resource-based view of the firm; Strategic ability; Strategy implementation; Organisational change; Air Seychelles' transformation; Epistemological assumptions; Contextualism; Tourism Area Life Cycle model; Tourism industry in Seychelles; Variance theory; Process theory; Processual framework.

To my late brother David Padayachy Tyson

ACKNOWLEDGEMENT

This thesis would never have materialized without the contribution of many individuals to whom I have the pleasure of expressing my appreciation and gratitude.

First and foremost, I gratefully acknowledge the persistent support and encouragement from my former supervisor, Professor Michael Antonie Ferreira. Anton provided constant academic guidance and inspired many of the ideas presented here. He was a superb teacher and a dear friend. I also would like to express my gratitude to his wife, Erna, and children for constantly welcoming me to their home the many evenings Anton and I discussed the project. Sadly Anton accidentally passed away on 3 June 2008. Six week earlier, we had met one whole morning at the Graduate School of Business Leadership (SBL) to discuss the draft of the study. May he rest in peace! My gratitude goes to Professor Viola Makin who accepted to be supervisor as the replacement to Anton. Professor Makin provided valuable suggestions to substantially improve this thesis.

I wish to express my deepest gratitude to my uncle Mr. Patrick Pillay who came up with the original idea to undertake this project and for providing constant support and encouragement during the process. 'Ton Pat' is a mentor, a teacher, a brother, a father, an uncle, and a great supporter.

Much appreciation to the support offered by my family; my wife Lisa, my children Sean, Sami, Shiv for their encouragement; my step-son David and his wife Vidya for their constant support and prayers; my mother Cecile; my late father would have been proud.

My appreciation for the unfailing support of Ambassador Ms Noëllie Alexander, and staff of the Seychelles High Commission in South Africa, especially Mr Elvis Spiro.

I wish to express my gratitude to Air Seychelles for allowing me to use the company as a case study, especially Captain David Savy and Dr Rajiv Bissiseur.

My appreciation to support offered by colleagues working in the airline sector, the tourism industry in Seychelles and the Seychelles National Statistics Bureau for taking part in the interviews, their interest in this study and for their feedback. My gratitude also for the feedback received at the SBL colloquia. Rich interactions with colleagues improve research and make it enjoyable.

TABLE OF CONTENTS

ABSTRACT.....	ii
ACKNOWLEDGEMENT.....	iv
LIST OF FIGURES.....	viii
CHAPTER 1: ORIENTATION.....	1
1.1 INTRODUCTION.....	1
1.2 BACKGROUND AND RESEARCH CONTEXT.....	2
1.3 THE PROBLEM AND THE STUDY OBJECTIVES.....	12
1.4 IMPORTANCE OF THE STUDY.....	21
1.5 SCOPE OF THE STUDY	27
1.6 METHODOLOGY	28
1.7 FRAMEWORK OF THE STUDY	30
1.8 CHAPTER SUMMARY	30
CHAPTER 2: THEORETICAL BACKGROUND	32
2.1 INTRODUCTION	32
2.2 STRATEGY AND COMPETITION	32
2.3 EXTERNAL PERSPECTIVE ON COMPETITIVE ADVANTAGE	42
2.4 INTERNAL PERSPECTIVE ON COMPETITIVE ADVANTAGE	52
2.5 INTEGRATIVE PERSPECTIVE ON COMPETITIVE ADVANTAGE	65
2.6 STRATEGY FORMULATION AND IMPLEMENTATION	76
2.7 THE INDUSTRY ENVIRONMENT	80
2.8 LINKING CHANGE PROCESSES TO ORGANISATION PERFORMANCE OUTCOMES	90
2.9 CHAPTER SUMMARY	93
CHAPTER 3: METHODOLOGY AND RESEARCH DESIGN	94
3.1 INTRODUCTION	94
3.2 CONTEXTUALISM AS A THEORY OF METHOD	95
3.3 PROCESSUAL METHODS FOR MANAGEMENT RESEARCH	107
3.4 STRATEGY PROCESS RESEARCH	119
3.5 THE RESEARCH DESIGN	127
3.6 CHAPTER SUMMARY	151
CHAPTER 4: A PROPOSED CONTEXTUAL FRAMEWORK	153
4.1 INTRODUCTION	153
4.2 AN OVERVIEW OF THE PROPOSED FRAMEWORK	153
4.3 THE EXTERNAL COMPONENT OF THE FRAMEWORK	160
4.4 THE INTERNAL COMPONENT OF THE PROPOSED FRAMEWORK	174

4.5	FIRM–INDUSTRY INTERACTION COMPONENT OF THE FRAMEWORK	181
4.6	IMPLEMENTING STRATEGY	187
4.7	STRATEGY OUTCOME	195
4.8	LINKING THE LEVELS OF ANALYSIS	197
4.9	CHAPTER SUMMARY	199
CHAPTER 5: THE TOURISM INDUSTRY - 1970 to 2007		201
5.1	INTRODUCTION	201
5.2	THE TOURISM INDUSTRY STRATEGY PATHS	201
5.3	TOURISM INDUSTRY LIFE CYCLE	218
5.4	IMPLICATIONS OF THE BUTLER’S TOURISM AREA LIFE CYCLE MODEL...239	
5.5	CHAPTER SUMMARY	242
CHAPTER 6 THE TRANSFORMATION OF AIR SEYCHELLES – 1971 to 2007		244
6.1	INTRODUCTION	244
6.2	INTERACTIONS BETWEEN THE TOURISM INDUSTRY AND AIR SEYCHELLES	245
6.3	THE FORMATION STAGE OF AIR SEYCHELLES	259
6.4	THE DEVELOPMENT STAGE OF AIR SEYCHELLES	273
6.5	THE CONSOLIDATION STAGE OF AIR SEYCHELLES	287
6.6	CHAPTER SUMMARY	311
CHAPTER 7 LINKING CHANGE PROCESSES AND ACTION TO PERFORMANCE		312
7.1	INTRODUCTION	312
7.2	RESOURCE AND CAPABILITY FORMATION	313
7.3	THE DOMESTIC OPERATION RESOURCES	328
7.4	INTERNATIONAL LONG HAUL PASSENGER RESOURCE	332
7.5	A COMPARATIVE VIEW	338
7.6	CHAPTER SUMMARY	346
CHAPTER 8 DISCUSSIONS AND CONCLUSION		348
8.1	INTRODUCTION	348
8.2	RESEARCH MOTIVATION AND EXPECTATIONS	348
8.3	OBJECTIVES OF THE STUDY	363
8.4	INTEGRATING MULTIPLE CONTEXT AND LEVELS OF ANALYSIS	367
8.5	THE TOURISM DEVELOPMENT PROCESS IN SEYCHELLES	372
8.6	HOW AIR SEYCHELLES SUSTAIN COMPETITIVE ADVANTAGE	374
8.7	STUDY LIMITATION AND SCOPE FOR FUTURE RESEARCH	388
8.8	CONCLUSIONS – WHAT HAVE WE LEARNT	390
REFERENCES		393
ANNEX A: INTERVIEW QUESTIONS		435

LIST OF TABLES

Table 1-1: Financial and Operating Statistics of Air Seychelles	18
Table 3-1: The Research Objectives.....	129
Table 3-2: The Research Questions and Propositions	131
Table 3-3: Quality Check of This Case Study Design.....	137
Table 3-4: List of Interviewees	137
Table 4-1: Possible Co-Evolutionary Outcomes of Innovation.....	197
Table 5-1: Summary of Seychelles' Compliance to Butler's Exploratory Stage Criteria, 1960 to 1970.....	2222
Table 5-2: Summary of Seychelles' Compliance to with Butler's "Exploration" Stage Criteria, 1971 to 1976.....	2255
Table 5-3: Summary of Seychelles' Compliance to Butler's "Development" Stage Criteria, 1977 to 1990.....	2277
Table 5-4: Summary of Seychelles' Compliance to Butler's "Consolidation" Stage Criteria, 1990 to 1996.....	23030
Table 5-5: Summary of Seychelles' Compliance to Butler's "Stagnation" Stage Criteria 1997 to 2004.....	2366
Table 5-6: Butler's "Decline" Stage Criteria, 2005 to 2007	2377
Table 5-7: Butler's "Rejuvenation" Stage Criteria, 2005 to 2007	23939
Table 6-1: Episodes in the Development of Air Seychelles	2577

LIST OF FIGURES

Figure 2-1	Common Elements in Successful Strategies	33
Figure 2-2	Emergent and Deliberate Strategies	34
Figure 2-0-3	Porter's Generic Strategies	43
Figure 2-4	Porter's 5 Forces - Elements of Industry Structure.....	44
Figure 2-5	Porter's Value Chain.....	46
Figure 2-6	Porter's Activity Mapping	47
Figure 2-7:	The Value Net	49
Figure 2-8:	Links among Resources, Capabilities and Competitive Advantage.....	58
Figure 2-9	Competitive Advantage Cycle.....	67
Figure 2-10:	Ghemawat's Dynamic View of the Firm	69
Figure 2-11	Day's Classifying of Capabilities	71
Figure 2-12	Pettigrew and Whipp's Three Dimensions of Strategic Change	74
Figure 2-13	Hypothetical Evolution of a Tourist Area	89
Figure 3-1:	Overview of Pepper's World Hypothesis	100
Figure 3-2:	Two Approaches to Explaining Strategic Change	107
Figure 3-3:	The Research Questions.....	130
Figure 3-4:	The Research Schedule	150
Figure 4-1:	The Interface between Strategy and the Firm	155
Figure 4-2:	The Proposed Processual and Contextual Framework	157
Figure 4-3:	Interactions between the Industry and the Firm	160
Figure 4-4:	The External Environment	164
Figure 4-5:	The Internal Resources	175
Figure 4-6:	The Firm - Environment Interactions.....	183
Figure 4-7:	Implementation of Strategy	189
Figure 4-8:	Components of the Proposed Framework of Organisational Strategy Development	199
Figure 5-1:	Map of the Seychelles	202
Figure 5-2:	Visitors Arrival to Seychelles by Country of Origin, 1976 to 2007.....	207
Figure 5-3:	Visitors Arrivals 1971 to 2007	213
Figure 5-4:	Number of Beds Available, 1971 to 2007.....	214
Figure 5-5:	Average Length of Stay, 1975 to 2007.....	216
Figure 5-6:	Room and Bed Occupancy, 1975 to 2007	216
Figure 5-7:	Tourism Expenditure, 1978 to 2007	218
Figure 5-8:	Trends in Visitors Arrivals, 1970 to 2007.....	220
Figure 5-9:	Number of Beds times Occupancy Rate, 1971 to 2007.....	221

Figure 6-1: The Proposed Contextual Framework	252
Figure 6-2: Air Seychelles, 1971 to 1983 – Formation Stage	272
Figure 6-3: Air Seychelles, 1983 to 1996 – Developmental Stage.....	286
Figure 6-4: Air Seychelles International Flights	303
Figure 6-5: Air Seychelles Domestic Flights.....	307
Figure 6-6: Air Seychelles, 1996 to 2007 – Consolidation Stage.....	311
Figure 7-1: Air Seychelles' Cumulative Resource Development.....	323
Figure 8-1: Research Questions	374

CHAPTER 1: ORIENTATION

1.1 INTRODUCTION

This study is a quest to understand performance, in particular, attainment and sustenance of competitive advantage. The focus is on the interactions, context and fusion of a firm and its industry over time. An underlying premise of this study is that theoretically sound and practically useful research on organisational change should explore the context, content, and process of change together with their interconnections through time (Pettigrew, 1987; Pettigrew and Whipp, 1991). The study proposes a contextual and processual framework to build a theoretical perspective of competitive advantage by focusing on the interaction between the firm and its industry. By considering how a firm and the industry interact in developing resources and practice, a contextualist analysis of the processes is undertaken at the levels of the firm and industry, over time. Central to this study, is the performance of Air Seychelles, the national airline on the Seychelles, to which the proposed framework is applied. Air Seychelles have been in operation in Seychelles for the last three decades and, in the recent years, one of the few airlines in Africa to register profits (Seychelles Nation, 7 May 2007).

Many authors view the analysis of the competitive advantage of the firm and the quest to explain performance as the cornerstone of the strategic management field (Cuervo-Cazurra, 2003; Hult, Ketchen and Slater, 2005). There is a large body of literature that analyzes the relationship between a firm's characteristics and its advantage over other firms, trying to identify the firm factors that are most likely to be associated with superior performance as the embodiment of its competitive advantage.

As a result of these analyses, there are currently two main and highly differing theories in the strategy literature to explain why some firms perform in a superior manner and subsequently associated with a higher value (Makhija, 2003). The first is based on the industrial organisation economics and referred to as the external perspective. In contrast is the firm or organisational perspective, often associated with the resource-based view of the firm and referred to as the internal perspective. Whether industry-wide effects or firms' specific factors drive performance, is a central issue in strategic management (Hawawini, Subramanian and Verdin, 2005). As Fahy and Hooley (2002: 242) affirm, "Our understanding of the nature of competitive advantage has not been helped by a tendency for theorists to adopt a unitary position, suggesting that advantage is industry-based or resource-based." Makhija (2003) asserts that normally one would attribute abnormal returns to both internal and external conditions faced by the firm.

This study examines performance and sustainable competitive advantage by drawing upon and integrating insights from these two main perspectives, industry-based and resource-based views, rather than simply using one of them. The challenge, hence, is integrating the perspectives by reconciling the resource-base view approach with the industry level explanation of generic business strategy theory. If both the external and the internal frameworks are used, performance would be determined partly by the industry and partly by a firm's resources. The amalgamation of the two approaches would not necessarily provide the complete picture simply because interactions over time between the firm and the industry itself are left out of the explanation. This underscores the need for an approach that would take into consideration the interactions, context and fusion of the firm and its industry over time.

This chapter introduces the focus and the main interest of the thesis. The two main perspectives of competitive advantage are presented and a proposition is made that sustainable competitive advantage depends on an interaction, or the relationship, between the competitive positioning and the idiosyncratic and superior resources of the firm. The Chapter expounds on the objectives, how the study will be designed, the importance of the study and the contribution of the study to theory and practice.

1.2 BACKGROUND AND RESEARCH CONTEXT

1.2.1 Understanding Sustainable Competitive Advantage

One of the fundamental questions in the field of strategic management is how firms attain and sustain competitive advantage (Herrmann, 2005; Fahy, 2001; Teece, Pisano and Shuen 2000; Rumelt, 1991). What strategies lead to sustainable competitive advantage, and consequently to higher performance and growth have been the preoccupation of many authors in the field of strategic management and in this quest many theories and concepts have been developed that mainly examine the environment and look inside the firm, developing ideas and methodologies that follow and try to predict management practice transformation (Herrmann, 2005). Fahy and Hooley (2002) describe competitive advantage as one of the most enduring themes in the strategy literature. Hoffman (2000) argues that given its importance to the long-term success of firms, a body of literature has emerged which addresses the determinants of sustainable competitive advantage, as well as its sources and different types of strategies that may be employed to achieve it. These views on strategy, ranging from the industry-based explanation of industrial economics to

resource-based explanations, provide varied and sometimes conflicting perspectives on the determinants of competitive advantage (Fahy and Hooley, 2002).

The long-term success of an organisation depends on the attainment and maintenance of sustainable competitive advantage (Hoffman, 2000). Sustainable competitive advantage allows the improvement and maintenance of the organisation's competitive position in the market. It is an advantage that enables business to survive against its competition over a long period of time. Day, Reibsten and Gunther (1997) argue that in light of the increasing intensity and velocity of competition, there is a growing sense that the ability of managers to formulate and implement competitive strategies has not kept pace, and the literature has been able to illuminate only part of the picture, and in an attempt to oversimplify strategy, various approaches often overlook crucial elements of strategy process. Fahy and Hooley (2002) argue that the spectacular rate of change would imply that it is necessary to review some of the fundamental tenets of competitive advantage and in particular to re-examine the relative importance of the organizational and environmental dimensions. The new economy and the era of unpredictable, technology-based competition have led some to question whether the fundamentals of strategy are still relevant. Pitt (2001) suggests that the existing body of strategy are less useful because it was developed for and in a less turbulent time, whilst others have argued to the contrary. For instance, Porter (2001) contends that because of the impact of the Internet, the basic rules of strategy are now more relevant.

Mintzberg, Ahlstrand and Lampel (1998:3) referring to the fable entitled 'The Blind Men and the Elephant', contend that "we are the blind men, and strategy formation our elephant. Since no one has had the vision to see the whole beast, everyone has grabbed hold of some part or other and remained ignorant on the rest." Mintzberg *et al* (1998) further indicate that the literature of strategic management is vast and ever growing larger day-by-day, with other fields contributing to the understanding of the strategic process. However, they contend that there is a terrible bias towards the current, the latest and the 'hottest', doing a disservice to the significance of the literature and the readers who are often offered the trivial and the new instead of the significant and the old. They further argue that each person standing at one part of the elephant can make one's own limited analytic assessment of the situation. However, we do not obtain an elephant by adding 'scaly', 'long and soft', 'massive' and 'cylindrical', as perceived by the blind men, together in any conceivable proportions. Though an elephant is body and legs, trunk and tusk, ears and tail, it is more than the sum of the parts. One has to understand the parts to appreciate the whole; however, without the development of an overall perspective, we

remain lost in our individual investigations. This may imply that the body of theory used to analyse and explain the observed phenomena may determine what one sees and, maybe even more important, what one does not see.

The literature identifies industry factors (Porter, 1980, 1985, 1996), resources and competencies (Barney, 1991, 2001a), dynamic capabilities (Teece, Pisano and Shuen, 2000), the ability of the organisation to adapt and being more opportunistic (Brown and Eisenhardt, 1998; Eisenhardt and Sull, 2001), as some categories of sources of sustainable competitive advantage. However, what a firm is today is an outcome of a historical pattern of activities, which include the process of strategic analysis, strategic choices and strategy implementation (Pettigrew 1985a, 1992). Porter's focus on industry structure is a powerful means of analyzing competitive advantage in itself, but it has been criticized for being too static in an increasingly fast changing world. Further, several studies have suggested that industry factors account for less than 20% of inter-firm differences in profitability (Grant, 2005). An implication of these findings is the need to understand more deeply the determinants of competitive behaviour between companies and the extent to which it has implications for industry level profitability (Grant, 2005). The internal analysis (Barney, 1991, 2001a; Teece *et al*, 2000), on the other hand, emphasizes building competencies, resources, and decision-making into a firm such that it continues to thrive in a changing environment. Brown and Eisenhardt (1998) advocates yet another type of strategy, based on what they call "competing on the edge," to cope with the fast changing world, where firms develop a "semi-coherent strategic direction" of where they want to go. They do this by having the right balance between order and chaos so that they can then successfully evolve and adapt to their unpredictable environments.

Though the two main perspectives of competitive strategy were never meant to be seen in total isolation or as providing the complete explanation, many theories have been expounded that provide varied and sometimes conflicting perspectives on the determinants of competitive advantage, and there has been no convergence (Fahy and Hooley, 2000). The resource-based theory literature (Barney, 1991; Grant, 1991) explains firm performance as arising from firm level resource differences while the generic business strategy framework drawn from the theory of industry and competitive analysis (Porter, 1980, 1985) argues that the failure to choose between one of the 'generic strategies' can result in inferior performance.

While some analyses are more reliant on one of two main perspectives than another, both are important, as neither in itself is sufficient to set the strategy of a firm. This is

emphasised by Fahy and Hooley (2002) who argue that our understanding of the nature of competitive advantage has not been helped by the tendency of theorists to adopt a unitary position, suggesting that advantage is industry based or resource based. Many authors (e.g. Day, Reibsten and Gunther, 1997; Foss, Volker and Foss, 2000; Hooley, Greenley, Fahy and Cadogan, 2001; Ghemawat, Collis, Pisano and Rivkin, 1999) advocate for dialogue between proponents of the two main perspectives of competitive advantage to clarify differences and similarities, so that it can become clearer in what ways the two theories can complement each other in the understanding of organisational phenomena. For instance, Fahy and Hooley (2002) indicate that recent developments in the business world have suggested that a re-examination of the dynamics of the organisation – environment interface is warranted and a potentially rich source of perspectives on the competitive advantage question. Further, a widely accepted framework for strategy analysis emphasises that the resources and capabilities of a firm have to match opportunities and threats in the external environment in order to have value (Andrews, 1971). Grant (2005) argues that the attainment of competitive advantage requires that the firm match its internal strengths in resources and capabilities to the key success factors in the industry. Carlisle and McMillan (2006) argues for innovation strategy as a function of managerial choice in the light of environmental contingencies. Fahy and Hooley (2002) claim that in the new economy firms operate in a different kind of environment and to succeed they must re-examine their strategies and processes and in particular re-examine the relative importance of the organisational and environmental dimensions.

Pettigrew (1987) suggests that long term processes ought to be studied in their context, referring to the outer and inner context of the organisation. He encourages distinguishing between inner and outer context. The inner context refers to the internal features within the organisation such as the power, structural, cultural and political environment of the firm, and through which ideas for change proceed. The outer context includes factors external to the organisation such as the industry, economic, social, political, and sectoral environment in which the firm is located. Though this is a handy simplification, it may not be so easy to identify in practice, as these boundaries are sometimes permeable. Using this approach in researching competitive performance of automobile, investment banking, insurance, and book publishing firms from their lesser performing competitors, Pettigrew and Whipp (1991) identified five key features: environment assessment, human resources as assets and liabilities, managing strategic and operational change, leading change, and coherence. However, the real issue explaining relative competitive performance is not just the isolation of these five features but the convergent interactions and interconnected loops among the five features in the firm over time.

A first objective of this study is to provide a synthesis of the external and internal analyses, integrating multiple contexts and levels of analysis in the strategic management theory, highlighting the interactions over time between firm and industry (Pettigrew and Whipp, 1991, Ghemawat, Collis, Pisano and Rivkin, 1999). The study adopts a contextual and processual framework to build a theoretical perspective of competitive advantage, examining multiple contexts and levels of analysis, including time, history and process. This is consistent with the role of strategy, which is to produce the link between the internal context of the firm and the external environment within which it competes (Grant, 2005). It also implies that the interaction between the firm and the environment is an essential yet under-researched aspect of strategy. The aim is to develop a perspective to understand the parts and appreciate the whole, without remaining lost in our individual investigations. This framework is applied to development Air Seychelles from 1978 to 2007. With the hope that this study will be able to obtain a better perspective of the 'elephant' beyond mere adding 'scaly', 'long and soft', 'massive' and 'cylindrical', as was perceived by the blind men.

1.2.2 The Tourism Industry in Seychelles

If a contextual and processual framework is proposed to understand the strategy, formulation, implementation and outcome, one should be cognisant that the strategy occurs in some context. The external context of Air Seychelles, to which the proposed model is applied, is the tourism industry. The Seychelles inspires the basic conditions to develop the tourism industry: small islands; year-round exposure to warm temperatures; no vaccination required; beautiful beaches; and a unique and fascinating nature.

Nevertheless, tourism development, as widely recognised, entails a number of negative and positive impacts (Archer and Cooper, 1994). While their geographical, cultural, ecological and economic features attract visitors, the fragility and limitations of these same elements make the island environment and communities more vulnerable to the pressures of tourism. In many islands much of tourism growth has been overly rapid, unplanned and intrusive and has damaged insular eco-systems (McElroy, 2002). However, moderate rate of change affords opportunity for anticipatory planning. Seychelles is noted for long-range planning to control the pace of growth (Innskeep, 1994).

As in the case in Seychelles, tourism is firmly established as the number one industry in many countries and the fastest-growing economic sector in terms of foreign exchange

earnings and job creation. International tourism is the world's largest export earner and an important factor in the balance of payments of many nations. In 2006, the World Travel and Tourism Council estimated the total demand for tourism and travel worldwide to post US\$6,477,219.8 million and this was forecasted to grow to US\$12,118,630 million by 2016 (World Travel and Tourism Council, 2006).

Tourism is a major exporter, with inbound visitors injecting foreign exchange directly into the economy. In Seychelles, exports make up a very important share of Tourism's contribution to Gross Domestic Product. In 2005 the estimated visitor income stood at SR946 million. The tourism industry sector contributed 20% to the GDP and yield 60% of the Foreign exchange earnings (National Statistics Bureau, 2006a). A decline in tourist arrivals would translate into a falling GDP, into a decline in foreign receipts and into budgetary difficulties. Being dependent on tourism makes the economy very vulnerable to external economic factors. Seychelles imports over 90% of its production inputs and of its consumption goods. For instance, the gulf war of 1991 caused tourism arrival to fall by 13% (National Statistics Bureau, 2005).

One of the major benefits of the development of tourism in Seychelles is the employment opportunities it creates. Tourism has become one of the world's most important sources of employment. Tourism is human resource intensive, creating quality jobs across the full employment spectrum. The number employed in the tourism industry from 1978 kept an increasing trend from 2,811 employees surpassing 3,200 in 1980, to drop to 2,577 in 1983 and then rose again to 4,343 in 1990 and from there kept increasing to reach 5,854 in 2002. In 2006, the tourism industry employed 7000 persons representing about 20% of the total workforce in Seychelles (National Statistics Bureau, 2006b).

Interestingly the increase in employment in the tourism industry does not come at the expense of other sectors of the economy as all sectors increased from the period 1978 to 2006 (National Statistics Bureau, 2006b). By the end of 2007, it was expected that there would be an additional 999 high end rooms. Taking an estimation figure of three employees per room for these categories of hotels, it is expected that at least an additional 3000 jobs would be required (Nalletamby, 2007). However, in 2007 there was a shortage of local labour giving rise to the need to engage expatriate labour. In that year, there were 800 expatriates working in the tourism industry ranging from managerial posts to gardeners and security guards (Nalletamby, 2007).

Tourism stimulates enormous investment in infrastructure, most of which also helps to improve the living conditions of local people. It also provides governments with substantial tax revenues. Having recognised the potential contribution of tourism to economic diversification, employment generation and in overcoming developmental disparities, island communities have long been trying to introduce tourism as a major economic alternative (Lockhart, 1997). Consequently, a good number of island destinations have now become synonymous with mass tourism. This is, however, not yet the case for Seychelles.

Under the '1990-94 Development Plan', which emphasizes that the growth of tourism should not be at the expense of the environment, the number of beds on the islands of Mahé, Praslin, and La Digue, the three main islands, is to be limited to 4,000 (Government of Seychelles, 1990). Increases in total capacity were to be achieved by developing the outlying islands. To avoid future threat to the natural attractions of the islands, 200,000 tourists per year is regarded as the ultimate ceiling by the Tourism Department. Government has adopted policies to limit the size of hotels and to develop harmonious architecture and styles. More recently all new projects of tourism establishments have had to undergo Environmental Impact Assessments, and international certification is being explored. This is because the Government's policy is to avoid straining the economic carrying capacity bearing in mind the impact on this industry should there be serious environment degradation (Nalletamby, 2007). The limits to the number of visitors to the islands would impact on the number of passengers served by Air Seychelles. To maximise the yield of the tourism industry and concurrently protect the environment, the Government adopted a policy to target a selected high-income and wealthy clientele.

A partial review of literature points to a number of measures and development patterns for sustainability oriented development of island tourism (Lockhart, 1997). The Seychelles represents a good example of a mid-stressed destination managing tourism through localization and ecotourism in a macroeconomic context of falling copra prices and fish catches (Shah, 2002). For example, for three decades the government has managed Cousin Island, a defunct coconut plantation converted to a wildlife refuge for Hawksbill turtles, Seychelles Warblers and other rare terrestrial and marine species. Ten percent of all Seychelles visitors take day-trip adventures to the site in local vessels. Fees finance conservation of the Island and also support scientific tourism and environmental educational programs. In the national strategic plan for 2007 to 2017, 'Seychelles Strategy 2017' (Government of Seychelles, 2007), the Seychelles government decided to diversify the economy away from tourism into financial services and fisheries. In order to

diversify and broaden the economic structures the Government of Seychelles has embarked since 1990, on a liberalization program.

There is a drive to make the tourism industry more beneficial to the country. The aim is to continuously improve on the performance whilst maintaining caution with regards to over exploitation of the environment. Vision 21 (Government of Seychelles, 2001)), the guiding principles for tourism development illustrates that Seychelles' tourism industry has great potentials and also raises the concerns and challenges that need to be addressed in order to enhance its performance.

To understand the context and structure of the tourism industry in Seychelles, a second objective of the study is to provide a historical description and the context the tourism development in Seychelles.

1.2.3 Transforming Resources to Match Industry Needs

Grant (2005) notes that the role of strategy is to link the internal context of the firm to the external environment within which it competes. In the context of Air Seychelles and the tourism industry in Seychelles, this relationship or interactions relates strategy of the airline to competition and the new economy.

Since the mid 1990's, it has become conventional to talk about the 'new economy', which primarily refers to the pervasiveness of the information and knowledge-based industries that have sprung up (Fahy and Hooley, 2002), essentially around the internet, which has facilitated convergence, globalisation, and the dispersion and fragmentation of corporations. Wind and Mahajan (1997) attribute substantial changes in the business environment to recent advances in information technologies, especially changes in business practices, short product cycles, rapid technological developments, and hyper-competitive environments. The sheer speed at which information travels and the comprehensive global reach of the Internet has had a profound impact on economic relationships (e.g., Helleiner, 2001; Gilpin and Gilpin, 2000).

Brown and Eisenhardt (1997) identify three features of the new economy. Firstly, the rate of change has notably increased in terms of technological breakthroughs, shifts in customer preferences, and competitive new product introductions. Secondly, there has been a shift towards competition on the basis of knowledge and skills rather than physical assets. Thirdly, the diffusion of management and business ideas and their implementation

in the firms across the globe have resulted in an emphasis on operational efficiency and catch-up games. Hamel and Prahalad (1996), argue that increased sensitivity to knowledge as a core competence coupled with information technology has increased organizational interest in the topic of knowledge management. Eisenhardt (2002) suggests that this new economy is entrepreneurial in its focus on disequilibrium, the capture of fleeting opportunities and the relentless cycle of wealth creation and destruction. Toffler (1990) argues that one of the most important changes in the organizational environment happened with the introduction of information technology and the consequent paradigm shift of post-industrial society towards a new type of organization, one that re-invents itself in a dynamic environment.

Major features of the new economy, as described in the literature, typically include rapid changes, a tendency for collaboration rather than competition, complexity, uncertainty, technological discontinuity and the need for managing and exploiting knowledge assets (Ferreira, 2000). Though the same economic rules apply, to many this new economy is different from the old manufacturing-based economy and, consequently, requires a new set of business and management models (Fahy and Hooley, 2002). Traditional approaches to strategy stress the creation of advantage, but the concept of hyper-competition teaches that strategy is also about the creative destruction of an opponent's advantage. This is because in today's environment, traditional sources of competitive advantage erode rapidly, and sustaining advantages can be a distraction from developing new ones. Competition has intensified to make each of the traditional sources of competitive advantage more vulnerable; the traditional sources being price and quality, productivity, speed and customer service (Ferreira, 2000). The primary goal of this new approach to strategy is disruption of the status quo, to seize the initiative through creating a series of temporary advantages. Fahy and Hooley (2002) note that a theme common to all that has been written about the new economy is that it is a different kind of environment and that to succeed in it companies must re-evaluate their strategies and processes. Day, Rubenstein and Gunther (1997) argue that globalisation and technological change are spawning new sources of competition, deregulation is changing the rules of competition in many industries, and markets are becoming more complex and unpredictable. Barney (1991) argues that the most important means of achieving a competitive advantage in these markets are innovative moves and strategic flexibility. Eisenhardt and Brown (1999) suggest that in today's rapidly changing environments, organisations need to diversify, adapt, and even reinvent themselves to match the evolving market and technological conditions.

To address the major features of the new economy, a basic premise of this study is that sustainable competitive advantage comes from the ability of the firm to continuously improve, innovate, upgrade, and configure resources and competencies to match environmental needs (Eisenhardt and Tabrizi 1995). There is a broad consensus that in a rapidly changing environment any advantage from static competencies is not sustainable. Sustainable competitive advantage does not arise from a few transient competencies, but from the dynamic capability to continuously transform new competencies that match changing environmental contingencies. The dynamic capability to reconfigure and adapt existing resources has been viewed as the leading source of sustainable competitive advantage (Collis: 1994; Teece, Pisano and Shuen, 1997). Such advantage can primarily be achieved by sensing new opportunities and fully exploiting existing resources to adapt to new environments (D'Aveni: 1994). The dynamic capability to identify new opportunities, organize effectively and efficiently, change rapidly and continuously, and transform existing resources into new competencies in order to take advantage of these opportunities is herein proposed as a key success factor in managing radical change in high-velocity industries (Teece and Pisano 1994).

A third objective of this study is to describe and analyse a firm uses of its resources to sustain competitive advantage in the context of the historical development of the industry.

1.2.4 Strategy – Formulation and Implementation

Many of the articles published in the established strategy journals value “scientific detachment over practical engagement; the general over the contextual; and the quantitative over the qualitative” (Whittington, 2004:62). Many critics argue that such an epistemic culture guides management scholars to producing knowledge and strategy tools that lack practical pertinence for corporate actors, and have thus called for new ways of doing research for a closer reconciliation of academic theory with managerial reality (Whittington, 2004). Pettigrew, Woodman, and Cameron (2001) argue that management and organisational research are challenged to develop knowledge in the image of science while also contributing to practice and policy making. Pettigrew (2001) argues that one of the fondest dichotomies in modernist conceptions of science has been that of theory and practice. However, Whittington, Pettigrew and Thomas (2001) suggest we regard theory and practice as tightly linked duality. They argue that a greater sensitivity towards practical understanding will prompt a more comprehensive notion of rigour. Pettigrew *et al* (2001) contend that comments made by Kahn (1974) that literature on organisational change are characterised by ‘a few theoretical propositions’ repeated without ‘additional

data and development', 'reiterated without proof or disproof', and a 'few sturdy empirical observations' that are 'quoted with reverence but without refinement or explication', although made over a quarter of a century ago, are considered by some contemporary scholars as dismayingly accurate.

Pettigrew (2001) argues that there has been pressure for management to become practically oriented social sciences. He further maintains that an already fragmented field, management has been asked to meet the dual demands of theory and practice. Pettigrew (2001) argues that a contextualist and dynamic social science will offer management researchers a further attractive bridge to user communities who are often interested in how and why general patterns are variably expressed in different organisational and national settings. However, there have few longitudinal attempts to link change processes and practices to firm performance. An example is the well-known and influential book 'Built to Last' by Collins and Porras (1999). It is well researched and draws on a reasonably large sample of matched pairs of visionary and comparative companies, strong analysis of the factors that built and sustained the visionary elements, and commendable use of survey data and historical investigations. Pettigrew and Whipp (1991) examined the process of managing strategic operational change in four mature industry and service sectors in the UK economy: automobiles, book publishing, investment banking, and life insurance. Smith, Child and Rowlinson (1990) use a perspective developed from the comparative longitudinal case studies of strategic innovation, and informed by other writings on strategic and organisational change, to study strategic innovation in Cadbury Ltd.

A fourth objective of the study is to link change processes to organisational performance.

1.3 THE PROBLEM AND THE STUDY OBJECTIVES

1.3.1 The Research Problem

The two main perspectives on competitive advantage of the firm suffer from problems that limit the constructive dialogue between them and the development of a dynamic theory of strategy. Within these two perspectives, the achievement of competitive advantage tends to be discussed from a static viewpoint, since they are grounded in the economics literature, with its focus on equilibrium conditions and comparative static. Hence, the dynamics are downplayed, which limits the interaction between the perspectives. This divide among researchers relating to the source of competitive advantage is not likely to be solved unless we understand the processes that link resources and activities by which

companies arrive at their competitive advantage and there is no clear theoretical lead to follow (Cuervo-Cazurra, 2003).

The main question in this study is how does a firm create and use internal (firm) and external (industry) resources to attain and maintain competitive advantage, and how this duality impact strategy over time, given the competitive landscape and the new economy. In responding to this question, one needs to look not only at the industry, its path and development, but also the firm's path and development and the interactions between the firm and the industry over time. In 1985, Pettigrew critiqued the literature on organisational change for not being contextual, historical and processual. Pettigrew, Woodman and Cameron (2001) indicate that research and writing on organisational change has since undergone a metamorphosis and that several writers have acknowledged that context and action are inseparable, that theories of change ought to also explain continuity, and that time must be an essential part of investigations of change if processes are to be uncovered. However, they argue that the field of organisational change is far from mature in understanding the dynamics and effects of time, process, discontinuity, and contexts. They also contend that in a complex dynamic and internationally conscious world, a search for general patterns of change requires even more focus on temporal and spatial contexts. They further contend that generalisations are hard to sustain over time, and even tougher to uphold across international, institutional and cultural borders. They argue that dynamism has been difficult to study, and that social science has developed quite comfortably as an exercise in comparative static rather than complex processes that would lead to an understanding of dynamics of change across time and space.

1.3.2 Objectives

The main objective of this study is to develop and empirically analyse a contextual and processual framework on how one firm creates and uses internal and external resources, how this duality impact strategy, focusing on interactions over time, and to undertake an analysis and conceptual interpretation of the principles and procedures of competitive strategy formulation and its application.

In the process the following specific objectives will also be met:

The first specific objective is to integrate multiple contexts and levels of analysis in strategic management theory.

Strategic management is an extremely complex exercise and becomes apparent in the interaction between a firm and its industry through time. Though strategic management may be seen as 'a-processual' and 'a-historical' exercises (Pettigrew, 1985b), what a firm is today is not an outcome of sheer coincidence but an outcome of a historical pattern, or paths of actions: an outcome of a historical process. On the other hand, what a firm is today, is neither to be seen as a choice exercise by management, but much more in terms of activities (behaviour) and action (implementation). In dealing with these issues, strategic management theory will be developed, along the following lines:

- An explanation of meta-theoretical assumptions (Chapter 3);
- A conceptual, contextual and process framework of business reality (Chapter 4);
and,
- Filling out the framework with empirical data (Chapter 6 and 7).

Interactions between the firm and the industry and vice versa take place when the firm's formulated strategy is implemented or translated into practice. This is a continuous process and points to the "environment" in which a firm operates. In fact, an essential element of strategic management is strategy formulation and strategy implementation at the level of the firm. The time element within strategy renders strategic management more pertinent as a body of knowledge, because as the landscape changes, firms need to adapt strategically. Process theory provides a definition of process as a sequence of events (Langley, 1999; Miles and Huberman, 1994; Pettigrew 1985b). Time is an essential aspect of process research. Process research aims at understanding how and why a social phenomenon changes, comes into being, disappears and continues to be (Sminia, 2005). It is posited in this study that the conceptual process framework should highlight three dimensions.

- Time: Though many strategic management concepts describe situations, few describe processes or continuity and change in situations over time. In business life, strategy formulation and implementation can occur only in time, though not necessarily in this sequence. The element of time is important to understanding the interaction between firm and industry. Apart from functioning in time (continuity), phenomena also change over time.
- Three levels of Analysis - The Firm, Industry and the Interactions between the Firm and the Industry: When analysing a strategy process, there is a need for dynamic process concepts to be able to analyse strategic process in action. At the first level,

attention will be given to the development of the firm's collective resources in its industry. Consequently, the level of the firm interacting with its industry will be central to this thesis, without losing the importance of the firm itself. Facilitating the importance of interaction, the collective structure of the industry will be introduced as a second level of analysis. The question that arises after the discussion of the firm and the industry as two levels of analysis is when, where, and how these levels of analysis "meet" in interaction – the third level. The concept of the firm co-evolving with its environment will describe interaction not only between the firm and the industry, but also as moving through time (Volberda, Baden-Fuller, and Van den Bosch, 2001).

- Strategy Formulation to include Strategy Implementation: It is believed that senior management of an organisation is capable of objectively appraising the enterprise and its environment, formulate optimal strategy and to implement that strategy. A well formulated strategy must take into account the process by which it will be implemented. Indeed, strategy formulation and implementation cannot be dichotomised (Grant, 2005). However, strategic management may not move beyond the strategic plan and the decision of choice. A gap may exist between formulation or the strategic intent and the actual practice or implementation. Mintzberg (1994) indicate that some 'intended' strategy may go 'unrealised' and some translated into 'deliberate' strategy, which are 'realised' alongside 'emergent' strategies, which may be substantially different from the deliberate strategy. Implementing strategy or translating the ability into actual practice involves several other factors. Managers may face a whole set of problems central to implementation of the strategy in the given setting. Top management may not have sufficient information to make intended strategy explicit. Further, staff may not act in accordance to the strategic plan as agreed by management, and discoveries of innovative ways of doing things may occur at all levels of the organisation (Grant, 2005). The real aspects of business life could be the uncertainty in implementation - moving from potential ability to actual practice. When strategic management actually do move beyond the mere strategic plan to include strategy implementation, the challenge is to understand the different tools, mechanism and techniques in choosing among alternative tactics while implementing strategies.

The first objective of integrating multiple contexts and levels of analysis in strategic management is met by presenting and empirically analysing a proposed contextual and processual framework, highlighting time, three levels of analysis, and strategic ability and strategy implementation.

The second specific objective is to provide the historical context by analysing the tourism development process in Seychelles

The tourism industry in Seychelles may have its particular degree of competitiveness depending on its structure and product offerings. Page (1995) affirms that one of the problems associated with "place marketing" is the inclination to adopt a composite view of the place as a product without a real understanding of the services and products being sold by the industry in the locality. As a consequence, a generalized image of the tourist destination is promoted and sold to visitors, but the destination is unable to differentiate itself. Tourist destinations therefore must be marketed with target markets identified, appropriate marketing mixes prepared and the marketing activities co-ordinated both internally within the destination, and externally with the "generating markets". As Nielsen *et al* (1999) suggest, processes such as segmentation, targeting and positioning must be planned and implemented, with feedback and control as essential elements.

Looking at the global trends in the last ten years and at the Seychelles' performance in the tourism industry, an inconsistency can be observed. Compared to other sister-island destinations, for example La Réunion and Mauritius, the Seychelles did not experience a comparable increase in tourist arrivals and in tourism revenue. The higher cost of accommodation and travel, deficiencies in services and maintenance of facilities, and a limited range of diversions handicap Seychelles in attracting tourists at the expense of other Indian Ocean tourist destinations (Germain, 2006). However, with a new governmental campaign and a marketing strategy, the Seychelles aim to diversify markets, to upgrade hotels and guesthouses with the goal to convert the Seychelles from a three to five star destination, and to increase tourist arrivals to about 200,000 visitors per year in 2010 (Government of Seychelles, 2003). An explicit sign of the new policy to force high-level tourism are luxurious five star establishment projects. This has coincided with a recent increase in the number of visitors. Visitor arrivals declined to 124,865 in 1999 from 130,955 in 1996, but recovered to reach a second peak in 2002 with 132,246 arrivals. Since 2005 visitors arrivals has shown an upward trend. The year 2007 registered a record number of visitors with 161,273 arrivals. This may be an indication of further growth of the tourism industry in Seychelles, as the result of the new policy to force high-level luxurious star establishments, or just fluctuation in the market.

Literature on islands remains controversial and largely peripheral to the mainstream (McElroy, 2006). Demas (1965:22), writing about the Caribbean, declared: "The pattern of growth in a very small country must of necessity be different from that in a large continental country". Since small size precludes capital goods capacity and internally self-

sustaining growth, he emphasized export growth engines and domestic policy innovation 'whether cost-reducing or product-introducing' (Demas, 1965:61). The establishment of competitive advantage requires that the firm match its internal strengths in resources and capabilities to the crucial requirement of the industry (Grant, 2005) and real understanding of services and products sold by the industry in small Island States presents a particular setback. Establishing a distinctive island development paradigm has been hindered by disciplinary and methodological approaches, varying definitions of size and 'unusually severe data constraints' (McElroy, 2006). .

This study follows the definition of McElroy (2006) of the small island states which limits were designated as population less than one million inhabitants and land area less than 5000 km². The 2007 mid-year population estimates Seychelles population is 85,000 (National Statistics Bureau, 2007b) and the land area is 400 km². The second objective of this study is to describe this structure and its product offerings, and will provide the contextual framework within which the firms operate within the tourism industry in the Seychelles; a small island developing state.

The second objective of providing the historical context and analyse the process of transformation of the tourism industry in Seychelles is met by providing a longitudinal analysis, the industry structure and the contextual framework of the tourism industry.

The third specific objective is to describe and analyse how Air Seychelles used its resources to sustain competitive advantage.

The study focuses on both the firms' and the industry's historical path. A firm's historical path is its strategy path, the industry's historical path and the strategic learning as the firm implements the strategy. Air Seychelles is a long term surviving organisation, and has operated for over a decade. During that last two decades, Air Seychelles brings in about 70% of all visitors to Seychelles. The success of Air Seychelles can be measured in its market share and profit. (See table 1-1 on the next page for the financial and operating statistics)

In addressing the staff and board members during the company's annual general staff meeting for 2007, the chairman and chief executive officer, Captain David Savy indicated that "the profit recorded by the airline in the last twelve months is the best ever profit achieved in its history". He further noted that "at present, Air Seychelles remains one of only three profitable long-haul African carriers operational in the region, alongside Kenya Airways and the Ethiopian Airline" (Seychelles Nation, 7 May 2007).

Table 1-1: Financial and Operating Statistics of Air Seychelles

	2004-2005	2005-2006
Total revenue (Euro'000)	101,004	92,564
Total expenditure (Euro '000)	100,599	90,081
Profit before tax (Euro '000)	405	2,483
Profit after tax (Euro '000)	305	2,432
Net profit %	0.3	2.6
Passengers carried	476,812	478,070
Cargo carried in tonnes	3,675	4,790
Passenger load factor (%)	63.0	72.0
Overall load factor (%)	50.8	59.0

Source: Air Seychelles, 2007a

The new economy has transformed the competitive environment in a number of ways. Ferreira (2000) alludes to four ways in which the new economy has transformed the competitive environment:

- o Whilst industry analysis has traditionally been the focus for business strategy, it has become more difficult to conduct and define these as the industry boundaries have become fuzzy;
- o There has been a move away from the traditional 'winner takes all mentality' to the notion of collaboration and competing at the same time (e.g. Brandenburger and Nalebuff, 1996);
- o Firm boundaries have become blurred;
- o The new economy ushered in an erosion of the traditional sources of competitive advantage such as quality, cost, productivity, speed and, customer service.

To understand the new economy, its resultant competitive landscape and how firms in the tourism industry in Seychelles interact with their industry to create and sustain competitive advantage, the study proposes four research questions to guide the process.

Firstly, whilst industry analysis has traditionally been the focus for business strategy, it has become more difficult to conduct and define these as the industry boundaries have become fuzzy. In our study, we require to define how the structure of the industry influences the resource formation of the firms within the industry. However, to that it is required that the initial task is to explore how firms go about defining the industry boundaries and structure of the tourism industry in Seychelles.

- *The first research question is:* How do the boundaries and structure of the competitive arena influence the formation of the firm's resources?

Secondly, there has been a move away from the traditional 'winner takes all mentality' to the notion of collaboration and competing at the same time (Brandenburger and Nalebuff, 1996). To address the second issue, the study would attempt to study how firms develop distinct competencies to collaborate and compete at the same time within the framework of the business landscape of the travel and tourism industry in Seychelles.

- *The second research question is:* How does a firm develop distinct competencies to collaborate and compete at the same time within the framework of the business landscape?

Thirdly, firm boundaries have become blurred. Outsourcing, joint ventures and strategic alliances have become substitutes for self-sufficiency in a competitive environment where companies have to be very good at everything they do. Since very few companies can be good at everything they do, the internal focus has shifted to core competencies. This has resulted not only in the difficulty in identifying the boundaries of the firm, but also the relaxation of the need for self-sufficiency has been that firms often do not have control over many of the assets critical to their success, making strategy more complex. To address the third issue, the study will explore how a firm identify its boundaries, focus on its core competencies, and create an organisation that interacts with the tourism industry.

- *The third research question is:* How does a firm creates an organisation that interacts with the industry, changing and producing a continuous flow of competitive advantages?

Fourthly, the new economy ushered in an erosion of the traditional sources of competitive advantage such as quality, cost, productivity, speed and, customer service. Imitation of world-class best practices has resulted in firms becoming more alike and equally good at everything they do. From a strategic point of view, it is no longer sufficient to consider how to achieve competitive advantage, but also how such advantage can be sustained. Linked to this, has been the realisation that competitive advantage often emanates from subtle and invisible sources such as organisational learning, knowledge accumulation and culture – which are difficult to handle from a managerial point of view. To address the fourth issue, the study would use the resource-based view and dynamic capabilities approaches to identify how firms build competitive advantages through resources and translate these into actual implementation.

- *The fourth research question is:* How does a firm build competitive advantages through resources and translate these into actual implementation?

These are further elaborated when the research questions and the propositions is treated in Chapter 4.

These research questions inform the proposed framework and the exposition of meta-theoretical assumptions. Filling out the framework with empirical data will be reported in the empirical review made of an extensive case study of Air Seychelles, which operates in the tourism industry in Seychelles and will serve as an analytical generalisation to the theory of the literature review as opposed to statistical generalisation about a population of firms (Yin, 1994).

The third objective to describe and analyse how a firm uses its resources to sustain competitive advantage is met by presenting detailed case study of a successful firm operating in the tourism industry in Seychelles, and addressing four research questions.

The fourth specific objective is linking change processes and action to performance.

Pettigrew, Brignall, Harvey, and Webb (1999) in a review of the research and writings on the determinants of organisational performance note an imbalance in the development of that body of research. They identify a wide literature on the measurement of performance, a rapidly developing literature on performance management, and a relatively sparse and often contestable series of empirical studies on the determinants of organisational performance. They conclude that management researchers have been uncurious about why and how certain organisations consistently outperform their competitors. They further observe that when such studies exist, they are often found wanting, sometimes because of disputes about the chosen methods of performance measurement and, in the other cases, because of the tendency to use either univariate or uni-thematic explanations of performance differences. Few empirical studies seek to link change capacity and action to organisational performance. This study aims at describing, by providing empirical evidence, how a firm transforms its resources into capabilities.

The fourth objective to link change processes and action to performance will be met by presenting comparative data on how firms manage strategic and operational change to firm performance.

1.4 IMPORTANCE OF THE STUDY

1.4.1 Contribution to Theory

The study has a number of managerial and theoretical implications. The study contributes to the current body of analytical perspectives on firm's transformation and sustainable competitive advantage beyond the focus on internal and external dimensions, by studying the interactions and strategic adaptations of firms with the environment over time and attaining of sustainable strategic advantage in the Seychelles travel and tourism industry. In doing so it marks a further step towards an integrative perspective on the dynamic capabilities and resource-based view of the firm and competitive positioning (Pettigrew, Woodman and Cameron, 2001; Pettigrew and Whipp, 1991; Amit and Shoemaker, 1993; Fahy and Hooley, 2002), which is essential if the dual role of resources and industry conditions in organizational success is to be fully acknowledged. It also responds to the call of several authors (Henderson and Cockburn, 1994; Fahy and Hooley, 2002) to move away from unitary explanations of competitive advantage based on either resources or industry. Though a significant amount of research has been carried out on the internal and external approaches, relative little attempt has been made to link the two or investigate the interactions between the two perspectives.

A leading proponent for a perspective to link the internal and the external approach has been Andrew Pettigrew et al. He has contributed several papers exploring an integrative processual model to explore the performance of British firms and the National Health Service to their ability to adapt to major changes in their environment (Pettigrew, 1990; Pettigrew and Whipp, 1991). Pettigrew, Woodman and Cameron (2001) suggest that students of organisational change should pay greater attention to six key interconnected analytical areas: (1) the examination of multiple contexts and levels of analysis in studying organisational change; (2) the inclusion of time, history and process and organisational performance outcomes; (3) the link between change processes and organisational performance outcomes; (4) the investigation of international and cross-cultural comparisons in research on organisational change; (5) the study of receptivity, customisation, sequencing, pace, and episode versus continuous change process; and (6) the partnership between scholars and practitioners in studying organisational change.

This study addresses three of these six interconnected analytic areas: (1) The examination of multiple contexts and levels of analysis in studying organisational change; (2) the inclusion of time, history and process and organisational performance outcomes, and (3) the link between change processes and organisational performance outcomes. It

is expected that this approach will contribute fresh perspectives to the strategic management theory.

Secondly, this study responds to some authors (e.g. Moran and Ghoshal, 1999) who claim the necessity of more process studies, theorising and modelling in business strategy, in particular when in presence of unfolding courses of action in time and place and of many interdependent decisions taken at different levels of the firm. Orton (1997), referring to Weick (1969, 1979), calls for a shift in research attention from static organisation forms towards a more dynamic organisational processes. In management research, the emphasis has been on variance theory (Chiles, 2003), one of the two fundamental types of theory in social science research (Mohr, 1982), which has been the dominant paradigm. However, variance theory does not address the complex dynamism of a variety of fundamental organisational processes including adaptation, co-evolution, improvisation, selection and self-organisation (Chiles, 2003).

1.4.2 Understanding the Historical Context of Tourism Development in Seychelles

Since 1960s the history of small islands has been marked by two favourable developments: the process of decolonisation and the global spread of international tourism. In the first case, over thirty tropical islands across five major oceanic basins, since 1960, have become politically independent (McElroy and Mahoney, 2000). Seychelles, which attained independence in 1976, is one such tropical island. Other island territories have achieved significantly greater internal self-government and have used this new-found autonomy to create tax havens and diversify into other non-traditional activities like off-shore finance and ship registry (Baldacchino and Milne, 2000). The remarkable transformation of tourism into the world's largest industry - accounting for roughly a tenth of global GDP, employment and capital formation (World Travel and Trade Council, 2001) - has coincided with the restructuring of small island economies away from traditional exports like sugar and copra toward mass tourism and related developments (McElroy, 2002).

The tourism industry in Seychelles was selected for this study because of its importance to the economy. A clearer understanding of the strategies employed by firms in the tourism industry in Seychelles is useful. Tourism is the main industry in the country and businesses in this industry are facing increasing competition, both from within the country and other island destinations. The changing business environments require accurate

information in order to understand the competitive environment and re-establish it under improved conditions for the firm. The World Travel and Tourism Council (2006) estimated that in 2006, the total demand for tourism in Seychelles would post SR2, 456.0 million or US\$461.2 million of economic activity growing to SR5, 381.5 million or US\$974.8 million by 2016. According to the same estimates, the total demand was expected to grow by 3.9% in 2006 and by 4.1% per annum, in real terms, between 2007 and 2016.

Seychelles has the potential to increase its current GDP contribution, employment and capital formation from tourism. Within the framework of a new competitive landscape, a clearer understanding of the strategies followed by firms in the tourism industry in Seychelles is important because tourism is the main industry in the country and businesses in this industry are facing both increasing competition and changing environments which require accurate informed decisions in order to understand the competitive environment and re-establish themselves under improved conditions.

Small islands in general and those in less developed world in particular seem to be more vulnerable to the negative impacts of tourism. Remoteness, perceived 'difference', smaller size, slower pace of life, distinct culture, exotic wildlife, and pristine environment are some of the basic characteristics of islands (Baum, 1997; Lockhart, 1997). These characteristics tend to attract a large number of visitors to islands, and the smaller ones have always been of particular interest to tourists on the lookout for the distant and exotic. It is these characteristics that attract visitors to Seychelles. Air Seychelles provides the enabling conditions to get visitors to Seychelles.

Approaches to competitive advantage in the tourism industry have mostly focused on the external perspective. For example, in Seychelles the industry targets the high segment of the industry. However, recently there have been complaints that the services offered by firms often do not match the competitive position adopted. For example, in a workshop of the tourism industry that saw Seychelles Tourism Board staff, local and overseas representatives of the industry and other partners discuss the way forward during their annual marketing strategy meeting, in December 2007, the Chief Executive Officer of the Seychelles Tourism Board, Mr Maurice Lousteau-Lalanne, noted that: "Early in 2008, we will introduce, for the first time in Seychelles, the National Harmonised Standards to include minimum requirements for all categories of accommodation and a grading system for all our hotels." He said the move comes after negative reports emerged from a total 61 of 469 inspections carried out on hotels by Seychelles Tourism Board during the year (Seychelles Nation, 20 December 2007). This may imply that the internal resources may

not be developing in synchronicity with the external environment. To develop internal and external resources, it is important to have a complete picture and context of the situation.

A number of issues such as the fragile environment, limitations of resources and infrastructure, vulnerability of the indigenous societies, and lack of experience and expertise in tourism development, make it very difficult for small island communities to absorb and manage the inevitable impacts of tourism. The situation is further exacerbated by 'structural difficulties', which perpetuate dependency, leading to higher levels of economic leakage (Buhalis, 1999). Progress from Butler's (1980) destination life-cycle stages of exploration to decline could happen quite rapidly in island tourism destinations, as we shall see later in this chapter five as is the case for Seychelles.

In tourism the adoption of sustainability has been evidenced by a changing perspective away from the short term to the long term planning horizon (Ritchie, 1999). This in turn has seen the adoption of a strategic approach to both markets and destination management, a strategic approach which is now evolving into the concept of 'destination visioning'. There is a clear synergy here between the adoption of sustainable tourism principles and the disciplined, longer-term perspective provided by the strategic planning and visioning of destinations (Cooper, 1995).

Tourist attraction is centred on the destination. Cooper (2002) argues that the destination is probably the most important element of the tourism system, motivating visitation, delivering visitor experiences and contributing to enduring memories of the tourism experience. With the increased growth in the demand for tourism, combined with the changing nature of the tourism consumer, destinations are under pressure to be competitive and sustainable. For these conditions to materialise, effective management and planning of tourism destinations is crucial if tourism is to become a mature and acceptable industry. This is also vital for the maintenance of a profitable and sustainable tourism industry. Hence sustainability is central to the management of both markets and the destination. Sustainability has become the organising concept for tourism policy; a concept which has demonstrable advantages for the tourism industry as a whole (De Kadt; 1992).

Sustainability is a major issue in island tourism. Improvements in the quality of life of the host community, provision of a higher quality of visitor experience, and maintaining the quality of the environment in island destinations – major objectives of sustainable tourism (McIntyre, 1993) – pose a major challenge to island tourism destinations, especially for the

smaller islands with their inherent limitations. Some of the island destinations in the Mediterranean region, for example Ibiza, had experienced decline and had had to resort to rejuvenation strategies (McIntyre, 1993). As Lockhart (1997: 4) states, 'island tourism planners are now seeking to diversify away from the attraction of 'sun, sea and sand', which are typical of mass tourism, into special activity holidays and business travel characterised by higher spending patterns and niche segments of the market'. Islands, with their environmental and geographical limitations, and distance from the mainland – purported disadvantages – have ideal settings not only to follow a planned and controlled approach to tourism development but also to introduce remedial measures effectively.

1.4.3 Expounding the Evolution of Resources and Capabilities

The question remains as to whether resources in themselves can generate a competitive advantage. The resource-based view indicates that competitive advantage may exist when a firm controls resources that are valuable and rare, and that advantage is sustainable when those resources are also costly to imitate and lack substitutes (Barney, 1991). Although empirical support for this point of view is growing, this strand of the literature has been criticized for being excessively focused on the "generic characteristics of rent generating resources" (Priem and Butler, 2001: 33). Though access to valuable and rare resources is necessary for competitive advantage, yet alone it is not sufficient. A resource can only become a competitive advantage when it is applied to an industry (Kay, 1993). Resources can be acquired, but it is only when they are transformed into capabilities that competitive advantage can be obtained. Such resources must be effectively used in the implementation of strategies so as to exploit opportunities and/or mitigate threats in specific competitive engagements for a firm to achieve a competitive advantage (Hansen, Perry, and Reece, 2004; Kor and Mahoney, 2005; Lavie, 2006).

The dominant perspective today for competitive advantage is the resource-based view. Barney and Arikan (2001) stated that earlier work (e.g., Barney, 1991) took a "remarkably naive view" of implementation issues. As a result, they argued that "more work is needed before the full range of strategy implementation issues not included in the 1991 paper are integrated with a resource-based theory of competitive advantage" (Barney and Arikan, 2001: 175). Amit and Schoemaker (1993) contend that resources must be overlapping or in accordance with strategic industry factors that are prevalent at the present time and likely to be important in the future if advantage is to be attained. Though it is the basic premise of the resource-based view to explore multiple levels of analysis, most authors on the subject address one level of analysis at a time: industry, strategic group, firm,

department, routines (group-level) and skills (individual). Notable exceptions include Amit and Schoemaker, (1993, 1994); Ghemawat *et al.* (1999); Grant (2005); Teece, Rumelt, Dosi and Winter (1994); Teece Pisano and Shuen, (2000) and Von Krogh and Roos, (1995). However, these papers propose research agenda delineating the evolution of capabilities within the market and the impact of these capabilities on performance, and these propositions are yet to be tested in the field. It is important to try and understand the patterns of resource development and what conditions influence these developments (Fahy and Hooley, 2002). This study will test the evolution of resources and capabilities in Air Seychelles and the impact of these on performance.

1.4.4 Informing and Impacting Practice

In actual practice, it is expected that this study will act as a vehicle for informing managerial practice and contribute to the knowledge on how organisations develop resources by using the interaction between the internal and external capabilities over time to achieve sustainable competitive advantage, with specific reference to the travel and tourism industry in Seychelles, and by providing a theoretical perspective and empirical evidence on the conditions that facilitate such an advantage to take place. There is an important difference between theory and actual practice though the two are much interrelated. Cognisant of this fact, one can go back to the field and collect data to determine how literature and data compare, plus learning something about the nature of the relationship between them.

The issue of competitive advantage should be a major concern for academics in the field of strategy focused on emerging economies, such as Seychelles, since more research are needed in order to assemble a body of knowledge that would allow improved competitiveness of firms and the economy. However, few studies have explored sustainable competitive advantage in African management settings, fewer has explored sustainable competitive advantage in micro state environment and even fewer in the Seychelles tourism setting. Exploring strategic management in Seychelles, Baldacchino (1997) argues that with the rapid interest in professional management formation, there has been a tendency to root such developments in the 'how-to' technical side. The growth in the strategic management philosophy has meant increasing attention and resources are being devoted to training, rather than education, of the upcoming management cadres, with various courses, textbooks and consultants arguing that there exists a single, standard 'best practice' in management, irrespective of context. As a result such a

socialisation process is expected to transplant its own, obviously superior, baggage into different cultural contexts (Baldacchino, 1997; 506).

Baldacchino (1997) further argues that intercultural management constitutes a behavioural flashpoint, especially in such industries as tourism and hospitality. Managerial staff needs to become first of all aware of, and subsequently adaptable to, the multicultural facets of their 'products'. This study proposes to explore one aspect of a small island state condition that relates to the collision between the local and foreign strategic management styles and presents an empirical expression of a small scale setting. The actors therein are more prone to acknowledge and exhibits a 'street wisdom' and 'common sense' on such affairs, unlike actors in other settings elsewhere (Baldacchino, 1997).

This study is expected to provide some insight into what strategies lead to sustainable competitive advantage and long-term success over time, and in the process attempt to bridge the gap between strategic intent and practice, or implementation. Strategy implementation is an important aspect of strategic management. Strategy analysis and choice are of little value to an organisation unless the strategies are capable of being implemented. It is in the process from strategic choices to strategy implementation that important enabling factors come to light on the strategic management scene.

1.5 SCOPE OF THE STUDY

This study develops and empirically analyses a contextual and processual framework on how a firm creates and uses internal and external resources; how this duality impact strategy; whilst focusing on the interaction between the firm and the industry over time. The study undertakes an analysis and conceptual interpretation of the principles and procedures of a firm's competitive strategy formulation and their application to the tourism industry in Seychelles.

This study does not address the issues of how Seychelles, as a country, position itself as a tourism destination vis-à-vis other destinations, it provides actual historical development of the tourism in Seychelles and how Air Seychelles developed and maintained competitive advantage. In addition, the objective of this study is not to offer a comprehensive review of how firms maintain and sustain competitive advantage in the whole of the tourism Industry.

The study is limited to the tourism industry in Seychelles and to one firm operating in the transport sector. Tourism constitutes the grouping of all establishments with the same main activity which serves visitors directly and is one of the tourism-characteristic activities constitutes a tourism industry. According to the “International Recommendation for Tourism Statistics 2008” (United Nations Statistical Commission, 2008) supply side statistics, establishments are classified according to their main activity, which in turn is determined by the activity that generates the most value added. Middleton (1988) defines tourism industry as consisting of five inter-related sectors, namely: accommodation; attraction; transport; travel organisers; and destination sectors. In addition, the study is limited to the contextual and processual methods of research. The interest of this study and the approach used is limited to the longitudinal and contextual process to understand competitive advantage. Being a contextual and processual research entails a descriptive and a holistic approach and not a reductionist approach. Process research describes strategy determination as opposed to content strategy research, which is interested in strategy antecedents and outcomes. A further limitation is the study of one firm under longitudinal investigation and their location – limited to the islands of Seychelles.

1.6 METHODOLOGY

In-depth processual case study of a successful and long surviving firm operating in the tourism industry in Seychelles is undertaken. Yin (1994) indicates that case studies research are the preferred strategy when ‘how’ or ‘why’ questions are being posed; when the investigator has little control over events; and when the focus is on a contemporary phenomenon within some real-life context. All three conditions apply in the current study. Case studies have particular strengths that can be exploited. For instance, case study research is a research strategy that focuses on understanding the dynamics present within single settings; for example, Pettigrew’s (1973) research on decision making at a British retailer. Case studies can involve either single or multiple cases and numerous levels of analysis (Yin, 1994). It can employ an embedded design, that is, multiple levels of analysis within a single study (Yin, 1994). For example, the Warwick study of competitiveness and strategic change within major UK corporations is conducted at two levels of analysis: industry and firm (Pettigrew, 1988). Case study research does not imply the use of a particular type of evidence. The evidence may be obtained using qualitative, quantitative or both methodologies. Case study research can employ various data collection processes. The power of case study research is the ability to use all methodologies within the data-collection processes and to compare within case and across case for research validity.

Theory building requires ongoing comparison of data and theory (Glaser and Strauss, 1967) and the continuous refinement between theory and practice (Lynham, 2000). Rather than selecting either an inductive or a deductive methodology, this study attempts to combine both the inductive and deductive elements, and emphasises iterative moves between data and theory. According to Pettigrew (1990), relatively few studies of organisational change or transformation in reality allow the change process to reveal itself in any significantly temporal or contextual manner, and 'catch reality in flight' (Pettigrew, 1990; Pettigrew, Woodman, and Cameron, 2001). As a result he concludes that the subject of organisation change and transformation of firms merely reflects the biases inherent in the social sciences generally and in the study of organisations in particular. Pettigrew (1990) further argues that where the change is treated as the unit of analysis the focus is on a single event or a set of discrete episodes somehow separate from the immediate and more distant antecedents that give those events form, meaning, and substance. Such an episodic view of change not only treat innovations as if they had a clear beginning and a clear end, but also where they limit themselves to snapshot time-series data, fail to provide data on the mechanisms and processes through which changes are created. Studies of organisational change and transformation are therefore often preoccupied with the intricacies of narrow changes rather than the holistic and dynamic analysis of changing and transforming.

Pettigrew (1985b, 1990) suggests that one way to respond to these weaknesses in the literature on organisational change is to encourage a form of research which is contextualist and processual in nature. A contextualist analysis of a process draws on phenomena at vertical and horizontal levels of analysis and interconnections between those levels of analysis, for example the impact of a changing socioeconomic context on features of intra-organisational context and interest-group behaviour. The horizontal level refers to the sequential interconnectedness among phenomena in the historical, present, and future time. An approach that offers both multilevel (vertical) and processual (horizontal) analysis is said to be contextual in character. This study proposes and empirically analyses a processual framework on "how" and "why" the course of the process of strategy formulation leads to a specific outcome, from a contextualist perspective by using an in-depth case study.

Pettigrew *et al* (2001) indicate that twenty years ago it was common in empirical studies of organisational change for the unit of analysis to be a change event or episode. From such studies much was learned about the drivers and inhibitors of change in particular settings

at particular points in time, but less was learned about temporal and spatial contextual factors that were shaping those particular episodes. With the rise of contextualism as a theory of method in the 1980s, a more exciting approach to studying organisational change arose. One view of the contextual approach was that theoretically sound and practically useful research on change should explore the contexts, content, and the process of a change together with their interconnections over time. This new focus on changing rather than change presents scholars with a dual challenge: (1) to attempt to catch reality in flight and (2) to study long-term processes in their contexts in order to elevate embeddedness to a principle of method.

1.7 FRAMEWORK OF THE STUDY

The structure of the thesis is as follows: Chapter one introduces the main focus of the study and its objectives of the study. Chapter two presents and discusses the various perspectives of competitive strategy, based on existing literature, and presents the possible methodologies that can be used to evaluate competitive strategy and discuss the call to integrate the various perspectives of organisational strategy and review attempts using contextual and processual frameworks. Chapter three presents the research methodology and its epistemological and ontological assumptions, explaining the theory of method, which guides this inquiry. The theory of method informing this study is contextualism as initially proposed by Pepper (1942) and developed by Pettigrew (1985b, 1990). Chapter four discusses the proposed framework. Chapter five presents outer context, by providing an analysis of the tourism in Seychelles between 1970 and 2007. Chapter six tests the proposed framework with an actual case study. It presents the process of development of Air Seychelles between 1971 and 2007; describing and analysing how they use their resources to sustain competitive advantage over time. Chapter seven is about linking the change processes and action to performance. It compares the processes by which firms develop their resources and capabilities in order to identify similarities and differences and the outcomes of these processes. Chapter eight presents the discussions and conclusions, linking the problem to the literature review and findings, and comments on the implications, elaborating what we have learnt in this study.

1.8 CHAPTER SUMMARY

This chapter introduced the focus and the main interest of the thesis, the objectives of the research, how the study will be designed, the importance of the study and the contribution of study to theory and practice. The chapter also introduced the main perspective of competitive advantage and proposed that sustainable competitive advantage depends on

the interaction between the competitive position adopted by the firm and its resources. The next chapter will present the theoretical foundations of the study and introduce the concept of strategy. It will highlight the importance of competition in the strategy process. It will also discuss the issue of competitive advantage and present the major perspectives of sustainable competitive advantage.

CHAPTER 2: THEORETICAL BACKGROUND

2.1 INTRODUCTION

This chapter presents the theoretical background of the study based on existing literature. It introduces the concept of strategy and highlights the importance of competition in the strategy process. A discussion on the issue of competitive advantage ensues and presents the two major perspectives on sustainable competitive advantage. Three streams of literature is presented in order to provide the theoretical background to the concepts for an integrative perspective on organisational strategy and the proposed contextual and processual framework to be used in this study. The first stream of literature deals with the external perspective on competitive advantage. This is based mainly on Porter's contributions, whose pioneering work involved the application of industrial organisational economics for analysing the determinants of profitability. The second stream of literature deals with the internal perspective on competitive advantage and focuses on the resource-based view and dynamic capabilities. The third stream of literature is based on the efforts to integrate the two main perspectives. Also discuss are the issues of formulation and implementation of strategy. Finally the study discusses the analysis of the tourism industry and efforts to link change processes to organisation performance outcomes.

2.2 STRATEGY AND COMPETITION

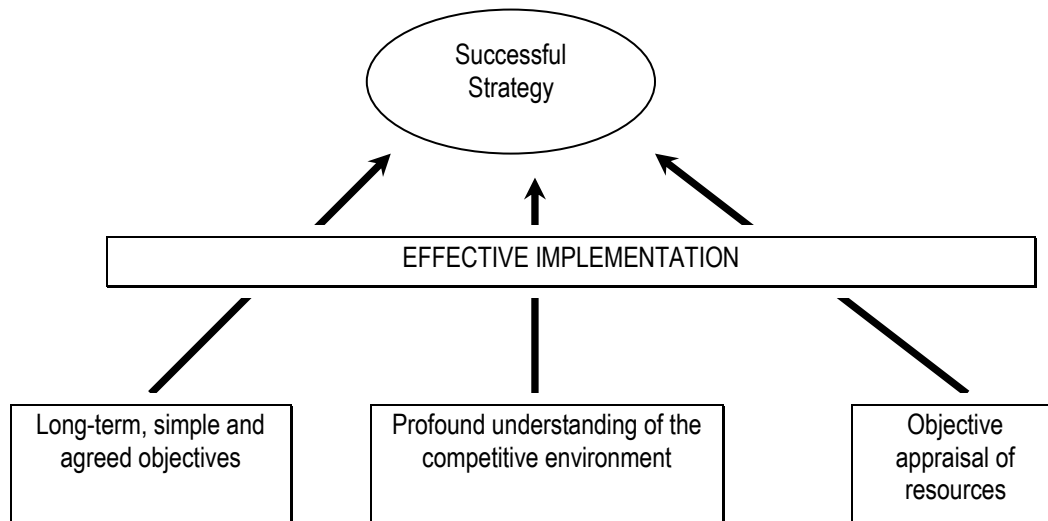
2.2.1 Concepts of Strategy

Strategy is about the direction of organisations (Rumelt, Schendel, and Teece, 1991) and as such, strategy is the pattern of activities followed by an organisation in pursuit of its long-term goals. It pertains to the organisation's overarching plan of action that causes it to allocate resources over time to realise its long-term goals. These are goals that must be met or services that must be rendered to carry out the organisation's mission. Grant and King (1982) suggest that a strategy is a timed sequence of internally consistent allocation of resources to achieve an organisation's objectives.

Hofer and Schendel (1978) argue that strategy is defined as the match an organisation makes between its internal resources and skills, and the opportunities and risks created by its external environment. Strategy does not involve a detailed plan of action, but primarily a sense of direction, founded upon four critical key elements, namely: objectives which are long-term, simple and agreed; profound understanding of the competitive environment;

objective appraisal of resources; and an effective implementation plan (Grant, 2005). These elements are shown in figure 2-1.

Figure 2-1 Common Elements in Successful Strategies



Source: Grant, (2005; 7)

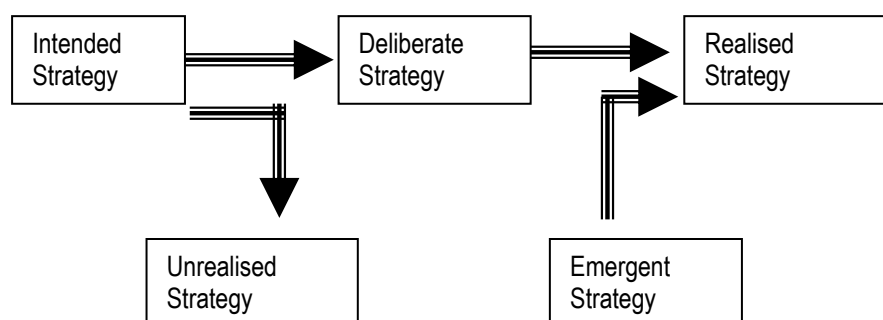
Strategy would comprise those subjects that are of primary concern to senior management and those seeking reasons for the success or failures among those organisations (Rumelt, Schendel, and Teece, 1994). The essence of strategic management is a focus on coherent long-term vision, goals, planning and direction, and the effective fusion of strategic activities and processes. Firms are in competition for factor inputs, customers, and revenues that cover the costs of their chosen manner of surviving and to survive they have to make strategic choices, which include: selection of goals; choice of products and services to offer; design and configurations of policies determining how the firm position itself to compete in the product market; choice of appropriate level of scope and diversity; and design of organisation structure, administration, systems and policies used to define and coordinate work. It is the integration of these choices that comprises strategy. Grant (2005) proposes that strategy may be viewed as the way in which the firm deploys its resources and capabilities within its business environment in order to achieve its goals. He proposes a framework for strategy analysis comprising four components: the firm's goals and values; its resources and capabilities; its structure and management systems; and its industry environment.

Grant (2005) argues that strategy has multiple roles within an organisation. It is the unifying theme that gives coherence and direction to the individual decisions of an organisation or person and a vehicle for communication and coordination. However, its

central purpose is to confer success through guiding management decisions towards establishing and sustaining competitive advantage for the firm. He further asserts that strategy is about winning. Winning strategies imply that they are soundly formulated and effectively implemented. Strategies are not attributed to luck. However, strategy making implies the ability to recognize opportunities when they present themselves and to have the clarity of direction and flexibility to exploit these opportunities. There are concepts, framework and techniques that are immensely useful in formulating and implementing effective strategies.

The 'rationalist' approach to business strategy makes implicit assumptions about strategy and the strategy-making process. It assumes that strategy formation is the province of the Chief Executive Officer and the senior management team who analyse the current situation then determine the appropriate direction for the organisation. Once the strategy is formulated, it is then passed down to the lower levels for implementation (Grant, 2005). Mintzberg (1995) indicates that the traditional planning approach to strategy incorrectly assumes that it is always the outcome of rational planning. He argues that not only is rationalism an inaccurate method for accounting for how strategies are actually formulated but it is also a poor way of making strategy. He indicates that strategy could emerge in the absence of a formal plan. According to Mintzberg (1995) strategy is more than what an organisation intends or plans to do - it is what an organisation does. Some strategies emerge as day-to-day decisions taken in response to changing environments. These then become developed into new strategies. Mintzberg (1995) further proposed a scheme indicating a stream of action being realised as the result of intended (planned) strategies and emergent (unplanned) strategies. An organisation's realised strategy is the product of whatever planned, or intended, strategies are actually put into action as well as any unplanned, or emergent, strategies (Figure 2-2).

Figure 2-2 Emergent and Deliberate Strategies



Source: Mintzberg, 1995; 1999.

Strategy process involves formulation by senior management, implementation of which necessitates formulation of details that may be implemented using novel methods by all levels of the organisation. A divide between strategy formulation and implementation would preclude learning (Grant 2005). The two goes hand in hand, with strategy constantly being adjusted and revised in light of experience. Grant (2005) argues that strategy development is a multidimensional process, involving both rational analysis and intuition, experience, and emotion, and systematic analysis is a vital input in the strategy process, without which, the process of strategy formulation is likely to be chaotic, with no basis for comparing and evaluating alternatives. These concepts, framework and techniques are immensely useful in formulating and implementing effective strategies, providing useful structure for organising and assessing the vast amount of information available to the firm and its environment, and for guiding decisions and may even act to stimulate rather than repress creativity and innovation.

2.2.2 Competition – The Rationale for Strategy

Grant (2005) claims that competition provides the rationale for strategy, and without competition, strategy is empty and of limited importance. He asserts that the essence of strategy is the interdependence of competitors. According to Rumelt, Schendel and Teece (1994), because competition causes organisations to make a number of choices, some of which are 'strategic', competition is the crucial theme of strategy theory. Henderson (1983) asserts that competition began with life itself and long before strategy. He purports that for millions of years, natural competition involved no strategy. In the business world, like in nature, the fittest survive and prosper until their competitors displace them. Grant (2005) argues that competition occur where resources are finite and competitors' objective are mutually inconsistent. He asserts strategy separates competition in the human society from competition among other species.

The evolutionary process is driven by natural competition, which involves no strategy. Boissot (2003) argues that in the period, which followed the Second World War, and up to the mid 1960s, economic recovery imposed its own dynamics on firms. This was characterised by a situation where everything was scarce and, as a result, virtually anything produced could be sold. In such a situation, competition was relatively subdued and firms concentrated on their own slice of an expanding economic pie. Firms were playing, what game theorists call, a 'game against nature', where the trick was to anticipate the future level of market demand and to adjust the firm's productive operations to meet it (Ansoff, 1965). In such a game, the market remains unaffected by the firm's

own actions. The firm could only adapt to the market's estimated future level, but it could not influence it. The critical skills required to be an effective player in this game against nature, are forecasting and strategic planning.

However, Boissot (2003) contends that when the economic pie stopped growing in the late 1960s, firms began to be more selective about the markets that they would invest in to maintain their own future growth. It became evident that such growth might now have to come at the expense of other players. The highly impersonal games against nature, in which the moves of potential competitors could largely be ignored, were then transformed into much more personal 'games against adversaries'. These adversaries have to be identified and then carefully watched. Suddenly the mechanical forecasting and planning methods that have used hitherto appeared insufficient. The moves and countermoves of adversaries now also have to be considered and evaded in an increasingly complex environment with the possibility of firms losing out on previously acquired markets. In a game against adversaries, a passive adaptation to the moves of others could prove dangerous. A firm has to become proactive to win. Strategy has been transformed into a competitive process (Porter, 1980).

Having to cope with competitors as well as markets greatly increased the complexity of the firm's strategic task. Further, the growing awareness of the importance of competitors struck strategic thinking at a time when the globalisation of markets was either increasing the number of key players in many industries or making them less familiar and hence inaccessible to monitoring and analysis. Unlike other living organisms, human beings have the capacity to anticipate competitors' actions and on the basis of their expectations adjust their behaviour and characteristics (Grant, 1995). The effect of competition and the rate of change are influenced by use of imagination and logical reasoning.

Successful strategies depend on the organisation's strategic capabilities to perform at a level that is required for success (Johnson and Scholes, 1997). Henderson (1984) identifies four essential requirements for strategic competition: firstly a critical mass of knowledge concerning the competitive process; secondly, the ability to integrate knowledge and understand cause and effects; thirdly, the imagination to foresee alternative actions and logic to analyse their consequences; and fourthly, availability of resources beyond current needs in order to invest in future potential. The current business environment is characterised by hostility and uncertainty (Rumelt *et al.* 1991; Handy 1993; Ferreira 2003), and by adopting strategy, organisations deliberately search for a plan of action that will develop a business' competition advantage and compound it.

Competitive strategy is about being different by deliberately choosing a different set of activities to deliver a unique mix of value. According to Grant (2005), the concern of business strategy is the establishment of competitive advantage. In analysing the customer needs and preferences and the way that firms compete to serve customers, it is vital to identify key success factors, which is the way in which to identify general sources of competitive advantage in an industry.

Key success factors are those primary process performance measures that most closely define and track how the process must perform to be considered successful. These factors are directly related to strategic and business plan objectives and goals. For each key success factor there must be an associated key indicator that provides the measure, and a standard of performance or allowable variance from planned performance. The most effective key indicators are those designed into the process in such a way as to provide a readily available or continuous reading of performance.

2.2.3 Competitive Advantage

"There is no common meaning of competitive advantage" (Day and Wensley, 1988; 2). Traditionally in the field of strategic management, competitive advantage has been defined as a firm consistently earning a higher rate of return than its competitors (Grant, 1991; Schoemaker, 1990). Competitive advantage can also be defined as having an edge over rivals in attracting customers and defending against competitive forces (Thompson and Strickland, 1995). Bharadwaj, Varadarajan, and Fahy (1993) argue that a competitive advantage can result either from implementing a value-creating strategy not simultaneously being employed by current or prospective competitors or through superior execution of the same strategy as competitors. Understanding which resources and firm behaviours lead to sustainable competitive advantage is considered to be the fundamental issue in strategy (Varadarajan and Jayachandran, 1999). There are many sources available to firms for providing competitive advantage and many authors view competitive advantage differently.

Day (1984; 32) suggests different types of strategies that may possibly assist to "sustain the competitive advantage". The actual term "sustainable competitive advantage" was proposed by Porter in 1985, when he discussed the basic types of competitive strategies firms can possess (low-cost or differentiation) to achieve sustainable competitive advantage. He however did not present any formal conceptual definition in his discussion. Barney (1991; 102) offers the following: "A firm is said to have a *sustained competitive advantage* when it is implementing a value creating strategy not simultaneously being

implemented by any current or potential competitors *and* when these other firms are unable to duplicate the benefits of this strategy (*italics in original*)".

Sustainable competitive advantage has been a controversial concept because it suggests the idea of advantage lasting for a long period of time (Fahy and Hooley, 2002). Several authors (Brown and Eisenhardt, 1998; D'Aveni, 1994; Eisenhardt and Martin, 2000; Hamel, 2000) argue that at the firm level achieving and particularly sustaining competitive advantage in highly dynamic (or hypercompetitive) environments is difficult if not impossible. This is because advantages are quickly copied (D'Aveni, 1994) or rendered inoperable by the advent of new advantages (Hamel, 2000). Firms can only look forward to temporary or a series of temporary advantages (Brown and Eisenhardt, 1998; D'Aveni, 1994); long-term or sustained above-average profitability is not feasible (D'Aveni, 1994). Ghemawat (2006) asserts that one should not conclude that just because sustainability of competitive advantage is elusive, it is not worth examining.

Coyne (1986) proposes that in order to possess a sustainable competitive advantage, consumers must perceive some difference between an organisation's product offering and the competitors' offering. This difference must be due to some resource capability that the firm possesses and competitors do not possess. Also, this difference must be some product/delivery attribute that is a positive key-buying criterion for the market. The key is being able to predict the actions of others in the industry over time; by matching the firm's resources to the gaps and voids that exist in the industry, a competitive advantage can be created. This advantage is sustained if competitors either cannot or will not take action to close the gap (Coyne 1986).

Greenley, Hooley, Broderick and Rudd (2004) suggest that a market orientation that is effective in addressing customers and competitors is a distinctive capability that may be difficult to imitate. Fahy and Smithee (1999) contend that gaining a competitive advantage is achieved through the provision of greater value to customers, and this can lead to superior performance measured in conventional terms such as market-based and financial-based performance. Greenley, Hooley, Broderick and Rudd (2004) suggest that sustainable competitive advantage is achieved when management capabilities, used to create and implement strategy, are resistant to competitive imitation, creating a competitive barrier in the long term. They argue that inimitability can be achieved in a number of ways. Firstly, it must be difficult for competitors to identify these capabilities, referred to as causal ambiguity. Secondly, if the competitors identify these capabilities, they would need to acquire them, and if the transaction costs are high, they would likely

feature economic deterrence. Thirdly, if the capabilities are likely to be less effective in another firm, or are difficult to relocate, then they will likely feature non-transferability (e.g. Grant, 1995). Fourthly, even if competitors could acquire these capabilities, it may take a long time to acquire and integrate them, and inimitability will be achieved over this period of time.

Barney (1991) distinguishes between sustainable and sustained advantage, suggesting that the former refers to the height of the barriers to the duplication of the advantage. These advantages that are protected by barriers, like causal ambiguity, path dependency, economic deterrence and legal protection, cannot be easily duplicated and can be expected to last for a period of time (Fahy and Hooley, 2002). Barney (1991;) defines sustained competitive advantage as follows: "A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy".

2.2.4 Perspectives on Creating Competitive Advantage

Literature on strategic management identifies two major perspectives of creating and maintaining competitive advantage: those focused on the industry and those focused on the firm (Cuervo-Cazurra, 2003). Fahy and Hooley (2002) argue that the notion that both resources and the environment have a relatively equal and important role in the success of firms is not new and that evidence of this kind of thinking is found in much of the early strategic management literature. They note that though a variety of approaches have evolved since the late 1950s, it was only from the beginning of 1960s that the competitive advantage concept has been systematically analysed. The frameworks in strategic management that emerged in the 1960s and 1970s typically gave equal weighting to the firms and their resources as well as to the industrial context in which they operated. For example, Learned, Christensen, Andrews and Guth, (1965) suggest that the relationship between the firm and the industry environment in which it operates is responsible for realising a successful market position and develops along three dimensions. First of all, the firm develops a consistent system of strategic objectives, accompanied by a complex set of coherent functional policies. Second, the system of objectives and policies must be kept consistent with the external conditions of the market; that is, the strengths and weaknesses of the industry, which the firm must consider in deciding strategies and policies. Nevertheless, the firm's adaptation to industrial environment requirements has to be seen in a dynamic form, in which the firm constantly adapts its action to external and

internal changes, in a continually changing pattern. Finally, the strategy must pursue the creation of distinctive competencies' that are the resources and skills deployments that will help the firm achieve its goals and objectives.

Hofer and Schendel (1979) further took into consideration the concept of distinctive competencies and relate them to competitive advantage. They define competitive advantage as "the unique position an organisation develops vis-à-vis its competitors through its patterns of resources deployment" (Hofer and Schendel 1979; 25) and the distinctive competencies as patterns of resource and skill deployments that will help the firm achieve its goals and objectives (Hofer and Schendel 1979). According to Hofer and Schendel (1979) the firm is therefore able to develop and organise a set of resources through which it can obtain a position of competitive advantage. Models of these strategic decisions typically propose a rational process of setting objectives followed by an internal appraisal of capabilities and an external appraisal of the opportunities open to a firm, leading to a decision to expand or diversify based on the level of synergy between existing products/capabilities and investment prospects (Ansoff, 1965). Fahy and Hooley (2002) argue that implicit in this model of strategic management is the idea that the firm and its resource, and its industry environment are of equal importance and that managers should strive to achieve an optimal fit between them.

By the mid 1970s, firms facing the changing circumstances and increased macroeconomic instability, diversification has failed to yield anticipated synergy and slowed the drive of conglomerates (Hofer and Schendel 1979). During the late 1970s and early 1980s, increased awareness of the external environment meant that the principal form of strategic management was the analysis of industry and competition (Grant, 2005). Popular work of Porter (1980), who pioneered the application of industrial organisational economics for analysing the determinants of profitability, led to a shift in emphasis to the environmental dimension, which was to dominate for some time. Porter's (1980) approach to the analysis of competitive advantage focuses on the study of the influence of the external environment on a firm's strategy. According to this perspective, the firm's success is the result of the firm's ability to respond to threats and opportunities existing in the specific industry environment in which it operates. The strategic decisional processes and the profit-results that firms obtain are heavily influenced by external market conditions. The industry environment continues to be important but, at the same time, the firm's ability to develop its own strategy as the result of its distinctive competencies began to be considered. The concept of competitive advantage evolved from an industry environment

perspective to the analysis of inner resources, to a perspective where the knowledge and specific competencies are embedded in the organisations.

Scholars that, working in a Marketing framework, tried to address the issue of which kind of processes and capabilities drive the market-oriented organizations (e.g., Deshpande' and Webster, 1989; Kohli and Jaworski, 1990; Slater and Narver, 1990; Day, 1994). They tried to identify the activities and processes of an organization that describe its market orientation, and secondly, they have tried to analyze the relationship between an organizational market orientation and its innovativeness (e.g., Slater and Narver, 1995). In these studies, the construct of market orientation has been defined both in terms of processes and in term of content of the market intelligence process. In particular, Kohli and Jaworski (1990;6) define the market orientation as 'the organization wide generation of market intelligence pertaining to current and future customers needs, dissemination of the intelligence across departments, and organization wide responsiveness to it'. In addition, Slater and Narver (1990) consider the market orientation as a one-dimension construct that comprises three different behavioural components: customer orientation, competitor orientation and interfunctional coordination.

The focus of strategy formation is not based only on the industry or the firm. Some scholars have adopted other approaches to strategy (Fahy and Hooley, 2002). For instance, Eisenhardt and Sull (2001) identify three approaches to strategy, each of which has different levels of effectiveness depending on the sets of circumstances in which they are employed. They suggest that managers competing in business can choose from three distinct strategies. They can build a competitive position and defend it; they can nurture and leverage unique resources; or they can flexibly pursue fleeting opportunities within simple rules. Each strategy requires different skills and works best under different circumstances. In their view building defensible positions works best in slowly changing, well-structured markets, leveraging resources works best in moderately changing markets and pursuing opportunities and exploiting key processes is most appropriate for rapidly changing, ambiguous markets. Managers of companies, that adopt strategy as simple rules, know that the greatest opportunities for competitive advantage lie in market confusion, so they jump into chaotic markets, probe for opportunities, build on successful forays, and shift flexibility among opportunities as circumstances dictate. Strategy as simple rules is about being different, but that difference does not arise from tightly linked activities systems or leveraged core competencies, as in traditional strategies. Companies that adopt strategy as simple rules recognise the need for a few key strategic processes and a few simple rules to guide them through the chaos. Their recommendations reverse

some prescriptions of traditional strategy. They suggest that rather than picking a position or leveraging a competence, managers should select a few strategic processes. In traditional strategy, advantage comes from exploiting resources or stable market positions; in strategy as simple rules, advantage comes from successfully seizing fleeting opportunities. However, companies that rely on strategy as simple rules are often accused of lacking strategies altogether.

2.3 EXTERNAL PERSPECTIVE ON COMPETITIVE ADVANTAGE

2.3.1 Porter's Generic Strategies

Within strategic management, the analysis of the environment has been a fundamental part of management deliberations (Sminia, 2002). During the 1980s the dominant view on firm strategy taught in American business schools was the 'competitive forces' theory espoused by Porter (Teece *et al* (2000). According to Porter (1985), a firm's ability to outperform its competitors rests in its ability to translate competitive strategy into competitive advantage. This view focused on the structure of the markets and the nature of competition in different industries. For Porter (1985) competitive strategy entails positioning the firm favourably in an industry relative to its competitors. It was concerned with identifying what kinds of markets allow firms to make money, and how firms could position themselves in those markets to be profitable. A firm's relative position within an industry is given by its choice of competitive advantage (cost leadership versus differentiation) and its choice of competitive scope. A firm can achieve competitive advantage over rivals either by supplying identical products or services at lower cost or by supplying products or services which are differentiated, such that the customer is willing to pay a price premium which exceeds the additional cost of differentiation.

Porter (1985:3) affirms, "Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. Consequently, there are two basic types of competitive advantage: cost leadership and differentiation". Positioning results from choosing one of four competitive strategies – differentiation, low cost leadership, focus differentiation, or focus low cost leadership.

Cost leadership is when the firm offers the same product at a lower price to the customer than the competitors. Differentiation is when the firm offers a different product, or higher quality and more functions, at a higher price. In this case, the firm must fix the price at a

level sufficient to cover the greater costs sustained to differentiate the product. If this is not done, the differentiation strategy will not result in greater costs not covered by higher income.

Focus is when the firm follows one of the two aforementioned strategies, cost leadership or differentiation, but focusing on a restricted segment of the market. We have a cost focus if the firm decides to pursue a cost leadership strategy in a restricted segment of the market, and a differentiation focus if it acts according to a differentiation strategy.

Porter's generic strategies are illustrated in Figure 2.3 below.

Figure 2-0-3 Porter's Generic Strategies

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

Source: Porter, (1985; 12)

Porter (1985) maintains that achieving competitive advantage requires a firm to make a choice about the type and scope of its competitive advantage. He asserts that there are different risks inherent in each generic strategy, but being "all things to all people" is a sure recipe for mediocrity, and getting "stuck in the middle".

Porter (1980) outlines three conditions for the sustainability of competitive advantage:

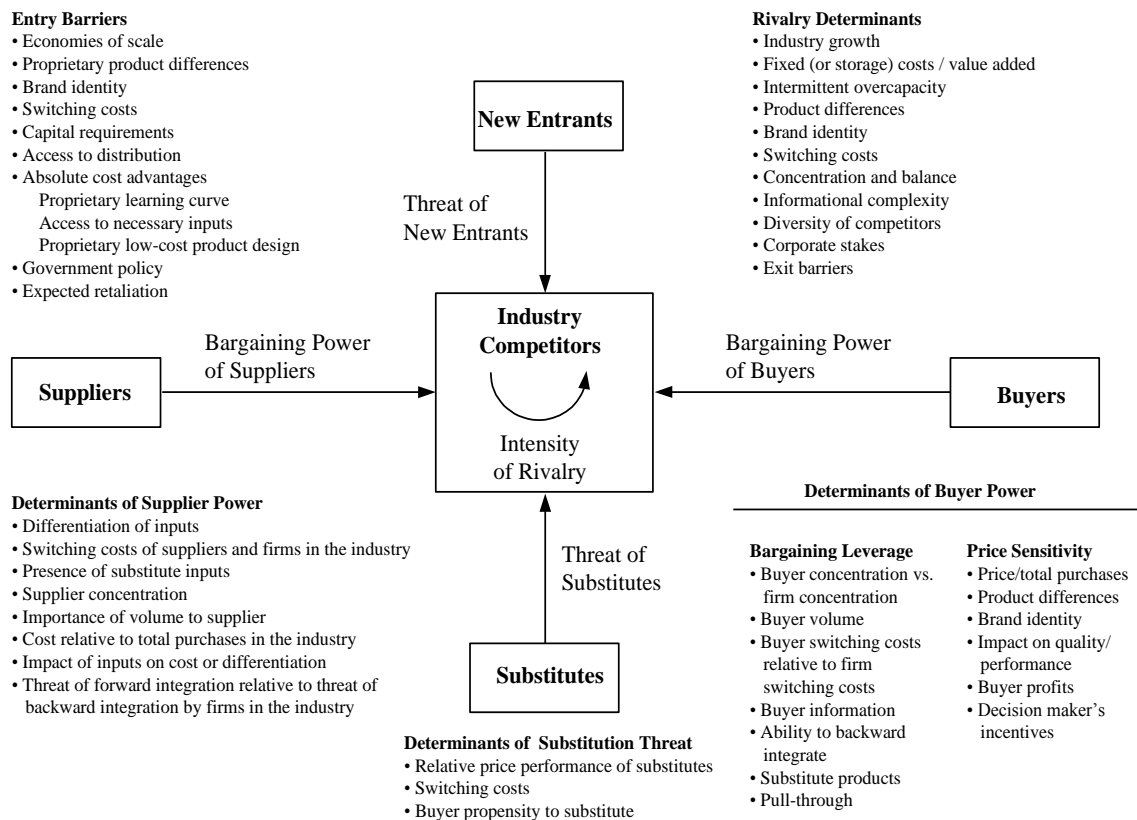
- Hierarchy of source: lower-order advantages such as low labour cost may be easily imitated, while higher order advantages like proprietary technology, brand reputation, or customer relationships require sustained and cumulative investment and are more difficult to imitate;
- Number of distinct sources: many higher order advantages are harder to imitate than few;

- Constant improvement and upgrading: a firm must be "running scared", creating new advantages at least as fast as competitors replicate old ones.

2.3.2 Porter's Five Forces Framework

According to Porter (1985), in making the choice of being a differentiator or low cost producer, a firm must consider five competitive forces – the bargaining power of customers, the bargaining power of suppliers, the intensity of rivalry amongst firms in the industry, the threat of substitute products, and the threat of new entrants into the industry. The “Five Forces” diagram (Fig. 2.4) expounds the main idea of Porter’s theory of competitive advantage, and defines the rules of competition in any industry. The competitive forces framework sees the strategic problem in terms of market entry, entry deterrence, and positioning (Teece, Pisano and Shuen, 2002). The five forces determine industry profitability, and some industries may be more attractive than others. The crucial question in determining profitability is how much value firms can create for their buyers, and how much of this value will be captured or competed away.

Figure 2-4 Porter's 5 Forces - Elements of Industry Structure



Source: Porter, (1985; 6)

Industry structure determines who will capture the value, but a firm is not a complete prisoner of industry structure - firms can influence the five forces through their own strategies. The five forces framework highlights what is important, and directs managers toward those aspects most important to long-term advantage. In this framework, gaining competitive advantage is determined primarily by responding effectively to industry-specific requirements. The five forces model constitutes a very useful way of thinking about and analyzing the nature of competition within an industry. However, the model (a) presents a static picture of competition which slights the role of innovation and (b) de-emphasizes the significance of individual company differences while overemphasizing the importance of industry and strategic group structure as determinants of company profit rates (Ghemawat *et al.*, 1999).

At the level of strategy implementation, competitive advantage can grow out of the way firms perform discrete activities, i.e. how they conceive new ways to conduct activities, employ new procedures, new technologies, or different inputs. Porters "Value Chain" and "Activity Mapping" concepts assist in thinking how activities build competitive advantage.

2.3.3 The Value Chain

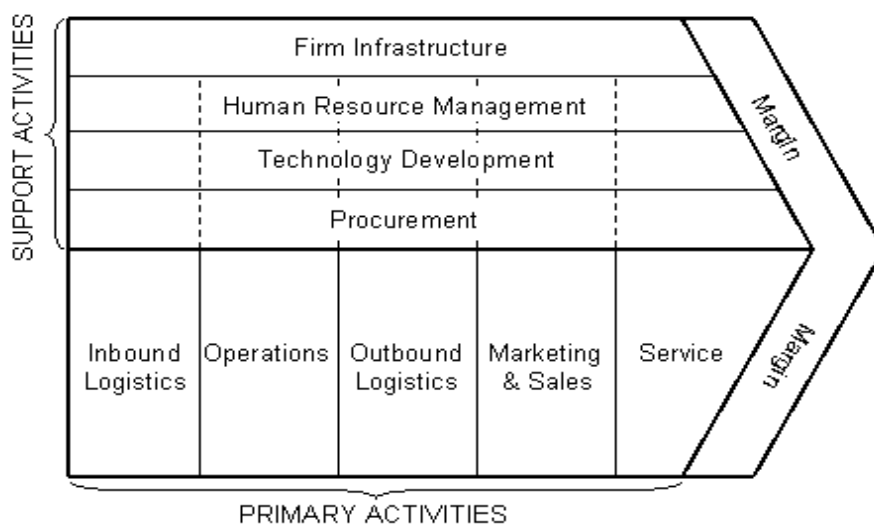
In explaining the process of gaining competitive advantage, Porter (1991:102) further introduces the concept of the 'value chain' and claims that: 'competitive advantage results from a firm's ability to perform the required activities at a collectively lower cost than rivals, or perform some activities in unique ways that create buyer value and hence allow the firm to command a premium price'. Value chain analysis describes the activities within and around a firm, and relates them to an analysis of the competitive strength of the firm. Therefore, it evaluates which value each particular activity adds to the organizations products or services. This idea was built upon the insight that an organization is more than a random compilation of machinery, equipment, people and money. Only if these things are arranged into systems and systematic activates it will become possible to produce something for which customers are willing to pay a price. Porter argues that the ability to perform particular activities and to manage the linkages between these activities is a source of competitive advantage.

In other words, the firm's strategy arises "from the way in which it configures and links the many activities in its value chain relative to competitors" (Porter 1991; 102). Furthermore, the value chain of each firm will interact with the value chain of any other firm placed along the production chain. The value chain provides a systematic way of examining all the

activities a firm performs and how these activities interact. It scrutinizes each of the activities of the firm (for example, development, marketing, sales, and operations.) as a potential source of advantage. The value chain maps a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation. Differentiation results, fundamentally, from the way a firm's product, associated services, and other activities affect its buyer's activities. All the activities in the value chain contribute to buyer value, and the cumulative costs in the chain will determine the difference between buyer value and producer cost. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors. One of the reasons the value chain framework is helpful is because it emphasizes that competitive advantage can come not just from great products or services, but from anywhere along the value chain. It is also important to understand how a firm fits into the overall 'value system', which includes the value chains of its suppliers, channels, and buyers.

In expounding the value chain, Porter distinguishes between primary activities and support activities. Primary activities are directly concerned with the creation or delivery of a product or service. They can be grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service. Each of these primary activities is linked to support activities which help to improve their effectiveness or efficiency. There are four main areas of support activities: procurement, technology development, human resource management, and infrastructure. The basic model of Porter's Value Chain is as follows:

Figure 2-5 Porter's Value Chain

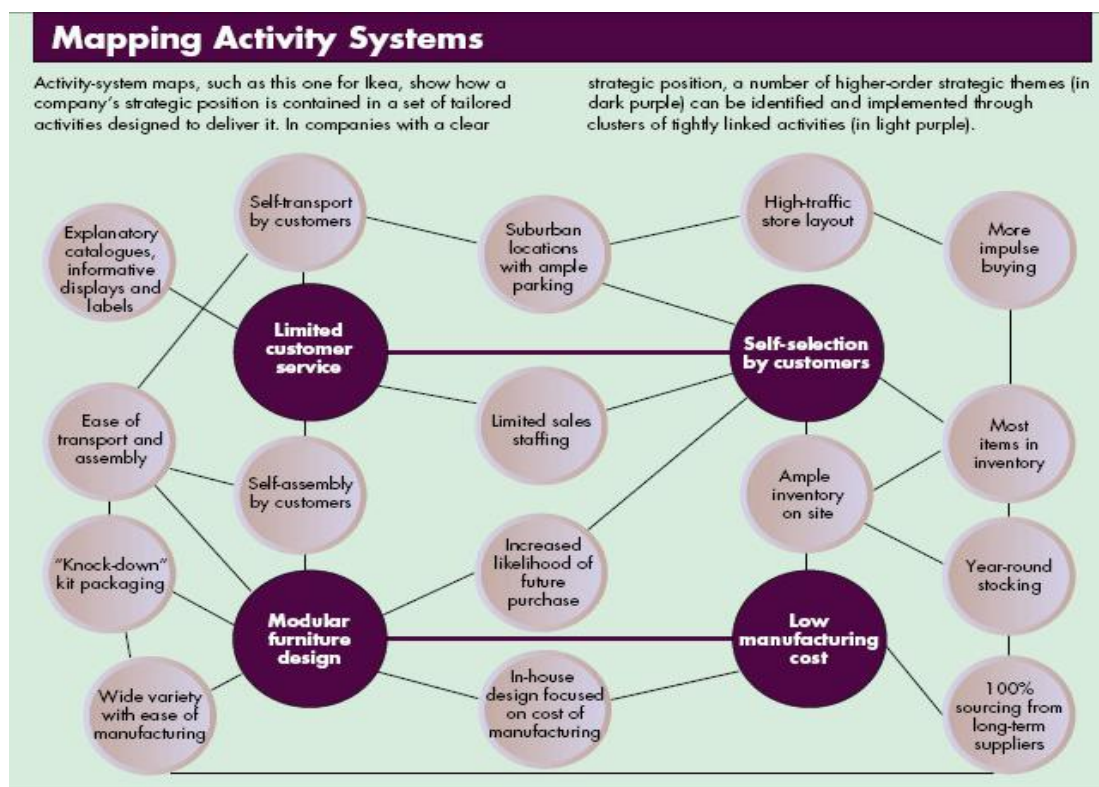


Source: Porter, (1985)

2.3.4 Activity Mapping

With the idea of activity mapping, Porter (1996) builds on his ideas of generic strategy and the value chain to describe strategy implementation in more detail. Competitive advantage requires that the firm's value chain be managed as a system rather than a collection of separate parts. Positioning choices determine not only which activities a company will perform and how it will configure individual activities, but also how they relate to one another. This is crucial, since the essence of implementing strategy is in its activities, that is, choosing to perform activities differently or to perform different activities than rivals. A firm is more than the sum of its activities and a firm's value chain is an interdependent system or network of activities, connected by linkages. Linkages occur when the way in which one activity is performed affects the cost or effectiveness of other activities. Linkages create tradeoffs requiring optimisation and coordination.

Figure 2-6 Porter's Activity Mapping



Source: Porter (1996; 71)

Porter's major contribution with activity mapping is to help explain how different strategies, or positions, can be implemented in practice. Porter (1996) maintains that the key to successful implementation of strategy is in combining activities into a consistent fit with each other. A company's strategic position is contained within a set of tailored activities designed to successfully implement strategy. The activities are tightly linked to each

other. Porter (1996) argues that strategic fit locks out competitors by creating a chain that is as strong as its strongest link. If competitive advantage grows out of the entire system of activities, then competitors must match each activity to get the benefit of the whole system.

2.3.5 Strategic Fit

The market position approach to strategy development (Porter, 1980) emphasizes that strategic choice is focused primarily on the structure of the industry, by identifying or being sensitive to the organisation's environmental forces, and develop resources to address them. According to Porter's (1980, 1996) approach, the study of strategy must rely on three elements: the external environment, the firm's behaviour, and the market results that the firm obtains in implementing its strategy. The successful market position that firms can gain is the result of two factors: the industry environment and the position assumed by the firm inside the market. Industry analysis would include two stages: firstly the strategic segmentation of the market in order to identify a well-defined and specific competitive environment; and secondly the identification, inside each strategic segment, of groups composed by homogeneous firms relative to the manufacturing, marketing and financial policies each firm has adopted. The analysis of industry attraction has therefore to be preceded by a strategic segmentation of the market and identification of strategic firm groups.

According to Wiklund (1998) the strategic management school focuses upon fit between environment, strategy and firm performance. Strategic management theory suggests entrepreneurs have freedom to develop strategies within a given environment. Better strategic choices may lead to better growth (Wiklund, 1998), suggesting that strategic planning activity as a specific form of planning under the management school perspective, may be important in creation of new growth firms (Sandberg, 1992).

For a firm to succeed, its strategy must be consistent with the external environment. Superior performance is the result of a good fit between the strategy and the environment. Performance is associated with certain characteristics of the industry. The aim is to establish a hard-to-replicate position in the industry, such that it is difficult for competitors to enter. With strategy implementation, competitive advantage grows out of the way firms perform discrete activities, for example, conceiving new ways to conduct activities, or employing new procedures, new technologies, or different inputs. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors. Porter (1996) suggests that competitive advantage is arrived at the

way its activities fit and reinforce one another. Porter (1996) identifies fit as important because discrete activities often affect one another. He defines three types of fit:

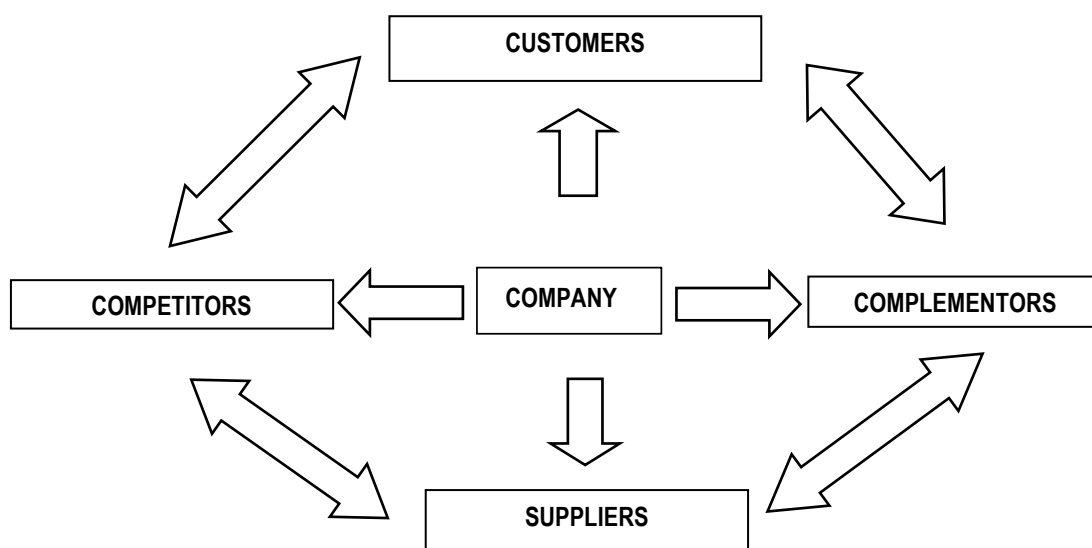
- Simple consistency - first order fit between each activity and the overall strategy
- Reinforcing - second order fit in which distinct activities reinforce each other
- Optimisation of effort - coordination and information exchange across activities to eliminate redundancy and wasted effort.

In describing fit, Mintzberg (1981) propounds that effective organisations achieve coherence among their component parts; that they do not change one element without considering the consequences to all of the others.

2.3.6 The Value Net

The value net (Figure 2-7) concept proposed by Bradenburger and Naleduff (1996) highlights the critical role that suppliers of complementary products or complementors can play in influencing business success or failure. The Porter five forces framework identifies the suppliers of substitute goods and services as one of the forces of competition that may reduce the profit available to the firms within the industry. The suppliers of complementary products play an important role on most firms' competitive environment (Grant, 2005). Complementors are defined as being the mirror image of competitors. On the demand side, they increase buyers' willingness to pay for the products and on the supply side they increase the price that suppliers require for their inputs (Ghemawat *et al.*, 1999).

Figure 2-7: The Value Net



Source: Bradenburger and Nelebuff, 1996

Where two products are complements to one another, profit will accrue to the supplier that builds the stronger market position and reduces the value contributed by the other. The key is to achieve monopolisation, differentiation, and shortage of supply in one's own product, while encouraging competition, commoditisation, and excess capacity in the production of complementary product (Grant, 2005). Complementors are a ubiquitous feature of many business landscapes and they seem particularly important in situations where businesses are developing entirely new different kinds of expertise into the systems that work well (Grant, 2005).

The value net helps tie together the intra-industry analysis of competitive advantage and the industry level analysis of average profitability, propose a more general structure for industry analysis by introducing the element of cooperation to the "five forces approach" (Grant, 2005). The biggest benefit of taking complementors seriously is that they add a cooperative dimension to Porter's competitive forces approach. Apart from the presence of the complementors, the model differs from the Porter Five Forces framework by lumping together the industry rivals, potential entrants, and suppliers of substitutes into single category of competitors.

2.3.7 Sustaining Strategic Competitive Positioning

Porter (1996) discusses the meaning of strategy and how strategy differs from operational effectiveness. A firm's competitive advantage is tightly related to its strategy and not only to its operational effectiveness. Porter (1986) defines operational effectiveness as 'performing activities better than rivals perform them' (Porter 1996: 62). In other words, the operational effectiveness 'refers to any number of practices that allow a company to better utilise its inputs by reducing defects in products or developing better products faster' (Porter 1996; 62). On the other hand strategic positioning 'means performing different activities from rivals' or 'performing similar activities in different ways' (Porter 1996; 62). The difference between the two concepts is relevant because in the case of operational efficiency, a firm can try to imitate other company's strategy, only improving efficiency or developing products faster than the competition does, but moving towards the same direction, with the same combination of activities. In the second case, when we talk of strategy, we should consider the sum of activities performed by the firm. These activities are completely different from other firms' or they are performed in a different way with completely different results. The message to customers is different and the firm must choose among different strategies. According to Porter (1996), given the difference between the two concepts, the competitive advantage of the firm can only be the result of

strategic positioning. This would imply that only by performing different activities or performing them differently from competitors, the firm can gain a competitive advantage, establishing a difference with respect to other firms and maintaining it over time.

Greenley, Hooley, Broderick and Rudd (2004) suggest that central to competitive positioning is differentiating products and services in the selected markets from those of the competitors. They contend that starting with Porter (1980); several proposals about how to achieve differentiation have been made. Hooley, Möller and Broderick (1997) propose six dimensions for achieving differentiation compared to competitors: low prices; technical quality of products and services; degree of innovation; level of customer services; uniqueness of products and services; and degree of customisation. Porter (1996) indicates that to establish and maintain a distinctive strategic positioning, a firm needs to pursue six fundamental principles:

- First, it must begin with the right goal; this implies superior long-term returns on investment. He argues that real economic value can only be generated by grounding strategy in sustained profitability, and economic value is created when customers are willing to pay a price for a service or product that exceeds the cost of producing it;
- Second, a firm's strategy must enable it to deliver a value proposition, or a set of benefits, different from those that competitors offer. Strategy is neither the quest for universally best way of competing nor an effort to be selling all things to every customer, but a way of competing that delivers unique value to a particular set of uses or for a particular set of customers;
- Third, strategy must be reflected in a distinctive value chain. Porter argues that to establish sustainable advantage, a firm must perform different activities than rivals or perform similar activities in different ways. This would imply that a firm configures the way it conducts manufacturing, logistics, service delivery, marketing, human resources, etc, differently than its competitors and tailors these to its unique value proposition;
- Fourth, robust strategies involve trade-offs. This would imply that firms must relinquish some product features, services, or activities in order to be unique at others. The trade-offs, in the products and in the value chain, is what make the firm truly distinctive. However, when improvements in the product or in the value chain do not require trade-offs, they would become best practices that are imitated by the competitors without sacrificing the existing way of competing;
- Fifth, strategy defines how all the elements of the firm fit together. A strategy involves making choices throughout the value chain that are interdependent, and all activities of the firm must be mutually reinforcing;

- Finally, strategy involves the continuity of direction. A firm must define a distinctive value proposition that it will stand for over time, even if it means forgoing certain opportunities. Without continuity in direction, it would be difficult for a firm to develop unique skills and assets or build strong reputations with customers. Porter argues that frequent corporate 'reinvention' is usually a sign of poor strategic thinking and a route to mediocrity, stressing that continuous improvement is a necessity, but it must always be guided by strategic direction.

Porter (1996) describes three choices of strategic position that influence the configuration of a firm's activities:

- Variety-based positioning: - based on producing a subset of an industry's products or services; involves choice of product or service varieties rather than customer segments. This makes economic sense when a company can produce particular products or services using distinctive sets of activities.
- Needs-based positioning: - similar to traditional targeting of customer segments. It arises when there are groups of customers with differing needs, and when a tailored set of activities can serve those needs best.
- Access-based positioning: - segmenting by customers who have the same needs, but the best configuration of activities to reach them is different.

2.4 INTERNAL PERSPECTIVE ON COMPETITIVE ADVANTAGE

2.4.1 Resource-Based View of the Firm

During the late 1980s and early 1990s the focus of interest in the analysis of competitive advantage shifted increasing towards the internal aspects of the firm. This approach focuses on the rents to the owners of scarce firm-specific resources rather than the economic profits from product market positioning. Competitive advantage lies 'upstream' of product markets and rests on the firm's idiosyncratic and difficult to imitate resources (Teece, Pisano and Shuen, 2000).

Wernerfelt (1995) indicates that in the last two decades of the twentieth century the resource-based theory of the firm has received attention as an alternative to the market positioning view. Competitive advantage was seen as depending less upon a firm's choices over market positioning and more upon exploitation of unique internal resources and capabilities (Grant, 2005). With attention given to the resource-based view of the firm and organisational competencies, the focus of strategic management shifted towards dynamic aspects of competitive advantage, emphasising innovation, and the central role of

internal process within the firm (Grant, 2005). The resource-based approach sees firms with superior systems and structures being profitable not because they engage in strategic investments that may deter entry and raise prices above long-run costs, but because they have markedly lower costs or offer markedly higher quality or product performance (Teece *et al.*, 2000). The organisational or internal perspective of competitive advantage emphasises internal resources to take advantage of opportunities in the external environment. The organisational or internal components include firm resources and core competencies, and explain performance of the firm by focusing on the unique resources accumulated over time (Barney, 1991; 2001a).

The resource-based view is grounded in the perspective that a firm's internal environment, in terms of its resources and capabilities, is more critical to the determination of strategic action than is the external environment. It is based on the concept of economic rent and the view of the organisation as a collection of capabilities. Firms tend to be distinct because of their unique resources accumulated in the past. It suggests that firms should focus on developing their firm specific and unique resources that would eventually provide it with long-term competitive advantage and above average returns. The strategy chosen should allow the firm to best exploit its core competencies relative to opportunities in the external environment. Different types of resources (such as tangible assets, intangible assets and skills) have been identified as underlying the distinctive or core competencies of a firm (Grant, 2005; Prahalad and Hamel, 1990). One of the principal insights of the resource-based view is that not all resources are of equal importance or possess the potential to be a source of sustainable competitive advantage (Fahy and Smithee, 1999). Much attention has focused therefore, on the characteristics of advantage-creating resources.

One of the key arguments of the resource-based theory is that sustainable competitive advantage based on a firm's distinctive competencies can be achieved only when resources are valuable, rare, cannot be imitated, and have no substitutes (Barney, 1991; Grant, 1991). Grant (1991) argues that levels of durability, transparency, transferability and replicability are important determinants while Collis and Montgomery (1995) suggest that they must meet five tests namely inimitability, durability, appropriability, substitutability and competitive superiority. Amit and Schoemaker (1993) go even further, producing a list of eight criteria including complementarities, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability and overlap with strategic industry factors. The resource-based perspective highlights the need for a fit between the external market context, in which a company operates, and its internal capabilities. The strategy chosen

should allow the firm to best exploit its core competencies relative to opportunities in the external environment.

The opportunity for the organisation to sustain competitive advantage is determined by capabilities of two kinds - distinctive capabilities and reproducible capabilities - and their unique combination created to achieve synergy (Amit and Schoemaker (1993). Distinctive capabilities - the characteristics of the organisation, which cannot be replicated by competitors, or can only be replicated with great difficulty - are the basis of sustainable competitive advantage. Reproducible capabilities are those that can be bought or created by competitors and cannot be a source of competitive advantage in themselves.

Four theoretical conditions, in the resource-based view framework, motivate the achievement of competitive advantages: (i) resource heterogeneity, (ii) *ex ante* limits to competition, (iii) *ex post* limits to competition, or causal ambiguity, and (iv) imperfect mobility. These characteristics also create the setting for the attainment of competitive advantages in inter-organisational relationships. Resource heterogeneity refers to the resource bundles and capabilities that underlie production in a firm (Barney 1991). These resources have varying levels of productivity efficiency that enable firms to produce more economically or better satisfy customer demands than their competitors. When factors are inelastic in supply and insufficient to satisfy demand, then the low-cost firm will earn supernormal profits in the form of rents to their scarce resources, whilst other firms will breakeven. This is known as the Ricardian rent argument (Rumelt 1987). 'Ex-ante limitations to competition' means that there must be limited competition for a particular resource position prior to any firm establishment of the position. Barney (1986) contends that economic performance depends not only on the returns from various strategies, but also on the cost of implementing the strategies. Imperfections in strategic resource markets, where the necessary resources for implementation are acquired, enable the creation of supernormal returns. Without these imperfections in the markets, firms can only hope for normal returns. Rumelt (1987) argues that unless there is a difference in the *ex post* value of a venture and the *ex ante* cost of acquiring the necessary resources, the entrepreneurial rents are zero.

According to the resource-based view, sustainable competitive advantage is achieved in rapidly changing market conditions, by continuously developing existing and creating new resources and capabilities. Among these resources and capabilities, knowledge represents the most important value-creating asset. In using the resource-based view, knowledge has been widely suggested as a primary strategic resource for organisations

(Grant 1996; Kogut and Zander 1992; Pisano 1994). The concept of “knowledge as a resource” suggests that knowledge can be transferred, recombined, and used to create value (Grant 2005). Hence, competitive advantage can arise from effectively creating and transferring knowledge, especially collective tacit knowledge that is not stored in any given individual and it is also difficult to convey to others (Brown and Eisenhardt 1997). The concept of resource reconfigurability essentially captures the dynamic ability to coordinate, expand, and reconfigure knowledge resources to build new functional competencies (Eisenhardt and Brown 1999; Pisano 1994; Teece and Pisano 1994). The resource-based view explains the performance of the firm primarily in terms of a firm’s long-lived resources and the mechanisms by which the firm accumulates those resources. As such the resource-based view is an economic theory of the firm. Management researchers have applied the resource-based view to their field of interest in order to prescribe ways of dealing with the resources of a firm. Barney (1986) deals on the one hand with strategy issues, like equilibrium, factor markets, etc., while on the other, the kind of issues he has discussed are very much organisation-behaviour-oriented such as culture and expectations. Pettigrew (1992) advocates that culture influences the process of change because it concerns “the past alive in the present and may shape the emerging future”. In this way, process is conceptualised as a path through time rather than a decision-moment in time.

Cool, Dierickx, and Martens (1994) contend that the resource-based theory attempts to explain that firm performance and its sustainability depend on the uniqueness, rareness, and non-imitability of its resources. To a large extent, it does not explain performance differences between firms that have the same levels of uniqueness, rareness, and non-imitability and isolation of their resources. In an industry, several firms may have developed core competencies in marketing and others in research and development. These core competencies are idiosyncratic to each firm. In such a situation, the resource-based theory cannot predict which firm would have a superior performance. However, some competencies may be more adapted to a particular industry environment. Therefore, if we know that in a particular industry, differentiation through marketing is a better suited strategy than product differentiation, we could predict that firms with core competencies in marketing are likely to outperform firms with core competencies in research and development. Further, Teece, Pisano and Shuen (2000) indicate that global competitive battles in high-technology industries such as semiconductors, information services, and software have demonstrated the need for an expanded paradigm to understand how competitive advantage is achieved. They argue that well known companies like IBM, Texas Instruments, Philips and others appear to have followed

a 'resource-based strategy' of accumulating valuable technology assets, often guarded by an aggressive intellectual property stance. However, this approach to strategy is often not enough to support a significant competitive advantage. Winners in the global market place have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competencies.

2.4.2 Resources and Capabilities

The literature uses the terms capability and competence interchangeably (Hamel and Prahalad, in Grant 2005). However, a general distinction is made between resources and competencies or capabilities. Resources are the productive assets owned by the firm (Grant, 2005), and include all those physical, human, and financial assets, both tangible and intangible, contributing in different ways to the input-output production process realised by the firm. Individual resources do not confer competitive advantage, but are employed, separately or as a composite, and their employment allows the firm to create organisational capabilities. Capabilities, in effect, are the essence of superior performance (Grant, 2005). The distinction between resources and competencies or capabilities is important because of the way firms can acquire or develop them, though, Barney (2002) argues that in practice the difference between resource and capabilities are blurred.

Firms can acquire the necessary resources in the markets and can produce their own specific competencies using them. That is, whilst resources are acquired in the market, the firm internally develops competencies in its day-by-day activity and use of acquired resources. Thus, competencies result from the way the firm uses its resources to create knowledge and skills. Competencies are therefore accumulated following firm-specific knowledge patterns. Once developed, they affect the resources from which they have been generated, transforming the same resources into something different from what the firm bought originally. The result is that resources and competencies change continually, under the effect of normal organisational activity.

Prahalad and Hamel (1990) speak of core competencies as the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technology. These skills underlie a company's various product lines, and explain the ease with which successful competitors are able to enter new and seemingly unrelated businesses. Three tests are proposed to identify core competencies in an organisation: (1) core competence provides potential access to a wide variety of markets,

(2) core competence should make a significant contribution to the perceived end user value, and (3) core competence should be difficult for competitors to imitate (Prahalad and Hamel, 1990). It would be difficult if it were a complex harmonisation of individual technologies and production skills. A rival might acquire some technologies that comprise core competence, but it will find it difficult to duplicate the more or less comprehensive pattern of internal co-ordination and learning.

Prahalad and Hamel (1990) further suggest that firms should combine their resources and skills into core competencies, loosely defined as that which a firm does distinctively well in relation to competitors. Examples of core competencies or capabilities are Sony in miniaturization, allowing it to make everything from Walkmans to video cameras to notebook computers, and Canon's core competencies in optics, imaging, and microprocessor controls which have enabled it to enter markets as seemingly diverse as copiers, laser printers, cameras, and image scanners (Prahalad and Hamel, 1990). Stalk, Evans, and Schulman (1992) speak of capabilities similarly, but defined more broadly to encompass the entire value chain rather than just specific technical and production expertise.

Grant (2005) notes the need to classify and disaggregate activities to identify the firm's capabilities. Two approaches commonly used are the functional analysis; which identifies organisational capabilities in relations to each of the principal functional areas of the firm; and the value chain analysis, which separates the activities of the firm into a sequential chain. He proposes that Porter's generic value chain identifies a few broadly defined activities that can be disaggregated to provide a detailed identification of the firm's activities and thus capabilities that correspond to each activity.

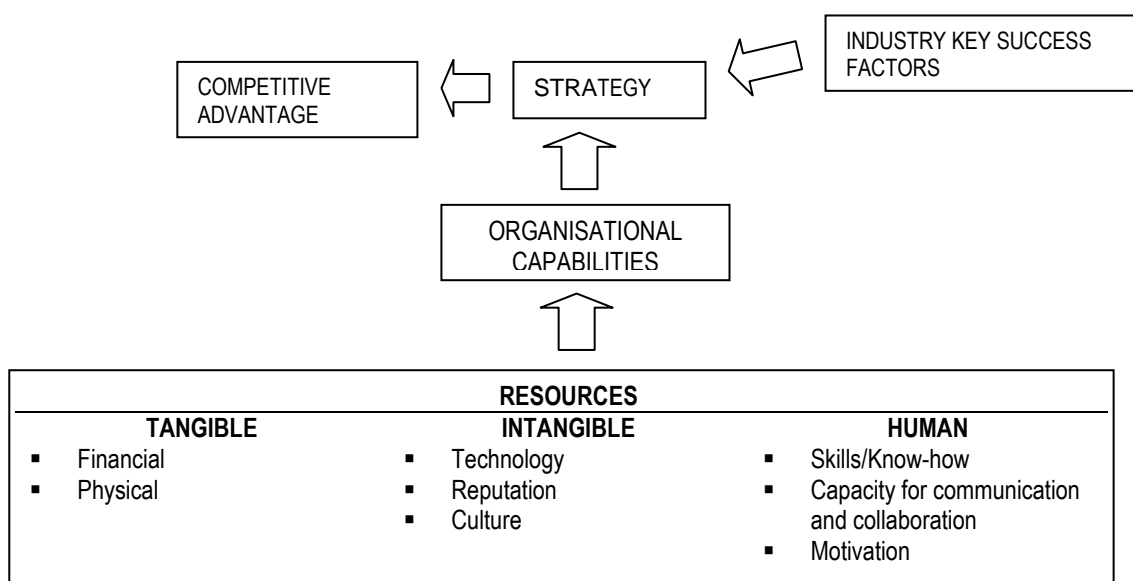
Grant (2005) suggests that the relationship among resources, capabilities and competitive advantage can be depicted as in Figure 2.8. He suggests that analysis of resources can also take place at two levels; the individual resources of the firms, which are the basic unit of analysis, and how groups of resources work together to create capabilities. It is by exploring how groups of resources work together to create organisational capabilities that we can examine how the firm create competitive advantage. Based on this general distinction, Grant (2005) classifies resources into three types:

- Tangible resources, which are physical assets (land, buildings, raw materials, facilities, etc.) that can be easily accounted for in financial plans – easiest to identify and evaluate;

- Intangible resources, which are, among others, know-how, brand name, and the firm's reputation. These elements cannot be accounted for in the balance sheet, though they contribute more than do tangible resources to total asset value. Intangible resources are particularly critical in strategy implementation because of the importance of knowledge and reputation creation and the difficulty of acquiring them; and,
- Human resources, which are defined as the productive services that human beings offer to firms in terms of their skills, knowledge, and reasoning and decision-making abilities. As people cannot be owned, these like intangible resources, cannot be captured on the balance sheet.

Resources by themselves are not productive, but how these resources are brought together to perform a particular productive activity, is termed an organisational capability. Strategic management is interested in those capabilities that provide a basis for competitive advantage. For a resource or capability to establish competitive advantage, it must meet two prerequisites, it must be scarce and it must be relevant. Resources and capabilities, which are widely available in the industry, though they may be essential to compete, will not provide sufficient basis for competitive advantage. On the other hand, resources and capabilities must be relevant to the key success factors within the market. Resources and capabilities are valuable when they can be linked to key success factors within the industry, assist the firm in creating value for its customers, or in surviving competition (Grant, 2005).

Figure 2-8: Links among Resources, Capabilities and Competitive Advantage



Source: Grant (2005, p139)

As depicted in Grant's model above, organizational capabilities represent a firm's ability to purposefully utilize an integrated set of resources in order to achieve a desired end by means to strategy. The pursuit of organizational capabilities requires the development of management capabilities and difficult-to-imitate combinations of organizational, functional and technological skills (Teece, Pisano and Shuen, 1997). Thus, although some technical capabilities may be assembled through market mechanisms, organizational capabilities require managerial action (Teece et al., 1997: 510). As emphasized by Leonard-Barton (1992), capabilities reflect an organization's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions.

Proponents of the core competence and capabilities framework emphasize the importance of a dynamic strategy in today's more dynamic business environment. They argue that a strategy based on a "war of position" in industry structure works only when markets, regions, products, and customer needs are well defined and durable. As markets fragment and proliferate, and product life cycles accelerate, "owning" any particular market segment becomes more difficult and less valuable. In such an environment, the essence of strategy is not the structure of a firm's products and markets but the dynamics of its behaviour. A successful firm will move quickly in and out of products, markets, and sometimes even business segments. Underlying it all, though, is a set of core competencies or capabilities that are hard to imitate and distinguish the company from competition. These core competencies, and a continuous strategic investment in them, govern the long-term dynamics and potential of the firm.

2.4.3 Adaptation and Strategic Renewal

Proponents of the adaptation and renewal perspective, emphasize the possibility that management has the option to adapt to changing environmental circumstances. Donaldson (1988) contends that it rests upon management to achieve good fit between the environment and the company, and when variation takes place in the environment through changed circumstances, survival of the company depends on management's ability to interpret the environment and determine the course of action. Child (1972) and Hamel and Prahalad (1994) argue that the organisation has the power to reshape its environment and create the future, which implies not merely adapting to an exogenous environment, but influencing its own environment by changing it to fit with the firm. However, research on hyper-competition (D'Aveni; 1994) shows that companies by their actions can cause higher and higher levels of turbulence and in that way change their environment.

Adaptation and strategic renewal of the firm are closely linked with the survival of the organisation. Theories of strategic adaptation interpret survival as proof that the firm in question had unique resources and capabilities or superior regimes of routines or optimal resource allocation strategies that account for competitive advantage and therefore, for survival (Volberda and Lewin, 2003). It implies the transformation of organisations through renewal of their core competencies. It is a reflection of a set of activities (internal versus external moves, exploitation versus exploration, and speed of change) that an organisation undertakes to alter its path-dependence (Volberda, Baden-Fuller and Van den Bosch, 2001). Volberda *et al.* (2001) suggest that organisational transformation should be driven by the firm's point of view about the future of the industry. What skills and capabilities must a firm start to build now if it is to occupy the industry high ground in the future? How should the firm organise for opportunities that may not fit neatly within the boundaries of current business units and divisions? Strategic renewal has been proposed as one of the most challenging and critical activities for management teams and organisations (Hamel and Prahalad, 1996, Mintzberg, 1994; Prahalad and Hamel, 1994). This is reflected particularly in situations of high uncertainty and changing technological trajectories (D'Aveni, 1994) where firms face the constant challenge to renew themselves strategically. Strategic renewal may be triggered by a perceived crisis, the wish to grow, or vanishing industry boundaries in competence destroying competition. It may take place as revolution (Pettigrew, 1985a, Hamel, 1996), incremental adjustment (Quinn, 1980), or punctuated change (Tushman and Romanelli, 1985).

Adaptation and strategic renewal of the firm was traditionally not been seen as a proactive managerial process, but reaction to internal and external forces, and as a consequence, the literature on adaptation and strategic renewal has focused theoretical discussions on decline and turnaround of organisations as points of departure. For instance, Strebler (1992) perceives renewal as a reactive strategy where changes are resultant of strong external and internal forces on the organisation, which may coincide with an opportunity that can be exploited. Huff, Huff and Thomas (1992) suggest that strategic renewal is stimulated by a tension between commitment to the current strategy (inertia) and stress, which can be manifested as individual dissatisfaction or misfit between the organisation and its environment.

2.4.4 The Evolutionary Theory

Volberda and Lewin (2003) note that it is becoming increasingly obvious that single-theme explanations for the adaptation–selection phenomenon have reached their limit and that

strategy and organisation theory scholars should adopt research strategies that consider joint outcomes of managerial adaptation and environmental selection instead of naïve selection or naïve adaptation. Adaptation and selection are not wholly opposing forces but are fundamentally interrelated and co-evolving.

The evolutionary theory purports that organisations and environments evolve together and that they are interdependent. The evolutionary process is the joint outcome of managerial intentions, environmental selection and institutional effects (Lewin and Volberda, 1999). Change is not a result of either environmental selection mechanisms or adaptations made by management; it is the joint outcome of both processes. It argues that the configuration of the mentioned organisational characteristics enables the organisation to continuously find the appropriate balance of exploitation and exploration adaptations, and in this way maintaining a dynamic fit with its environment. One crucial aspect of the evolutionary theory is that the parts are regarded as evolving in conjunction with each other in order to fit into a wider system environment, thus fitness must be measured in contextual terms as a dynamic fitness for the current niche, and not in relation to any imposed static function.

A co-evolutionary approach assumes that change may occur in all interacting populations of organisations, permitting change to be driven by both direct interactions and feedback from the rest of the system. Eisenhardt and Galunic (2000) suggest that it is firms whose managers have mastered the corporate strategic process of co-evolution that actually achieve cross-business synergies. They argue that these managers routinely change the web of collaborative links.

Evolutionary processes can be a powerful way to stimulate progress. Collins and Porras (1999) outline the underlying habits of long successful, visionary companies. These companies have an orientation towards evolutionary change, by experimenting and keeping what works. Importantly, they also find that successful companies each have a core ideology that must be preserved throughout the progress, and though there is no one formula for the "right" set of core values, it is important to have them. It is this core ideology that most fundamentally differentiates the firm from competitors, regardless of which market segments they venture into. These are deeply held values that go beyond "vision statements" - they are mechanisms and systems that are built into the system over time. Attention to the core beliefs may sometimes defy short-term profit incentives or conventional business wisdom, but it is important to maintain them.

2.4.5 Dynamic Capabilities

The 'dynamic capabilities' view endeavours to identify sources of value creation and realization in conditions of rapid change. It aims to identify capabilities that can be sources of sustainable competitive advantage, and to explain how these dynamic capabilities can create successful resource configurations given certain environmental conditions (Eisenhardt and Martin, 2000; Teece, Pisano and Shuen, 1997). Eisenhardt and Martin (2000: 1107) define dynamic capabilities as "organisational and strategic routines by which firms achieve new resource combinations." Dynamic capabilities govern the organisation's ability to learn, adapt, change, and renew over time (Teece and Pisano, 1994) and are consistent with Schumpeterian competition (Schumpeter, 1934), in the sense that competitive advantage is based on incremental innovation or 'creative destruction' by carefully shaping existing competencies. This perspective is especially relevant in a Schumpeterian world of innovation-based competition, price and performance rivalry, increasing returns, and the 'creative destruction' of existing competencies (Teece, Pisano and Shuen, 2000). Broadly defined, dynamic capabilities are the strategic processes by which organisations manipulate resources into new productive configurations of competencies in turbulent environments (Galunic and Eisenhardt, 2001).

Firms' dynamic capabilities, a conceptual approach embedded in the context of a resource based perspective, is rapidly emerging as a primary model of competitive advantage that is explicitly focused on conditions of environmental changes (Eisenhardt and Martin, 2000). The dynamic capabilities approach attempts at linking the more static resource-based view with the opportunistic adaptation and learning approach. Teece, Pisano and Shuen (1997) note that competitive advantage is not just a function of how one plays the game, but also a function of the assets one has to play with, and how these assets can be deployed and redeployed in a changing market environment. They define the dynamic capabilities approach as ways of exploiting existing internal and external firm specific competencies to address changing environments. The 'dynamic' aspect of the model concerns firms' ability to modify and revise their competencies in order to achieve a better fit with an ever-changing environment. The capabilities component addresses changing internal and external organisational skills, resources, and functional competencies to better match the external environment. The dynamic capabilities concept stresses the creation of competitive advantage through the use of processes (organisational and management), positions (firms assets of all types), and paths (beliefs and habits constrain future behaviour) to develop high performance routines over the long run.

Collis (1994) argues that there are probably as many definitions of organisational capabilities as there are authors in this field of study. He distinguishes three categories of capabilities:

- Capabilities as an ability of the firm to perform basic (functional) activities;
- Capabilities as the common theme of dynamic improvement, such as “dynamic routines”; and
- Capabilities as the more metaphysical strategic insights in the future used to develop novel strategies.

Consequently, an “organisational capability” is the ability (skills and routines) of a firm to use its available assets to a desired, intended end (performance). A skill is a capability at a personal level. At the organisational level, skills may be defined as organisational routines or capabilities, which are complex patterns of social action (Pentland and Rueter, 1994). When the skills of several people have been collective and they have become a pattern of interaction there then exists a so-called organisational routine. Organisational routines are patterns of interaction that “enable distinctive activities to be performed” (Teece, Pisano and Shuen, 1997: 516). Teece, Pisano and Shuen (1997) characterise dynamic capabilities as ‘trajectories of competence development’. Thus according to this framework dynamic capabilities combine flexibility, which enable firms to change, with constraints, which derive from these firms’ histories.

Eisenhardt and Martin (2000), addressing the criticisms of dynamic capabilities model as being theoretically ambiguous, propose that dynamic capabilities include many specific routines which have been researched extensively, including product development (Dougherty, 1992) replication and brokering (Hansen, 1999), and co-evolving (Eisenhardt and Galunic, 2000). In contrast to Teece Pisano and Shuen (1997) who characterise dynamic capabilities as firm specific processes developing from path dependencies, Eisenhardt and Martin (2000) argues that dynamic capabilities have many common features across organisations and can be viewed as best practices.

The dynamic capabilities approach does not rely on protective measures to protect a firm’s resources because competitive advantage is considered to be temporary. There is significant uncertainty about the future and the only certainty a firm has is that the future will be different. The dynamic capabilities approach focuses on creating and developing new resources as a long-term commitment in which development trajectories (internal as well as external forces) and change are central (Teece, Pisano and Shuen, 1997). The

notion of technological paths, or trajectories, is widely used in evolutionary theory of economic and technological change (Nelson and Winter, 1982).

Brown and Eisenhardt (1998) advocate a strategy based on what they call "competing on the edge," combining elements of complexity theory with evolutionary theory. In such a framework, firms develop a "semi-coherent strategic direction" of where they want to go. They do this by having the right balance between order and chaos - firms can then successfully evolve and adapt to their unpredictable environment. By competing at the "edge of chaos", a firm creates an organisation that can change and produce a continuous flow of competitive advantages that form the "semi-coherent" direction. Firms are not hindered by too much planning or centralized control, but they have enough structure so that change can be organised to happen. They successfully evolve, because they pursue a variety of moves, and in doing so make some mistakes but also relentlessly reinvent the business by discovering new growth opportunities. This strategy is characterized by being unpredictable, uncontrolled, and inefficient, but it works. It's important to note that firms should not just react well to change, but must also do a good job of anticipating and leading change. In successful businesses, change is time-paced, or triggered by the passage of time rather than events.

Dynamic capabilities are different from the static operational competencies. Static competencies or proficiencies may provide firms with operational effectiveness, by helping firms perform effectively their basic operational activities, such as logistics, marketing campaigns, manufacturing processes, and operational management (Amit and Schoemaker, 1993; Prahalad and Hamel, 1990). In contrast, dynamic capabilities are the creative capacity for dynamic improvement and renewal of functional activities, in response to environmental changes (Collis 1994). This is consistent with Henderson and Cockburn (1994) who discriminate between 'component competence' or managing the day-to-day operations and 'architectural competence' or building new competencies. Teece Pisano and Shuen (1997) suggest that the dynamic capabilities approach is promising both in terms of future research potential and as an aid to management endeavour to gain competitive advantage in increasingly demanding environments. This implies that in building a conceptual framework based on dynamic capabilities, it is vital to identify the foundations upon which distinctive and difficult-to-replicate advantages can be built, maintained and enhanced. However, according to Eisenhardt and Martin (2000) dynamic capabilities are necessary but not sufficient conditions for competitive advantage. They argue that long-term competitive advantage lies in the resource configurations that managers build using dynamic capabilities, not in the capabilities themselves. These

resource configurations and their reconfiguration over time have to be taken into consideration.

2.5 INTEGRATIVE PERSPECTIVE ON COMPETITIVE ADVANTAGE

2.5.1 Conceptual Contributions to the Integrative Perspective

The resource-based view of the firm fails to understand how firms accumulate such resources (Nonaka, Toyama, and Nagata, 2000). It does not address the issue of dynamism, which is the way in which the firm continuously builds such resources. As Nonaka et al (2000) suggest: 'the organization actively interacts with its environment, and reshapes the environment and even itself through the process of knowledge creation' (Nonaka et al., 2000: 4). In his perspective a relevant problem is to understand what capabilities drive the dynamic processes through which new resources are created out of existing firm-specific capabilities.

A comparison of the competitive forces perspective and the resource-based perspective in terms of their implications for the strategy process is revealing. From the competitive forces perspective, an entry decision looks roughly as follows: (i) pick an industry - based on its 'structural attractiveness'; (ii) choose an entry strategy based on conjectures about competitors' rational strategies; (iii) if not already possessed, acquire or otherwise obtain the requisite assets to compete in the market. From this perspective, the process of identifying and developing the requisite assets is not particularly problematic. The process involves choosing rationally among a well-defined set of investment alternatives. If assets are not already owned, they can be purchased (Teece, Pisano and Shuen, 2000).

From the resource-based perspective, firms are heterogeneous with respect to their resources, capabilities, and endowments. Further, resource endowments are 'sticky'; at least in the short term, firms are to some degree stuck with what they have and may have to live with what they lack. The reason is threefold: firstly business development is viewed as an extremely complex process. Firms lack the organizational capacity to develop new competencies quickly. Secondly, some assets are simply not readily tradable, for example, tacit knowledge and reputation. As such, resource endowments cannot equilibrate through factor input markets. Finally, even when an asset can be purchased, firms may stand to gain little by doing so (Teece, Pisano and Shuen, 2000).

Some authors have offered conceptual insights on how strategy links firms and their environments. For instance, Amit and Schoemaker (1993) examine the conditions that

contribute to the realization of sustainable economic rents. They emphasize the possibility of using different conceptual tools simultaneously and follow a multi-perspective approach. Amit and Schoemaker (1993) contend that in an uncertain, complex, and conflict environment, more refined research tools are required. This requirement is satisfied by the use of a sum of different approaches, each focusing on a single aspect of reality, but able to explain the real nature of competition when brought together. Amit and Schoemaker (1993) focus on the linking the industry analysis framework, the resource-based view of the firm, behavioural decisions biases and organisational implementation issues.

To Amit and Schoemaker (1993), the challenge facing an organisation is to identify a set of strategic assets (the set of firm specific resources and capabilities), as grounds for establishing the firm's sustainable competitive advantage, and thereby generate organisational rents. The rent producing capacity of these strategic assets depends on their own unique characteristics as well as on the extent to which they overlap with the industry-determined strategic industry factors. In this way Amit and Schoemaker (1993) combine the internal focused resource based view theory with the well-known concepts developed by Porter. Amit and Schoemaker (1993) conclude that organisational rent stems from imperfect and discretionary decisions to develop and deploy selected resources and capabilities. They also mention that managers face high uncertainty, complexity, and intra-firm conflict when making decisions concerning resources and capabilities. If the demand is on both flexibility and sustainable competitive advantage the resource-based view theory is not sufficient. The resource-based view is static and does not treat the highly dynamic environments. However, the resource view is important because of the focus on the firm, but a complete analysis of competitive advantage requires more research tools. These tools are identified in:

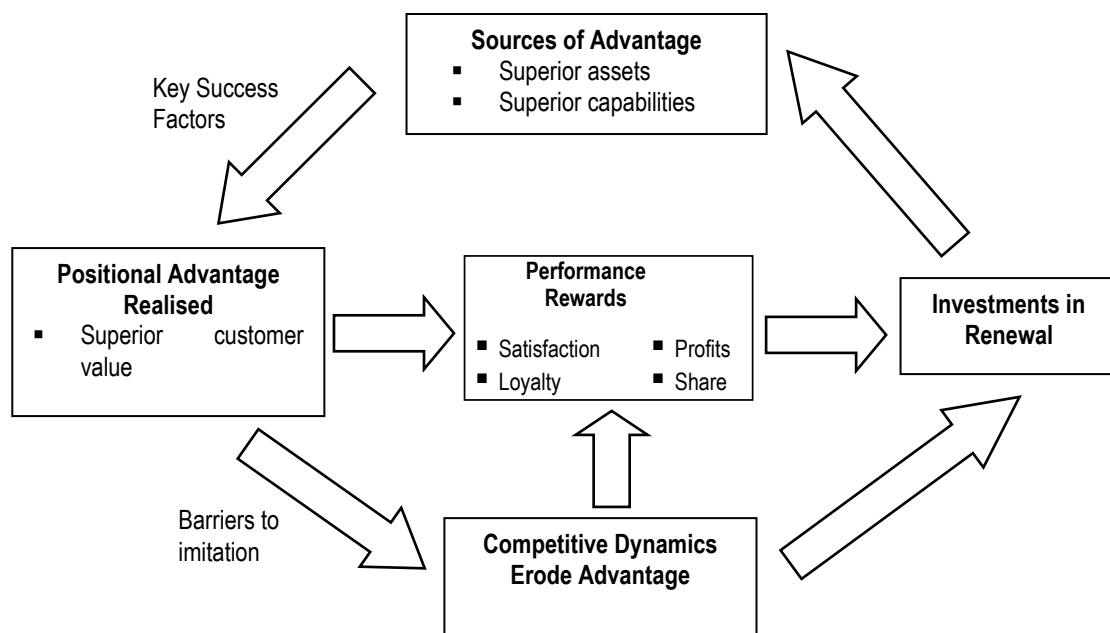
- The industry analysis approach, to understand better the structure of each industry;
- The resource view, to study resources and competencies internal to the firm; and
- The behavioural decision theory, to investigate the decisional and behavioural patterns used by managers.

The three approaches are all relevant to better understanding the present industry environments in which firms operate, helping management in their decision-making process. Amit and Schoemaker (1993) divide the decision-making process into two stages. First of all, managers have to construct possible future scenarios, using the tools offered by behavioural decision theory. At this stage, managers develop a deeper awareness of their different perspectives and evaluation models in response to risk

situations. For this purpose, behaviour theory seems to be the most useful perspective. Once different scenarios are identified, management can develop the right competitive market interaction for each possible future situation, in light of industry opportunities (industry analysis) and firm capabilities (resource based analysis).

Similarly, Day, Reibstein and Gunther (1997) suggest that neither of the two main domains of competitive advantage offer the full picture, but together they describe both the state of advantage and how it can be gained. They propose that the position and performance of the firm in its industry describe the state of advantage, but its positional superiority is a consequence of relative superiority in the resources a business deploys. These resources, in turn, are the result of past investments made to enhance the competitive position. Day *et al.* (1997) suggest that the creation and maintenance of advantages is a continuous cycle, as illustrated in Figure 2-9. At any time, businesses are endowed with a mixture of resources. Some assets and capabilities are no better than those of the competition; others are inferior, while a few are superior to the competition. These superior assets and capabilities are the source of positional advantages.

Figure 2-9 Competitive Advantage Cycle



Source: Day, Reibstein and Gunther (1997; 53)

A position of competitive superiority and the resulting market share and profit rewards are continually subject to erosion by competitive moves and changes in the market. In this dynamic cycle, strategy has two purposes. The first is to put impediments in the way of competitors to protect current advantages. Secondly, as these barriers to imitation are

continually being eroded, the business has to keep investing in new assets and capabilities. This process of renewal can be achieved by:

- Developing new assets;
- Upgrading existing capabilities through continuous improvement or radical reconfiguration of current processes;
- Acquiring the alternative resources that are threatening the firm's current positions; and,
- Investing to extend the resources into new competitive arenas (Day *et al.*, 1997).

Hooley, Greenley, Fahy and Cadogan (2001) suggest a model where the parameters for strategy selection are set through consideration of both the external market environment and internal resources available to the organisation. They propose two starting points for the development of strategies. The first advocates an external orientation to strategy development through focusing on the market environment, and in particular customer requirements and competitor actions. The second approach has an internal orientation focusing on the firm or organisational resources. With this approach, strategy begins closer to home with a clear identification of the differentiating resources (assets and capabilities) at the firm's disposal.

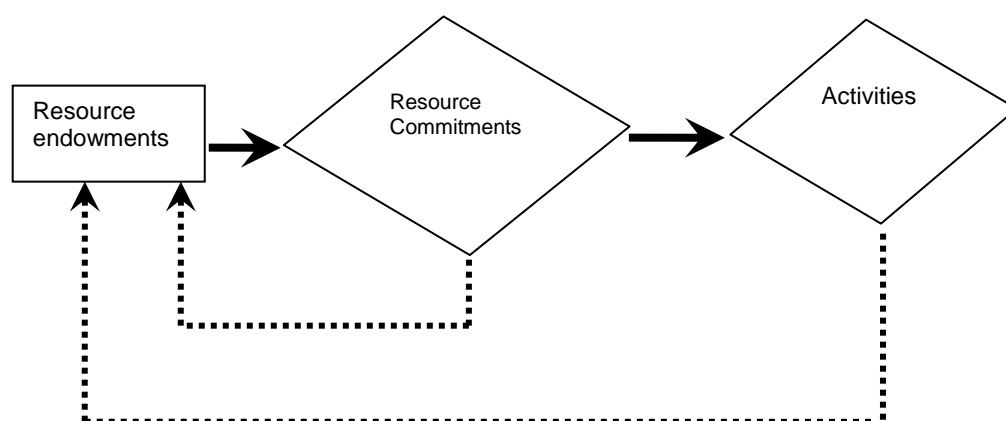
Once these resources have been identified, a match is sought with the potential customers, and strategies and actions developed to leverage resources in identified markets. The parameters for strategy selection, in the model, are set through consideration both of the external market environment and the internal market-focused resources available to the organisation. Hooley *et al.* (2001) define market-focused resources as those resources that can create value in the market place and conceptualise these as of three types: organisational culture, market assets; and capabilities. They affirm that organisational culture sets against the backdrop against which strategic decisions are made, as the degree of orientation to different stakeholder is likely to affect both strategy selection and implementation.

Hooley, Greenley, Fahy and Cadogan (2001) recognise organisational culture as exhibiting many of the characteristics of isolating mechanisms, above all other organisational resources. They note that of the tangible and intangible assets, the intangible assets are often most difficult for competitors to imitate. Marketing assets can be described as resource endowments the firm has acquired over time and that can be deployed to its advantage. Marketing assets include: customer based assets such as

company name and reputation, branding, market knowledge, customer relationships, customer data bases; distribution or supply chain based assets like distribution network and relationships with key suppliers; internal assets such as cost advantages, information systems, technological skills, legal patents and copyrights, licences and franchises; and alliance based assets which give access to new markets, new technology and additional managerial resources.

Ghemawat *et al.* (1999) argues that a fully dynamic approach to strategy demands a theory that links not only what the organisation did in the past to what it can do well in the presently, but also what it does presently to what it can do well in the future. The resource-based view focuses on what the firm did in the past to the present and does so in a restrictive way. He emphasises the need to change focus, switching from the analysis of competitive advantage to the analysis of the idea of 'commitment'. He points out that resources and competencies considered by the resource view are difficult to identify and too numerous to be studied in a concrete way. Furthermore, the resource-based view does not give the due importance to temporal patterns of strategy implementation.

Figure 2-10: Ghemawat's Dynamic View of the Firm



Source: Ghemawat *et al.* (1999; 120)

The resource-based view focuses on just one of these two links, from the past to the present. He proposes a dynamic framework (Figure 2-8) for thinking about strategy in which both management and history matters. The framework attempts to integrate and generalise the activity-system and the resource-based view in a way that connects the evolution of firms' resource endowments or opportunity sets to the choices, both activity- and resource-related, that they make from their respective menus of opportunities. The two feedback loops running from the right to the left emphasize how the activities that a firm performs and the resource commitments that it makes affect its future resource endowments or opportunity sets. The two bold arrows running from the left to the right

suggests two separate points. First, choices made about which activities to perform, and how to perform them, are constrained by resources that can often be varied only in the medium-to-long run. Second, history matters with respect to both long-run resource-related choices and short-run activity-related choices. In other words, the terms on which an organisation can make resource commitments and perform activities depend in important ways on the legacy of choices that the organisation has made in the past. Proponents of activities as the basis of analysis would presumably focus on choices in the last element of the framework and the proponents of resources would focus on the first element and how it constrains choices in the last element. The framework not only spans two different perspectives, but adds value by identifying two ways to build sustainable advantages: making lumpy resources commitments and purposefully orchestrating the activities that the firm performs, a more incremental process that is often referred to in terms of developing capabilities. Investments in both commitments and capabilities can, because of their irreversible nature, lead to the emergence and persistence of firm-specific advantages.

2.5.2 Empirical Contributions to the Integrating Perspectives

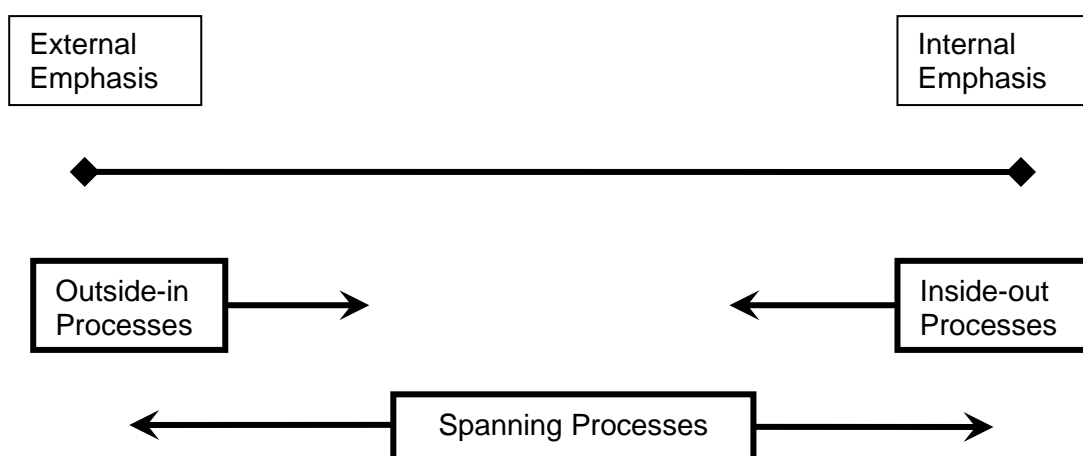
Teece, Pisano and Shuen (1990, 1997) define capabilities as the mechanisms and processes through which competencies are created, and market-driven organizations as 'superior in their market-sensing and customer-linking capabilities' (e.g. Day, 1994; 38). Market sensing is based on a superior ability to sense the trends and events in the market, while customer-linking capabilities are driven by strong cooperative relationships with customers. Marketing capabilities, which are referred to as the glue that binds resources endowments of the firm together and facilitate their effective deployment, are identified as outside-in; inside-out; and spanning capabilities. Strategy decisions are then taken on the basis of analysis of the market environment and the resources available to the firm. Based on the organisation culture, key strategic decisions would include setting of objectives; decisions on strategic focus to be pursued; generic strategy; and target competitive position aimed for.

Teece and Pisano (1998) developed the dynamic capabilities into a conceptual framework that helps capture and describe the nature of a firm's core competence. Teece and Pisano's framework focus on the development and renewal of internal and external firm-specific capabilities as being of strategic importance to business enterprises. The concept of dynamic capabilities incorporates two valuable observations: first, the shifting character of the economic environment renders it dynamic – for example, shifting barriers to entry

through technological change: second, organisational capabilities lie at the source of competitive success. In elaborating their perspective, Teece and Pisano (1998; 195) state that core capabilities must be “honed to a user need”, must be “unique”, and “difficult to replicate”.

Day (1994) examines the role of capabilities in creating an industry-oriented organisation. He identifies three distinct sets of organisational capabilities. Firstly, the outside-in capabilities focus exclusively outside the organisation. Outside-in capabilities are those skills and competencies of the firm that help it to understand changes taking place in its markets together with those that enable the firm to operate more effectively in that market. The purpose of the outside-in capabilities is to connect processes that define the other organisational capabilities to the external environment and enable the business to compete by anticipating market requirements ahead of competitors and creating durable relationships with customers and suppliers. Secondly, the inside-out capabilities, which stands at the opposite end of the spectrum, and focus on the firm’s internal resources and capabilities. The inside-out capabilities are activated by the market requirements, competitive challenges and external opportunities. Their essence is that in themselves they offer little value until they are activated by market requirements, competitive challenges and external opportunities, and subsequently deployed to create competitive advantage. Thirdly, spanning capabilities are those skills and competencies needed for integrating both the inside-out and the outside-in capabilities, and require understanding of both the market requirements and internal competencies to fulfil them. Strategy development is identified as a spanning capability that must informed by both the internal and the external capabilities. (See Figure 2-11).

Figure 2-11 Day's Classifying of Capabilities



Source: Adapted from Day 1994

Day (1994) argues that the definition of market orientation as proposed by Kohli and Jaworski (1990) is the essence of the organizational market sensing capability. The process of market sensing follows, in this perspective, all the sequence of information processing activities that a firm uses to learn. It is based on superiority in each step and can be achieved through open-minded inquiry, synergistic information distribution, mutually informed interpretation and accessible memory. Yet, the linkage between the Strategic Management idea of organizational capabilities and the Marketing Literature on market orientation though intriguing does not give any additional insight in the organizational processes that enable a firm to gain a competitive advantage. Day's work is the expression of an integration of the organizational capability approach within the market orientation framework where, nevertheless, the market sensing capability is considered as driven by the market orientation processes.

Following this approach by Day (1994) it is possible to argue that a big contribution in the analysis of the way organizations are able to absorb and use external market knowledge comes from the integration of the external perspective with the internal perspective, and in particular the Resource-Based Theory of the firm and the theory of the Dynamic Capability.

In examining capabilities in the e-business, Fahy and Hooley (2002) identify firms as Internet pioneers and Internet pragmatists. Internet pioneers have typically entered markets environment backed by strong inside-out capabilities, mainly because of the computer science and engineering background of many e-business founders. However, they argue that it is equally clear that such skills and capabilities ought to be complemented by well-developed outside-in capabilities in order to identify customer requirements and build a strong relationship with them. Fahy and Hooley (2002) further argue that market capabilities are key outside-in processes and that market research and the ability to understand customers' needs remain critically important. Firms backed by strong outside-in capabilities have been more successful into converting visitors into buyers and occasional buyers because of the relationships they have built with their customers. Fahy and Hooley (2002) argue that whilst outside-in processes are essential for Internet pioneers, spanning capabilities are also important. They contend that this is particular evident in the business-to-customer sector where sales for many companies have been strong but not profitable.

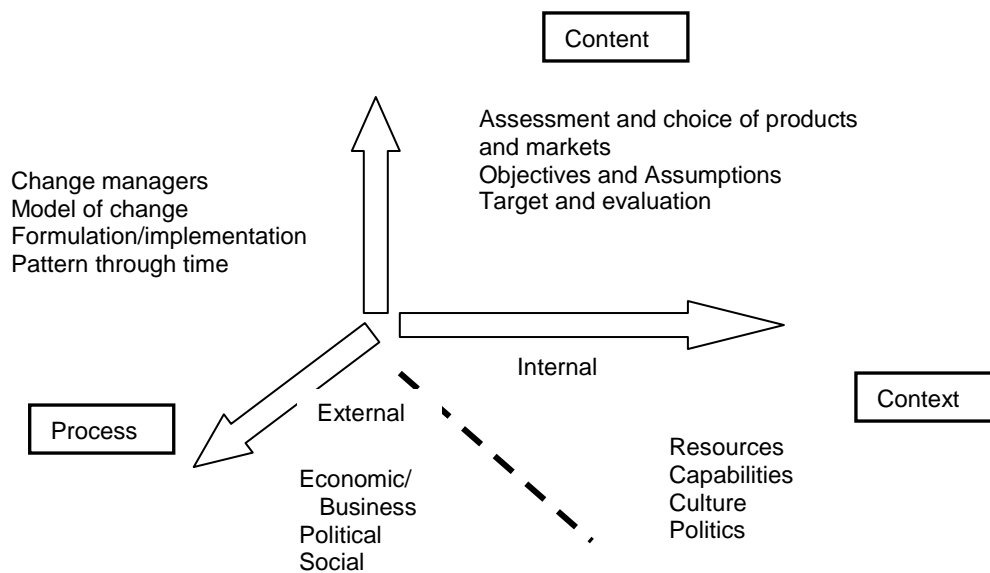
Fahy and Hooley (2002) argue that with regards to Internet pragmatists, outside-in and spanning processes are likely to be well established, as these businesses are well established with customer bases and channel relationships. The critical issue is to integrate the websites successfully into existing operations, placing emphasis on the effectiveness of key inside inside-out capabilities. Hence, the resources and capabilities of the firms focusing on inside-out capabilities and those focusing on outside-in capabilities have evolved in opposite directions demonstrating the impact of the different environment in which they operate. Whilst Internet pioneers start from inside-out capabilities and subsequently seek to develop spanning and outside-in capabilities, their counterparts, the Internet pragmatists, have started from the outside-in capabilities then developed the spanning and inside-out capabilities. While Internet pioneers have been technology driven, Internet pragmatists are most often market led. The empirical findings of Fahy and Hooley (2002) highlight the need and the usefulness of incorporating the organisational and environment perspectives in explaining competitive advantage and superior performance. Further it provides empirical support that strategy is concerned with matching the firm's resources and capabilities to the opportunities that arise in the external environment. Strategy provides an interface between the firm and its environment, highlighting firm strategy and environment strategy interface. It also emphasis that all three expressed set of capabilities, inside-out, outside-in and spanning, are important in exploring opportunities.

Pettigrew and Whipp (1991) report findings from a longitudinal study of matched pairs of successful and not so successful British firms in three sectors; automobiles, book publishing, and investment banking. In their attempt to study business performance from a dynamic and contextual perspective, they propose strategic change and competition as joint and inseparable processes. In particular they contend that these processes occur at multiple levels across time. In other words, these processes move forward within the firm, sector and national contexts. They demonstrate that both firm-level and industry-level analyses are necessary. Their proposed framework is also unusual to the extent that it pays due regard to the way such processes are structured by a trinity of forces. These include not only the objective decisions of managers using information derived from their competitive environment but they also embrace the subjective learning and the political dimensions which operates both in and outside the firm. Their motivation stems from the way the existing literature appears to have minimized the role of management in the debates over competition, and the little analytical weight that has been attributed to the capacity of management to adjust to external change. The overriding intention of the framework is to structure strategic change and competition as holistically as possible. The

design allows for an attempt to explain why firms improve or lose their relative competitive position at different points in time. They suggest that strategic change should be regarded as a continuous process, which occurs in given contexts (Pettigrew 1985b). These changes are not separate episodes divorced from their historical, organisational and economic circumstances from which they emerge (Pettigrew, Whipp and Rosenfeld 1989).

The point to appreciate is the richness of these contexts and their simultaneous shaping of strategic change. The hallmark of the processual dimension is that strategy does not move forward in a direct, linear way or through easily identifiable sequential phases. The pattern is much more appropriately seen as continuous, iterative and uncertain. Competition, similarly, is best appreciated in a multi-dimensional way (Pettigrew and Whipp, 1991). Two dimensions stand out along horizontal axis; the levels at which competition operates and the element of time. Along the vertical axis are the three major levels with their associated characteristics and measures. This model is represented in Figure 2-12. The competitive performance of a firm hinges therefore on the recognition that businesses compete not merely against one another but *at the same time* within the sectoral and national/international structures and relationships.

Figure 2-12 Pettigrew and Whipp's Three Dimensions of Strategic Change



Source: Pettigrew and Whipp (1991)

The critical findings or argument of Pettigrew and Whipp (1991) is that managing strategic change is a long-term process with action taken simultaneously and sequentially on many fronts and levels by several actors. Simple check lists cannot capture the multitude of

managerial techniques and mechanisms needed to get strategic change moving, to find its direction and to keep going at it.

The above frameworks reveal that it is helpful, in strategy analysis, to favour the simple two-way classification of internal and external factors. Further, the two main perspectives to competitive advantage are not to be used in isolation. A careful identification of external and internal factors, followed by an appraisal of their implications, strategic appraisal with vigour and depth of analysis of the factors is essential in strategy formation (Grant, 2005). Competition and strategy occurs at multiple levels and across time. In strategy analysis, consideration ought to be given on how internal context of the firm, in particular resources and capabilities, relate to the external environment. The contexts in which competition and strategy operates and the elements of time, history and process are important component of the analyses.

2.5.3 The Process of Social Becoming as an Integrative Approach

The sociologist Piotr Sztompka (1991) has constructed, in a superb and systematic way, a theory of social becoming. The quintessence of social becoming is the fusion of structure and agents to produce a joint effect through time, implying a constant interaction between the agency and the structure. This approach is in line with our assumption of contextualism, explained later, which suggests that targeted changes should be studied in the context of changes at other levels of analysis, and thus explanations of the changing relative competitive performance of firms should be linked to industrial and economic change (Pettigrew and Whipp 1991). As such, actors perform and behave within the bounds of structure, but also find ways to defy it (Sminia, 2002). Continuity is the outcome of the process whenever agencies remain within the bound of the existing structure. When this happens, the process simply repeats itself. Change occurs when the actions go beyond the given bounds and effective elements of the social structure are changed, consequently leading to new potential agency, with the resulting process taking a new turn (Sminia, 2002). This line of reasoning is similar to the structuration theory of Giddens (1979).

In line with the sociological literature, Sztompka (1991) specifies four levels of social structure. Sztompka (1991:124) distinguishes between:

- the opportunity level: variable access to or allocation of resources and facilities among populations (of companies);

- the normative level: the network of rules, norms, values and institutions prescribing and proscribing conduct;
- the ideal level: the network of ideas, beliefs, images and convictions about reality; and
- the interactional level: interactions, the reciprocal, mutually oriented actions of mutually oriented actions of multiple individuals.

The theory of social becoming leads to an analysis of the industry process as a process of continuity interfaced with distinct episodes of change. These episodes of change are thought to occur around specific controversies between the actors that are part of the industry. Sminia (2002) suggests that when it comes to applying the theory of social becoming to industry processes to identify continuity and change; it reduces to identifying the actors concerned and liking for controversies and contractions with regards to the four levels of the social structure. These contradictions and controversies occur in a successive collection of episodes. A discussion of how the theory of social becoming relates to our proposed model is found in Chapter 4, section 4.3.1.

2.6 STRATEGY FORMULATION AND IMPLEMENTATION

2.6.1 Resource-Based View and Strategy Formulation

Bowman and Ambrosini (2003) argue that the resource-based view applies in essence to competitive rather than corporate strategy. The resource-based view of the firm provides insights into strategy issues at the level of the strategic business unit or individual firms. However, the evolutionary version of the resource-based view, the dynamic capability view, provides valuable insights into how the strategic business or corporate level activity can create new resources. On the other hand, corporate strategy is concerned with deciding which industries the firm should be engaged in and how it should allocate its resources among them (Bowman and Ambrosini, 2003). Such decisions require assessment of the attractiveness of different industries in terms of their profit potential. Business strategy is concerned with establishing competitive advantage.

The starting point for strategy formulation is often some statement about the firm's identity and purpose (Grant, 2005). The tendency is that the identity is answered by the question "What is our business?" Firms have been inclined to define their business in terms of the market they serve. The tendency has been to respond to the following questions: "Who are our customers?" and "Which of their needs are we seeking to serve?" However, in a situation where customer preferences are volatile and the identity of the customers and

the technologies for serving them are changing, a strategy focused on the industry or environment perspective may not provide the stability and constancy of direction needed to guide the strategy over the long term period. When the external environment is in a state of flux, the firms defined by their resources and capabilities, may offer a more stable basis on which to define their identity. The idea concerning the role of resources and capabilities as the principal basis for firm strategy and the primary source of profitability coalesced into what has become known as the resource-based view of the firm (Grant, 2005). Central to the resource-based view is the idea that the firm is essentially a pool of resources and capabilities, which are the primary determinants of strategy and performance (Grant, 2005). Defining firms in terms of their capabilities may offer a more durable basis for strategy than a definition based upon the needs that they seek to satisfy (Grant, 2005).

Barney (2001b; 649) argues that it may be helpful to “understand that the resource-based view can be applied in several different ways and that the way it should be applied depends mostly on the empirical context of the application”. Some scholars have argued that there is one broad resource-based view that incorporates several views, which all share the same basic assumptions about how organisations outperform others and hence can be seen to be under the same resource-based view umbrella (Barney, 2001b). The assumption underlying the literature that takes a resource-based view of the firm is that the desired outcome of managerial effort within the firm is sustainable competitive advantage, which when achieved, allows the firm to earn economic rent (Foley and Fahy, 2004). The key to earning this reward is possession of critical resources that are firm specific, valuable to customers, non-substitutable and difficult to imitate (Foley and Fahy, 2004), and that lead to sustainable competitive advantage if deployed effectively (Fahy and Smithee, 1999).

Grant (1991) suggests that the case for making resources and capabilities of the firm the foundation for its long-term strategy rests upon two premises: firstly, internal resources and capabilities provide direction for a firm’s strategy; and secondly, resources and capabilities are the primary source of profit for the firm. Miller, Eisenstat and Foote (2002) suggest that popular brands and unique capabilities help sustain a firm’s competitive advantage, however, they cannot be built by imitation. Ingenious executives have been able to develop sustainable capabilities not by emulating others, but by using their organisational designs and processes to identify, build on and leverage their evolving unique experiences, contacts and resources. However, these are often concealed, of little apparent use, and unconnected to value creation (Miller, Eisenstat and Foote, 2002).

2.6.2 The Relationship between Resource-Based View and Strategic Positioning

Hooley, Greenley, Fahy and Cadogan (2001) observe that the resource-based view of the firm initially emerged to counter the excessive determinism of Porter's view of competition. This was accompanied by empirical work, which questioned the pre-eminent role of industry and highlighted the importance of organisational factors. Extensive conceptual works followed, seeking to document the characteristics and types of advantages-generating resources.

Teece, Pisano and Shuen (2000) argue that winners in the global market place have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competencies. They indicate that it is not surprising that industry observers have remarked that firms can accumulate a large stock of valuable technology and still not have many useful capabilities. Grant (2005) distinguishes between the "availability" of certain assets, and the "ability" to do something with these assets, as sources that explain the differences between firms. Firms need to develop capabilities required to serve customers requirements across a wide front. The abilities of a firm are closely connected to the development of skills, organisational routines, and cognitions. The "development" of the available assets into the ability to do something with these assets, has been largely neglected in the resource-based literature.

Grant (2005) cites possibly the most difficult problem in developing capabilities is that little is known about the linkage between resources and capabilities. He argues that in most sports, the relationship between the skills of the individual players and team performance is weak. Across all sports, there are examples of highly paid, star-studded professional teams who perform poorly, and champion teams conspicuous by the absence of superstar players. The same is true among business firms. Firms that demonstrate the most outstanding capabilities are not necessarily those with the greatest resource endowments. For example, Sony had a smaller research budget than Philips for the past three decades, yet Sony has introduced many more successful innovations than Philips. Strategy formulation could start with the competence of people. People are seen as the true agents in business; all tangible physical products, assets as well as the intangible relations, are results of human action and depend ultimately on people and their continued existence.

Hooley, Greenley, Fahy and Cadogan (2001) contend that the resource-based view highlights the importance of key resources in achieving competitive advantage. They argue that the creation of a competitive position is the outcome of deploying those individual resources towards satisfying targeted customers. Sustaining or defending the position is seen to be achieved through the deployment of mechanisms to protect that advantage. Within the resource-based view literature, this has been termed the isolating mechanisms, as they serve to isolate the advantage from competitor imitation (Rumelt, 1984). Typical isolating mechanisms include causal ambiguity, (the need to pass through critical time dependent stages to create the advantage), economics (cost of imitation) and legal barriers (such as property rights and patents) (Hooley *et al.*, 2001). Hooley, Greenley, Fahy and Cadogan (2001) argue that from a strategic management perspective, key individual firm resources are assessed for their ability to create a sustainable competitive advantage based on the extent to which they exhibit isolating properties. However, from an industry perspective, creation of a competitive position is the outcome of deploying those individual resources towards satisfying target customers.

Several authors have tried to address the issue of which kind of processes and capabilities drive the industry -oriented organizations (e.g., Deshpande' and Webster, 1989; Kohli and Jaworski, 1990; Slater and Narver, 1990; Day, 1994). These works has useful on the one hand, in trying to identify the activities and processes of an organization that describe its market orientation; and, on the other, to try to analyze the relationship between an organizational market orientation and its innovativeness. The construct of industry orientation has been defined both in terms of processes and in term of content of the market intelligence process.

Kohli and Jaworski (1990;6) define the market orientation as 'the organization wide generation of market intelligence pertaining to current and future customers needs, dissemination of the intelligence across departments, and organization wide responsiveness to it'. Slater and Narver (1990) consider the market orientation as a one-dimension construct that comprises three different behavioural components: customer orientation, competitor orientation and inter-functional coordination. The first one is the firm's understanding of the target market; the second is the firm understands of the capabilities of the present and future competitors; the inter-functional coordination is the coordinated use of firm's resources and capabilities to create superior value for customers. The idea that results from the integration of these two perspectives is, first, that the market orientation is an information-based construct, centred not only on customers, but also on competitors and players working in other industries.

Indeed, there is a relevant difference between those firms that are customer-led and those that are market-oriented. “Market-oriented businesses scan the market more broadly, have a longer-term focus, and are much more likely to be generative learners” (Slater and Narver, 1998:1003). In addition, the market orientation has a behavioural characterization. Indeed, the concept is related to the organizational information processes that affect its market performance. Yet, this stream of literature shows some shortcomings. First, it does not explore the problem of the type of knowledge affecting the acquisition, dissemination, and responsiveness processes. Knowledge is characterized by different levels of complexity and codification. Its intrinsic variety has to be considered because it might require the organization to use different tools in order to tackle with it.

Hence, competitive position can itself be tested for sustainability by assessing the extent to which it exhibits isolating mechanism properties. Sustainability is achieved through the deployment of mechanisms, as they serve to isolate the advantage from competitor imitation (Rumelt, 1984), to protect the advantage. Hooley, Greenley, Fahy and Cadogan (2001) argue that competitive positions are created through the deployment of competitive advantage generating resources matched to the needs of target customer groups. Sustainability of those positions will be dependent on the ability of the firms to protect the individual resources utilised from competitor copy together with the ability to protect the competitive position itself. The position itself may exhibit the ability to achieve greater degrees of isolation than the individual resources used to create it (for example, greater causal ambiguity, increased path dependency, etc). There has been relatively limited theoretical and empirical research focusing on how competitive positions are created in the first place, and once created how they can be defended against competitor imitation or encroachment (Hooley, Greenley, Fahy and Cadogan, 2001). In this light, the resource-base view of the firm serves as this study’s overarching theoretical framework (Hult *et al.*, 2005).

2.7 THE INDUSTRY ENVIRONMENT

2.7.1 The Tourism Industry’s Contribution to the Economy

The tourism industry revolves around providing services to tourists. Tourists are described as visitors who stay overnight at a destination. In describing tourism, Middleton (1988) suggests that the approach can be from both the demand side and the supply side, as the total market. From the demand side, tourism is based on three categories of visitor demand, each being a different sector of the total market – international tourism, domestic

tourism and excursion. International tourism comprises international visitors, who are resident of another country, travelling to a country - inward tourism. International tourism also applies to residents of a country, travelling as visitors to another country - outward tourism. Domestic tourism is the term used for residents of a country visiting destinations within their own country. The terms excursionists or day visitors are used to describe visitors who arrive and depart on the same day (Middleton, 1988; World Tourism Organisation, 1995). The term excursion is also used in the Seychelles Tourism Industry to mean day trips by plane or boat from an island to another, or by bus from one tourism destination on an island to another (Lisa Padayachy, 2007).

From the supply side, Middleton (1988) identifies five component sectors in the tourism industry: the accommodation sector; attractions sector; transport sector; travel organisers sector and the destination organisation sector. Each of the five component sectors comprises several sub sectors. However, all five sectors within the industry are intrinsically connected. It is useful to have data on the capacity and characteristics of tourism supply, specially the establishments that supply tourism goods and services. Such data assists the National Tourism Authorities to choose target markets that seek the goods and services the country's tourism sector offers (World Tourism Organisation, 1995).

International tourists are usually treated as the most important market sector of tourism because, compared to domestic tourists, people who travel to and stay in countries other than their own country of residence, tend to spend more, stay longer at the destinations, use more expensive transport and accommodation, and bring in foreign currency which contributes to a destination country's international balance of payments (Middleton, 1988). They stimulate national and local economies in the country, often provide needed foreign exchange and help finance amenities that can be enjoyed by the countries' citizens (World Tourism Organisation, 1995). Seychelles targets inward international tourism for these reasons. Measured as visitors' arrivals, the volume of international tourism and their expenditure have grown strongly since 1950s, notwithstanding temporary fluctuations caused by international energy and economic crises (Middleton, 1988). It is important to accurately measure and describe this form of tourism for several reasons. For example, such information permits segmentation of the international tourism market and selection of key segments for marketing attention. This would also provide vital marketing and strategic information for Air Seychelles.

A programme of inbound visitor measurement can provide expenditure information that permits the estimation of the economic impact of tourism (World Tourism Organisation, 1995). The maximisation of tourism's contribution to the net economic welfare of the citizens is a major public policy objective of nations. In order to improve the overall welfare of their citizens, governments aim at maximising tourism's net economic benefits, or the excess of economic benefits over economic costs attributable to visitors (World Tourism Organisation, 1995). This is because tourism has the potential to boost the rest of the economy providing employment, and creating demands for goods and services, especially in island states. In this context, Seychelles used tourism as a platform for socio-economic development and the visitors to Seychelles are the actual and potential clients of Air Seychelles. An increase or a decrease in visitor's arrival would have a direct effect on the destination and Air Seychelles.

Data describing visitors are crucial for determining which segments of the visitor market are currently travelling to a country. National Tourism Authorities, Agencies, airlines like Air Seychelles, and the private sector can market these segments to build repeat business and attract similar travellers who have not yet visited the destination (World Tourism Organisation, 1995). Information on the volume and the characteristics of tourism supply available in the country are essential to understanding the industry and for sound planning and marketing. Statistics that describe the accommodations, attractions, transportation and other sectors of the tourism product can help determine their competitive advantage and target markets (World Tourism Organisation, 1995). In addition to marketing efficiently, governments are interested in the impact of visitors on the net economic welfare of the citizens. The overriding issue is whether the visitors attracted by the marketing expenditures return more to the citizens and their government than it costs to attract and serve them. A secondary issue is whether the target markets return the most net economic benefit to the residents in the country (World Tourism Organisation, 1995).

However, the impact of tourism in the other sectors of the economy may not be totally accounted for as it is not possible to have a more accurate measure of what the impact really is since no system exists to analyse the same. Not all data required for a complete monitoring and evaluation of the tourism industry is available in Seychelles. In particular data and strategic information needed to enable the quantifying of the relation between the link between the tourism industry and other sectors. For instance, the government is hence pushing to have the Tourism Satellite Account established in Seychelles. This tool will give all stakeholders a better picture of the significance of the links between the various sectors. It will also be useful in identifying those areas which have further

potential for enhancement (Nalletamby, 2007).

It is perhaps within this context that the World Tourism Organisation (1995) advocates for better statistical data on tourism flow, their economic consequences and on the behaviour and characteristics of visitors; that is, improved marketing and economic impact research. They argue that the measurement and valuation of tourism activities have become even more important in a world where domestic and international tourism is increasing and governments are wrestling with finite budget resources and infinite demand for services.

2.7.2 The Tourism Industry Life Cycle

Butler's (1980) Tourism Area Life Cycle model is a graphical model, representing a succession of phases in a normally long period of time, can be a very relevant tool for monitoring several areas of knowledge. The Tourism Area Life Cycle model is one of the most robust and widely used conceptual and managerial frameworks to be employed in the tourism area. The model has been subject to extensive scrutiny, application and criticism and this debate shows little sign of decreasing (Baum, 1998). Butler's contribution to the tourism literature, through his 1980 paper, has been seminal and the model is one which has influenced researchers and students greatly over the subsequent three decades. For example, it has attracted particular attention as an explanatory framework to assist in understanding the decline process experienced by northern coastal resorts in Australia (Baum, 1998).

This study uses the Butler's Tourism Area Life Cycle to provide an explanatory framework of the outer context and to understand and situate the development of tourism in Seychelles in context. Tourist attractions are not infinite and timeless but should be viewed and treated as finite and possibly non-renewable resources (Butler, 1980). It is in an attempt to understand the apparent fluctuations in the prosperity of resort regions that Butler (1980) proposed a Tourism Area Life Cycle theory of Evolution.

So far the theory has not been found to be easily applicable to any given situation without adjustment to suit a region's unique characteristics (Choy 1992; Hovinen 1981). As a consequence, numerous hybrid versions of Butler's original theory have been developed, but none have been adopted as universally applicable. Researchers have tended to revert back to Butler's original theory, as the basis for their own work and this study is no exception. As Butler (1998) argues, some of the criticism levelled against the Tourism Area Life Cycle has been based on the application of detail rather than upon recognition of

more general attributes and strengths. Indeed, perhaps one of the reasons for the acceptance of Butler's conceptual approach is that it is not very specific. The theory has an "overall simplicity" which makes it applicable to a larger than otherwise number of situations (Haywood 1986:154).

In discussing tourism, the term destination becomes ubiquitous; though, it is not always clear what a destination is. Beirman (2003; 2) defines a destination as "a country, state, region, city or town which is marketed or markets itself as a place for tourists to visit." Regardless of what geographic scope one assigns to the term destination, a destination is a product that must be marketed to its consumers. For our study the term destination, refers to the Seychelles Islands. In line with Beirman's (2003) definition; Seychelles is a country which is marketed and it markets itself as a place for tourists to visit.

Even if the model has been applied to over a dozen destinations and resort areas, these case studies lack standardized approaches, uniform measures and rigorous quantification (Getz, 1992). Lundtorp and Wanhill (2001), after reviewing the latest references on the model, come to the conclusion that the lifecycle model is only a statistical approximation or caricature of the real world. The conceptual and empirical difficulties remain including problems of empirically defining the stages, questions about the inevitability of the progression, and complications involving multiple products with multiple cycles in a given destination (Agarwal, 1997). In spite of these limitations, a number of authors continue to view the lifecycle model as a useful, descriptive, and analytic framework for understanding the general processes and patterns of tourist development (Hovinen, 2002), not only for individual destinations but also at the more macro level as a regional model of tourist evolution. Agarwal (1997) states, the model also provides a conceptual framework for understanding change within destinations and this means that it is still used as a reference when discussing the evolution of tourist markets. Butler's model can be understood not as a model of real evolution, but rather, as is stated in his own article, as a hypothetical cycle.

The Tourism Area Life Cycle has a number of features which give it robustness despite its longevity. According to Butler (1980), the original model included:

- recognition of dynamism within the tourism environment — at the time of its inception, constant change was not as widely recognised in tourism as it is today;
- a focus on a common process of development within tourism destinations, permitting description and modelling;

- recognition of capacity or limits to growth in destinations, again a relatively new concept in tourism at the time but one imported from growing thinking in this area in the recreation literature;
- identification of triggers in the environment which bring about changes to a destination;
- recognition of the management implications of the model and, in this sense, the practical links to the product life cycle are evident;
- an argument for the need to view tourism planning in its long-term context;
- a spatial component which argues that there would be a series of spatial shifts as development stagnates; and
- universal application, namely that the model was essentially true for all tourist destinations (Butler, 1998: 4–5).

Butler's (1980) Tourism Area Life Cycle theory emphasizes the dynamic, market-driven thrust of tourism development and argues that successful destinations pass through a regular sequence of growth stages that parallel the S-shaped logistic curve. The growth stage will follow a life cycle characterised by six stages: "exploration", "involvement", "development", "consolidation", "stagnation" and then either "decline" or "rejuvenation". For Butler, the variables under analysis were related to the number of tourists and their behaviour in terms of rise, stagnation or fall determines the stage correspondence. He suggests that tourist numbers, when graphed over the life of a resort, will form an "S"-shaped life cycle curve. Each stage is recognisable by a number of criteria. The model is used as a conceptual framework for analysis, for forecasting purposes and as a strategic planning tool.

Butler (1980) introduced the concept of the Tourism Area Life Cycle as a model which clarifies and extends earlier work by, for example, Cristaller (1963), Noronha (1976) and Stansfield (1978). In doing so, Butler clearly links the development cycle of tourism destinations to that of products in the product life cycle model, dating from the 1950s, which was already established in consumer marketing by the time that Butler adapted the framework to destination development.

The Butler's Tourism Area Life Cycle stages are difficult to quantify even if many destinations may intuitively know their position. Knowles (1996) identifies eight factors which can assist in identifying the life cycle stage: market growth rate; growth potential; range of product lines; number of competitors; distribution of market share amongst competitors; customer loyalty; entry barriers and technology. Another approach is to

consider growth indicators (Cooper, 1992) such as: rates of volume growth; ratio of repeat to first-time visitors; length of stay; visitors' profiles; expenditure per head; and visit arrangement (package/independent) (Cooper, 2002).

The literature appears to suggest that Butler's Tourism Area Life Cycle may be a useful conceptual tool for the examination of the development patterns of tourism in various destinations. For example, Ioannides (1992) indicates that the path of growth of the tourism industry in Cyprus followed Butler's Tourist Area Life Cycle. Goncalves and Aguas (1997) conclude that the six stages proposed by Butler were suitable for the examination of how tourism evolved in the Algarve region of Portugal. A case study of Isle of Man conducted by Cooper and Jackson (1989) revealed that Butler's tourist area lifecycle was a useful descriptive tool for analyzing the development of that destination. However, when the destinations do not fit the descriptions of the Butler's Tourism Area Life Cycle stages, the model begins to show limitations.

Some researchers have reported that Butler's model needs revision or extension when studying alternative forms of tourism. The type of tourism activity and the region where the destination is located appear to influence the applicability of the model. A study by Choy (1992) suggests that Butler's Tourist Area Life Cycle was not applicable to most pacific island destinations as it was not able to explain the large variation in growth patterns across various destinations in that region. Hovinen (2002) and Foster and Murphy (1991) argue that the model had limitations in explaining the development of cultural tourism in Amish country and retired tourism in Vancouver. Foster and Murphy (1991) found that the model provided a good description of early tourism trends of resort retirement communities on Vancouver Island, but that the model failed to explain the later development patterns of those resort communities. Hovinen (2002) concluded that Butler's later stages of consolidation and stagnation did not fit well with the empirical evidence he collected from Lancaster County in Pennsylvania. Cohen (1979) also argued that the tourist area lifecycle has limitations in explaining the development of ethnic tourism in Southeast Asia.

The basic idea of Butler's (1980) Tourism Area Life Cycle model is that a destination begins as a relatively unknown and visitors initially come in small numbers restricted by lack of access, facilities, and local knowledge, which is labelled as "exploration" in Figure 2-13. In the exploration stage, the most prevalent visitors are small numbers of explorers that rely on individual travel arrangements and follow irregular visitation patterns. These travellers typically seek unique natural and cultural features and pursue their own

enlightenment. During the “exploration” stage, tourism facilities do not exist, and so the visiting tourists have to share facilities with the locals. In these regions, locals still do not understand the needs of outsiders visiting their region and consequently they do not know how to provide the desired accommodations and entertainment. Contact with the locals is likely to be high and a positive experience, but the economic return to the region from tourism would be insignificant at this stage.

In the “involvement” stage, locals are heavily involved in the provision of tourism facilities as the popularity of the area increases. Local residents begin to dedicate resources (facilities, people, events) towards their visitors. Some advertisement to attract more tourists can be expected; although most often, the advertising is not controlled or originated by the local community. Locals will start to advertise in order to attract visitors and contact between the two groups will remain high, affecting the lives of people involved in tourism. Pressure will start to be applied to government organisations to provide tourism infrastructure such as transport and local amenities likely to be used by the tourists (Butler 1980:8). A tourism “season” starts to define itself. The first variations in tourist numbers begin to take shape creating high and low seasons.

In the development stage, the number of tourists keeps increasing and may equal or exceed the number of permanent local residents. During this stage heavy advertising of tourism venues takes place. Local ownership and control declines and is superseded by external (domestic or overseas) owned and controlled facilities, particularly in the area of accommodation. At this stage there is loss of control due to external ownership and importation of managerial expertise as well as a leakage of money to people outside the area. This leakage of money could be, for example, to tour companies which operate from capital cities, where they have access to markets, information, finance, lobby and legal services. This phenomenon is often referred to as a “centre-periphery conflict” (Keller 1987:20). At the same time, local attractions are marketed specifically, but these are also supplemented more and more by artificial attractions. The landscape starts to change, particularly in terms of new development and buildings. While natural and cultural attractions continue to attract tourists, these original attractions are gradually replaced or enhanced by man-made facilities. At this stage, some local people start to object to these changes. Regional authorities will become involved in planning and the provision of facilities, and again, this process may not suit all locals. During peak periods, the number of tourists may start to exceed the local population and the use of imported labour will commence. Auxiliary industries such as laundries will also be set up to service the tourism industry (Butler 1980:8).

Following the rapid growth of the “development” stage, Butler (1980) postulates a “consolidation” stage, during which the rate of increase in visitor numbers declines. He also said that the total number of visitors will exceed local residents and that the local economy begins to rely heavily on tourism revenues. Due to the increased image of the destination (and its decreased uniqueness) and the growth in facilities and access, organized package tours take control of the tourism market. Despite the reliance on tourism, a significant proportion of local people, particularly those not involved in the tourism industry, will resent tourists. The industry responds to the decline in the growth rate by wide-ranging advertising campaigns and efforts to extend the tourism season and market area. Butler also states that resort cities will have well defined recreational business districts and possibly also facilities and infrastructure starting to show signs of age or of a “second rate” standard (Butler 1980:8).

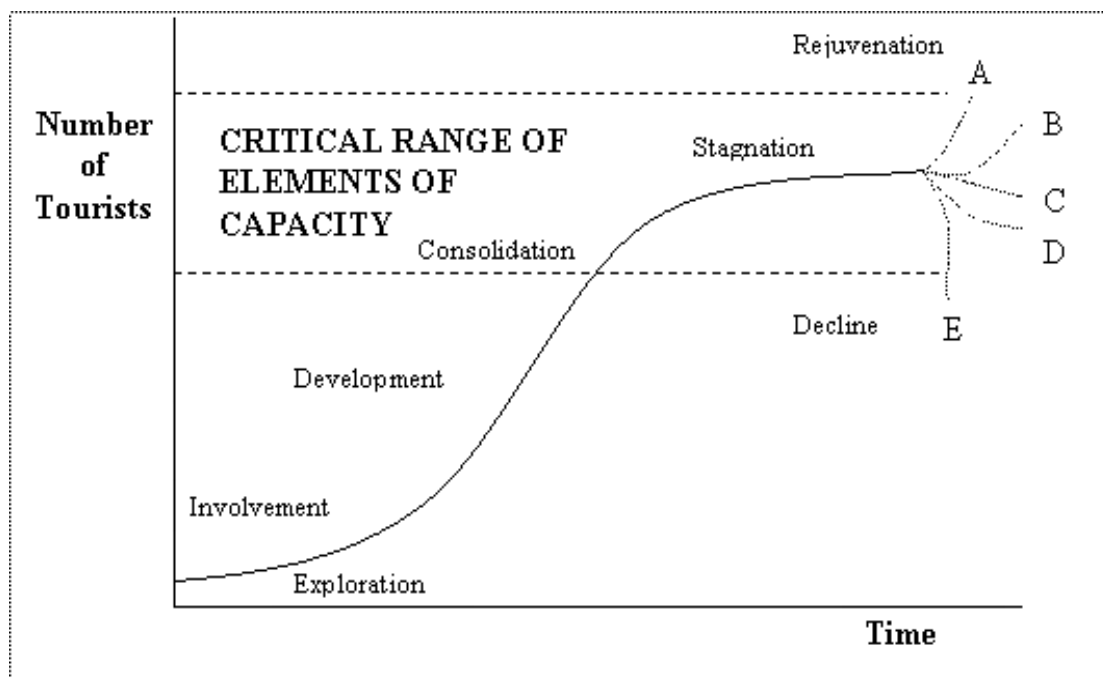
Butler’s (1980) fifth stage, known as the “stagnation” stage, is when “peak visitor numbers have been reached and capacity levels exceeded for many variables resulting in environmental, social and economic problems” (Butler 1980: 9). In the stagnation stage, the peak number of visitors and capacity levels are reached. At this time, the area is well-known and has a well-established image but no longer fashionable. As a result, there will be some diversification into conventions and conferences in order to maintain visitor numbers. There will be a large number of manufactured attractions which may start to outnumber the natural and cultural attractions that made the area popular in the first place. The older properties will change hands frequently, although some new developments may still occur, but on the periphery of the original tourist area. Butler also says that the type of visitors tends to change to organised mass tourists (Butler 1980:9).

After reaching this plateau, some destinations may fall into the decline stage characterized by decrease in the tourism market and the collapse of tourism infrastructures. Conversely, others may recover into the rejuvenation stage identified by complete change in the attractions, or the discovery of untapped natural resources. In the “decline” stage there will be an inability to maintain market share. People will not wish to holiday in the area, but will use the region for day trips if it is accessible to large numbers of people. Butler (1980) also stated that during this stage, property turnover will be high and previously tourism related structures will get converted to non-tourism uses as the economy switches to other areas. Local people will become more involved in tourism because they are able to buy in at very depressed prices due to the decline in tourism. Non-tourism uses for buildings include retirement centres, apartment buildings and offices, since the tourism

attractions also attract permanent residents. In the end, the tourism industry offers a very low level of facilities, or dies completely (Butler 1980:9).

The possible trajectories indicated by dotted lines A-E in Figure 2-13 are examples of a subset of possible outcomes beyond “Stagnation”. Examples of things that could cause a destination to follow trajectories A and B toward “Rejuvenation” are technological developments or infrastructure improvements leading to increased carrying capacity. Examples of things that could cause a destination to follow trajectories C and D are increased congestion and unsustainable development, causing the resources that originally drew visitors to the destination to become corrupted, or no longer exist. The trajectory in Figure 2-13 of most interest to this research is trajectory E, which is the likely path of a destination following a disaster or crisis.

Figure 2-13 Hypothetical Evolution of a Tourist Area



Source: Butler, 1980

It is also important to point out that the Law of Diminishing Returns could cause a destination to follow trajectories similar to those of C or D, and that the concepts and practices of destination recovery, as applied to destinations recovering from a disaster, could easily be applied to a destination in “Decline” as a result of the Law of Diminishing Returns.

2.7.3 Methodology for the Butler's Tourism Area Life Cycle Model

The first stage in the design is data collection, the main aim of which is to identify two categories of variables. One type of variable is used for construction of the "S"-shaped curve and the other for the identification of Butler's (1980) criteria for each stage. The first variable is the number of visitors' arrivals. This group of variables could also be used to identify Cooper's (1990:63) threats to so-called "cold water" resorts and Haywood's (1986:161) leading indicators of stagnation. Further, since Butler's lifecycle concept not only describes the physical evolution of a tourist destination, but also the evolution of its market, this study proposes the use of some of the characteristics of this market for the second group of variables to establish in which stage the destination is. The data to be used for the cubic curve would come from existing statistical data from the official tourism statistics published by the Seychelles' National Statistical Bureau. The various criteria used to identify Butler's stages is derived existing statistical data from various sources could be used for this period. The stages is analysed separately, starting with the "exploration" stage and finishing with the "rejuvenation" stage. The resulting data was then analysed using Stata 9, however, Microsoft Excel proved to be simpler and more appropriate.

The availability of existing statistical data for the years 1971 to 2007 means that there is a suitable period for a detailed analysis of the Seychelles Tourism for this period under study. However, prior to that period, statistics are limited and tourism activity in Seychelles was not very significant compared with other sources of income, such as copra. There was, however, some tourism activity, which could well form what Butler (1980) described as the "exploration" and "involvement" stages of the model. The first part of the data gathering process was, therefore, directed towards searching for signs of early tourism activity to get some idea of the extent of the industry in Seychelles before 1971.

2.8 LINKING CHANGE PROCESSES TO ORGANISATION PERFORMANCE OUTCOMES

According to Pettigrew (1990), relatively few studies of organisational change or transformation in reality allow the change process to reveal itself in any significantly temporal or contextual manner, and 'catch reality in flight'. Pettigrew (1990) concludes that as a result, the subject of organisation change and transformation of firms merely reflects the biases inherent in the social sciences generally and in the study of organisations in particular. Pettigrew (1990) further argues that where change is treated as the unit of analysis the focus is on a single event or a set of discrete episodes

somehow separate from the immediate and more distant antecedents that give those events form, meaning, and substance. Such an episodic view of change not only treat innovations as if they had a clear beginning and a clear end, but also where they limit themselves to snapshot time-series data, fail to provide data on the mechanisms and processes through which changes are created. Studies of organisational change and transformation are therefore often preoccupied with the intricacies of narrow changes rather than the holistic and dynamic analysis of changing and transforming. There is a need to explore the evolution of competitive advantage over time and the processes through which such advantage is created.

Pettigrew (1985b, 1990) suggests that one way to respond to these weaknesses in the literature on organisational change is to encourage a form of research which is contextualist and processual in nature. A contextualist analysis of a process draws on phenomena at vertical and horizontal levels of analysis and interconnections between those levels or lowers levels of analysis upon phenomena to be explained at some further level, for example the impact of a changing socioeconomic context on features of intra-organisational context and interest-group behaviour. The horizontal level refers to the sequential interconnectedness among phenomena in the historical, present, and future time. An approach that offers both multilevel (vertical) and processual (horizontal) analysis is said to be contextual in character. This study proposes and empirically analyses a processual framework on “how” and “why” the course of the process of strategy formulation leads to a specific outcome, from a contextualist perspective by using an in-depth case study of Air Seychelles.

Processual concepts are needed to describe or qualify an ongoing process. Truly processual concepts show aspects of a phenomenon while in action: they are a combination of available resources and capability. Teece, Pisano and Shuen (1992, 1997) suggest several overlapping concepts to describe an ongoing process, such as path commitment, learning, path dependence, and path change. These different concepts highlight different aspects of the evolvement of a firm’s performance in terms of its resources. Most of these concepts explain some aspects of why a firm is as it is. Nelson and Winter (1977; 1982) use the term path or trajectory as “what is taken to follow as a matter of course” (MacKenzie, 1992:31). This definition does not make an explicit choice in favour of either voluntarism or determinism. In the concept of a strategy path, following Sztompka (1991:74) it is argued that firms as well as managers “appear as both producers and products, shaped and shaping, subjects and objects, puppets and puppet-masters at the same time.”

In interpreting the causal effectiveness of a firm's actions as on a strategy path these are partially determined, although there are possibilities for evading this determination. An important "rule of thumb" concerning the determination of managerial (human) action is that he or she could always have acted otherwise (Giddens, 1984). However, how these choices to act otherwise influence the wider processes is a different question again. Dosi (1982:153), on the other hand, is very close to determinism, stating that a strategy path shows "a momentum of its own." A path possessing "a momentum of its own" implies excluding the possibility of choice of management. Business events are causally interrelated, sequentially ordered, and cumulative through time, but do not run their own course. Consequently, the concepts strategy path and industry survival path, used in this study, do possess momentum, "but never momentum of its own" (MacKenzie, 1992:31). The strategy of a firm can be compared with the evolution of a forest walk or track. The first time someone takes a certain path it is hardly recognisable and sometimes even "illegal." As time goes by slowly the contours of a track emerge and when several tracks come together a path evolves. When a firm is in "good repair", well-established alternatives become less visible or represent paths that lead astray. The concept of strategy path is introduced here because it describes a firm's strategy in processual terms. In the case of Air Seychelles, they follow their strategy courses through the years in terms of the corporate behaviour of continuity, choices, and changes.

In-depth processual case study of a successful and long surviving firm operating in the tourism industry in Seychelles will assist to link change processes and organisational performance. Case studies have particular strengths that can be exploited. For instance, case study research is a research strategy that focuses on understanding the dynamics present within single settings; for example, Pettigrew's (1973) research on decision making at a British retailer. Case studies can involve either single or multiple cases and numerous levels of analysis (Yin, 1994). It can employ an embedded design, that is, multiple levels of analysis within a single study (Yin, 1994). For example, the Warwick study of competitiveness and strategic change within major UK corporations is conducted at two levels of analysis: industry and firm (Pettigrew, 1988). Case study research does not imply the use of a particular type of evidence. The evidence may be obtained using qualitative, quantitative or both methodologies. Case study research can employ various data collection processes.

2.9 CHAPTER SUMMARY

This chapter presented the theoretical background to the study. It introduced the concept of strategy and highlighted the importance of competition in the strategy process. It then discussed the issue of competitive advantage and presented the two major perspectives on sustainable competitive advantage, and argues that they are not meant to be used in isolation. Three streams of literature is presented in order to provide the theoretical background to the concepts for an integrative perspective on organisational strategy and the proposed contextual and processual framework to be used in this study. The first stream of literature dealt with the external perspective on competitive advantage. The second stream of literature dealt with the internal perspective on competitive advantage and focuses on the resource-based view and dynamic capabilities. The third stream of literature is based on the efforts to integrate the two main perspectives. This chapter also discussed the issues of formulation and implementation of strategy. Finally the chapter discussed the analysis of the tourism industry and efforts to link change processes to organisation performance outcomes. The next chapter presents the research methodology and the epistemological assumptions on which this study is based.

CHAPTER 3: METHODOLOGY AND RESEARCH DESIGN

3.1 INTRODUCTION

This chapter establishes the research design and methodology for interpreting processes on how one firm attained and sustained competitive advantage. In the field of management research, the importance of understanding socio-organisational aspects has gained importance, and there has been an increased use of the interpretive approach in an attempt to understand the process and outcome (Pettigrew, Woodman and Cameron, 2001). Further, the field of organisation studies has seen a rapid transformation of focus from stability to change during the past decades (Ropo, Ericksson and Hunt, 1997). Along with this development there has been a growing interest in research that pays attention to the classical issue of time as a theoretically important aspect to understand social action in general, and management and organization in particular. More attention is being paid by researchers to the fact that organizations can be understood holistically by studying patterns of phenomena related to specific outcomes, as is the case of the research strategy presented here which explains how and why the course of the process of strategy formation leads to a specific outcome (Fox-Wolfgramm, 1997). This implies that theoretical propositions about how contingent factors work together with generative mechanisms can be compared with actual processes of strategy formation. The methodology is thus concerned with the procedures that record process experiences and that make them suitable for this comparison. The research that generated this process research practice tries to track specific processes of strategy formation to understand the effect of the course of the process on the outcome.

The theory of method for conducting longitudinal field research on change is presented; since there has been developments broadening and deepening contextual longitudinal research on change (Pettigrew, 1990). In attempting this task, this study follows writers such as Pettigrew (1985b, 1987, 1990, 1992, and 1997) who has made elicit a great deal of knowledge acquired through practicing empirical processual and contextual research. Pettigrew and a group a researchers have carried out extensive contextual longitudinal research, including “inquiries of competitiveness and strategic change; the study of linkages between changes in business environment, business strategy and structure and human resource policies and practices in the firm; and also major change in the provision of services in the British National Health Service (Pettigrew, 1990; 267). The approach adopted by this study is also consistent with methods used by several authors and in

particular, Pettigrew and Whipp (1991) in “Managing Change for Competitive Success”, and Smith, Child and Rowlinson (1990) in “Reshaping Work: The Cadbury Experience”.

This chapter has four sections. The first section briefly outlines the contextual theory guiding our research. Following calls for empirical researchers to make clear the theory of methods which guides their inquiry, (e.g. Pettigrew, 1990 and Miles and Huberman, 1994), the epistemological assumptions of this study is presented; i.e. how this study construes the shape of the social world, and indicating the theory of methods that guides our inquiry. A brief review of the literature on contextualism is offered and, based on this review, an epistemology is presented. The second section highlights this study’s approach in dealing with processual methods for management research. The third section points to the theory and practice in dealing with the research design. The necessity of processual methods for management research is put forward here as a general methodological claim in this thesis. The study describes the basic issues concerning epistemology and methodology of management process research by describing the concept of contextualism as a theory of methods in management research. The fourth section describes the research design of the study in light of contextualism. The epistemology adopted guides the research design, the research methods, the data collection and the analysis of data, which are also presented in this chapter. In the next chapter, the proposed processual and contextual framework is presented, which is followed in understanding the study.

3.2 CONTEXTUALISM AS A THEORY OF METHOD

3.2.1 Choosing an Appropriate Methodological Base

One of the objectives of this study is to integrate multiple contexts and levels of analysis in strategic management by proposing and empirically analysing a framework rich enough to understand the competitive strategic framework. Given the research challenge, an epistemology able to capture the complexity of understanding the interaction between the industry and the firm through time is needed. This study adopts the Pettigrew’s (1990) premise that in processual research efforts, an epistemology able to capture the complex interaction between an industry and firms through time is needed. It has been argued that the assessment of a particular scientific discipline must proceed with an implicit or explicit understanding of what the discipline is and how it develops (e.g. Pettigrew, 1990; Miles and Huberman, 1994). There have been numerous calls to consider the ontological and epistemological beliefs of research approaches. Pettigrew (1990) argues that there is a requirement for empirical researchers to make clear the theory of method, which guides their inquiry. Miles and Huberman (1994) advocate that researchers should make their

preference clear on how they construe the shape of the social world and aim to give a credible account of it. They argue that to know how a researcher construes the shape of the social world, and aim to give us a credible account of it, is to know our conversational partner.

Pettigrew (1990) suggests that in any research, and especially in a processual research effort, which may be uncomfortable in the domain of “normal science,” an exposition of meta-theoretical assumptions should be given. There is no definite way of undertaking process research (Pettigrew, 1990). However, the practice of research is best informed by a theory of method which clarifies and makes explicit the range of guiding assumptions shaping the conduct of that research (Pettigrew, 1997). Any methodology reflects certain epistemological and ontological assumptions (Morgan, 1980). Epistemology is about the study of knowledge, and as such, answers questions, “What do we know?” and “How do we know what we know?” Our beliefs about ‘knowing’ often lie unarticulated at the base of our paradigms about how the world works, and they inform our orientations toward theory, methodology, and practice. Ontology refers to the nature of the world around us; in particular, that part of reality which the scientist chooses to address. These fundamental assumptions act as guides in pointing us in certain directions, and telling us what to look for. Thus, our assumptions determine, in part, what we see and what we pay attention to.

The approach used by this study draws mainly on Pepper’s (1942) work on contextualism, and on Pettigrew’s (1990, 2001) work on both contextualism and process theory. These provide an appreciation of the nature of competing knowledge claims made in strategic management research, as well as enrich and extend our understanding of management in practice. Contextualism is interested in events that are alive and happening within and with their historical process and setting – acts in its context. Context in this sense refers to the historical context of an event, and not the current physical context. It is context-as-history and not context-as-place (Morris, 1997). Contextualism implies looking for continuity and change, patterns and idiosyncrasies and processes of structuring. It entails giving history and social processes the temporal space to reveal their deep-seated continuities and often idiosyncratic untidiness, whilst identifying the variety and mixture of causes of change and to explore through time some of the conditions and contexts under which there mixture occur (Pettigrew, 1990). A characteristic feature of contextualist work is that the reader accompanies the researcher in his or her journey and is offered loose contextualist frameworks, together with a rich process of changing ‘truths’ through time. Contextualists view an act and its context as an integrated, interactive whole, and divide this whole into distinct parts only to achieve practical purposes (Pepper, 1942).

Dawson (1994) argues that for study in organisational change, there is value in qualitative longitudinal research, which can compare and contrast changes in perception and expectations over time. As Gephardt (2004) puts it, qualitative approach in management sciences is important because it can provide 1) results that are difficult to produce with quantitative studies, 2) descriptions of actual actions in real contexts, 3) understanding of meanings that the actors give to certain phenomenon and 4) examples of important management issues and concepts that, in turn, have the potential to enrich the field. This study aims to deal with Gephardt's fourth category and provide examples of what kinds of risks can be affiliated with a network-level strategy process. Further, longitudinal contextual and processual research has direct concern for intervention and implementation. Contextual and processual research uses interviewing, non-participant observation, participation observation, document analysis, tools and data sources common to other forms of qualitative research. The qualitative and longitudinal nature of the research provides data that explains the interconnectedness and dynamic process inherent in everyday life (Dawson, 1994) in context over time.

Orton (1997) refers to the widespread assumption that good research is found in either theory or data. Good process research, however, needs a double grounding: rich process theory combined with rich process data creates rich process knowledge (Greenwood and Hinings, 1996), and there have been calls for joining both inductive and deductive analyses (Orton, 1997). Organisational process research seems to draw researchers from inductive grounded theory to iterative-grounded theory, in which researchers alternate back and forth between process theory and process data to produce process knowledge. This study considers several iterative loops in the process between the research question, data collection and data analysis. The study adopts a view that induction is more like a circular process, implying that the initial theoretical framework is rather broad and lacking in depth when applied to the current situation under study. Iterative and consultative techniques may serve to cast light on the development of the process. However, contextual and processual research is observational, descriptive and analytical of the organisational change process, it is not concerned with stimulating action nor is it aimed at intervention or shaping change, although it may be interested in these processes.

The epistemology sets the stage for the methodological approach. Pettigrew (1985a, 1990) and Pettigrew, Woodman and Cameron (2001) suggest that longitudinal research is best suited for the type of research described above. Time is captured through a combination of retrospective and real time analyses. It offers the opportunity to examine

continuous processes in context and to draw in the significance of various interconnected levels of analysis. It also provides the possibility to reveal the multiple sources of loops of causation, associations and connectivity so crucial in identifying and explaining patterns in the process of change.

3.2.2 Stephen Pepper's "World Hypotheses" and "Root Metaphor"

Common sense, on one hand, and refined knowledge, as produced by scientists, on the other, are often considered as the opposite ends of a spectrum. Pepper (1942), however, describes these as a circle instead of a range, because, according to him, ultimately all evidence points to common sense as a whole "as the ultimate source of our cognitive refinements, and as the lowest legitimate level to which cognition could sink should these refinements fail" (1942:320). As such, in practising 'science', people are concerned with refining common sense. Pepper (1942) argues that knowledge is the result of a constant cognitive refinement: the criticism and improvement of common sense. Cognitive refinement is accomplished by a) multiplicative corroboration - confirmation of phenomena by various subjects, and b) structural corroboration - the use of theories and hypotheses about the world and their confirmation by empirical data. Structural corroboration, as proposed by Pepper (1942), the process of constructing theory and comparing this with empirical data, is one way of examining relevant facts about phenomena and putting this evidence together. Pepper (1942) explores the process of cognitive refinement of common sense in terms of confirmation. He uses the example of the claim that a chair is very strong where multiplicative corroboration consists of having many persons sit upon it to test the claim and structural corroboration consists of developing a theory of what is required of a chair to be strong. Structural corroboration is achieved by constructing a chair that conforms to the theory or hypothesis. In focusing on structural corroboration, Pepper (1942) develops an argument that there are four mutually exclusive ways of dealing with structural corroboration, to which he referred as "world hypotheses."

Two sets of assumptions concerning the logical structure of the social world can be used to distinguish between the four world hypotheses. A first dimension distinguishes between analytic and synthetic theories. This first set of assumptions or dimensions highlights the distinction between reductionistic and holistic theories. Theories that emphasize analysis are reductionistic in nature and focus on the component parts. Analytic theories ignore contexts and do not recognize and interpret synthesis. The analytic theories perceive complexes or contexts as derivative and not an essential part of the organization. Synthetic theories emphasize instead complexes or contexts so that analysis becomes

derivative. Theories that accentuate synthesis are holistic in nature and their focus is on the whole situated in a context. In asserting that the whole is greater than the sum of its parts, however, those component parts are often ignored. A second dimension distinguishes between dispersive and integrative theories, which capture the distinction between the descriptive and predictive. Dispersive theories focus on interpretation of facts that are retrieved one by one from a universe of facts, rather loosely scattered about and not necessarily determining one another to any considerable degree (Pepper, 1942; 142-145). In integrative theories, however, “the world appears literally as a cosmos where facts occur in a determinate order, and where, if enough were known, they could be predicted” (Pepper, 1942; 143). Whereas dispersive theories are hampered by a lack of precision, integrative theories are hampered by a lack of scope. As a result of the use of these two dimensions, the four world hypotheses can be characterized as follows:

- Formism - includes analytic and dispersive theories;
- Mechanism - includes analytic and integrative theories;
- Contextualism - includes synthetic and dispersive theories; and,
- Organicism - includes synthetic and integrative theories.

Formism and Mechanism have an analytical focus. This means that the focus is on the evidence of the nature of the elements and factors, and synthesis (the whole) becomes a derivative. In other words, the set of discrete facts is the object of study rather than the complexity of the whole. Contextualism and organicism, on the other hand, are synthetic world hypotheses meaning that their focus is on the evidence of the “whole,” the complexes or contexts, and analysis becomes subsidiary. Analytical world hypotheses are supposed to be judged on their analysis of discrete sets of facts, whereas synthetic theories are to be judged on their explanation of the complexity of the whole object of study. For example, the mechanist’s (analytical) critique of contextualist work (synthesis) arguing that this research effort is not precise down to the minutest facts is not a valid research critique. Further, there is also a distinction between the above pairs. Formism and contextualism are dispersive hypotheses, meaning that “facts are taken one at the time” and the universe is taken as “multitudes of facts” without any determinate order (Pepper, 1942:142). Mechanism and organicism, on the other hand, are integrative hypotheses meaning that evidence is taken in a determinate order and that the world appears to these hypotheses to be well ordered. The distinction between dispersive and integrative hypotheses leads to a second general “quality indicator.” Dispersive hypotheses are to be judged on the way these deal with the dispersive character of evidence; whereas integrative hypotheses are to be judged on the way these handle their

well-ordered facts. For example, a contextualist (dispersive) critique of a mechanist's research (integrative) implying that facts in our world are not well ordered and determinate is not a legitimate form of research critique. Next, in the description of the world hypotheses, the above distinctions will be discussed more extensively. Figure 3-1 shows an overview of Pepper's world hypothesis.

Figure 3-1: Overview of Pepper's World Hypothesis

	Analytic (Reductionistic) Theories	Synthetic (Holistic) Theories
Dispersive (Descriptive) Theories	Formism Similarity	Contextualism Historic Event
Integrative (Predictive) Theories	Mechanism Machine	Organicism Integration

Source: Adapted from "World Hypotheses", Pepper (1942)

The reduction of the multitude of hypotheses to four world hypotheses is possible through a theory of the origin of world hypotheses, called the "root metaphor theory". According to Pepper (1942), world hypotheses and root metaphors are linked. However, not all root metaphors are useful in providing understanding. There are two general criteria for judging the relative adequacy of root metaphors. These are precision and scope. Precision means that there are relatively few ways to explain or describe a given phenomenon with a set of analytic concepts, while scope means that a broad range of phenomena can be analysed with these concepts, as long as precision is not compromised. No root metaphor is completely adequate, but some are relatively more adequate. Maximising the scope of a root metaphor, in this way, becomes evident from corroboration by all sorts of evidence. Maximising precision is reflected in the precise determination of the evidence.

The root metaphor of the first world hypothesis, formism, is similarity, which points to comparison and categorisation. This assumes that formism focuses on phenomena, objects, events, and processes, that are taken one by one from whatever source, attempts to identify similarities or differences through a mere description, and accepts the results of the description. Formism attempts to answer the question "*what is it like?*" The central

activity is description on the basis of similarities, without concern for the sources of similarities. The description in formism rests on three categories: characters, particulars and participation. Formism includes both analytic and dispersive theories. A formist is generally not really concerned with the underlying (dispersive) mechanisms of, for instance, a strategy. "Hard" formists take their categories, typologies or taxonomies as "real" reflections of the world. An example of "hard" formism within management research is Peters and Waterman's (1982) study of excellent companies. Tsoukas (1994:764) argues, "Samples of 'excellent' or 'awful' organizations, for example, have been dissected for similarities which, once revealed, are assumed (but only assumed, not demonstrated) to be the causes of organizational excellence or failure respectively." Consequently, formism has a perspective on similarities and differences in terms of conceptual categories. Truth within formism is the degree of similarity of a description to its object of reference. This implies that truth within formism is a correspondence theory of objects of reference (or theory) and descriptions (or empirical data). As to the why formism has not been used as an epistemology for the present research project, the answer lies in the object of study, which is the complexity of a firm operating in its industry. The research goal is to explain this complexity through time. Hence, formism focusing on analysis, which is ill-equipped to study complex processes through time, is not a suitable epistemology to be used here.

Tsoukas (1994) points out that as soon as formists start using knowledge in an instrumental way, they usually become mechanists. Mechanism includes both analytic and integrative theories. Like formism, it is an analytical theory focusing on discrete elements rather than complexes and contents. However, unlike formism, it is integrative in the sense that the world is well ordered and the facts occur in a determinate order and where, if enough were known, they could be predicted, or at least described, as being necessarily as just what they are (Pepper, 1942). If we view relationships between actors and phenomena in an instrumental way, the world hypothesis "mechanism" is easily associated with its root metaphor: the machine. Mechanism attempts to answer the question "*How does it work?*" This does not mean that this world hypothesis is only suitable for technical phenomena. It does mean, however, that a mechanists' overriding concern is the underlying integrating mechanism of phenomena. The reductionistic approach inherent in mechanism allows for the discovery of "an effective relationship or law which holds among the parts of the machine, and which we have described in the form of a functional equation" (Pepper, 1942; 192). Study objects are ontologically given and fully describable, and re-describable in an abbreviated (often quantitative) form (Tsoukas, 1994). The aim of a mechanist study is to determine an effective relationship between the

most important parts (primary qualities as Pepper refers to these) as well as among background characteristics (secondary qualities). The mechanistic type of knowledge may be characterised by six features:

- Like a machine, the object of study is composed of parts having specified locations;
- The parts can be expressed in quantitative forms, corresponding to the primary qualities of the machine;
- A lawful relationship between the parts of a study object can be described by functional equations or statistical correlations. This corresponds to the statement of the interrelationship among the parts of the machine;
- In addition to the primary qualities, there are other characteristics that can be expressed quantitatively, although not directly relevant to the object of study. They are secondary qualities;
- The secondary qualities are also related by some principle to the object of study because “if we were to make a complete description of the machine, we should want to find out and describe just what the principle was which kept secondary qualities attached to certain parts of the machine (Pepper 1942; 193);
- Secondary laws characterise the stable relationship between the secondary qualities (Tsoukas, 1994).

Theories that have a basis in the idea that individuals attempt to maximise rewards (hedonism) are mechanistic in character. One of the effects of focusing on instrumental relationships is the downplaying of an actor’s spontaneity and the fact that a human being behave in an alternative manner. In this study it is assumed that human beings actively transform nature and subordinate it to their own needs. A consequence of spontaneity is the possibility or even the inevitability of changing relationships. It is hard for mechanists to follow changing relationships. Examples of mechanism are contingency planning, where an organisational structure is “reduced to three dimensions: formalization, centralization and complexity” (Tsoukas, 1994:765). The world hypothesis mechanism does not cope well with explaining complexity (synthesis), nor can it deal with changing relationships through time: a very common characteristic in the field of strategy where “truth” is found in the interaction between collective structure (the industry) and individual action (the firm). Hence, this epistemology would not be useful in the present study project.

Organicism relates to the absolute or objective idealism. Its root metaphor is integration - the integrated whole or the harmonious unity in terms of timeliness and enduring structures. Organicism is both integrative and synthetic. Like mechanism, it is integrated

in the sense that the world is composed of well-ordered and integrated facts that can be described as well as predicted. Like contextualism, it is synthetic focusing on the object of the study rather than disparate facts. Organicism attempts to answer the question "*How does it develop?*" Inherent in organicism is dialectic dynamics of structure and process. Everything is considered to be coherent and well-integrated with seven features: (i) Fragments of experience appearing with (ii) nexuses or connections which spontaneously lead as a result of the aggravation of (iii) traditions, gaps, opposition or counteractions to resolutions in (iv) an organic whole (v) implicit in the fragments and (vi) transcend the previous contradictions by means of a coherent totality, which (vii) economises, saves, preserves all the original fragments, in a kind of synthesis that recognises the contradictions and integrates them in a more complete whole (Pepper, 1942). The truth theory of organicism is coherence as based on determinateness and absoluteness. It is a coherence theory moving towards the limit of truth or the ideal. It is the end state of ultimate integration, which is the standard of truth. Payne (1982; 52) argues, "Organicism thus proposes the existence of degrees of truth dependent on the amount of facts known, and when all facts are known as in principle they can be then absolute truth has been obtained". Work within the organicism hypothesis is dealing with an integration process towards an idealist state. This does not seem ideal for trying to explain a complex historical process of an interaction process between a firm and its sector resulting in an uncertain output. According to Pepper, an organicist is interested in the end state of a process, rather than the duration of the process. This research project, on the other hand, is interested in the duration of a complex process.

Contextualism relates to pragmatism. It includes both synthetic and dispersive theories. Unlike formism, contextualism is synthetic, in that it focuses on a pattern as the object of study rather than on disparate facts. These facts are characterised by continuously changing patterns, making change and novelty the fundamental contextual categories. Like formism, contextualism is dispersive in the focus on the interpretation of facts retrieved one by one from a universe of facts. Contextualism attempts to answer the question "*how does it happen?*" or more appropriately "*how is it happening and why?*" The root metaphor for contextualism is the historic event or the ongoing act-in-context. Every event is subject to change and novelty and is characterised at a given time by quality and texture. However, this is not to imply that a contextualist is only interested in events in the past, but it does imply that a contextualist is interested in the event alive and happening within and with its historical process and setting: an act in its context. Such events are practical, concrete actions that are "being performed by someone for some purpose in some context" (Reese, 1993; 72). Context in this sense refers to the historical context of

an event. Fundamental to contextualism are change and novelty, and is characterised at a given time by quality and texture. Ecological and systemic theories are based on contextualism. Quality is characterised by the spread of an event, its change and its degree of fusion. Texture is characterised by its strands, its context and its references. Basically quality refers to the intuitive wholeness of an event whose texture is in the details and relations making up the event (Tsoukas, 1994). Change is not an incidental quality, which is sometimes present, but it is considered inherent, even endemic, to this world. Contextualism views an act and its context as an integrated, interactive whole, and divides this whole into distinct parts only to achieve practical purposes (Pepper, 1942). Examples of work within this world hypothesis are among others Pettigrew (1985b; 1987), Pettigrew and Whipp (1991) and Johnson (1987). A characteristic feature of contextualist work is that as the reader companions the researcher in the journey, only loose contextualist frameworks is offered, together with a rich process of changing truth through time. The contextualist epistemology is best suited in this research project, as it emphasises a rich, complex process of firms developing competitive strategy formulations and their applications to their industry. The truth theory of contextualism is operational in terms of qualitative confirmation and pragmatic working. Only action language is used in contextualism – doing, enduring, etc. The act and its setting are crucial.

Analytical goals are vitally important to the contextual world view. This is because the analytic tools of contextualism, root metaphor and truth criterion, both hinge on the purpose of the analysis, and neither can be mounted effectively without a clearly specified analytical goal. The root metaphor of the act in context would be rendered meaningless in an analysis without an explicit goal because there would be no basis on which to restrict the analysis to a subset of the infinite expanse of the act's historical and environmental context. Based on their overarching analytic goals, contextualistic theories can be divided into two general categories – descriptive contextualism and functional contextualism (Hayes, 1993). Descriptive contextualism seeks to understand the complexity and richness of a whole event through a personal and aesthetic appreciation of its participants and features. This approach reveals a strong adherence to the root metaphor of contextualism and can be likened to the enterprise of history, in which stories of the past are constructed in an attempt to understand whole events. Like a historical narrative, it is knowledge that reflects an in-depth personal understanding of a particular event that occurs at a particular time and space. Functional contextualists, on the other hand, seek to predict and influence events using empirically based concepts and rules (Hayes, 1993). This approach reveals a strong adherence to contextualism's extremely practical truth criterion and can be likened to the enterprise of science, in which general rules and

principles are used to predict and influence events. Knowledge constructed by the functionalist contextualist is general, abstract, and spatiotemporally unrestricted (Morris, 1993). Like a scientific principle, it is knowledge that is likely to be applicable to all similar events, regardless of time or place. It is this approach that is adopted by this study. The fact that this present research project values (historical) process and the synthesis of both collective structures and individual action automatically leads to a particular world hypothesis, contextualism, excluding others. This mutual exclusiveness comes to the surface in epistemological incommensurability leading to a distinctive set of research quality indicators. They are epistemologically incommensurate in the sense that one cannot be used to reject another one and they cannot form an overall hypothesis.

3.2.3 The Ontological Role of Contextualism

Worldviews have two major roles, one epistemological and the other ontological. The ontological role is metaphorical because reality cannot be directly known and therefore can only be modelled or represented. Ontology is about the nature of the world. It is about the assumptions concerning the objects that exist in the world, the properties or attributes of the objects, the possible values of attributes, and their intended meaning, as well as the granularity or level of abstraction at which objects and their properties are described. Ontology describes the meaning of symbols in the content expression and expressions in a domain. Ontology also provides us with a rich repository of semantic information and relations. Sztompka (1991) differentiates between causes of becoming and causes of being. Causes of becoming are efficient, final and incidental (chance) causality. Causes of being are material and formal causality.

Causes of becoming are emphasized in contextualism, but causes of being are at least implicitly given a determinative role. Hence when the word 'cause' and its cognates are used in relation to contextualism, it would refer to causes of becoming. Complete determination means that every event had a determinate cause, but not necessarily a determinable cause. Complete determinism is accepted in contextualism, but chance is ontologically real in contextualism and can have causal efficacy. That is, variations in a phenomenon may truly be effects of chance and may be unexplainable by any other kind of cause. The categorical acceptance of the possibility of chance causality leads to the contextualistic concepts of dispersiveness and novelty. A feature is 'categorical' in a worldview if it is entailed in that worldview, that is, required to be true by the basic metaphor of that worldview (Capaldi and Proctor, 1999).

One-to-one causality means that one cause has only one effect, with “one cause” understood to include an additive or interactive combination of analytically separable constituents and “one effect” understood to include an additive combination of analytically separable constituents. In contextualism, causality may be one-to-one in some cases and one-to-many or many-to-one in other cases, but in all these cases the type of causality found is understood to be changeable into any other type because the laws of nature can change. In contextualism, causality is one-to-many if a given cause can have multiple effects and many-to-one if multiple causes can have the same effect. “Multiple” does not refer here to the number of constituents a cause or an effect has; it means that many causes can have the same effect and one cause can have alternative effects if chance intervenes or the context changes (Capaldi and Proctor, 1999).

Unidirectional causality has two meanings. One is that causality works from the past to the future. In this sense, it means that teleological (‘backward’) causality is impossible. Unidirectional causality in this sense is accepted in contextualism. The other meaning is that causes and effects do not exhibit simultaneous reciprocal interaction. The elements in a causal interaction combine nonadditively to produce an effect. In a reciprocal interaction, each element is both a cause and an effect; in a simultaneous reciprocal interaction, each element is at the same time both a cause and an effect. Thus, simultaneous reciprocal interaction makes the distinction between cause and effect arbitrary and rather useless (Capaldi and Proctor, 1999). Contextualism accepts the reality of simultaneous reciprocal interactions as well as cause–effect chains.

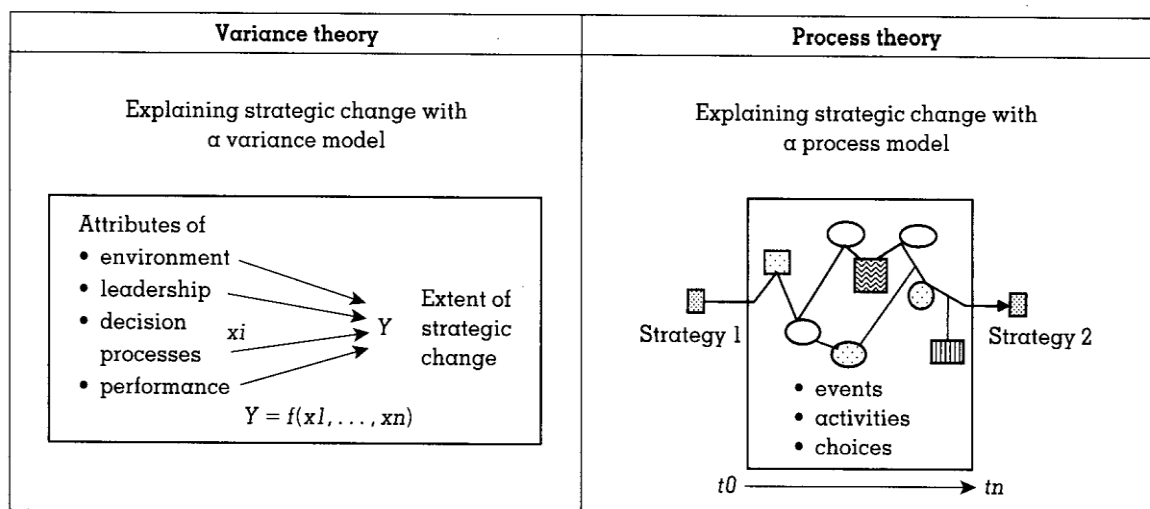
The basic metaphor of contextualism is a purposeful activity that is actually ongoing here and now, that is, in a real physical-social-personal-temporal context. Such an activity may be experienced as a chain of events or, apparently less often, as a simultaneous reciprocal interaction. Cause–effect chains are therefore more expected than simultaneous reciprocal interactions, and they are easier to conceptualize. Consequently, contextualism emphasizes cause–effect chains and encourages attempts to analyse interactions that appear to be simultaneously reciprocal into cause–effect chains. Whether the activity-in-context is interpreted as truly a cause–effect chain is irrelevant, because analysis is always conceptual rather than physical in contextualism; physical analysis would destroy the wholeness of the activity-in-context (Capaldi and Proctor 1999). The results of the analysis are consequently useful only if they are used for a conceptual synthesis of the whole, and this synthesis is useful only if it yields a better understanding of the whole. In other words, in contextualism both analysis and synthesis are epistemological rather than ontological.

3.3 PROCESSUAL METHODS FOR MANAGEMENT RESEARCH

3.3.1 Strategy Process Research

Mohr (1982) distinguishes between 'process theory' and 'variance theory'. Whereas process theory provides explanations in terms of sequence of events leading to an outcome, variance theories provide explanation for phenomena in terms of relationships between dependent and independent variables (also Poole, Van de Ven, Dooley and Holmes 2000; Van de Ven and Engleman, 2004). Temporal ordering and probabilistic interaction between entities are important in process theories (Mohr, 1982). Understanding patterns in events appears to be essential in developing the process theory (Langley, 1999). The analysis of process data is "to account for and explain the what, why and how of the links between context, processes and outcomes" (Pettigrew, 1997; 338). The analysis of process data requires a means of conceptualising events and of detecting patterns among them (Langley, 1999). The purpose is not only to capture the how, but most process studies are preoccupied with describing, analysing and explaining the what, why and how of some sequence of individual and collective action (Pettigrew 1997). Process research is concerned with understanding how things evolve over time and why and when they evolve in this way, and process data therefore consist of stories about what happened and who did what, when – it implies events, activities and choices ordered over time (Langley, 1999) – see figure 3-2.

Figure 3-2: Two Approaches to Explaining Strategic Change



Source: Langley (1999; 693)

The driving assumption behind process thinking is that social reality is not in a steady state but a dynamic process. It is a dynamic and occurs rather than exist (Sztompka, 1991).

The overriding aim of the process analyst is 'to catch reality in flight' (Pettigrew, 1990; 338). This would require a means of conceptualising events and detecting patterns among them, which may take a variety of different forms. Hence, process research is aimed at understanding the how and why a social phenomenon evolves over time (changes), comes into being, disappears, and also continues to be. The latter is especially worthwhile to note because process is often associated with change only, while the view taken in this study is that process is associated with both continuity and change. This is an important assumption since as the aim of the study is to undertake an analysis and conceptual interpretation of the principles and procedures of competitive strategy formulation and their application to the tourism industry in Seychelles, it is expected that the firms would have undergone a process of continuity and change. It thus implies that strategy process research offers a deeper, more sophisticated and alternative interpretation of the environment-firm relationships (Herrmann, 2005).

3.3.2 The Role of Context in Processual Analysis

When studying change processes in general and strategy processes in particular, it is important to define what is meant by process (Van de Ven 1992). Van de Ven (1992) suggests three distinct conceptualizations of such processes: 1) processes that explain causal relationships, 2) processes that present categories of changing concepts and variables, and 3) processes as sequences of events describing how things evolve over time. From this viewpoint, this study could be classified into the third category, as a study that looks at sequences of events describing how things evolve over time – through which events a strategy is formulated and implemented.

Pettigrew (1997; 338) provides a working definition for process: "process is a sequence of individual and collective events, actions, and activities unfolding over time in context". Process analysis, in turn, is: "to account for and explain the what, why and how of the links between context, processes and outcomes". Pettigrew (1990) argues against the myth of the singular theory of social or organisational change. He suggests looking for continuity and change, patterns and idiosyncrasies, the actions of individuals and groups, the role of contexts and structures, and the process of structuring, so as to give history and social processes the temporal space to reveal their deep-seated continuities and often idiosyncratic untidiness. Pettigrew (1997) indicates that the irreducible purpose of a processual analysis remains to account for and explain the what, why and how of the links between context, processes and outcomes. Pettigrew (1990, 1992, and 1997) highlights five key internally consistent guiding assumptions in analysing organisational change and

transformation in a contextual mode. However, he also stresses that good process research is more of a craft and is also highly dependent on the “quality” of the process scholar. “Good” process research can be measured in terms of the following five quality indicators or guidelines:

- o Embeddedness - studying processes (change) in the context of interconnected levels of analysis; “exposure” of processes by way of the use of process vocabulary;
- o Temporal interconnectedness - locating or studying processes in past, present and future time; rising above and beyond mere events; describing and conceptualising, modelling, analysing, measuring and explaining; a search for patterns and a quest to find underlying mechanisms without falling into the trap of predetermined timetables; inductive pattern recognition hand in hand with deduction;
- o The need to explore context and action - how context is a product of action and vice versa; agency is at the heart of any process analysis; actions are embedded in a context which limits, shapes and facilitates their information, insight and influence;
- o A search for a holistic rather than linear explanation of process - analysis occurs alongside other processes; theorising about constellations of forces (instead of variables) that shape the character of the process and its outcome;
- o A need to link process analysis to the location and explanation of outcomes - explain the what, why and how of the links between context, processes and outcomes.

The first quality indicator for strategy process research is that process analysis should be studied in the context of processes at other levels of analysis (Pettigrew, 1990). Thus explanations of the relative competitive performance of firms should be linked to sectoral and economic change. This would imply that process analysis should be on both the horizontal (process) level and the vertical (analysis) level. However, although the latter is important it remains essentially supportive, as understanding the “complex whole through time” is the leading consideration within contextualism. Consequently, a process analysis will never focus on vertical analysis, and the precise analysis of all the elements and factors of a certain phenomenon. However, vertical multilevel analysis has proven useful in illuminating process characteristics. This study incorporates a multi-level analysis where the focus of the present research is on the interaction process of a firm within its sector through time (the horizontal level of analysis).

The second quality indicator of strategy process research is the importance of revealing temporal interconnectedness: understanding the sequence and flow of events over time or whether a research effort is capable of “catching reality in flight,” as Pettigrew (1990) has called this expressively. In catching reality we need to move beyond mere case history and “rise above and beyond mere events” (Pettigrew, 1997:339). Antecedent conditions shape the present and the emerging future. The human resource inheritance of many forms may affect the rate and pace of business strategy change if the business change requires significant adjustments in knowledge base of the firm (Pettigrew 1990), as history is not just an event in the past but is alive in the present and may shape the future. This study aims at describing a process of organisational transformation together with an account of history. The emerging future, as well as the present, requires a search for patterns; not just as events and chronology, but a quest for finding underlying mechanisms in the deeper pathways by searching for structures and underlying logics.

In the third quality indicator one recognises the rising to the surface of a fundamental element in any management research effort and relates to the role of context and action. Humans are both creators and creatures of context. Pettigrew (1997) quotes Loasby (1976:5) to stress the importance of this: “if choice is real, the future cannot be certain; if the future is certain, there can be no choice.” This closely relates to rejecting the assumption of predetermined timetables and the rather loose “character” of concepts as strategy paths and industry survival paths. Sometimes change will be really difficult because of a constraining context. At other times, the context can also be enabling for change. Managers are not creators of their universe; neither are they feathers in the wind. The interchange of context and action, of environment and management, occurs over time, is cumulative, and is central to this study. Context is not just a stimulus environment but a nested arrangement of structures and processes where the subjective interpretations of actors perceiving, comprehending, learning and remembering help shape process. Thus processes are both constrained by contexts and shape contexts, either in the direction of preserving or altering them.

A search for holistic explanations of process resembles the fourth quality indicator of strategy process research. It is a natural concomitant of the first three assumptions (Pettigrew, 1997). A number of choices with respect to research design are of direct influence for holistic explanations, such as the time-period and the ways of studying the process (longitudinal, retrospective, real-time, etc.). In the present research project several years of process were covered in order to capture the transformation of the firm and its collective resources within its context. This long time-period has been chosen because

the so-called initial conditions are considered important in resource formation processes (Levinthal and Myatt, 1994). Studying processes of several years, a researcher is totally dependent on archival material, “hear-say” material, etc. since it is “dead” history. In order to get information concerning the process of resource formation of people “who have been there” and of actually being able to observe and participate in these types of processes (real-time), the entire history of a company has been taken into account.

A fifth and perhaps most important quality indicator of process research is the holistic and multifaceted treatment of change making certain causal assumptions, linking process analysis to outcomes. It is the interacting process of a firm with and in its industry that generates resources. It is the linkage between process analysis and outcomes, which makes process research difficult and time-consuming. Causation is neither linear nor singular and there is no attempt to search for the illusory single grand theory of change, or indeed of how and why a single independent variable causes, or even impacts on a dependent or outcome variable. Changes have multiple causes and are to be explained more by the convergent interactions and interconnected loops among the features than lines. This is why Pettigrew and others suggest sticking to a small number of cases and linking these to a clear outcome in order to be able to do this kind of research. This study is constrained by the number of cases – a single case study. However, because this study of one case involves distinctive episodes over time, each serving as “a case within a case”, this may be considered as “limited damage” for this research project.

Taking this thesis as a whole, attempts were made to ensure that this research project meets the five quality requirements to a reasonable extent. It aims at studying processes across a number of levels of analysis in past and present times. There is a clear role for both context and action providing a holistic analysis. And finally, the process analysis and explanation are connected to outcomes (resources).

3.3.3 The Relevance of Contextualism to the Current Study

By adopting a particular epistemology, we are guided as how we construe the social world, pointing the directions and informing us what to look for. Our study is about processes, and how one firm achieved competitive advantage over time. Processual efforts require an epistemology able to capture the complex interaction between the industry and the firms over time (Pettigrew, 1990). Our study is consistent with the description offered by Pettigrew (1990; 269) on contextualism, who explains that ‘contextualist analysis of a process such as change draws on phenomena at vertical and horizontal levels of analysis

and interconnections between those levels through time. The vertical level refers to the interdependencies between the higher and the lower levels of analysis upon phenomena to be explained at some further level ... The horizontal level refers to the sequential interconnectedness among phenomena in historical, present, and future time. An approach that offers both multilevel or vertical analysis and processual or horizontal analysis is said to be contextual in character'. As indicated above, contextualism's root metaphor is the historic event emphasising the contextualist concern for process. Tsoukas (1994:767) referring to Barrett and Srivastava (1991), argues that "an historic event is assumed to lie at the intersection of several trajectories whose origins and destinations are unknown by an inquirer." Contextualism fits well with this study, as the focus is the interaction between firms and their industry by considering how firms and their industry interact in developing resources and practice.

Contextualism offers a perspective on the 'when', 'where' and 'how' the two main level of analysis – the industry and the firm – can 'meet', thus providing the linkage between the industry and the firm. Pettigrew (1990) notes that contextualism studies change or transformation as a process revealing itself through time in the midst of immediate and more distant antecedents, providing this change with "form, meaning, and substance" (1990:269). The interest of our study is how firms change over time and adapt to the external environment, and contextualism has an overriding concern for change. This is a unique characteristic of contextualism among its fellow world hypotheses, which rules out the possibility of using the other world hypothesis. Further, other world hypotheses focus on the vertical level of analysis, whereas contextualism has neither top nor bottom, focusing on the horizontal or process level of analysis. Its significance can be found in the purpose we are pursuing through time as a process. Vertical analysis within contextualism, however, is not abandoned but it is a supporting and derivative feature of a contextualist "holistic" analysis. Contextualism, in providing the link between the firm and the industry, not only presents a view of how management is conceptualised, but also captures the relationship between the character of the firms and their industries. With respect to our study, the interaction between Air Seychelles to the tourism industry has changed over time in sympathy to changing circumstances both at the levels of the firm and the industry.

This study is concerned with how inner and outer resources are developed, and this required the study of historic events over time. Pepper (1942) explains the quality of an historic event in terms of spread, change and fusion. The quality of an event is stretched or spread over time. It is not only the here and now, but it is "the past alive in the present

and may shape the emerging future” (Pettigrew, 1992:10). This means that catching only the here and now moment is not a contextualist way of conducting research. The spread or duration of an event points to a qualitative notion of time, next to a more common schematic notion of time used by for example mechanists. In using only a schematic notion of time one assumes as though the world had started today. The change of an historic event is a character of quality, as has already been noted. During the “production” of an event, its quality is constantly changing and, according to a contextualist, this is continuously so. Inherent to the notion of quality is a degree of fusion of its details. A basic premise of this study is that in business life, strategy formation and implementation can only occur in time. Time is important to understand the interaction between firm and industry. Unlike the other world hypothesis, contextualism provides the theoretical background to capture the complex interaction of firms and industries through time.

One of the requirements of this study is the ability to identifying independent facts and relating them to context and processes. Contextualism in management studies focuses on the interpretation of independent facts drawn from a universe of facts under a specific context that would create a pattern. The facts within each pattern are assumed to be subject to change and novelty. In addition they are distinguishable by their quality and texture. Because of the notion of change, the analysis under a specific context takes the ontological assumption that the social world or the management world is incessantly on the move.

The fundamental aspect of contextualism in management studies is that facts are aggregated into specific contexts. It may be argued that any new management technical knowledge that is accumulated for specific contexts constitute a good example of contextualism in management studies. Examples of such contexts include:

- Economic events,
- Industry classification,
- Temporal classification, such as before and after a major political, economic or social event.

Every aspect of management knowledge can be classified under a grouping characterized by a specific context. One may consider the cases of management techniques and the body of knowledge classified by industry. This study is confined to a particular industry at a particular time. The reduction of the analysis from all the facts to few facts pertinent to a particular context gives contextualism a more focused scope than formism. Case analyses and qualitative research in management studies with a focus on the creation of

narratives and stories for the interpretation of a unique episode are clear examples of contextualism. In addition, most of the management literature written in lay language attempts to provide “how to” solutions in specific contexts to the general public and executives interested by specific strategic management problems in specific contexts. Contextualism appears to be more helpful to the practice of strategic management than formism by working for a specific ‘gestalt’ in management studies where it can pinpoint “what is useful” and “what is not useful”, and identify the working of specific organizational cultures in management studies. For example a contextualist approach to behavioural management would require a focus on acts and events rather than the contrived experiments, unless the experiments are studied as events.

Contextualism in management research in general and this study in particular, relies on an analysis of only facts capable of direct verification, facts that are specific to a given situation, such as a given industry. As such the end result may be limited in scope and any attempt to indirect verification, which is equivalent to admitting that the world has a determinate structure, calls for reliance on other world hypotheses. That is a serious dilemma for contextualism generally in management studies, which is either to accept specificity or acknowledge the constant changes in contexts. Pepper also acknowledges this as follows: “How can we be so sure that nature is not intrinsically changing and full of novelties?” (Pepper 1942; 279)

3.3.4 Process Theories and the Current Study

There seems to be a common understanding that process research should be both longitudinal and qualitative (Hinings, 1997). Ferlie and McNulty (1997) describe process research as the dynamic study of behaviour in organisations, focusing on organisational context, sequences, of incidents, activities and actions, which unfold over time. Process research is about continuity and change over time and to be able to appreciate this, it follows that the research design should be longitudinal (Pettigrew, 1985a; 1985b; 1990; 1997). Besides, process is seen as a complex affair, moving beyond the level of linear description, requiring a deep understanding of what is going on and therefore it cannot be reduced to a limited number of qualitative measures (Dawson, 1997; Pettigrew, 1997). Quantitative approaches could also be used, concentrating on populations of specific process types while making compromises with regard to the level of detail in the measurements and subsequent analysis (Glick, Huber, Miller, Doty and Sutcliffe, 1990; Nutt, 2000; Yin, 1994). The driving assumption behind process thinking is that social reality is not in a steady state but is a dynamic process. It is something that occurs rather

than merely exists (Sztompka, 1991). Human conduct is in constantly in a process of becoming and the overriding aim of the process analyst is to catch this reality in flight (Pettigrew, 1997).

In “catching reality” in process research it has been argued that one needs to be clear about the theories of process (Pettigrew, 1985b, 1990, 1992; Sminia, 1995; Van de Ven and Poole, 1995). Van de Ven and Poole (1995) offer an insightful literature review in which they distinguish between four process theories (or process motors), each “representing fundamentally different event sequences and generative mechanisms” explaining development and change in organisations (1995:511). These are the life cycle, evolution, dialectic and teleology type theories of social change. The life-cycle theory or motor runs on the “fuel” of the imminent program, whereas teleology runs on an envisioned end state. The dialectic theory runs on contradictory forces like opposition and conflict. Finally, the evolutionary theory runs on natural selection. Van de Ven and Poole (1995) explain that most theories of change are more complicated than these four ideal-types as research phenomena have a spread over space and time and consist of both quality and texture (context). This implies that at least four distinct explanations of the course and outcome of any process can be formulated on the basis of these basic theories. Furthermore, in the case of a particular process like, for instance, strategy formation, there is a choice of more specific approaches that each provides a distinct understanding of how the process could have occurred and why a specific outcome was arrived at (Chaffee, 1985; Johnson, 1987). These explanations centre on either the state of the competitive environment, conflicts of interests and power, questions of legitimization, or the interpretative scheme the organization is ridden with. With this in hand, especially in the realm of strategy formation, any research question on the why and how of process is not a question of finding an explanation anymore, but whether which one of the many possible explanations makes the most sense. In practice all four theories were used at varying points in time.

In putting the emphasis in process research methodology on data analysis with the goal of generating theoretical propositions, there appears to be a preference of inductive research design over deductive design (Langley, 1999; Smith, 2002). However, several strategies have been suggested, either based on the grounded theory approach (Barley, 1990; Fox-Wolfgramm, 1997), grammatical models (Pentland, 1995), literary analysis (Woiceshyn, 1997), and narrative theory (Pentland, 1999). There are descriptions of process methodology that incorporate both induction and deduction. Pettigrew (1997) describes the contextualist approach in terms of cycles of deduction and induction, while Orton

(1997) proposes a methodology of iterative-grounded theory. Following Pettigrew's approach of deduction and induction, we explore the different viewpoints of the phenomena under study, propose a framework and submit four research questions and nine propositions based on the literature. These would be tested in a circular process of deduction and induction. Since the case study approach implies in-depth longitudinal study, it would allow for continuous deepening into theories found relevant to further understand the phenomena.

Langley (1999) argues that process data collected in real organisational contexts have several characteristics that make them difficult to analyse and manipulate. First, they deal with mainly sequences of events. Second, they often involve multiple levels and units of analysis whose boundaries are often ambiguous. Third, their temporal embeddedness often varies in terms of precisions, duration and relevance. Finally, despite the primary focus on events, process data tend to be eclectic, drawing in phenomena such as changing relationships, thoughts, feelings, and interpretations.

3.3.5 Contextual and Processual Frameworks for Research

Theoretically sound and practically useful research on organisational change should explore the contexts, content, and process of change together with their interconnections through time (Pettigrew 1987; Pettigrew and Whipp 1991; Dawson, 1997). Since Pettigrew (1985b) critiqued the literature on organisational change as acontextual, ahistorical and aprocessual, there has been significant development, with several authors engaging in processual research for understanding management and organisations (Dawson; 1997), recognizing that context and action are inseparable, that theories of change ought to explain continuity, and that time must be an essential part of investigations of change if processes are to be uncovered (Pettigrew, Woodman and Cameron, 2001). The approaches have been multi-disciplinary, drawing on a range of perspectives and methods, and centres on the collection of longitudinal data over periods of real and retrospective time (Dawson, 1997).

The academic interest in processual research and its associated case studies to understand the dynamics of organisational change are gaining increased recognition. Using contextual and processual frameworks, research on change has been undertaken in organisations, both in the public and private sectors. These include such research areas of strategic change and the quality of the health care sector (Pettigrew, Ferlie and McKee, 1992; Ferlie and Shortell, 2001), changes in public service organisation (Ferlie, Hartley

and Martin, 2003), etc. Research has also reflected on the experience of conducting processual research and explored processes by providing overviews of key elements required during research design and to data analysis (Dawson, 1997; Ferlie and McNulty, 1997; Maitlis, 2005).

Recent studies suggest that relatively narrow, single-level programmatic change strategies have been largely unsuccessful, and advocate for a multilevel change approach. Whittington, Pettigrew, Peck, Fenton and Conyon (1999) identify three dimensions of organisational change; changing structures, changing processes and changing boundaries. The new competitive environment has pressurised firms to change structures, in widespread delayering to remove expensive barriers of middle managers, which are considered as barriers to action. In the new economy, where firms increasingly see their key resources as their human resource and the knowledge they possess, there is a demand for intensive interactions both vertical and horizontal. This requires that different parts of the firm unite in intensive exchange of information. The horizontal flow of information promotes the co-adaptive exploitation of cross-business synergies (Brown and Eisenhardt, 1998). For these processes to work, it requires innovation, and the need for new strategies and structures to manage and new kinds of managers (Ghoshal and Bartlett, 1994). Delayering and more interactive processes are likely to accompany decreased scale and increased focus on narrowing the firm's span of activities. The correlate of changing structures and processes is reinforced by increased competitive pressures forcing firms to focus on core competencies, redrawing their boundaries around what constitute or support their true competitive advantage (Prahalad and Hamel, 1990).

Pettigrew, Ferlie and Mckee (1992) found that the success in managing change in the British National Health Service was highly contextual sensitive, suggesting that 'off-the-shelf' solutions and individual competencies may have only limited and partial impact. Ferlie and Shortell (2001) propose a focus at four levels; the individual, the group or team, the overall organisation and the larger system or environment in which individual firms are embedded. They suggest that a multilevel approach to change and implementation of the core properties will be influenced by a number of factors that operate differently in each country; for example, the historical context for the locus of decision making. Maitlis (2005) researched sense making in three British symphonic orchestras. She describes sense-making as an ongoing accomplishment that emerge in organisations when members confront events, issues and actions, in an effort to create order and make retrospective sense of what has happened. The symphonic orchestras are a context well suited for sense making research because of the cultural industries offer and an environment in

which sense making is particularly critical. It represents at one level the presence of numerous and powerful stakeholders, with frequently opposing interests, creating a context of which the social processes of organisational making are important and visible. The other level is the traditional organisational form operating in an increasingly challenging environment - the third level.

Dutton, Ashford, O'Neill and Lawrence (2001) studied issue selling – the process by which individuals affect other's attention to and understand issues, like events and development trends that have implications for organisational performance, within the context of organisational change. Their research has a strong focus on time, process and action, but though the outcomes of issue selling is characterised as successful or unsuccessful, the linkage to organisational performance is not made; further their investigations took place in a single setting – a hospital, and it does not address multiple context and different level of analysis. Maitlis (2005) identifies the distinct forms of dynamic processes associated with sense making, the set of process characteristics that capture the dominant pattern of interaction, and the nature of the accounts and actions generated therewith.

Contextual research has also attempted to link change processes with organisational performance outcomes. Pettus (2001) investigates the factors that contribute to firm growth from the resource-based perspective within the deregulated truck industry. He uses detailed archival analysis to link change processes over time to organisational performance outcome. Strategic actions taken by the firms in the trucking industry are seen to follow patterns, some of which are more effective than others in fostering growth. However, it is not the resources that facilitate the growth, but how they are used and turned into capabilities. He argues that when a firm has extracted the maximum value it can from its existing resource base, it must develop dynamic capabilities to maintain growth in a dynamically changing environment. Likewise, Maitlis (2005) links the sense making process to the strategy outcomes.

Pettigrew, Woodman and Cameron (2001) argue that the field of organisational change is far from mature in understanding the dynamics and effects of time, process, discontinuity, and context. They also contend that in a complex dynamic and internationally conscious world, a search for general patterns of change requires even more focus on temporal and spatial context. It is in this light that this study proposes a framework that focuses on context and process to assist the understanding of the dynamics and effects of time, processes, in the context of the tourism industry in Seychelles.

3.4 STRATEGY PROCESS RESEARCH

3.4.1 Case Study Research

The strategy process research of this thesis is about capturing the whole phenomena of interactions of a firm in its industry over time to attain competitive advantage, and the case study research is the natural choice. The longitudinal case study method best suits the research topic, the contextual mode of analysis adopted, and the research objectives. The longitudinal case method provides the opportunity to examine continuous processes in context and to draw significance of various interconnected levels of analysis. As such, there is scope to reveal the multiple sources and loops of causation and connectivity so crucial in identifying and explaining patterns in the process of change (Pettigrew, 1990).

Case study research is an essential research methodology for applied disciplines and emphasizes detailed contextual analysis of a limited number of events or conditions and their relationship. Yin (1989) defines case study research as a scholarly inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between the phenomenon and context are not clearly evident, and in which multiple sources of evidence are used. In studying how Air Seychelles formulate strategy to gain competitive advantage through time, the choice for case-study research comes rather naturally. The longitudinal, mostly qualitative, and in-depth nature of process research predisposes the case study as the most suitable research strategy (Yin, 1994). Further, this study satisfies three conditions proposed by Yin (1989) that indicates the case study methodology may be appropriate: (i) the problem is largely a 'how' problem; (ii) the researcher has little or no control over events being researched; and (iii) the research focuses upon contemporary or recently past events.

The case study approach is in line with the idea that a phenomenon cannot be understood out of context and aims at understanding the specific phenomenon in depth (Merriam, 2002). Eisenhardt (1989) describes the case study as the appropriate research strategy when little is known about the phenomenon or when the current perspectives seem inadequate. Yin (1989) argues that case research and survey methods are better suited than other techniques for analyzing contemporary events. Eisenhardt (1989) argues that case study research is a research strategy that focuses on understanding the dynamics present within single settings; it can involve either single or multiple cases and numerous level of analysis. Dooley (2002) defines case study research as one method that excels at bringing an understanding to a complex issue and can add strength to what is already known through previous research.

Whilst who, what and where questions can be investigated through documents, archival analysis, surveys and interviews, case studies are one approach that supports deeper and more detailed investigation of the type that is normally necessary to how and why questions. Yin (1994) indicates that case study research is the preferred strategy when 'how' or 'why' questions are being posed; when the investigator has little control over events; and when the focus is on a contemporary phenomenon within some real-life context. Yin (1989; 16) identifies three conditions that determine the selection of a research strategy. The type of questions posed; the extent of control an investigator has over actual events; and the degree of focus on contemporary as opposed to historical events. All three conditions apply in the current study. All questions are 'how' questions; the investigator has no control over the actual events under study; and the focus of the study is contemporary events, evolving in real like firm-context (refer to figure 3.3 on page 115).

3.4.2 Case Study as a Research Strategy

Yin (1989; 13) argues that "case studies are the preferred strategy when 'how' and 'why' questions are being posed, when the investigator has little control over events, and when the focus is on the contemporary phenomenon within some real-life context". Whilst statistical analysis of data better answers the question "what happened?" than either "what is happening?" or "why is it happening?" case research is better than survey methods at answering the "why" and "how" because the case analysis can delve more deeply into motivations and actions than structured surveys. The 'how' and 'why' questions are more explanatory and deals with operational links needing to be traced over time, rather than mere frequencies and incidents (Yin, 1989; 18).

Once identified as the proper research strategy, the case study can be used for all three purposes of scientific inquiry: exploratory, description and explanation. In the process, theories can be generated or tested (Eisenhardt, 1989). Further, case study research can involve single or multiple cases, different levels of analysis can be embedded within a single case (Yin, 1989; Pettigrew and Whipp, 1991), and a full variety of qualitative and quantitative empirical sources of evidence, such as documents from public and private archives, artefacts, interviews, questionnaires and direct observations can be included (Yin, 1989;20).

Case study research is becoming increasingly important in early theory development in social sciences such as strategy formulation and implementation. It is especially useful where phenomena are poorly understood and relationships between them unclear. Eisenhardt (1989) emphasises the use of case study research strategy to understand the dynamics within single settings. The power of case study research lies in its ability to use all methodologies within the data collection process providing rich institutional details of restructuring processes. Case study research is also used to compare within case and across case for research validity.

Yet, despite its extensive use in social research, the case study as a research strategy has historically been stereotyped as 'a weak sibling among the social science methods' (Yin, 1989; 10). Investigations utilising case studies are purported to lack precision, quantification, objectivity and rigour. Hamel (1993) underlines that the case study has been strongly faulted for its lack of representativeness as a point of observation for a social phenomenon and its lack of rigor in collection, construction, and analysis of empirical materials that give rise to the study. A major reason why case studies are viewed in this negative light is due to the fact that many equate precision, objectivity and rigour with quantitative measures (Gummesson, 1991). As argued by Gummesson (1991), the research conditions in business administration are such that conceptualisation and the operational definitions used for measurement and observation are rarely subject to the same control as those in the natural sciences. As we have discussed earlier by adopting the contextualist approach, case studies offer the opportunity for a holistic view of a process as opposed to the reductionist-fragmented view that is often preferred. According to the holistic view, the whole is not identical to the sum of its parts, and consequently, the whole can only be understood by treating it as the central object of study (Gummesson, 1991, Pepper, 1942).

Further, case studies have been regarded appropriate only for the exploratory stages of investigation. For example, Eisenhardt (1989; 548-549) argues that case studies are "particularly suited to new research areas or research areas for which existing theory seems inadequate. This type of work is highly complementary to incremental theory building from normal science research. The former is useful in early stages of research on a topic or when a fresh perspective is needed, whilst the latter is useful in later stages of knowledge". This is however a narrow conception of the application of case studies research. The distinctive need for case studies arises out of the desire to understand complex social phenomena, allowing an investigation to retain the holistic and meaningful characteristics of real-life events (Yin, 1989). Following the ground-breaking work of,

amongst others, Glaser and Strauss (1967) on grounded theory development and Yin (1989) on case study research, the case study can be used in exploratory, descriptive and explanatory research and has now taken up its legitimate place next to the other generally accepted research strategies (experiment, survey, archival analysis and history).

Contextualist and longitudinal research as reported in this thesis fits in well into a case-study design, as has been emphasised and employed by many (e.g. Pettigrew, 1985b; Johnson, 1987, Eisenhardt, 1989, etc). Extensive documentation on case-study design as a research strategy, such as Yin (1981; 1994), and Miles and Huberman (1994), emphasise its validity. Case study research has demonstrated capacities to address complex, diverse and dynamic phenomena, such as the process by which firm formulate and implement strategies. Yin (1994) identifies the ability of case study research to deal with all variety of evidences, this allowing an investigation to retain holistic characteristics of real life events, as its unique strength. This makes case study research the most appropriate method for explaining the complexity of organisational phenomena.

However, as with all other research strategies, case study research has its own particular strengths and limitations. Yin (1989; 14) identifies the ability of the case study research to deal with a full variety of evidence, thus following an investigation to retain its holistic characteristics of real time events, as its unique strength. It is this strength that makes case study research the most appropriate method for capturing the complexity of organisational phenomena (Yin, 1989; 12). Further, the ability to combine real life data with retrospective, longitudinal data makes the case study particularly suitable to capture organisational processes and to introduce the necessary idiographic richness required to understand such processes (Larsson, 1993). In this regard, Dess, Hennart and Hill (1995) argue that longitudinal case-based research can overcome two serious problems associated with cross sectional work: the inability to distinguish cause from effect, and not allowing the researcher to control for the impact of unobservable factors on firm performance (e.g. managerial skills and competencies and tacit organisational routines). Finally, case study research is regarded to be especially suitable for generating novel empirical data and theory (Glaser and Strauss, 1967; Eisenhardt, 1989).

Case study research also has limitations, the most important being the potential for generalisability which is traded off for institutional detail and in-depth understanding. However, without diminishing this limitation, it is important to distinguish between statistical and analytical generalisation. Yin (1989; 13) argues that the aim with a case study is not to enumerate frequencies (statistical generalisation) but to expand and generalise theories

(analytic generalisation). Therefore, although case studies may not be generalisable to populations or universe, they are generalisable to theoretical propositions. A second important concern levelled at case study research details with the possibility of allowing equivocal evidence or biased views to influence interpretations and conclusions (Yin, 1989:21; Van de Ven and Huber, 1990). While alternative research strategies are also vulnerable to bias, the case study research, especially in view of possible replicability problems. However, various methodological tactics can be employed to minimise these concerns. Thirdly, while case study research can lead to theories which are empirically valid and testable, they nevertheless tend to be modest, narrow and idiosyncratic theories or, as Eisenhardt (1989; 547) puts it, “not theories about organisation in any grand sense”.

3.4.3 Justification for adopting Single Case Research Strategy

The review of the internal, external and integrative perspectives in Chapter 2 has uncovered various gaps, in particular with regards to the integrative perspective and methods, and this study aims at contributing to closing these gaps. Researchers should attempt to integrate the perspectives and methods not only for business strategist and organisational theorist but also the business historian (Pettigrew, Whipp and Rosenfeld, 1989). The point of studying a sequence of social dramas longitudinally is that they provide a transparent look at the growth, evolution, transformation, and conceivably decay of an organisation over time (Pettigrew, 1990). The unique characteristic of a researcher to use the observations of a single unit, subject or contextual case, as the focal point of study, along with its plurality of research, has enabled case study research to transcend the boundaries of traditional research paradigms. Pettigrew (1990; 275) suggests “if the phenomena to be observed have to be contained within a single or relatively small number of cases then choose cases where the progress is transparently observable”. The phenomena of transformation is ‘transparently observable’ in Air Seychelles over time. A deep exploration within one firm is justified when the goal is to uncover mechanisms (Pettigrew, 1987). This is also consistent with recent calls for a greater practice orientation in studies of strategy (Whittington, 1996; Johnson, Melin and Whittington, 2003).

Orton (1997) submits that a key research trade off in organisation research is whether to study few variables across many organisations or many variables across few organisations. It is generally assumed that the narrower the focus, the more accurate would be the analysis. Orton (1997) notes that some researchers chose to study smaller groups of organisations through a variety of quantitative and qualitative methodologies in dealing with comparative case studies. He observes that smaller groups of researchers

influenced by the values of ethnographic research defend and use single case study research. Pettigrew (1990) argues for a small number of cases and linking these to a clear outcome in order to be able to identify the multiple causes of changes and to explain the convergent interactions and interconnected loops. Orton (1997) further notes that as the unit of analysis narrows, awareness of details of the specific context increases. He argues that the choice of a single organisation eventually allows for the creation of an anchor for subsequent analyses. Yin (1989; 25) advocates that each case study “should either be similar to those previously studied by others or should deviate in clear, operationally defined ways”. In this way the previous literature can be a guide for defining the new case and its representative units of analysis. In this study, we chose to focus on an in-depth study of a single firm operating in the tourism industry, as there is a need to observe the phenomena of interest in depth, the number of organizations studied cannot be as large as in a statistical study. Further, as the analysis of data is not based on statistics but rather on iterative comparisons between sites, criteria for selecting the sample is different from statistical sampling.

There are several classic single case studies that have been used for theory-testing and theory-building. For example, Child and Smith (1987) and Smith, Child and Rowlinson (1990) explore the context and process of organisational transformation of the chocolate confectionery firm, Cadbury Limited, within their business environment, the confectionery sector. The longitudinal case study of Cadbury Limited offers empirical insights into organisational transformation within a perspective that is sensitive to the significance of the firm’s location within its business environment. Liebow’s (1967) classic single case of poor, inner city blacks from a single neighbourhood was published as ‘Tally’s Corner’ in 1967. The depth of analysis of a single study group’s responses to unemployment and despair was generaliseable to other corners and cities. Allison’s (1971) case study of the Cuban Missile Crisis was a deductive analysis driven by theories of conflict and confrontation behaviour that captured the phenomenon in a complete and generaliseable manner. Yin (1994) labels Liebow’s study a revelatory case and Allison’s research a critical case, two types of justifiable single-case studies. Our type of single-case design is a unique case, where the phenomenon is visible and inferences can be easily drawn that can be generalised to other cases.

The researcher embarking on case study research is usually interested in a specific phenomenon and wishes to understand it completely, not by controlling variables but rather observing all the variables and their interacting relationships (Dooley, 2002). Case studies emphasises the study and contextual analysis of a limited number of events or

conditions and their relationships (Dooley, 2002). Pettigrew (1997) argues that the processual analyst aim not to produce case history, but a case study that describes, conceptualizes, models, analyses, measures and explains. Firstly, there is a search for patterns in the process and presumably some attempt to compare the shape, character and incidence of the patterns. Secondly there is a quest to find the underlying mechanisms, which shape any patterning in the observed processes. Thirdly the inductive pattern recognition goes hand in hand with deduction.

It should be noted that cases study research does not imply any particular type of evidence; it can be accomplished by using both qualitative and quantitative methodologies (Dooley, 2002; Yin, 1989). However, a mainly qualitative case study research for this study was selected for three reasons. Firstly, case study research has demonstrated a capacity to address complex, diverse and dynamic phenomena (Carson, Gilmore, Perry and Gronhaug, 2001), such as how firms develop and maintain competitive advantage. Secondly, case study research is becoming increasingly important in early theory development in social sciences such as entrepreneurship, where phenomena are poorly understood and relationships between them unclear (Brazeal and Herbert, 1999; Perry, Alizadeh and Riege, 1997). Case study research facilitates inductive theory-building (Perry, Alizadeh and Riege 1997; Eisenhardt, 1989), using techniques such as in-depth interviews and structured questionnaires to explain complex processes, interactive relationships between them and to assist in classification of variables and identification of interrelationships between those variables (Perry, Alizadeh and Riege, 1997). Thirdly, this research satisfies three conditions proposed by Yin (1994) that indicate an inductive case study methodology to build theory may be appropriate: the problem is largely a 'how' problem; the researcher has little or no control over events being researched; and the research focuses upon contemporary or recently past events. Tools commonly used in this type of data collection are usually survey, interviews, document analysis, and observation although the standard quantitative measures such as questionnaires are also used.

3.4.4 Building Theory from Case Study research

Case study research is a process of social inquiry and exploration whose underlying purpose is to create new knowledge. The power of case study research is the ability to use all methodologies within the data collection process and to compare within case and across case for research validity. From the perspective of case study research, theory building is an arduous process. Theory building requires the ongoing comparison of data

and theory (Glaser and Strauss, 1967) and the continuous refinement between theory and practice (Lynham, 2000). The researcher embarking on case study research is usually interested in a specific phenomenon and wishes to understand it completely, not by controlling variables but rather by observing all of the variables and their interaction relationships (Dooley, 2002). The specific phenomenon that we are interested in this study is how firms operating in the tourism industry in Seychelles create and use internal and external resources to achieve sustainable competitive advantage over time.

Theory building requires ongoing comparison of data and theory (Glaser and Strauss, 1967) and the continuous refinement between theory and practice (Lynham, 2000). Rather than selecting either an inductive or a deductive methodology, this study attempts to combine both the inductive and deductive elements, and emphasizes iterative moves between data and theory. While theory building from case study research is largely inductive (Eisenhardt, 1989), the case study methodology employed in this research combines both inductive and deductive elements (Miles and Huberman, 1994; Pettigrew, 1985a, 1994; Yin, 1994; Orton, 1997). Glaser and Strauss (1967) argue that grounded theory development starts with data collection. Yin (1994) on the other hand argues for theory development prior to collecting a case study data as an essential step in doing case studies. However, both approaches rely on continuous comparison between data and theory. Eisenhardt (1989) and Orton (1997) stress the continuous comparison between theory and data, iterating toward a theory which closely fit the data. This research does not attempt to build pure inductive grounded theory (Glaser and Strauss, 1967), but built upon prior deductive theory in the literature as a base from which to develop further inductive theory-building insights for future testing (Parkhe, 1993). Our approach is deductive in the sense that it is theory driven; it is also inductive since we remained open to all relevant information emerging from the field and allowed the initial theoretical framework to be modified in accordance with empirical findings. The aim was to combine rigour, flexibility and structure without unduly restricting our research endeavour.

The unique potential of case study research resides in the opportunity it offers researchers as a mixed methodology – an opportunity that allows the researcher to observe the phenomenon from multiple perspectives. In promoting the use of mixed data for triangulation, Jik (1996) argues that quantitative data and qualitative data are equally important to the researcher. At the same time, the qualitative data can be important in building understanding of the theory underlying the relationships revealed in the quantitative data. Eisenhardt (1989) suggests that theory development from case study research is likely to have important strengths like novelty, testability and empirical validity.

The possibility of generating new theory increases with case study research because of the application context in which research is being conducted and because of the creative insight that often arises from the juxtaposition of contradictory or paradoxical evidence and this constant juxtaposition of conflicting realities tends to unfreeze thinking.

In studying how Air Seychelles formulates and implements strategy to gain competitive advantage through time, the choice for case-study research comes rather naturally. We enter the firm prepared with many theories, and interacted with the perceived phenomena with the aim of revealing structures and generative mechanisms capable of producing the observed phenomena, with the aim of revealing structures and generative mechanisms, “which have been capable of producing the observed phenomena” (Fenton, 1996:84). It is these structures that present social sciences and the contextualism approach with a problem. In natural science, the functionalist traditions are utilised and the research emphasis is on collecting objective empirical evidence. However, contrary to the approach of natural science where macro-scale objects are directly observed and micro-scale objects are not, in social science macro-level subjects are not directly perceived (Sztompka, 1991). Hence, micro-level objects (human beings and their activities) are relatively straightforward, whereas structures form the issues of debate. Hence, in this thesis Air Seychelles, human beings, resources and activities are studied in detail in order to move towards observable phenomena, such as structures and generative mechanisms.

3.5 THE RESEARCH DESIGN

3.5.1 The Research Process

The research strategy presented here is used to explain how and why the course of the process of strategy formation leads to a specific outcome. This implies that theoretical propositions about how contingent factors work together with generative mechanisms are compared with the actual processes of strategy formation. Methodology is concerned with the procedures that record process experiences and that make them suitable for this comparison. The research that generated this process research practice tries to track specific processes of strategy formation to understand the effect of the course of the process on the outcome.

George Homans states in a paper published in 1949, as quoted by Pettigrew, (1990; 285) that ‘people who write about methodology often forget that it is a matter of strategy, not of morals. There are neither good nor bad methods but only methods that are more or less effective under particular circumstances’. Thus, as Leonard-Barton (1990; 249) argues,

“(t)he phenomenon being researched always dictates to some extent the terms of its own dissection and exploration”. The methodology and the research parameters are in many ways influenced by the epistemological underpinnings. One of these refers to the history of resources as causally interrelated, sequentially ordered and cumulative, implying an emphasis on phenomena over time (Pettigrew, 1990; Pettigrew, Woodman and Cameron, 2001). As a consequence, time is an important element in our methodology. The process of actual research practice was characterised by iterative loops between: Strategy Process Research (Initial Literature Review); Competitive Advantage Theory (literature on the resource formation of a firm in its industry); Process Theory (literature on process studies); Data (interviews with managers and later in-depth case-studies); and Analysis (linking data to theory).

A research design is the logic that links the data to be collected and the conclusions to be drawn to the initial questions of a study, thus ensuring coherence. Yin (1989) defines research design as the logical sequence connecting the empirical data to the study’s initial research questions, and ultimately to its conclusion – it is an action plan for getting from the research questions to the conclusions. According to Yin (1989; 29), research design comprise five components: research questions; study propositions or conceptual frameworks; unit of analysis; data collection; and data analysis. We address these components below.

3.5.2 Research Objectives, Research Questions and Propositions

The first step in case study research is to establish the focus or the intent of the study. This is done through the four study objectives (Table 3-1). Dooley (2002) suggests that the focus or the intent is established once an intensive literature review has been accomplished and the problems have been identified. He submits that this should be something that the researcher can refer to as grounding during the process of the study. This was accomplished in the first instance in Chapter 2, where we reviewed the literature on the perspectives of competitive advantage and literature on processual theory. Subsequently as we proceed with the study, the orientation is always the study objectives.

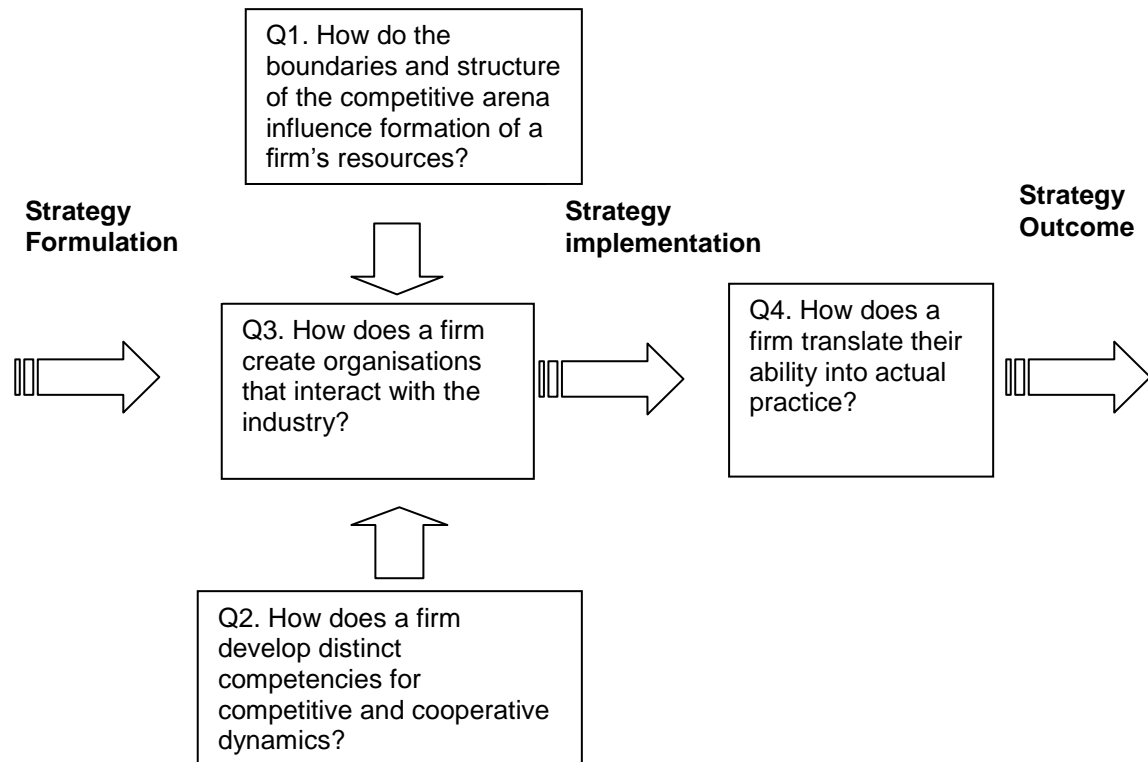
Table 3-1: The Research Objectives

To develop and empirically analyses a contextual and processual framework on a how firm creates and uses internal and external resources; how this duality impact strategy; focusing on the interaction over time; and undertake an analysis and conceptual interpretation of the principles and procedures of competitive strategy formulation and its application.	
Objectives	How the objectives are met
The first objective: To integrate multiple contexts and levels of analysis in strategic management theory.	Presenting and empirically analyse a contextual and processual framework, highlighting time, three levels of analysis, and strategic ability and strategy implementation – Chapter 4.
The second objective: To provide the historical context by analysing the tourism development process in Seychelles.	Providing a longitudinal analysis, the industry structure and the contextual framework of the tourism industry in Seychelles – Chapter 5
The third objective: To describe and analyse how one firm use its resources to sustain competitive advantage	Presenting detailed case study of a successful firm operating in the tourism industry in Seychelles, and addressing four research questions – Chapter 6.
The fourth objective: To link change processes and action to performance	Presenting comparative data on how firms manage strategic and operational change towards firm performance – Chapter 7.

The first objective, to integrate multiple contexts and levels of analysis in strategic management, is met by presenting and empirically analysing a contextual and processual framework, highlighting time, three levels of analysis, and strategy formation and strategy implementation. This provides the setting and context for the study. The second objective, to describe and analyse the historical development of the tourism development in Seychelles, is met by describing the competitive landscape of the tourism industry in Seychelles and its implication for competitive strategy. Having addressed the two above-mentioned objectives paves the way for explaining the third objective and overall interest of this thesis. The third objective, to describe and analyse how a firm uses its resources to attain sustain competitive advantage, is achieved by presenting detailed case study of Air Seychelles, a successful firm operating in the tourism industry in Seychelles, and addressing four research questions. The fourth objective, to link change processes and action to performance, is achieved by presenting comparative data on how Air Seychelles manage strategic and operational changes over time to enhance firm performance.

In addressing the third objective on how a firm in the tourism industry in Seychelles use their resources to sustain competitive advantage, four research questions have been formulated. These research questions, based on the four predominant ways in which the new economy has transformed the competitive landscape (Ferreira, 2000), are restated in Figure 3-3, and forms the basis for the proposed contextual and processual framework.

Figure 3-3: The Research Questions



Any theory testing procedure requires the theory to be explicated beforehand. In the case of the process research, the theoretical propositions that are tested provide answers to specific questions with regard to the course and the outcome of processes of strategy formation. These are questions that ask for an explanation of how the course of the process leads to an outcome (Sminia, 2005). Further, Most process studies are preoccupied with describing, analysing and explaining the what, why and how of some sequence of individual and collective action (Pettigrew, 1997; 338). Descriptive and explanatory studies need propositions. Also, the elaboration of process in itself is a theoretical proposition that can be tested. However, more specific expectations about the reasons why the course of the process takes of in a specific direction, and how this eventually will result in a specific outcome at a certain moment in time can be formulated and tested as well. Furthermore, research questions need to be translated into propositions. The data collection and analysis could then be structured in order to support

or refute the research propositions. Table 3.2 shows the research questions and their corresponding propositions. The propositions are derived from the literature and elaborated in Chapter four, as we address the third objective of developing the proposed framework and we highlight the various component of the proposed framework. The research questions and propositions relate to the proposed framework.

Table 3-2: The Research Questions and Propositions

Research Question	Propositions
How do the boundaries and structure of the competitive arena influence formation of a firm's resources?	The boundaries and structure of the competitive arena are defined as a set of objective conditions that create pressures for transformation; cognitive areas with which its members identify as a domain of ideas and practices, and a collaborative and competitive network of relationships (e.g. Child and Smith, 1987; Smith, Child and Rowlinson, 1990).
How does a firm develop distinct competencies to collaborate and compete at the same time within the framework of the business landscape of the tourism industry in Seychelles?	Firm's resources, organisational capabilities and core competence needs be developed into distinct competencies needed for the firm to collaborate and compete within the business landscape (e.g. Grant, 2005).
How does a firm create organisations that interact with the industry, changing and producing a continuous flow of competitive advantages?	Goals and values, co-evolution and strategic renewal, and strategic fit are components of interactive processes between the firm and its business environment over time that produces competitive advantage (Grant, 2005; Volberda and Lewin, 2003; Porter, 1991).
How does a firm build competitive advantage through resources and translate these into actual implementation?	Key processes and strategy path are essential components of how a firm uses resources to translate strategy implementation into competitive advantage (Grant, 2005; Hooley <i>et al.</i> 2001).

3.5.3 The Conceptual Framework

Pettigrew (1990; 284) points to the need for considering theory prior to primary data collection: "no qualitative research starts with their mind a blank awaiting to be filled with evidence". Adopting a positivist approach provides a firmer foundation for the

understanding and managing issues such as validity and reliability, and for structuring data collection and analysis. In this thesis, a proposed conceptual framework, based on a broad range of literature as expounded in Chapter 2 and developed in Chapter 4, is used in conjunction with the formal research propositions. Following Glaser and Strauss (1967) and Eisenhardt (1989), the conceptual framework is used as a template with which to assess the empirical results of the case study as it unfolds. They therefore serve not only as an important point of departure for the analysis to follow, but also forms an integral part of the analysis, which is an iterative process of constantly moving towards a theory which closely fits the empirical data.

Following Eisenhardt (1989) and Yin (1989), the proposed framework is used as a template with which to assess the empirical results of the case study, as it unfolds over time. The variables of interest are identified in the framework at different levels – external environment, internal to the firm, and the interactions between the industry and the firm. In answering the first question: How do the boundaries and structure of the competitive arena influence formation of firms' resources? We propose that the boundaries and structure of the competitive arena are defined as a set of objective conditions that create pressures for transformation; cognitive areas with which its members identify as a domain of ideas and practices, and a collaborative and competitive network of relationships (e.g. Child and Smith, 1987; Smith, Child and Rowlinson, 1990). In answering the second question: How do firms develop distinct competencies to collaborate and compete at the same time within the framework of the business landscape of the tourism industry in Seychelles? We propose that firms' resources, organisational capabilities and core competence needs be developed into distinct competencies needed for the firm to collaborate and compete within the business landscape (e.g. Grant, 2005). In answering the third question: How do firms create organisations that interact with the industry, changing and producing a continuous flow of competitive advantages? We propose goals and values, co-evolution and strategic renewal, and strategic fit are components of interactive processes between the firms and its business environment over time that produces competitive advantage (e.g. Grant, 2005; Volberda and Lewin, 2003; Porter, 1991). In answering the fourth question: How do firms build competitive advantage through resources and translate these into actual implementation? We propose key processes and strategy path are essential components of how firms use resources to translate strategy implementation into competitive advantage (e.g. Grant, 2005; Hooley *et al.* 2001).

3.5.4 The Choice of Research Site and Unit of Analysis

Selecting the research site is shaped by the choice of research topics and question posed, together with the language in which the research domain is expressed (Pettigrew, 1990). Selecting the unit of analysis, or the case is crucial. Selecting the cases and determining the data gathering and analysis techniques sets the tone for the rest of the study (Dooley, 2002). Case study research requires the identification of two units of analysis; the case to be studied and how to choose the case. This involves deciding on how to select the cases, deciding the general description of the case and selecting the instruments and other data gathering strategies that were used. Case selection is determined by the research purpose, questions, propositions and theoretical context, but there are always other constraints that impact on case selection, these include accessibility, resources, and time available. It makes sense to choose cases in which the process of interest is transparently observable. Yin (1989) and Eisenhardt (1989) suggest long-term successful operation in a particular sector as a criterion for case selection. Air Seychelles, being a successful firm operating in the tourism industry in Seychelles, provide several very interesting features for a study of the strategic processes.

The interest is in how Air Seychelles treat the creation and use of internal and external resources, how this duality impact strategy selection and organisational alignment and its relation with performance, focusing on the interactions over time to attain sustainable competitive advantage, and the conclusion that the investigation of these processes need to focus on real business activity led to the choice of Air Seychelles as a suitable firm. Sampling of cases from the chosen population is unusual when building theory from case studies (Eisenhardt 1989). Such research relies on theoretical sampling for theoretical and not statistical reasons. While cases may be chosen randomly, random selection is not necessary nor is it preferable. According to Yin (1989), sample selection should be dictated by replication logic instead of a statistical one. This implies that, each case should be considered as an experiment in itself, and subsequent sites being used either to confirm or refute previous findings.

In arguing in favour of single case research design, Yin (1989; 47) identifies three rationales: when the case under consideration represents the critical case to test a well-founded theory; when the case represents an extreme or unique situation; and when the case promises revelation in that it provides the researcher the opportunity to observe and analyse a phenomenon previously inaccessible to scientific investigation. This study satisfies the second and third rationale identified by Yin (1989; 47). Further, along the

same lines, Pettigrew (1990) regards site selection to be determined by factors such as extremely, critically, drama, high velocity, the transparency of progress, and the quality of access. Eisenhardt (1989) suggests picking sites, which represent polar types in order to amplify differences that may exist between sites on the dimensions of interest. Cases may be chosen to replicate previous cases or extend in emergent theory. Yin (1989) and Eisenhardt (1989) suggest, as guiding principles, looking for firms exhibiting phenomenon of interest for case selection for theory building from case studies. In selecting such cases, it is necessary that the phenomenon of interest can be readily observed. Air Seychelles was identified based on the following criteria; a) the airline operate within the tourism industry in Seychelles; b) it has an amount of history more than five years; c) the firm has been seen to evolve to take advantage of a changing environment; and d) the firm exhibits the features of interest of the current study, that is, firms that have attained and maintained competitive advantage.

Accessibility is another important factor both to have initial agreement and continuous contact. This is especially vital when the interest is in the firm's specific information for process research. Approval was given by senior management at Air Seychelles to study the firm for the purpose of this thesis. Air Seychelles agreed to access to its published reports and data and access to interview its employees. An advantage in this case is that the researcher study knows many managers of Air Seychelles professionally and personally.

3.5.5 Indicators of the Quality of Research

Dooley (2002) submits that case study research, like all other forms of research, must be concerned with issues such as methodological rigor, validity, and reliability. The quality of research into social phenomena is judged on the basis of several criteria. Langley (1999) posts accuracy, simplicity, and generality as requirements of adequate process theory. Common criteria that are applied to social science case study research in general are external validity, internal validity, construct validity, reliability, and replicability (Eisenhardt, 1989; Miles and Huberman, 1994; Yin, 1989). Both the specific elaboration of process theory described above and the nature of process research in general do affect how these criteria should be applied.

Construct validity and internal validity are important criteria in process research (Ferlie and McNulty, 1997; Pettigrew, 1985b). Both criteria are intertwined with both the theoretical framework and the research question. Construct validity in the case of process research

concerns the question of fit between the data (in the form of recorded activities) and the theoretical process vocabulary. To meet the construct validity criterion, we adopted the three principles of data collection proposed by Yin (1989). Yin (1989;85) states that a) using multiple, not just single, source of evidence; b) creating a case study database; and c) maintaining a chain of evidence are “extremely important for doing high-quality case studies”. This study uses multiple sources of evidence. Evidence is obtained from annual reports; other company documents and records; interviews from past and present CEOs, head of divisions, and members of staff of the firm. As indicated by Yin (1989; 96), “a major strength of case study data collection is the opportunity to use different sources of evidence. The opportunity to use multiple sources of evidence exceeds that in other research strategies”.

Further, a chain of evidence is maintained by making clear the sections on the case study database that it draws upon, by appropriate citation of documents and interviews. Also, revision of case reports by key informants in the firm (Lisa Padayachy and Guy Morel of Air Seychelles) and the tourism industry (Michel Mellie – Principal Statistician for Trade and Tourism at the National Statistics Bureau) gave us greater confidence in the measures of the constructs. Also information is obtained about the firm from annual reports, consultants, business magazines and promotional material. A triangulation of sources and methods is thus achieved. As Yin (1989; 97) indicates “any findings or conclusion in a case study is likely to be much more convincing and accurate if it is based on different sources of information, following a corroboratory mode”, and the “potential problems of construct validity can also be addressed”. Internal validity concerns the inference from the data of the explanation of the actual outcome and/or course of the process in terms of the previously defined generative mechanism and of the contingent factors. To meet this criterion, this study used the pattern matching mode of analysis after having performed the cross-site search for patterns. As a form of theoretical validation the proposed theoretical framework was tested with empirical evidence.

Based on Yin (1989), external validity is about whether the study’s findings can be generalised beyond the immediate case study. External validity requires establishing clearly the domain to which the study's findings can be generalised. Yin (1989) explains that a case study has to aim for analytical generalization instead of statistical generalization. The question is not whether the results can be generalized from the sample to the larger population, but requires generalising a particular set of findings to some broader theory. In the case of process research, that would be a question whether a specific sample of processes is representative for the larger population of processes in

general. With in-depth case studies the sample generally is small, which means that the possibility of statistical generalization is extremely limited. To Yin (1989), the question instead is whether a case study provides a sufficiently good demonstration of a broader theory. For process research, this means that the investigation has to demonstrate if and to what extent a specific process theory applies. The criterion of external validity is based on the presupposition that there are a number of invariant and universal laws underlying social phenomena. These laws supposedly reveal themselves through regularities in the form of specific associations between certain observations. In this study external validity is achieved by conducting within case comparisons of the firm under study and developing defining a case study roadmap.

Yin (1989) notes the goal of reliability in case study research is to minimise errors and biases in a study. The objective of reliability is to ensure that if a later researcher follows exactly the same procedure as described by an earlier investigator and conducted the same case over again, the later investigator would arrive at the same results. This implies that it in this study it was important to document the procedures. To ensure reliability, before entering the field, we developed a thorough case study protocol based on the research propositions and proposed framework, detailing and operationalising as many steps as possible. Included in this protocol are all the questions to be asked and the constructs these questions are meant to measure or document. When writing the individual sites with Air Seychelles, we, in fact, are creating a case study database. These were in the form of notes made from the interviews and documents analysis (Yin, 1989). Great care was taken to organize and present the data in a logical and meaningful way. The development of a formal retrievable computer database, filed by source and chronological order of the study not only assisted the documentation of the current data, but also offer other investigators the possibility of retrieving the information should the need arise. Information from this database was used in writing the analytical chapters, referring and citing specific documents and interviews. Another way to increase reliability is to follow the derivation of any evidence from initial research questions to the ultimate case study conclusions (Yin, 1989). Care is taken to ensure that the chain of evidence is maintained and presented, as will be demonstrated from chapter four to eight.

Case study research, as defined by Yin (1989), Eisenhardt (1989), and others, has well defined steps and must be well constructed to ensure construct validity, internal validity, external validity, and reliability. To pass these tests of validity and reliability, explicit attention must be paid to the design of the research study and the processes used in the

collection of the data, the analysis of the data, and the reporting of the findings (Herling *et al*, 2000). The quality check employed in this case study design is depicted in table 3-3.

Table 3-3: Quality Check of This Case Study Design

Test	Case Study Tactic	Phase of Study
Construct Validity	<ul style="list-style-type: none"> ○ Use of multiple source of evidence; ○ Establishing a chain of evidence; ○ Key informants review draft 	<ul style="list-style-type: none"> ○ Data Collection; ○ Data Collection; ○ Draft
Internal Validity	<ul style="list-style-type: none"> ○ Pattern Matching; ○ Explanation building; ○ Time series analysis. 	<ul style="list-style-type: none"> ○ Data Analysis; ○ Data Analysis; ○ Data Analysis
External Validity	<ul style="list-style-type: none"> ○ Replication logic in inter-sites; ○ Case study roadmap. 	<ul style="list-style-type: none"> ○ Research design; ○ Data collection
Reliability	<ul style="list-style-type: none"> ○ Develop case study database 	<ul style="list-style-type: none"> ○ Data collection

3.5.6 Data Collection

Our aims are to collect data which is processual, historical and contextual. To collect longitudinal data allows the present to be explored in relations to the past and the emerging future (Pettigrew, 1990). One activity in process research is the collection of raw data in the form of incidents. An incident basically consists of an action or, to put it differently, an actor doing something. This means that the basic form a recorded incident takes is similar to a combination of a subject and a verb phrase. It is of course compulsory to record a time reference with every incident. Depending on the specific research question that has been formulated and the information needed for the subsequent coding that has to take place, all kinds of additional information can be recorded as part of a single incident datum as well. This additional information can refer to, for instance, the object of the incident, the reason or the cause why the incident occurred, the consequences or effect the incident has had the circumstances or the context in which the incident occurred, and many things more (Sminia, 2005). Langley (1999) points out incidents can vary in level of detail and temporal precision. It can last a specific time or be fixed to a specific time period (a conversation; a meeting; a financial result of a fiscal year), or be more of a background occurrence that has a longer time impact without a specific end or beginning (a slum period, an economic depression, a political mood). There are several ways in which raw incident data can be collected. Among these are [A] direct observation, [B] interviewing, and [C] using archival data (Sminia, 2005; Dawson, 1997; Yin, 1986).

This study uses the technique of tracer study, as a data-sampling and data collection framework (Hornby and Symon, 1994). Tracer approach was developed as a response to data overload problems, which were largely because interviews had been focused on too much social science theory (Woodward, 1965). When collecting process data, the researcher attempts to document as completely as possible the sequence of events pertinent to the processes under study (Langley, 1999). The generation of data consist of several techniques to provide a rich case description. Due to the nature of case study research, researchers generate large amount of data from multiple sources. Case study researchers typically begin the study using only one method of data collection and add others as the situation warrants it. The added benefit of this process is that it enhances the validity of case findings through triangulation. Researchers found themselves bogged down by the broad scope and detail of collected data. Data is then not only difficult to conceptualise but also difficult to translate onto paper as a coherent account of what actually happened (Chau and Witcher, 2005). Preparation for the vast amount of data prior to collection saved much time and frustration. Time taken to plan prior to the research allowed one to organise multiple databases and set categories for sorting and managing the data.

The central idea of a tracer study is the focus on critical events or incidents, called 'tags', of a particular process, in order to elucidate this process. Tracer studies are, hence, a method of identifying and describing organisational processes across time by the use of tags (Hornby and Symon (1994). A tag is, at the same time, a source of data and a means of data sampling. A tag enables a researcher to focus more narrowly on those aspects that are primarily centred on the specific element. It serves to focus interview data in order to make them more manageable for transcription and analysis. It also helps to focus the research task to identify relevant documents and the people who are important to key events and critical activities (Chau and Witcher, 2005).

A tracer study is about non-probability sampling, based on theoretical judgement (Honigmann, 1982), in which a search is made for relevant data to elucidate the process under investigation. It is not focused on reliability and validity across results, but on building a full understanding of the process. Hornby and Symon (1994) note that within the tracer studies the temporal relationships concerning the tags are important. This is because these may change over time as the process moves on. Consequently, change needs to be studied closely.

In this study, tags are the organisational (tangible) assets or critical events of the company (for example, appointment of CEOs, acquisition of an airplane, flying to a new destination, building of new infrastructures, formation of an alliance, etc.). The use of tags enables the research process to follow a specific and uniquely appropriate path. This informs how a management intervention operates as an ongoing activity (Chau and Witcher, 2005). The gathering of knowledge concerning the acquisition of a plane, flying to new destinations, the building of new infrastructures; installations built; and the use and actual operation of those resources highlights many interesting features concerning resource formation within a firm. Organisational assets as tags also provided four episodes in the evolution of Air Seychelles of which some have been studied in detail on account of their impact.

The first step in a tracer study is the identification of tags. Before being able to identify tags, one must have an understanding of the process under investigation. The second step is to identify criteria for the sampling of specific events of the process investigation. The identification of critical events in the course of the firm's history was based on a critical analysis of secondary data, and in this study, the annual reports and interviews. The sampling criteria used came down to the question as to whether a certain event represented the creation of new resources or the development of existing ones. In the third step these important events were investigated further and related to developments in the sector by way of data collection techniques, such as further analysis of the company's annual report, external documents (articles and documents from the internet, etc.) and in-depth interviews.

Being able to distinguish between relevant and irrelevant data can be difficult. The annual reports of Air Seychelles served an entry point. As proposed by Pettigrew (1990), secondary data were collected first to understand the chronological evolution of the firm and the process of transformation. This responds to the 'what' of the process. Although an annual report is a rather detached description of a company's activities in a particular year, it does represent a well thought-out and agreed report of the company's situation at a specific point in time. This is why the collection of annual reports forms a foundation and starting-point for the tracer study. Using a critical incident technique, important events are identified based on organisational assets as a "tag". Next, "gaps" were filled in by way of additional analysis of historical publications and company documents. As suggested by Yin (1989; 86), "for case studies, the most important use of documents is to corroborate and augment evidence from other sources". Major episodes are further analysed by in-depth interviews, company documents and historical publications.

The foundation of the tracer study was provided by the annual reports. As suggested by Pettigrew (1990), secondary data first in order to understand the chronology of the transformation process (i.e. the 'what'). Coding the text of each individual annual report of the firm under study was done in two steps. A particular activity was categorised into one of four basic categories:

- Continuity - Is the reported activity a continuation of earlier activities?
 - 1.1 Organisation - (Is it the continuance of an organisational activity?)
 - 1.2 Industry - (Is it the continuance of an industry activity?)
- Change - Is the reported activity clearly distinctive from earlier activities?
 - 2.1 Organisation - (Is it a clearly distinctive organisational activity?)
 - 2.2 Industry - (Is it a clearly distinctive industry activity?)

Yin (1989) offers a general guide for defining the unit of analysis, and therefore the case, suggesting that the unit of analysis is related to how the initial research questions were defined. In this study, the central question is how firms attain and maintain competitive advantage. Therefore the primary unit of analysis is the case or the firm under study. Contextualism views an act and its context as an integrated, interactive whole, and divides this whole into distinct parts only to achieve practical purpose (Pepper, 1942). However, the definition of process as a sequence of events (Langley, 1999; Pettigrew, 1997) suggests that the basic unit of analysis in process research has to be the event. In this case, it is the sequence of events within the firms that lead to the attainment and maintenance of competitive advantage. Abbott (1990) makes a distinction between events and occurrences, with events being seen as conceptual and occurrences being seen as observed. An event is an incident that has been coded into some theoretical meaningful way. Taking this distinction as a point of departure, it follows the empirical part of process research has to comprise of a specific set of activities. These are:

- Collecting raw data in the form of incidents,
- Coding these incidents into specific events and controversies, and
- Formulating a result on the basis of an analysis of the recorded events and controversies.

After all the annual reports of Air Seychelles were analysed, the critical incidents were investigated in more detail by way of the company's documents and interviews. Focused interviews, the main source of information, were conducted using a semi-structured questionnaire. The interview protocol was aimed at letting the interviewee basically tell

(part of) the story. Interviewing is another method for collecting incident data (Dawson, 1997). These were carried out with executives, past and present, and senior managers. This is an often used data collection method in process research (Sminia, 2005). Yin (1989; 88) affirms that “one of the most important source of case study information is the interview”. According to Merriam (2001) interviews are good at capture things that cannot be observed; it allows us to enter the other person’s perspective. This is important to gain deep understanding of the situation.

The interviews were coded in terms of the most important episodes, the type of resource they describe (e.g. organisational assets or organisational capabilities) and the industry developments they described.

The interview questions were based on the proposed conceptual framework developed in chapter four (see annex A for interview questions). Apart from the fact that the interviews complemented data obtained from the annual reports, each interview incorporates questions pertaining to the specific expertise of the interviewees and their functions at the different phases of the firm’s development. The questionnaire being semi-structured implied that the question-schedules were different. Though the interview was structured round the questions, a degree of flexibility was be maintained, especially when emergent issues are encountered. The interview was mostly the more open variant because the interviewer just wants the story to unfold (Sminia, 2005). Also there were instances where there was a need for careful prompting and asking for elucidation to make sure the story is told in sufficient detail (Sminia, 2005). This is in line with the suggestions from Yin (1989; 89), “interviews may remain open-ended and assume a conversational manner”.

The subsequent interview data contained information about what happened, when it happened, why it happened, how it could occur and what the consequences were. This information could be remoulded into incident data ready for coding and analysis. As the analysis of data ensued, issues that had sufficiently covered were dropped and emerging issues were introduced as the interview progressed. This is in line with Eisenhardt (1989) who argues the need for overlap between data collection and analysis in order to allow the researcher to take advantage of flexibility of data collection afforded by the case study research strategy. All interviewees were contacted by email and followed up with request for interview. The agreement with Air Seychelles was that their Public Relations office (Ms Josie Michaud Payet) coordinates the exercise.

The in-depth interviews revealed the 'how' and the 'why' of what happened. Focused interviews were carried out with past and current Chief Executives and senior managers of Air Seychelles. Selection of the interviewees was based on their present and past involvement with the firm and the tourism industry and the availability of the interviewees. Interviewees were selected from different backgrounds. The interviewees are representative of the various services and major divisions of the firm, and the tourism industry, past and present. The sequence of the interviews was planned in such a way that interviewees with long careers were placed at the start, thus providing a great deal of information, which were be analysed immediately. The interviews started with Mrs Lisa Padayachy, apart from having long careers with Air Seychelles, she was more readily available. During the data collection, analysis and report writing, she was continuously consulted to shed light on issues, fill in gaps, and expound on any findings. The interviews were audio taped on a digital recorder with the consent of the interviewees and subsequently transcribed by the researcher and kept in a database according to interviewee and date of interview. Yin (1989; 98) notes that the establishment of a case study database is aimed at increasing the reliability of the case study. It involves the development of a formal retrievable database so that, in principle, the evidence can be retrieved directly by other researchers. Evidence were filed first according to source and secondly to reflect the chronology of the study. A breakdown of all interviewees and their positions are provided in table 3-4.

Table 3-4: List of Interviewees

Maurice Lousteau-Lalanne	CEO Air Seychelles 1986 to 1988; CEO Seychelles Tourism Board; 2005 to date
Captain David Savy	Chairman and CEO Air Seychelles 1997 to date
Mr Conrad Benoiton	CEO Air Seychelles, 1988 to 1995
Mr Guy Morel	Marketing Manager Air Seychelles
Mrs Lisa Padayachy	Manager Air Seychelles Domestic
Mr Robert Chong Seng	Engineer Air Seychelles
Ms Shirin Renaud	Corporate Planner Air Seychelles
Mr Francis Savy	Former CEO Seychelles Tourism Board; Current tourism development consultant
Mr Jason Charles	Manager Sales and Reservations Air Seychelles
Mr Michel Nalletamby	Director General, Department of Tourism
Mr Patrick Elizabeth	General manager, Air Seychelles
Mr David Germain	Former CEO Travel Services Seychelles; Current Executive Director Cape Holidays, Cape Town, South

	Africa
Mr Glenn Pillay	Manager Public Relations, Air Seychelles
Mr Michel Mellie	Principal Statistician, Tourism and Trade, National Statistics Bureau

Archival records can yield much process data (Dawson, 1997), but often need to be remoulded into incident data by way of a systematic procedure. Archival data recorded at the time, stretch from documents that were produced as part of the process under investigation like, for instance, minutes of meetings, periodic reports, policy statements, policy research reports, etc. to newspaper clippings reporting on specific incidents or personal diaries of participants made while the process takes place (Sminia, 2005). The level of detail in the resulting incident data set can be limited because it is constrained by the type of archival data that can be made available and by how much of the process actually has been recorded at the time (Poole et al., 2000). In this study, most the archival data was obtained from policy statements, periodic reports and newspaper clippings on both the industry and Air Seychelles, and personal recollections of participants in the process. Archival material can be strong in providing actual facts (Pettigrew, 1990), and basically is an unobtrusive measure, which, when recorded at the time when the outcome was not yet known, are not bothered with the biases found in retrospective data (Orton, 1997).

Our approach to data collection was a multiple method activity, as is often is the case in process studies and case research studies (e.g. Leonard-Barton, 1990; Pettigrew, 1985a). For Yin (1989) and Poole et al. (2000) this is a specific requirement for a case study in general. Using another method of data collection ensures the capture a sufficient number and the right type of incidents. The other method also assists in filling in gaps. It also is a means to deal with inconsistencies between different sources, not so much as to force one consistent view on the process but to acknowledge the existence of various layers of meaning (Pettigrew, 1990; Poole et al., 2000). Besides, the usage of more than one method, or also data source allows for triangulation. Furthermore, the incidents that make up the process under investigation can occur simultaneously at different sites and / or at different levels of context (Pettigrew, 1990). This implies the data collection method needs to be geared to the site and the context where it occurs.

3.5.7 Data Analysis

It is necessary to consider the specific analytical procedures used to conduct the empirical analysis, “both the most difficult and the least codified part of the process” (Eisenhardt, 1989; 539). Relatively few guidelines exist for assisting the analysis of case study data. Notwithstanding the ‘untidy’ and ‘messy’ character of the analytical procedures used in the thesis, their general structure can be described. Pettigrew (1990) suggests that the process analyst uses events and chronologies as crucial building blocks. The formulation of a result follows from the comparison of the theory and the data. More specifically, to test process theory, the research questions, hypothesis and the proposed framework were compared with the empirically generated sequence of events (Poole et al., 2000). The basic form by which a result in process research can be specified is the narrative (Miles and Huberman, 1994; Pettigrew, 1990; Poole et al., 2000). A rudimentary form of analysis was done by putting the events that result from the coding procedures in chronological order to construct and present the story of the process. More advanced forms of process analysis are pattern matching and explanation building (Yin, 1989).

The contextual framework serves as an important starting point for the analysis that follows and also an integral part of the analysis, which is an iterative process of constantly moving between theory and data. This is in line with the suggestion of Yin (1989) that prior to analysis, the researcher should decide on the one of two general analytic strategies. The first strategy is to allow the analysis to be directed by the theoretical propositions that led the strategy. The original objectives and design of the case study were based on such propositions, which in turn reflected a set of research questions, review of literature, and new insights. The propositions would have shaped the data collection plan and therefore would have given priorities to the relevant analytic strategies (Yin, 1989; 106). Secondly, Yin (1989) suggests the development of a descriptive framework for organising the study. This would help identify appropriate causal links to be analysed. The causal links were identified in the various components of the proposed framework presented in chapter four. The emphasis is on explanation, aiming at establishing the causal links about the phenomena and processes as they develop. As a result, the initial emphasis is on description and subsequently the analytical chapters seek to convey the chronological sequence of events as the firm evolve over time.

This thesis employs a combination of these approaches, with the initial emphasis in the analytical chapters being one of description. A systematic approach was used to initially categorise the vast amount of data collected and to examine the order and sequence of

events over time. This was done using the proposed framework, as developed in chapter four, as a template and the resultant four propositions were developed based on the research questions. Using this framework, data was analysed and results compared to with the appropriate theoretically based process. This is supported by Pettigrew (1997), who argues that the processual analyst aim not to produce case history, but a case study that describes, conceptualizes, models, analyses, measures and explains.

The first analytical strategy is a search for patterns in the process and presumably some attempt to compare the shape, character and incidence of the patterns. The analytical chapters of the thesis (Chapter 5 to 7) first seek to convey the chronological sequences of events of each of the three phases of development of Air Seychelles within the proposed contextual and processual framework. Following the sequential logic of the proposed contextual framework, all data were classified according to one of the phased in the development of Air Seychelles as a way of not forcing empirical data into the framework. Since Chapters 5 to 7 uses the proposed framework to addresses transformation of Air Seychelles, one can argue that data analysis follows an analytical strategy directed by theoretical propositions.

The second analytical strategy suggested by Yin (1989; 118) and used in this thesis is the analysis of chronological events, a special form of time-series analysis. With this strategy, there is a quest to find the underlying mechanisms which shape any patterning in the observed processes. Within the phases of transformation, data were categorised according to the proposed process template and its implicit propositions. This strategy, explicitly built into the thesis' research design, allows the comparison of an observed chronology with a predicted one and the determination of causal events over time. In addition, the use of retrospective as well as real-time data in the research further enhances the tracking of causes and effect and thus the study internal validity, since the researcher did not have to rely exclusively on data about events reconstructed from the memories of the interviewees (Leonard-Burton, 1990).

Child and Smith (1987) argue that a fine-grained case study can examine the processes whereby a firm has passed through major changes, locating historically salient structural forms and transitions between these in relation to the industry as a relevant context. Further, Van de Ven and Huber (1990; 240) argue that in process studies which attempt to provide answers to the 'how; of change, "we first need a story that narrates the sequence of events that unfolded. Once the sequence or pattern of events ... is found to exist, one can turn to questions about what the causes or consequences are of the events within the

process pattern". In addition, being an interpretative/theoretical case, the analytical chapters then proceed to interpret the foregoing narrative and, to quote Pettigrew (1990; 280) "to link emerging conceptual and theoretical ideas inductively derived from the case both to stronger analytical themes within the case and wider theoretical debates in the literature".

The third dominant mode of analysis is that of explanation-building, which is aimed at establishing causal links about a phenomenon or event. As suggested by Yin (1989; 113), "to 'explain' a phenomenon is to stipulate a set of causal links about it. These causal links are similar to the independent variables". As discussed by Eisenhardt (1989) and Orton (1997), the process is one of iteration between data and theory and this analytical strategy is frequently employed in this thesis. In this study, the evidence were analysed and the results compared with the appropriate theoretically-based contextual and processual framework. This is in line with the suggestions from Yin (1989; 113), "In most existing cases studies, explanation-building has occurred in narrative form. Because such narratives cannot be precise, the better case studies are the ones in which the explanations have reflected some theoretically significant propositions". Through this process of analysis, an attempt is made to proceed in an iterative way towards a theory which closely fit the empirical data (Eisenhardt, 1989; Orton, 1997). Yin (1989; 115) argues "one important characteristic (of the explanation-building process) is that the final explanation is a result of a series of iteration.

Yin (1989; 102) states: "The principle is to allow an external observer ... to follow the derivation of any evidence from initial research questions to ultimate case study conclusions." If this can be done, Yin argues that the study will also have addressed the methodological problem of determining construct validity. Following this suggestion, and as will be demonstrated in Chapters 5 to 7, care was taken in ensuring that a chain of evidence was maintained and presented. The analytical chapters of the thesis make abundant use of the case study database by, for example, citing and quoting specific documents, articles and interviewees. Van de Ven and Huber (1990; 214) argue that in process studies which attempt to answer to the 'how' of change, "we first need a story that narrates the sequence of events that unfolded ... Once the sequence or pattern of events ... is found to exist, one can turn to questions about what the causes or consequences are of the events within the process pattern." In addition, being an interpretative/theoretical case, the analytical chapters then proceed to interpret the foregoing narrative and to quote Pettigrew (1990, 280), "to link emerging conceptual and theoretical ideas inductively

derived from the case both to stronger analytical themes within the case and wider theoretical debates in the literature”.

Though this study is about only one firm, the domestic services and the long haul passenger services were considered as two distinct sites. Following Eisenhardt (1989) and Yin (1989), analysis started with an in-depth study of each individual site - this first step being called intra-site analysis. The researcher has to sift through all data in order to discard whatever may be irrelevant and bring together what seems most important. The case study method, with its many different data-collection and analysing techniques, allowed the researcher opportunities to triangulate data to strengthen the findings. Data were evaluated using an array of interpretations to find any and all relationships that may exist with reference with the research questions. This allowed the most significant observations to emerge from all data gathered in the field while reducing the volume of data. The discovery of constructs in qualitative data can be a significant outcome to a case study. This process provides the researcher with an intimate knowledge of each individual site and eases the cross-site analysis to follow. A report for each site was then written; the report was composed of a general description of the organization, a summary of the data gathered in relation to the variables from the original theoretical framework together with measures of these variables. All valuable information concerning exploratory variables or other dimensions of strategic scanning was also mentioned in the report at this point.

The second step consisted of a cross-site search for patterns, the sites being compared iteratively to each other in order to highlight similarities and differences among them. The international long-haul passenger services and the domestic services were identified as two sites. Comparisons between sites were be made on the basis of the theoretical dimensions used to select the sample that is, strategic scanning activities of within the different division of the firm were be compared. The search for patterns need not be restricted to these dimensions; any meaningful comparison that can yield interesting findings is worthy. Results from these multiple comparisons take the form of a configuration of characteristics shared these organizations.

Yin (1981) suggests three ways to examine within-case evidence, which we followed. Firstly, we organised the narrative accounts around substantive topics of the case study. The narrative strategy dominates the work of strategy researchers who adopt the contextualist perspective (Langley, 1999). For contextualists it plays a more substantial role, incorporating an analytical element, as suggested by Pettigrew (1990; 280) “Our

analytical chronologies reach towards theory presentation but can be prepared to get on top of the data, to clarify sequences across levels of analysis, suggest causal linkages between levels, and establish analytical themes". Each narrative portion integrated evidence from different data elements, which still needed to be precisely recorded, but in the form of notes rather than narratives. The narratives were organised around specific propositions, questions, or activities with flexibility provided for modifying these topics as analysis progresses. For integrating evidence, quantitative and qualitative data addressing the same topic were assembled together and interview segments from different interviewees but on the same topic should be integrated. Secondly, Yin (1981) suggests that although quantitative data should be integrated with qualitative data throughout a case study narrative, they may need to be coded and tabulated first. Thirdly, explanatory case studies consist of a) an accurate rendition of the facts of the case, b) some consideration of alternative explanations of these facts, and c) a conclusion based on the single explanation that appears most congruent with the facts.

3.5.7 The Research Schedule

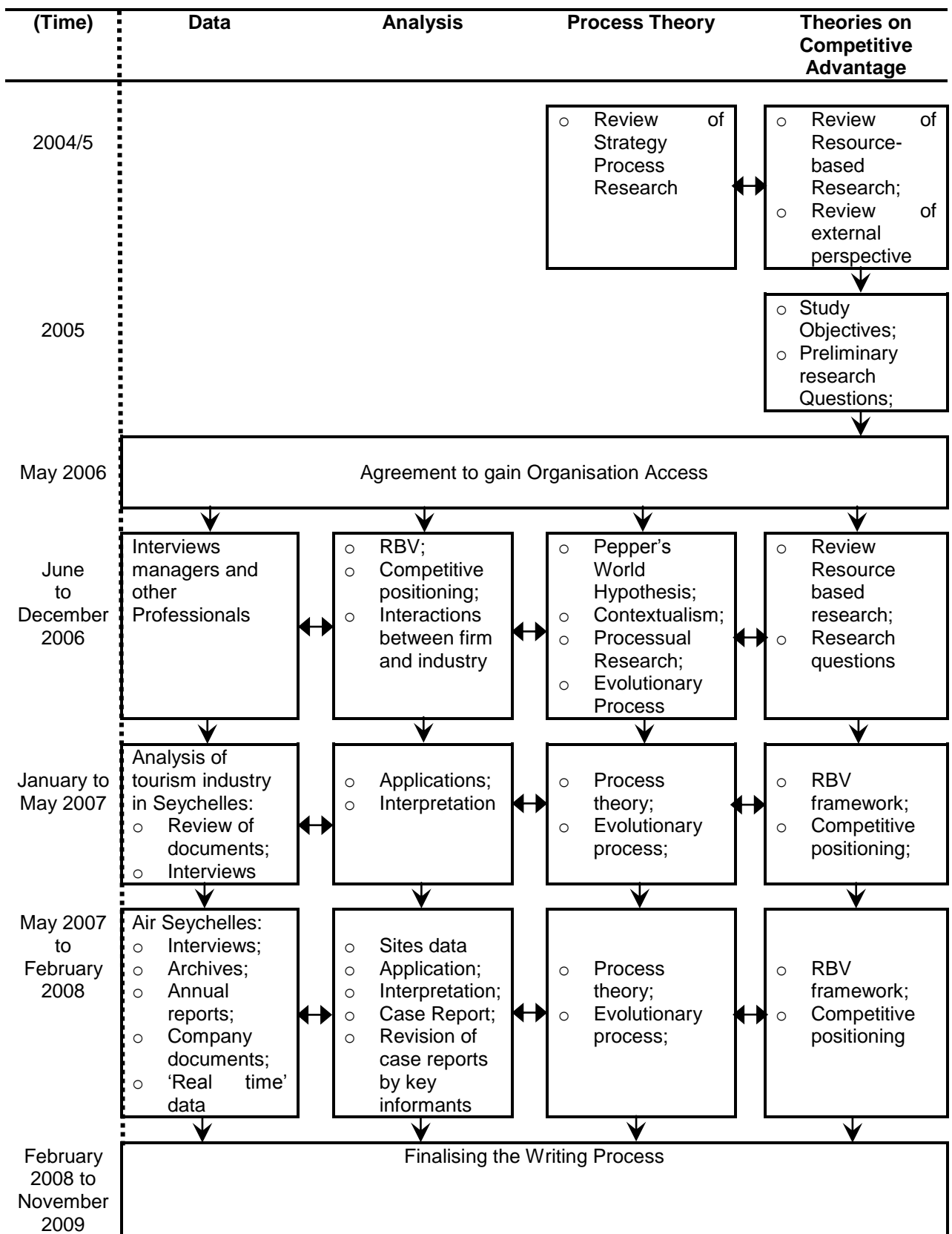
The epistemological foundations in many ways influence the methodology and subsequently the research parameters. The contextualist framework refers to the history of resources as causally interrelated, sequentially ordered and cumulative, implying an emphasis on phenomena over time. As a consequence, time is an important element in the methodology. Another is a different perception to the often considered view that common sense and refined knowledge as produced by scientists are opposite ends of a spectrum. Pepper (1942) describes these as a circle instead of a range, arguing that ultimately all evidence points to common sense as the ultimate source of our cognitive refinements. As such in practising science, scientists are refining common sense. Pepper (1942) argues that knowledge is the result of a constant cognitive refinement: the criticism and improvement of common sense. The process of the actual research was to refine the existing knowledge by adapting the existing literature to the local practice, and using the existing practice to understand and refine the literature.

Figure 3-4 (after the next page) presents a chronology of the actual research process and presents the four components of the research methodology: Theory (initial literature review elaborating the theoretical claims; Data (anchor the study in the details of Air Seychelles operation in the tourism industry in Seychelles, firstly by interviews with managers and later two in-depth case study), Analysis (linking data to theory and vice versa), and Theory

(elaborate a series of theoretical claims about strategy-making processes with reference to the firm under study).

The actual research process proceeded as follows: The literature on the two main perspective of competitive advantage were reviewed, the external perspective (competitive positioning) and the internal perspective (resource based view) of competitive advantage were reviewed. Literature on firm's renewal and sustainable competitive advantage, and in particular concepts found in theories such as the resource based view and in particular dynamic capabilities, was reviewed and analysed in interaction with interviews with practising managers in the firm.

Figure 3-4: The Research Schedule



Literature on firms' renewal and sustainable competitive advantage, especially concepts found in theories such as the resource-based view, and in particular dynamic capabilities, and on different attempts to integrate the two major perspectives were reviewed and analysed in interaction with interviews with practising managers in the firm. This led to a proposal to gain access to the business organisation. While gaining access, the literature review obviously continued. When access to Air Seychelles was granted, the proposed framework was superimposed upon the organisation. A misfit represented the fact that specific resources are very difficult to detect. The focus was on the historical analysis of patterns of Air Seychelles in relation to its industry over time. A historical analysis of Air Seychelles operations in the tourism industry over time pointed to evidence that both the industry and firm specific effects are important to explain different dimensions of firm performance and that in a dynamic environment, strategy changes over time to adapt to the changing environment.

Analysis of the tourism industry also identified the content, context and path dimensions at the industry level. By examining firm performance and drawing upon and integrating insights from the two dominant perspectives rather than by simply using only one of them, the challenge to the integration is the reconciliation of the theoretical perspectives explanation of performance with the industry-level explanation of generic business strategy theory. Theory building requires the ongoing comparison of data and theory (Glaser and Strauss, 1967) and the continuous refinement between theory and practice (Lynham, 2000). After confrontations between data and theory, numerous research documents would be compiled into a theory chapter; a chapter concerning method; and chapters concerning firm operating in the tourism industry in Seychelles. After this, the results would again be confronted with data gathered from in-depth interviews with managers in the firm to validate the findings.

3.6 CHAPTER SUMMARY

This chapter has four sections. The first section briefly outlines the contextual theory guiding this research. Following calls for empirical researchers to make clear the theory of methods which guides their inquiry, (e.g. Pettigrew, 1990 and Miles and Huberman, 1994), the epistemological assumptions of this study is also presented; how this study construes the shape of the social world, and indicate the theory of methods that guides our inquiry. A brief review of the literature on contextualism is offered and, based on this review an epistemology is presented. The second section highlights our approach in dealing with processual methods for management research. The third section points to the theory and

practice in dealing with the research design. The necessity of processual methods for management research is put forward here as a general methodological claim in this thesis. This study describes the basic issues concerning epistemology and methodology of management process research by describing the concept of contextualism as a theory of methods in management research. The fourth section describes the research design of the study is discussed in light of contextualism. The epistemology adopted guides the research design, the research methods, the data collection and the analysis of data, which are also presented in this chapter. In the next chapter, the proposed processual and contextual framework is presented, which is followed in understanding the study.

CHAPTER 4: A PROPOSED CONTEXTUAL FRAMEWORK

4.1 INTRODUCTION

Pettigrew, Woodman, and Cameron (2001) indicate that twenty years ago it was common in empirical studies of organisational change for the unit of analysis to be a change event or episode. From such studies much was learned about the drivers and inhibitors of change in particular settings at particular points in time, but less was learned about temporal and spatial contextual factors that were shaping those particular episodes. With the rise of contextualism as a theory of method in the 1980s, a more exciting approach to studying organisational change arose. One view of the contextual approach was that theoretically sound and practically useful research on change should explore the contexts, content, and the process of a change together with their interconnections over time. This new focus on changing rather than change presented scholars with a dual challenge: (1) to attempt to 'catch reality in flight' and (2) to study long-term processes in their contexts in order to elevate embeddedness to a principle of method (Pettigrew *et al.*, 2001).

The main objective of this study is to develop and empirically analyse a contextual and processual framework on how one firm created and used internal and external resources; how this duality impact strategy, focusing on the interaction between the firm and the environment over time. This chapter addresses the first objective of integrating multiple context and level of analysis is addressed. This is achieved by presenting a contextual and processual framework, highlighting time, three levels of analysis, and strategy formation and strategy implementation. As indicated earlier, this study tries to include three of the six interconnected analytic areas, as proposed by Pettigrew Woodman, and Cameron (2001). These are: (1) the examination of multiple contexts and levels of analysis in studying organisational change; (2) the inclusion of time, history, process and organisational performance outcomes, and (3) the link between change processes and organisational performance outcomes. Following Yin (1994), Pettigrew (2001) and Eisenhardt (1989), the proposed framework is used as a template with which to access the empirical results of the case study, as it unfolds over time. In doing so, this framework is empirically analysed and the result presented in chapters six and seven.

4.2 AN OVERVIEW OF THE PROPOSED FRAMEWORK

4.2.1 A Complex Adaptive System

A fundamental premise of this study is that strategy is concerned with matching the firm's resources and capabilities to the opportunities that arise in the external environment (e.g.

Grant, 2005). Fahy and Hooley (2002) and Grant (2005) argue that strategy is the link between the firm and its external environment and it matches the activities of the firm to the needs and demands of its operating environment.

Population ecology and its biological analogy have indicated that there is something like a survival path within an industry, which constitute economically best practices from which firms diverge at their peril (Hannan and Freeman, 1977). From the complexity theory approach, organisations are dynamic systems; complex and adaptive systems comprising agents who experiment, explore, self-organise, learn and adapt to the changes that occur in their environments. These take place at the individual, team, divisional and group levels and also in the larger web of external complex adaptive systems – their economic, social and political environment (Carlisle and McMillan, 2006; 3). Complex adaptivity can be described as a successful evolutionary response to survival needs of certain species.

Complex adaptive systems constantly seek to adapt to the environmental circumstances in which they find themselves. They are therefore able to undertake short term exploitation activities as required and to invest in longer term exploration as needed. Activities are determined by conditions in which the systems find themselves and they respond in a self-organising reaction. A complex adaptive system does not distinguish between the long term and the short term, but simply self-organise appropriately as may be required. It engages in multiple activities of different types (Carlisle and McMillan, 2006).

According to Carlisle and McMillan (2006) complexity science provides a new perspective on organisations and organisational activities. Developed from the natural sciences, findings in complexity science have managerial implications in the managerial spheres. The central message is that organisations do not take too rigid an approach to innovation, but to respond flexibly as internal and external environment demands.

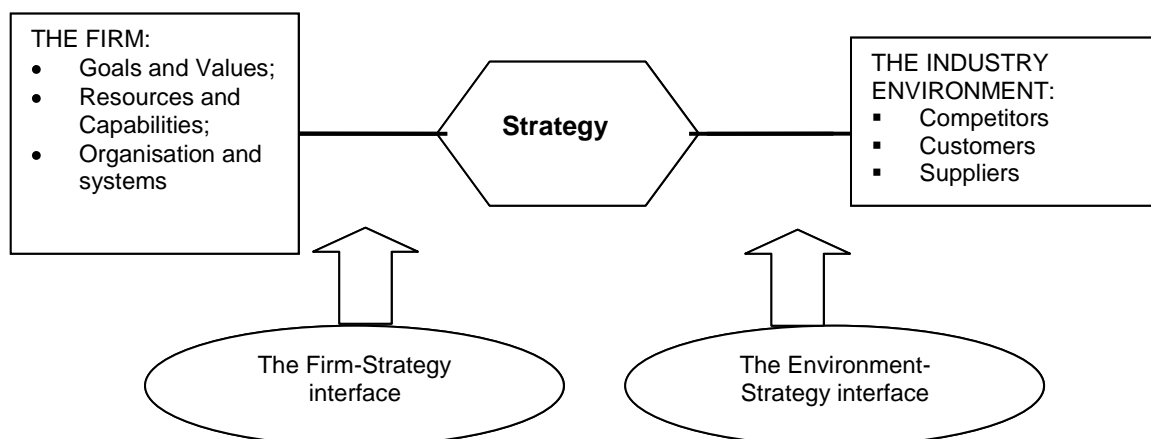
Teece, Pisano and Shuen (1997) note that competitive advantage is not just a function of how one plays the game; it is also a function of the assets one has to play with, and how these assets can be deployed and redeployed in a changing market environment. Firms make long-term, quasi-irreversible commitments to certain domains of competencies and decide under significant uncertainty about future states of the world, which long-term paths to commit to and when to change paths. As indicated in section 2.2.1 in Chapter 2, Grant (2005) argues that four characteristics of strategies are conducive to success, these are: goals that are simple, consistent and long term; a profound understanding of the competitive environment; objective appraisal of resources; and effective implementation.

Further, Grant (2005) indicates that the task of business strategy is to determine how the firm deploys its resources within its environment to satisfy its long-term goals and how it organizes itself to implement the strategy.

Grant (2005) proposes a framework which views strategy as forming a link between the firm and its external environment. Though the firm is a complex institution, for the purpose of analysis, Grant proposes that it is useful to see the internal characteristics of firms to embrace three sets of key characteristics – its goals and values; its resources and capabilities; and its organisational structure and systems. The external environment encompasses a range of economic, social, political and technological factors that influence the firm’s decisions and performance. Most strategy decisions assume the core of the firm’s external environment as its industry defined by its relationship with customers, competitors and suppliers (Grant, 2005). Grant’s framework is useful as it highlights both the internal and the external contexts and the interactions between them. However, it is well suited for the variance theory approach and not the process theory approach as it overlooks the element of time. As such, it does not suit the purpose of the current study because it does not address the historical development of the firm and the industry.

Grant’s (2005) framework of the interface between strategy and the firm is depicted in Figure 4-1 and serves as a basis for and inspired the proposed framework of integrating the different perspectives on competitive advantage and adopting a multi-perspective approach and adding the elements of context and time.

Figure 4-1: The Interface between Strategy and the Firm



Source: Grant (2005; 132)

4.2.2 The Interactions between the Firm and the Industry over Time

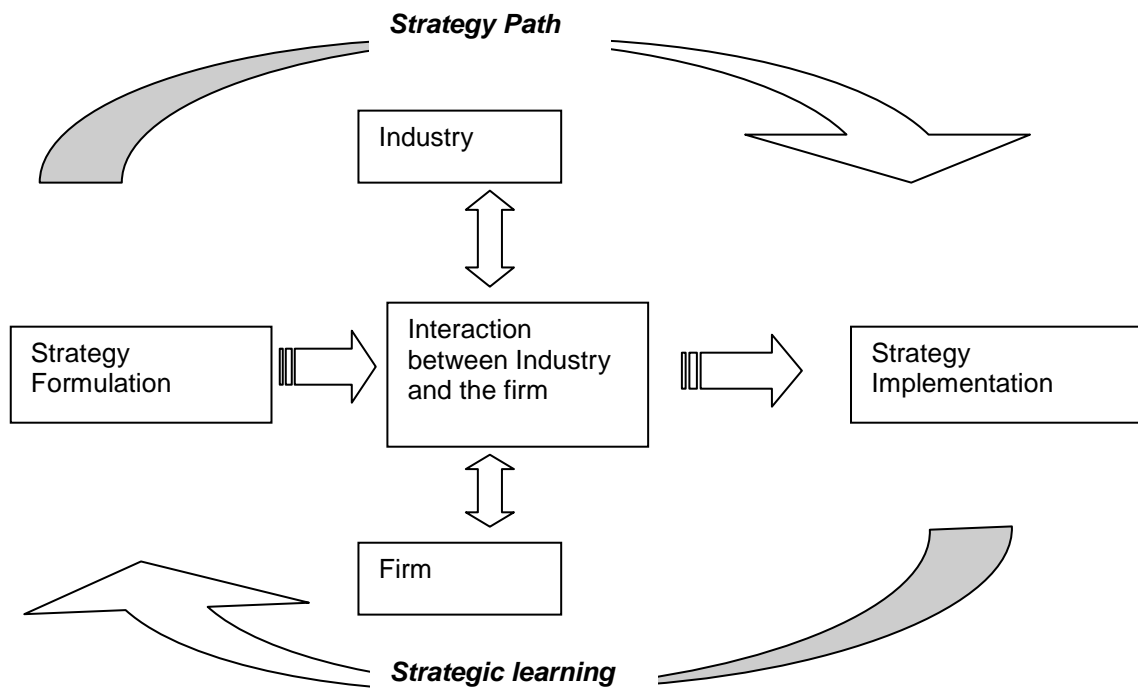
Teece, Pisano and Shuen (2002) contend that in terms of their implications for strategy process, a comparison of the resource-based approach and the external market orientation approach is useful. A challenge to the integration of the internal and the external perspectives is the reconciliation of the dynamic capabilities and resource-based firm-level explanation of performance with the industry-level explanation of generic business strategy theory. The linkage between the firm and the industry is not only closely related to the way management is conceptualised, but also closely related to the character of the firm and the industry. With regards to the thirty years operations of Air Seychelles, the interest is in the interactions between the firm and the industry as they change over time in concordance with changing circumstances both at the level of the firm and at the level of the industry. Pettigrew and Whipp (1991) suggest that an extended period is needed to study processes and the evolution of successful firms, usually over a period of about ten years.

For this purpose, the proposed framework cannot be viewed in isolation of the context and the historical development of the industry and the firm as this study is to understand how firms create and use internal and external resources to attain and maintain competitive advantage over time. To do this, this study treats Air Seychelles from its initial establishment, and how the airline evolved within the industry over the years. Different periods and stages of development of the firm and the industry are identified. Though the same model is applied at the different stages of firms and industry development in time, it is expected that the different time periods would yield different processes and outcomes. Part of studying the evolution of the firms and industry over time, is to identify these phases of development. It is not uncommon to present the evolution of firms and change processes in phases of transformation, and linking change processes with organisational performance outcomes (e.g. Pettus, 2001; Pettigrew, Woodman and Cameroon, 2001; Maitlis, 2005).

4.2.3 Components of the Proposed Framework

A proposed contextual and processual framework which links i) the external industry environment resources; ii) the internal resources of the firm based on the resource-based view and the dynamic capabilities; and iii) the interactions between the internal and the external resources over time. The basis of the proposed framework is based on the interaction between the firm and the industry over time, as depicted in Figure 4 -2.

Figure 4-2: The Proposed Processual and Contextual Framework



The proposed contextual framework implies that the strategic process is analysed at three levels: the first level is the structure of the industry to explore the industry dynamics and understand the structure and relationships within the industry; the second level is the development of the firm's internal resources over time, to understand resources and competencies internal to the firm; and the third level is the interaction of the firm within the industry, without losing focus of the firm itself, especially the decisional patterns in dynamic environment, using the resource-based view of the firm and strategic adaptation theories. In a dynamic environment, it is expected that strategy would change over time to adapt to the changing environment. This is because competitive advantage is temporary and whatever a firm can do better than the competitor is likely to be copied. Further, the time it takes to imitate can reduce drastically.

At the vertical level of the strategy process is the relationship between the firm and the industry environment in which it operates. This relationship is responsible for realising a market position and develops along three dimensions (Learned, Christensen, Andrews and Guth 1965). First of all, the firm develops a consistent system of strategic objectives and adopts a complex set of coherent functional policies. Second, the system of objectives and policies must be kept consistent with the external conditions of the market; that is, the opportunities and threats to the industry, which the firm must consider in deciding strategies and policies. Nevertheless, the firm's adaptation to industry

environment requirements has to be seen in a dynamic form, in which the firm constantly adapts its action to external and internal changes, in a continually changing pattern. Finally, the strategy must pursue the creation of distinctive competencies. Hofer and Schendel (1979) took into consideration the concept of distinctive competencies and relate them to competitive advantage. They define competitive advantage as the unique position an organisation develops vis-à-vis its competitors through its patterns of resource deployments (Hofer and Schendel, 1979) and the distinctive competencies as patterns of resource and skill deployments that will help the firm achieve its goals and objectives (Hofer and Schendel 1979). Hooley, Greenley, Fahy and Cadogan (2001) similarly maintain that the resource-based view draws attention to the importance of key resources in achieving competitive advantage. The creation of a competitive position is the outcome of deploying those individual resources towards satisfying targeted customers. Sustaining or defending the position is seen to be achieved through the deployment of mechanisms to protect that advantage. According to Hofer and Schendel (1979), the firm is therefore able to develop and organise a set of resources through which it can obtain a position of competitive advantage.

At the horizontal level of the strategic process (Figure 4-2) is the firm's strategic learning and strategy path. The creation and development of resources and capabilities within a firm over time can be viewed as a learning process. Senge (1990) identifies five key disciplines that must present to create a learning organisation. A learning organisation is a fundamental innovation. It is an organisation which recognises the importance of human resources and capabilities within it, supports its full development and creates the context in which learning takes place. The fifth discipline, systemic thinking, is different from traditional linear thought processes. Thinking systematically about an organisation implies looking at the connection of its parts and seeing the process of change rather than separate snapshots.

The learning perspective presented in the strategic management literature resembles more of the firm's internal perspective to be used in describing and analysing the interaction process between the firm and its industry, and is treated as such in this study. In this light development of the firm may be viewed as path development. Grant (2005) notes that organisational capability is path dependant and that a firm's capabilities today are the result of its history and that more importantly, this history will constrain what capabilities that firm would be able to perform in future. He advocates the study of circumstances that existed and events that occurred at the time of the firm's founding and

early development, to understand the origin of the firm's capabilities. Further Grant (1991:132) observes that a change in a firm's pool of available assets and capabilities is gained by a change in commitment towards "a particular path of technological development" or path commitment.

Teece and Pisano (1994) argue that the future direction of the firm is partly a question of technical opportunities open to the firm, as a result of internal innovation or developed externally to the firm through development in basic science or by other firms. Exploitation of these opportunities by the firm relies crucially on its knowledge. Given a specific commitment, resources will be developed automatically because of learning and repetition. Processual concepts are apt to describe or qualify an ongoing process. They show aspects of a phenomenon while in action: they are a combination of available assets and capability. Teece, Pisano and Shuen (1992) use several overlapping concepts to describe an ongoing process, such as path commitment, learning, path dependence, and path change.

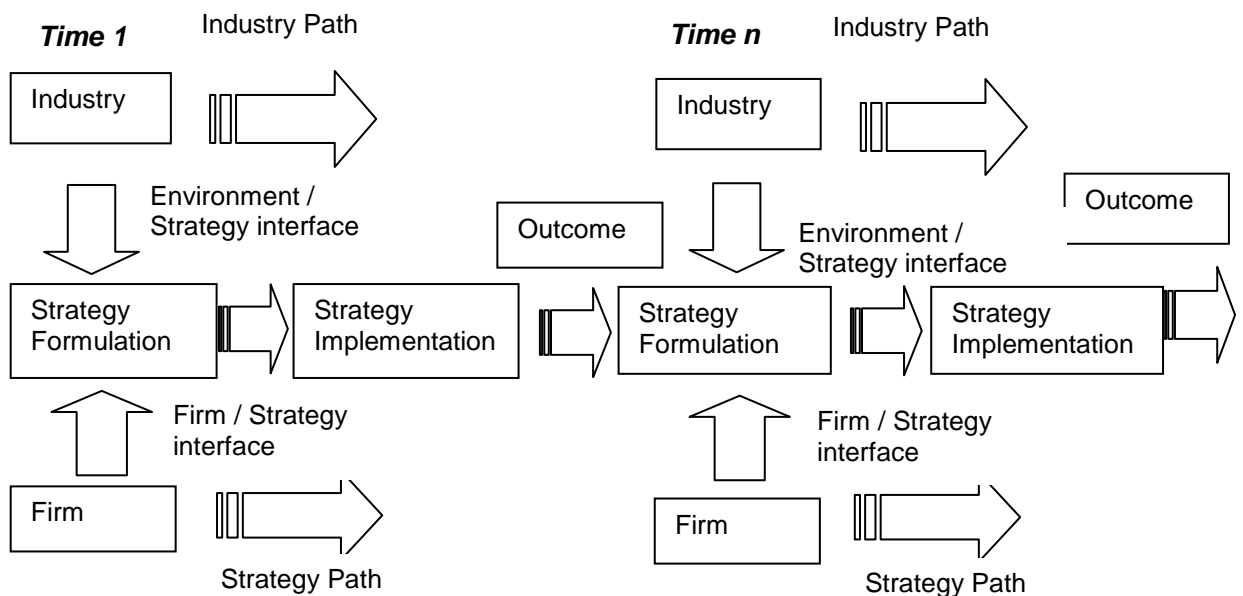
In conceptualising a strategy path through time, interactions with the industry are automatically included. Consequently, a strategy path is a firm's course of strategy through time based on certain resources, starting from its foundation until the present and moving on to the future. The strategy of a firm is the consistent way of dealing with important corporate issues throughout their history. A strategy path is based on a firm's resources (available assets and capability) and is connected to, and interacts with, an industry survival path. Teece and Pisano (1994) affirm that the firm's past experience conditions the alternatives management is able to perceive. This is an idea originally advocated by Penrose (1959) who argues that learning from past growth acts to shape the image held by managers of future growth potentials.

Strategic learning is the process of improving actions through better knowledge and understanding (Fiol and Lyles, 1985). It is about monitoring the changing external world, reviewing the organization's position in these changes, making risk assessments to protect and develop the enterprise, broadly deploying its scarce resources to achieve its purpose, and ensuring that there are feedback procedures in place to measure the effectiveness of any strategy being implemented. The output from strategic learning allows management to review the strategic process. Strategic learning can thus be seen as a significant capability (Foley and Fahy, 2004).

These levels of analysis come together with the strategic fit. Strategic fit is the attempt to match the activities of the organisation to the environment such that it will be able to achieve competitive advantage. It is the development of strategies by identifying and being sensitive to the organisation's environmental forces and developing the organisation's resources to address these.

The operational interactions between the industry and the firm are depicted in Figure 4-3. The figure shows how the framework can be operationalised, showing the interactions between Air Seychelles and the tourism industry over time.

Figure 4-3: Interactions between the Industry and the Firm



Source: Adapted from Grant (2005; 132)

Now that an overview of the proposed framework has been presented, the component parts of the framework will be addressed in some details.

4.3 THE EXTERNAL COMPONENT OF THE FRAMEWORK

4.3.1 Defining the Boundaries and Structure of the Competitive Arena

A first step in understanding performance, the attainment and sustenance of competitive advantage of a firm, lies in answering the question: **How do the boundaries and the structure of the competitive arena influence the formation of the firms' resources?**

The business environment of the firm consists of all external factors that affect firms' decisions and performances (Grant, 2005). However, given the vast number and range of external influences, managers cannot possibly monitor nor analyse all the environmental conditions. Ghemawat *et al.* (1999) argue that most business strategy issues, zooming in on sets of players with a direct impact on the profitability of one's own business model offers more insights than reviewing the economy as a whole. However, operationally, the challenge for the strategist is to decide how broadly or narrowly to focus in mapping the business landscape.

Smith, Child and Rowlinson (1990:310) define sector as a 'domain of interrelated activities contributing to a particular set of end-products' and comprising of 'populations of firms producing similar goods and services, together with others providing close support such as suppliers and consulting firms which specialise in serving the producers.' Accordingly, the term sector has been associated with end-products and the total network of providers which are responsible for producing these end products. Sectors are not consciously planned and built but are a complex result of the past. Räsänen and Whipp (1992: 47) argue that the sector is 'an historical formation of complementary, interlinked and co-evolving business activities. It is often, though not uniformly, linked to certain geographic locations and it appears in a certain period of time. A sector contains organisations which provide similar goods or services, together with those who regularly transact with them in supplying, servicing, regulatory or customer roles.' The concept of sector systems may prove a useful tool for a descriptive analysis of the structure, organisation and boundaries of sectors, for a full understanding of their working, dynamics and transformation, for the identification of the factors affecting innovation, commercial performance and international competitiveness of firms and countries and for the development of new public policy indications. Whipp and Clark (1986:27) argue that "sectors may be characterised by distinctive corporate languages, constructs and frameworks, all of which have an important influence on the evolvment of learning paths in the sector." Further, sectors may provide essential level of analysis for economists, business scholars, technologists, economic historians and policy makers in the examination of innovative and production activities, though recent studies have not maintain this focus.

Hill and Jones (1997) define an industry as a group of companies offering products or services that are close substitutes for each other. Substitutes are products or services that can also satisfy the same basic consumer needs, and the task facing strategic managers is to analyse competitive forces in the industry environment in order to identify the opportunities and threats that confronts the firm. A firm's industry environment

consists of several aspects. One of these aspects is the market position of the company; what positioning strategy does the company have, and more important where does this strategy derive from. The context of a firm's strategy is the environment in which it operates and all aspects of the environment are important to the formulation an effective strategy. However, the industry or the competitive environment of the firm has attracted the most attention in the literature on strategic management and is widely regarded as the most important aspect of the strategic context. There is evidence to support the assumption that the industry environment in which a business operates has a strong influence on its economic performance. Using complex statistical models, business analysts have shown that ten to twenty percent of the observed variation in business profitability is accounted for by the lines of businesses in which they operate. (Ghemawat, Collis, Pisano and Rivkin, 1999).

The industry has been the traditional focus of business strategy, however, it has become difficult to conduct and define industry analysis as the industry boundary has become fuzzy (Ferreira, 2000). Ghemawat *et al.* (1999) notes that the major purpose of mapping the business landscape is not to identify whether one operates on a part of the landscape that is high above or well below the economic profitability, but to understand the reasons for such variations and to capitalise on them. He suggests that the first step in the process of mapping the business landscape is to draw boundaries around the part to be described in detail, by identifying the types of players that will be taken into account. Secondly, Ghemawat *et al.* (1999) suggests a mapping process which involves identifying and sometimes calibrating key relationships among players considered, and thirdly, finding ways of adapting to or shaping those relationships so as to maximise the business total profitability.

Child and Smith (1987) and Smith, Child and Rowlinson (1990) explore the context and process of organisational transformation of the chocolate confectionery firm, Cadbury Limited, within their business environment, the confectionery sector. The longitudinal case study of Cadbury Limited offers empirical insights into organisational transformation within a perspective that is sensitive to the significance of the firm's location within its business environment. The perspective of the firm in its environment has developed from comparative longitudinal case studies of innovation undertaken by the likes of Pettigrew, Whipp and others using contextualism as a theory of method (Child and Smith, 1987; Smith, Child and Rowlinson, 1990). Strategic innovation is identified by decisions and their implementation which gave rise to major changes in products and markets, production processes and technologies, and the organisation of work (Smith *et al.*, 1990).

The longitudinal case study provides the necessary context for a consideration of the firm's transformation.

In describing how the external environment influence the formation of firms' resources, Child and Smith (1987) and Smith, Child and Rowlinson (1990) identify three aspects of the business environment to be particularly relevant to the organisational transformation. First the business environment has a structure in the sense of a set of 'objective conditions', which can create pressures for transformation in so far as a firm's viability depends upon the extent to which its behaviour is appropriate to those environmental conditions. Second, the environment is a cognitive arena with which its members identify as a domain of ideas and practices relevant to their own actions. They both contribute to and learn from the cognitive arena. In this role, the industry is the bearer of external standards against which the firms' current strategy and structure, and the ideology underlying these, can be compared and which may therefore serve to guide the new configurations to which a transformation is directed. Third, contrary to the classical economic view of the firm as an atomistic actor, the environment is also a network of relationships which may be sustained over time and which are of a collaborative as well as a competitive nature. This implies that the environment does not only consist of product competitors but also a network of relationship which may be sustained over time and which are collaborative as well as competitive in nature.

In line with the sociological literature, Sztompka (1991) specifies four levels of social structure. Sztompka's theory of social becoming is connected to the three aforementioned realities of the industry in this study. Sztompka (1991:124) distinguishes between:

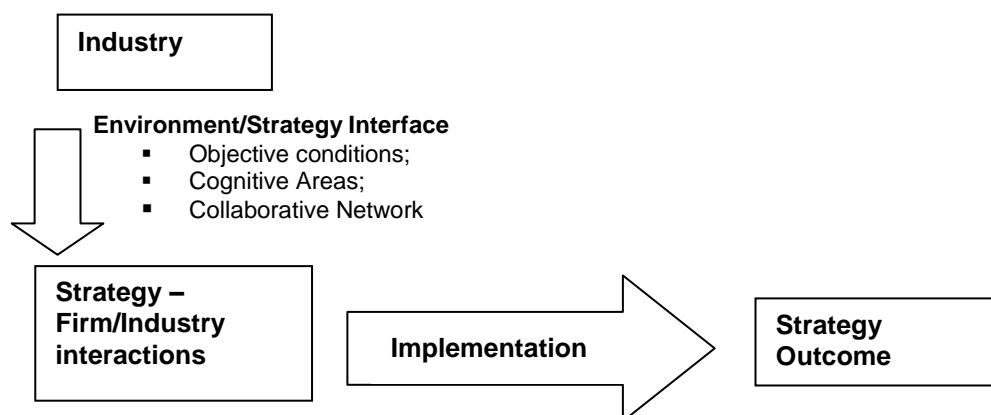
- the opportunity level: variable access to or allocation of resources and facilities among populations (of companies);
- the normative level: the network of rules, norms, values and institutions prescribing and proscribing conduct;
- the ideal level: the network of ideas, beliefs, images and convictions about reality; and
- the interactional level: interactions, the reciprocal, mutually oriented actions of mutually oriented actions of multiple individuals.

The interactional level is easily connected to the defined interactional reality between the industry and the firm. The same, but slightly different, counts for the ideal level referring to the cognitive reality. The cognitive arena as defined by Smith et al. (1990) included both cognition and culture, or cognitive framing and institutional ruling. Sztompka (1991)

included the latter in the normative level involving institutions prescribing conduct thus separating culture (determinism) from cognition (voluntarism). The cognitive reality has a clearer focus on perceptions and cognitive framing. Sztompka's opportunity level and normative level come reasonably close to the objective reality: an objective reality refers to the imposed rules or norms in terms of necessary resources needed for survival in the industry. The opportunity level, however, explicitly emphasises differences of firms' access to resources as well as the differences in allocation of resources in a sector. Implicitly, differences in resource access and resource allocation are included in the objective reality by way of concepts such as resource mobility barriers, sunk costs, etc. Sztompka (1991) refers to the degree of determining influence as a complex, idiosyncratic fusion of these realities ranging from an enabling context through a limiting context to an enforcing context in which the firm, as an agent, is located.

In addressing the first research question of: How do the boundaries and structure of the competitive arena influence formation of firms' resources? This study makes the following proposition: **The boundaries and structure of the competitive arena are defined as a set of objective conditions that create pressures for transformation; cognitive areas with which its members identify as a domain of ideas and practices, and a collaborative and competitive network of relationships** (e.g. Child and Smith, 1987; Smith, Child and Rowlinson, 1990).

Figure 4-4: The External Environment



4.3.2 The External Environment as a Set of Objective Conditions

When the external environment is taken as a set of objective conditions the focus is on the criteria it imposes on a firm's survival. The underlying assumption is that the external environment "especially when strongly competitive, largely determines the path a firm

must take for future success” (Child and Smith, 1987:567). This deterministic view of change and transformation sees the link between the external business environment and the firm to be in the standards the environment imposes for the firm’s survival. The industrial organisation approach has isolated identifiable and measurable characteristics, which somehow co-determine a firm’s strategy and structure. For example, the structure-behaviour-performance model in economics posits that the market environment structures influence the actions that firms will take on the grounds of economic rationality. Relevant industry structural characteristics include market concentration, height of entry barriers such as capital intensity, research and development, intensity and technological specificities, buyer and seller power, labour market conditions, and governmental actions towards the industry (Child and Smith, 1987). While the independence of these characteristics from the influence of any one firm is acknowledged to be variable, the underlying assumption remains that the environment, particularly when strongly competitive, largely determines the path a firm must take for future success (Smith *et al*, 1990). Performance, not just absolute but relative to the competitors in the same industry, is a major trigger of organisational transformation. This view of environmental determinism has been widely articulated in the economics and organisation studies (Child and Smith, 1987). Working within this assumption allows the provision of a comprehensive and specific view of the industry as an environment for the firm. This has enabled the comparison of the industry fairly precisely in terms of market structures (Child and Smith, 1987).

The industry is taken to be the arena in which the survival of the fittest takes place. Different external business environments are seen to carry different organisational design requirements. Either management learns to recognise the survival path and transform the organisations as and when it is required or those organisations will become transformed into extinction. Deviance from such a path is either a drive towards change, and adjustment towards this survival path, or a definite road to extinction. Some scholars have taken the biological analogy further and elaborate on industry life-cycle models as the way firms develop through several phases of development from its founding era through to maturity and potential demise. The models highlight the product and process innovations in which these main dimensions are combined differently as the industry passes from an early fluid pattern, through a transition pattern to the specific pattern of maturity. This implies that firms which do not transform themselves over time in line with the industry life-cycle trend will find it difficult to survive unless they can remove themselves from the mainstream of the industry by finding protected niches in which to operate (Child and Smith, 1987). The theory of the industry life cycle assumes that a natural selection

process is operating within industrial sectors, through which the allocation of economic returns leads to the demise of some firms and the growth of others (Whipp and Clark, 1986). The ability of management to recognise, interpret and implement the emergent requirements of their industry in the products, processes and organisational modes they adopt is seen to be crucial to their survival under conditions operate (Child and Smith, 1987).

The analogy of organic development implies that the firms will be imprinted with the character of their inheritance and early development. Miles (1980) suggests that organisations become encumbered with their founding ideologies, with their resultant structures that reflect the conditions and circumstances that applied at the time of their birth and with distinctive competencies that may no longer be suitable to the competitive requirements. The implication is that the legacy of a firm's history will bear heavily on its ability to effect present-day transformations. The competitive pressures to adopt a superior strategy and structural configuration are therefore likely to be mediated by an organisation's inherited tradition, structured power distributions and particular inherited competencies. This directs attention to the significance of intra-organisational process of cultural re-framing, political alignment and competence acquisition for the progress of transformation. It also suggests that transformation will coexist with elements of continuity (Child and Smith, 1987).

4.3.3 The External Environment as a Cognitive Arena

The external environment as a cognitive arena focuses on "a bearer of external exemplars against which a firm's current strategy and structure, and the policies underlying these, may be compared and may therefore serve to guide the new configurations towards which a transformation is directed" (Smith, Child and Rowlinson, 1990:312). The industry, or important proponents within it, provides the proverbial mirror for a firm within that industry. This is the aspect of the industry which is relevant to organisational transformation with which its members identify. Spender (1989) indicates that the senior managers of constituent firms hold very similar constructs of the sector's operational dynamics which effectively furnish the rules for operating in the industry, which he calls strategic 'recipes' (Child and Smith, 1987). Whipp and Clark (1986) note the business environment may be characterised by distinctive corporate languages, constructs and framework, all of which have an important influence on the evolvement of learning paths in the industry. Smith, Child and Rowlinson, (1990) identifies two main sources from which changes can be expected. The first is entrepreneurial initiative within the industry, possibly by new

entrants, which both establishes exemplars and alters the conditions of intra-industry competition. The second is a substantial shift in market or technological conditions, possibly originating from beyond the previous pragmatic boundaries of the industry, for example, with technological innovations originating from other industries. The notion of strategic recipes introduces the significance of cognition for organisational transformation, as firms are likely to undertake internal transformation as a consequence of their managers adopting a new strategic recipe for competition within their business environment (Smith, Child and Rowlinson, 1990).

In that sense, a cognitive arena is a “personal” metaphor projected on to collective action. With this the industry is portrayed as a phenomenon with the cognitive characteristics of a person. However, the industry as a cognitive arena is much like an industry culture because it supplies the industry with norms and values of how one should do business. The industry strategic recipes can be expected to change only when there is substantial shift in market or technological conditions and possibly emanating from beyond previous pragmatic boundaries of the industry, as in the case of a new entry from overseas (Child and Smith, 1987). Smith et al. (1990:315) consistently followed Weick (1969) and Smircich and Stubbart (1985) with the notion that a human actor does not react to an environment but enacts the environment.

Hill and Jones (1997) argue that firms in an industry often differ from each other with respect to factors such as distribution channel used, market segments served, product quality, and promotions. Within most industries it is possible to observe groups of companies, where members follow the same basic strategy as other companies in the group but a different strategy than the company in the other group. These groups of companies are known as strategic groups. Porter (1980) defines a strategic group as a set of firms in an industry, which follow a similar strategy along the relevant strategic dimensions. Strategic group analysis provides an intermediate level that reconciles intra-industry heterogeneity with the internal homogeneity of group member firms.

The concept of strategic groups has a number of implications for industry analysis and the identification of opportunities and threats. First the company’s immediate competitors are those in its strategic group. It has been recognised that some of the variance in firm performance unexplained by industry and firm factors can be attributed to “shared generic strategies, strategic group membership, other shared resources, or chance” (Powell, 1996: 331). Firms in the best-positioned groups obtain higher than average results. However, for those differences to be durable, firms in the worst positioned groups must not be able to

invade the other groups. Mobility barriers are mechanisms that preclude movement between groups (Caves and Porter, 1977). The only difference from entry barriers is that mobility barriers are idiosyncratic to the group (Porter, 1979).

Due to the inheritance of industrial organisation, the strategic group concept has been associated to the position of firms within the product market. However, since all the companies in a strategic group are pursuing similar strategies, consumers will tend to view the products of such companies as direct substitutes for each other. Thus a major threat to a company's profitability can come from within its own strategic group. Secondly, the different strategic group can have a different standing with respect to each of Porter's five competitive forces. Some strategic groups are more desirable than others for they have a lower level of threats and or greater opportunities. Managers could evaluate whether their firms would be better off competing in a different strategic group. If the environment of another strategic group is more benign, then moving into that group can be regarded as an opportunity.

Following a resource-based perspective, Tallman and Atchison (1996) have defined a strategic group as the set of firms within an industry that possess a similar strategic configuration: their products occupy similar positions in the marketplace, their internal organisation is similar, and they pursue the same economic rents with similar resources. This definition explicitly accounts for the importance of distinctive competencies as determinants of the industry group structure. The model proposed by Tallman and Atchison (1996) distinguishes among three types of rent generating competencies:

- i) **Industry Competencies:** those are common to all the firms within the industry. Within the industry they are identifiable and imitable. However, they support entry barriers because potential entrants must be able to acquire them in order to enter the industry.
- ii) **Strategy-Specific Competencies:** those are common to all the firms within a strategic group. They are needed to implement the strategy that defines group membership and constitute the source of mobility barriers across groups. Obviously, not all strategies imply possessing a set of hard to imitate resources.
- iii) **Firm Specific Competencies:** these competencies are developed internally or acquired at below actual market value.

To be able to compete in a particular industry a firm will need to have certain resources in order to survive in that industry. Which resources will be necessary will depend on a firm's products and market orientation, etc. At the surface-level these characteristics will be

more or less identical to several other groups of firms in the sector having similar assets, strengths and competencies. Groups can also be identified by their level of organisational strategy, by the scope (difference of products or product-lines, by the level of vertical integration, market orientation, etc.) and by their resource-deployment (capital intensity, technological capability, etc.) and the time period (e.g. Fiegenbaum and Thomas, 1993).

The concept of strategic groups has a number of implications for industry analysis. First the company's immediate competitors are those in its strategic group. Since all the companies in a strategic group are pursuing similar strategies, consumers will tend to view the products of such companies as direct substitutes for each other. Thus a major threat to a company's profitability can come from within its own strategic group. Secondly, the different strategic group can have a different standing with respect to each of Porter's five competitive forces. In other words, the risk of new entry by potential competitors, the degree of rivalry between among companies within a group, the bargaining power of buyers, the bargaining power of suppliers, and the competitive force of substitute products can all vary in intensity among different strategic groups within the same industry. Some strategic groups are more desirable than others for they have a lower level of threats and or greater opportunities. Managers must evaluate whether their company would be better off competing in a different strategic group. If the environment of another strategic group is more benign, then moving into that group can be regarded as an opportunity (Hill and Jones; 1997).

Consequently, an objective reality refers to the imposed rules or norms in terms of necessary resources needed for survival in a sector. In general mobility between these so-called strategic groups will be rather low. This is especially the case in capital-intensive sectors such as the airline sector. The level of mobility among these groups tends however to be higher in periods of economic decline than in periods of economic stability (Mascarenhas, 1989). Sometimes a crisis is needed in order to get a firm "moving."

When it is possible for some firms in a specific group to change in terms of strategy this can attract three reactions on the part of their group members:

- All members follow, hence a change in group strategy;
- Members do not follow, but the change is similar to other strategic groups, hence a change of group; or
- Members do not follow and the change is different from other strategic groups, hence a change in the number of groups.

Child and Smith (1987) argue that organisation analysts point out that external conditions only become known through the perceptions of organisational members, and whether they register as relevant or not depend on what conception these people have of the industry. In this sense the industry is a mental construct. This has led to the argument that in an immediate sense the human actor creates the environment to which the organisational system then adapts. Quoting Weick (1969; 94), Child and Smith, (1987) argue that the “human actor does not react to an environment, he enacts it”. They further argue that some scholars pursue the argument that maintaining environments are themselves merely perceptual phenomena. The existence of an objective externality is claimed to be invalid on the grounds that all phenomena are perceived through the medium of personal symbolic and value constructs. The implication of this is that environments are wholly enacted through social construction of actors (Smircich and Stubbart, 1985).

Child and Smith (1987) argue that a less extreme position would be to recognise the external environment as having real properties distinct from the perceptions of particular actors within them but that those perceptions and social constructions are of consequence in their own right if they determine the behaviour of the firms. The industry always tends to be greater than the sum of its present actors because of the potential for new entry among producers, suppliers, buyers, government legislators, inventors, and so on. This implies that the industry does not have closed boundaries. Rather than seeing the industry as victims of artificiality of absolutes like industry determinism versus unconstrained volition or objectivity versus subjectivity, Child and Smith (1987) suggest that the key issues concern matters of degree. The first issue involving the degree of strategic choice available to organisational decision-makers such that they enjoy the power to enact environments substantively, over and above their perceptual enactment. This is relevant to the ability of firms to avoid undertaking transformations which are contrary to their traditions or otherwise unwelcome. The second issue concerns the circumstances under which new subjective interpretations of objective conditions emerge to define a crisis or at least the need to act, and thereby cast doubt on the validity on an existing recipe or approach. This would be relevant to trigger transformation. A third issue identified by Child and Smith (1987) concerns the continuing relation between objective conditions and subjective interpretations in shaping course of transformation including its duration and scope.

For Smith, Child and Rowlinson's (1990) the consideration of the industry as set of objective conditions and the industry as a cognitive arena is an example of two extreme positions of objectivism and subjectivism. However, their argument is that there is merit in

taking both views, as change is better understood when both the strategic interpretation held by management and the extent to which the external conditions supply the management with substantive control over these conditions are held in balance. This “substantive control” corresponds with the ease with which a firm can secure good performance and when it needs to change in order to deal with crises. Whittington (1992) in emphasising the importance of structures and resources and human agency conclude that there is interdependence between the firm and its context that extends beyond the economic sphere.

4.3.4 The External Environment as a Collaborative Network

The industry is often regarded in terms of competitive relations within an industry. Child and Smith (1987) emphasise that the external environment is also a network of collaborative relationships with both competitors and other parties. In this sense, firms can define their boundaries and the structure of the competitive arena by identifying relationships and networks. The presence of a shared identity among industry members, often sustained through long-standing ties, also provides the basis for co-operative relationships. Child and Smith (1987) argue that collaborative networks can play a significant role in facilitating organisational transformations especially those involving technological change. They also argue that joint ventures can also transfer technology and help diffuse ‘advanced’ knowledge of techniques for labour control and productivity improvement where the collaboration involves more than one partner considered to be at the cutting-edge in the area. Channels of collaboration can become channels for the import of new management practice (Smith, Child and Rowlinson, 1990).

Child and Smith (1987) contend that collaboration is also evident in the role played by consultants in assessing the need for and advising on the process of transformation. They suggest that organisational transformations can also be accompanied by the inflow of new staff possessing knowledge of new mode of operation that is sought and in the successful accomplishment of change. When pursued in the direction of organisational fragmentation, transformation itself will embed the remaining organisational core within a network of now externalised transactions with designers, suppliers, distributors and production sub-contractors.

Smith, Child and Rowlinson, (1990) suggest that it is important to remember that management may be differentially immersed in industry information and knowledge through their occupational collaborative contacts. They contrast between industry

boundary managers, such as research and development engineers, marketing managers and corporate managers, who are more conscious of innovations and new trends in the industry, and the firm specific or core managers, such as line production managers and industrial engineers, who are tied into internal labour markets and practices of the particular firm. Boundary managers may be a strong source of diffusion of sector developments through the firm, and firm-specific management a major embodiment of tradition and resistance to change ((Smith, Child and Rowlinson, 1990).

When dealing with change, collaborative relationships play an important role. External economies and inter-firm relationships have acquired a growing importance. Among the many implications for the firm, the most important is the tendency to greater co-operation and the proliferation of network organisations (Huemer, Becerra and Lunnan, 2004). Firms need to co-operate with each other and interrelationships among companies operating in different industries have tended to increase as a result of increasing development of a common technological base. Networks allow each firm to overcome the traditional separation between the industry and the firm, creating new forms of organisations based on mutual collaboration and semi-hierarchical relationships. Firms in networks develop a sense of belonging or common perception through processes of identification, which deepen the motivation to cooperate (Huemer, Becerra and Lunnan, 2004). Identification processes create a sense of 'us', those within the network that cooperate with other, and 'them', the competition. However, these boundaries are continuously changing, depending on the perspectives of members of the network. Ghemawat *et al.* (1999) describes network externalities as embodying elements of scale, complementarity, learning effects and relations, as barriers to imitation. These have aroused an amount of attention in the context of information economy. Networking externalities exist when the attractions to buyers, suppliers, or complementors joining a network increase with its size. In such cases, even very small size advantages tend to snowball over time, amplifying the advantage of the firm that controls the largest network.

Uzzi (1997) contends that how firms manage in a network context, whether it be a loosely collaborative arrangement or a more formalised alliance, is an important source of operational and strategic advantage. O'Driscoll, Carson and Gilmore (2000) argue that the ambitious firm seeks to position itself within a network in a way that maximises its advantage. Such positioning is an important source of competitive advantage. For some firms, this may even amount to a distinctive or core competence. Uzzi (1997) further argues network firms must develop both soft and hard competencies in their relationships; the former creating a 'social foundation' based on trust and commitment, the latter

creating, for example, joint product and marketing activities among firms. The knowledge and awareness of the environment and market infuses the process of social bonding and trust building in a network. As key players manage in the network on a daily basis, they monitor the ongoing costs and benefits of the network involvement (O'Driscoll, Carson and Gilmore, 2000). Network legitimacy is a generalised perception that the actions and activities of a network are desirable and appropriate both to member firm and to external interest groups. Network legitimacy attracts network resources and leads to network persistence. The capability to judge network legitimacy combines both hard and soft managerial qualities focused on competence (O'Driscoll, Carson and Gilmore, 2000).

Foss (1999) argues that it is possible for network theorists to draw in a fruitful way on resource-based insights, suggesting that the resource-based perspective may be usefully applied to the analysis of network capabilities. Foss (1999) argues that the conditions for network capabilities to give rise to sustained competitive advantage are essentially the same as in the case of firms' capabilities. The difference is that the entity possessing the valuable as a collective of firms instead of a single firm, although the individual firm may derive advantage from it. Further, like firm capabilities, network capabilities are accumulated. Foss (1999) suggests that in particular the concept of collective learning provides possible bridge between the two approaches, the firm capabilities and the network capabilities, and in particular, all firms in the network can benefit from the presence of collective learning. To be able to compete in a particular industry, a firm needs to have certain resources to survive. An example is the necessity of firms in the industry in Seychelles to possess the knowledge of the high-end market niche. Without access to this knowledge, a firm will be unable to operate in the industry. Which resources will be necessary will depend on a firm's products and market orientation, etc. At the superficial-level these characteristics will be more or less identical to several other groups of firms in the industry - having similar assets, strengths and competencies. Ambitious firm seeks to position itself within a network in a way maximises its advantage. Such positioning is an important source of competitive advantage. For some firms it may amount to distinctive or core competence (O'Driscoll, Carson and Gilmore, 2000).

Ghemawat *et al.* (1999) suggest that the mapping relationship process can be conducted with two very different objectives. One approach calibrates relationships in quantitative or categorical terms so as to yield something of a traditional decision support system. The other approach focuses on mental models rather than literal decision-support models and stresses that key decision makers should understand key relationships in some depths. Ghemawat *et al.* (1999) argues that both approaches been successful in numerous

practical applications and still used extensively, and maintains that decision-support models and mental models may have a large zone of overlap within which the intelligent pursuit of either one of them can improve the organisational status quo.

4.4 THE INTERNAL COMPONENT OF THE PROPOSED FRAMEWORK

4.4.1 Firms' Distinct Competencies

The second step in understanding performance and the attainment and sustenance of competitive advantage of the firm lies in answering the question: **In what ways do firms develop distinct competencies to collaborate and compete at the same time within the framework of the business landscape of the tourism industry in Seychelles?**

Of note is that there has been a tendency to move away from the winner takes all mentality to the notion of collaboration and competing at the same time (Brandenburg and Nalebuff, 1996). To answer the above question, the study uses the resource-based view of the firm and dynamic capabilities approaches to identify how firms build competitive advantages through resources and translates these into actual implementation. Grant (2005) submits that establishing competitive advantage involves formulating and implementing a strategy that exploits a firm's portfolio of resources and capabilities. Individual resources do not confer competitive advantage; they must work together to create organisational capabilities. These capabilities are the essence of superior performance. Of primary importance are those capabilities that can provide a basis for competitive advantage. Hamel and Prahalad (1990) term 'core competencies' as those capabilities fundamental to the performance of strategy.

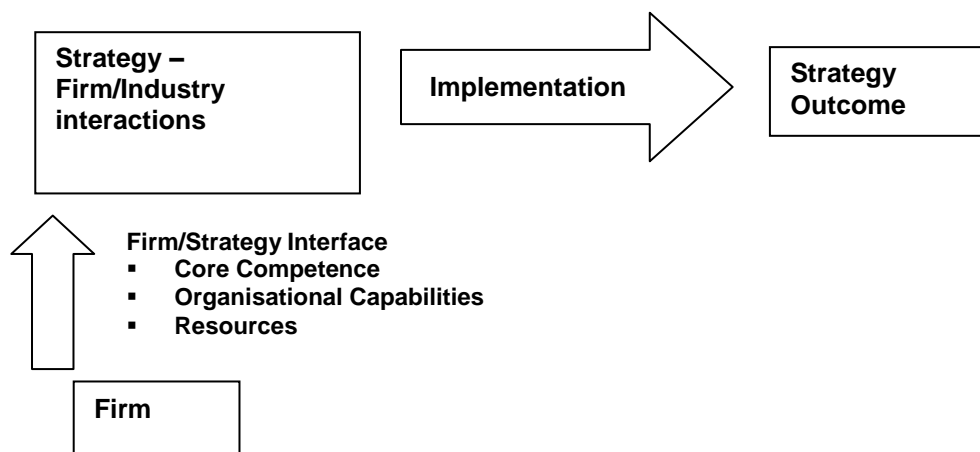
Teece Pisano and Shuen (1992:26) suggest that since history matters, groups of firm-specific assets need to be viewed in dynamic terms; as changing through time. The coming into being of resources over time within a firm can easily be characterised as a learning process. Knowledge can become the principal organizational resource when it is valuable, rare and only partially imitable (Grant, 1996). This process of asset evolution is supposed to be governed by what is referred to as dynamic capabilities. Dynamic capabilities are focused on the resources and other kinds of factors influencing capabilities that a firm needs to possess in order to be able to cope with an environment in which change is rapid (Teece, Pisano and Shuen, 2000). Dynamic capabilities are referred to as the ability of the firms to achieve new forms of competitive advantage by renewing

competencies so as to achieve congruence with the changing environment (Teece, Pisano and Shuen, 2000).

In addressing the second research question, how do firms develop distinct competencies to collaborate and compete at the same time within the framework of the business landscape of the tourism industry in Seychelles?, This study makes the following proposition: **Firms' resources, organisational capabilities and core competence needs be developed into distinct competencies needed for the firm to collaborate and compete within the business landscape** (e.g. Grant, 2005).

In the proposed framework, identifies resources, organisational capabilities and core competence as the distinct resources needed for a firm to collaborate and compete within the business landscape. How these relate to the proposed model is depicted in Figure 4-5. The study now proceeds to explain each of these competencies.

Figure 4-5: The Internal Resources



4.4.2 Resources and the Dynamic Nature of the Firm

The starting point for strategy formulation is often some statement about the firm's identity and purpose (Grant, 2005). The tendency is that the identity is answered by the question "What is our business?" Firms have inclined to define their business in terms of the market they serve. The tendency has been to respond to the following questions: "Who are our customers?" and "Which of their needs are we seeking to serve?" However, in a situation where customer preferences are volatile and the identity of the customers and the technologies for serving them are changing, an industry or market focused strategy

may not provide the stability and constancy of direction needed to guide the strategy over the long term period.

When the external environment is in a state of flux the firm itself defined by its resources and capabilities, may offer a more stable basis on which to define its identity. However defining business in terms of market served by firms remains important. The idea concerning the role of resources and capabilities as the principal basis for firm strategy and the primary source of profitability coalesced into what has become known as the resource-based view of the firm (Grant, 2005). Defining firms in terms of its capability may offer a more durable basis for strategy than a definition based upon the needs that the business seeks to satisfy (Grant, 2005). Grant (1991) suggests that the case for making resources and capabilities of the firm the foundation for its long-term strategy rests upon two premises: firstly, internal resources and capabilities provide direction for a firm's strategy; and secondly, resources and capabilities are primary source of profit for the firm.

Teece, Pisano and Shuen (2000) argue that winners in the global market place have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competencies. Teece *et al.* (2000) indicate that it is not surprising that industry observers have remarked that firms can accumulate a large stock of valuable technology and still not have many useful capabilities. Firms need to develop capabilities required to serve customers requirements across a wide front. The ability of a firm is closely connected to the development of skills, organisational routines, and cognitions. The development of the available assets into the ability to do something with these assets has been largely neglected in the resource-based literature (Teece *et al.*, 2000). Grant (2005) cites possibly the most difficult problem in developing capabilities is that we know little about the linkage between resources and capabilities. He argues that in most sports, the relationship between the skills of the individual players and team performance are weak. Across all sports, there are examples of highly paid, star-studded professional teams who perform poorly, and champion teams conspicuous by the absence of superstar players. The same is true among business firms. Firms that demonstrate the most outstanding capabilities are not necessarily those with the greatest resource endowments. For example, Sony has a smaller research budget than Philips for the past three decades, yet Sony has introduced many more successful innovations than Philips (Grant, 2005).

The study uses the resource-based view of the firm and dynamic capabilities perspectives to explore how firms interact with their industry to attain and maintain sustainable

competitive advantage because, central to the resource-based view and the dynamic capabilities perspectives is the idea that the firm is essentially a pool of resources and capabilities, which are the primary determinants of its strategy and performance (Grant, 2005). Further, the resource-based view of the firm may also provide a useful framework for examining the development of industry orientation (Fahy and Smithee, 1999). The capabilities-based perspective can be used to address the issue of how to develop an industry driven organisation (Foley and Fahy, 2004). Day (1994) proposes that organisations can become more external environment or market-oriented by identifying and building special capabilities. They define these as ‘complex bundles of skills, and collective learning, exercised through organisational processes, that ensure superior co-ordination of functional activities’.

Resources are firm-specific assets that are difficult if not impossible to imitate. Resources, assets or factors of production, are what a firm has available to compete with in the market (Teece, Pisano and Shuen, 1997). Some of these resources are difficult to transfer among firms because of transaction costs and because the assets may contain tacit knowledge. Within the resource-based view, the “undifferentiated” assets are considered the least important because these factors of production are “freely” available (i.e. for money) and thus cannot be responsible for differences between firms (Barney, 1986). By exploring how the firms groups of resources work together to create organisational capabilities that we can examine how the firms create competitive advantage. Resources by themselves are not productive, but how these resources are brought together to perform a particular productive activity, term the organisational capability. Strategic management is interested in those capabilities that provide a basis for competitive advantage. For a resource or capability to establish competitive advantage, it must meet two prerequisites, it must be scarce and it must be relevant. Resources and capabilities that are widely available in the industry, though they may be essential to compete, will not provide the sufficient basis for competitive advantage.

4.4.3 Organisational Capability

Organisational capability refers to a firm’s capacity to undertake a particular productive activity. Individual resources do not confer competitive advantage; they must work together to create organisational capability. Capabilities are the essence for superior performance (Grant, 2005). Further, Grant (2005) suggests that analysis of resources can also take place are two levels, the individual resources of the firms, which is the basic units of analysis, and how groups of resources work together to create capabilities. At an

individual level this is related to skills, at a group or firm level this is related to routines or organisational capabilities. With regards to a resource a firm has, it has to overcome two obstacles before it actually generates a profitable action. Knowledge, for example, is an intangible resource, which has become increasingly important within the resource-based and dynamic capabilities views. Kogut and Zanders (1992) and Zanders and Kogut (1995) explain that knowledge resides in both individuals and in regularities of group behaviour. As long as knowledge is only available in books, academic articles or reports it does not generate action. However, as soon as knowledge resides in behaviour or doing, it has become an ability and the first obstacle has been overcome. Von Krogh and Roos (1995) argue that knowledge at the individual level develops through a legitimating process in order to come at the group level. The second obstacle, generating profitable action in the industry marketplace with an ability, is not really acknowledged in the resource-based view. Collis (1994) argues that there are probably as many definitions of organisational capabilities as there are authors in this field of study. Three categories of capabilities distinguished by Collis are:

- Capabilities as an ability of the firm to perform basic (functional) activities;
- Capabilities as the common theme of dynamic improvement, such as “dynamic routines”; and
- Capabilities as the more metaphysical strategic insights in the future used to develop novel strategies.

The definition adopted here concurs mostly with the second category because it focuses on “doing and improving”, whereas the third category is about developing new strategies; the first category is included in the second category.

Consequently, an “organisational capability” is the ability of a firm to use its available assets to a desired, intended end. A skill is a capability at a personal level. A firm does not have skills, an individual does. At the organisational level, skills are defined as organisational routines or capabilities, which are complex patterns of social action (Pentland and Rueter, 1994) and not - as it is often conceived - “mindless” repetitive behaviour (Giddens, 1984). When the skills of several people have been collective and they have become a pattern of interaction there then exists a so-called organisational routine. Organisational routines are patterns of interaction that “enable distinctive activities to be performed” (Teece, Pisano and Shuen, 1997: 516). This is a rather uncertain process, which is learned by extensive experience only.

Routine clusters are integrated groups of organisational routines, which together make up a firm-specific capability or an organisational capability. Teece, Pisano and Shuen (1992:22) argue that critical resource differences between firms refer to organisational capabilities, by which they mean the abilities “of a firm to organise, manage, coordinate, or govern specific sets of activities.” The question, however, as to which of these routines in the production process really makes this organisational capability distinctive can hardly be answered. Distinguishing organisational routines empirically from routine clusters is difficult and a matter of nuance. The difference between routines and capabilities may be compared with the difference between firm-specific assets and firm-specific clusters of assets, which comes down to the degree of relative importance to the firm. This relative importance is difficult to distinguish in a company since it is co-determined in interaction with the industry. Grant (2005) suggests two approaches to classifying and aggregating activities to identify a firm’s capability:

- A functional analysis, which identifies organisational capabilities in relation to each principal functional areas of the firm;
- The value chain analysis, which separates activities of the firm into sequential chain. Porter’s generic value chain identifies a few broadly defined activities that can be disaggregated to provide a more detailed identification of the firm’s activities and the capabilities that corresponds to each activity.

We adopt the functional analysis approach. The case study of Air Seychelles involves studying the different functions and divisions of each and finally incorporating them into a single case.

4.4.4 Core Competencies

Teece Pisano and Shuen (1992:26) suggest that since history matters, clusters of firm-specific assets need to be viewed in dynamic terms; such as changing through time. This process of asset evolution is supposed to be governed by dynamic capabilities. However, these capabilities still seem to be rather mystical forces helping the firm to sustain its ability to generate profits. Concerning the ability for change in the firm, Bogner, Thomas and McGee (1996) draw distinction between competencies and the outcome of competencies. They argue for the concept of core competence to be used only if it leads: “a firm, directly or indirectly, to a persistent competitive advantage by satisfying a customer better than competitors, or at lower cost those competitors, or by producing an advantageous combination of both.” (Bogner *et al.* 1996; 13). Selznick (in Grant, 2006)

describes distinctive capabilities as those things that an organisation does particularly well relative to their competitors. Hamel and Prahalad (1990) refer to the term core competencies to distinguish those capabilities fundamental to a firm's performance and strategy. According to Hamel and Prahalad (1990) core competence are those that:

- Make a disproportionate contribution to ultimate customer value, or to the efficiency with which that value is delivered, and;
- Provide a basis for entering new markets.

Whereas organisational capabilities are the ability to use resources to a desired end, core competence is the ability to create new resources to a desired end. Creating new resources can originate from an ongoing (continuous or evolutionary) process or from a breakthrough (a discontinuous or revolutionary) process. The former remains in line with past resources whereas the latter signifies a disjuncture from past resources.

Leonard-Barton (1992) distinguishes between core competencies and core rigidities. The new economy and the fast-changing environments can destroy the value potential of existing competencies (Tushman and Anderson 1986), disrupting traditional means of competition (Sambamurthy 2000). Static competencies may result in core rigidities (Leonard-Barton 1992) and inhibit performance (D'Aveni 1994). In today's rapidly-changing environments, organisations need to diversify, adapt, and even reinvent themselves to match evolving market and technological conditions (Eisenhardt and Brown 1999). The most important means of achieving a competitive advantage in these dynamic markets are innovative moves and strategic flexibility (Barney 1991; Sambamurthy 2000). A basic premise of this study is that a sustainable competitive advantage comes from the capacity to continuously improve, innovate, upgrade, and configure resources and competencies to match environmental needs (Eisenhardt and Tabrizi 1995).

There is a broad consensus that any advantage from static competencies is short-lived in rapidly changing environments. Sustainable competitive advantage does not arise from a few transient competencies, but from the dynamic capability to continuously transform new competencies that match changing environmental contingencies. In fact, the dynamic capability to reconfigure and adapt existing resources has been viewed as the leading source of sustainable competitive advantage (Collis 1994; Teece, Pisano and Shuen 1997). Sensing new opportunities and fully exploiting existing resources to adapt to new environment can lead to the achievement of such advantage (D'Aveni 1994). 'Resource reconfigurability', the dynamic capability to identify new opportunities, organize effectively

and efficiently, change rapidly and continuously, and transform existing resources into new competencies in order to take advantage of these opportunities is herein proposed as a key success factor in managing radical change in high-velocity industries (Teece and Pisano 1994).

4.5 FIRM-INDUSTRY INTERACTION COMPONENT OF THE FRAMEWORK

4.5.1 The Link between the Firm and the Industry

The third step in understanding performance and the attainment and sustenance of competitive advantage of the firm lies in answering the question: **How do firms create organisations that interact with the industry, changing and producing a continuous flow of competitive advantages?**

In line with this is the call for the integration of the different perspectives of competitive advantage, processual descriptions, and the exploration of how firms identify their own boundaries, focus on their core competencies, and create organisations that interact with the industry. It has become clear that in conceptualising a strategy path through time interactions with the industry are automatically included. The question that comes to mind is how, when and where the two levels of analysis, the firm and the industry, interact over time. The linkage between the firm and its industry is not only closely related to the way management is conceptualised, but is also closely related to the character of the firm and the industry. The interaction between the firm and its industry changes over time in conformity with the changing circumstances both at the level of the firm and at the level of the industry. Ghemawat *et al.* (1999) suggests that first a strategy must fit together internally in a way that generates added value for the organisation as a whole in the environment in which it operates and secondly must fit with the external environment.

Teece, Pisano and Shuen (2000) argue that competitive advantage requires that firms exploit both the existing internal and external firm-specific capabilities and develop new ones. According to these scholars, a firm first develops firm-specific capabilities and it renews competencies to respond to shifts in business environment, intimately tied to the firm's business processes, market positions, and expansion paths. According to Grant (2005:165), "organisational capability is clearly path dependent". That is, a firm's current capabilities are not only a result of its history, but this history can also constraint the capabilities that a firm can perform in future. A change in a firm's pool of available assets

and capabilities is gained by a change in commitment towards a particular path. Given a specific commitment, resources will be developed automatically because of learning and repetition (Grant, 2005). Consequently, a 'strategy path' is a firm's course of strategy through time based on certain resources, starting from its foundation until the present and moving on to the future. Grant (2005) suggests that to understand the origin of a firm's capability, a useful starting point is to study the circumstances that existed and events that occurred at the time of the firm's founding and early development. Teece, Pisano and Shuen (1997) have also referred to previous investments and the repertoire of routines as constraints on future behaviour. In turn, the structures of the past also enable and even enforce future behaviour (Giddens, 1984; Sztompka, 1991). In understanding the strategy path, processual concepts will be needed to describe or qualify an ongoing process. Truly processual concepts show aspects of a phenomenon while in action: they are a combination of available assets and capabilities. Teece, Pisano and Shuen (1992; 1997) use several overlapping concepts to describe an ongoing process, such as path commitment, learning, path dependence, and path change.

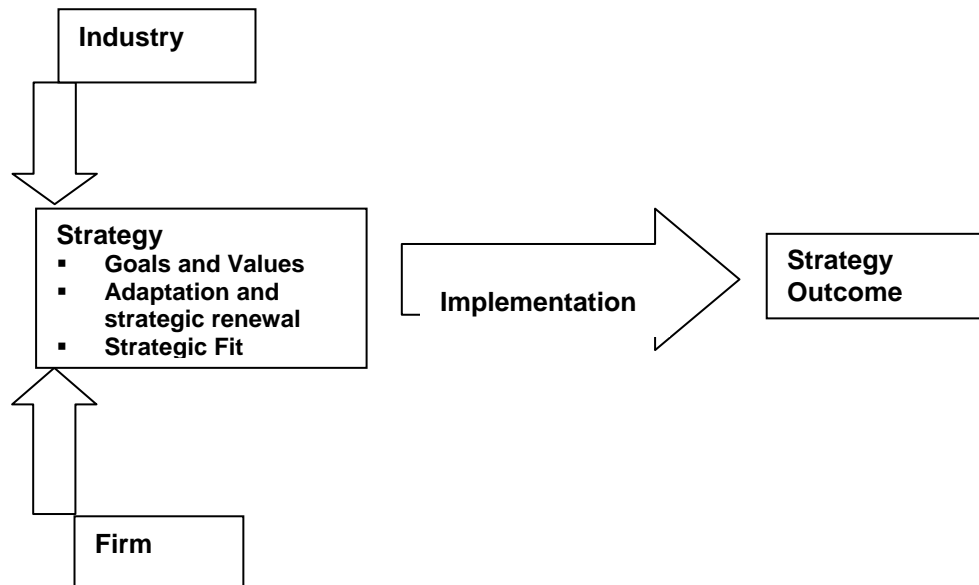
Collins and Porras (1999) outline the underlying habits of long-successful, visionary companies as an orientation towards evolutionary change, by experimenting and keeping what works. Evolutionary processes can be a powerful way of linking the interaction of the firm with its industry. The basis of the co-evolution theory is that the firm and the environment mutually interact and are so closely intertwined that they co-evolve together instead of apart from each other. It is the result of the joint outcome of managerial intentionality, environmental selection and institutional effects (Lewin and Volberda, 1999). McKelvey (1997) indicates that co-evolution can be seen as several interacting evolution processes that take place simultaneously in different levels of the firm and the environment.

In addressing the third: How do firms create organisations that interact with the industry, changing and producing a continuous flow of competitive advantages?, we make the following proposition: **Goals and values, co-evolution and strategic renewal, and strategic fit are components of interactive processes between the firms and its business environment over time that produce competitive advantage** (e.g. Grant, 2005; Volberda and Lewin, 2003; Porter, 1991).

In the proposed model, goals and values, co-evolution and strategic renewal and strategic fit are identified as components of the interactive process between the firms and its

business environment over time. How these relate to the proposed model is depicted in Figure 4-6. Each of these components is now explained.

Figure 4-6: The Firm - Environment Interactions



4.5.2 Goals and Values

Firms have multiple goals. The firm's choices of goals and the ways in which it goals are pursued are influenced by the firm's values (Grant 2005). Over the long term the firm's primary goal may be to maximise profits and business strategy is a quest for profits (Grant, 2005). However, in pursuing profitability as their primary strategic goals, firms face a fundamental dilemma: business that has been most outstanding successful in generating profits are firms whose driving ambitions have been goals other than profits (Grant, 2005; 38). Though profit is the life-blood of organisations, it is not the goal that is particularly successful in unifying, edifying or capturing the imaginations of organisational members, nor does it implies that profit is the sole motivation driving business enterprises and their strategies.

Linking a sense of mission to the pursuit of profit represents one of the greatest challenges of strategic management. Dominant drivers tend to be creativity, the desire to make a difference in the world, the fulfilment of a vision. However, even when firms have motives that transcend mere money making, achieving these high-minded goals will only be able to materialise through firms that are commercially successful and commercial success implies the adoption of profit-oriented strategies (Grant; 2005; 41).

All firms possess broader organisational values that are integral to their sense of who they are, what they represent, what they want to achieve, and how they intend to achieve it. These values constrain, augment, and may even transcend the fundamental requirement of profitability. Evidence suggests that linking strategy to the broader pursuit of social and moral purpose may facilitate rather than impede profit performance over the long term. The values a firm embraces can assist in building relationships between the firm and others with whom it does business, can help build employee commitment and loyalty, and may offer the basis for differentiation (Grant, 2005; 59).

However, neither profit maximisation nor the values that guides a firm's behaviour, play much role in defining its strategy. Usually the starting point is some underlying idea of why the business exists. Collins and Porras (1999) outline the underlying habits of long-successful, visionary companies as an orientation towards evolutionary change, by experimenting and keeping what works. Importantly, they also find that successful companies each have a core ideology that must be preserved throughout the progress, and though there is no one formula for the "right" set of core values, it is important to have them. It is this core ideology that most fundamentally differentiates the firm from competitors, regardless of which market segments they get into. They are deeply held values that go beyond vision statements - they are mechanisms and systems that are built into the system over time. Attention to the core beliefs may sometimes defy short-term profit incentives or conventional business wisdom, but it is important to maintain them. Grant (2005; 61) suggests that one of the greatest paradoxes of strategic management is that many of the companies that have been most successful at earning profits and creating shareholder value have been companies that have pursued such goals in favour of corporate purposes that were oriented towards technical achievement, customer satisfaction, or social change. On the other hand, firms that have most resolutely focused upon profitability and shareholder have suffered dismal financial performance.

4.5.3 Adaptation and Strategic Renewal

The evolutionary theory purports that firms and their environments evolve together and that they are interdependent. That is why besides the internal dimension, this study also analyses the strategic adaptation of the firm and the dynamic fit with the industry environment. It is argued that the configuration of the mentioned organisational characteristics enables the firm to continuously find the appropriate balance of exploitation, exploration and adaptations, and in this way maintaining a dynamic fit with its environment.

By studying how firms attain and sustain competitive advantage over time, and doing so we attempt at studying the strategic adaptations of a long-lived firm and its dynamic fit with the environment over time. The foundation for the use of these concepts can also be found in theory concerning co-evolution and strategic renewal. Co-evolution describes a school of thought that harmonizes and integrates different perspectives within organisational science ranging from managerial intentionality on one side (adaptation) and environmental determinism on the other (Lewin and Volberda, 1999). Co-evolutionary theory is used for the analysis of key principles of self-renewal (Volberda and Lewin, 2003).

Strategic renewal reflects a set of activities (internal versus external moves, exploitation versus exploration, and speed of change) that an organisation undertakes to alter its path dependence (Volberda, Baden-Fuller and Van den Bosch, 2001). Volberda and Lewin (2003; 126) suggest the following three key principles:

- Self-renewing organisations focus on managing requisite variety by regulating internal rates of change to equal or exceed relevant external rates of change (e.g. competitors, technology, customers, etc) (McKelvey, 2003);
- Self-renewing organisations optimise self-organising (Anderson, 1999; Nonaka, 1988);
- Self-renewing organisations synchronize concurrent exploitation and explorations (Carlisle and McMillan, 2006; Lewin and Volberda, 1999; March, 1991).

Carlisle and McMillan (2006) suggest that complex adaptive systems like all living systems are connected or seek to be connected. They suggest that if organisations seek to operate like complex adaptive systems, they need to ensure that they connect both internally and externally. Adaptation and strategic renewal is proposed to result in a competitive advantage by creating better matches between functional competencies and evolving environmental contingencies. Failure to align functional competencies with external needs may transform valuable proficiencies into rigidities (Leonard-Barton 1992). Adaptation and strategic renewal is expected to shape, deepen, and configure resources to increase their alignment with changing product-market areas (Teece, Pisano and Shuen, 1997) and directly and indirectly influence performance for competitive advantage (Doty, Glick and Huber 1993; Venkatraman 1990).

4.5.4 Strategic Fit

According to Porter (1991), the "fit" of different strategic activities is also vital to lock out imitators. In explaining the process of gaining competitive advantage, Porter (1991; 102) alludes to the concept of 'value chain' claiming that: 'competitive advantage results from a firm's ability to perform the required activities at a collectively lower cost than rivals, or perform some activities in unique ways that create buyer value and hence allow the firm to command a premium price'. In other words, the firm's strategy arises 'from the way in which it configures and links the many activities in its value chain relative to competitors' (Porter 1991; 102). Furthermore, the value chain of each firm will interact with the value chain of any other firm placed along the production chain. One of the reasons the value chain framework is helpful is because it emphasizes that competitive advantage can come not just from great products or services, but from anywhere along the value chain. It's also important to understand how a firm fits into the overall value system, which includes the value chains of its suppliers, channels, and buyers.

Porter (1996) suggests that the importance of fit among functional policies is one of the oldest ideas in strategy. Porter (1996) argues that fit has been gradually supplanted on the management agenda and rather than seeing the organisation as a whole, managers have turned to "core" competencies, "critical" resources, and "key" success factors. He suggests that fit is a far more central component to competitive advantage than most realise. However, Rumelt (1991) indicates that the emphasis on correct positioning and strategic fit has been questioned because there are little evidence to suggest that organisations competing in markets which appear to offer attractive opportunities perform better than organisation that compete in markets that is seemingly less attractive. Industry analysis emphasizing superior profitability is the result of market power conferred by favourable industry structure (Grant, 2005). In this event strategic management would be concerned with locating more attractive industries and segments and adopting strategies that would modify industry conditions and competitive behaviour in order to control competition. Grant (2005) notes that industry analysis emphasises superior profitability is the result of market power conferred by favourable industry structures. As a result strategic management following this perspective is concerned with locating more attractive industries and industry segments on adapting strategies that modify industry conditions and competitive behaviour in order to moderate competitions. However, Grant (2005) observations that this approach is undermined by two factors:

- Internationalisation and deregulation have increased competitive pressure within most sectors and few industries offer cosy refuge from rigorous competition;
- Empirical research suggests that industry factor account for only a small proportion of inter-firm profit differentials.

This implies that the establishment of competitive advantage arise from the development and deployment of resources and capabilities rather than sheltering from competition has become the primary goal of strategy. As a result, the primary goal of strategy has been the establishment of competitive advantage through the development and deployment of resources and capabilities rather than seeking shelter from competition. Markides (1999) argues that unquestionably, success stems from exploiting an unparallel strategic position, but a position uniqueness will not last forever as aggressive competitors will not only try to imitate attractive positions, but new strategic positions will be emerging continually. As a result it is observe in industry after industry, once formidable companies with seemingly unassailable strategic positions find themselves outperformed by relatively unknown firms that base their attack on creating and exploring new strategic positions in the industry. These firms achieve their hard-earned successes by proactively breaking the rules of the game in the industries, their hallmark of their success being strategic innovations – proactively establishing distinctive strategic positions critical to shifting market share or creating new markets. As industries change, new strategic positions arise to challenge existing positions.

4.6 IMPLEMENTING STRATEGY

4.6.1 Translating Resources into Implementation

The fourth step in understanding performance and the attainment and sustenance of competitive advantage of the firm lies in answering the question: **How do firms build competitive advantage through resources and translate these into actual implementation?** To address this question on how firms implement their strategies, the study would use the resource-based view and dynamic capabilities approaches to identify how firms build competitive advantages through resources and translate these into actual implementation.

Day, Reibstein and Gunther, (1997) contend that firms are faced with the prospect of analysing the long-term impacts on various potential strategies to select a strategy to implement. Once managers conceptualised and generated potential strategies, there is a need for some mechanisms to evaluate the potential consequences of each of the

strategies in the light of multiple scenarios of competition. They suggest that to meet the demands of the increasingly complex and dynamic environment, managers need new tools and perspectives. They also suggest that there is a variety of theories and approaches that can assist managers better understand and anticipate competitive challenges, and suggest a dynamic and integrative view of competitive strategies, recognising the value of diverse perspectives on such a complex issue and the need to draw these perspectives into a coherent whole.

It is posited here that long-lived firms adapt themselves strategically to and interact with their environment by strategic adaptations and their dynamic fit with the environment over time. The foundation for the use of these concepts can be found in theory concerning strategic renewal and co-evolution. Teece, Pisano and Shuen (2000) suggest that winning firms are those that have can demonstrate timely responsiveness and rapid and flexible product innovation coupled with management capability to effectively coordinate and redeploy internal and external competencies. They refer this ability to achieve competitive advantage as dynamic capabilities and emphasize two key features; the term dynamic which refers to the capacity to renew competencies so as to achieve congruence with changing environment, and capabilities which emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organisational skills, resources and functional competencies to match the requirements of a changing environment.

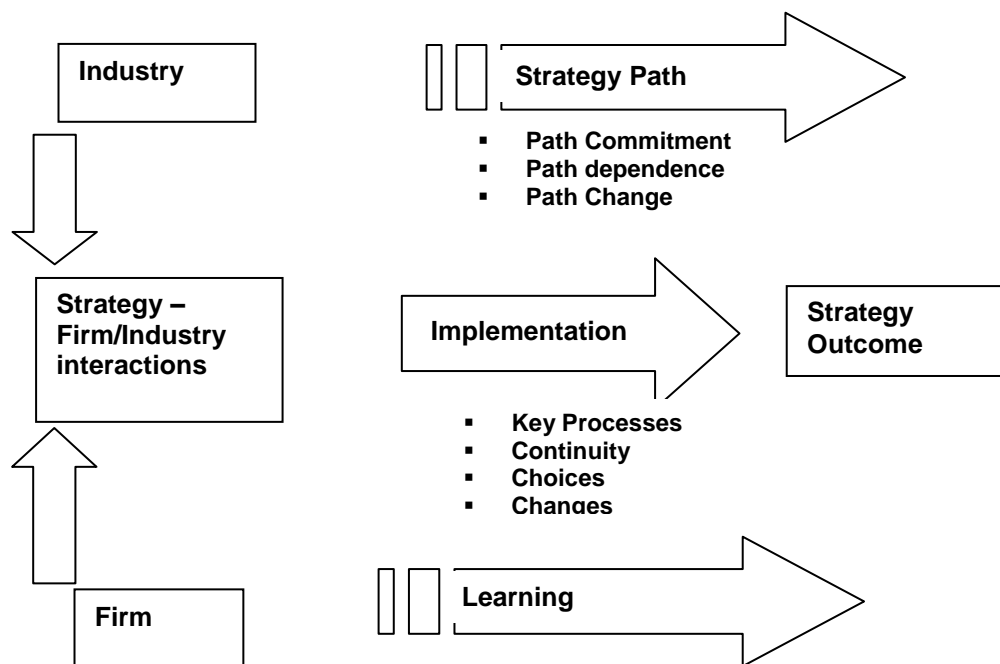
Complex adaptivity can be described as the successful evolutionary response to the survival needs. People and organisations as complex adaptive systems are adept at self-organising, at manipulating their environments, at turning things to their own advantage, but most importantly at learning and adaptation. Complex adaptive systems constantly seek to adapt to the environment circumstances in which they find themselves (Carlisle and McMillan, 2006). Here a set of processes is interpreted as strategic adaptations in terms of exploitation and exploration adaptations. Adaptation and strategic renewal of the firm are tightly entangled with survival. As March (1991) suggests that in maintaining an appropriate balance between exploration and exploitation is a primary factor in system survival and prosperity. It is theorised that relating the exploration or exploitation adaptations to the analysis of long-lived firms can improve the understanding of longevity, and reconciles the methodological conflicting issues of change and stability, and the dynamic fit of the firm with its environment. Carlisle and McMillan (2006) question the notion of maintaining an appropriate balance between exploration and exploitation as

suggested by March (1991), and suggest a flexible response as the internal and external environment demands.

In addressing the fourth question: how do firms build competitive advantage through resources and translate these into actual implementation? The study makes the following proposition: **Key processes and strategy path are essential components of how firms use resources to translate strategy implementation into competitive advantage** (Grant, 2005; Hooley *et al.* 2001).

The proposed framework identifies key processes and strategy path as essential components of strategy implementation. How these relate to the proposed model is depicted in Figure 4-7. Each of these components is now explained.

Figure 4-7: Implementation of Strategy



4.6.2 Strategic Learning

Strategic learning is a significant core competence because organisational learning and knowledge management are significant aspects of developing competitive advantage (Millett, 1998). "Core competencies are the collective learning in the organisation". (Prahalad and Hamel, 1990; 82). Moreover, Rosenblum and Keller (1994; 28) emphasizes that "learning is a strategic competency of our firm ... we saw it as a basis for the evolution of our business". Generally, learning is regarded as critical to enhance and

realise the value creating potential of an organisation in order to develop core competencies. Such core competencies offer the organisation the potential to compete in different markets, provide significant value to end-user customers, and create barriers to competitor duplication. A learning organisation is committed to continual improvement of every facet of itself in terms of its products and services in order to differentiate itself from its competitors. Employees evolve and grow in the process transforming the organisation, and the organisation learns from them about efficiency, quality improvement and innovation. With employees empowered to make more decisions, they need to understand those decisions in the overall context of the organisation. (Braham, 1995)

Viljoen (1994) identifies that most organisations are characterised by three levels of learning experience: the external environment, internal environment and the personal management related capacity. Rigid hierarchical levels and functional divisions are major causes of inflexibility and, hence, adapt to changes very slowly. By contrast, the learning organisation is able to operate at all three levels simultaneously. Such organisations are created where leaders encourage, recognise and reward openness, holistic thinking, creativity, critical self awareness and empathy. (McGill, Slocum and Lei, 1992)

4.6.3 Key Processes

Development of skills is the capacity to act, and the capacity to act can only be shown in action. The field of economics is known for its focus on content and decision issues. It is taken for granted that decisions, once rationally made, will be implemented. Management and organisational research are challenged to develop knowledge in the image of science whilst contributing to policy making and practice (Pettigrew *et al*, 2001). However, one of the first dichotomies of the modernist conceptions of science is that of theory and practice (Whittington, Pettigrew and Thomas, 2001). Yet, theory and practice are tightly linked duality. Grant (2005) argues that critical to establishing competitive advantage is formulating and implementing a strategy that exploits a firm's portfolio of resources and capabilities.

Implementation issues have to do with both capability and ability, which are about the action following decisions (Pettigrew and Whipp, 1991:26). Teece, Pisano and Shuen (2000) refer to the ability of dynamic capabilities to emphasize two key aspects. The term dynamic refers to the capacity to renew competencies so as to achieve congruence with the changing environment. The term capabilities emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external

organisational skills, resources and functional competencies to match the requirements of a changing environment.

One aspect of the strategic problem facing an innovating firm in a world of Schumpeterian competition is to identify difficult-to-imitate internal and external competencies most likely to support valuable product and services. Dynamic capabilities advocates a perspective where the firm strategy is more specifically focused on resources and other kind of factors influencing capabilities that a firm needs to possess in order to be able to cope with an environment in which change is rapid (Teece *et al*, 2000). To grow sustainable capabilities, firms do not only emulate best practices, but by delving constantly within themselves to discover and build on their unique hard to copy assets, knowledge, relationships, and experiences (Miller, Eisenstat and Foote, 2002). Grant (2005) suggests that growing capabilities requires that the firm replicates them internally. He argues that some of the world's most successful corporations are those that have been able to replicate their capabilities in different product and geographical markets. For example, Ray Kroc's genius was to take their original McDonald's formula and replicate it thousands of times over in building a global chain of hamburger restaurants (Grant, 2005). Also, other leading service companies, the likes of Marriot, BankOne, eBay, have built large and successful programmes on the principles that once a capability has been developed, its replication in another location can be achieved at a low cost (Grant, 2005). How firms first develop firm specific capabilities and how they renew competencies to respond to shifts in business environment is intimately linked to the firms' business processes, market positions and expansion paths (Teece, Pissano and Shuen, 2000). However, Grant (2005) argues that creating organisational capabilities poses a high level of difficulty, as it is difficult to establish such routines that can develop capabilities through practice and learning, within a limited period of time.

Hooley, Greenley, Fahy and Cadogan (2001) observe that implementation of strategy occurs through a number of key processes managed by the firm. Of particular relevance they suggest marketing, innovation and learning. They identify marketing as the process by which organisational capabilities are matched to the requirements of the chosen customers. These are achieved by manipulating the marketing mix of products, price, promotion, distribution and customer relationships. They suggest that consequently marketing would involve internal communications with employees to ensure that strategies are understood and the roles of individuals in achieving organisational goals are clear. Innovation, the process of creating new and better solutions to customer's problems, focusing on the effects of both market orientation and learning on performance and seen

as the process by which the organisation change to be more aligned to the market requirements. It would act as a process to create and defend competitive position from imitation and erosions. Hooley *et al.* (2001) define learning as the process of gathering, internalising and acting on, external and internal information to improve the fit between the organisation and its markets. This would facilitate the accumulation and development and development of market knowledge and understanding and managerial skills, implying that learning contributes to the creation of the competitive position. These suggest that action taken during implementation of strategy have an impact on both the market environment and the resource base of the firm.

As argue by Dosi, Gianetti and Toninelli (1992), a distinctive feature of evolutionary models is the attempt to represent the possible emergence of relatively ordered and differentiated economic systems as self-organizing processes floating in a world where endowments and available technological blue-prints are seldom functionally binding constraints. Rather, technological learning within a notionally unlimited space of opportunities, at the levels of both individual firms and whole industries and countries, determines economic performances. Endowments are seldom binding because one can continuously improve their quality and efficiency, while one can hardly separate the contribution of individual factors to growth, because of a rich structure of positive feedbacks.

4.6.4 Strategy Path

The strategic alternatives available to a firm are a function of its past activities and positions. A consideration of path dependencies help us understand exactly how the firm's present market position is a function of its past performance and future possibilities. On the other hand, the firm's past investments and present repertoire of routines may act to constrain its future behaviour and choice of action. Hooley, Greenley, Fahy and Cadogan (2001) argue that competitive position is the outcome of a sequence of activities taken over time, and is path dependent. To imitate that position may require passing through the same developmental path and may be prohibitive even if clear and unambiguous. According to Grant (2005), organisational capability is clearly path dependent. A company's capabilities today are the result of its history, and more importantly, this history constraints what capabilities that the company can perform in the future. The importance of temporal patterns in resource acquisition is also emphasised by Ghemawat (1991). He indicates as response lags the temporal gap between the firm, which first developed a particular competitive advantage and those competitors that try to

imitate it. Response lags are the sum of all the delays cumulated by competitors in trying first to recognise and then to imitate the successful strategy.

The temporal gap initially accumulated is destined to widen, increasingly penalising the competitors. Nevertheless, the leader firm, implementing a strategy not supported by the experience of other firms, may encounter greater risks exposing itself to the uncertain and, perhaps, unsuccessful effects of the new strategy. Dierickx and Cool (1989) also consider temporal patterns of resource acquisition. They refer explicitly to the so-called 'time compression diseconomies', emphasising the importance of implementing long-term investment patterns in order to gain greater results. According to this idea, it would be better for the firm to commit to a long-term investment policy such policy could be even characterised by a single small investment, to be followed by a spot investment policy characterised by great sums and discontinuity of investment strategy. The purpose of such investment policy is the creation of resources and competencies that the firm can spend to build a competitive advantage position (Vicari, 1991), raising effective barriers to imitation. Nevertheless, the need to invest continuously in creating and sustaining these barriers will change depending upon the degree of competition and the effectiveness of barriers to imitation existing inside the market in which the firm operates.

Grant (2005) emphasises that a change in a firm's pool of available assets and capability is gained by a change in commitment towards "a particular path of technological development" or path commitment. Given a specific commitment, resources will be developed automatically because of learning and repetition (Grant, 2005). To understand the origin of a company's capabilities, a useful starting point is to study the circumstances that existed and events that occurred at the time of the company's founding and early development. For example, Wal-Mart develop its super-efficient system of warehousing and distribution not as a result of careful planning and design but because of its initial conditions – the company was unable to obtain reliable distribution from its suppliers, and so established its own distribution system. Its management systems were important but ultimately it is the Wal-Mart origins in small town Arkansas and the values and personality of its founder Sam Waltons that sustains its obsession with efficiency and cost cutting (Grant, 2005).

Another aspect is that despite long histories of competing together in the same markets, with neat identical products, and similar strategies, the majors display very different capability profiles. Exxon and Royal Dutch/Shell Group have shared parallel development for over a century yet have very different capability profiles. Exxon is known for its

financial management capabilities exercised through rigorous controls and emphasis on cost efficiency. Shell is known for its decentralised, international management capabilities and in particular its adaptability to wide variety of national environment. Sony is a well performing electronic appliance company because it has committed itself to a particular kind of technological expertise which it has improved along the way, etc. The question of how precisely this commitment came about is much more complex. As several case studies of Honda illustrate, several initiatives (small and large commitments, coincidences, emergent strategies, reciprocities, learning, technological trajectories) eventually came together in a strategy path, resembling what we know as the Honda organisation (Pascale, 1983; Ghemawat, 1991).

The social dimension of a strategy path is at least as important as the technological dimension. By drawing on Giddens (1984), Orlikowski (1992) addresses this “duality” by pointing to technology as partly enacted by human beings and as institutionalised in social structure. Also MacKenzie (1992) points to the self-fulfilling aspect of a path. Paths are persistent, in part, because the parties concerned believe they will be consistent. An important argument for mechanisation, for example, has been the assumption that others (firms, countries, etc.) do it, and as a result, we will do it too. A path consists of several technological components developing at different pace. Components ahead are salients “pulling” others (some of which are reverse salients) along. Also Van den Belt and Rip (1987:141) argue that technological development “is far from deterministic,” because the intentions and expectations of the people involved play a role.

There is also an economic dimension to a strategy path, as it can involve an “escalating commitment” (Tang, 1988). An escalating commitment refers to the idea that capital intensive firms will hang on to their past ill-conceived investments because it is too expensive to switch. This behaviour can be backed up with sound economic justifications (such as a negative return on investment!). Teece *et al.* (1997) also refers to previous investments and the repertoire of routines as constraints on future behaviour. In turn, the structures of the past also enable and even enforce future behaviour (Giddens, 1984; Sztompka, 1991).

It has become clear that in conceptualising a strategy path through time interactions with the industry are automatically included. Consequently, a strategy path is a firm’s course of strategy through time based on certain resources, starting from its foundation until the present and moving on to the future. The strategy of a firm is the way of dealing with important corporate issues throughout their history. This is what the term strategy path

means. Multi-business firms will have more strategy paths depending on the businesses' interrelatedness in terms of resources and on the number of different sectors involved. A strategy path is based on a firm's resources (available assets and capability) and is connected to, and interacts with, an industry survival path. Several insightful empirical "tracking strategy" studies by Mintzberg (1982; 1984; 1985; 1988) confirm this.

Closely in line with the path-dimension of resources is the fact that long-term resources are also known to be rigidities. Leonard-Barton (1992) describes rigidities as the reverse side of capabilities. Describing the cause of rigidities, Leonard-Barton (1992) refers to the structuration theory of the sociologist Giddens (1984). The more developed organisation with an established resource base is likely to have inherent rigidities (Leonard-Barton 1992) that arise as the result of the aggregation of stocks of capabilities (Dierickx and Cool 1989) in connection with the pursuit of a former opportunity. These rigidities, which are path dependent and occur over time (Nelson and Winter 1982), alter the future search of the organisation and impede future entrepreneurial capabilities (Hill and Rothaermel, 2003). For example, because knowledge is path dependent and shapes the lens and search patterns in the organisation, decision makers' alertness for seeing new entrepreneurial opportunities will narrow in accordance with organizational experience.

4.7 STRATEGY OUTCOME

March (1991) identify exploitation and exploration in the process of innovation as essential. For example, short-term financial performance involves exploiting existing knowledge, competencies and capabilities, making incremental improvements to sustain competitive edge. However, longer-term survival involves exploring new knowledge and new environments to build new competencies and capabilities for the future. Exploration requires the adoption of a long-term strategic perspective whereas exploitation requires a short-term view of how to make the most of existing competencies through incremental improvements (Carlisle and McMillan, 2006). Managers cannot control the business environments, but they can influence the shape of the environment in which their organisations compete. Their actions and strategies impact upon the co-evolution of this environment (Carlisle and McMillan, 2006). In this light that our study emphasize the integration of the two main perspectives on competitive advantage by reconciling the resource-based view of the firm approach with the industry level explanation of generic business strategy theory – linking the inside-out approach to that of the outside-in.

Strategic innovation is recognized by decisions and their implementation, which give rise to major changes in products and markets, production processes and technologies, and the organisation of work. It would involve organisations in significant transformations, and it is liable to have an impact on all the organisation's internal activities and systems (Smith, Child and Rowlinson, 1990). Strategic innovation poses a permanent challenge for any organisation. Standardised markets with known, stable demand and little possibility of improved alternative technologies are becoming continually scarcer. Even these markets are subject to innovation demands, though it may only be in terms of more productive or less costly manufacturing processes. Hence, innovation plays an important role in business performance (Vázquez, Santos, and Álvarez; 2001).

This study views innovation along an axis from incremental to radical. The incremental end of the spectrum would contain innovations that follow what Nelson and Winter (1982) refer to as a technological trajectory. At the opposite end would be innovations that are described by Freeman and Perez (1988) as shifts of the 'techno-economic paradigm.' Ehmerg and Jacobsson (1997) distinguish these radical innovations as radical breaks with past practice in a given industry; discontinuities in Nelson and Winter's trajectories that completely disrupt the status quo and force the adoption of new standards and best practices across an industry. An incremental innovation is one that builds on existing investments and can only realize its full value as an element of an existing production process. A radical innovation is one that requires a substantial change in the technology and organization of production, undermining the value of investments in previous technology and organization.

Kaufman (1996) studies on the 'rugged landscapes' is suggestive that it is likely to be beneficial for an organisation to focus more of its innovative resources on the search for radical innovations than vice versa. He suggests that when fitness of variants on a landscape is average, it is best to search for new possibilities a distance away from the space of possibilities in the current space. In innovation management terms, this suggests that, in an environment in which it is becoming increasingly difficult to sustain competitive advantages for any time by incremental improvement, prioritising the search for new possibilities, which are likely to involve radical innovations, could be desirable as this would move the organisation into a new competitive space, it may be desirable to prioritise incremental improvement in order to stay ahead of the game.

Kauffman (1996) suggests that as fitness increases, this new space of possibilities will attract more of the fittest variants on the landscape. In organisational terms this suggests

that, as an organisation fine-tunes and enhances its competencies capabilities and market offerings, it will face increasing competition in that space until competitive advantages erodes. This is clearly an ongoing process of co-evolutionary change which, interpreted in organisational terms, will involve the organisation in ongoing radical and evolutionary change and innovation with different priorities at different times.

Kauffman (1996) in his search for conditions offering ‘order for free’ on the complexity zone offered a metaphor for organisations as patchwork quilts, consisting of connected patches. The patches must be able to act selfishly in relation to one another, but they must also interact and communicate. Problem solutions which are effective in one patch will impact upon the problems faced by others and the parts of the patchwork systems will co-evolve in relation with each other, and the environment in which they operate. In relation to this framework, organisations in which self-organisation is fostered might be expected to consist of ‘patches’ operating between stability and chaos.

Table 4-1: Possible Co-Evolutionary Outcomes of Innovation

	Success	Failure
Operation at edge of Stability	Incremental innovation	‘Patch’ weeded out
Operation at edge of Instability	Radical innovation ‘patch’ disbands after success	‘Patch’ disintegrates

Source: Carlisle and McMillan (2006; 6)

4.8 LINKING THE LEVELS OF ANALYSIS

The question that comes to mind after the presentation of the different components of the model, and the two levels of analysis, is when, where and how these meet. The linkage between the firm and its industry may not only closely relate to the way management is conceptualised, but is also closely related to the character of the firm and the industry. With regards to Air Seychelles, the interaction between the firm and its industry has changed over time in congruence with changing conditions both at the level of the firm and at the level of the industry.

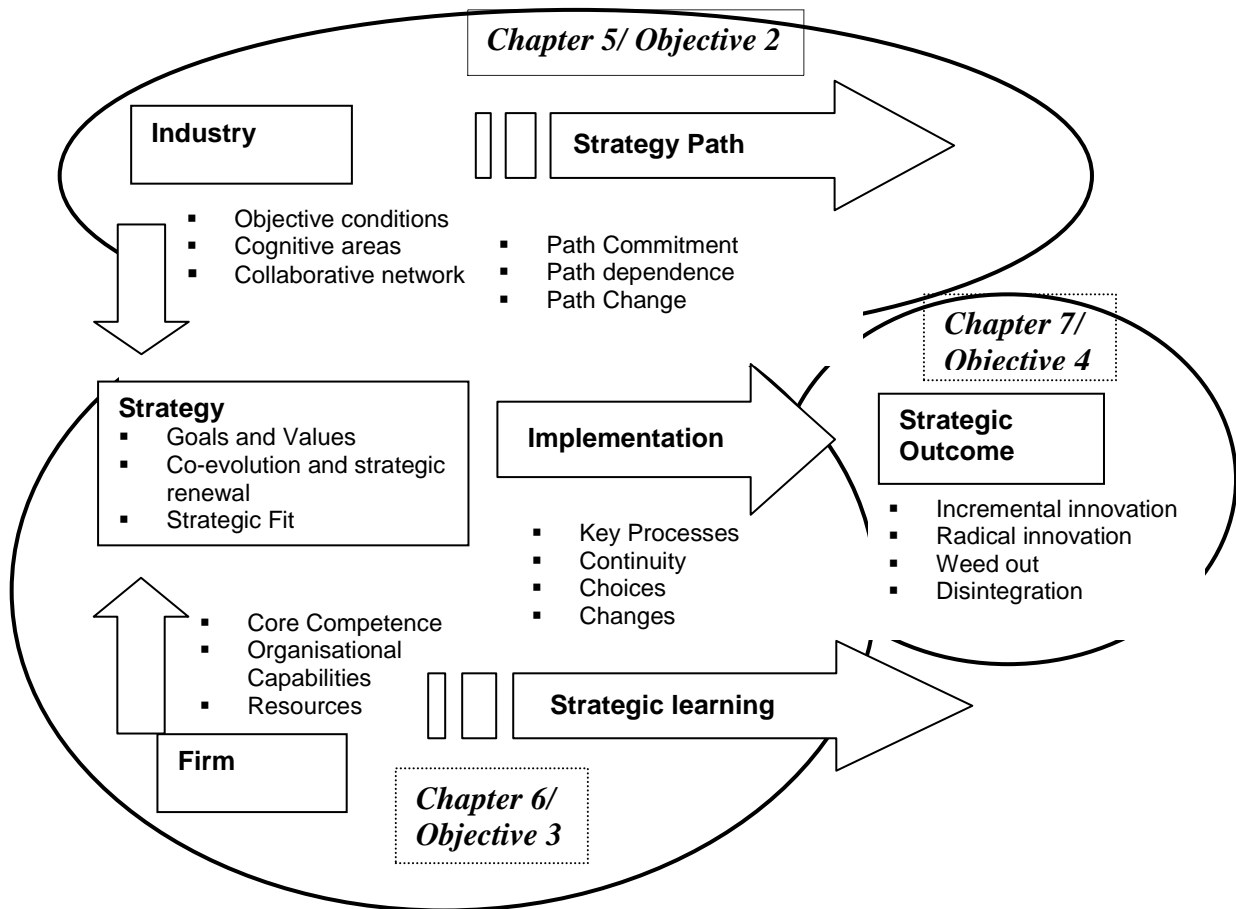
Pettigrew (1992, 1997) referred to the sociologist Sztompka (1991) and the theory of social becoming as an important basis for strategy process research. Sztompka's basic question is why some societies are passive and others active - or, in other words, why are some societies merely reproductive and others transformative. His theory of social becoming highlights interaction processes of emergence, of development, and of decay as taking place in between "structures" and "agents". Many of the dynamics which Sztompka (1991) refers to as social becoming are relatively easily transferable to business life.

A firm competes and co-operates not only side by side with other firms in the same industry but within the "whole" sphere of influence of the industry. As a consequence, the learning taking place within a certain firm and the effect it produces is dependent on the learning taking place in the industry as a whole. An important element of social becoming is that there are two modes of existence: ability and practice. In strategy literature this is easily recognised as the deliberate versus realised strategy at the level of the firm. It is in ability and practice that the firm "meets" its industry and vice versa. The quintessence of social becoming is the fusion of structure (industry) and agents (firms) to produce a joint effect through time. The location of the strategy outcome on the four quadrants in table 4-1 above derived from these dimensions carries implications for the strategies a firm should choose to deal with it.

Sztompka (1991:4) explains that in putting forward social becoming he "attempts to find the middle ground between the rigid determinism of reified totalities and the unbridled voluntarism of free individuals." The point of this section is to emphasise the character of social becoming in describing and analysing strategy process as interaction between a firm and its sector.

The above arguments are developed and represented in the proposed process framework of strategy analysis is operationalised in Figure 4-8. This study will test this framework. The structure of the thesis is such that the external component of the framework is also addressed in Chapter 5 and relates to the second objective of the study; the internal and the interaction components of the framework is emphasized in chapter 6 and relates to the third objective of the study; and linking the change processes and actions into strategic outcome is addressed in chapter 7 and relates to the fourth objective of the study.

Figure 4-8: Components of the Proposed Framework of Organisational Strategy Development



4.9 CHAPTER SUMMARY

This chapter addressed the first objective of integrating multiple context and level of analysis in strategic management by presenting a contextual and processual framework, highlighting time, three levels of analysis, and strategic ability and strategy implementation. One view of the contextual approach is that theoretically sound and practically useful research on change should explore the contexts, content, and the process of a change together with their interconnections over time. This new focus on changing rather than change presented scholars with a dual challenge: (1) to attempt to 'catch reality in flight' and (2) to study long-term processes in their contexts in order to elevate embeddedness to a principle of method (Pettigrew *et al.*, 2001). The main objective of this study is to develop and empirically analyse a contextual and processual framework on how a firm creates and uses internal and external resources; how this duality impact strategy, focusing on the interaction between the firm and the environment over time. Following Eisenhardt (1989), the proposed framework is used as a template

with which to access the empirical results of the case study, as it unfolds over time. This framework is empirically analysed and the result presented in chapters six and seven.

CHAPTER 5: THE TOURISM INDUSTRY - 1970 to 2007

5.1 INTRODUCTION

The study has thus far, introduced the challenge of attainment and maintenance of competitive advantage in the tourism industry in Seychelles; elaborated a contextual and processual framework to assist its understanding, and a theory of method for actually tackling this challenge. The business environment plays an important role in the industry because it attracts demand and is also impacted by the production of tourist services. The interactions of tourism and the environment have been considered among others by Green and Hunter (1992) and Green, Hunter and Moore (1990). Others, such as Harari and Sgro (1995), Copeland (1991) and Clark and Ng (1993) have pointed out the complex relationships of the tourism industry and economic welfare, which indicate that there is need for an optimal management of the relevant variables in the evolution of the industry.

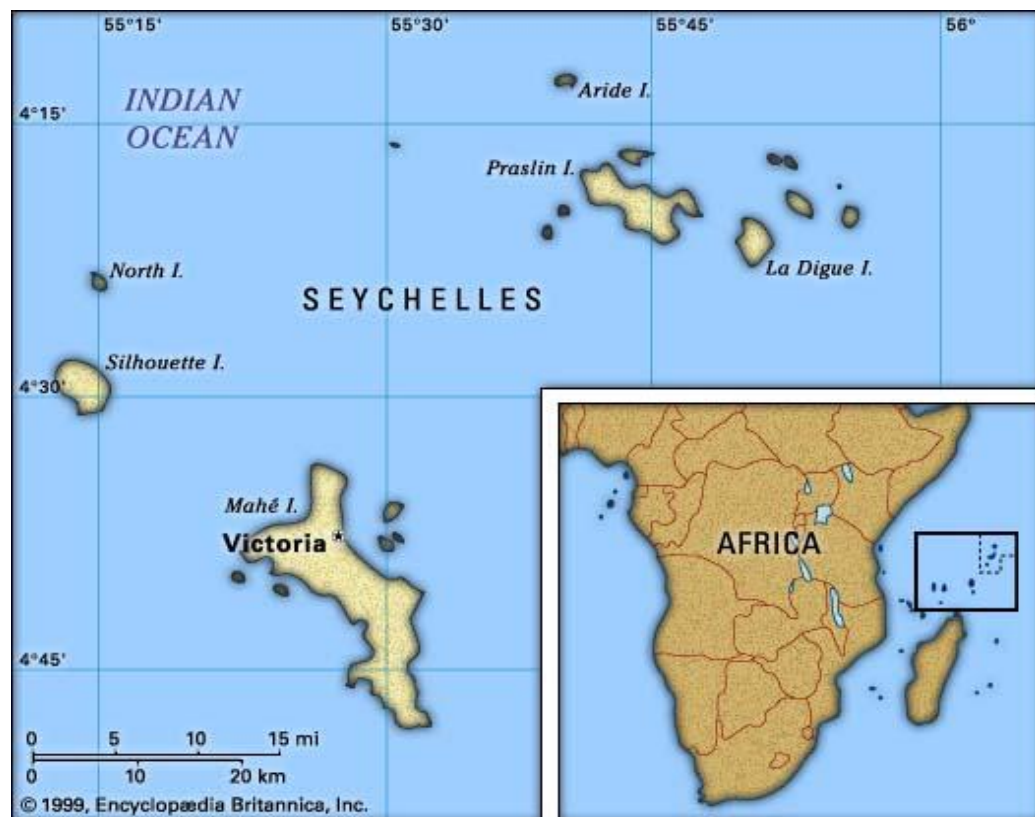
This chapter addresses the second objective of the study, which is to provide the historical context and analyse the process of transformation of the tourism industry in Seychelles. This is achieved by analysing the process and the context in which the transformation occurred and locate this within the various aspects of the tourism industry in Seychelles. An analysis of the evolution of the tourism industry in Seychelles through time from 1971 to 2007 is presented. The aim is to provide an understanding of the market demand and the structure of the tourism industry in Seychelles. This chapter present the context, identify the essential nature of the tourism Industry and the related industries it supports, and recognise the tourism industry's path and development. By providing the historical context of the tourism industry and its interaction with other sectors of the Seychelles' economy over time and providing an analysis of the industry life cycle, this chapter sets the stage and provides the basis for a more detailed analysis of Air Seychelles in the subsequent chapter.

5.2 THE TOURISM INDUSTRY STRATEGY PATHS

5.2.1 The Seychelles Islands as a Tourism Destination

The Republic of the Seychelles is an archipelago nation of 115 islands in the Indian Ocean, about 1,500 kilometres off the East African Coast, and northeast of the island of Madagascar. To the west is Zanzibar; the islands of Mauritius and Réunion are to the south; the Comoros are to the southwest, and the Maldives are to the northeast (see Figure 5-1).

Figure 5-1: Map of the Seychelles



Seychelles is a middle-income Small Island Developing State with a mid-year population of 82,800 people in 2007 (National Statistics Bureau, 2008c). Seychelles has the smallest population of any sovereign state in Africa. The archipelago covers a vast tract of the western Indian Ocean in an exclusive economic zone of over 1.3 million square kilometres, a total land mass of 445 square kilometres distributed on 115 islands, of which the largest are Mahé, Praslin and La Digue. It faces the typical constraints of a Small Island Developing State, among which are vulnerability to external economic shocks, remoteness from major markets, risks of environmental degradation and vulnerability to disasters. While the main economic sectors are tourism and fisheries, the country has diversified in recent years into offshore financial services and has made major investments in petroleum shipping.

The Human Development Report 2005 (UNDP, 2005) classified Seychelles at high human development, with per capita gross domestic product around \$8,500; a human development indicator of 0.786; a Human Development Index ranking of 51 (the highest in Africa); a life expectancy of 66.2 years (male) and 76.1 years (female); a primary school enrolment ratio of 100 per cent for boys and girls; an adult literacy rate of 96 per cent (both men and women); and population growth of 1 per cent. As of 2007, Seychelles had met

most of its Millennium Development Goals (MDGs) targets and is on track to meet all MDGs targets by 2015. Since putting a welfare system (which provides for free education, health care and minimum income for unemployed, and support for the disabled and the elderly) into place in the late 1970s, Seychelles has achieved impressive socio-economic progress.

Seychelles, as a tropical island tourist destination is marketed for its beaches, sun and sea. The granitic islands of Seychelles are home to about seventy-five endemic plant species. Particularly well-known is the Coco de mer, a species of palm that grows only on the islands of Praslin and neighbouring Curieuse. Sometimes nicknamed the 'love nut' because of its suggestive shape, the coco-de-mer is the world's largest seed. The jellyfish tree, another endemic plant species, is to be found in only a few locations today. This strange and ancient plant has resisted all efforts to propagate it.

Largely because of its climate, Seychelles is a year round destination and seasonality is much less of a problem than many other destinations. As a result Seychelles have a fairly even tourism visitor arrivals throughout the year. There are peaks at Christmas, Easter and in August but the troughs in visitor arrivals are not deep and in the 1970s and early 1980s there was no winter and summer rate as in many other tourism destinations (Charles, 2007).

5.2.2 Developments in the Tourism Industry in Seychelles

Tourism in Seychelles started with the opening of the Seychelles' International Airport in 1971, and it spans the period 1971 to date; however, the period covered by this study is 1971 to 2007. This chapter highlights the characteristics which play an important role in the development of tourism related resources over time. The central question in this chapter is: In what way are the resources and capabilities of Air Seychelles linked to the Industry in which it operates?

Explaining the formation of resources and capabilities of firms operating in the tourism industry require a profound understanding of the tourism competitive industry. As Grant (2005) argues, one of the four critical key elements of strategy is to have a profound understanding of the competitive environment. However, it is important to note that given the time period to complete this study, it may be very difficult to attain such profound understanding of the tourism industry in Seychelles, and no such claim is advanced. This nevertheless is a prerequisite if this study to understand how the firms interact with its

environment to attain competitive advantage. Following the suggestion of Pettigrew (1987), this chapter explores the outer context, content, and processes of change in which firms operating in the tourism industry in Seychelles function, together with their interconnections through time. In doing so, this study provides a general description of the tourism industry in Seychelles in the last thirty-five years; adequate enough to situate the outer context in which the firm – Air Seychelles - operates.

This approach is in line with our first assumption of contextualism, which suggests that targeted changes should be studied in the context of changes at other levels of analysis. Thus explanations of the changing relative competitive performance of firms should be linked to industrial and economic change (Pettigrew and Whipp 1991). A source of change is the asymmetries between levels of context, where processes at different levels of analysis are often observed to have their own momentum, rates, pace and trajectory. Thus the rate and trajectory of change in an industry characterised by significant boundary changes may be much faster than the sensing and adjustment pathways of individual firms to the regrouping of the industry. The relative slowness of the sensing and adjustment process of firms, and their failure to recognise that the bases of competition may have changed in that industry is a prime factor explaining their loss of competitive performance (Pettigrew and Whipp 1991). Equally well, the analyst of change has to recognise that activities at some levels of context may be more visible and rapid than at other levels, and thus in the short-term sources of change may appear unidirectional, while in the longer term a multidirectional pattern may appear.

An industry strategy path, as described in Chapter 4 paragraph 4.6.4, is an industry's course through time based on the fusion of the objective reality of resources, the cognitive reality of perceptions and the interaction reality of collaborative and competitive relationships. As will be seen in the next chapter, the development and transformation of Air Seychelles is intrinsically and closely linked to the tourism industry. Socio-economic growth depended vitally on the tourism industry, which is central to the national development. Air Seychelles was created as part and an instrument of national development and socioeconomic growth. It was deemed necessary to create a national carrier to sustain visitors' inflow to the islands, when other airline carriers pulled out their services (Charles, 2007; Elizabeth, 2007). Without a sustained visitors flow into the country, the tourism industry would have declined and so would the socio-economic growth. The implication of this decision is that Air Seychelles, unlike other airlines servicing Seychelles, has to stick to serving Seychelles.

The basic factors that underlie demand and determine what the potential size of the tourism market are common to all countries (Middleton, 1988). Whilst the demand and the particular patterns generated by the population in each region, even within a country, may be unique to the area, the underlying factors are the same. The same external determinants of the market demand affect all individual operators, such as hotels, tour operators and airlines, though the response will differ depending on the understanding of the factors at any time. Middleton (1988) suggests that the main determinants of demand for tourism can be categorised into eight broad headings: economic; demographic; socio-cultural; comparative prices; mobility; government/regulatory and media communications. He argues that these determinants are external and beyond the control of individual suppliers, and changes occurring in any of them can exert an influence over the size and patterns of the travel market.

The most basic “decision” in the tourism industry comes down to the choice of the holiday destinations and their basic tourism products. Branding played an important role in integrating efforts to promote tourism in Seychelles (Germain, 2007). The positioning strategy for the Seychelles Tourism Brand was initially based on unspoiled beautiful scenery. The basic tourism product in Seychelles is the beach, sea and sun holiday, with its associated facilities, activities and experience. The all-year sunshine, the sea, white coral beach and the tropical vegetation and the attractive mountain range further enhance this. The image of ‘paradise’, ‘garden of Eden’ and the ‘forgotten unspoilt islands’ has been considered appealing to long hauled markets in Western Europe. This image has prompted local marketers to market Seychelles under such themes as ‘Unique by a Thousand Miles’ in the 1980s and 1990s, ‘As Pure as its Gets’ in the late 1990s and early 2000s and ‘The Seychelles Islands, a Different World’ from 2007 (Francis Savy, 2007; Lousteau-Lalanne, 2007). The concept of developing a tourism brand emerges from the realization that it would be difficult to sustain growth in an increasingly competitive international environment (e.g. Foley and Fahy, 2004). However, consequent to the stagnation of the industry in the year 2000s, there was a shift in imagery to that relating to the people (the Creole Culture) in addition to the landscape and environment (Germain, 2007).

The choice of the target market also comes down to the alternative between serving long haul passengers, medium-haul passengers or short haul passengers. The difference between the three is diverse. Firstly, is that long-haul visitors is more capital intense because of the distance. Secondly, the number, the complexity and the capacity of

serving long-haul markets would appear higher. Thirdly, the expansion of long-haul passengers market is only possible in inflexible increments.

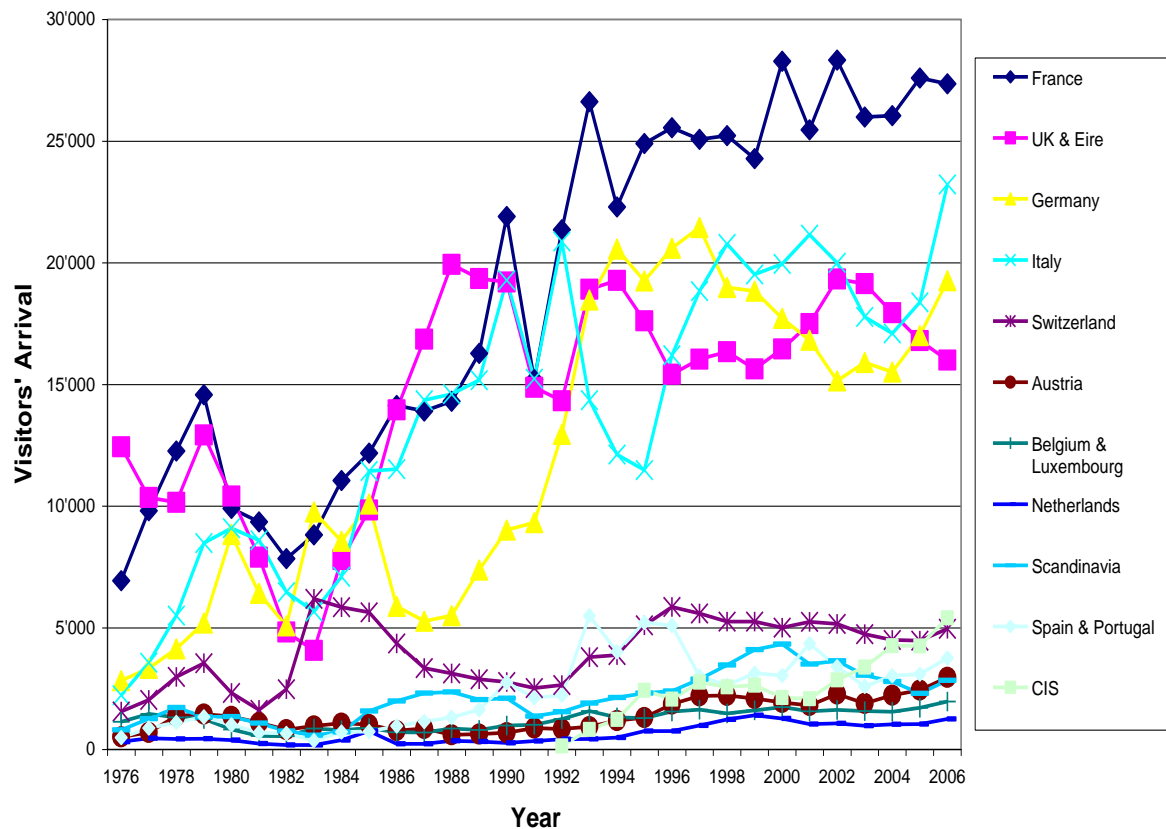
In servicing the choice target market, the cost of operations is also a determining factor. Generally, when the profit and loss accounts of most business in the tourism industry are analysed, it is generally the case that they reveal relatively high fixed costs of operating available capacity, and relatively low variable costs (Middleton, 1988). In the case of an airline, the following main costs will be incurred to get the services going: premises – capital cost and annual maintenance costs; equipments – airplanes including repairs and renewals; insurances; wages and salaries; management overheads and administrative costs, rents, utilities, etc. These expenditure which is mostly committed over a period of twelve months needs to be met, regardless of whether capacity the company operates. Whilst there is a significant element of variable cost involved in the operation, the variable cost of receiving a few additional passengers is virtually zero.

In the industry's 'rugged landscapes' environment, it is more likely that the organisation focus on its innovative resources in the search for radical innovations. In an average landscape, it is best to look for possibilities distance away from the space of the possibilities in the current space (Kaufman, 1996). However, air tourism is an environment which is becoming increasingly difficult to sustain competitive advantages for any time by incremental improvement, prioritising the search for new possibilities, which are likely to involve radical innovations, as this would move the firm into new competitive space.

“That the Seychelles tourism market is basically four countries may not necessarily be by design but as a result of better disposable income of those markets and their propensity to go on holiday” (Francis Savy, 2007). The viability of this market is further enhanced by the “cost of marketing to retention” (Nalletamby, 2007).

Figure 5-2 shows the number of visitors' arrival to Seychelles by country of origin from 1976 to 2007 from the major tourism markets. From 1980 to 1983 there was a general decline in visitors from the four predominant markets. This was as a direct result of the pulling out of their national carriers, namely Air France, British Airways, Alitalia and Lufthansa, from serving Seychelles. Further during these periods there was a degree of instability in the country following a foiled mercenary attack on the country in 1982 (Nalletamby, 2007; Lousteau-Lalanne, 2007)

Figure 5-2: Visitors Arrival to Seychelles by Country of Origin, 1976 to 2007



Source: Adapted from “Statistical Abstract” (1980, 1990, 2007), MISD/National Statistics Bureau, Seychelles

The number of visitors from other Western European, mainly Switzerland, Austria, Belgium and Luxembourg, Scandinavia, and Spain and Portugal remain constant from the late 1970s. Though in the early 1980s, visitors from Switzerland formed an important component of the market, it did not maintain the same level of importance of the four main markets. The national carriers of Switzerland, Austria, Belgium, Scandinavia, Spain and Portugal have never serviced the Seychelles.

As Mr Michel Nalletamby of the Department of Tourism indicated, though Seychelles also marketed other countries in Europe, like Switzerland, Spain and Portugal, it was not as successful as with the four main market countries. It is noted that Air Seychelles also included Zurich in their weekly schedules in the 1990s and 2000s, and Seychelles Tourist Offices were set up in Spain and Portugal, but none of these initiatives were successful in capturing these market significantly (Nalletamby, 2007).

Though, from the late 1990s, over 75% of the tourists continue to come from Europe, its relative share declined in favour of Africa and Asia (Management and Information Systems Division, 2001). These emerging markets were exploited with the establishment of direct air links to Johannesburg, Dubai, Mumbai and Singapore. Dependency on the European market had proven to be painful. The gulf war and recessions have been cases in points. (Padayachy, 2007; Charles, 2007)

Further efforts were made to expand the European market to the emerging market of Eastern Europe and Scandinavian countries with the Russian market as a main target. Visitors from Commonwealth of Independent States (CIS) of the former USSR grew consistently, from 145 visitors in 1992 to 5,408 in 2006 (National Statistical Bureau, 2008b). Visitors from the CIS are a potential growth market that could be exploited. There are no scheduled flights from these countries. Recently, tour operators have organised several chartered flights from these countries. Further, it is reported visitors from the CIS are significant spenders (National Statistics Bureau, 2007e).

In another bid to diversify the tourism market base, Seychelles started exploring the Asian market trying to mainly attract the emerging Chinese market where growing numbers of international trips for tourism purposes are being noted. In this light, Seychelles has pursued and obtained the “Approved Tourism Destination” status from the Chinese Government in July 2004. This status is an important element that will allow Seychelles to market itself in China to develop this market. This has since been marked by the arrival of the first organised trip for the Chinese tourists in August 2004 (Seychelles Nation, 16 April 2005).

Explaining the formation of resources and capabilities of Air Seychelles requires a profound understanding of the tourism industry in Seychelles. The explanations of the changing relative competitive performance of Air Seychelles should be linked to industrial and economic change (e.g. Pettigrew and Whipp 1991). One source of change is the asymmetries between levels of context, where processes at different levels of analysis are often observed to have their own momentum, rates, pace and trajectory. This is in line with our use of contextualism analysis of change drawing on phenomena at vertical and horizontal levels of analysis and interconnections between levels through time.

5.2.3 Civil Aviation and the Tourism Industry in Seychelles

With the opening of the Seychelles International Airport, Civil Aviation had the triple role; of servicing the tourism industry; acting as a crossroads for inter-continental air traffic; and providing links between Mahé and the outer islands in Seychelles. In the 'First National Development Plan, 1977-1981', the Government sought to ensure that development of the airport and of aviation generally to keep pace with the demands generated by economic development, particularly of the tourism industry. The plan recognised the need to making continued improvements at the Seychelles International Airport and extending the network of airstrips on other islands owned by Government. It encouraged the increased use of the Seychelles International Airport by airlines for refuelling and flight connections. In the 'First National Development Plan, 1977-1981', air services within Seychelles were also considered important and the development of additional routes were encouraged (Republic of Seychelles, 1977). Particular emphasis was laid on the requirements of both international and domestic aviation to maintain international standards of civil aviation and to develop the other islands (Republic of Seychelles, 1978).

In the National Development Plan of 1979-1983 Civil Aviation was considered to have a primary role to play in the development of the Seychelles economy. The Seychelles Civil Aviation and the Seychelles International Airport provided an essential service to the tourist industry in providing the means of entry and departure for visitors; it was considered an important transit centre within the Indian Ocean, and provided the focal point for the growing domestic civil aviation industry. Consequently in the late 1970s, approximately half the traffic at the airport related to international traffic in respect of passengers terminating their journey in Seychelles, one quarter to transit passengers and the remainder was in respect of inter-island traffic (Republic of Seychelles, 1979). This was because major airlines used Seychelles as a stopover to their flights from the Far East and to the other Indian Ocean islands from Europe (Lisa Padayachy, 2007). However, this is no longer the case.

When the Seychelles International Airport was completed in 1971 at the cost of £6.5m, it was designed to have the capacity to handle only 150 passengers at one time. By the late 1970s, the airport was handling increasing amounts of traffic to feed the growing tourism industry. It was evident that the airport needed expansion to meet the growing traffic (Roberts and Gontier, 2007). The Seychelles International Airport was then inadequate for the requirements of the traffic and the anticipated growth in tourism. It was not anticipated that planes of the capacity of the Boeing 747 would come to Seychelles. When it became

apparent that several jumbo jets would be arriving and departing each week a Master Plan was commissioned for the development of the Seychelles International Airport.

The Seychelles International Airport was developed thereafter by improvements to the runway shoulders, improved runway lighting, apron extensions and facilities for ground handling equipment and maintenance. Provisions were made in the National Development Plan 1979-83 to upgrade the airport to handle newer types of aircraft. In contrast, the terminal buildings were designed to accommodate narrow bodied jets which were being increasingly replaced by wide bodied jets such as the Boeing 747s on long haul routes (Roberts and Gontier, 2007).

Development of the Seychelles International Airport was undertaken in two phases; Phase One enabled the airport to handle 400 passengers – up from 150, the full load of a Boeing 747; Phase Two provided further extension to handle 800 passengers. Phase One involved the construction of a new domestic terminal away from the main terminal, followed by the expansion of the existing terminal up to its increased capacity (Republic of Seychelles, 1979). The construction works commenced in July 1980. By the October 1982 renovation works for the international terminal and the aircraft parking apron were completed at the cost of SR26 million. The parking apron was increased in capacity to cater for up to six aircrafts. The Directorate of Civil Aviation started a project to build a new domestic terminal which was officially opened in July 1982 (Roberts and Gontier, 2007).

To support the increasing traffic that the airport was receiving after its opening in 1971, air traffic control was needed and was carried out from a private house near the airport. A fire service was also necessary and this was initially based in the capital Victoria about 12 kilometres away, with one Land Rover Fire vehicle on flights standby. In Seychelles, Fire Service is part of the Police force. In 1970, recruitment and training of dedicated firemen took place for the first time. Twenty-four men, together with four fire trucks made up the Fire Service (Roberts and Gontier, 2007).

The physical airport facilities were matched by improvements in telecommunications and navigational aids. The existing meteorological building was then inadequate to cope with the demands then being placed upon it by, amongst others, the Airport authorities. The new meteorological building, to a cost SR1.5m budgeted for 1979, was constructed and improvements was also made to the meteorological facilities which were essential to ensure that the necessary services were provided for aircraft flying to Seychelles or through Seychelles air space. They enabled Seychelles to play its part in building up the

overall pattern of weather forecast in co-operation with other countries in the area of the Indian Ocean (Republic of Seychelles, 1979).

Between 1979 and 1982 the islands saw the gradual installation of more advanced aeronautical equipment to enhance the safety of flights into Seychelles and on approach to the Seychelles International Airport. These included installing Doppler VOR (VHF Omni-Directional Radio Ranges) both at the Seychelles International Airport on Mahé and on Praslin islands. The Directorate of Civil Aviation also installed instrument Landing Systems as well as extending the northern part of the runway and putting in new sets of Approach Landing Lights on pontoons in the sea (Roberts and Gontier, 2007).

In the period 1979 to 1983, Government realised the importance of civil aviation in the development of the outer islands. Requirements for additional or improved airstrips were planned in conjunction with other developments on the outer islands in the fields of agriculture and tourism. Increased development of the Outer Islands had resulted in the construction of airstrips on the islands of Farquahar in 1978 and Desroches in 1979 (Republic of Seychelles, 1979).

With the development of these resources and services, new capabilities within the industry needed to be developed. The expansion of the Seychelles International Airport provided the opportunity for increasing participation and the training of Seychellois human resource. Training programmes were instituted to ensure that the airport and its related facilities were mainly staffed by Seychellois personnel. Training programmes were carried out so as to ensure that international standards were fully maintained and complied with. The Government training policy and programme encompassed the public and private sectors of aviation including pilot training (Republic of Seychelles, 1979).

As Seychelles was increasingly getting known as a tropical island holiday destination, by 1974, some well-known airlines started operations into Seychelles, such as British Airways, Air France, British Caledonian, Air Malawi, Luxair, South African Airways, East African Airways and Aeroflot. Most of these combined the safari experience in East Africa with the natural tropical beauty of Seychelles, which has then being compared to paradise. (Roberts and Gontier, 2007)

By 1979, Seychelles had already set up Air Seychelles as a national carrier wholly owned by Government. The airline, which was also managed the Seychelles International Airport after the merger with Aviations Seychelles, was then already earning a substantial income

from negotiations carried out with international airlines flying to Seychelles. As Seychelles had then its own aircraft, the possibilities of regional operations within the region of the Indian Ocean were examined (Charles, 2007; Padayachy, 2007). Further, in view of the importance of developing the outer islands, Government examined the overall pattern of domestic aviation to ensure the proper economic development of the entire Seychelles archipelago. The plan of Government was to establish a leading role in domestic aviation and to this effect set up a wholly Government owned Seychelles domestic airline.

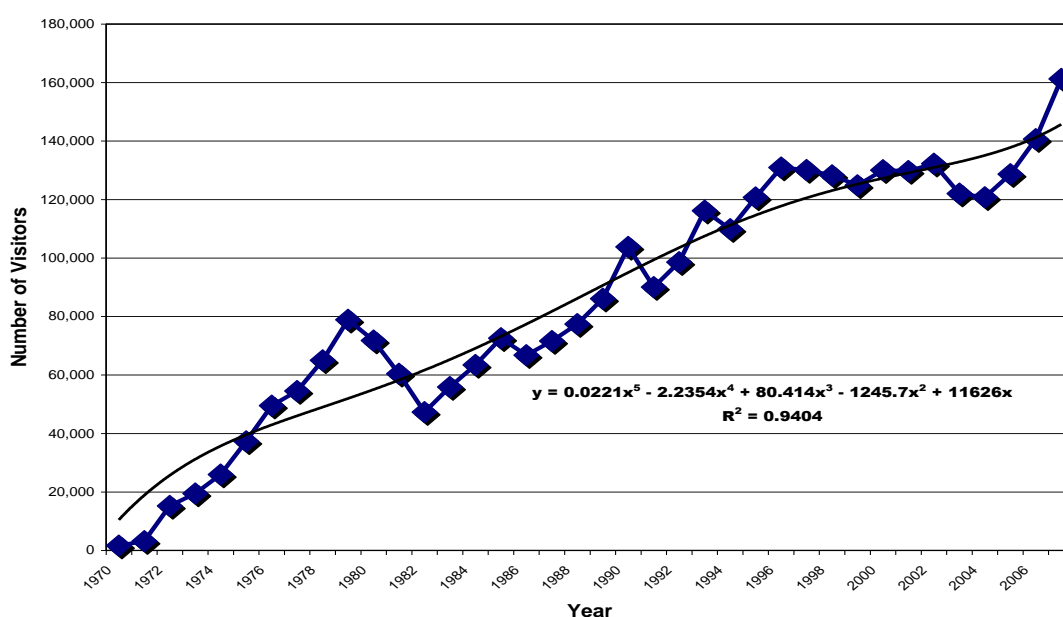
Domestic inter-island travel had increased six-fold over the previous five years to a level of over 70,000 in 1977. Many of the passengers flew between Praslin and Mahé islands. The existing runway at Praslin was merely a dirt strip and was subject to heavy erosion and rutting. In line with the planned expansion of tourism on Praslin Island, the airstrip was brought up to an all-weather surface and the terminal building was expanded to cope with additional flow. A small terminal building was constructed to house the essential equipment and provide waiting area for passengers. Lights were also installed to permit night flying. The project was undertaken in 1980 – 1981. The Praslin aerodrome, however, retained its rural design (The National Development Plan 1979-1983; 1979).

So as can be seen, the development of Civil Aviation, the tourism industry, Air Seychelles and the Seychelles economy in general is intrinsically linked. This confirms that a radical innovation in the development of resources one would lead to an equal corresponding innovation of resources in another. A radical innovation of resources would consequently lead to incremental innovation in resource development in the same sector or another sector within the industry. The creation of resources in the Air Seychelles environment facilitates the creation and development of resources in Air Seychelles, and vice versa.

5.2.4 Trends in the Seychelles' Tourism Industry

Figure 5-3 shows the number of visitors' arrivals in the Seychelles from 1971 to 2007. From the trend of visitors' arrivals, four distinctive episodes of development can be discerned. Looking at the trend of visitors' arrival some of the interviewees, (Nalletamby, 2007; Chong-Seng, 2007; Mellie, 2007; Morel, 2007) confirmed that the development of tourism Industry in Seychelles could be classified in these distinctive stages.

Figure 5-3: Visitors Arrivals 1971 to 2007



Source: Adapted from the Statistical Abstract (2007), National Statistics Bureau, Seychelles

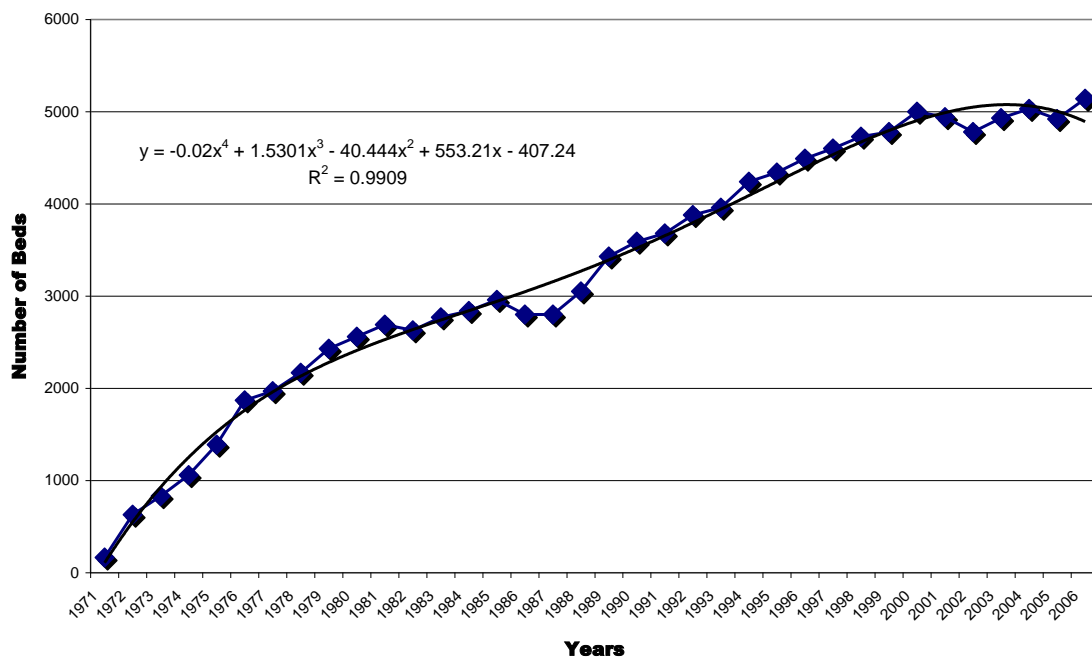
The first episode, between 1971 and 1979, the number of visitors' arrival grew from 3,175 visitors in 1971 to peak at 78,852 visitors in 1979 at an annual average rate of over 26%. The increase in the number of visitor arrivals is associated with the opening of the Seychelles International airport in 1971 and the increase in the number of in-bound flights into Seychelles, mainly from the main market countries. The second episode, between 1980 and 1984, saw the number of visitors declined from 71,762 in 1980 to 63,417 in 1984, at an average of -12% per annum. The decrease in the number of visitor arrivals is associated with the airlines from the main tourism market pulling out of Seychelles. The third episode, 1985 to 1996, is a period of recovery. During the third episode, the number of visitors increased from 71,626 in 1987 to 130,955 in 1996, at an average annual growth rate of 7.4%. The fourth episode, 1997 to 2006, the number of visitors arriving to Seychelles fluctuated widely from 120,070 in 1999 to 120,765 in 2004 to a new peak of 161,273 in 2007. During this period the number of visitors' arrivals averaged at about 130,000 per annum. From 2005 to 2007, the number of visitors' arrival increased significantly from 128,654, to 161,273, and a new record was set in 2007. This is a clearly a sign of increase in the number of visitors as a result of the adoption of new strategies.

Figure 5-4 shows the number of available tourist beds in the Seychelles from 1971 to 2007. With the opening of the Seychelles International Airport in 1971, and with an increase in the number of flights and visitors to the islands, the number of available beds increased steadily over the years from 1975 to 2000. In 1971 the number of 'tourism beds'

increased slightly to 164, and by the end of 1972, the number increased almost fourfold to 630. From 1973 to 1975, the number of tourism beds increased from 830 to 1390. However, in 1986 and 1987, the number of available beds declined slightly. This may have been the effect of the decline of visitors' arrivals between 1980 and 1984, indicating that given the capital cost committed to build the accommodations. It took about six years for this sector of the market to respond to the three-year glitch. However, from 1986, accommodation sector picked up and the number of available beds increased steadily, to stabilise after 2000.

Accommodation and available tourist beds are important component of the tourism industry. The type of tourism accommodation has been an important part of the tourism policy in Seychelles. These accommodation needs to match the requirements of a wealthier long haul passenger. Consistent with the tourist product, most of the accommodation establishments are situated near beaches. In the earlier days of tourism development in Seychelles and up to the 1990s, most of the accommodation establishments were dispersed around the principal island of Mahé. Subsequently in the 1980s and 1990s accommodation establishments sprung up on the second and third largest islands, Praslin and La Digue. In the late 1990s and 2000s, the tourism development plan included opening the some outlying islands to tourism.

Figure 5-4: Number of Beds Available, 1971 to 2007



Source: Adapted from the Statistical Abstract (2007), National Statistics Bureau, Seychelles

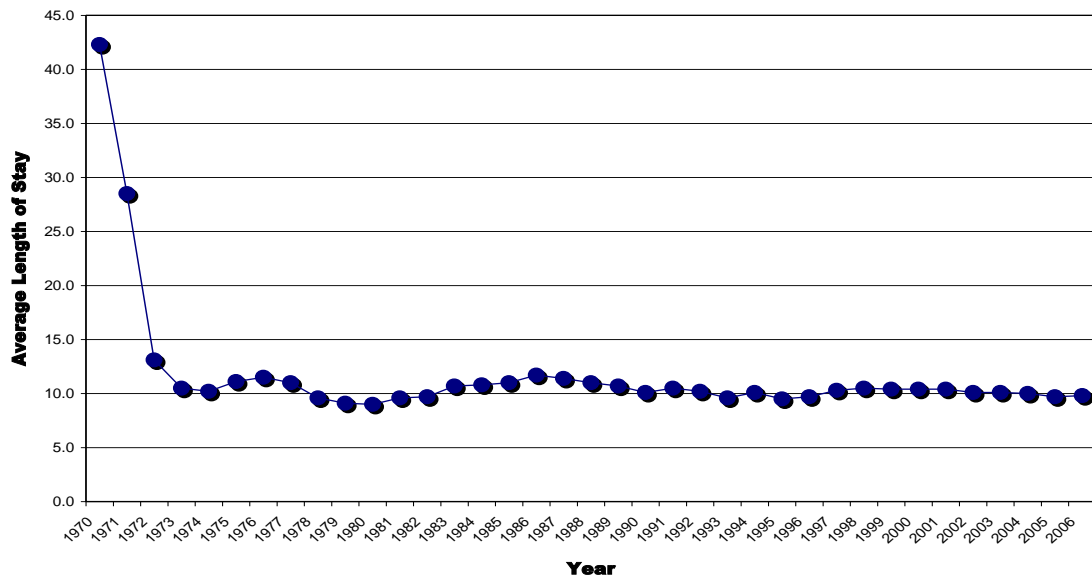
The number of available beds is a direct result of the number of hotels, guesthouses and other institutions for tourist accommodation built. Before the opening of the International Airport, Seychelles was less appealing as a tourism destination and consequently few tourism accommodations were available. In 1970, there was on average 141 tourism beds available and these would cater for a maximum of just over 51,000 bed nights at 100% occupancy (Nalletamby, 2007). With an average length of stay of 42 nights, only 1214 visitors could visit Seychelles during the whole year. Nevertheless, 1,622 visitors arrived in Seychelles during that year, thus indicating that private accommodation was offered to the visitors.

The accommodation sector is driven by and caters for the different demands of tourists. As we have seen earlier, Seychelles caters for the long-haul and wealthier niche of tourists. In 1997, there were 21 large hotels, 79 small hotels and 32 self catering establishments, providing 4,840 beds (Seychelles Public Sector Investment Plan, 1997-99). In 2005 and 2006, 88% of visitors stayed in hotels and guest houses. Four percent stayed with families and friends whilst 8% reported 'other' forms of accommodation (National Statistics Bureau, Visitors' Survey 2006).

Figure 5-5 shows the average length of stay of tourists in Seychelles. The number of flights into Seychelles is positively correlated to the average length of stay and the number of visitors. Before the international airport was opened in July 1971, there were a limited number of visitors to the islands. The number of visitors arrivals increase significantly from 1972 due to an increase in the number of international flights to Seychelles. This was because previously visitors relied on shipping vessels, which would take on average a week from East Africa or India, to get to Seychelles. Not only was the number of visitors low, the visitors tended to stay longer on the island. Visitors to Seychelles had to endure the long trip, spend several weeks holiday waiting for the next ship out. In 1970, the average length of stay of visitors to Seychelles was 42.3 days. Seychelles then being a British colony attracted visitors mainly from the UK.

However from the year 1973, the average length of stay went down to around 10.3 days. This coincided with an increase in the number of flights to the Seychelles. With the opening of the Seychelles International Airport in 1971, the number of airlines servicing Seychelles as a destination increased. There were weekly flights to the islands from most destinations, implying that visitors, on average, were able to take one week or two weeks holidays. On average, visitors took holidays of a week and a half.

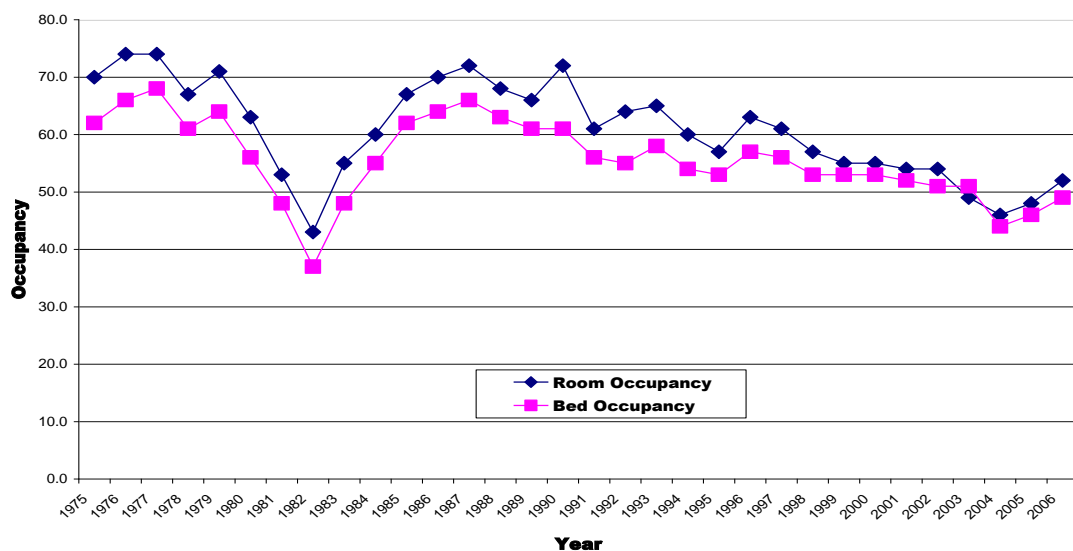
Figure 5-5: Average Length of Stay, 1975 to 2007



Source: Adapted from the Statistical Abstract (2007), National Statistics Bureau, Seychelles

Figure 5-6 shows the room and bed occupancy of tourists in Seychelles for the period 1975 to 2007. In the late 1970s, the room occupancy averaged 71.2 percent and bed occupancy averaged 64.2 percent (National Statistics Bureau, 2007). This coincided with an increasing number of visitors and lower number of available rooms and beds. As a result, from 1976 to 1979 the annual increase in the number of visitors was sufficient to preserve high occupancy rates.

Figure 5-6: Room and Bed Occupancy, 1975 to 2007



Source: Adapted from the Statistical Abstract (2007), National Statistics Bureau, Seychelles

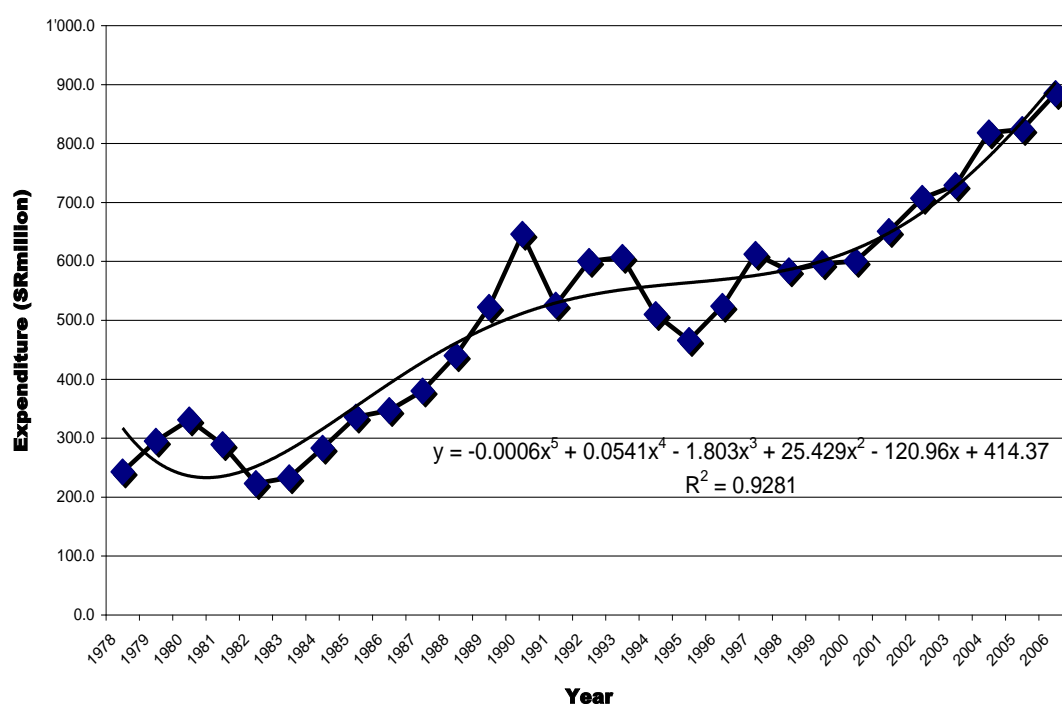
In 1980 to 1985, the average room occupancy was 57.4 percent and the average bed occupancy was 54.7 percent. This coincided with the period of sharp decline in the visitors' arrivals and as a result of major airlines pulling out their services. In 1982, the room and bed occupancy were 43.0 and 37.0 percent respectively. This was a time when occupancy was at its lowest ebb. At that time 56.5 percent occupancy was regarded as the international breakeven room occupancy level (Archer and Fletcher, 1993).

From 1985, there were signs of increase of both the room occupancy and the bed occupancy rates to the previous higher levels. However, from 1990, both the room occupancy rate and the bed occupancy rate started going down to below 50 percent in the 2003. There were signs of recovery from 2004, which also coincides with the government, among other things, adopting new strategies, market plans, the provision of new incentives to the investors in the industry, and a more liberal air policy. One of the results was the inauguration of Qatar Airlines and Emirates flights providing more access to the islands, mainly to visitors from Europe, and the subsequent increase in visitors' arrivals (Morel, 2007).

Figure 5-7 shows tourism expenditure from 1978 to 2007. The government of Seychelles invested so much in its tourism industry so that they would see a good return on their investments in terms of revenues, employments, and other benefits it can be accrued from such investments as contributions to the national economy, and consequently benefiting from the resulting socio-economic programmes.

Whilst tourism as an industry only took off three decades ago, it grew very fast to establish itself as the most important economic sector in the country. Tourism plays a key role as the main foreign exchange earner in the country. The earnings from tourism increased from SR295m in 1979 to SR331m in 1980, to SR336m in 1985 and almost doubled to SR646m in 1990. From there the tourism earnings saw a drop to SR466m in 1995 and then picked up again to reach SR600m in 2000. The tourism earnings for 2002 were SR706m; SR818m in 2004, SR885m in 2006, and SR1, 940m in 2007 – a 35% increase over 2006 (National Statistics Bureau, 2007a).

Figure 5-7: Tourism Expenditure, 1978 to 2007



Source: Adapted from the National Statistics Bureau, Seychelles Statistical Abstract (2007),

When one considers the number of visitors' arrival and tourism expenditure in Seychelles in the last thirty-five years, one finds the tourism expenditure is positively associated with the number of visitors. From 1997, there was no growth in visitors' arrivals, except for 2005 to 2007. However, tourism expenditure continued to growth from 1997, even when there was no growth in the visitors' arrival.

The tourism earnings is considered an under estimation because all income is not registered through the official channel. Further, it is assumed that from 1990, as the demand for foreign exchange exceeded its supply, parallel transactions became more frequent (Nalletamby, 2007).

5.3 TOURISM INDUSTRY LIFE CYCLE

5.3.1 The Seychelles' Tourism Area Life Cycle - 1970 to 2007

Butler (1980) originally suggested that visitor numbers be used for the Tourism Area Life Cycle curve to form the basic cubic graph. Haywood (1986:159), however, suggested using a statistic which reflects tourist expenditure as being more indicative of the effect of tourism on the economy. The use of tourism expenditure for life cycle curve data would appear to have more intuitive appeal, but in the final analysis the choice depends on what

is available at the time and on the objective of the study. The essential point is that with the Butler's Tourism Area Life Cycle model, hard and fast rules cannot be applied governing which data must be used, in spite of harsh criticism due to the Tourism Area Life Cycle's vague and imprecise nature (Haywood 1986; Agarwal 1994). The key point about the Tourism Area Life Cycle model is not to stick rigidly to specific guidelines, but to understand the conceptual basis and then to select data which best suits the purpose. The simplicity of the basic concept put forward by Butler (1980) allows the user a great deal of flexibility in its application. Despite this simplicity, however, the model provides a useful reference point for understanding the dynamic processes of a tourist destination.

For comparative purposes, two data sets were examined for use as Tourism Area Life Cycle curve data: (i) visitor numbers and bed nights and (ii) occupancy rate (%) and visitors' nights. The main criteria for choice of data included that if possible it had to be continuous over the period 1970 to 2007. Time-series data were considered from publications such as the quarterly 'Migration and Tourism Bulletin' and the annual 'Statistical Abstract' of the Seychelles' National Statistics Bureau.

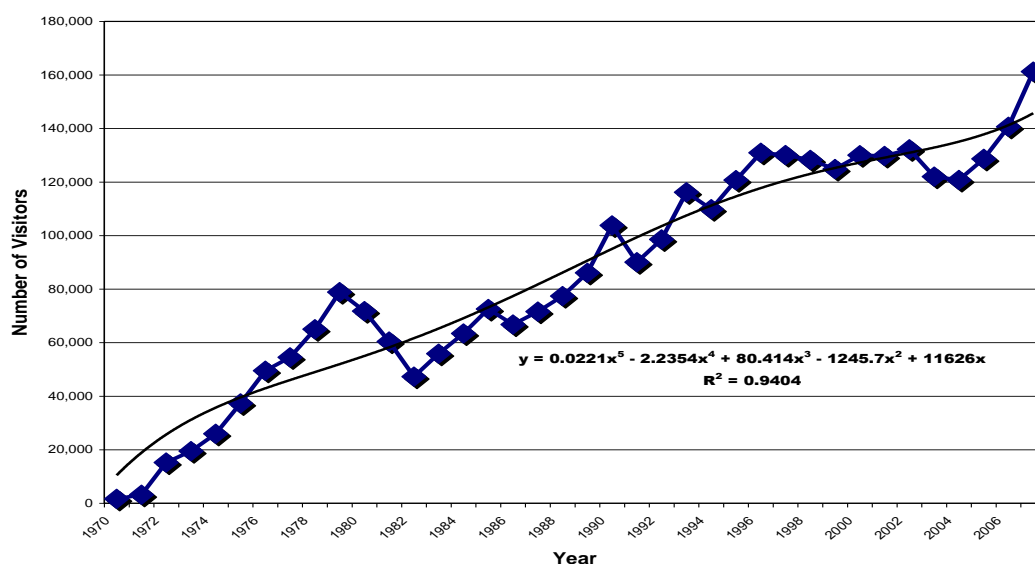
The first data set to be considered for use as Life Cycle data was the visitors' arrival numbers. These statistics, originally suggested by Butler (1980), does not take into account changing spending patterns or length of stay. Secondly a performance curve was fitted. This curve is one similar to the Butler's Tourism Area Life Cycle model and portrays the growth of tourism activity. Indicators used, following Copper's (2002) quantitative approach, are the number of beds multiplied by the occupancy rate. This multiple indicator reflects a more accurate description of the supply-demand relationship and not only the number of tourists as in the Butler approach. Further, this data set takes into account the length of stay of each visitor. The drawback of using this data set is that it does not take into account changing tourist spending patterns. Guest nights may still continue to rise, when in fact the amount of money spent by those guests may be falling, giving a false impression with respect to the economic effect on the community resulting in a negative effect on the integrity on the model.

The analysis of each variable begins with an examination of frequencies, either graphically or in tabular form. In many cases this examination is sufficient to see if the data fitted any of the criteria. In the case of non-time-series variables, the frequencies may give some indication of the current position of the region on the Tourism Area Life Cycle curve with respect to that variable. The order in which the variables were examined was as close as

possible to their order of appearance in Butler's (1980) article. Similar variables are examined together where feasible.

The number of visitors' arrival for the period 1971 to 2007 was selected for the Tourism Area Life Cycle curve from the range of options discussed above, and plotted using Stata 9 and Microsoft Excel. Butler (1980) used visitor numbers as the basis for his Tourism Area Life Cycle curve, as does this analysis. To find out if the data was cubic, a third order polynomial (cubic regression) was fitted using the Stata 9 Software Package, giving an R^2 value of 0.9248. A slightly better fit of $R^2 = 0.9404$ was then obtained using a fifth order polynomial in Microsoft Excel as shown by the trend line in Figure 5-8.

Figure 5-8: Trends in Visitors Arrivals, 1970 to 2007

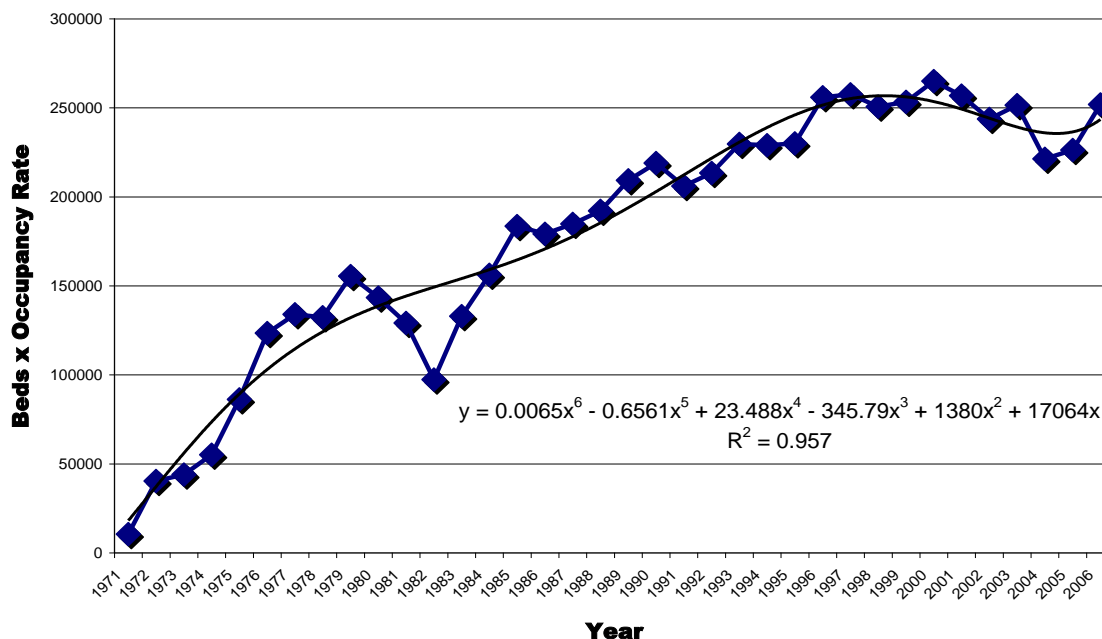


Source: Adapted from the Statistical Abstract (2007), National Statistics Bureau, Seychelles

As predicted by Butler (1980), the basic Tourism Area Life Cycle curve for the study destination is essentially cubic despite the fact that this study does not include figures prior to 1970, as these are not available (Figures 5-3 and 5-8). The graph shows that growth in tourism arrivals first peaked in 1979 and the first “decline” stage from 1980. A second growth stage occurred from 1984 and entered into the stagnation stage from 1996. Having shown that the Tourism Area Life Cycle curve for tourism in Seychelles, Figure 5-8, was cubic, each one of Butler's (1980) criteria are examined stage by stage. The aim is to see which of Butler's criteria were present in the Seychelles tourism development, and if so, were they present during the stage that Butler suggested they should be. Emphasis is on the time-series data because of its greater relevance to Butler's (1980) theory.

To measure performance Cooper (2002) suggested a quantitative approach, the number of beds multiplied by occupancy rate. The performance curve, (figure 5-9) follows a similar curve as the Butler's Tourism Area Life Cycle and portrays the growth of tourism activity. However, towards the later year, from 2005 onwards, the rejuvenation tendency is more pronounced compared to the Tourism Area Life Cycle curve which shows a tendency of decline for the same period. The two curves can be used to complement each other. Not only does the curve portray the growth of tourism activity in Seychelles, but it also provides a more accurate description of the supply-demand relationship. Contrary to the Tourism Area Life Cycle curve, the performance curve takes into account the rising expenditure of tourists though the arrivals remained stagnant from 1996.

Figure 5-9: Number of Beds times Occupancy Rate, 1971 to 2007



Source: Adapted from the Statistical Abstract (Years), National Statistics Bureau, Seychelles

The nature of the Tourism Area Life Cycle model means that it was not necessary to look at any more complicated techniques than an examination of the raw scores and in some cases linear regression and measures of central tendency and dispersion. The results of the analysis for each stage of Butler's (1980) theory were drawn together in tabular form to give a more concise picture of the degree of compliance with that stage. A summary table showing the degree of compliance with all Butler's stages at the exploratory stage is shown in table 5-1.

5.3.2 Testing Butler's Criteria for the Exploration Stage 1960 - 1970

Theoretically, the “exploration” stage is characterised by the presence of a few adventurous tourists who are attracted to the area because of its unique and different natural and cultural attractions (Butler 1980:7). During this stage, there are little or no specific tourist facilities and contact between visitors and locals is high compared to the latter stages of Tourism Area Life Cycle.

Prior to the opening of the Seychelles International Airport in 1971, the week-long journey by ships to Mahé in Seychelles from the nearest country, discouraged tourism to the Seychelles. The annual “Statistical Abstracts” published by the National Statistics Office provides data on visitors’ arrivals only from 1970. In the year 1970 only 1,622 visitors arrived in Seychelles (Ministry of Finance and Industry, 1978b). From the Development Plan 1970-1971, the income generated from visitors had a relatively insignificant impact on the economic and social life of the residents of the Seychelles Islands.

Available records do not indicate if tourists were welcome or not. However, folk songs and stories during this period indicate that they were. Prior to the opening of the Seychelles International Airport, few companies and individuals opened small hotels along the beach mostly on the main island of Mahé. There were no marketing campaigns or promotion of Seychelles as a tourist destination. Marketing of Seychelles as a tourist destination did not feature in the National Development Plan of 1970 – 1971. Indeed tourism development did not feature in that plan at all and there were no national or public organisation dealing with tourism as an industry. The very few hotels were located mainly on the main island of Mahé on the popular beach of Beau Vallon. These hotels catered mostly for passengers who transited through Seychelles by boat to other destinations in the Middle East, the Indian Subcontinent or East Africa (Personal Communication). It would appear that the initial development of tourism as an industry in Seychelles was not by design.

Table 5-1: Summary of Seychelles' Compliance to Butler's Exploratory Stage Criteria, 1960 to 1970

Butler's Criteria	Compliance (Yes/No)
Few, adventurous tourists	Yes
No specific tourist facilities	Yes
Contact between locals and visitors is high	Assume Yes

5.3.3 Testing the Criteria for the Involvement Stage, 1971 to 1976

Butler's (1980) theory states that the "involvement" stage is characterised by an increase in visitor numbers and local involvement in the provision of services for them. Contact between visitors and locals is still high and there will be some advertising to attract tourists. A market area can be identified. A tourist season develops and there will be some organisation in the travel arrangements made for tourists. Pressure will come to bear on governments to provide tourist facilities such as airports, roads and harbour facilities (Butler 1980:7, 8).

a. Involvement of the local people in the provision of services to tourists;

With the opening of the Seychelles International Airport and the rise in the number of visitors to Seychelles, a few local owned ventures aimed at providing services to tourists opened. These included travels agencies, car hires and small hotels. These were followed by ventures belonging to foreigners (Personal Communication). However it was not until 1974 that continued tourism growth played a dominant role in the economy, as a result of investments initiated in 1972 – 1973.

b. Organisation of Tourist Travel Arrangements

Butler (1980:7) suggested that during the "involvement" stage "some level of organisation of tourist travel arrangements can be expected", meaning that a proportion of travel and accommodation arrangements will be pre-booked, as opposed to *ad hoc* arrangements. In 1971, as the Seychelles International Airport was completed, travel agencies set up by local entrepreneurs ensured that tourist who had booked their trip prior to their arrival were met at the airport and had hotel arrangements (Personal Communication).

c. Advertising to Attract Tourists

During this period, tourism development for the first time appeared in the National Development Plan, marketing of Seychelles as a tourist destination became institutional, and a national marketing plan was elaborated. A tourism office was set up in government to produce brochures, films, handbooks, postcards and scenic photographs to advertise Seychelles as a destination (National Development Plan).

d. An Initial Market Area can be Identified and a Tourist Season Emerges

The statistics of visitors' arrivals in Seychelles shows an increasing trend of visitors from 1971. In 1971, with the opening of the Seychelles International Airport, 3,175 visitors

arrived in Seychelles. From 1971 the number of visitors grew at an annual average rate of over 26% to first peak at 78,852 in 1979. During the period 1971 to 1976, the world's visitors' arrival increased only 6% (Archer, 1982).

The tourism authority in Seychelles targeted the Western European market, given the disposable income (Francis Savy, 2007). Seychelles, a new and exotic destination, was more attractive than similar products, like Sri Lanka, Maldives and Mauritius. Seychelles attracted visitors mainly from Italy, UK, France and Germany (Francis Savy, 2007). The increase of visitors to Seychelles was facilitated with the national carriers of these countries operating scheduled flights into Seychelles (Charles, 2007; Padayachy, 2007).

e. Attitude to Visitors

Butler (1980:10) neither supports nor opposes Doxey's (1975) index of irritation (Irridex) which states that residents' attitude towards tourists will change from being positive at the beginning of the cycle, to antagonistic at the end. Butler wrote that more recent research shows residents' attitudes towards tourists are a more complex function.

f. Pressure on Government to Provide Tourism Infrastructure

A search in the National Development Plan revealed that between 1960 and 1971, there was no pressure on government to provide infrastructure related to tourism. In fact, prior to 1971, there were no major resources dedicated to tourism nor were capabilities developed in that industry. There were no mentions of the tourism industry in the National Development Plans prior to 1971. In the 1970s, however, there were numerous projects initiated by Government to provide tourism infrastructure. The Seychelles International Airport was completed and became operational in 1971. In 1972, Government build an airstrip on Praslin to facilitate air transfer of tourists from the main island of Mahé to the second largest island of Praslin. Other airstrips were also built on other islands belonging to the government. The Domestic Airline services were set up to transfer, mainly the tourists, between the islands. In 1984, after a temporary decline in the number of visitors to Seychelles, government decided to launch Air Seychelles into long haul passenger services to provide air link between the main European market and Seychelles. For Air Seychelles, this was an example of an emergent strategy (e.g. Mintzberg, 1995).

Table 5-2: Summary of Seychelles' Compliance to with Butler's "Exploration" Stage Criteria, 1971 to 1976

Butler's (1980) Criteria	Compliance (Yes/No)	If Yes, When
1. Visitor numbers increase and start to assume regularity	Yes	From 1972
2. Limited involvement in tourism by locals	Yes	From 1972
3. Contact between visitors and locals is high.	Assume Yes	During this stage
4. Some advertising of services to attract tourists	Yes	From 1972
5. Initial market area for visitors can be defined	Yes	From 1973
6. Pattern of seasonal visitation starts to appear	Yes	From 1973
7. Organisation of tourist travel arrangements	Yes	From 1972
8. Pressure on government to provide tourism infrastructure e.g. transport and local amenities	Yes	Particularly in the 1970s and 1980s

5.3.4 Testing the Criteria for the Development Stage 1977 - 1990

Butler's (1980:8) "development" stage is characterised by a well-defined tourist market area which is partly the result of heavy advertising. At the same time natural and cultural attractions will be marketed specifically and supplemented with human-made attractions. Local involvement and control of development will decline rapidly and locally-owned facilities (particularly accommodation) will give way to large scale facilities provided by external investors. Butler also noted that during the "development" stage changes in the physical appearance of the region will be noticeable and sometimes these changes will not be welcome. Regional and national involvement in planning, and provision of facilities will occur, and again, this will not necessarily be welcomed by the local residents. The number of visitors will exceed locals in peak periods and imported labour will be used.

a. Well-defined Tourist Market Area and Heavy Advertising

The number of visitors continued to increase from 54,490 in 1977 to 78,852 in 1979. However, between 1980 and 1984, the number of visitors declined from 71,762 to 63,417, at an average of -12% per annum. This was consistent with most other long-haul tourist destinations; about 9% in 1980 and a further 15.8% in 1981 (Archer, 1982).

From 1985 to 1990, the number of visitors increased from 72,542 to 103,770, an average of annual growth rate of 8.9%. In 1987 visitors' arrival rose by over 7% and a further 8% in 1988, 11% in 1989 and over 20% to peak at 103,770 in 1990. This compared to a mid

year population of 61,786 in 1977; 63,261 in 1979; and 69,507 in 1990 (MISD, Statistical Abstracts, 2001). The rise in the number of visitors was the result of the policies of government to realignment its development priorities. It also coincided with the government policies, which encouraged the private sector investment in the tourism industry to keep the economy in equilibrium (Ministry of Foreign Affairs, Planning and Environment, Development Plan 1990). During this period some national carriers from the principal European markets return to serving Seychelles.

b. Natural and Cultural Attractions Marketed

The natural and cultural attractions marketed included the beach, sea and national parks. As Butler (1980:8) predicted, human-made facilities supplement natural attractions. Examples of such facilities included additional floating facilities and boats for reef viewing; retreats, markets, tours to, through and over, various parks of the islands, nature trails and the islands culture experience. Most of these facilities were introduced during the “development” stage, but there was some overlap into the “consolidation” and “stagnation” stages.

c. Local Involvement and Control of Tourism Declines

Indicators of external control considered here include the place of residence of the owners of the businesses, the region from which the manager was hired, and the city and country where the tourism bookings originated. The latter is particularly important, because tour operators or travel agents have the power to redirect the business elsewhere should the area be perceived as being out of fashion or not as desirable as alternative destinations.

The search through the National Development Plans revealed that most of the announcements and starts of major projects in the Seychelles occurred between 1981 and 1995 with a peak around 1986, starting after the opening of the Seychelles International Airport. A period of rapid growth in the number of bed spaces available occurred about two years after the peak, indicating a two-year time lag between the peak in visitors' arrivals and completion of major projects. The timing of the peak in development activities appears to confirm the view that the opening of the airport was the catalyst for the rapid tourism growth in the region, much of which was financed from overseas.

c. Changes in the Physical Appearance

During this period, with the change in the requisite accommodation, the structures of the hotels began to change offering more of the chalet type of accommodation. This was accompanied by the opening up of new islands to tourism.

d. Number of Visitors will Exceed Locals in Peak Periods

The number of visitors to Seychelles never at any time exceeded the population in Seychelles. During from 1980, the annual number of visitors exceeded the mid-year population estimates of the local population.

e. The Use of Imported Labour

This period saw tourism organisations use of management staff from outside the study region.

Table 5-3: Summary of Seychelles' Compliance to Butler's "Development" Stage Criteria, 1977 to 1990

Butler's (1980) Criteria	Compliance (Yes/No)	If Yes, When	Different Stage?
1. Well-defined tourist market area and heavy advertising	Yes	From 1978	NA
2. Local involvement and control of tourism declines	Yes	From 1977	NA
3. Old facilities (e.g. Visitor accommodation) superseded by larger, more elaborate, more up-to-date facilities provided by external organisations.	Yes	From 1973	Involvement Stage
4. Natural and cultural attractions marketed specifically supplemented by man-made facilities	Yes	From 1976	Involvement Stage
5. Changes in the physical appearance	Yes	From 1978	NA
6. Regional and national involvement in planning and provision of facilities	Yes	From 1977	NA
7. Number of visitors will exceed locals in peak periods	Mid-year population - Yes	NA	NA
8. Imported labour will be used	Yes	From 1978	NA
9. Auxiliary industries, such as laundries, will start to appear	Yes	From 1978	NA

f. Auxiliary Industries start to Appear

According to Butler (1980:8), this criterion requires no frequency or other details. All that is required is to confirm that such industries had started to appear during the

“development” stage (1974-1991). The most suitable industry category for this criterion was “tourism support services” although there were also a number of other categories such as “finance, legal, research” and “retail/wholesale”, most likely had a proportion of business generated by the tourism industry.

5.3.5 Testing the Criteria for the Consolidation Stage 1990 to 1996

Butler’s (1980:8) first criterion for the “consolidation” stage is that the rate of increase in visitor numbers starts to decline. Total visitor numbers will exceed local residents and a major part of the region’s economy will be tied to tourism. Marketing, advertising and promotion will be far reaching and efforts will be made to extend the tourist season. Major tourism franchises and chains will have a presence in the region, but there will not be many new additions during this stage. The large number of visitors and facilities provided for them can be expected to arouse some opposition and discontent among residents. There will be a well-defined recreational business district and some older facilities will be regarded as second-rate and not desirable.

a. The Rate of Increase in Visitor Numbers Starts to Decline

On Butler’s “S” shaped curve, the point on the Tourism Area Life Cycle curve where visitor numbers change from an increasing, to a declining, rate of growth, occurs at the point of inflection. In the case of the Seychelles, this point on the Tourism Area Life Cycle curve occurred in 1990.

b. Visitors will Exceed Permanent Residents.

As stated previously in 5.3.6 above in relation to the “development” stage, with such a diversified economy, visitors are never likely to exceed residents at any one time, but the annual number of visitors exceeded the mid-year population estimates from 1989. Inconsistencies such as this between the Seychelles Tourism and Butler’s Tourism Area Life Cycle model help to identify differences between tourism regions and in no way detract from the validity of the model. However, the annual total number of visitors during this stage did exceed the mid year population estimates of Seychelles.

c. A Major Part of the Economy is Tied to Tourism

The Seychelles National Bureau of Statistics does not have the tourism industry as a separate classification for statistical purposes. Tourism, however, is part of the service sector which employed (78.5%) of the workforce at the time of the 1991 census, also the start of the “consolidation” stage (MISD, Census Report, 1995). In 2007, tourism

contributed 14.5 percent towards the GDP (National Statistics Bureau, GDP estimates, 2008)

d. Advertising More Wide-reaching and Efforts to Extend Tourists Season

Following the 1991 slowdown in the growth rate of visitors arriving to Seychelles, there was an increase advertising and promotion targeting the European and South African market (Nalletamby, 2007). Further, the advertisement shifted towards culture and other sectors were required to further develop in this direction (Lousteau-Lalanne, 2007).

In comparison, Tourist expenditure did not significantly respond to the slowdown. Between 1990 and 1996, however, tourism expenditure remained constant in line with the number of visitors (see Figures 5-3 and 5-8). However, after 1996, tourism expenditure increased though the number of visitors remained constant. The fact that it took the tourism industry about six to seven years to respond to the slow-down in growth rate of accommodation takings is perhaps the best argument for having an on-going Tourism Area Life Cycle model to monitor key variables.

Efforts were made during this stage and the next to extend the market area to regional countries such as South Africa, Singapore and India resulting in more direct Air Seychelles flights between South Africa, Singapore and India and Seychelles. While marketing efforts were concentrated on Europe, direct flights to India were progressively abandoned, and ceased altogether in 2004.

e. Major Franchises and Tourist Chains will be Represented

Butler (1980:8) states that in the “consolidation” stage major franchises and tourist chains will be represented but few, if any, additions will be made. A number of these organisations were already represented by the beginning of this stage including Hilton, Berjaya and Southern Sun (Personal Communication). The rate at which new tourism-related businesses commenced operation slowed down just after the start of the “consolidation” stage, as Figures 5-15 and 5-17 show in relation to major developments and bed spaces respectively.

f. Opposition and Discontent about Large Number of Tourists & Facilities.

Butler (1980:8) suggested that the large number of visitors and facilities provided for them could be expected to cause some opposition and discontent among residents. Feelings of this nature would be reflected in a negative attitude towards tourists.

g. Recreational Business District.

This section refers to Butler’s (1980:8) “consolidation” stage statement that “resort cities will have well-defined recreational business districts”.

h. Old, Poor or Second-rate Facilities

Butler’s (1980:8) “consolidation” stage criterion: “depending on the length of time involved, old facilities may now be regarded as second rate and far from desirable”. Cooper (1990:63) also suggested that the presence of “outdated, poorly maintained accommodation and amenities” represented a threat to cold water resort regions. It is reasonable to assume, however, that the same would apply to warm water resort regions.

Table 5-4: Summary of Seychelles' Compliance to Butler's "Consolidation" Stage Criteria, 1990 to 1996

Butler’s (1980) Criteria	Compliance (Yes/No)	If Yes, When	Different Stage?
1. Rate of increase in tourism declines	Yes	From 1990	NA
2. Total number of tourists exceeds the number of locals	Mid-year population - Yes	NA	NA
3. Tourism is the major part of the economy	Yes	From 1977	Development Stage
4. Advertising more wide ranging	Yes	From	Stagnation Stage
5. Local efforts are made to extend the tourist season	Yes	From this stage	NA
6. Major franchises and tourist chains will be represented but few, if any, additions will be made	Yes	From this stage	Consolidation Stage
7. A recreational business district has taken shape	Yes	This Stage	NA
8. Imported labour will be used	Yes	This Stage	NA
9. Some of the older, deteriorating facilities are second-rate	Yes	Stagnation Stage	Stagnation Stage

5.3.6 Testing the Criteria for the Stagnation Stage – 1997 to 2004

Butler’s (1980) model states that during this stage, tourism numbers peak and the type of visitor changes to the organised mass tourist. Capacity levels are reached resulting in environmental, social and economic problems. The resort has a well established image,

but is no longer fashionable and there is a reliance on repeat visitation. There is an increase in conventions and older property ownership turnover rates are high. New developments are still occurring, but on the periphery of the original tourist area. Large numbers of imported attractions start to outnumber the natural and cultural attractions and local people consider visitors annoying.

a. Peak Numbers of Visitors Reached

The main point about the “stagnation” stage is that sometimes visitor numbers will peak (Butler 1980:8). Figure 5-8 shows number of visitors’ arrivals peaked in the Seychelles in 1997. If a downward trend ensues it is likely that the Seychelles’ tourism industry will enter the “decline” stage within two or three years.

In the stagnation stage, starting from 1997 to 2004, the number of visitors reached a plateau and stabilised with an average of 130,000 visitors per annum. The number of visitors fluctuated between the years 130,070 1997 to 128,659 in 2005 but showed no growth. During that period, visitor arrivals declined to 124,865 in 1999, but recovered to reach a second peak in 2002 with 132,246 arrivals.

b. Capacity Levels Reached

Environmental Problems

During the “stagnation” stage Butler (1980:8) refers in general terms to capacity levels being reached with “attendant environmental, social, and economic problems”. There are numerous capacity levels which can be looked at given time and resources. Some involve scientific techniques such as environmental capacity levels, which are specific to each tourist site. Another example of a capacity indicator is the ability of the local people to absorb more outsiders, which is reflected in their attitude towards visitors. The essential point of Butler’s statement, however, is not that capacity levels are reached, but that problems will result. This section looks at environmental problems.

The natural and cultural attractions of a tourism region, often the reason the region became popular in the first place, can become in danger of being destroyed by overdevelopment or over-use.

Economic Problems

In terms of Butler’s model, the early period could represent the stages up to and including the “involvement” stages, where healthy profit expectations would start to arouse the interest of businesses from outside the region. However, the year 1997 seems a little

early in the life-cycle for profit expectations to start declining, although in terms of financial opportunity, the region may have been seen as better than available alternatives. Perhaps, although there were increasing percentages of businesses with zero or negative profits, the alternatives were worse.

c. Well Established Image but no Longer Fashionable

This result is consistent with Butler's (1980:8) "stagnation" stage criteria that "the area will have a well established image but it will no longer be in fashion" (Butler 1980:8). A more appropriate approach would be to obtain the opinion of prospective tourists or agents located in different parts of the world. This is captured by the Tourism exit survey conducted by the National Statistics Bureau.

d. Heavy Reliance on Repeat Visitation

The existence of regular visitors is an asset for a destination, since it is an indicator of the degree of faithfulness to a product. It is true that repetition, as a fact of faithfulness, does not necessarily go hand in hand with psychological faithfulness (Oppermann, 2000). One can regularly make the same choice out of habit, because of a lack of knowledge of alternatives or because these are effectively worse. However, any modification of the alternatives or knowledge of the same could chase away the habitual tourist. Although the relationship between satisfaction and faithfulness appears to be weak (Shoemaker and Lewis, 1999), repetition, if it is associated with a high degree of satisfaction, should be a good indicator of the degree of faithfulness reached by the tourist.

In the Seychelles, the indices of repetition among tourists are not very high. The percentage of tourists who repeat their visit at least twice was 20% in the year 2000, with an 80% percentage of first visitors. (MISD, 2001) Although it is not clear what the adequate percentage of first visitors should be, the current level appears to be incompatible with the agony of the destination. A high degree of repetition could be a symptom of decline if the new tourists do not incorporate into the flow of repeaters. This does not seem to be the case in the Seychelles Islands, where in the question on the intention to return, not only is the affirmative answer in the majority (80.8% of those surveyed in 2000), but also that among the first-time visitors it is also the intention of 75% of those surveyed. (MISD, 2001)

The idea that repetition can be a simple routine becomes doubtful when we look at the information available. The tourist who repeats is a satisfied tourist. When the tourists who have come four or more times are asked for their overall impression of the holiday, 42.2%

of those surveyed in 2000 answered “very good”, 43.9% “good”, 12.5% “normal” and 1.3% “bad”. The segment of tourists that would identify with the sentence: “the reason we come here is because we always come here” (MISD, 2001) should not, therefore, be important.

e. Surplus Bed Capacity Available

Butler suggests that in the Stagnation stage there will be “surplus bed capacity” and “strenuous efforts will be needed to maintain the level of visitation” (Butler 1980:8). From 1987 there has been a steady decline in room and bed occupation rates. The decline of occupancy has been persistent up to 2004. This point, combined with the increase in advertising, suggests that, according to this criterion, the destination is in the “stagnation” stage from 1997. Bed occupancy rates were selected as being a reasonably accurate indication of physical capacity levels in terms of the available accommodation resources. The percentages shown in Figure 5 - 6 appear to be a bit on the low side in that they rarely get above 60% from 1997. As can be shown from Figure 5 - 6, bed occupancy rates are likely to be much lower than room occupancy rates bearing in mind that rooms often have maximum sleeping for four people, but may be occupied by just one or two people.

The percentage of tourists staying in hotels in the Seychelles remained stable in the period comprising 1989-1996, at around 80% according to the Visitors’ survey. From the latter year onwards, this percentage has risen, to 88% in the period comprising 1997-2000. The reasons for this tendency lie, on the one hand, in the legal regulations that impede the transformation of hotels into apartment blocks or other use, thus making reinvestment in obsolete structures compulsory. Moreover, the investment policy of hotel owners, with the increase in service quality, as well as the flexibility of their offer, seems to attract a greater number of tourists.

f. Strenuous Efforts Needed to Maintain the Level of Visitation

In the “stagnation” stage, strenuous efforts are needed to maintain the level of visitation (Butler 1980:8). Total spending on promotion and advertising, therefore, increased rapidly during the “stagnation” stage.

g. The tourists would be attracted by the low prices and, therefore, would belong to the lower income segments of their place of origin.

Butler (1980:9) suggests that during the “stagnation” stage, “the type of visitor can ... be expected to change towards the organised mass tourist identified by Cohen (1972) and the psychocentric described by Plog”.

Prices are not used as a marketing tool by the hotel sector, which for years has reinvested in its establishments seeking to increase their quality levels. Neither does it seem that the most important factor of attraction of tourists to the Seychelles is the prices. When in the 'Visitors' Survey', they are asked for their reasons for choosing the Seychelles as a tourist destination, the price appears as a third motive, and is only suggested by 37% of those surveyed (mean percentage in the 1993-2000 period).

There are no available information on the level of income of the tourists; neither is the income order they belong of their place of origin obtainable. However, the series of mean expenditure per capita over the three decades is available (MISD 2001). The series in real quantities remains practically stable in the 1989-2000 period with the logical occasional fluctuations.

The geography of the Islands makes it difficult for day trippers, although it appears to be true that there has been an increase in a different type of tourism, linked to non residents in the Islands who have bought some sort of property and who use it in a more or less continuous way throughout the year. However, in 2000, tourism in the Seychelles was characterised by a seasonal nature: 88.77% of the tourists arrived between the months of April and October for an average stay of 11 days. (MISD, 2001)

h. The Resort Image is Divorced from its Geographic Environment

By the "stagnation" stage, the resort will have become known primarily as a holiday area for fun and recreation, rather than as a place to appreciate the geographic environment such as the reef, rainforest and scenery (Butler 1980:8). To test this criterion it would have been necessary to interview potential visitors in various different parts of the world and this was not possible in view of the limited resources for this research. It was, therefore, not possible to form an opinion either way regarding this criterion.

i. Existing Properties Likely to have Frequent Changes of Ownership

There is no evidence to suggest that there are frequent changes of ownership of existing properties in the study region.

j. Very organised forms of tourism.

Actually, a package holiday is one of the most common forms of travel in the main emitting European markets. The tourist package market is increasingly popular in Germany, France, Italy and U.K., the main emmitters of Seychelles tourism. In 1997 around 26% of all German tourist holidays were carried out through a package holiday, in 1999 the

percentage rose to 30%. In the UK, the percentage in 1995 was 33.1% and 34.3% in 1998 (Travel and Tourism Intelligence, 2000). The forms of organised tourism are not, therefore, a characteristic of the destination market, but rather of the emitting market. It can be estimated that in the year 2000, 86% of tourists in the Seychelles during the high season did it through a package holiday, but this cannot be interpreted as a symptom of decline. European consumers show an increasing tendency towards this form of holiday, partly as a consequence of the lower prices tour operators can offer for the same final product (Travel and Tourism Intelligence, 2000).

k. The reduced prices and the re-conversion of many hotels may make the destination attractive to elderly people, who would make the area their permanent residence.

As has already been indicated, the prices are not especially cheap in this destination, and no reconversion of hotels into apartments has taken place. There are currently two projects by government selling residential homes to rich people, and the Seychelles Islands is set to become an area of strong attraction for people who have made them their second residence. This would mean that a percentage of tourists would come on holiday would be coming to their own accommodation. Unless prudently managed, the real estate pressure this causes could be understood if we take into account that the population census for the Islands is 85,000 persons.

As has been shown, Butler's description (1980) of a destination in a phase of stagnation or decline needs the incorporation of certain modifications. Specifically, the importance of organised tourism is nowadays a constant even in destinations considered to be exotic. What is more, the role of second residencies may also be brought into doubt, since in many sun and beach destinations, this use of space enters into aggressive competition with tourist uses. However, in a general way, the analysis of the market according to Butler's qualifications makes it possible to determine the current phase of the cycle. In the case of the Seychelles, the Islands seem to find themselves in a phase of growth, which is not based on the rejuvenation of the destination, but rather on the restructuring of the market.

Table 5-5: Summary of Seychelles' Compliance to Butler's "Stagnation" Stage Criteria 1997 to 2004

Butler's (1980) Criteria	Compliance (Yes/No)	If Yes, When	Different Stage?
1. Peak of accommodation takings reached	Yes	Peaked 1997	NA
2. Environmental problems		Not Evident	NA
3. Social problems	Yes	Peaked	Development Stage
4. Economic problems	Yes	This Stage	NA
5. Well-established image but resort region is no longer fashionable	Yes	This Stage	NA
6. Decrease in occupancy rates	Yes	Since 1990	Consolidation Sate
7. A recreational business district has taken shape	Yes	This Stage	NA
8. Strenuous efforts needed to maintain the level of visitation	Yes	Progressive through this stage	NA
9. Type of tourist changes to the organised mass tourist.	No		
10. Natural and cultural attractions superseded by man-made attractions.	No		
11 Resort image is divorced from its geographic environment.	NA		
12. New developments still occurring but on the periphery of the original tourist area	Yes	Progressive throughout this stage	NA
13 Large number of imported attractions which start to outnumber natural and cultural attractions	No		
14 Frequent changes of ownership	No		
15 Locals consider visitors annoying	No		

5.3.7 Testing the Criteria for the Decline Stage 2005 to 2007

Butler's (1980:9) "decline" stage is characterised by a declining market and an inability to compete with newer attractions. Holiday-makers will stay away, but the number of day-trippers will increase if the region is located close to a centre of population. Property

turnover is high and tourist facilities are converted to other uses. Hotels may become apartment blocks, retirement or convalescent homes. Local involvement and control increases as residents are able to buy back into the tourism industry at reduced prices. The remainder of this section discusses only those “decline” stage criteria which test positive in the study region.

a. Increased Competition from Other Resort Areas

In the “decline” stage criteria that the region will not be able to compete with the newer attractions of other resorts (Butler 1980:9). Seychelles as a destination was not able to match the performance of competitors like Mauritius and Maldives during this stage

b. The Viability of Tourist Businesses Becomes Questionable

This was characterised by various operators in tourism industry seeking concession on taxes from government. These included hotel owners, taxi drivers, etc. Government not only provided concessions, but also introduced the Tourism Incentive Act to protect operators in the tourism industry.

c. Local Involvement in Tourism will Increase

More locals launched into the tourism industry during this period. A major acquisition by a local operator was the takeover of Travel Services Seychelles by Creole Travel Services in 2005. Travel Services Seychelles was a leading tour operator and destination management company in Seychelles and owned by a Multinational organisation.

Table 5-6: Butler's "Decline" Stage Criteria, 2005 to 2007

Butler's (1980) Criteria	Compliance (Yes/No)	If Yes, When	Different Stage?
1. Increased competition from other resort areas with newer attractions.	Yes	In Stagnation Stage	First signs appeared late “development” stage
2. The viability of tourist businesses becomes questionable	Yes	In Stagnation Stage	First signs appeared in “stagnation” stage
3. Local involvement in tourism will increase	Yes	In Stagnation Stage	First signs appeared in “stagnation” stage

5.3.8 Testing the Criteria for the Rejuvenation Stage 2005 to 2007

Butler's (1980:9) "rejuvenation" stage will almost certainly not be reached without a complete change in the attractions on which tourism in the region is based. Such a change can be done by either introducing human-made attractions such as theme parks and casinos or by making better use of previously untapped natural resources. Winter sports at Aviemore in Scotland are an example of the latter. In this section all "rejuvenation" stage criteria are mentioned regardless of whether or not they test positive in the Seychelles. Criteria which test negative are mentioned because they point to strategies which can be employed to help in the rejuvenation process. The first group to be discussed are those which test positive.

a. Government and Private Efforts plus Encouragement of Special Interest Groups

Butler (1980:9) suggests that in order to rejuvenate a resort area, the combined efforts of government and private organisations are necessary to look for new markets such as special interest or activity groups. In Seychelles, the use of public funds has been employed to some extent and there has been some success in attracting visitors. The resulting increase in tourism business, however, was not sufficient to bring about regional "rejuvenation" by the end of the study period.

b. Take Advantage of Previously Untapped Natural Resources

McElroy (2006) indicates that apart from the mass sun-lust visitation common to most of tropical resort areas, some of these niche markets, like Seychelles, include ecotourism.

c. Change of the Attractions on which Tourism is Based

From the year 2005, there appears to be a new upward trend in the number of visitors to Seychelles. There was a 6.5% growth in visitors' arrival in 2005 over 2004, 9.3% growth in 2006 over 2005 and a 16.0% growth in 2007 over 2006 (Migration and Tourism Bulletin, 2007, NSB). This may be indicative of a new upward trend in visitors' arrival and that the result of the government interventions being fruitful.

From 2005 to 2007, there has been a significant increase in the number of visitors to Seychelles. This increase in visitors' arrivals coincides with the introductions of weekly flights by Emirates and Qatar Airlines and the completion of several major hotels. For instance, opening in mid 2006 will be the 'Maïa Resort' at Anse Louis on Mahé featuring an exclusive 30-villa resort with beach villas, 50 hillside villas and two luxury beach villas

and with its own beach. Opened in July 2006, is the 'Labriz Silhouette' on the mountainous island of Silhouette some 34 km northwest of Mahé, a secluded five-star resort with 109 individual chalets. Silhouette Island is renowned for its high altitude mist forests and endemic flora and fauna (Silhouette, - Air Seychelles In-flight Magazine - vol. 17, no. 2). Linked to this development in the hotel sector is Air Seychelles current strategy to include the Boeing 787-800 Dreamliner aircraft to its international fleet in 2010. Air Seychelles is amongst the first airlines in Africa to place an order of this new aircraft (Silhouette, vol. 17, no. 2). This is basically to counter the 'threat' posed by Emirates and Qatar airlines for the 'five-star' passengers (Guy Morel, 2007).

Table 5-7: Butler's "Rejuvenation" Stage Criteria, 2005 to 2007

Butler's (1980) Criteria	Compliance (Yes/No)	If Yes, When	Different Stage?
1. Efforts by stakeholders and interest groups	Yes	From this stage	NA
2. Taking advantage of niche markets	Yes	From this stage	NA
3. Change of Tourism base	Yes	From this stage	NA

5.4 IMPLICATIONS OF THE BUTLER'S TOURISM AREA LIFE CYCLE MODEL

5.4.1 Implications for the Tourism Industry

Butler's Tourism Area Life Cycle Model appears disarmingly simple. There are, however, certain implications, not the least of which is that tourists' destinations can have a finite life span and can decline given certain circumstances, a fact which may run counter to the optimistic beliefs, hopes and wishes of local entrepreneurs, particularly the National Tourism Authority, of the unlimited growth potential for tourism. The implication is that there is a degree of inevitability that there will be structural unemployment, as well as social and spatial adjustment, as the rapid growth stage gives way to more sustained tourism activity. People involved in building and development the industry will have to change to tourism or some other, more appropriate occupation, if they want to remain living and working in the same locality. There is also the related issue of family mobility

such as the need for permanence of teenage children at high school and partners with careers, especially in the case of the outlying islands of Seychelles. Also, there is the very significant problem of financial investment by local people and others in the supportive industry like construction developments which may end up making them bankrupt. To summarise this point, whilst the concept of a tourism area life cycle may be readily acceptable in an abstract, academic sense, it is very difficult to accept and forecast from the point of view of the people who are involved at the local, until they are actually affected, usually to their own detriment. By implication, once the concept of the tourism area life cycle is accepted by the people involved in the decision making processes, then the “decline” stage may be avoidable given appropriate decisions and action. At this stage, however, it is possible to say that rejuvenated growth and development can be assisted by more conservative resource management and adjustments to carrying capacity, allowing continuing, but slower growth and a more sustainable rate of visitation.

The current focus on sustainable tourism development has also brought renewed attention to the examination of long-term trends in destination development. Butler’s (1980) Tourism Area Life Cycle is also a destination development model commonly that is used to explain the long-term evolution of tourism destinations.

Many of the doubts as to the subsistence possibilities of certain tourist destinations are based implicitly on the concept of load capacity. The recognition that tourism generally generates negative impacts on the destinations and societies, poses the possibility of reaching the limits of resource exploitation, beyond which they will deteriorate in a practically irreversible way, with the consequent loss of comparative advantages. The cycle of decline can be inverted by creating new attractions or by looking for natural resources that have not yet been exploited (Butler, 1980; 9), however, this option of destination rejuvenation will only lead to a postponement of the moment of decline. What is more interesting is the reorientation of the destination (Butler, 1980; 11). This option would mean a continuous effort to restructure the market, by specialising it, segmenting it, and renewing urban structures and accommodation (e.g. Agarwal, 1994). The way out for a destination entering in a stagnation-decline phase would be provided, for instance, by the use of planning and marketing tools. The detection of market segments that provide the maximum benefit when comparing the positive and negative effects of the stay, reinforcement of the attractive image of the place, investment in the renewal of the hotel offer, land planning and a reduction in the damaging effects of mass tourism are some of the proposals that would make it possible to increase the competitiveness of the destination.

A case in point is the isle on Man. In many respects, the Isle of Man also represents a good example of a destination which went through this reinvention process and where public policy increasingly recognises and reflects this (Isle of Man, 1996 in Baum, 1998). Traditional family seaside holidays have declined in importance to a level where they have been virtually abandoned within the Island's economic and tourism planning process and, to some extent, by the organised private sector as well. The seasonal activity continued in urban seaside centres such as Douglas, but is in apparent terminal decline with little attempt to rejuvenate that particular product or the market it serves. Reinvention can be seen in the form of the development of 'high end' cultural, sporting and other activity tourism, located outside of the traditional resort areas and, as a result, much more rural in focus. The reinvented image has a strong Celtic cultural flavour, is designed to appeal to the short-break market, and offers activities such as walking and golf on a year-round basis. The Isle of Man's reinvented tourism cannot and, indeed, does not wish to build upon the island's established tourism reputation. Therefore, the 'new' tourism started again in marketing terms at the exploration if not the innovation stage because the Isle of Man has no market image for its reinvented product and, in addition, must overcome well entrenched market images of its 'old' tourism product. Unlike the traditional Tourism Area Life Cycle model where rejuvenation challenges stagnation or reverses decline, reinvention assumes an almost clean sheet following exit from the resort's traditional tourism paradigm and abandonment of its existing resources and markets. (Baum, 1998)

In conclusion, using the Tourism Area Life Cycle model analysis suggests that, despite some limitations, Butler's Tourist Area Life Cycle is useful in understanding how the tourism development occurs in Seychelles. It suggests that the modelling tourism development cycles associated with planning and investment cycles could contribute to our understanding of the tourism activity within a continuum process. It allows a better apprehension of the sequence of interdependencies that exist and can be addressed enlarging the well-known concept of tourism product and its life-cycle. It presented characteristics that fit Butler's exploration to consolidation stages. For the past decade tourism in Seychelles has clearly been at the stagnation stage. Whether it would proceed into the decline stage or the rejuvenation stage would depend on the tourism strategic and marketing plans. However, preliminary information based on 2005 to 2007 statistics indicates that the tourism industry in Seychelles may be proceeding into the rejuvenation stage. The other issue is that the tourism industry in Seychelles may have gone through all the stages of the Butler Tourism Area Cycle in the thirty years of tourism in Seychelles. What happens later is not covered by the model and may be an area of future research.

5.4.2 Implications for Air Seychelles

As the Tourism Area Life Cycle progresses, economic problems occur, manifested by tight or negative profits and squeezed budgets. Butler's (1980) "stagnation" stage criteria predicted the former while Haywood's (1986:161) leading indicator of stagnation stated that "declining profits of the major tourist businesses" precede decline in the resort area. Cooper (1986:63) also suggested that "financial restrictions and low budgets are a threat to the survival of cold water resorts" and by implication, warm water resorts.

Cooper further suggested that poor access is another threat to a cold water resort region. The Seychelles International Airport is the main access for international tourists, and there is direct access to Seychelles from Western Europe, the Seychelles' largest market, since 1972. However, access was more available at some times, for example, when a number of airlines were serving Seychelles.

Butler's lifecycle model (1980) not only describes the physical evolution of a tourist destination, but also the evolution of its market. It recognises the evolution of the external environment and the shifts in the tourism industry. It is used in this study because it complements our proposed conceptual framework.

Some criteria are better tested using statistical data. An example would be Butler's (1980:9) "stagnation" stage criterion which states that there will be "peak numbers of tourists as capacity levels are reached". Haywood (1986:161) also states that at the "stagnation stage" there will be "tourism industry over-capacity". Both of these criteria were tested using published occupancy rates in Seychelles. Room occupancy rates and bed occupancy rates were used in conjunction with the number of rooms and bed spaces available as indicators of the level of tourism activity and as such can be used as part of the criteria for the Tourism Area Life Cycle.

5.5 CHAPTER SUMMARY

This chapter addressed the second objective of the study by introducing and presenting the basic characteristics of the Tourism Industry in Seychelles. It does so by analysing the process and the context in which the transformation proceeded and locate this within the various aspects of the tourism industry in Seychelles. Understanding the development tourism industry in Seychelles demands a detailed understanding of the historical development of the industry. Tourism industry in Seychelles, as a major economic

contributor is relatively new – spanning the period of about thirty-five years. This chapter served as a stepping-stone for a more detailed analysis of the process of Air Seychelles' transformation in the next chapter. Strategy research reveals that a firm's resource make-up reflects its history in many ways. First, starting from its incorporation, a firm develops by way of a "local search on a rugged landscape" (Levinthal, 1995:27), implying that the past lives on in the future. Secondly, resources develop automatically following a commitment because of learning and repetition (e.g. Grant, 1991), i.e. the resource make-up results from a firm's common business activity. Third, a firm's activities are highly interdependent with the industry's ongoing development (e.g. Håkansson and Snehota, 1989).

CHAPTER 6 THE TRANSFORMATION OF AIR SEYCHELLES – 1971 to 2007

6.1 INTRODUCTION

This chapter addresses the third objective of the study, which is to describe and analyse how Air Seychelles created and used internal and external resources to attain and sustain competitive advantage. In emphasising how Air Seychelles created and maintained competitive advantage, the key challenge is to link the creation and development of the firm's resources and capabilities both within the firm and between the firm and its industry to outcomes. This presents the core of the study, and it is addressed in this chapter and the next. Whilst, this chapter focuses on the process of the creation and development of the firms' resources and capabilities, in the next the focus is on the outcome of this process.

In Chapter 4, this study proposed a contextual framework on how one firm in the tourism industry in Seychelles creates and uses internal and external resources. The framework highlighted time, the difference between the firm and the industry and their interaction; and the difference between strategy formation and strategy implementation. In Chapter 5, the study provided the context by giving an overview of the structure and changes in the tourism industry in Seychelles. In that chapter, the significant transformation of the tourism industry is recorded. This provided, to some extent, concrete and relevant information on the business environment, the external context, in which Air Seychelles operates. In this chapter, the proposed framework is put to the test by applying it to the evolution and transformation of Air Seychelles through time. In doing so, this study moved deeper into the process of interactions between the firm and the industry, and acknowledges the need to "combine longitudinal and contextual work with structural, integrated investigation of particular process issues" (Johnson in Smith *et al*, 1990: 309).

The firm build its resources and capabilities as it interacts with the industry. In emphasizing the formation of resources and capabilities of firms, the major challenge is that of linking up the resource and capability formation within the firm and between the firm and the industry. To apply the theory of social becoming (Stzompka, 1991) to the tourism industry in Seychelles and the transformation of Air Seychelles, the data are classified by categories of actors and events (Sminia, 2005). It is necessary to assess the actor, Air Seychelles, which appears to be part of the tourism industry, in order to identify specific events as the act of a particular actor. The events, in turn, are found to allow for grouping

together to indicate episodes of change. An episode of change is defined as a sequence of events during which contradictions come to the surface and is acted upon (Sminia, 2002). This study identifies four episodes of change in Air Seychelles and three episodes in the tourism industry.

Another challenge to management includes incorporating the element of time which translates into implementing strategy. The key to successful implementation resides in the ability to guide and manage resources and capabilities of the firm at the level of interactions with the industry. This ability to co-align resources and capabilities to the competitive context will ultimately determine business performance (Dobni and Luffman, 2003). An example of resource and capability formation between the firm and the industry would be the development of the specific process innovation in relation to other process innovations in the airline sector and the development of the tourism industry survival path. This study present specific processes of innovation of Air Seychelles' resources and capabilities formation within the tourism industry in the Seychelles.

6.2 INTERACTIONS BETWEEN THE TOURISM INDUSTRY AND AIR SEYCHELLES

6.2.1 Exploiting Internal and External Resources and Capabilities

Air Seychelles gained its competitiveness through the co-evolution of resources and scope; the interactive evolution of resources and the business environment. As indicated in Chapter 1, strategic management is an extremely complex exercise and becomes apparent in the interaction between a firm and its industry through time. Though strategic management may be seen as 'a-processual' and 'a-historical' exercises (Pettigrew, 1985b), as is the case of Air Seychelles, what a firm is today is not an outcome of sheer coincidence but an outcome of a historical pattern, or paths of actions: an outcome of a historical process. This process integrates the dichotomy of strategy into one dynamic perspective of strategy, where both resources and business environment are the basis of the firm's behaviour and, ultimately, of its competitive advantage (Cuervo-Cazurra, 2003).

As indicated by Baden-Fuller (1995:S14): "to be successful, organizations have to innovate continually so as to alter or adjust to the changing rules of the industry game. This outside view of competition is Schumpeterian, and closely linked to the new dynamic resource-based view of the firm. [...] it is my intention to encourage researchers to consider joining the inside-out approach to that of the outside-in." This view of Baden-Fuller (1995) is also echoed by Captain David Savy, the Chief Executive Officer of Air

Seychelles in the chairman's statement of the 2004 – 2005 Air Seychelles Annual Report (Air Seychelles, 2005:5): "The tourism landscape is changing rapidly in the Seychelles with the development and opening of an array of newly built or renovated properties. After a number of years of stagnation in tourism, we are experiencing a comeback that will bode well for Air Seychelles. The turbulent moments we faced compelled us to become leaner and more focused. Now the better times are imminent, we will surely reap the rewards. In that respect, we are presently re-examining our long term plan for our international and domestic fleet with a view of meeting the demands of a more discerning clientele."

This notion that competitive advantage requires both the exploitation of existing internal and external firm-specific resources and capabilities and developing new ones is partially developed by several authors (e.g. Teece *et al*, Pisano and Shuen, 2000; Fahy and Hooley, 2002; Pettus, 2001). However, it is only recently that researchers have begun to focus on the specifics of how organisations first develop firm-specific resources and capabilities and how they renew competencies to respond to shifts in the business environment. As in the case of Air Seychelles, and as indicated by the above-mentioned quote from Captain David Savy, these issues are intimately linked with the firm's business processes, market positions, and expansion paths (e.g. Teece *et al.*, 2000).

Carlisle and McMillan (2006) suggest that strategy can be perceived as a process of learning in the face of environmental change. This concept appears to reflect the reality of requirements in the changing environment more accurately than the top-down formal planning and control models of earlier years. Carlisle and McMillan (2006) argue that strategy schools, which could be described as largely top down or prescriptive, have argued to undervalue learning and overemphasize control. In stable conditions, with higher degrees of control, learning can be seen as a narrowing and converging process of testing. However, in turbulent environments, innovation has been argued to be a strategic imperative (Carlisle and McMillan, 2006). Environmental turbulence, in many industries, led to shortened periods of stability and 'incrementalism' and more frequent periods of radical change. This has also been the characteristic of the transformation of Air Seychelles over the years.

To understand this interaction this study proposed a contextual framework and adopted process research, as expounded earlier. Pettigrew (1997) distinguished five quality indicators of process research. The indicators concerning embeddedness, temporal interconnectedness, context and action, and holistic explanation of process will guide this chapter where the complexity of creation and development of resources through time will

be addressed. The fifth quality indicator, linking change processes and explanation of outcome will be the focus of the next chapter.

6.2.2 Strategy Formulation and implementation in Air Seychelles

The conceptual process framework, earlier introduced, emphasised the difference between strategy formulation and the actual implementation on the one hand and between industry and the firm on the other (e.g. Pettigrew, 1997, 2001). This framework will be spelt out in practice by focusing on the development and transformation of Air Seychelles.

As argued in the methodology chapter and as will be shown in this chapter, it is extremely difficult to clearly characterise real life phenomena. At the industry level of the proposed contextual framework this study offers three analytical category. As seen in paragraph 4.3.1, Child and Smith (1987) and Smith *et al* (1990) identify three aspects of the business environment to be particularly relevant to the organisational transformation. First the environment has a structure in the sense of a set of 'objective conditions', which can create pressures for transformation. Second, the environment is a cognitive arena with which its members identify as a domain of ideas and practices relevant to their own actions. Third, contrary to the classical economic view of the firm as an atomistic actor, the environment is also a network of relationships which may be sustained over time and which are of a collaborative as well as a competitive nature.

The tourism industry is an 'objective reality.' As seen in Chapter 4, paragraph 4.3.2, when the external environment is taken as a set of objective conditions the focus is on the criteria it imposes on a firm's survival. The underlying assumption is that the external environment "especially when strongly competitive, largely determines the path a firm must take for future success" (Child and Smith, 1987:567). This deterministic view of change and transformation sees the link between the external business environment and the firm to be in the standards the environment imposes for the firm's survival. The industrial organisation approach has isolated identifiable and measurable characteristics, which somehow co-determine a firm's strategy and structure.

One dimension of the objective reality relates to customers. Visitors set the standards imposed on the firm for survival in the tourism industry. As seen in section 2.7.1, Middleton (1988) suggests that in describing tourism, the approach could be from the demand or the supply side of the market. The demand side is based on three categories of visitors: international tourism; domestic tourism and excursions. For the Seychelles and

Air Seychelles, the most important of these categories is international tourism, and specifically, the inward tourism. The international inbound tourists travel to Seychelles, tend to spend more than the other categories of tourists, and bring in foreign currency which contributes to Seychelles' balance of payments (e.g. Middleton, 1988; National Statistics Bureau, 2008c).

Relating to the development of the Tourism Industry in Seychelles, Maurice Lousteau-Lalanne, former CEO of Air Seychelles and CEO of the Seychelles Tourism Board, indicate "it is customer that drives the industry", and he emphasises the importance of knowing the customer as a source of competitive advantage (Lousteau-Lalanne, 2007). This view is also shared by Mr Patrick Elizabeth (Elizabeth, 2007), the general manager of Air Seychelles, who emphasises that plans and development of the airline needs be based on sound market intelligence. This issue is also stressed by Grant (2005), who notes that competition between industry participants is ultimately a battle for competitive advantage in which firms rival one another to attract customers and manoeuvre for positional advantage. In doing so, firms identify factors within their market environment that determine their ability to survive and prosper. These are the sources of success.

Grant (2005) proposes an approach to identify sources of success based on two criteria, firstly, supplying what the customers want to buy, and secondly, to survive competition. The first issue is addressed by looking at the customers of the industry and view them as the basic rationale for the existence of the industry and as the underlying source of profit, rather than source of bargaining power and therefore as a threat to profitability. Once the basis of customer's preference is identified, this will form the starting point of a chain of analysis, for instance, an analysis of demand – who are our customers and what the customers want? On the other hand, the second issue is addressed by answering questions pertaining to the basis of competition in the industry. For instance, how intense is competition in the industry and what the key dimensions is (Grant, 2005).

In applying Grant's (2005) above proposal to Air Seychelles – who are our customers and what do they want? The customers are mainly the visitors from the four market countries in Europe. Over the last thirty years, Seychelles Tourism has not been able to diversify to other markets and the whole tourism industry in Seychelles is shaped around visitors from France, UK, Italy and Germany. However, as indicated by Francis Savy, the four countries as major markets are more than just by design. Visitors from these countries tend to have more disposable income and a higher propensity to go on holidays (Savy,

2007). Further, these visitors present better return on investment in marketing (Nalletamby, 2007).

These customers not only determine the path the firm, Air Seychelles, but also the future industry path. These visitors come to Seychelles for holidays and spend mostly on hotels, excursions, and handicrafts (National Statistics Bureau, 2008c). The visitors surveys conducted in 2007 by the National Statistics Bureau indicate that tourists come to Seychelles 'for relaxation because of the beauty of the islands, great weather, being peaceful and welcoming people' (National Statistics Bureau, 2008c). Though Air Seychelles served medium haul passenger service, like Mauritius, South Africa and Singapore, customers from these markets were not significant. For example, visitors from the France, UK, Italy and Germany formed 65% of Air Seychelles business in 2007 and accounted for 75% of its revenue (Air Seychelles, 2007a).

As to Grant's (2005) second question relating to the intensity of competition in the industry, Air Seychelles was initially in competition with the national carriers from these market source countries to bring visitors to Seychelles. Visitors from these countries prefer travelling on their own national carriers, but at times, these national carriers did not see business on the route to Seychelles as profitable and discontinued their services. Air Seychelles decision to serves these markets were to sustain the visitors flow to the Seychelles and thus support the whole tourism industry in Seychelles.

As seen in section 4.3.2, the external perspective or the industrial organisation approach has isolated identifiable and measurable characteristics which somehow co-determine a firm's strategy and structure. The market environment structures influences the actions the firm takes on the grounds of economic rationality. Relevant industry structural characteristics include market concentration, height of entry barriers such as capital intensity, research and development, intensity and technological specificities, buyer and seller power, and governmental actions towards the industry (Child and Smith, 1987).

Over the years, Air Seychelles had to change its strategies to adjust to that of the market environment structures. When tourism industry took off initially, the aim was to rationalise the domestic services leaving the international service to foreign carriers. However, when the international carriers stopped servicing Seychelles, it had to expand into the international service. Further, since the tourism industry became the backbone of the Seychelles economy, the Seychelles government had to ensure the successful functioning

of the industry. The interest of the Seychelles government implied they both invested in the industry and in Air Seychelles (Padayachy, 2007).

While the independence of these characteristics from the influence of any one firm is acknowledged to be variable, the underlying assumption remains that the environment, largely establishes the path a firm must take for future success (Child and Smith, 1987; Smith *et al.* 1990). Performance, not just absolute but relative to the competitors in the same industry, is a major trigger of organisational transformation.

Changes at the level of objective reality - especially in terms of material resources - are probably the easiest to recognise because these changes are usually part of a standard quantitative analysis of the industry. However, the way companies interpret these changes can differ according to culture and cognition. Here we see interaction between material and immaterial realities.

One of the reasons why the tourism industry also represents a 'cognitive reality' is because there are multiple recipes of successful company behaviour in an industry. The focus here is on the role of the economic actors in defining competitive relationships. Porac *et al.* (1995) argue that the management of firms compare themselves with other successful firms and identify sources of success or competitive advantages. Using these comparisons, a common recipe of success emerges and gives substance to general categories of success (costs, revenues, demand, etc.). Porac *et al.* (1990) cites White and Eccles (1987:984) that any single firm "defines its role in terms of similarities and differences it has with respect to other producers".

It is not an easy task to describe the industry in terms of a cognitive reality. Especially since access to empirical data is limited in this respect to one firm. Further, it is difficult to expose cognitive differences over time since these changes are not easily recognised in historical data. In Chapter 5, this study explored the external exemplars against which a firms' current strategy and structure and the policies underlying these, may be compared and serve as a guide to new configurations towards which transformation is directed. The entry and exit of major airlines in Seychelles establish exemplars and alters the conditions from which changes occurred. Further, in recent years Air Seychelles maintaining a relatively new fleet of aircraft is the part of the airline's strategy to keep abreast with technological innovations in the industry.

The tourism industry also represents a 'collaborative network'. It is useful to define what is meant by networks. According to Möller and Svahn (2006), networks could be conceived as organizational forms between a specific set of actors, as intentional inter-organizational structures which firms design deliberately for specific purposes. Furthermore, these networks are coalitions of interdependent organizations that are willing to coordinate some of their actions, yet remain autonomous decision-makers (Möller and Svahn, 2006). With regards to the transformation of Air Seychelles several dimensions of collaborative network can be identified.

Firstly Air Seychelles used the collaborative network to benchmark its own services and processes. For several years, Air Seychelles formed an alliance with Air France to service the French market and a code-share agreement with Condor to serve the German market. In forming an alliance with Air France, Air Seychelles was benchmarking some of its services on that of Air France (Air Seychelles, 2005). These services were mostly the in-flight and ground services; it did not extend, for example, to the engineering and revenue systems (Morel, 2009).

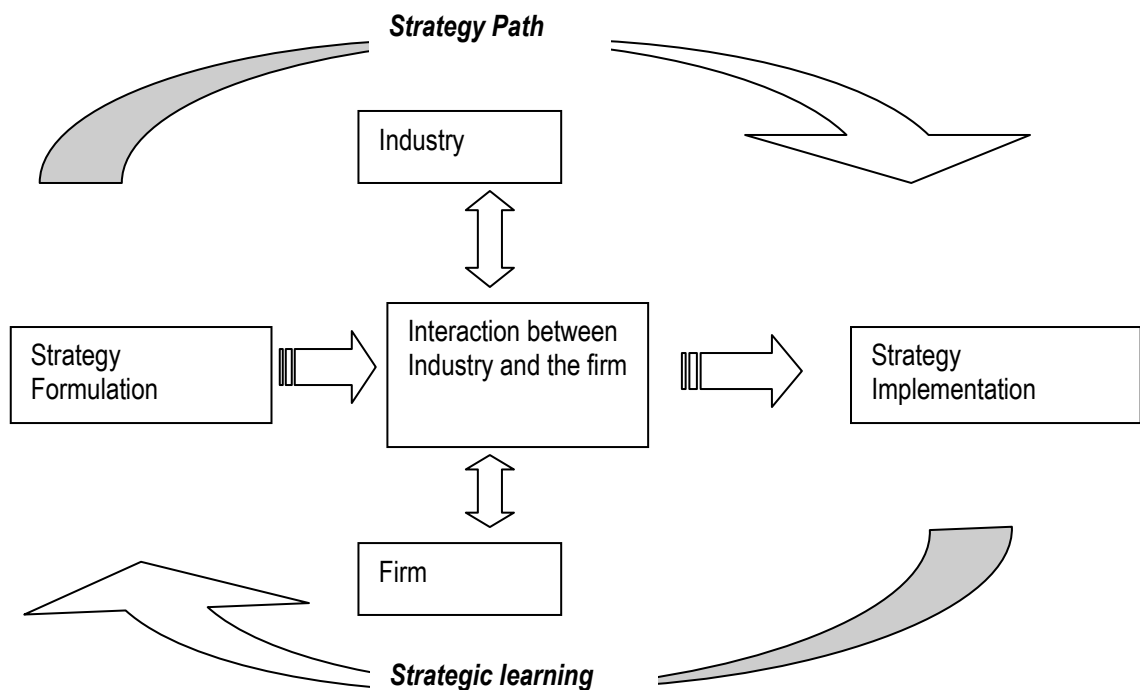
The second dimension was submitting some of its decisions to a centralised control. As indicated by Möller and Svahn (2006), the organizations may sometimes submit part of their activities and decision domains to centralized control in order to achieve benefits that are greater than any single member of the network can create independently. Möller and Svahn (2006) further outline a basic type of organizational network that is managed by a central organization and includes well-known actors, well-known and specified value activities, well-known business processes. With respect to the alliance with Air France, Air Seychelles benefited from the marketing strength and wide distribution of Air France. Air Seychelles benefited from Air France's publicity at little cost, with Seychelles featured on the Air France marketing and distribution network. The Air France network then fed into Air Seychelles' when their passengers travelled to Seychelles (Morel, 2009).

A third dimension Air Seychelles' collaborative network is in the strengthening of processes to achieve competitive advantage (Morel, 2007). In viewing the 'interactive reality' or the network of relationships within the industry, the co-development of new very expensive process innovations such as the decision to reinvent the tourism industry is a typical example. From 1996 to 2004, the number of visitors to Seychelles remained stagnant. "The stagnation of the tourism industry in Seychelles in the 1990s was as a direct result of the product being offered was not competitive in terms of quantity and quality" (Savy, 2007). The major problem resided in the attractiveness of Seychelles as a

destination as compared to the other similar destinations and the capacity of airlines serving Seychelles had reached its limits (Savy, 2007). Solving these kinds of issues lies outside the realm of individual firms, including Air Seychelles, and includes the realm of government policies and the collection of industry players. As a result of the stagnation in the tourism industry, government offered several incentives to the various local stake holders within the industry to act as a catalyst to move the industry (Nalletamby, 2007). It was the joint, collaborative approach, which made a rationalisation of the tourism industry in Seychelles possible (Lousteau-Lalanne, 2007).

The whole of an industry is a complex, idiosyncratic fusion of aforementioned realities and provides firms in the industry with an enabling, limiting and enforcing context over time. Although firms may operate in the same industry, it does not mean that they are all exposed to the same context. It is for this reason that the proposed framework only focuses a firm operating in the tourism industry in Seychelles. On the other hand, firms have to recognise opportunities or threats in their context, hence the importance of the industry as a cognitive reality.

Figure 6-1: The Proposed Contextual Framework



In the proposed contextual framework Figure 6-1¹ at the firm level there are organisational assets and organisational capabilities. Organisational assets are a firm's owned, controlled and/or addressable assets (both tangible and intangible). Organisational assets represent that which an organisation possesses as opposed to using it. Using the assets or doing refers to organisational capability. The latter is the capability, the skills and the routines of a firm to use its available organisational assets to a desired, intended end or performance. A firm's ability to create new resources represents the category of "competence", which is called core competence if it produces repeatedly unique or firm-specific resources. It is especially the latter concept of competence that characterizes a firm as either reproductive (sticking to ongoing strategy) or transformative (going for a breakthrough strategy).

An example of a competence within Air Seychelles is the ability of the airline to promote the Creole culture or integrate this culture in its service offerings. The Air Seychelles' ethos is 'Flying the Creole Spirit'. The Air Seychelles crew is multilingual and the service is in an atmosphere reflecting the cultural and ethnic identity of the Seychelles islands. The meals served on board are inspired by recipes from the Seychelles, to give a foretaste of the exotic Creole world the visitors will be visiting or has visited. In the past, the Creole culture used to be rejected by the elite in Seychelles as inferior. Today people all over the Indian Ocean and the Caribbean Sea take pride in their Creole culture. However, Creole culture does not only mean gastronomy. Language, architecture, cuisine, music and art are the main components of the lively Creole spirit. For some years already, Air Seychelles continues to be one of the main sponsors of the Creole way of life, promoting Creole culture, especially the Creole gastronomy and the Creole music (supporting Seychellois artists). A wide choice of Creole meals served all the year round on Air Seychelles flights. Air Seychelles not only sponsor the production of local artists but plays their songs on the in-flight entertainment and sells their music CDs on the flights. Making passengers experience the Creole culture is certainly one competence that cannot be imitated by other airlines because it is about the people of Seychelles sharing their way of life to visitors.

Air Seychelles' focus on the Creole culture is in line with the marketing strategy adopted by the Seychelles Tourism Board, which made a clear emphasis on the need to shift

¹ The outcomes of the historical research; interviews and deductions, and insights into the original research problems and propositions, based on the proposed framework, are presented in table 6-1 and Figures 6-2, 6-3, and 6-6 for the three periods of development of Air Seychelles identified in the study.

towards culture and the need for other supporting sectors and industries to develop their knowledge and other capabilities to develop their product and services in that direction (Lousteau-Lalanne, 2007). The initial marketing strategy of tourism in the Seychelles concentrated on the imagery of the landscape. It was believed that a sustainable positioning strategy should focus on the image of beach, sea and sun holiday with its associated facilities, activities and experience. However, with the stagnation of the industry, there was shift in branding to people and place (Germain, 2007). The people imagery focused on the Creole culture; Seychellois as simple people living their lives in the traditional Creole way, caring for and in harmony with their physical environment.

As will be seen in the developmental process of the firm and confirmed by its managers, some decision taken during the development of the company were not 'strategic' in those instances where the flow of events were unforeseen or unintended by the company's management. For example, and as we have seen, whilst Air Seychelles initial focus was on domestic services, the decision suddenly to move into international long haul passenger service was a government response to a decision by major Airlines to stop servicing Seychelles; another case in point is found in Captain Savy's statement in the 2002 – 2003 Annual Report, where he mentioned that that "the year was characterised by geopolitical uncertainties linked with the Iraqi crisis and the outbreak of Severe Acute Respiratory Syndrome. In addition, demand for traffic was adversely affected by the global economic slowdown and the aftershocks of the events of September 11th, 2001. All this dampened the demand for aviation traffic, led to acute competition and brought significant pressure to bear on our yields" (Air Seychelles, 2003: 5).

In response, and in the words of Captain Savy, "the better operating results of the airline are attributable to a series of strategies to meet these daunting challenges. This included capacity containment, route consolidation, cost rebalancing and better risk management, all within the well-defined framework of our company Vision, Mission and Service Strategy" (Air Seychelles, 2003: 5). Management should have completed their thinking before they began to act accordingly (Mintzberg, 1994). However, in responding to sudden changes occurring in the industry, time to think and react accordingly is relatively very short.

The tourism industry is a very empirical industry. Learning, discovery and responding to emerging business conditions are closely connected to hands-on experience and doing. Thinking and doing goes hand in hand. The separation between thinking and doing (processual) and internal and external perspectives (analytical) of strategic management have been introduced only to facilitate analysis.

6.2.3 Major Episodes in Air Seychelles' Organisational Transformation

In 2006, not only had Air Seychelles been registering profit for nine straight years, but also it was one of the only three airlines in Africa to register a profit in that year (Seychelles Nation, 7 May 2007). It is one thing to decide to build a company, be it large or small, but it is a very difficult exercise actually to do it within a complex and demanding context or business environment, as is the generally air transport sector and especially in a small load destination as is Seychelles. As earlier seen, the primary goal of Air Seychelles was to sustain the tourism industry by ensuring a steady flow of visitors to Seychelles – not necessarily to make profit (Charles, 2007). To build an airline within such a complex and demanding context, amounts, among other things, to a difficult interaction process between the firm and the industry.

As seen in Chapter 4, businesses that has been most outstanding successful in generating profits are firms whose driving ambitions have been goals other than profits (Grant, 2005). In the case of Air Seychelles, the driving ambition was other than profits, but to support the tourism industry by bringing visitors to the country. All firms possess broader organisational values that are integral to their sense of who they are, what they represent, what they want to achieve, and how they intend to achieve it. In the case of Air Seychelles, these values and goals were initially to rationalise the domestic airline services in the 1970s and subsequently to maintain the flow of visitors to Seychelles when most airlines had stopped servicing Seychelles as a destination in the 1980s (Charles, 2007; Elizabeth, 2007). As also seen in Chapter 4, the values a firm embraces can assist in building relationships between the firm and others with whom it does business, can help build employee commitment and loyalty, and may offer the basis for differentiation (Grant, 2005). In the case of Air Seychelles, it involved adjusting rapidly to a volatile and rapidly changing environment to ensure optimisation of the service and the attainment of strategic fit.

For most of the twentieth century, the operations of international and national passenger transport systems have been closely controlled and regulated in all countries, both for domestic and international movements (Middleton, 1988). In air transport, permission to fly between countries and through national airspace involve treaty agreements between governments, typically covering which airlines will be permitted, over what routes, with what capacity, and with what price ranges and options. Air Seychelles being the national carrier enjoyed government protection until 2004, when government adopted the 'open

sky policies'. Further, government agencies, such as the Civil Aviation Authority in Seychelles, are in effect participating directly in crucial areas of marketing and services acting in lieu of market forces (e.g. Middleton, 1988). Whichever agency controls product capacity, such as the supply of seats, routes, landing rights and determines or influence price, obviously has a very powerful influence over demand.

Using the proposed contextual and processual framework, the next section will analyse and synthesise the historical accumulation of Air Seychelles' resources within its external business environment. To facilitate this, the study identifies episodes of major developments during the 30 years history of Air Seychelles and categorised them into on three phases (see Table 6-1). It is not uncommon to present change processes in the form of a sequence of phases.

Each episode of major development in Air Seychelles' organisational development is related to several other firm-based processes and industry-based processes; for example, there are learning processes, knowledge and information processes, and political processes, and strategic outcomes. From 1978 to 1983, Air Seychelles began operations as a domestic airline. From 1983 onwards it ventured not only into the international passenger service but other services. As the airline developed, it entered into strategic alliance with other airlines and services. Though for the purpose of this study the focus is only on the international passenger service and the domestic passenger service, Air Seychelles operates other services. For example in 2007, the revenue of Air Seychelles was from international passenger service (83.2%); domestic passenger services (6.4%); cargo (4.5%); Courier (0.1%); Mail (0.1%); Excess baggage (0.8%); Ground handling (1.8%) and other services (3.1%) (Air Seychelles, 2007a).

Describing the development of a firm is an interpretative exercise. When in comes to applying the theory of social becoming to interactions of the industry and the firm processes and identify continuity and change, it reduces to identifying actors concerned and looking for controversies and contradictions with regards to the three levels of our analysis. This study looks at these contradictions and controversies as occurring in a successive collection of episodes. Decisions that were needed to make are for example: is this activity considered important or not? Is this activity a continuation of a previous one or is this a change? Verification of important developmental episodes of Air Seychelles was achieved by comparing the outcome of our own analysis of documents and reports to specific response provided by interviewees to name the most important developmental episodes. The underlying episodes of Air Seychelles organisational transformation in

Table 6-1 will be focused on in each period because of their continuing impact on the Air Seychelles of today².

Table 6-1: Episodes in the Development of Air Seychelles

Description of Episode	Critical Incidents	Strategic Outcome
Formation Stage – 1971 to 1983: Domestic Airline		
<ul style="list-style-type: none"> ▪ Establishment of tourism industry; ▪ Large increase in the number of visitors (1971-1981); ▪ Annual growth rate of visitors arrival 1971 to 1979 is 26%; 	<ul style="list-style-type: none"> ▪ Opening of International Airport (1971); ▪ Air strips on Praslin and Frégate islands built; ▪ Pull-out of international carriers; ▪ Government purchase small aircraft operators and rationalise inter-island routes; 	<p>Radical Innovation</p> <ul style="list-style-type: none"> ▪ Established Domestic Airline Services; ▪ Formation of Air Seychelles
Development Stage – 1983 to 1998: Domestic and International Services		
<ul style="list-style-type: none"> ▪ Number of visitors declined at an average of -12% per annum (1980 to 1984); ▪ Number of visitors increased from 71,626 in 1987 to 130,955 in 1996, at an average annual growth rate of 7.4%. (1987 to 1996) 	<ul style="list-style-type: none"> ▪ Expand into long haul passenger business (1983); ▪ New competition; ▪ Aircraft acquisition; ▪ Development of human capacity; ▪ Joint ventures ▪ Air Seychelles merges with Aviation Seychelles 	<p>Radical Innovation</p> <ul style="list-style-type: none"> ▪ Budding International Airline; ▪ International carrier
Consolidation Stage – 1998 to 2007: A Profitable National Carrier		
<ul style="list-style-type: none"> ▪ Number of visitors arriving in Seychelles fluctuated widely (1997 to 2006) ▪ Open sky policy - Air Liberalisation (2004) 	<ul style="list-style-type: none"> ▪ Code share agreements ▪ Consolidation of flight destination ▪ Human resource development ▪ Development and consolidation of services ▪ Fleet renewal 	<p>Incremental Innovation</p> <ul style="list-style-type: none"> ▪ Recipient of Awards ▪ Profitable airline ▪ One of the very few airlines in Africa registering a profit

² The three underlying episodes identified in the study are based on the proposed framework as outlined in Figure 6-1 and are outcomes of the historical research; interviews and deductions, and insights into the original research problems and propositions. Figure 6-2 presents the outcome of the first episode referred to in this study as the formation stage of Air Seychelles from 1971 to 1983. Figure 6-3 refers to the second episode which is referred to in this study as the Developmental Stage from 1983 to 1988. This period saw the development of the domestic and international airline services, Figure 6-6 refers to what the study identifies as the consolidation stage between 1988 to 2007 where the airline emerged as a profitable airline venture..

As has been noted, this study is about how a successful company in the form of Air Seychelles. The measure for performance in this case is financial results and as indicated earlier, for consequent nine years up to 2007, Air Seychelles is a profit making airline (Seychelles Nation, 7 May 2007).

Subsequently, the aforementioned episodes will be discussed in terms of the presented contextual and processual framework. In doing this, the four central questions to this research project will be answered for every episode in order to fill out creation and development of a firm's resources over time:

1. How do the boundaries and structure of the competitive arena influence formation of a firm's resources?
2. How does a firm develop distinct competencies to collaborate and compete at the same time within the framework of the business landscape of the tourism industry in Seychelles?
3. How does a firm create an organisation that interacts with the industry, changing and producing a continuous flow of competitive advantages? and
4. How does a firm build competitive advantage through resources and translate these into actual implementation?

Next, for every episode Air Seychelles' input into the process of organisational transformation of resources will be addressed. With the resource focus of this thesis in mind, the following issues will be discussed;

- Which organisational assets and which organisational capabilities are needed;
- How are these assets obtained; and
- How does one learn form these capabilities while becoming an airline service provider?

Secondly, the environmental input into these processes of organisational development of resources will be discussed in terms of:

- Objective reality - imposed rules or norms for survival;
- Cognitive reality - perceptions of ideas, beliefs and convictions concerning the behaviour of companies; and
- Interactive reality - reciprocal, mutually oriented relationships directed at interaction of companies.

Air Seychelles' ambitious and carefully designed plans were confronted with the potential threats of its business environment. They adjusted their plans and the subsequent implementation influenced the course of Air Seychelles' brand new strategy path. Not only did Air Seychelles, over the years, adopt different strategy path for different episodes of its development and evolution, but the strategy path of Air Seychelles for its domestic services has also in many ways differed from its strategy path from the international long haul passenger operations to Seychelles (Charles, 2007; Elizabeth, 2007).

In the first six years of its history, Air Seychelles' strategic focus was on the domestic inter-island services and allowing other well-established international airlines to bring in visitors from Europe. Interestingly, after this relatively short period since its formation when it was consolidating its original niche, the airline had to venture into long-haul passenger business. Air Seychelles deviation from its strategic original path was not deliberate but emergent, and imposed by the industry. It followed the decision of major airlines to suspend their services to Seychelles, which would have not only decrease the passenger load of Air Seychelles domestic services to the other islands in the Seychelles, but would have limited the number of international visitors to the country (Padayachy, 2007). In the following paragraphs, the interaction between firm and industry will be addressed as these meet in actual contest through time leading to specific abilities and actual practice.

6.3 THE FORMATION STAGE OF AIR SEYCHELLES

6.3.1 Air Seychelles' Business Environment 1971 to 1983

The tourism industry grew rapidly from 1971 with the opening of the airport however it was not until 1974 that its continued growth played a dominant role in the economy. This was as a result of investments initiated in 1972 – 1973. The level of investment in Seychelles had fallen sharply in 1974 and again in 1975 prior to independence in 1976. However, following a recession in 1974 – 1975, the Seychelles economy in 1976 - 1977 was characterised by a renewed growth. This growth stemmed for the most part from the increasing attraction of the Seychelles as a tourist destination. The year 1978 saw a consolidation of the industry, together with a change in the pattern of tourism. Although the number of visitors increased the average length of stay fell with the result that there was no real increase in the output of the tourism industry as compared to the previous year (Government of Seychelles, 1979). The increased number of visitors translated into business for the tourism industry, including the airline sector.

In 1978 and 1979, the Seychelles economy was characterised by steady and balanced growth with tourism and public service investments as major contributing factors. Recessionary conditions that developed in most industrial countries in 1980 affected the national economy adversely and tourism in particular suffered. The public sector expenditure remained high providing strong support to the economy. The continuous official capital inflow not only helped the public sector to carry on development and social projects, but it also bridged the gap in the current account of the balance of payments, which was due mainly to the set-back in tourism. These investments were aimed at attracting visitors to the islands and providing business to the airline sector (Government of Seychelles, 1979).

The 'National Development Plan 1978 to 1981' acknowledged that the market sources of tourism in Seychelles were closely related to the operation of the national airlines of those main source countries. The document also noted that Seychelles was "fortunate in having a relatively wide spread of visitors from many different countries making for stability in demand with a relatively wide choice of airlines flying to the Seychelles International Airport" (Government of Seychelles, 1978a: 40).

During 1980, 71,800 visitors came to Seychelles and stayed an average of 9.0 nights. There were 9% fewer visitors and fractionally shorter length of stay than in 1979. A further 40 hotel beds were added in 1980 but, with a 7% fall in bed nights occupied compared to 1979, occupancy rates in 1980 fell to 56% compared to 64% in 1979 for beds and 63% compared to 71% in 1979 for rooms (Management and Information Systems Division, 1980).

In 1980, the percentage of visitors in transit continued to grow. The percentage of visitors that was on holiday fell to 81% with 7,000 (or 11%) fewer than in 1979. The country of origin of visitors showed variations at the individual country level but remained the same in 1979 at the regional level with 64% from Europe, 17% from Africa, 12% from Asia, 5% from America and 2% from Oceania (Government of Seychelles, 1981).

Gross foreign exchange earnings from tourism were estimated at about SR173m in 1977 and SR208, in 1978. However, a large proportion of this went to pay for the imported goods and services used by the industry which amounts to 60% of total earning (Government of Seychelles, 1979). Figures based on the foreign exchange transactions showed an increase of 12% in tourism expenditure from SR295m on 1979 to SR311m in

1980. Inevitably a large proportion of these receipts was expected on imported goods and services used by the industry.

However, the price level rose by an average annual rate of 12.7% during the period, with inflationary pressures more visible in 1980. The causes of price inflation were increasing costs of imports, and some domestic factors – such as seasonal scarcity of fish and increased process for various local goods and services. The Seychelles Rupee depreciation against some foreign currencies in 1980 also contributed in part to the price increases. During 1980 the Seychelles Rupee, which was linked to the Special Drawing Rights, depreciated against other currencies by 5.4% on a trade weighted basis. However, the revaluation of the Seychelles Rupee in March 1981 caused some prices decreases (Government of Seychelles, 1981). These occurred when the number of visitors to Seychelles was temporarily in decline and airlines started pulling out their services to Seychelles.

6.3.2 The Dynamic of the Tourism Industry - 1971 to 1983

As seen in Chapter 5, looking at the actual number of visitors' arrival for the last thirty five years; four distinctive episodes in the development of the tourism industry can be discerned. In the first period, the statistics of visitors' arrivals in Seychelles shows an increasing trend of visitors from 1971 to 1979. In 1971, with the opening of the Seychelles International Airport, 3,175 visitors arrived in Seychelles. From 1971 the number of visitors grew at an annual average rate of over 26% to peak at 78,852 in 1979. During the period 1971 to 1979, the world's visitors' arrival increased only 6% (Archer, 1982). The increase in the number of visitors during this period was the direct result of the opening of the Seychelles International Airport, the number of scheduled international flight airline serving Seychelles, the increase in hotel and room capacity and an increasing number of airlines serving Seychelles. Many European and African carriers started to services to Seychelles. These airlines served mainly the European markets flying directly to Seychelles or via countries on the mainland Africa.

As seen earlier, Seychelles targeted the Western European market because of the disposable income of the market. The visitors were mainly from Italy, the United Kingdom, France and Germany. These visitors viewed Seychelles as a new and exotic destination and more attractive than similar products, like Sri Lanka, Maldives and Mauritius. The increase of visitors to Seychelles was facilitated with the national carriers of these countries operating scheduled flights into Seychelles. These carriers included British

Airways, Air France, Alitalia and Lufthansa. At that time, these airlines saw Seychelles as a profitable destination.

In Chapter 5, 1971 to 1979 was identified as the initial period of tourism development in Seychelles characterised with an average growth of 26% per annum. During the period 1971 to 1979, Europe provided 63% of all visitors to Seychelles; the African market accounted for 22.1% of the total visitors' arrivals; Asia 5.1%; Oceania 1% and America 6%. In 1976, African visitors accounted for 26.1% of total visitors, but as visitors from Europe increased, Africa accounted for only 17.3% of total visitors' arrival in 1979, (Management and Information Systems Division, 1980).

The second discernable episode in the trend of visitors' arrival was between 1980 and 1984. During this period the number of visitors declined from 71,762 to 63,417, at an average of -12% per annum. This was consistent with most other long-haul tourist destinations; about 9% in 1980 and a further 15.8% in 1981 (Archer, 1982). The main reasons for this decline were the major recessions in the major tourist generating regions, especially in Europe which then accounted for approximately 64% of total arrivals to Seychelles. This decline was thus associated with a general worldwide downturn. The other major reason of the decline was the major increase in oil prices and airfares, which made long haul holidays relatively more expensive and made Seychelles more vulnerable to competition from other destinations offering a somewhat similar product, for example, the Caribbean, Sri Lanka, Maldives and Mauritius. Further, the number of visitors' arrivals went down to a low of 47,280 visitors in 1982, coinciding with the foiled mercenary attack on the islands.

To compound the situation further, most of the airlines withdrew their scheduled flights to the Seychelles, as it was proving not profitable with the decline of visitors. The withdrawal of service included national carriers of principal market countries. During this period, the Seychelles government instituted policies to reverse the decline in the number of visitors and to encourage further growth. Plans were instituted by the government of Seychelles to launch a national airline to fill the void left by the airlines that had withdrawn their services and mainly to service the European market. These plans were a success as Air Seychelles managed to help in maintaining the number of visitors to the Seychelles. Part of the policy was also to emphasise the need to consolidate and improve standards and facilities. Forecasts prepared then for the Seychelles Government by the Irish Tourist Board indicated that a potential growth in the tourist demand to approximately 100,000 visitors and over 1,100,000 bed-nights by 1987 (Archer, 1982). As indicated then by

Archer (1982) this rate of growth was possible though its achievement might be delayed. Consequently, it was only in the year 1990 that Seychelles was able to pass the 100,000 visitors arrival mark (Management and Information Systems Division, 2001a).

In the European market, the principal generating countries were the UK and France. During the period 1971 to 1989, UK provided 19.0% and France 17.3% of total visitors to the Seychelles. In 1976, UK and France provided 25.1% and 14.0% of total visitors. Subsequently the number of visitors from France increased beyond that of the United Kingdom and by 1979 France provided 18.5% and the UK provided 16.4% of the total visitors to Seychelles by 1979. This was partly due to the decline in the UK visitors and a considerable increase in visitors from other countries between 1976 and 1979. The inflow of visitors was supported largely by the national carriers from these countries. By 1981 France was the single largest long haul market with 9,352 visitors representing 15.5 % of total visitors. This was also because the decline in number of visitors was more prominent in visitors from the UK, Italy and Germany.

Another important visitor generating country was Italy. The number of visitors arriving from Italy increased steadily over the period 1971 to 1979. In 1976, 2,230 visitors arrived from Italy representing 4.5% of total visitors. By 1979, this number had increased to 8,479 visitors representing 10.7% of total visitors. From only 2,230 visitors from Italy in 1976, the number increased to 9,097 in 1980 then declined to 7,101 in 1984. However, Italy represented 12.7% of total visitors in 1980 and 11.2% in 1984, and the third and fourth most important market in both years respectively.

Germany also represented an important market. The number of visitors from Germany increased steadily from 1971 to 1979. In 1976 the number of visitors from Germany was 2,823. It rose to 5,194 in 1979 representing 22.6% annual increase. By 1980 the German market had become quite substantial with 8,837 visitors. By 1984, the German market represented 13.5% of the total market with 9,759 visitors.

Comparing visitor arrivals by continent between 1980 and 1984, Europe provided a greater share of the market with 65% of all visitors to Seychelles. In 1984, visitors from Africa fell to 15.5%; visitors from Asia were 13.0%; visitors from America were 4.6% and that from Oceania declined to 1%. From 26.1% of the total visitors' arrivals in 1976, the number of visitors from Africa held steady up to 1984.

During the period 1980 to 1984, France was the most important market with an average of 15.8% of total visitors. Visitors from France were 13.8% of the total visitors' arrival in 1980, rising 17.4% of total visitors in 1984. There was a decline in the number of visitors to Seychelles from the UK, from 14.5% of the total visitors' arrival in 1980 to 12.3% in 1984. The year 1983 saw an all-time low of 7.3% of visitors from the UK when compared to the total visitors. The total visitors from the UK were only 4,065 in 1983.

The average length of stay increased from 10.5 days in 1973 to 11.0 days in 1977 after which it declined to 9.1 days in 1979. This was partly due to the slight shift from two-week to one-week holidays. The pattern of tourism changed in 1978 when although the number of visitors increased from 54,500 to 65,000 the average length of stay fell from 11.0 nights to 9.6 (Government of Seychelles, 1979). The pattern of tourism changed again, though the number of visitors declined during the period 1980 to 1984, the average length of stay increased from 9.0 nights in 1980 to 10.8 days in 1984. This was again in part due to the slight shift from the one-week to two-week holidays.

With the growth of the tourism industry during the years 1971 to 1979, approximately 300 new beds became available in 1978 compared with 200 in each of the previous two years and hotel occupancy fell from 68% in 1977 to 61% in 1978. Although this was the lowest rate since 1974, it nonetheless compares favourably with the figures of 52% and 53% bed occupancy in 1973 and 1974. Though the number of visitors declined during this period, the number of available tourist beds grew from 2,560 in 1980 to 2,840 in 1984. The bed occupancy rate fluctuated during this period, from 56.0% in 1980; 37.0% in 1982 and 55.0% in 1984.

The tourism industry in Seychelles during the period 1971 to 1983 was just getting started in Seychelles as a major industry. There was no resources nor capabilities developed in this industry. However, with the rapid growth of the tourism industry from 1971, the National Development Plans since 1977 focused on tourism as the main driver of national development.

6.3.3 The Formation Process

Though the starting processes of new firms appear poorly understood (Westhead and Wright, 2000), however, several scholars have laid emphasis on the role of the starting point of a process. For example, Wiklund (1998) suggests an approach involving specification of key broad theoretical constructs that make up founding episodes, under

which specific founding variables relevant to each theoretical construct may be grouped. Various founding episode constructs have been proposed (Chrisman, Bauerschmidt and Hofer, 1998; Cooper and Gascon, 1992; Bygrave and Hofer, 1991; Stevenson and Jarillo, 1990; Gartner, 1985), most broadly consistent with four theoretical constructs of founding episodes as offered by Cooper (1993): environment, entrepreneur, initial firm conditions and founding activities. Numerous specific founding variables may be grouped under each broad construct (Gartner, 1985). Cooper (1993) further proposed integration of all four constructs using path analysis, with environment, entrepreneur, initial firm conditions and founding activities impacting both directly and indirectly on new growth firm creation.

In investigating the starting processes of Air Seychelles, this study has taken the above-mentioned founding activities into consideration. The founding episode of Air Seychelles confirms that focusing on the formation of a company draws attention to the “rugged landscape” in which that formation takes place. The formation of a company involves activities undertaken appear anything but orderly, exhibiting significant levels of trial-and-error (Starr and MacMillan, 1990; Van de Ven *et al.*, 1989), iteration (McMullan and Long, 1990), uncertainty, diversity and complexity (Gartner, 1985). This is because initially the firm cannot benefit from learning and repetition. This stage involves the creation of assets and capabilities to support the launching of the firm into the business and operating environment. Environments may support or constrain new growth firm creation (Learned, 1992). A review of research by Cooper and Gascon (1992) revealed that industry environments may substantially shape and impact new firm growth and performance. Subsequently, a strategy path of the firm’s course will be based on the resources and the circumstances originating from its foundation through time.

Grant (2005) suggest that to understand the origin of a firm’s capability, a useful starting point is to study the circumstances that existed and events that occurred at the time of the firm’s founding and early development. However, initial investments, routines and processes can also constraint on the firm’s future development (Teece *et al.* 1997). Structures, resources and capabilities of the past can enable and enforce future behaviour (Sztompka, 1991) or even hinder future developments.

6.3.4 The Transformation of Air Seychelles from 1971 to 1983

To derive resource-based taxonomy of a firm at the starting process, there is the temptation not to take into consideration organisational resources, because organisational resources cannot be easily acquired by new ventures but built over time. Thus at the

founding of the firm, organisational resources are often not elaborated. However, as a point of departure, to examine the variation in starting resources this study adopted the often used classification of Barney (1991). Barney classifies resources into four dimensions: financial; physical; human and organisational resources.

Financial resources include all the different money resources that firms can use such as capital from the entrepreneurs, from equity investors and debtors. A start-up that invests disproportionately more financial resources early on is likely to accumulate a larger stock of strategic assets than peer ventures that lack the financial resources at founding (Lee, Lee and Pennings, 2001). Physical resources include the physical technology used in the firm, a firm's plant and equipment, its geography and its access to raw materials. For firms in the process of starting up, the technical resources are mostly the most important aspect of physical resources compared to access to raw materials and plant and manufacturing. Human resources include the training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in the firm. Organisational resources include the use of processes (organisational and management), positions (firms assets of all types), and paths (beliefs and habits constrain future behaviour) to develop high performance routines over the long run.

Based on the Barney's proposal of the four dimensions of resources, perhaps the most important for Air Seychelles has always been human resource. An important aspect of human resource within Air Seychelles has been the leadership as entrepreneur. For new ventures, the entrepreneurs are the most critical human capital present in the firm (Van de Ven, Venkataraman, Polley and Garud, 1989).

Shaver and Scott (1991) suggest that research to uncover entrepreneurial variables that may identify types of entrepreneurs should focus on entrepreneurial motivations, intentions, activities and outcomes. Prior entrepreneurial experience in starting processes may significantly influence starting processes to create new firms. While education, skills, business and industry experience may impact the starting processes (Cooper and Gascon, 1992). Studies by Delmar and Davidsson (1999) and Chandler and Jansen (1992) generally support a positive relationship between prior entrepreneurial founding experience and new firm growth.

The beginning of an entrepreneurial activity is hard to investigate and to describe because much of it takes place in single minded leadership, as characterised with the setting up of Air Seychelles. The task of setting up the national airline rested on the shoulders of the

late Mr. Guy Morel (1933 – 2006), a Seychellois accountant, economist and businessman. Mr Morel was an influential figure in the Seychelles Government from mid 1970's and 1980's. In addition to his responsibilities as the Principal Secretary of Finance, he undertook projects such as public transport system and tourism development. As Principal Secretary of Finance and Industry, he played a lead role in the foundation of the economic structure of the country just after independence in 1976. Apart from being the first chairman of Air Seychelles, he was the first Governor of the Seychelles Central Bank and set the Seychelles Institute of Management. Taking a deeper look at the early history of Air Seychelles indicates that it was due to the determination of the leadership that the formation of Air Seychelles became possible (Padayachy, 2007; Charles, 2007).

The first chairman proved to be a genuine pioneer during the years the foundation of Air Seychelles was being laid. Mr Guy Morel was entrepreneurial and visionary. It was a central perspective or vision that also kept him and the Board of Air Seychelles' Directors going. Central to that perspective was the national economic development and tourism took the central stage. Mr Morel was the right man for the job because of the leading role he played in developing the islands' economy just after independence. For over nearly two decades he was one of the most important figures formulating and leading the implementation of the national strategic development plan of the Seychelles. Apart from the posts held as described above, he also the President's economic advisor. His various other functions assisted him to situate tourism within the national development, and Air Seychelles within the tourism industry and the national development.

Entering a new and relatively unknown territory, Morel and the founding board members obviously had much to learn in developing resources. This was the reason that the company initially concentrated operating domestic airline services and acquired aircrafts, human capital and processes from the existing domestic airlines. At the time of inception of Air Seychelles, the focus was on enhancing the domestic services, leaving other airlines, mostly Western European, to bring visitors from the major source market in Europe (Padayachy, 2007).

These early days of pioneering paint a picture of a chairman having a vision and making things happen. However, because of the high risk involved in the foundation of Air Seychelles and the large amount of financial resources involved in starting an international carrier, the foundation was a potentially perilous venture. As a consequence, it also proved to be a "political" venture. National politics were heavily involved because of the state's financial resource participation in the airline and the many other deals concerning

the running of the airline. Highly competitive industries determine the membership of the firm to a large extent. Entering the tourism industry and the airline sector in the 1970s and the international long-haul passenger service in the 1983, Air Seychelles needed several resources, most notably financial. These imposed obstacles were difficult to deal with for Air Seychelles.

During the years of preparation almost all obstacles and limitations had to be overcome by way of political manoeuvring. Air Seychelles was a government-owned endeavour crucial for tourism and economic development. Before being able to start a domestic and international airline carrier, the physical resources had first be taken care of. As we have seen, for the domestic services, the Seychelles Government acquired small aircrafts and nationalised companies operating between the islands. For international services, the Seychelles Government initially leased an aircraft and services from British Caledonian (Charles, 2007).

The company that was to become Air Seychelles was formed in 1977 as an inter-island domestic airline, when government bought several small aircraft operators and rationalised the inter-island routes (Padayachy, 2007). This followed the dramatic increase in the number of international visitors to Seychelles and an increasing number of visitors travelling between islands. In 1978 the company was renamed 'Air Seychelles'. Air Seychelles, the Republic of Seychelles' national carrier, has since been a parastatal organisation, wholly owned by the government of Seychelles.

In acquiring the small aircraft operators, Air Seychelles also acquired resources in terms of the aircrafts and equipments, and capabilities and skills in terms of staff. This was probably the single most important way for Air Seychelles to initially developed organisational assets and organisational capabilities at the start up of the firm. Subsequently, with the building of airstrips on other islands, air services, mostly charter, were extended to other islands and hence further developed organisational capabilities. Extending operational to Europe opened a more global vision for Air Seychelles, compared with other airlines from the main European market (Charles, 2007).

The first episode of organisational transformation of Air Seychelles is special by its very nature because it is all about the creation or the coming into being of an entirely new company. As the formation of the company and the developing the physical resource dimension entailed the purchase of several small companies, and aircrafts, operating the

inter island routes, it implied that Air Seychelles acquired the old traditions or habits, existing resources, and cultures of these companies.

Hence, one of the most important ways for Air Seychelles to develop organisational assets and organisational capabilities at the start-up of the company was the acquisition of small aircrafts and knowledge and skills of people who were working with these companies. In other words, the inception of the firm's strategy path was formed with the acquisition of resources and capabilities of other companies operating the domestic inter-island routes. The acquisition of the small companies and aircrafts in many ways represents the pattern of transformation of Air Seychelles: assets and capabilities by acquisition.

As Air Seychelles still had to start with the actual building and creating of organisational assets it becomes evident that people with vision are at the beginning of the creation of resources. As indicated earlier, this profile fits Mr Guy Morel, the founding director of Air Seychelles. The resource-based view of the firm sometimes has a tendency to focus on tangible, material assets. This is probably the case because these material assets are more visible, more expensive, and in case of an airline company often stay longer. However, when investigating resource formation processes, like the formation of service resources in the airline, it becomes evident that these processes start and end with people. This is why the competence of a company - the ability to create new, unique resources - as opposed to assets and capabilities, is inextricably connected to individuals working in a company. This is not to say assets and capabilities are not, but, as will become evident in this chapter, capabilities are pooled together in collective conduct and are more or less independent of specific individuals.

At the initial creation of the airline, apart from the local passengers, the bulk of Air Seychelles' business as a domestic airline was to connect international visitors between islands (Charles, 2007; Padayachy, 2007). However, because of changing circumstances in the industry beyond Air Seychelles' control, there was firstly the decision of major airlines to suspend their services to Seychelles in 1982, the original plan of servicing the domestic demands and leaving other airlines to bring in visitors from Europe was no longer viable for the Seychelles Government and Air Seychelles. Secondly, there was a decline in the number of visitors to Seychelles, which dropped from 71,762 in 1980 to 63,417 in 1984. Thirdly, this coincided with a fuel hike. The Seychelles Government decided that Air Seychelles should expand into long-haul passenger business to fill the void left by the departure of these airlines.

Air Seychelles' acquisition not only placed the airline as a monopoly, complementary being sea transportation to the other islands, but these resources were crucial in the start up of the airline. Burton, Sorensen, and Beckman (2002) show that also career histories and characteristics of the prior employer influence the financing at start-up and the initial strategy of new ventures. This finding suggests that the organizational origin influences the ability to acquire certain types of starting resources. As Air Seychelles acquired small airlines operators and their staff, its strategy was in a sense a continuation of those operators. Several studies indicate that industry characteristics, such type and number of other players, maturity, size and scope, determine the resources needed to start a venture in that industry. Moreover, other players in the industry can provide or block resources that are crucial to the firm (Collis, 1991). Finally, the reasons and motivations leading to start-up are considered important elements influencing not only the start-up of the new business but also its characteristics (Birley and Westhead, 1994).

The motivation for the start-up of Air Seychelles was originally to rationalise domestic transfer from the international airport to the other islands in the archipelago. Some firms are founded mainly as a vehicle for self-employment, while other ventures are rather started because the entrepreneurs saw a unique opportunity that could not be pursued within their former work environment. This corresponds to two important dimensions of entrepreneurial orientation, namely proactiveness and autonomy (Lumpkin and Dess, 1996). The reasons and motivations leading to the start-up of Air Seychelles domestic's services were to rationalise the inter-island routes; and the reason and motivation to venture into long-haul passenger services was to respond to the void by other carriers and to support the Seychelles' economy. The other players in the industry left a void which was taken up by Air Seychelles. However, after months of planning and preparations, Air Seychelles did not get the space it needed to initially develop into an international carrier. The strategy path taken by Air Seychelles had a major impact on its resources. The world is too complex to consciously plan or direct, but the commitment to becoming an international carrier lead to resources that in the end turned out to be valuable to the company (ex post). This is consistent with resource-based literature (e.g. Grant, 1991).

The above reasoning points to the important role of time in the development of resources and transformation of a firm. By 1986, Air Seychelles was a full-fledged airline operating a domestic sector and an international sector, mainly to Europe. This implied that the strategy path inception of Air Seychelles turned out to be a rather short process of less than ten years. Ten years is not a very long time in the life of an organisation. From a process perspective, the case of Air Seychelles suggest that revolutionary organisational

change to ensure strategic fit and co-evolve with the external context takes time, often about a decade, to perceive, to gather support and to implement. These results are consistent with the evolutionary, emergent or incremental school of thought on strategic change (e.g. Quinn, 1980; Pettigrew, 1985a; Hamel, 1996). As Donaldson (1994:139) observes: “To those accustomed to viewing corporate performance through the single lens of value of ownership, it is hard to understand why an ‘all-powerful’ chief executive with the backing of his board could not mandate those actions and do in a few months it took General Mills 10 years to do.” In Air Seychelles this time was needed to create an appropriate and responsive internal context, adapt to its external context, and to implement a sequence of actions that provided organisational transformation.

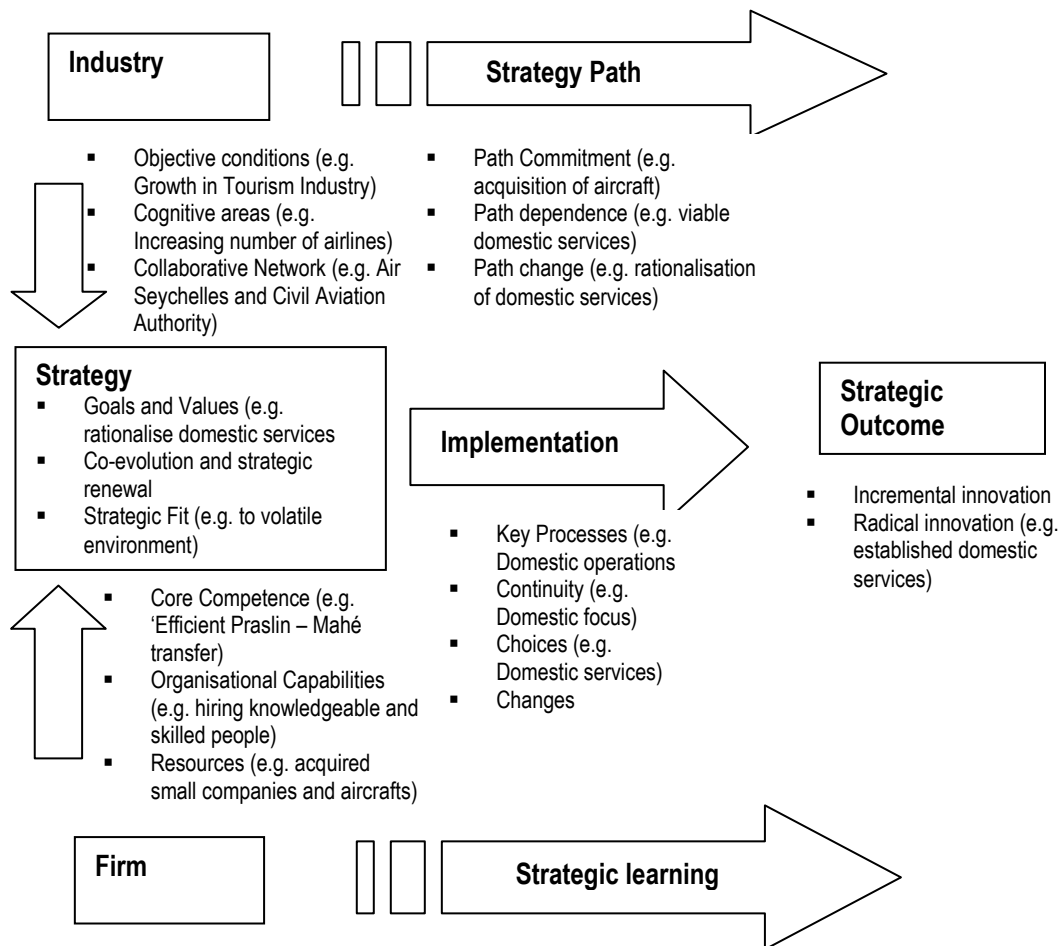
Reasoning from a resource-based view, without the venture into long haul services in 1984 and the subsequent focus on services, Air Seychelles’ service resources might have been less advanced. This observation has face-value validity and is supported by the reasoning that focus and specialisation breed capability (e.g. focus strategy is one of the so-called generic strategies of Porter, 1985). In some cases the sole consequences of time in terms of (focused) experience might lead to superior capability, but there are no guarantees. Besides, there is no proof Air Seychelles service capabilities would have been different, since we cannot relive the past. On the other hand, and this is emphasised here, it does touch on the “path-dimension” of strategy and resources. Or, in other words, the past lives on in the future, and so is the capacity of Air Seychelles to produce high quality services. In the first five years of Air Seychelles’ history there has been a clear focus on domestic airline services.

Once Air Seychelles decided to venture into both the domestic and long haul passenger services the process of actually building physical resources was relatively straightforward. The real dilemma of this type of asset building, it turns out, is in the process of exploring opportunities and choosing among these. The process of exploring opportunities is really an organisational capability and an essential capability for a capital intensive firm like Air Seychelles. Air Seychelles learned by way of studying and “looking around” beyond the regional horizon. This way of learning was initiated by hiring an experienced staffs, including those with international experience, and became a company capability for decades to come. These staff ranged from pilots, engineers, planners, managers, and consultants. In terms of its technological development Air Seychelles choose in favour of the more developed European industry survival path instead of the regional sector survival path. This was initially achieved by its collaboration with British Caledonian Airways and Air France (Charles, 2007). These collaborations were also strategic. In the earlier years

the main market for Seychelles tourism was UK and France was the second largest market. Consequently, France became the largest market.

In spite of all the environmental complexity, strategic plans were at the centre of all the activities of the top management. As such, these pioneering years were, contrary to what might be expected, also a design process. From 1971, plans were constantly rearranged and started afresh. However, these plans were never more important than new information making it necessary to abolish previously made plans. A learning process is one of trial and error. However, as noted by Mr Patrick Elizabeth, the general manager for Air Seychelles, in the airline industry one cannot only rely on trial and errors but on market intelligence (Elizabeth, 2007).

Figure 6-2: Air Seychelles, 1971 to 1983 – Formation Stage



As stated previously, during the period 1971 to 1983, Air Seychelles was entirely a domestic operation, the airline had no international operations and Air Seychelles had practically no competition in the domestic operations. Air Seychelles operated on an air strip on Praslin Airstrip Island. Air Seychelles domestic services initially operated from a

shed as the domestic airline terminal (Charles, 2007; Padayachy, 2007). During this period, tourism was a new industry in Seychelles and the focus was on building resources and capacity and was part of national developmental efforts. There were limited number of quality hotels and available beds, and as a result most passengers spend their time on Mahé as there were more hotels. For example, there were only two small hotels on La Digue Island during this period.

6.4 THE DEVELOPMENT STAGE OF AIR SEYCHELLES

6.4.1 Air Seychelles' Business Environment from 1983 to 1996

During the period 1983 to 1996, there were two principal organizations directly involved in air transport in Seychelles: the Directorate of Civil Aviation in the Ministry of Tourism and Transport and the national airline, Air Seychelles. The aim of Directorate of Civil Aviation, which later became the Seychelles Civil Aviation Authority, is to develop and operate a safe, secure and efficient operation of air navigation to and within the Seychelles as its primary objective. The aim of Air Seychelles is to sustain a steady flow of visitors to the islands by ensuring available airline transportation for the long haul passengers.

As seen in section 6.2.2, the tourism industry is an 'objective reality'. The underlying assumption being that the external environment especially when strongly competitive largely determines the path must take for future success (Child and Smith, 1987). One aspect of the objective reality is the government investments in the tourism industry and in Air Seychelles. In the past, the operations of the airport and the airline were subsidized by the government, and as indicated earlier, Air Seychelles enjoyed a degree of government protection. No precise estimates are available since Directorate of Civil Aviation formed part of the Ministry of Transport and Tourism, and did not keep separate accounts, further, Air Seychelles was not charged for some items essential to its operation (e.g. Government of Seychelles, 1983).

During this period, the Directorate of Civil Aviation adopted a more commercially-oriented approach towards the operation of the airport services. This required a rationalization of administrative structure of the Directorate of Civil Aviation and a revision of charges and concession fees. As a consequence, the landing and other fees were increased. Further, the fuel throughput charge were reduced to ensure that the airport remains competitive, concession fees were reviewed and air navigation charges were collected more systematically. The Directorate of Civil Aviation manages the Seychelles International Airport on Mahé, Praslin Airport on Praslin Island, and other government-owned

aerodromes on other islands; and to ensure that facilities available are operated in line with international Civil Aviation Organisation (Government of Seychelles, 1983).

The National Development Plan 1985-89 marked a significant realignment of development priorities. Analysis of past economic and social performance and progress suggested that, while there have been significant achievements in ensuring that all Seychellois has access to basic services and amenities, insufficient attention was paid to the process of creating wealth and enhancing earning power (Government of Seychelles, 1990). This may imply that insufficient attention was paid to wealth generating ventures in the tourism industry, including Air Seychelles. The National Development Plan 1985-89 was developed cognisant of the fact that the Seychelles economy remained highly vulnerable to exogenously determined forces, arising from its smallness and from its dependence on tourism and traditional commodity exports. The impact of the world recession in the 1980s dealt a series of blows to the economy. As a result of a lower commodity earning, sharply curtailed tourist revenues, and lower receipts of external funds for development projects, economic growth was abruptly halted, with negative growth rates between 1980 and 1983.

The National Development Plan 1985-89 paid more attention to tourism development. The airport was upgraded in 1982 to serve 200 arriving and departing passengers. However, from 1982 to 1992 traffic through the Seychelles International Airport had tripled. The facilities were inadequate and a project was under consideration to upgrade them, so that 800 arriving/departing passengers and their baggage may be processed within 60 minutes of their first passenger entering the terminal building, in air condition comfort (Government of Seychelles, 1983).

A comprehensive long-term development programme was undertaken by government on preparation of a master plan, which was formally presented in 1995. The master plan recommended a three phase Development with Phase I being the above mentioned airport upgrading project, Phase II was development of a new terminal on the reclaimed land north of the Airport to be completed by the year 2007 and the ultimate area after 2010 (Government of Seychelles, 1995). This Public Sector Investment Plan included the 'Upgrading and Extension of Mahé Airport for SR39m. The project started in January 1998. Some particularly critical and urgent items of the airport's upgrading such as the 'Replacement of radio-navigational aid' for SR5.7m was part of a separate project. Works on the Praslin Aerodrome and Apron for SR2.5m and the domestic Terminal on Mahé for SR1.2m have been finalized during 1995 (Government of Seychelles, 1995).

In 1995, the Seychelles had an infrastructure of some 4,500 beds and the occupancy rate was 65%. Official income from visitors stood at SR521m in 1994. If parallel transactions are included it probably exceeded SR700m. During this period, the Seychelles government reduced its direct participation in the industry and privatised major government owned hotels. During the period there were no direct public sector projects for tourism, as major private investments were expected to play a crucial role in keeping the economy in equilibrium. However, the Seychelles government maintained its supervising, regulatory role, set standards and streamlined and simplified approval and licensing procedures. The Investment Promotion Act 1994 provided a range of incentives to tourist enterprises, such as hotels, restaurants, casinos, car hire operators, and tour operators. It is the official policy that the number of visitors should not exceed 200,000 per year (Government of Seychelles, 1995).

These measures were aimed at enhancing the performance of the Seychelles National economy as a whole and the tourism industry in particular. In particular, it was aimed at reversing the downward trend of visitors' arrivals, which would not only prove beneficial to Air Seychelles, which at that time was the major carrier providing such services to Seychelles, but Air Seychelles also acted as a catalyst to improve the tourism industry and the economic environment.

6.4.2 Dynamics of the Tourism Industry 1983 to 1996

In the period, 1985 to 1996, tourism grew into an important pillar of the economy; tourism expenditure grew from SR347 million in 1985 to SR524 million in 1996. During this period, the airline business picked up as the number of visitors increased from 72,542 in 1983 to 130,955 in 1996, an average of annual growth rate of 6.7%. In 1987 visitors' arrival rose by over 7% compared to 1986, and a further 8% in 1988, 11% in 1989 and over 20% to peak at 103,770 in 1990. This was the result of the policies of government to realignment its development priorities. This also coincided with the government policies, which encouraged the private sector investment in the tourism industry to keep the economy in equilibrium. Though these policies were not specifically aimed at airline companies but at other sectors of the tourism industry, it revitalised the industry and also benefited airline sector. As a result of a revitalised tourism industry, this period saw some national carriers from the principal European markets return to serving Seychelles. In 1991, visitors' arrivals fall over 13% over the previous year. This decrease in visitors' arrivals was associated with the first Gulf War, which happened during the Seychelles' peak season and deterred visitors from travelling even up to the end of that year. Visitors' arrivals in

1992 recovered and experienced a rise of 9.4% over the previous year. The year 1996 marked a peak with 130,955 arrivals.

As seen in Chapter 5, the third discernable episode in the development of the tourism industry in Seychelles was between the years 1985 and 1996. During this period, Europe provided 79% of all visitors to Seychelles. The number of visitors from Europe grew faster than visitors from Africa, Asia, Oceania and the Americas. The principal market was France with an average of 15.8% of total visitors for the period.

The downward trend of visitors from UK in the late 1970s proved temporary and by 1986 the number of UK visitors was nearly 14,000 representing 20.9% of total visitors' arrivals. However, the number of visitors from UK increased by a further 20% in 1987, and again to over 25 percent of the total visitors to reach 19,935 in 1988. The number of visitors from UK averaged 19,000 and kept at this constant level for until the end of the 1980s until 1991, when the number fell to 14,877 and 16.5 percent of the total visitors.

During the 1980s UK had become the largest single long haul market. However, in the year 1990 21,900 visitors from France were recorded as arrivals in Seychelles accounting for 21% of the total visitors. Although in 1991 the number of visitors from France dropped over 30%, visitors from France still amounted for almost 17% of total visitors.

The most significant increase in visitors' arrival during this period was the visitors from Italy. In 1985, 11,444 visitors from Italy visited Seychelles. In that year Italy was the second most important market and represented 15.8% of total visitors. Italy remained the second most important market for the next two years. In 1987, 20% of all visitors to Seychelles were from Italy. There was a fall in arrivals from Italy to 15,238 in 1991 and up by 37% to 20,878 in 1992, which represented 21% of the total arrivals.

The German market rose to 10,085 visitors in 1985, making it the third largest market representing 13.9% of the total market. However, this market declined to only 5,501 in 1988 representing 7.1% of the total market. By 1990, the numbers had risen to 9,018, representing 8.7% of the total market and then to 9,321 in 1991 representing 10.4% of the total market to 12,950 in 1992 making it the fourth largest market accounting for 13% of the total arrivals.

The number of visitors from the Africa continent fell to 5,640 in 1984 and the percentage importance of the market declined to 7.9%. The revival of the African market started in

1988 with a substantial increase in visitors from South Africa. In 1987 the numbers of visitors from South Africa was 949. This increased to 11,734 in 1991. By 1991, the numbers of visitors from Africa accounted for 20.9% of total visitors' arrivals

For the period 1985 to 1996, the average length of stay was 10.5 days. For the period 1985 to 1992, the average length of stay stood at 10.8 days and between 1993 and 1996 at 9.7 days. The average length of stay increased to 11.7 days in 1986 and down to 9.7 days in 1995. This was partly due to the slight shift from two-week to one-week holidays. The pattern of tourism changed after 1992; although the number of visitors increased the average length of stay fell.

The number of available beds increased from 2,800 in 1985 to 4,490 in 1996. Whilst the annual growth of visitors stood at 6.7%, the annual growth of available beds was 5.7%. The bed occupancy declined from 64.0% in 1985 to 57.0% in 1996.

6.4.3 Growing Processes

Over the years the conventional business arrangement of Air Seychelles had become that of an efficient operator. The company invested in aircrafts to serve the domestic and international routes, members of staff were being trained and the airline was in search of profitable routes (Charles, 2007; Padayachy, 2007). Within this conventional lay-out, ways of being profitable became confined to being an ever leaner producer. The Air Seychelles' management refers to as an ongoing strategy, meaning continuously becoming better at what one is doing (Charles, 2007; Elizabeth, 2007). Here this has been referred to as a reproductive intent as it entails emerging changes along the same lines. As years of only emerging changes go by the limits of "incrementalism" will be reached (e.g. Hamel, 1996).

In the midst of contrasting company intents and contrasting industry forces, there were naturally changing forms of capabilities emanating from the firm and enforced by the industry as well as changing practice in the interactions between Air Seychelles and the industry. As has become clear from the turnaround of Air Seychelles during the early 1980s and mid 1990s, an initial reproductive Air Seychelles faced a limiting airline sector and tourism industry, until that moment rather enabling air travel sector. Although Air Seychelles knew it was far from efficient compared to world air transportation standard it was not able to change quickly enough. This was until when the economic circumstances within airline industry forced Air Seychelles to change strategic direction and Air Seychelles subsequently embraced this "survival path" its survival became within reach.

Moreover, even within a subsequently limiting industry Air Seychelles was able to go against the tide and move beyond survival. When the industry became more enabling Air Seychelles was ready for innovative, breakthrough moves.

In terms of the aforementioned distinction between ongoing and breakthrough strategy, Air Seychelles ongoing strategies for its international services are also quite visual. These have been a young efficient fleet, cost-reduction and quality improvement at the business unit level. This is what the Air Seychelles management refers to as a “breakthrough strategy”, entailing the destruction of present resources and creating new and hopefully better ones (Schumpeter, 1934; Tushman and Andersen, 1986; Hamel, 1996). This has been referred to as a transformative intent of a company (Charles, 2007). The airline is continuously coming up with breakthrough strategies, which includes joint ventures or some other form of co-operation with established airline and benefiting from their experience and other capabilities. The acquisition of small domestic airlines and aircrafts and the 1987 merger of Air Seychelles with Aviation Seychelles in many ways represent the pattern of transformation of Air Seychelles: assets by acquisition and capability by co-operation.

A more fundamental and transformative way of becoming a profitable airline is by establishing a closer link or - better yet - an integration of certain steps in servicing the destination. Air Seychelles as a whole represents a company involving two service processes. The domestic and international business units together form two entire conversion processes taking passengers from one destination to another. One operates at the domestic level and the other at the international level. However, the output of one service is the input of the other and vice versa. The two services input to end-products in differing stages and this process depends on integrated development and management. Therefore, the general managers of the domestic or international business units together with “their” managers have regular “non-decision” meetings for information-sharing and adjustments. The regular customer surveys inform management of areas to attend to. In addition the management teams of the business units regularly meet with the entire management to explain, discuss and decide on developments in business activities (Padayachy, 2007). The technological development of, for example, Air Seychelles international service is primarily a responsibility of management in close co-operation with general managers of the business units involved and research and development.

Apart from technological implications, innovations also have commercial and financial implications. The quality and volume of the output of the aircraft have already been

mentioned. Other factors are acceptance by buyers and developments at competitors with reference to the innovation in question (i.e. whether it become the industry standard or not). The customer services innovation, for example, aims at offering a unique fore taste of the Creole experience to its passengers to Seychelles, while still on the plane and before arriving at the destination. All these effects will also have financial implications apart from the large amount of capital needed.

The complexities of these innovation processes, however, come down to a chicken-and-egg problem. Beforehand it is uncertain what quality or sort of services it will be possible to offer with such a new and complex process. It is only once the quality and the volume of the output of a service offering is known - that is the complexity are sufficiently reduced - that one can form an opinion about the market and the commercial and financial feasibility. The feasibility of the service on the other hand, legitimises the capital spent on a particular innovation. As such, the continuation of an innovation process is largely based on expectations of future technological developments. This is a feed-forward effect (Levinthal, 1994); an anticipated, future effect. Technologists, like those working on research and development, tend to be optimistic because it is their job to create new resources. Operation managers, on the other hand, work daily to enhance existing resources, which new process inventions will eventually destroy.

The opening of the Seychelles International Airport in 1971 and the subsequent development of air transport have significantly transformed the Seychelles economy. Passenger arrival has increased from 18,000 in 1972 to 65,000 in the 1981 and 152,000 in 1996. Total freight handled has increased from 350 metric tons in 1972 to 14,00 in 1981 and 4,500 in 1996. Hence for Seychelles whose economy almost entirely depends on tourism earnings, an efficient, reliable and regular air transport system is absolutely essential to link into major tourism markets.

6.4.4 The Transformation of Air Seychelles from 1983 to 1996

The period 1983 to 1996, saw the emergence of business contours and characteristic which proved important for the growth of Air Seychelles' resources: the thoroughness of investment plans and the innovation and combination of new services processes. The thoroughness of investment plans was also recognisable in the former period when the inception of Air Seychelles entailed many large investment plans, which continued in this period. The innovation and combination of production processes points to Air Seychelles' ability and competence to investigate the industry's technological know-how.

Important innovative moves within the tourism industry during the period 1983 to 1996 provide insights into the transformation of Air Seychelles. In the early 1980s the focus of Air Seychelles was both the domestic services and the international long-haul passenger services, thus providing two early sector survival paths in the airline sector. The rationale for these sector survival paths was based on a combination of material conditions, of cognitive recipe, and of relationships.

The sustained growth of the tourism industry was supported by the launching of Air Seychelles international flight services in 1983. Mr Patrick Elizabeth indicated “The sustained growth of the tourism in Seychelles was because of Air Seychelles continued servicing these routes” (Elizabeth, 2007). As we have indicated earlier, initially, the national airline was to ensure domestic services only, but Air Seychelles’ move to extend its network beyond the national territory was dictated by reasons of national economic security in order to guarantee access to European tourism markets, following the decision of major carriers to suspend their services in the aftermath of the oil price hikes in the early 1980’s. The growth in the tourism industry from 1983 attracted back major carriers.

In the 1980s, Air Seychelles became a two-service firm focusing its resources on the international and domestic air services. The domestic operation has been emphasised in the 1980 rationalisation of the domestic services by the acquisition of small airline domestic operation. Air Seychelles original focus on the domestic services which was reinforced by an “ongoing strategy” of rationalising operations by way of reorganising its core activities. During this period, a new domestic airport was built on Praslin – the second largest island in the Seychelles group. This new airport had all the requisite facilities; international check in; fully fledged reservation office; facilities for the reservation of international flights; issue tickets for both international and domestic flights. Further passengers were not required to travel to Mahé to buy or collect international air ticket (Padayachy, 2007).

In 1983, Air Seychelles expanded its services into international long-haul passenger services and the focus of the airline was on building the International operations. However, the international operations were initially not profitable, nor were it the intention. The intentions and the reason for the Government of Seychelles to require Air Seychelles venture into international long haul passenger services were to ensure a continuous and steady flow of visitors into the country (Charles, 2007; Morel, 2007). Air Seychelles entered into by joint ventures in order to strengthen core activities and consequently its

core competencies (e.g. Air Seychelles strategic alliance with Air France and new emerging markets). Also, Air Seychelles during these times benefited from national protectionism as it planned its upward activities. It was a learning period for the airline and it built alliances and joint ventures with established airline (Charles, 2007; Padayachy, 2007; Morel, 2007).

In order to enhance the company's development into international serviced, Air Seychelles acquired a Douglas DC10 through a wet lease agreement with the British Caledonian Airways and started its first weekly flight to Europe, which started in October 1983, until October 1984, when it changed its aircraft to Martin Air. In servicing Seychelles, British Caledonian Airways utilised its own aircraft and crew, as Air Seychelles did not possess these resources then (Charles, 2007). The initial development of Air Seychelles development of its resources and capabilities in the international service started with Martin Air with the first lot of Air Seychelles crew which were recruited in 1984 (Charles, 2007).

September 1986 marked a milestone in the history of Air Seychelles with the appointment of Mr Maurice Lousteau-Lalanne as Executive Chairman. Mr Lousteau-Lalanne comes to Air Seychelles from Aviation Seychelles. In 1981, Mr Lousteau-Lalanne was the first appointed Director General of Civil Aviation. In 1983, he joined Air Seychelles, as Executive Director International Operations, and subsequently became Executive Chairman until 1988. He was also the Chief Executive at the Ministry of Tourism and Transport for a period of ten years (1988 to 1998). Mr Lousteau-Lalanne is described as a "people's person who would constantly engaged with all his staff from porter to directors" (Charles, 2007). At the time with Air Seychelles was experiencing problems, especially delays, because of the old Boeing 707, Mr Lousteau-Lalanne was reported to have always been at the airport until very late in the night to lend encouragement to his staff (Charles, 2007). In 2007, Mr Lousteau-Lalanne was the Chief Executive Officer of the Seychelles Tourism Board. As of the year 2007, he is also the longest serving member of the board of Directors of Air Seychelles, having joined the Board in 1983.

In November 1988, Air Seychelles merged with Aviation Seychelles and Mr Conrad Benoit was appointed as Chairman of Air Seychelles replacing Mr Lousteau-Lalanne who had served as Chairman for two years. The Air Seychelles and Aviation Seychelles merger rationalised and added resources and capability of ground services to Air Seychelles. Aviation Seychelles was the company that previously was handling all the airlines at the Seychelles International Airport, including Air Seychelles. With the merger,

all airlines landing at the Seychelles International Airport were now being handled by Air Seychelles (Charles, 2007).

In January 1987, as an interim measure to respond to increasing traffic, Air Seychelles purchased two Boeing 707-329s. The Boeing 707 is a four-engine commercial passenger jet airliner developed by Boeing in the early 1950s. Boeing delivered a total of 1,010 Boeing 707s, which dominated passenger air transport in the 1960s and remained common through the 1970s. As of October 2006, 68 Boeing 707 aircraft (of any variant) were reported to be remaining in airline service, however, just one airline flying passengers, Saha Airlines of Iran (Irving, 1994). Although it was not the first commercial jet in service (that distinction belongs to the De Havilland Comet), the 707 was the first to be commercially successful, and is credited as ushering in the Jet Age. It established Boeing as one of the largest makers of passenger aircraft, and led to the later series of aircraft with "7X7" designations

The Boeing 707 quickly became the most popular jetliner of its time. Its popularity led to rapid developments in airport terminals, runways, airline catering, baggage handling, reservations systems and other air transport infrastructure. The advent of the 707 also led to the upgrading of air traffic control systems to prevent interference with military jet operations (Irving, 1994). As the 1960s drew to a close, the exponential growth in air travel led to the Boeing 707 being a victim of its own success. The Boeing 707 was now too small to handle the increased passenger densities on the routes for which it was designed. Stretching the fuselage was not a viable option because the installation of larger, more powerful engines would in turn need a larger undercarriage, which was not feasible given the design's limited ground clearance. Boeing's answer to the problem was the first twin aisle airliner - the Boeing 747. The 707's first-generation engine technology was also rapidly becoming obsolete in the areas of noise and fuel economy. Production of the passenger 707 ended in 1978. Boeing 707-320 Intercontinental is a stretched version of the turbojet-powered original model. The interior allowed for up to 189 passengers, while a longer wing carried more fuel increasing range by 1,600 miles allowing the aircraft to operate as true transoceanic aircraft.

The above is consistent with the observation of Mr Jason Charles, the Sales and Reservation Manager, who noted that the purchase of the two Boeing 707 aircraft in 1987, when production of the passenger Boeing 707 has stopped in 1978, could have contributed a 'tarnished image' of Air Seychelles. The aircrafts were not the ideally suited aircraft to serve Europe, though the aircrafts were refurbished and the engines were fitted

to produce less noise. The planes were old and did not satisfy the demands of the high end customers. The planes had only one centre aisle. It could not perform non-stop to some destinations in Europe (Charles, 2007). The same view is also shared by Mr Patrick Elizabeth, the general manager. He noted that the “Boeing 707 was costly and not economical to run. Further it did not have the capacity and range to carry a full load” (Elizabeth, 2007).

In July 1989, Air Seychelles significantly enhance its resources and capabilities when it acquired its first state of the art aircraft, a Boeing 767-200 ER (Extended Range) and subsequently improved its performance (Charles, 2007). It landed at the Seychelles International Airport on the 27th June 1989 after a world record breaking flight from Grand Rapids, Michigan USA and the 14,311 km covered, set a new distance record for a commercial twin-jet aircraft. The fact that the plane was co-pilot by a Seychellois signified a milestone in the development of the capabilities of Air Seychelles. The maiden flight of the Boeing 767-200 ER was to Singapore on the 31st July of 1989. By 1993, the Air Seychelles Boeing 767-200 ER was serving major European market, mainly London, Paris, Frankfurt, Zurich and Rome (Charles, 2007)

“With the acquisition of the Boeing 767-200, the performance of Air Seychelles considerably improved. Customers could fly direct from major destinations in Europe, for example London, Paris, Zurich and Frankfurt, and there were evident indications that the passengers were satisfied. This bode well for Air Seychelles. At that time British Airways, one of Air Seychelles’ competitors, was flying from London to Seychelles stopping over in Nairobi. The Boeing 767-200 was a good aircraft, a wider body compared to the Boeing 707, and passengers did not have to stop over on their way to Seychelles” (Charles, 2007). The same sentiments were echoed by Patrick Elizabeth who indicated that “from time the Boeing 767 came into service, ‘punctuality’ increased by 80 to 100 percent. This also helped the reputation of Air Seychelles. Since the national carrier has been performing very well and there was a high improvement in service delivery” (Elizabeth, 2007).

The Boeing 767 is a mid-size, wide-body twinjet airliner produced by Boeing's Commercial Airplane division. The Boeing 767 can carry between 181 and 245 passengers in a three-class configuration and has a range of 9,400 to 12,200 km (5,200 to 6,600 nautical miles) depending on the variant. The first model of the Boeing 767 was launched in 1978 and entered service with United Airlines in 1982. This model is used mainly for continental routes such as New York to Los Angeles. The 767-200 typically is outfitted with 181 seats

in a 3-class layout or 224 in a 2-class layout. All 767-200 models have a capacity limit of 255 due to exit-door limitations. The Boeing 767-200ER (extended-range) variant was first delivered to EI Al in 1984. It became the first 767 to complete a non-stop transatlantic journey, and broke the flying distance record for twinjet airliners several times. The acquisition of the Boeing 767-200ER was an important milestone and resource for Air Seychelles. It was a resource that gave Air Seychelles an important capability in competing with other carriers servicing Seychelles.

The experience of allowing more competition by the Seychelles government during this period was positive for the tourism industry and the Seychelles economy. In 1991 Air Seychelles was the only operator for the German market. With the introduction of Condor Airlines to the route, the total market has grown and Air Seychelles, after losing some business initially, subsequently carried the same number of passengers as it did prior to the introduction of Condor Airlines. The London and Paris routes also demonstrate the benefits to tourism of increased frequency of flights and number of operators.

In 1993, Air Seychelles, British Airways and Air France accounted for 86% to total passengers. Air Seychelles was the largest with 40.6% of the total market. In 1996 eight international airlines operated scheduled flights to and from Seychelles. These were Air Seychelles, British Airways, Air France, Condor Airlines, Kenya Airways, Aeroflot, Air Austral, and Inter Air. Passenger arrival by the three major airlines, British Airways, Air France and Air Seychelles accounted for 84% total arrival traffic.

The ground handling and domestic operations were also said to be making an important contribution. Both Air Seychelles and Directorate of Civil Aviation (which also started publishing a national profit and loss statement in 1993) appear to be making operating profits but were clearly unable to finance major investments and are not being charged for the recovery of the cost of the existing infrastructure. A full airport terminal and facility redevelopment would have cost over SR200m. Many countries were then looking into the participation of the private sector participation in such development.

In March 1993, the Air Seychelles Boeing 757 made its inaugural flight to Johannesburg, South Africa. The newly acquired Boeing 757 was dedicated to serving regional destination and also serves Madrid, Nairobi, Johannesburg, Dubai, Mumbai and Singapore. During that year, Air Seychelles carried 40% more passengers than in the previous year, 1992. The flight decks of the Boeing 757 and 767 are very similar and as a

result, after a short conversion course, pilots rated in the 757 are also qualified to fly the 767 and vice versa.

The Boeing 757 is an American medium to long-haul commercial passenger aircraft manufactured by Boeing Commercial Airplanes. It entered service in 1983 and production ended in November 2005 after 1,050 had been built. As of January 2007, a total of 1,006 Boeing 757 aircraft remain in airline service (Boeing 757 Reference Site, 02 January 2007). The 757 was designed by Boeing to replace the Boeing 727 and complement the Boeing 767 on thin routes. Boeing originally offered the airlines a stretched, re-engined 727-200, known as the 727-300, but this never received enough interest from the airlines to proceed. The 757 is used on heavy domestic routes as well as long routes between North America and Europe. Like the 727 it replaced, the 757 was designed for hot and high climates. For purposes of air traffic control spacing, 757 variants are treated as "heavies", because of their tendency to produce strong wake turbulence.

Throughout the program, some viewed the 757 as "too much aircraft" for the role of a 727 replacement. With 20% more seats and a 50% longer range than the 727-200, the 757-200 was clearly not a like-for-like replacement. The Boeing 757 maintains competitive economics with newer short haul aircraft like the Boeing 737 and Airbus A320 product lines, following the trend of larger aircraft having lower seat/mile cost. However, changing market conditions do not necessarily favour larger units of capacity. In an event that passenger loads fall, the smaller 737 and A320 expose the airline to less financial risk. For those airlines in need of large capacity, the A321 and 737-900ER have lower trip cost, albeit with slightly fewer seats and less range. These airplanes fulfil the requirements of 90% of the routes served by the Boeing 757, and provide an alternative for airlines already operating 737 and A320 fleets. While the program was a resounding financial success, sales dwindled during the late 1990s, eventually forcing Boeing to cease production.

After seven years at the helm of Air Seychelles, Mr Conrad Benoiton was replaced by Freddy Karkaria on February 1, 1995. Mr Karkaria had been in the Aviation sector for over twenty years and prior to his appointment was the Director General of the Civil Aviation Authority.

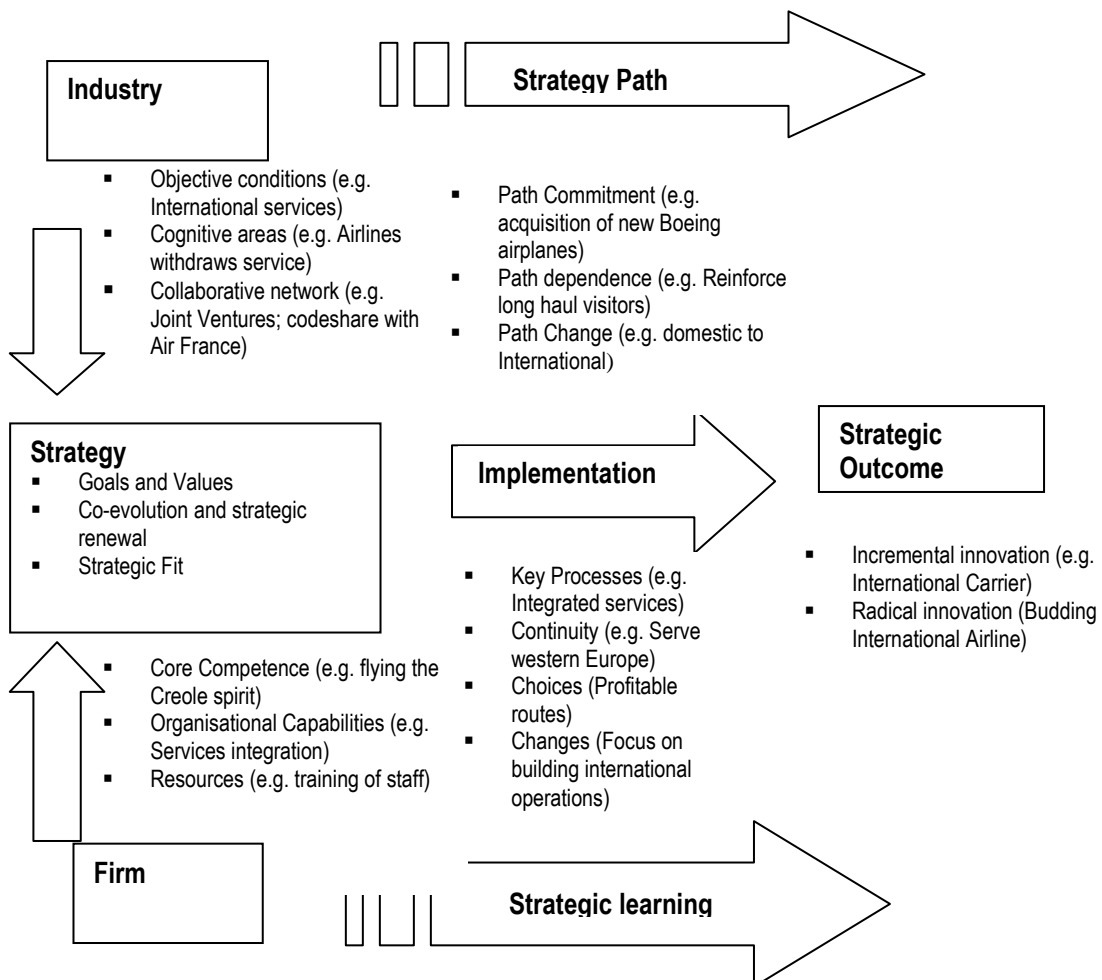
With a fleet of two; a Boeing 767-200ER and a Boeing 757-200, Air Seychelles also explored possibilities in the medium haul passenger services. For example, in 1995, Seychelles expanded its services to Dubai and Mumbai. Air Seychelles also introduced an additional flight to Spain, and an inaugural flight to Tel Aviv, Israel, in the same year. On

January 1996, Air Seychelles had its inaugural flight, non-stop to Manchester. However, these routes did not prove successful and profitable.

By 1994 with only the two jet aircrafts, Air Seychelles was serving 10 destinations on 3 continents. Further, in 1996, Air Seychelles added an extra flight to Rome. In October 1996, Air Seychelles and Kenya Airways announce a joint venture operation which will allowed Air Seychelles to carry Kenya Airways passengers from Seychelles to Nairobi and vice versa.

In December 1996, Air Seychelles returned the Boeing 757 to the International Lease Finance Corporation and receives a brand new Boeing 767-300ER in Seattle. The new Boeing operated its maiden commercial flight from Paris and landed in Seychelles on the December 4, 1996. The Boeing 767-300ER is an extended-range version of the 767-300. It first flew in 1986 and received its first commercial orders when American Airlines purchased several in 1987. The aircraft entered service with American Airline in 1988. In 1995, EVA Air used a 767-300ER to inaugurate the first transpacific 767 service. The Boeing 767-300ER has a minimum takeoff run of around 1,825 metres and a maximum of 2,400 metres. The 767-300ER is expected to be replaced by the 787-8 Dreamliner in the Boeing's line-up.

Figure 6-3: Air Seychelles, 1983 to 1996 – Developmental Stage



The 787 Dreamliner is a \$10 billion gamble to reinforce Boeing's standing as the world's most innovative and successful builder of commercial airplanes (West, 2007). As of July 2007, the 787 Dreamliner had already racked up a record 677 orders from 47 airlines, making it the biggest selling new commercial jet in history – and it had not even flown yet. The plane, which sells for between \$146 million to \$200 million, was sold out until 2014 (West, 2007). With the Dreamliner 787, Boeing has rewritten aviation history. Just about every aspect of the plane is new, including the way it is designed and built to the material used to build it. For the 787, Boeing is leading a team of international partners who are shouldering production and design work – including its long-coveted wings and fuselage – in addition to sharing in the financial risk. It is the company's first all-new commercial jetliner since the twin-engine 777 rolled out in 1994 and is Boeing's first passenger airplane built primarily of man-made carbon-fibre reinforced plastic, known as composite. Because composites are lightweight and don't corrode or fatigue the way metal does, Boeing says the 787 will use 20 percent less fuel and will be 30 percent less expensive to maintain (West, 2007).

6.5 THE CONSOLIDATION STAGE OF AIR SEYCHELLES

6.5.1 Air Seychelles' Business Environment from 1996 to 2007

While tourism remains the most important industry in Seychelles, there were many challenges that needed to be addressed. The main challenge for Seychelles as a destination was the need to compete effectively with other similar destinations. These include neighbouring island destinations like Mauritius and Maldives, which began developing their tourism industry at a later period than Seychelles (Germain, 2007). Whilst Seychelles might have been at the stagnation stage of the Butler's Tourism Area Life Cycle, Maldives and Mauritius are in the growth stage. Further, these destinations had also learnt from the experience of the Seychelles tourism industry. These islands consequently adopted very aggressive marketing strategies, which resulted in increases in visitors arrivals (Germain, 2007). A second challenge was the perception of limited "value for money". Compared to similar islands destination, the Seychelles was considered as expensive (Savy, 2007).

It should be noted that economic growth slowed in 1998–2001, due to sluggish tourist and tuna sectors. Also, tight controls on exchange rates and the scarcity of foreign exchange impaired short-term economic prospects. The parallel market value of the Seychellois rupee was anywhere from two thirds to one half the official exchange rate; the tourist sector remained sluggish and tourists were seeking cheaper destinations such as nearby Comoros and Madagascar. The reduction in the number of flights serving the country, primarily due to the inability by airline companies to repatriate funds (foreign exchange), had also constrained the growth of the tourism industry. Further, Seychelles as a destination was not providing the requisite product to its targeted high spending clientele (Savy, 2007).

Allied to the two afore-mentioned challenges, was the inadequate quality level of some facilities. Whilst most international chain of hotels maintained a high quality of levels, most of the locally owned small hotels and guest houses had not maintained the requisite quality level of their institution (Seychelles Nation, 20 December 2007). Another limiting factor to the growth of the tourism industry was the inconvenient and limited air access. Fewer airlines flew to Seychelles given the load of traffic and the potential non-viability of the services. The few big carriers aimed at linking Seychelles to their overall international network. This situation was also exacerbated by the inadequate airport infrastructure. Seychelles has only one small international airport with limited physical space and services. Further, the Seychelles economy generally suffered from a shortage of trained and qualified personnel.

On the other hand, Seychelles' tourism industry also had many positive aspects or opportunities that could be further developed. These included an existing network of resorts and hotels; a relatively well developed tourist facilities and services which had thrived over the years; the current development of high quality new hotels mostly by well established names in the hotel industry; the possibilities for the development of niche markets as had been the case in recent years; the potential for ecotourism; the enhancement of Air Seychelles fleet to respond to need of an efficient air transportation to the islands; the expansion and development of Seychelles Hotel and Tourism Training Academy; and the safe and healthy environment.

To meet the presenting challenges and to take advantage of the emerging opportunities required the adoption of proactive strategies designed to achieve the development objectives. In 2003, the Seychelles government developed the 'Vision 2020', a policy document to guide tourism development until 2020. The government vision for tourism

development in Seychelles was that: "Tourism in Seychelles shall continue to be developed to the highest standards for the optimum social and economic benefit of the Seychellois people while maintaining a commitment to the protection and conservation of the natural environment and biodiversity' (Government of Seychelles, 2003; 2). Vision 2020 aims to maintain and expand the tourism sector's contribution to the national economy, in a manner that is environmentally and socially sustainable. It was suggested that this be achieved by a gradual increase in visitors arrivals, accompanied by an increase in yield per tourist.

The emphasis of the Vision 2020 was to gradually expand the bed capacity, developed to higher quality levels in the industry, and the development of more activities and attractions for tourists over a period of ten years. The aim was to offer adequate accommodation and to attract high spending visitors. The main tourism market in Seychelles remained the western European, it was envisaged that the tourist markets are broadened to include both general and special interest tourism, and in improving access to more market areas. Increasing tourist expenditure per day with more value added in the country was also an integral part of the strategy. However, given the environmental concerns, vision 2020 emphasised developing tourism not only on a sustainable basis, but also in a manner that it does not negatively affect the environment. Vision 2020 proposed that the country do not exceed the carrying capacities, and protecting the environment and cultural heritage of Seychelles.

The participation of the local population in the development of the tourism industry is of vital importance. At the growth and stagnation stage of the Butler's Tourism Area Life Cycle, the local population tends to be apprehensive of visitors. To remedy this possible situation and also to get the local population to support the development of the industry, sensitising the Seychellois population on the importance of tourism and the need to provide good quality service standards at all levels is necessary.

To ensure a high standard of the tourism product and according to the Vision 2020 tourism policy document, approval is only to be granted for the development of new projects that are of high quality standard and offer good value for money. This will be supported by a hotel classification system which will be reinforced to set the facility and service standards for various categories of hotel. It is also the intention that classification will eventually include an eco-label or certification, followed by publication of environmental performances by establishment (Government of Seychelles, 2003).

The vision 2020 seeks to establish a Tourism Standards Board to enforce good quality standards for accommodation and other tourist facilities and services. Although a decision was taken to delay implementation of this measure pending further consultation within the industry, improving the quality level of services provided by tourism enterprises through the various approaches set forth in the human resource development section of the plan would be advantageous (Government of Seychelles, 2003).

Ensuring a high quality level of the environment, as a critical element in improving the tourism product, and where needed through improving the quality level of infrastructure, as set out in the infrastructure section of this plan. These included improving waste management and ensuring adequate water supply and Implementing and maintaining environmental protection measures and programmes as set out in the section on environmental considerations (Government of Seychelles, 2003).

In response to the international trend towards more activity orientated holidays, efforts were made to promote and diversify the range of activities that are available to tourists. These include Eco-tourism related to the natural environment and/or the cultural heritage and water related sports, such as fishing, sailing and scuba-diving.

There was also an emphasis, in Vision 2020, on the development of a greater range of hotel-based recreational activities and services. These include both day activities and evening entertainment, particularly during rainy periods. The desire to experience different cultures and lifestyles is increasingly a consideration of the international traveller. Vision 2020 seeks to promote Seychelles' unique Creole heritage and make it more accessible to visitors, through supporting to existing cultural events, both the national and district levels; close partnership between all stakeholders, including local artists and musicians associations; conservation of historic monuments and provision of visitor facilities related to the historical and cultural heritage of Seychelles (Government of Seychelles, 2003).

Given the above number of beds at an average length of stay of 10 days, the maximum annual number of visitors that could be accommodated would be around 270,100 at 100% occupancy. However, this is not realistic as there cannot be 100% bed occupancy at any destination. A more realistic estimate would be 80% bed occupancy or 216,000 visitors.

Over the five years up to 2003, the average annual rate of increase in the number of beds has been around 100 beds, and the average occupancy rate has been around 55%. In the projections that follow, Vision 2020 assumed that there will be an average net increase

of 300 beds per year until 2005. This includes new developments and loss of beds due to closure and/or redevelopment (Ministry of Tourism and Transport, 2003). This sees for an average net increase of 100 beds per year between 2001 and 2010, making a total of around 7,100 beds by 2010. This also assumes that around half of currently approved and pending projects will be implemented during the next 5 years, to be followed by a period of consolidation between 2005 and 2010.

Towards the end of the 1990s it slowly became evident that the environment where Air Seychelles received government protection would not be sustained. In the 1980s and 1990s Air Seychelles' sectors moved from being rather transformative towards being incremental. The quest for survival in these sectors has been amplified by the time-lag between deciding on implementing and the actual implementation, combined with the capital intensity of the sector. Retrospectively, this has been fortunate to Air Seychelles and the tourism industry in Seychelles. The industry saw a revival and Air Seychelles maintained its leadership in the higher niche market. In 2006 approximately 60% of the visitors to Seychelles were carried by Air Seychelles (National Statistics Bureau, 2007b).

It was during this period that government also decided to grant more autonomy to Air Seychelles. Whilst previously, the airline had to follow regulations, procedures and policy decisions of government, especially from line government ministries, responsible for tourism and finance, the airline had a freer hand to run its own affairs as it seemed fit and profitable (Elizabeth, 2007). As put by Mr Guy Morel (not to be confused with the founder of Air Seychelles who goes by the same name), Marketing Manager of Air Seychelles, Air Seychelles was previously being run like a government department, with the airline being granted more autonomy, the management would then run the airline like a business venture (Morel, 2007).

In a parallel effort to strengthen civil aviation in Seychelles and in line with its liberalisation policies, the Seychelles Government, in May 2005, dismantled the Directorate of Civil Aviation and the National Assembly (the equivalent to Parliament in Seychelles) approved the setting up the Seychelles Civil Aviation Authority as a semi autonomous agency.

It was expected that the above mentioned conditions would lure more visitors to the country and directly influence the tourism industry in Seychelles in a positive manner and indirectly also translate into good business for Air Seychelles.

6.5.2 The Dynamics of Tourism Industry 1996 to 2007

In the fourth episode in the trend of visitors' arrival from 1997 to 2007, the number of visitors reached a plateau and stabilised with an average of 130,000 visitors per annum. The number of visitors fluctuated between the years 1997 to 2005 but showed no growth. During that period, visitor arrivals declined to 124,865 in 1999, but recovered to reach a second peak in 2002 with 132,246 arrivals. From the year 2005, there appears to be a new upward trend in the number of visitors to Seychelles. There was a 6.5% growth in visitors' arrival in 2005 over 2004, 9.3% growth in 2006 over 2005 and a 14.7% growth in 2007 over 2006 (National Statistics Bureau, 2008b). This may be indicative of a new upward trend in visitors' arrival and that the result of the government interventions being fruitful.

From 1996 to 2004 the whole of the tourism industry, and to a lesser extent Air Seychelles, appears to have been overtaken by events. In spite of all the efforts Air Seychelles and the rest of the tourism industry remained behind the times. It is hard changing after a long period of continuity, the industry remained stagnant. Mr Francis Savy, former CEO of the Seychelles Tourism Board and a development consultant (in 2007) indicated that "The stagnation of the tourism industry was as a direct result of the product being offered was not competitive in terms of quantity and quality" (Savy, 2007).

The process of becoming a mature company covers a longer period than just 1973-1996. However, for the first time as an international long haul passenger airline large company, Air Seychelles had to deal with shrinking markets. "The airline had an artificial ceiling in terms of capacity (volume) and this limited growth. At that time there was limited competition and there was no concerted efforts to any push for further growth", (Savy, 2007).

From 2004 to 2007, there has been a significant increase in the number of visitors to Seychelles. This increase in visitors' arrivals coincides with the introductions of weekly flights by Emirates and Qatar Airlines and the completion of several major hotels. For instance, opening in mid 2006 was the 'Maïa Resort' at Anse Louis on Mahé featuring an exclusive 30-villa resort with beach villas, 50 hillside villas and two luxury beach villas and with its own beach. Opened in July 2006, was the 'Labriz Silhouette' on the mountainous island of Silhouette some 34 km northwest of Mahé, a secluded five-star resort with 109 individual chalets. Silhouette Island is renowned for its high altitude mist forests and endemic flora and fauna (Silhouette, 2006). Linked to this development in the hotel sector

is Air Seychelles current strategy to include the Boeing 787-800 Dreamliner aircraft to its international fleet in 2010. Air Seychelles was amongst the first airlines in Africa to place an order of this new aircraft (Silhouette, 2006, vol. 17, no. 12). This was basically to counter the 'threat' posed by Emirates and Qatar airlines for the 'five-star' passengers (Morel, 2007).

During the period 1997 to 2007, Europe provided on average 80.3% of all visitors to Seychelles. During the same period, about 80% of the total revenue earned by Air Seychelles on the international network originated from Europe (Air Seychelles, 2006). The annual number of visitors from Europe grew from 102,261 visitors in 1997 to 103,382 visitors in 2005, representing 76.6% and 80.1% of total visitors' arrivals. During this period, the principal generating countries were France Italy and UK and Eire. France was the principal market representing an annual average of 20.5% of the total number of visitors. The number of visitors from France grew from 25,067 in 1997 to 27,592 in 2005. The proportion of visitors from France grew from 19.6% in 1997 to 21.4% in 2005, (National Statistics Bureau, 2008b).

From 1997 to 2007, Italy represented the second most important market providing an annual average of 15.3% of the total visitors. The number of visitors from Italy fluctuated between 21,151 in 2001 to 17,049 in 2004, (National Statistics Bureau, 2008b).

Between the years 1997 to 2007, the number of visitors from UK represented an annual average of 13.6% of total visitors. The number of visitors' arrival from UK increased from 17,500 in 1997 to 16,796 in 2005, representing 11.8% and 13.1% of the total visitors' arrivals, (National Statistics Bureau, 2008b).

Germany also represents an important market. The number of visitors from Germany decreased steadily from 1977 to 2007. The number of visitors from Germany averaged 13.7% of the total visitors' arrivals during this period. In 1997 the number of visitors from Germany was 21,450. However, in 2005, this figure had declined to 17,011 (National Statistics Bureau, 2008b).

During the period 1997 to 2007, Europe provided 80.4% of all visitors to Seychelles; the African market accounted for 10.6% of the total visitors' arrivals; and visitors from other destinations represented only 9% of total visitors, with the proportion of visitors from Europe increasing steadily (National Statistics Bureau, 2008b).

In the period 1997 to 2007, the average length of stay remained 10.2 days; the highest for the period was 10.5 days in 1998 and the lowest was in 2005 at 9.7 days (National Statistics Bureau, 2008b). This is indicative of the popularity of the two-week holidays. There was no change in the pattern of tourism as both the number of visitors and the average length of stay remained the same.

During the period 1997 to 2007 the availability of beds increased from 4,600 to 5,140. Except from 2005, there was no growth in the number of visitors to the islands. As a result, both room and bed occupancy fell to its lowest. Room occupancy fell from 63.0% in 1997 to 46.0% in 2004, after which it recovered to 48.0% and 52.0% in 2005 and 2006 respectively. Bed occupancy fell from 57.0% in 1997 to 44.0% in 2004 but recovered to 49.0% in 2006 and 56.0% in 2007 (National Statistics Bureau, 2008b).

During the same period, tourism expenditure grew from SR612 million in 1997 to SR885 million in 2006 (National Statistics Bureau, 2008b).

6.5.3 The Consolidation Process

Consolidation is about protecting and strengthening the organisation's position in its current market. In the case of Air Seychelles this implied the protection and strengthening of its position in operating the service from UK, France, Germany and Italy to Seychelles. The industry characteristics and strategic position is seen as important determinants of strategy and strategic success. It requires that attention to the extent that the organisation's resources and competencies continue to fit the market need and how they should adopt or develop to maintain the competitive position of the organisation. The link between the performance and relative market share is emphasised by the experience curve work (Johnson and Scholes, 1997).

Consolidation means keeping the market share and the activities needed depend on the prevailing market conditions: In growing market, to consolidate, the firm should grow with the market. The argument is that if a firm does not grow while the industry is expanding, it will be much more difficult later when the industry has matured. Secondly, if the firm does not grow, it will lose market share which will become disadvantage due to higher cost structure. In matured market, consolidation requires a firm to defend its market. To this end, it may have to improve its quality, increase marketing activities, achieve productivity gain and build barriers. In declining market, consolidation may require a firm to buy up ailing competitors.

In a market which is transiting from matured to declined, consolidation may be in the form of selling off the operation to get the maximum value.

As was the case of Air Seychelles, the economic downturn of the late eighties led many global corporations through a remarkable period of consolidation. Phenomena such as “business process reengineering” and “downsizing” forced businesses to re-evaluate their business practices. Many industries went through prolonged periods of consolidation and reinvention. During this period, simple economics forced the businesses to identify their core competency areas and shed businesses that were not profitable.

As indicated by Prahalad and Hamel (1990) sustainable competitive advantage results from core competencies; firms ought to consolidate resources and skills into competencies that allow them to adapt quickly to changing opportunities. Skills, in this context, are a reflection of the distinctive capabilities of key personnel or the firm as a whole. It is those things that the organisation does particularly well, which includes the core competence of the key people and the skills and systems of the organisation as a whole. The real sources of an organisation’s advantage are to be found in the management’s ability to consolidate corporate-wide technologies and production skills into competencies that empower individual businesses to adapt quickly to changing opportunities (Prahalad and Hamel, 1990: 81).

Air Seychelles decided to invest in a younger fleet of aircrafts. As seen earlier, the airline changed from the Boeing 707 aircraft to the newer Boeing 767. Another case in point is the Air Seychelles investment in the Boeing 787 Dreamliner by placing an order for the aircraft, which Boeing was expected to start delivering in 2009, because Air the industry expects that this aircraft will be the state of the art in 10 years from now. Upgrading their fleet is a very important issue central to the process of the transformation of Air Seychelles and the development of its resources.

6.5.4 The Transformation of Air Seychelles from 1996 to 2007

As indicated earlier, and as suggested by Barney (1991), four categories of resources; financial, physical, organisational and human resources, created by Air Seychelles during this period are highlighted. As intimated, of the four elements, human resources is one of the most essential dimension of resources for Air Seychelles. This was especially the case during the period beginning 1996, and in particular, with regards to the entrepreneurial experience.

In March 1997, Captain David Savy was appointed as Chief Executive Officer of Air Seychelles, replacing Mr. Freddy Karkaria, who had served as Chief Executive Officer for two years, since 1995. Prior to that Captain Savy was Air Seychelles' director of operations, a post he held since 1986. Captain Savy is a pilot by training. He started his aviation studies in India and furthered his licences in the USA and UK. He acquired further management studies at the International Ocean Institute, Dalhousie University in Halifax Canada and at the Seychelles Institute of Management (Air Seychelles Annual Report, 2004-2005).

After completing his aviation studies, he occupied both civilian and military positions. Captain Savy joined the airline in 1980 as a part-time pilot on the domestic flights. He later became a First Officer on the Boeing 767 in 1989 and a Captain in 1992. Two years later he was appointed as the General Manager for Flight Operations and Subsequently the Director of Operations. He was also the Training Captain and Examiner. In January 2002, Captain David Savy was appointed Executive Chairman and Chairman of the Board of Directors of Air Seychelles Ltd. In November 2004, Captain David Savy moved from being the Executive Chairman to Chairman and Chief Executive of Air Seychelles.

On the military side, he has served in several posts in the Seychelles People Defence Forces. This varied from Commanding Officer of the Seychelles Air-wing, Commanding Officer Airport Security Unit, Deputy Chief of Staff of the Seychelles People Defence Forces, Member of the Defence Forces Council and Member of the Board of Governors of the Seychelles Defence Academy. He holds the rank of Lieutenant Colonel in the Seychelles People Defence Forces (Air Seychelles, 2005).

Captain Savy sits on a number of Government boards, which includes the Seychelles Tourism Board and the Seychelles Civil Aviation Authority. He is also a board member of private companies like H. Savy & Company Ltd. (Seychelles) and Terra Properties Ltd. (Seychelles), and of New Mauritius Hotels Ltd. (Beachcomber, Mauritius), which is listed on the Stock Exchange of Mauritius. This puts him in a vantage position to understand, and have tacit knowledge, not only the aviation and airline sectors but also the business sector and the tourism industry in the region.

In 2004, Captain Savy was recognised for his contributions towards the aviation industry within the region when he was awarded the African Aviation Achievement Award for Outstanding Services to the African Aviation Industry. In 2006, the Vice-President of the

Seychelles, Mr. Joseph Belmont, bestowed a leadership award to Captain David Savy in recognition of his contribution in turning the national airline into a profit making organisation during his nine-year tenure as head of Air Seychelles (Silhouette, 2006).

Captain Savy is credited with instituting effective strategic plan, tighter budgetary controls, with an emphasis on service delivery. It is thought that the Air Seychelles was potentially always profit making operations. However, Captain Savy was one of the CEOs that did not run the airline like a government department but a business venture. He instituted very focused strategic plan, instituted controls and, rather than depending on subventions from government, aimed at making the airline profitable (Morel, 2007). This view is also clearly expressed in the 2004-2005 annual report where he indicated that “we vigorously addressed critical issues of cost control and management. Every department has had to actively work on reducing costs and ensuring that budget limits are not exceeded so that our costs are contained within our new operating scenario” (Air Seychelles, 2005:5). A ‘Cost Containment and Reduction’ strategy was implemented, which formed the third pillar of the seven point Corporate Strategy. Budgets were closely monitored by the Budget Review Committee, which held several formal review sessions (Air Seychelles, 2005).

Captain Savy has been with the company from the start of his career – a career that spans the period of Air Seychelles’ existence. One of the general managers of Air Seychelles emphasising the importance of time in building capabilities explained: “Why is someone good at what they do? It is because they have done it for a long period of time. In the case of Captain Savy, he has been an employee of Air Seychelles since the formation of the airline, further he has seen what worked in the past and what has not worked,” (Elizabeth, 2007). This view is also outlined by Collins and Porras (1999) as underlying habits of long-successful, visionary companies as an orientation towards evolutionary change, by experimenting and keeping what works. This emphasises that evolutionary processes can be a powerful way of linking the interaction of the firm with its industry.

In line with the growing importance of Air Seychelles in the tourism industry, in this period Air Seychelles started investing a great deal of energy in long-term planning. The main objective of this strategic planning activity was to introduce the mechanics of systematic planning; a planning routine involving senior management; a formal planning routine for the organisation; and assistance in the actual implementation of the operational plan. The planning cycle was mainly staff-driven, and associated with a detailed system of departmental questionnaires, and planning tables, coordinated by the corporate strategy department (Padayachy, 2007). This formal planning process illustrates a succeeding life-

cycle stage in the company. "The planning process was further enhanced by better research" (Elizabeth, 2007). Further, members of staff are constantly apprised of the situation of the airline as the plan was implemented (Charles, 2007). This implies that the staff evolves and grows; and in the process transforms the organisation and the organisation learns from them about efficiency, quality improvement and innovation (Elizabeth, 2007; Charles, 2007). With employees empowered to make more decisions, they need to understand those decisions in the overall context of the organisation (e.g. Braham, 1995).

As seen earlier, the Air Seychelles service delivery is based on 'Flying the Creole Spirit' as a major determinant in its attaining and maintaining in the tourism industry and serving the destination to Seychelles. Mr Jason Charles argues that linked to this is also the feedback received by the 600 to 700 staff of Air Seychelles on the status of the airline. He noted that "all staff is aware of what is happening in and to Air Seychelles. The members of staff work as a team in a closely knit family and have the supportive senior management and good management practice (Charles, 2007). This is one of the key success factors of the services provided by Air Seychelles. As a reward for its services, Air Seychelles was ranked amongst the World's Best in August 1998, due to its high standards, according to a leading German travel magazine 'Reise Und Preise' (Air Seychelles, 2007c).

The airline sector had many faces. On the one hand, it was an open sector providing Air Seychelles with ample possibilities of being able to choose the best service facilities available. There were many co-operative relationships and alliances among competitors. Cases in point were the alliances initially with British Caledonian and subsequently with Air France, Air Mauritius, Condor. On the other hand, by way of governments the airline sector represented a bastion of protectionism facilitating some aspects of development of resources and capabilities and made it very easier for Air Seychelles as a newcomer, relative to the experience competitors.

The airline sector provides an interesting example of an interactive reality with both competitive and collaborative relationships. Openness in the airline sector concerning technology has always been separated from market behaviour. The dividing line between competitive and collaborative relationships becomes visible when focusing on differences between commercial and technological activities. The former is clearly competitive while the latter is very open and collaborative in the airline sector.

As seen earlier, the second element of the competitive advantage of Air Seychelles rests with the organisational resources. This is further strengthened in the planning of its routes, its strategic alliances and joint ventures to enhance this advantage. In October 1997 Air Seychelles started three key initiatives. Firstly, Air Seychelles and Air Mauritius agreed to commence flights to one another's islands. As initially neither Air Seychelles nor Air Mauritius had no capacity to undertake this venture, this route was initially serviced by using Air Madagascar and an Air Austral aircrafts. Consequently, Air Seychelles and Air Mauritius used to their own B767's once they acquired the aircrafts. Secondly, the joint venture between Air Seychelles and Air Austral, an airline from the sister island of Reunion, started its operation to Mauritius on the 30th October 1997. This initiative linked the three sister islands of the Indian Ocean; Seychelles, Mauritius and Reunion. Thirdly, Air Seychelles and Air France likewise launched into full joint venture between Paris and Seychelles using Air Seychelles B767's. Air Seychelles initially carried the Air France's logo. Consequently, the Air France flight to Seychelles, using the Air France Boeing 747, was withdrawn paving the way for Air Seychelles to be the sole service provider on the Paris to Seychelles route.

In February 1998, Air Seychelles and British Airways launch a joint service between Nairobi and Seychelles. Previously, this route was solely serviced by Kenya Airways. The following month, March 1998, Air Seychelles, in collaboration with Air Mauritius, started a new route to Mauritius on the 31st March using the Air Seychelles Boeing 767 (HM/MK355), operating three weekly flights. It was as a result of these arrangements that Air Madagascar and Air Austral stop serving this route, making the Air Seychelles code-share flight the sole provider of service from Mauritius to Seychelles. In June 1998 saw a joint venture between Air Seychelles and Alitalia. In November 1998, Air Seychelles launches first flight to Milan in Italy and on 1st November, in agreement with Alitalia, Air Seychelles adding to another weekly flight to Rome. This made Air Seychelles the only airline servicing the Italy to Seychelles route. In April 1999, Air Seychelles and Air Austral enters into a code-share agreement on a joint service on the Reunion - Seychelles route.

Apart of the strategic alliances and joint ventures to enhance competitive advantage, Air Seychelles continuously adjusted with strategies to respond to the external business environment. For example, in May 2000, Air Seychelles merges the Milan and Frankfurt flights following low passenger load factors, normal for the European summer months. However separate direct flights Milan and resumed in October 2000 after the summer months when the conditions changed. Another case in point was the flight to Frankfurt

which from March 2001 was later transferred to Munich. In the same month Air Seychelles stopped its Milan flight and added a second flight to Rome.

In a bid to further consolidate its service and ensuring customer loyalty, in March 2001, Air Seychelles' "Frequent Flyer" launched its the "Seychelles Plus Programme" offering its club members with special and personalized services through their Blue card, Silver card and the Gold card.

In 2001, Air Seychelles aimed at further strengthening and consolidating its services. In December 2001, Air Seychelles strengthened its operation to Paris by operating its fifth schedule flight out of the French capital, starting December 17, 2001. Further, the following day, December 18, 2001, Air Seychelles started a schedule flight to Moroni and Dzaoudzi in the Comoros, code share with Air France. This was to take advantage of a void left by Air Austral, which previously served this route via La Reunion Island. In January 2002, Air Seychelles re-launched its services to Mumbai, India, operated by the new Boeing 737-700NG via Maldives. Air links between Seychelles and India were once served by Air India between 1976 and 1988. Air Seychelles also operated a weekly service to India on its Boeing 757 from 1993 to 1996.

In a bid to strengthen its regional services, in September 2002, Air Seychelles, Air Mauritius and Air Austral launched the Indian Ocean Pass Programme at the Top Resa Fair in Deauville, France. This programme allowed passengers from abroad to build their own itinerary by travelling on either of the three airlines around the following islands of the Indian Ocean; Comoros, Madagascar, Maldives, Mayotte, Mauritius, Reunion, Rodrigues and Seychelles.

However, Air Seychelles had also to address some regional challenges. For example, in April 2003, the Severe Acute Respiratory Syndrome (SARS) epidemic forced Air Seychelles to suspend its flights to Singapore and no additional flights were added on the Dubai, Maldives and Mauritius routes, which could have facilitated transit to Singapore and Asia. However, the Air Seychelles flights to Singapore were subsequently resumed in July 2003.

In 2003, Air Seychelles, in response to business environment of the long haul passenger market, the outer context, adjusted some of its service. For example, in March 2003, Air Seychelles moves its weekly flight out of London-Gatwick to London-Heathrow. In October 2003, Air Seychelles returns to Frankfurt and cancels its Munich flight. In

November 2003, Air Seychelles increases its flights to Johannesburg, Male and Mumbai. There were four weekly flights to Johannesburg and two weekly flight to Male and Mumbai. Air Seychelles ceases its services to Mayotte and Comoros on April, 2004. In June 2004, Air Seychelles launched its own services to La Reunion and ceases the code-share with Air Austral. This left Air Seychelles with the monopoly of servicing the Reunion – Seychelles route.

During the period 1996 to 2004, most major airlines, except for Kenya Airways, had again pulled out of servicing Seychelles as an international destination. The steady flow of visitors' arrivals to Seychelles was mainly due to the efforts Air Seychelles, and its joint ventures with other airlines (Elizabeth, 2007). However, Kenya Airways has always serviced Seychelles as an international destination and with Air Seychelles were the only airlines operating on a commercial basis from Europe and Kenya to the Seychelles during this period. Air Mauritius also maintained a flight a week between Mauritius and Seychelles (in addition to the joint venture on one or two flights with Air Seychelles), until the year 2005.

After the period from 1999 to 2004, which saw Air Seychelles developing and consolidating its services, Air Seychelles had to revisit its strategies to again adjust and strategically fit with the business environment – the outer context. This was as a result of the Seychelles Authorities, in December 2004, adopting a more liberal air access policy, and relaxing the protectionism extended to Air Seychelles (Morel, 2007; Charles, 2007). It resulted with the immediate arrival of new entrants from the Middle East and their operations commenced with multiple frequencies to the Seychelles International Airport. The transition from a regulated environment to a more liberal environment is a dramatic change for a firm, and firms that developed resources under a regulated environment are likely to develop their resource bases differently in a deregulated environment (Pettus, 2001). Whereas regulation acts as control on firms' behaviour, in a regulated environment, market share and scale of operating authority are constrained (Pettus, 2001).

In view of the mounting competition and the numerous other challenges faced by Air Seychelles, a series of measures were taken to ensure economic viability. An extensive review of the operations was carried out and a new business plan was adopted after thorough and laborious simulations, encompassing various scenarios. The decision was taken to concentrate on non-stop flights on the routes where the airline can stand on its own. The implication was that Air Seychelles retained their stronger markets, Paris,

London and Rome and serving them with multiple frequencies. In the region, the airline concentrated their service to Singapore, Mauritius and Johannesburg. They relinquished Dubai, the hub for the new entrant, Emirates. Frankfurt and Zurich was served by code share partner; Condor. Air Seychelles was compelled to reduce their staff numbers and return the Boeing 737-700NG. In the region Air Seychelles continued to serve Mauritius, Johannesburg and Singapore (Air Seychelles, 2005).

The main challenge faced by Air Seychelles with the open sky policy and air liberalisation was the arrivals of Emirates and Qatar airlines in the Seychelles skies. Following these, Air Seychelles, in a downsizing exercise, suspended services operated by its Boeing 737. The last flight operated by B737 to Maldives, was on 3rd April 2005. The Boeing 737 flight to Mumbai was suspended and the last flight operated on April 4, 2005. The last Boeing 737 scheduled flight to Johannesburg was April 9, 2005. On May 2, 2005, Air Seychelles signed a lease termination agreement for the Boeing 737 with the International Lease Finance Corporation. The International Lease Finance Corporation subsequently leased the Boeing 737 aircraft to Sahara Airlines of New Delhi, India on May 3, 2005. However, on July 2005, to service the South African market, Air Seychelles leased a Boeing 727 aircraft from the South African based Nationwide Air to operate its Johannesburg service on Saturdays.

With the introduction of Emirates and Qatar Airlines services to Seychelles, Air Seychelles ceased its services to Dubai in December 2004. Associated with the introduction of Qatar Airlines in December 2004 and Emirates in January of 2005 is an increase in visitors' arrival to Seychelles in 2005 and 2006.

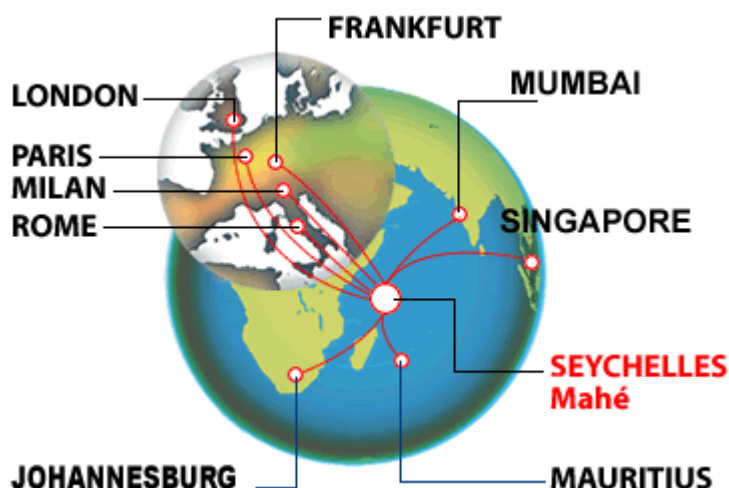
It was evident that Air Seychelles reacted to the liberalisation of air access policy and the introduction of Emirates and Qatar airlines with caution. As indicated by Mr Patrick Elizabeth, "Previously many airlines had stopped servicing Seychelles as it was not a viable destination. It was because of the efforts of Air Seychelles that Seychelles was subsequently seen as a profitable route. With the 'open-sky' policy, Air Seychelles was now facing competition from two airlines that had access to more fund than Air Seychelles and the airline needed to be cautious" (Elizabeth, 2007).

Air Seychelles instituted some measures to counter possible threats. Air Seychelles still maintained leadership in its main market. This may be as a result of their resources and capabilities developed in serving those markets over the years. However, Mr Jason Charles, the sales and reservation manager, indicated that "Emirates and Qatar airlines

does not present much competition to Air Seychelles though they offer cheaper fare. We are still filling most of our seats though our fares are higher. This is because the European visitors prefer direct flight to Seychelles compared to Emirates and Qatar airlines passengers who need to transit in Dubai or Qatar. Further, the services offered on board Air Seychelles are better and the aircraft used by Air Seychelles is more comfortable” (Charles, 2007). This may also be indicative that services offered by Air Seychelles are also consistent with the national marketing plan which is to market for high end tourist from Europe and that the airline is successful in doing that.

Figure 6-4 shows the international destination in Europe, Africa and Asia serviced by Air Seychelles as of 2007 with only three aircrafts.

Figure 6-4: Air Seychelles International Flights



Source: Air Seychelles Annual Report 2006-2007

As indicated above, the third element in the competitive advantage of Air Seychelles lies in its physical resources, and one of the airline key physical resources is the composition of its fleet. In its effort to maintain an efficient and effective fleet, in April 2001, Air Seychelles acquired its second Boeing 767-300ER, and returns its Boeing 767-200ER after 12 years of service. In paragraph 6.4.4, the study discussed how the Boeing 767 aircrafts, as physical resources contributed to the competitive advantage of Air Seychelles.

In November 2001, Air Seychelles acquired its first Boeing 737-700NG, to serve and enhance its regional routes: a weekly flight to Mumbai and Maldives; a new weekly flight to Mayotte-Comoros was introduced; a three times weekly service to Mauritius; a weekly flight to Johannesburg and a twice weekly flight to Dubai. The aircraft has a Pearl Class of

12 seats and a 114-seat economy class. The Boeing 737-700NG made its first commercial flight to Johannesburg on the 1st December 2001 and its first flight to the Maldives on December 9, 2001.

The Boeing 737, the world's most popular medium range, narrow body airliner and well adapted for Air Seychelles to serve the regional routes. As at 2007, with over 6,000 ordered and over 5,000 delivered, it was the most ordered and produced commercial passenger jet of all time and had been continuously manufactured by Boeing since 1967. In 2007, it was reported that the Boeing 737 was so widely used that at any given time, there were over 1,250 airborne worldwide (Boeing website 737 Facts, 2007).

The Boeing 737 was born out of Boeing's need to introduce a competitor in the short-range, small capacity jetliner market which had been pioneered by the Sud Aviation Caravelle, BAC 1-11 and the Douglas DC-9. While Boeing had originally planned for a 60 to 85 seat airplane, consultation with launch customer Lufthansa resulted in a change to 100 seats (Frawley, 2003). Boeing was far behind its competitors when the 737 was launched, as rival aircraft were already into flight certification. To speed up the development time, Boeing reused 60 percent of the structure and systems of the existing 727, most notably the fuselage cross section, which permitted six-abreast seating compared to the rival 1-11 and DC-9's five-abreast layout (Frawley, 2003). The same basic fuselage cross section was also used on the 707, and later on the 757.

The Boeing 737 is based on a key Boeing philosophy of delivering added value to airlines with reliability, simplicity and reduced operating and maintenance costs (Boeing website 737 Facts, 2007). This philosophy also bodes well with Air Seychelles own philosophy of reliability, cost reduction and simplicity which is also analogous to the Creole culture, promoted by the airline.

As seen earlier, Air Seychelles became a two-service airline focusing its resources on the international and the domestic air services. The business environment of Air Seychelles created pressures for transformation in the domestic operations during this period. Air Seychelles domestic services had enjoyed a near monopoly of the domestic transfer to Praslin Island, but with the introduction of the ferry, Cat Cocos, a luxury catamaran, whose introduction led to the considerable reduction the amount of ferry time required to travel from Mahé to Praslin proved important competition to Air Seychelles. Cat Cocos vied for niche market of connecting international passengers. Creole Travel Services, the parent company operating this ferry service, connect all their international connecting passengers

to Praslin by Cat Cocos. Cat Cocos operates three times a day and can carry 300 passengers on one trip. Cat Cocos ferry had also taken some local market from Air Seychelles. However, the one hour trip to Praslin could be uncomfortable during the south east monsoon, when the sea is rough. Further, Cat Cocos can operate only during certain times of the day and can only undertake a limited number of trips. Air Seychelles flies more trips to Praslin and has compensated for the competition by an increase in their market (Padayachy, 2007).

Further; Air Seychelles domestic services operates throughout the day and is well suited to the international traveller, as it connects certain international flights. Whilst a trip to Praslin Island by Air Seychelles domestic services takes fifteen minutes, Cat Cocos ferry trip to Mahé last almost one hour, and this is not particularly convenient for passengers who have to travel often times all night from Europe. The added advantage is that a traveller from Praslin returning to Europe, can check-in on Praslin at the Air Seychelles Domestic terminal and is required to travel only two hours before departure to the Seychelles International Airport on Mahé to connect to Europe. It is noted that Helicopter Seychelles, the only other flying competitor also serves this route; however, as indicated earlier they are constrained by their seating capacity (Padayachy, 2007).

The domestic services and routes are considered a very important aspect of the Air Seychelles services, as it links the international visitors to the other islands of Seychelles. The domestic services are planned so that passengers on international flights can easily connect to these islands. However, it would appear that in maintaining an efficient and effective fleet, the domestic services did not receive the required attention as given to the international services. The fleet were not as new as that of the international services even though on the domestic route network, Air Seychelles operates over twenty return flights between Mahé and Praslin per day. There are also daily flights to Bird Island and Denis Island. Air Seychelles Domestic offers charters on requests to these islands as well as to Frégate, Desroches, Alphonse and D'Arros islands (Padayachy, 2007).

The focus of the domestic services during this period was based on improving punctuality and regularity of the domestic operations and on optimisation of scheduling in order to achieve improved capacity planning and high load factors (Padayachy, 2007).

An initial step to remediate the above mentioned and to further enhance Air Seychelles' capabilities, was the coordination of activities between the Domestic Services, Ground Services, Reservations, Engineering and Flight Operations which was formalised through

regular meetings of the parties. Further, full automation of information on planned maintenance requirements and aircraft downtime ensured timely awareness of all operational departments. This allowed for more efficient scheduling and changes to flight rosters. Improvements to aircraft maintenance and engineering production also made significant contribution to improved regularity and general stabilisation of the operation. A perceive outcome of these capabilities resulted in a significant fall in the level of complaints (Padayachy, 2007; Air Seychelles, 2006).

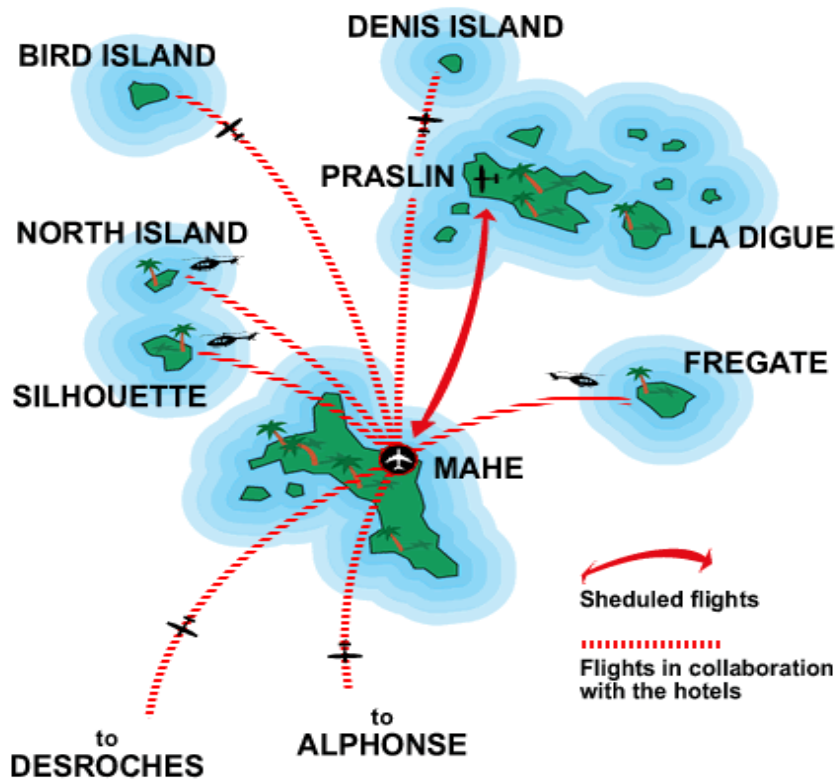
To ensure adequate capacity to meet both international and domestic demand studies were made into the integration and harmonisation of the domestic and international schedules. It should be noted that there has always been a degree of integration and harmonisation between the domestic and international schedules. Previously the domestic flights were harmonised only with the Air Seychelles International flights so that there are connecting domestic flights with the international flights operated by Air Seychelles. With the increase in the number of flights of other international carriers, new domestic flights from Mahé to Praslin were introduced to synchronise the domestic operations with flights of other carriers (Padayachy, 2007).

It is required that the International flights need to connect to Praslin almost immediately, but because of seat capacity and number of aircrafts, this is not always the case. This required extra physical resources and an increase in the domestic fleet size to undertake these operations. These improvements were critical to ensuring that the domestic capacity constraints are not limiting factor on the growth of the tourism or local traffic. In fact, passenger statistics for the first six months of 2006 have shown a continued growth over 2005 both for resident and non-resident traffic. Charter revenues in 2007 had also shown a strong growth of 10.1% over 2006. There were early indications that these healthy trends are set to continue into 2007 (Padayachy, 2007).

Air Seychelles domestic services operated charter flights six times per week to Denis Island and on a daily basis to Bird Island. These are private islands with privately operated hotels and as passengers to these islands are mainly tourists and the island hotel workers, Air Seychelles do not operate scheduled flights. These are assured market, as Air Seychelles domestic services are not in competition with other service providers like Helicopter Seychelles. This is because of the distance of these islands from Mahé. However, the Air Seychelles domestic services are constrained by fleet size. Also of note are the ad hoc charters that are requested from time to time to and from Frégate Island, D'Arros Island, and Praslin Island. For these flights, Air Seychelles is in competition with

Helicopter Seychelles, especially on Frégate and Praslin islands, which are relatively closer to Mahé. However, the advantage for Air Seychelles is that helicopter operations are limited to the number of passengers they are able to carry, which is not more than four passengers (Padayachy, 2007). The destinations of the Domestic air services are depicted in Figure 6-5.

Figure 6-5: Air Seychelles Domestic Flights



Source: Air Seychelles, (2007b).

As noted earlier, one of the elements in the competitive advantage of Air Seychelles lies in its physical resources, and one of the airline key physical resources is the composition of its fleet. In September 2002, Air Seychelles acquired a thirty-six-seater Shorts 360 aircraft for domestic route. The aim of acquiring this new aircraft was to increase sitting capacity and offer passengers a new level of comfort unseen in the domestic services before, especially on the Mahé – Praslin route. This was especially useful for the transfer of visitors connecting directly from Praslin from Europe. This arrangement also helped to alleviate the recurrent problem of luggage accompaniment of the connecting visitors, which has been a growing problem (Padayachy, 2007). In August 2004, Air Seychelles purchased the Shorts 360 aircraft, which was being leased from BAC Leasing in UK from September 2002, and serving the domestic route to Praslin. In the same month, Air Seychelles returned its nine-seater islander which operated within the domestic fleet.

It was expected that with the introduction of a second Short 360-300 in the domestic fleet at the end of August 2006 would result in better international passenger connections as well as an increase in passenger figures between Mahé and Praslin. It was noted that there was an increase of 14% in passengers at the in April 2007 compared to the same period a year earlier. However, a down side to the acquisition was that the aircraft was old and needed constant servicing (Padayachy, 2007; Charles, 2007). The Shorts 360 aircraft was also acquired to sort out the problem of luggage. Often when the visitors transfer from Mahé to Praslin, Air Seychelles domestic operations did not have the capacity to carry their luggage on the same flight and often a Twin Otter flight was dedicated to luggage transfer (Padayachy, 2007). It would also be noted that the increasing the number of aircraft may not necessarily prove profitable. A physical resource must fit strategically into the processes and operations. For example, the Air Seychelles' two Short 360 aircraft often broke down and spent a lot of time in repairs. Flight were often delayed or cancelled and as a consequence Air Seychelles lost of lot of its domestic clients to competitors (Padayachy, 2007).

The Short 360 is a regional airliner built by Short Brothers of Belfast, Northern Ireland, which is now a division of Bombardier of Canada. The Short 360 is a 36 seat derivative of the 30 seat Short 330. In high density configuration 39 could be seated. The 3 foot (91 centimetres) stretch reduced drag in addition to adding capacity and employed a wider wingspan. The development of the Short 360 was announced in 1980, prototype first flight on 1 June 1981, type certification was awarded on 3 September 1981 and entered service with Suburban Airlines, which later merged with Allegheny Airlines/US Airways, in November 1981. Production of Shorts ceased in 1991 after 165 deliveries. As of August 2006 a total of 86 Short 360 aircraft (all variants) remain in airline service: two with Air Seychelles; two with Deraya Air Taxi; one with Freedom Air; two with South Pacific Express; three with Air Contractors; four with Aerocondor; one with Aurigny Air Services; one with Benair; ten with Emerald Airways; two with Nightexpress; eight with Aeroperlas; nineteen with Air Cargo Carriers; one with Air Santo Domingo; three with AirNow; three with Islena Airlines; three with Pacific Coastal Airlines; seven with Roblex Aviation; one with Servicios Aereos Profesionales; eight with Skyway Enterprises; one with Trans Air; and four with Trans Executive Airlines (Flight International, 3-9 October 2006)

Other services initiated by Air Seychelles included regional cargo services and courier services. However, the introduction of these services in the Air Seychelles portfolio is not considered as key elements in its attaining and maintaining of its competitive advantage,

though it did make business sense. For example, in March 2003, Air Seychelles launched the regional cargo network with the arrival of the leased Antonov-12 F cargo aircraft. Air Seychelles was aiming at developing Seychelles as a regional cargo hub in the South West Indian Ocean region. In October 2004, Air Seychelles' Freight Services Department is awarded the ISO certificate by the International Standards Organisation.

In March 2002, Air Seychelles launches its new courier service following the signing of an agreement to represent Federal Express (FEDEX) in Seychelles. This allows Seychelles to fully represent FEDEX, the USA-based worldwide courier service with the delivery of inbound and outbound express courier services. The FEDEX courier service was extended to Praslin in November 2002 to cater for the increasing number to customers from the hotel industry and business community based on that island (Air Seychelles, 2007b).

On October 26, 2005, when Air Seychelles celebrated twenty-two years international service and twenty-seven years of domestic services, the airline had established itself as a one of the few profit making national carriers in Africa, and an important player in the tourism industry in Seychelles.

As earlier indicated, the most important element contributing to the competitive advantage of Air Seychelles is its human resource. To further enhance its in-flight capabilities and services, Air Seychelles, in January 2000, Air Seychelles recruited thirteen new cabin crew following nine-week training in in-flight cabin services. The cumulative number of trained cabin personnel the national airline was then one hundred and twenty-three Seychellois Cabin crew. In July 2000, Air Seychelles recruited yet another twenty-three new cabin crew, bringing the total number of Seychellois cabin crew to one hundred and thirty-five. In April 2000, Air Seychelles launches its "Par Excellence Awards" to recognize teams and individuals who go the extra mile in their service delivery (Air Seychelles, 2007b).

In March 2003, Air Seychelles further enhanced its capacity in the international services by recruiting thirty-two new cabin crew after having followed a 15 and 9-week consecutive, training in in-flight cabin services. However, in March 2003, the total Seychellois cabin crew in Air Seychelles stood at one hundred and twenty-five. However, with the more liberal air access policy adopted by the Seychelles Authorities in 2004, Air Seychelles reduced their number of staff, especially with the return of the Boeing 737-700NG.

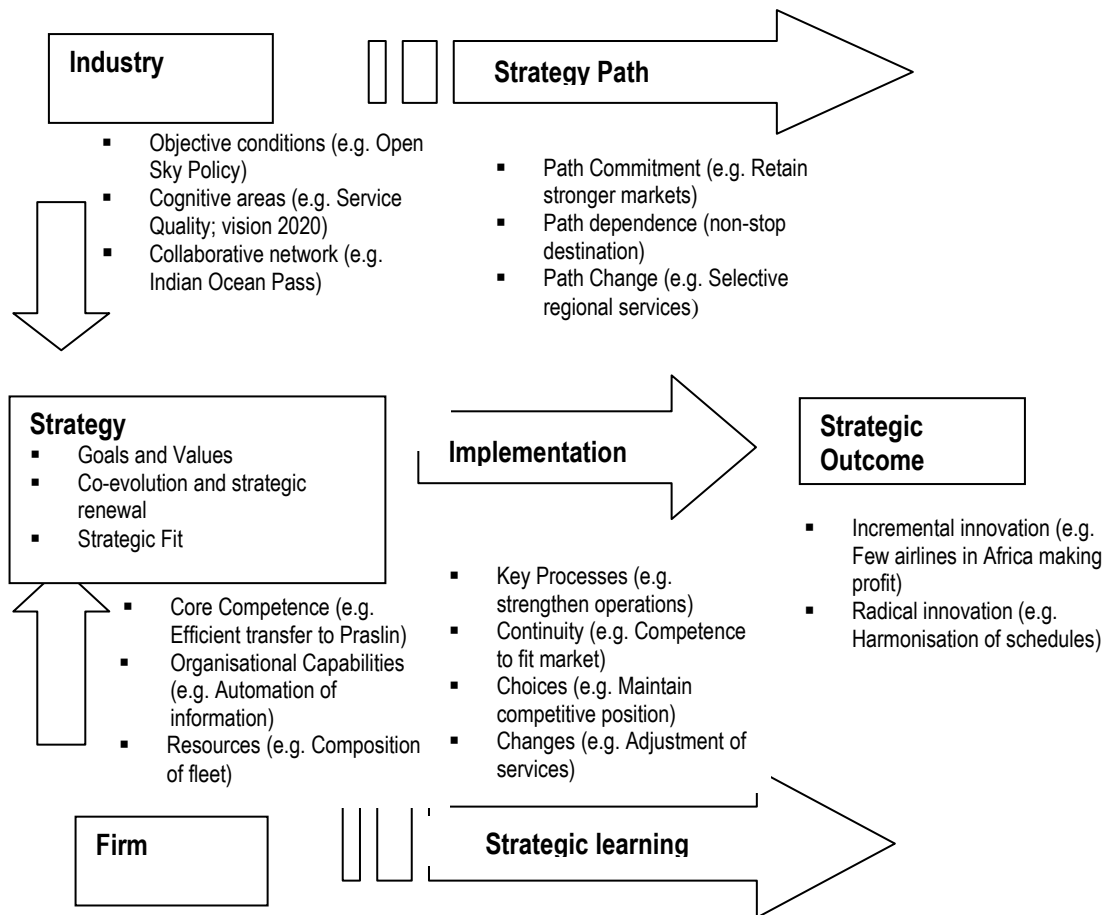
In January 2006 marked a milestone in its effort to enhance capabilities and subsequently its services when Air Seychelles launched its Training Academy with an investment of SR11 million in technical facilities and a new training block. The new block also serves for storage and maintenance of aircraft.

In March 2006, President James Michel inaugurates the Air Seychelles' new Technical Block and Training Academy at the Seychelles International Airport at Pointe Larue on the main island of Mahé, and announces that Air Seychelles will be changing its fleet of two Boeings 767-300 to the latest Boeing 787-800 Dreamliner come 2010. In announcing this decision, the President noted that "The acquisition of two new top-of-the-ranges Boeing 787-800 Dreamliner aircraft in 2010 will propel Air Seychelles into the 21st century as our national airline will be offering the best aircraft on the market. In this highly competitive and cutthroat business that is the airline industry, we owe it to ourselves and to our survival to employ the very best equipment." (Silhouette, 2006).

Because of the life-spans of up to 20 years, investing in physical resources, such as aircrafts presents a dilemma: whether to choose stable and at the same time easily outdated equipments, or new, untried, innovative equipments which bring with them teething problems. Air Seychelles' Investment in the Short 360 aircraft at the domestic services is an example of the former whereas investment in the Boeing Dreamliner is an example of the latter.

As of mid 2007, Air Seychelles had a total of about 660 staff including approximately 15 overseas staff. Its international fleet consisted of two Boeing 767-300ER operating scheduled flights to Mauritius, Johannesburg, London-Heathrow, Paris –Charles de Gaulle, Rome-Fumicino and Singapore. Its domestic fleet comprise five small aircrafts. The inter-island network features several islands served by three twenty-seater Twin Otters. The Twin Otters operate scheduled flights to Praslin, and chartered flights to Denis, Frégate, Bird and Desroches Islands; and one thirty six-seater Shorts 360 operating to Praslin only.

Figure 6-6: Air Seychelles, 1996 to 2007 – Consolidation Stage



6.6 CHAPTER SUMMARY

In this chapter, we addressed the third objective of the study to describe and analyse how Air Seychelles, a firm within the tourism industry in Seychelles, create and use internal and external resources to attain and sustain competitive advantage. In emphasising how firms create and maintain competitive advantage, the key challenge is to link the creation and development of the firm's resources and capabilities both within the firm and between the firm and its industry to outcomes. This presents the core of the study, and it is addressed in this chapter and the next. This chapter presents in-depth case studies of Air Seychelles moves deeper into the process of interaction between the firm and the industry. Whilst, in this chapter we focus on the process of the creation and development of the firms' resources and capabilities, in the next the focus is on the outcome of this process.

CHAPTER 7 LINKING CHANGE PROCESSES AND ACTION TO PERFORMANCE

7.1 INTRODUCTION

This chapter highlights the outcomes of the thirty years process of creation, development and use of internal and external resources of Air Seychelles and in doing so addresses the fourth objective of the study, which is to link change processes to organisational performance. The focus is on key processes, discontinuities and reorientation paths in the creation and development of Air Seychelles' resources in its international long haul and its domestic passenger services through time.

There is a big difference between radically developing resources whilst going through discontinuities and the development of resources incrementally. An incremental innovation is one that builds on existing investments and can only realize its full value as an element of an existing production or service process. A radical innovation is one that requires a substantial change in the technology and organization of production and service offerings, undermining the value of investments in previous technology and organization. As indicated in Chapter 4, the incremental end of the technological spectrum would contain innovations that follow what Nelson and Winter (1982) refer to as a technological trajectory. At the opposite end would be innovations that are described by Freeman and Perez (1988) as shifts of the 'techno-economic paradigm.' As perceived by Ehmsberg and Jacobsson (1996), radical innovations are radical breaks with past practices in a given industry; discontinuities in Nelson and Winter's trajectories that completely disrupt the status quo and force the adoption of new standards and best practices across an industry.

Apart from the first objective of presenting and empirically analysing a contextual and processual framework, highlighting time, multiple level of analysis and strategy formulation and implementation; the second objective of describing and analysing the historical development of the tourism industry and its implication for competitive strategy; the third objective of presenting a detail case study of a successful firm operating in the tourism industry in Seychelles, describing and analysing how the firm build their resources and capabilities to sustain competitive advantage, the fourth objective is to link change processes and action to performance.

Based on the theoretical foundations presented in Chapter 2, the epistemological and methodological concepts elaborated in Chapter 3, the proposed framework developed in

Chapter 4, the many aspects of the processes of how resources and capabilities are built over the years and how these processes relate to the transformation of Air Seychelles as described and analysed in Chapters 5 and 6, an attempt is now made to link the processes and action to performance. This represents the culmination of this study.

7.2 RESOURCE AND CAPABILITY FORMATION

7.2.1 Processes and Performance

Linking process analysis and outcomes, makes process research difficult and time consuming, and as causality is neither linear nor singular, there is no attempt to search for the illusory single theory of change nor how and why a singly independent variable causes or impacts on dependent or outcome variable. In Chapters 2 and 3, it was argued that the interacting process of a firm with its industry generates resources and capabilities. In a way the firm is a collection of many resources and capabilities developed over the years and the subsequent outcome of these resources and capabilities. In Chapter 2, it was further expounded that resources and capabilities are both the vehicle and the outcome of the process of historical path development. The attempt is to explain the what, why and how of the links between context, processes and outcomes.

Adopting the process research approach, the focus is on the resources outcomes, by providing a longitudinal case study connected with clear outcomes. Pettigrew (1990) suggest that an important way of reducing complexity is by carefully comparing a small number of cases connected to clear outcome. This study systematically compares the processes by which Air Seychelles develops resources and capabilities in order to identify similarities and differences and the outcomes of these processes over time. The focus here is on the implementation of strategy, the key process discontinuities and the strategic path adopted in the creation, development and renewal of Air Seychelles' resources and capabilities in tourism activities and service delivery.

In the case of Air Seychelles, it appears that the creation and development of resources occurs mainly in two ways: firstly, resource creation and development through strategy implementation over time, and secondly, resource creation and development through the development and implementation of processes (e.g. Charles, 2007; Elizabeth, 2007; Morel, 2007).

In Chapter 2, the study presented the five quality indicators of "good" process research as advocated by Pettigrew (1990, 1997, 2001). The fifth and perhaps the most significant

indicator of process research is the holistic and multifaceted treatment of change making certain causal assumptions, linking process analysis to outcome. In this way one can perhaps capture the complexity of these processes. In attempting to understand this complexity, the fifth quality of process research of being holistic and multifaceted treatment of change, making causal assumptions, linking processes analysis to outcomes, attempts at complexity reduction to capture 'reality in flight'. This present the efforts that have been made to capture the complexity of these processes. However, factors associated with and possibly influencing these processes cannot be seen as being linear or singular. Circumstances, context and time have intense influence, and this study has also attempted to capture these processes.

7.2.2 Resource Creation and Development through Strategy Implementation

Consistent with the development of Air Seychelles, it was seen that successful strategy implementation implies connecting and sequentially arranging a series of strategic processes and decisions over the years with the aim of building a resource base and structure that are strong enough to withstand all but the most devastating events. Implementation of strategy, as opposed to strategy formulation, can be seen as a key challenge for management of organisations which have long sought to achieve a competitive advantage in dynamic environments (Dobni and Luffman, 2003). Building and maintaining a resource base and structure was a vital element in the implementation of the Air Seychelles strategies whilst responding to the requirements of the business environment (Renaud, 2007).

The key to successful implementation resides in the ability of the firm to develop resources and capabilities and guide and manage employee behaviours on a collective basis. As indicated by Ms Shirin Renaud, Planning Officer with Air Seychelles, "Air Seychelles' success could be attributed to the fact that it has managed to develop knowledgeable and skilled employers over the years. Staff members have a good understanding not only of the airline sector but also of the tourism industry" (Renaud, 2007).

It is the ability to co-align key capabilities and behaviour with the competitive context that ultimately determines performance (Dobni and Luffman, 2003), and again as indicated by Ms Shirin Renaud, "the ability of Air Seychelles to develop it resources and capabilities over the years has enabled it to co-align key capabilities and ensure strategic fit within the organisation and with the environment. The various departments of the airlines, for

example engineering, finance and others have managed to harmonise strategic implementation and act in concert in responding to the business environment requirements to ensure performance. One of the results is that with only two planes, Air Seychelles is able to service efficiently and effectively several European destinations” (Renaud, 2007).

An important feature in the transformation of Air Seychelles was the availability of key skilled staff in critical posts to lead the change and transformation. Cases in point were the appointments of entrepreneurial and visionary Executive Chairman of Air Seychelles at critical stages of the development of airline. For example, Mr Guy Morel, the first Chairman, was appointed in the formative stage of Air Seychelles and he had the ability of making things happen in a highly competitive industry and with an organisation without much resources and capabilities; Captain David Savy, appointed as Executive Chairman and CEO during the consolidation stage of the airline, had the ability to transform Air Seychelles into a profit making venture. Leadership is an important factoring the performance of Air Seychelles and in managing its change and transformation (Padayachy, 2007; Morel, 2007; Charles, 2007). This is consistent with findings of Pettigrew and Whipp (1991), which found leadership to matter in comparing higher and lower performing companies.

However, skilled staff in critical posts that led to changes and transformation of Air Seychelles was not only those at the top of the organisation, but at the technical levels and mid management. For instance, Mr Guy Morel, the marketing manager, and not to be confused with the first chairman who goes by the same name, was recruited because of his knowledge of the business environment, having previously worked in the same position with Cable and Wireless, Seychelles (Morel, 2006). Mrs Lisa Padayachy was recruited as a supervisor from Mahé Island to supervise the Praslin Domestic operations in the early 1980s because of her knowledge of the industry and her human resources skill. She came in from Air Seychelles from the National Travel Agency (Padayachy, 2007). These were skills and resources not available in organisation and required then by airline. However, as stressed by Pettigrew, Ferlie and McKee (1992), success in managing change is highly contextual sensitive, suggesting that ‘off-the-shelf’ solutions and competencies may have only limited and partial impact.

Allied with the entrepreneurial leadership of management and an effective harmonised strategy implementation to maintain internal and external strategic fit, as indicated above, Air Seychelles was able to benchmark its services against the industry norms and

subsequently meet minimum industry requirements without much of a struggle, for example, IATA had set a deadline that all its members should be using the e-ticketing system by 2007, because some its members were unable to meet the deadline, this was extended to a later date. However, Air Seychelles did not require the extension to meet the deadline (Renaud, 2007). Incidentally, Captain Savy at the 2007 Air Seychelles Annual General Meeting informed the meeting of the details of the company's E-ticketing project. The scheme was said to be fully operational on the domestic market and that Air Seychelles was waiting for the signing of various agreements with other airlines to make the service available on the international market (Seychelles Nation, 7 May 2007).

A distinction is made between resources creation and development in strategic implementation. Teece *et al* (2000) emphasis the ability of dynamic capabilities to renew competencies so as to achieve congruence with a changing environment, emphasising the key role of strategic management to appropriately adapt, integrate and reconfigure internal and external organisational skills and resources, and functional competence to match the requirements of a changing environment. Before these resources and capabilities are developed, it has to be created. A central strategic problem facing an innovating firm in a world of Schumpeterian competition is to identify or create the difficult to imitate competencies most likely to support product or services. Resource creation focuses on the moment a certain strategy of the firm is formulated and initiated. The ability to create new resources is central to the decision to initiate new services.

To maintain strategic fit, strategies in Air Seychelles was constantly being reconfigured and resources and capabilities created and developed as new information suggests better but never perfect alignment (Elizabeth, 2007). However, there is a major difference between developing resources and capabilities through discontinuity (radical) and through developing resources and capability incrementally. As seen in Air Seychelles, as strategy formulation and implementation interact, resources and capabilities are created and developed. The creation and development of resources and capabilities may be discontinuous and the processes are typically fragmented, evolutionary and intuitive. Air Seychelles, as a firm, possesses the abilities to re-conceive the recipe of the industry and the power to be a rule breaker.

Creation and development of resources and capabilities may also be active and logical, in an incremental mode, building understanding, identity and commitment into the very processes that create their strategies (Quinn, 1980). Resources and capabilities emerge incrementally and opportunistically in the organisational activity and blend into a coherent

pattern. As the organisation proceeds incrementally, it can assess the reactions involved in the restructuring, allows new people to be trained and tested, perhaps for extended periods and the execution may progress opportunistically, step-by-step, selecting moving people and skills as development warrants.

Air Seychelles initially acquired, created, developed and accumulated knowledge and skills resources in domestic inter island services which operated between the different islands in Seychelles from 1978. As seen earlier, in 1983, Air Seychelles decided to expand its services expand into international long-haul passenger business, mainly servicing Western Europe. Air Seychelles then possessed neither the tangible nor the non-tangible organisational asset to offer this service. In an attempt to create competencies in offering international long haul passenger services, Air Seychelles acquired a Douglas DC10 aircraft through a wet lease agreement with the British Caledonian Airways. The opening of the first weekly flight to Europe followed the route; Mahé-Frankfurt-London was in October 1983 using the DC10 leased from British Caledonian.

The initial creation of resources and capabilities within Air Seychelles to fly long haul passenger services, stemmed from the resources and capabilities originally developed in the domestic services and the alliances and agreement with British Caledonian Airways. During these times all the pilots and the cabin crew also were foreigners (Elizabeth, 2007; Charles, 2007). In 2007, most of the pilots and all the cabin crew were Seychellois. After the successful creation of resources and capabilities, Air Seychelles developed, enhanced and improved these resources and capabilities gradually through the years, with additional skills and routines, and enlarging certain tangible assets.

It is expected that the process of resource development will from time to time reach the limit of incrementalism and process innovations and discontinuity will emerge in an effort to beat the competition. Some instances In Air Seychelles international services, when the limit of incrementalism occurred was when the Airline decided to acquire its own aircraft and started training its own crew (Charles, 2007; Elizabeth, 2007).

Consequently, to become a domestic and long haul international passenger airline at the same time, several assets and capabilities had to be created and subsequently improved by resource-enhancing discontinuities. However, as they serve different markets, the two services may also require different resources and capabilities and develop along different strategic path. These resources and capabilities in the two operations, however, attained

a level of harmonisation and integration, reinforcing each other. Later in time in this resource process, old assets and capabilities had to be replaced by resource-destroying discontinuities (e.g. Tushman and Anderson, 1986). Examples of these discontinuities are, among others, the upgrading of the fleet of aircraft and the improved service delivery – in-flight and ground services.

It is not possible to have a meaningful discussion about the resources needed to sell airline transportation before being able to understand the complexity of airline services, let alone to forecast the possible volume of sales (e.g. Sminia, 1995). With the airlines, both technological and non-technological resources are important and hurdles associated with both need to be overcome.

Tangible organisational assets, such as the physical resource, within the resource-based theory of the firm are not considered to be a bearer of distinctive and sustainable competitive advantage because “hardware” is visible and thus comparatively easy to copy (Grant, 2005). It is also considered the easiest dimension to change (Leonard-Barton, 1995; Teece *et al.*, 1997). However, in the case of Air Seychelles, tangible assets were both a bearer of competitive advantage and an inhibitor of competitive advantage. At several points in time in the development of its strategic path, Air Seychelles acquired new tangible organisational assets in the form of fleets of aircrafts both for the long haul passenger service and the domestic services to improve on their product offerings (Charles, 2007; Elizabeth, 2007; Morel 2007). However, at other times, old aircrafts hindered competitive advantage (Charles, 2007; Elizabeth, 2007).

Leonard-Barton (1995) explains that it does not mean that implementing new technological systems is easy, although they can be purchased off the shelf. Members of staff need to be trained in the use of the new technologies and processes need to be adjusted accordingly. Being able to purchase technical systems off the shelf and acquiring new technologies as a source of competitive advantage is only partly true for companies such as Air Seychelles, because the adjustments to the services to have a Creole and Seychelles flavour as an organisational resource cannot be copied.

The fact that tangible organisational assets are not in themselves bearers of sustainable competitive advantage is particularly so for an airline company since once acquired an aircraft represents not only solidified intangible assets such as knowledge but also solidified capital and solidified flexibility and therefore a solidified strategy path. It should be noted that the outcome of this resource process will be a resource medium for a very

long time. Or, in other words, the company is sentenced to a long period of the strategy of “trying harder” with this long-term resource medium (Hamel, 1996). In Air Seychelles, new physical resource (tangible assets) was consistently constructed along the lines of intangible assets like knowledge that had been gathered and advice received in developing and implementing processes using these new physical resource (Charles, 2007; Renaud, 2007).

After the successful creation of assets and capabilities, Air Seychelles developed, enhanced and improved these resources over the years step-by-step by way of additional skills or routines, or by enlarging certain tangible assets. Ideally, in such a resource development process every now and then the limits of incrementalism will be reached and process innovations will emanate in order to beat competition.

In a changing environment, if firms are to maintain competitive advantage and growth, they must continuously invent and upgrade their resources. A sequential development of resources and capabilities can make a firm’s advantage inimitable (Barney, 1991). Competitors would not be able to simply buy these resources and capabilities without acquiring the whole firm. This is because the resources and capabilities would have been built over time in a path-dependent process that makes them inextricably interwoven into the firm (Pettus, 2001). This has been the case of Air Seychelles, and as indicated by Mr Patrick Elizabeth, resources and capabilities were built over time as the airline grew and acquired experience. “As the airline grew, members of staff learnt from their mistakes, especially when the airline was experiencing difficult times. As a result, those members of staff that have been around for a long time knows what works and what do not” (Elizabeth, 2007). Further as indicated by Ms Renaud, the development of skills and competencies within the firm over the years has allowed the airline to attain and maintain internal and external strategic fit (Renaud, 2007).

It is noted that resource created and developed in the first period will be the input and the resource medium for the subsequent periods. As indicated earlier, resource was created with the development of Air Seychelles, as it co-evolves with the tourism industry over three episodes of change. The first episode, the exploratory period, 1973 to 1983, started with Air Seychelles as a domestic airline in 1978. The growth period is the second stage from the year 1983 to 1996 coincided with Air Seychelles as an international airline in 1983. The third episode, 1996 to 2007, is that of consolidation. As confirmed by Ms Shirin Renaud, Air Seychelles success has been the development of the firm’s resource and

capabilities mainly due to staff development which has occurred over the years (Renaud, 2007).

7.2.3 Resource Creation and Development through Processes Development

As mentioned in the introduction to this chapter, the focus here is on the resource outcome of Air Seychelles' processes of transformation. To be able of doing this, it is important to have the services process of the airline in mind while discussing the resources of Air Seychelles' operations.

The concepts of resources, capabilities and core competencies, which were originally applied to organisations in the manufacturing industries, may be extended to organisations in the services industries. However, there are differences and similarities between the resource outcome of manufacturing firms and that of service firms. In a manufacturing firm one would need to have in mind the production process of the firms when discussing their resources and capabilities. A different framework for service industries is required because of their many differences from other industries. In particular, the instantaneous interaction between the service providers and customers has become the key feature in differentiating service industries from manufacturing industries (Gummesson, 1997).

The services offered by Air Seychelles to passengers and visitors travelling to Seychelles, is an experience and in recent years Air Seychelles has been promoting the experience of the Creole culture on the services and flights. As seen earlier, this is in line with the national tourism marketing strategy of promoting the Seychelles through the Creole culture, a national strategy which is currently being led by the Seychelles Tourism Board. However, the "experience elements" of the services are being recognised as difficult to describe, measure, or standardise (Lovelock, 1992). Management is interested in how customers receive services as well as how customers access service products through their experiences of service delivery processes.

The tourism industry is seen by government to be a very important catalyst in boosting economic activity. The economy of Seychelles experienced its highest growth in 2007 after years of stagnation and decline. Growth was mainly due to tourism, which also benefited a number of sectors, including construction, transport and financial and business services (National Statistics Bureau, 2008a). Tourism expenditure in the various other sectors enriches operators in these sectors and they in return demand goods and services

in other sectors and so creating the multiplier effect whereby economic activities are triggered off in all sectors. Government realises that the tourism industry has even potential to boost the economy further and so is continuously looking at further enhancing the links between the sectors (Nalletamby, 2007). This highlights the interconnectedness between tourism industry and the other sectors of the economy as they co-evolve through time.

According to the “International Recommendation for Tourism Statistics 2008” (United Nations Statistical Commission, 2008) supply side statistics, establishments are classified according to their main activity, which in turn is determined by the activity that generates the most value added. As a consequence, the grouping of all establishments with the same main activity which serves visitors directly and is one of the tourism-characteristic activities constitutes a tourism industry.

Since the steps in the services processes of Air Seychelles are clearly cumulative, so are its resources. Further as we have seen earlier, the development of resources is also as a result of interactions between the firm and its industry. Changes have multiple causes and can be explained by the convergent interactions and interconnected loops among the features rather than along lines and linear efforts. These interactions and interconnected loops have been extended to carry across the complexity of these processes at Air Seychelles.

As seen earlier, the industry is an interactional network focuses on the way different firms relate to each other and to other parties in the industry. An industry can be analysed according to the different relationships firms have, with other firms and with the industry. The communication channels in the industry for example enable or constrain the possibilities of co-operation open to a firm. Consequently, an interactive reality refers to reciprocal, mutually oriented relationships of the firms within the industry.

This approach, however, also emphasis the holistic concept of the tourism industry. As we have seen in Chapter 3, theories that accentuate synthesis are holistic in nature and their focus is on the whole situated in a context. The holistic approach is advantageous in understanding the tourism industry in Seychelles. As indicted by Mr Patrick Elizabeth, in understanding the tourism industry there is a need to “get all the market intelligence: What are the demands? What are the right types of aircrafts? What are the right infrastructures? – How would the hotels support the supply of visitors brought in by the airlines? How

competitive is the market?" (Elizabeth, 2007). This also calls Air Seychelles to build its resources for the strengthening of the collaborative networks in the tourism industry.

Groenewegen and Beije (1989:1062) write: "The network is often an arena in which actors compete, dominate, and cooperate. Their power relations are based on information and knowledge concerning technological development, market developments, the position of competitors, suppliers, customers, and potential entrants (Porter, 1980). The actors in a network try to develop a 'core business, technological base or a 'métier' in which they have special capabilities based on a long-run learning process (Richardson 1972)."

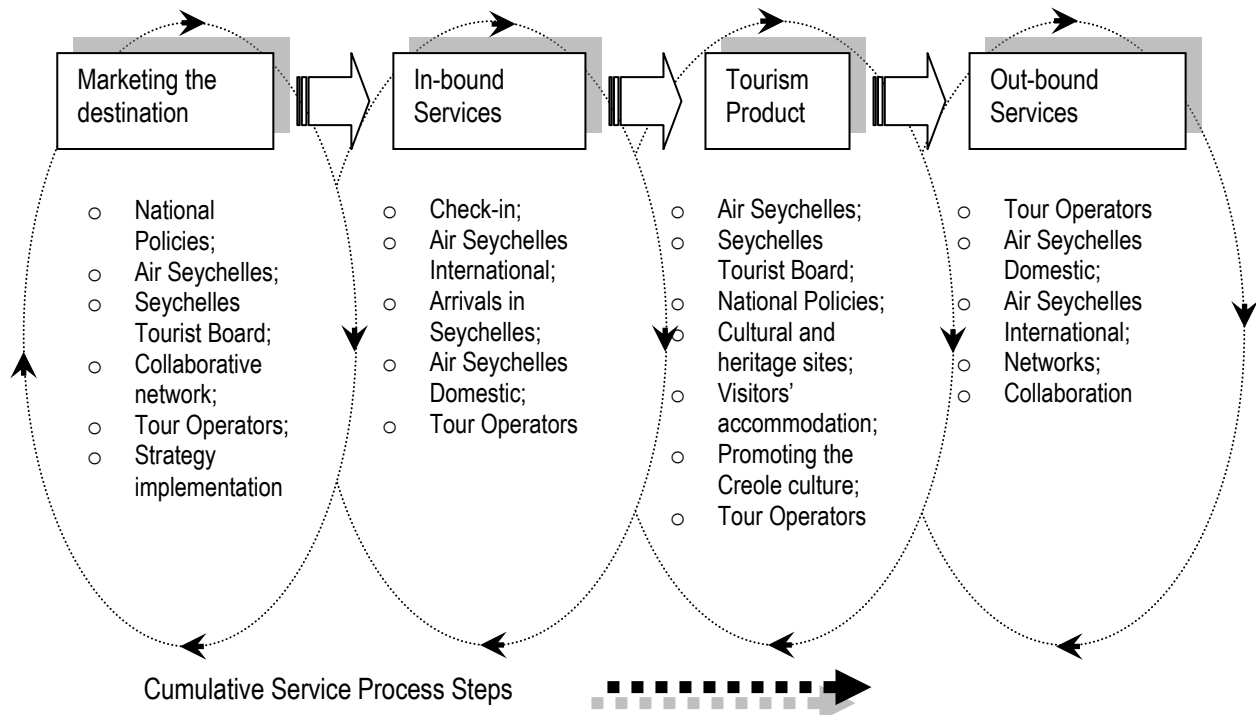
Thus the tourism industry as a collaborative network, as Smith *et al.* (1990) have described it, is of a different order from the industry as an objective reality and the industry as a cognitive reality. The industry as an objective reality, as well as the industry as a cognitive reality, can both be described in terms of a collaborative network. The above quotation from Groenewegen and Beije (1989) illustrates this because it addresses networks from an objective reality point of view. This becomes apparent in citing Porter's five forces framework describing a network. Smith *et al.* (1990) explicitly consider Porter as a scholar, and a representative of the objective dimension. Also, networks are not only collaborative, but also arenas in which actors compete and dominate.

Smith *et al.* (1990) seem to address the industry as a collaborative network because sectors are for most of the time considered only in terms of competition and domination. However, within the area of industrial marketing (e.g. Håkansson and Snehota, 1989), the network as interaction between actors, resources and activities is a central item. Langlois (1992) describes the market as a network in which the creation of external capabilities can take place. External capabilities are placed against internal capabilities within firms. External capabilities represent Marshall's external economies and are created within "a network of competing and cooperating firms rather than within the boundaries of large vertically integrated organizations" (Langlois, 1992:4).

As seen earlier, the development of Air Seychelles also implies connecting and sequentially arranging a series of strategic processes. In Figure 7-1, four distinct and inter-related service processes are distinguished with their consequent resources. The service starts with the marketing of the Seychelles as a tourist destination. This stage involves all stakeholders involved in marketing the destination and in particular though not exclusively, the government agency, the Seychelles Tourism Board. Air Seychelles

however, markets its flight to Seychelles, and it is at this point of the process that the resources could initially be created.

Figure 7-1: Air Seychelles' Cumulative Resource Development



Over time, there is a relationship underlying the capacity of different tourism products at a destination, and a potential synergy to be achieved in their marketing decisions, if different suppliers can find ways to combine their respective efforts (Middleton, 1988). This implies that the performance of Air Seychelles is intrinsically linked with how Seychelles as a tourist destination is marketed. Tourism in the Seychelles can be seen as a network of relationship network of relationships (e.g. Child and Smith, 1987; Smith *et al.* (1990). The business environment of Air Seychelles is the tourism industry and in particular the interdependence between the airline and the international visitors to the Seychelles. This interdependence can be illustrated, for example, when the country decides to increase its number of visitors. In this light, “Air Seychelles works very closely with the trade because we rely on the trade for business. This collaboration has intensified in recent years. The focus has been marketing Seychelles as one market to include trade, airlines, and all major players in the tourism industry” (Charles, 2007).

As seen in Chapter 5, most tourists combine in their travel purchase decisions, not to one, but several services and products. Further as indicated again in Chapter 5, Cooper (2002) notes arguably that the destination is the most important element of the tourism system, motivating visitation, delivering visitor experiences and contributing to enduring memories

of the tourism experience. A visitor chooses attractions at a destination together with the products of accommodation, transport and other services and facilities. The sales of tourist accommodation suppliers at a destination are, therefore, influenced to some extent by the marketing decisions made by tour operators and travel agents, attractions, transport interests and tourist boards, which together or separately promote the destination and its activities and facilities (Middleton, 1988).

The second process is related to the in-bound services and includes not only the Air Seychelles International services bringing in the visitors from overseas, mainly from Europe, but also the tour operators and other destination management organisations that bring in the visitors. The service experience may start with the tour operators bringing the visitors at the airport. Checking in at European airports are also not entirely the domain of Air Seychelles, but the together with the ground staff is part of the experience of the passenger and also an important service element. Subsequently the in-flight experience is a major part of service delivery that requires important resource and capability creation and development. The in-flight services on Air Seychelles are geared towards providing a Creole experience. Arrivals at the Seychelles International Airport is another point of services, linked but not entirely dependent on the resources and capabilities of Air Seychelles. Upon arrival to Seychelles most tourists would travel to Praslin and other islands with the Air Seychelles domestic services.

The third process is related to the services processes and the products offered by the tourism industry in Seychelles. These include the services provided by the tour operators, accommodations and related services, and the cultural and heritage sites. It also includes development of tourism infrastructure that would fit into the ecology and environmental strategy and consistent with promoting the Creole culture. A case in point is the multi-million US dollar starting at Cap Ternay on Mahé in 2008 by the Emirates Hotels and Resort to cater for the Arabian tourists. Boasting over 400 rooms and as noted by the Vice-President, Mr. Joseph Belmont, "Such establishments would prefer a Seychellois workforce as much as possible for the Creole touch and feeling," (Seychelles Nation, 5 May 2007). Taking into consideration the fact that an area of the site set to be developed falls in a Nature Reserve, Vice-President Belmont said that the Department for Tourism and Transport would be working in collaboration with the Ministry of Environment and Natural Resources to carry out an extensive field survey of the area to identify any endangered species of flora or fauna hence assist in determining whether any relocation would be necessary to ensure their survival. In addition, Emirates Hotels and Resorts have agreed to set up a trust fund with the backing of the Seychelles government to

ensure the proper management of the immediate environment around the resort. Vice-President Belmont also explained that since Cap Ternay is an area not well visited by people, the environmental development that will take place there will help to attract an international as well as a local clientele (Seychelles Nation, 5 May 2007).

In relations to the third process, the service process starts with the marketing Seychelles and sales of fares to the destination. The preparation of these operations has itself been labelled as market resources. The output of the market resource serves as input into services offered by the Air Seychelles International services. Subsequently, the output of the Air Seychelles International Services serves as input to the Air Seychelles Domestic Services.

As seen in Chapters 5 and 6, Air Seychelles started with domestic services in 1978 with three islanders and one twin otters, which were replaced in 1980 by three twin otters. These tangible resources were used to service Praslin, Frégate, and Denis. In 1983, Air Seychelles started with international long haul service. In taking resources as both the medium and the outcome as the cumulative nature of both the service processes and the firm's evolution through time, the outcome of Air Seychelles domestic and international services, from this sense, benefit from this double foundation for the further development of the international and domestic operations, which in turn can be seen as resources and organisational assets - the input of past experience and the input of international services.

Consequently, to become an airline company several assets and capabilities had to be created and subsequently improved upon by resource-enhancing discontinuities. Examples of these discontinuities are, among others, the upgrading of various aircrafts and the improved in-flight services. Later in time in this resource process, old assets and capabilities had to be replaced by resource-destroying discontinuities (e.g. Tushman & Anderson, 1986). Examples of these more fundamental discontinuities are the adoption of new aircrafts to serve the domestic and international destinations, strategic alliances with stakeholders and the decision streamline the operations. When Air Seychelles acquires new aircraft, it implies that key discontinuities in using the older model. A new model of aircraft requires that the crew need training to upgrade and convert a previous skills, that is, the development of resources radically through discontinuity.

Some of the above examples are of a technological character, which is not surprising since an airline company resembles a high-tech process company. This does not imply that non-technological resources are unimportant - indeed the contrary - but it does imply

that technology is the first hurdle to overcome when becoming an airline company. Aligned and of equal importance are the non-technological resources. Before being able to dominate the complexity of airline, it is not possible to have a meaningful discussion about the resources needed to sell tourism airline seat, let alone to forecast the possible volume of sales (Sminia, 1995). The intangible organisational assets include the capability to enhance the passenger experience. Another important reason for focusing on technological resources in this chapter is that these are more visible and thus observable.

Tangible organisational assets, such as the aforementioned technological installations and equipment, within the resource-based theory of the firm are not considered to be a bearer of distinctive and sustainable competitive advantage because “hardware” is visible and thus comparatively easy to copy (Itami, 1987; Grant, 2005). It is also considered the easiest dimension to change (Leonard-Barton, 1995; Teece *et al.*, 1997). Leonard-Barton continues to explain that this does not mean that implementing new technological systems is easy, although they can be purchased off the shelf. Being able to purchase technical systems off the shelf, however, is only partly true for companies such as Air Seychelles, because adjustments for different locations, context, product applications and raw materials always imply complicated and time-consuming adjustment processes.

Moreover, tangible assets should be considered as agents of interaction between intangible assets - such as knowledge - and capabilities. Most of Air Seychelles’ activities centre around technological equipment, aircrafts, and it is not until there are these kinds of tangible assets that knowledge generates capability, that is to say, the ability to do. Superior resource innovations in the airline sector of today become the basic necessities of tomorrow. Adding this element to the chain of cumulative resources needed paints the complex picture of competitiveness in the airline sector. Consequently, missing out on a new innovation in one of the four aforementioned groups of resources creates a vulnerable position for an airline company over time.

The acquiring of new aircrafts marks the specific milestones of the deviation from the established strategy path of Air Seychelles’ strategy path through time. For example, the three years of studying during the foundation period of Air Seychelles in order to obtain the most suitable aircraft. Moving towards the decision-point is difficult. This is particularly so for an airline company since once acquired an airline represents not only solidified intangible assets such as knowledge but also solidified capital and solidified flexibility and therefore a solidified strategy path. It should be noted that the outcome of this resource process will be a resource medium for a long time. Or, in other words, the company is

sentenced to a long period of the strategy of “trying harder” with this long-term resource medium (Hamel, 1996). New equipments (tangible assets) were consistently acquired along the lines of intangible assets (e.g. knowledge) that had been gathered and advice received.

The acquisition of the different aircrafts as milestones of Air Seychelles have been the Douglas DC 10 in 1983; the Boeing 707-320 in 1984; the Boeing 767-200ER in 1986; the Boeing 737 in 1993; the Boeing 767-200 1993; the Boeing 737 in 1993; the Boeing 767-300ER in 1996; the Boeing 767-200ER in 2001. These milestones represent the moments when intangible assets were turned into solid equipments and Air Seychelles committed itself to a more specific strategic course. In the literature of the resource-based view it is argued that a commitment to a specific strategy path will lead to organisational capability.

The specific moment of organisational capability formation is somewhat obscure because it is harder to pinpoint the precise time when a capability is created. Nevertheless, since it is generally accepted that capabilities are created by doing (e.g. Grant, 2005), the date of the acquisition of new tangible capabilities is the time a firm starts to develop capabilities connected with that resources.

Air Seychelles' milestones concerning organisational capability creation of tangible resources. The commencement dates as milestones of organisational capability are, however, open to some objection, as capabilities are also created by the training of staff. On several occasions Air Seychelles employees were trained by colleague firms. However, the organisational capability - namely the integration of individual skills together with tangible and intangible organisational assets - can be safely connected to the commencement date since it has been generally acknowledged by the people interviewed that new equipments always demanded substantial adjustments.

Comparing the aforementioned three points in time (intangible asset creation, tangible asset creation, and capability creation) with developments in the sector in general sheds light on the relative progressiveness of Air Seychelles in its airline operation. From 1983 onwards Air Seychelles was very close to new airline sector developments. Together the aforementioned resource milestones illustrate the resource outcome of a process of social development, actually becoming the very medium for further resource formation processes. This will be further highlighted in the consequent sections on resources below.

The fourth process involves the outbound services. In some sense the outbound services is relatively similar to the second process of in-bound services, which includes strategic fit and harmonisation between the domestic and the international services, enhancing the Creole experience of departing visitors so that they maintain a present memory of their experience in the Seychelles. This brings the processes to a full circle of operations. With regards to the outbound services, Air Seychelles have more 'control' as it also involves checking in at the domestic airport on Praslin and the international airport on Mahé, both serviced by Air Seychelles. Again the in-flight experience is a major part of service delivery that requires important resource and capability creation and development. The outbound in-flight services on Air Seychelles are geared towards enhancing the Creole experience.

7.3 THE DOMESTIC OPERATION RESOURCES

7.3.1 Domestic Resources Formation

The start of Air Seychelles' formation process was in 1977 with the acquisition of small companies and their fleet of aircrafts. Air Seychelles obtain the initial knowledge by the acquisition of the staff, processes, aircrafts and other resources of small airline domestic companies. In a way the domestic operations has not very much influenced the technological formation of Air Seychelles International Service operation. Most of the innovations in the domestic operations had been in existence since the start of the domestic service and were not induced by the industry in the way that it forced Air Seychelles into making a strategic choice for the international operation. Air Seychelles' strategy path concerning the domestic operations involved the efficient customer service and an effective and efficient air transfer between the islands.

Two important milestones on Air Seychelles' domestic strategy path may be distinguished: the initial acquisition of the small flying companies so as to rationalise the process; and the integration of the international and domestic services. With the acquisition of the small airlines in 1977 to form the precursor of Air Seychelles some human, organisational and physical resources were formed. It represented a major step, especially in terms of organisational assets and organisational capability. One of the complexity factors represented the training of staff workers who had never worked in airline before. However the acquisition of the staff of the company acquired to form Air Seychelles proved to be useful. What is interesting about acquisitions is that the moment of formation of intangible assets, tangible assets and organisational capability, from the perspective of the Air Seychelles' management, is simultaneous.

The tourism industry's and the airline sector's influence on Air Seychelles' resource formation is an interesting one. The growth of the tourism industry in the late 1970s was accompanied with an influx of major carriers serving Seychelles as a destination. The original plan was that Air Seychelles serves the domestic market, leaving the long haul passenger services to the major carriers, but the cessation of services by these carriers, Air Seychelles had to fill the void. As indicated earlier, Air Seychelles initially acquired the resources and capabilities to serves the domestic market by acquiring small domestic companies and for the international passenger services by collaboration and alliances with the industry established players. Innovations in the tourism industry and in the airline sector may be difficult. In the midst of all this, Air Seychelles' initial use of well accepted technology and non-technological resource, like routines and systems, and its consequent convergent development made Air Seychelles an 'adequate' and mediocre player in the domestic transfer market.

Only after it decided to move closer to the tourism industry by moving into the long haul passenger service did Air Seychelles become a more important player in the Seychelles tourism industry. The fact that Air Seychelles was closer to the tourism industry, and to the airline operation in terms of strategy, painted a more interesting for the future. Air Seychelles became an important player in the development of tourism in Seychelles. As indicated by Mr Patrick Elizabeth, Air Seychelles played a crucial role in supporting the visitors flow to Seychelles during the times when major airlines decided to discontinue services to the Seychelles, as a result the success of the industry was to a large extend as a result of interventions by Air Seychelles (Elizabeth, 2007).

In the domestic services three delivery process steps have been distinguished with their consequent resources. The first is the process of checking in passengers to transfer on the domestic flights. The second step is the actual flights to the domestic destination. Finally, arrival service process at the arrival at a domestic destination. However, arrivals and the checking-in are the part of the same process and involve the same resources. The three processes are discussed in the next three sections.

7.3.2 Domestic Passenger Check – in

The first step in resource formation of the domestic operations was in the provision of check-in services at the domestic terminals. The buildings and infrastructure of the domestic terminals do not belong to and is not the primary responsibility of Air Seychelles,

but of the Seychelles Civil Aviation Authority. However, Air Seychelles management do have a voice in the management of the terminals on Mahé and Praslin from which operated their respective services.

In the earlier days it also became evident that there was no efficient and adaptable design in the domestic operations, and the available knowledge did not necessarily solidify into tangible organisational assets since the domestic operation organisational learning was still in its early stage of development. A case in point was the appointment of Mrs Lisa Padayachy to Praslin in the 1980s to supervise the services at the domestic terminal, when a supervisor was needed. Mrs Lisa Padayachy had been working in the tourism industry on the main island of Mahé for some years and had the requisite experience, including human resources management.

Consequently, no corporate tradition and culture had been developed within the Air Seychelles domestic operation at that time. The development of resources within the domestic operation was characterised by an initial focus on resources acquired from the small domestic companies. With regards to the human resources level, development was initiated mostly in terms of the evaluation of acquisition possibilities. With the acquisition of these airlines companies was also the acquisition of resources and capabilities of these small domestic airlines, including their structures, processes and services.

7.3.3 Domestic Passenger Transfer Resource Formation

The second step in the resource formation was the acquisition of physical resources to carry passengers from Mahé to the other islands. Air Seychelles operated scheduled flights to Praslin and chartered flights to other islands. As highlighted earlier, Air Seychelles started as an inter-island domestic airline in 1977 with two islanders, of nine seats each, and two tri-landers aircrafts, of seventeen seats each. As Air Seychelles started its services in 1978, and up to 1983 it offered only inter island transfer, its domestic services resources are its oldest. Age alone, however, does not automatically lead to superior services. On the other hand, the combination of capital intensive assets, long life-spans and high demand on economies of scale do make time an important factor in resource formation processes. This is especially the case for domestic services of Air Seychelles since these services “excel” in service delivery leading to lock-in effects.

Since aircrafts are at the start of the service process its demand for economies of scale also determines the large scale and capital intensity for subsequent production steps.

However, dealing with capital assets for more than 20 years implies a very special way of managing resources. For example, the aircrafts (organisational assets) in the domestic services should have been dispensed of because of age but are still used for services. The question that remains is when the tough decision will be taken to replace a perhaps old though smoothly working expensive machine by an even more expensive machine.

From 1978 to 1983, a transformative Air Seychelles was faced with incremental innovation, leading to a convergent strategy path of consistently trying to act otherwise than the industry survival path. During this time with the rapid increase in visitors to Seychelles, there were favourable industry conditions which many overseas airline carriers were taking advantage, but Air Seychelles' resources developed along with the industry on a convergent domestic strategy path. This means that although there were almost no economic and political possibilities of "acting otherwise", Air Seychelles enhanced and enlarged its services capacity dramatically but along the same lines in the industry, though Air Seychelles did try to act otherwise. In those days this meant servicing the domestic operations and supporting the mostly European long haul passenger services. Although many aspects of the airline industry have changed in its basics, the domestic services have not. In the domestic services, contrary to International passenger services, there have been more stability and no apparent resource destroying discontinuities.

Strategic decisions on the part of Air Seychelles, direct government support, shifts in factor costs, or changes in the structures of demand in product markets may explain either the advent of a new competitive advantage or the spread of a new technology and a stronger (or weaker) competitive position. It is also possible that innovation and competitive strength are related in ways not accounted for in the theory, opening up the possibility of finding the expected relationship for an unexpected reason. It is quite possible, for instance, that certain institutional structures promote the generation of certain kinds of innovation. In this explanation, the innovations produced internally would provide Air Seychelles with a powerful first mover advantage in exploiting them and create a causal chain that runs from firms to competitive success by way of an explanation more familiar to industrial historians.

From 1984 until 1996 a transformative Air Seychelles was faced with radical innovation and sometimes enforcing industry conditions, leading to a convergent strategy path of consistently trying to act otherwise than the industry survival path. This strategy of operation at the end of instability - in the sense that Air Seychelles was not able to make the departure from the established strategy path it intended to make - on the one hand, did not

directly influence Air Seychelles' service resources significantly because Air Seychelles, for instance, was able to acquire two modern aircrafts. On the other hand, it was due to these departures from the established strategy being blocked that Air Seychelles invested all its effort into enhancing its long-haul passenger service resources. In a way this transforming attitude of Air Seychelles, though limited by the industry, might be considered as normal to any company. Making the best of a bad situation, however, cannot be taken for granted as it turns out from a more recent history.

Ever since starting operating the domestic services, Air Seychelles focused on really mastering it. Upgrading domestic services as well as up-scaling international operations for larger volumes of passengers illustrates this incessant drive of Air Seychelles.

The empirical results clearly show that resource practices directed at upgrading the firm's resource base are positively related to growth. The results suggest that resource heterogeneity among firms is related to the unique ways resources are internally re-combined and incrementally upgraded (Dierickx and Cool, 1989) and that such upgrading practices are highly relevant when explaining the value creation of firms. The results are also consistent with the dynamic capabilities perspective (Teece *et al.*, Shuen 1997) as they support a positive relationship between practices for building, integrating and reconfiguring resources and firm growth. In addition, the results are in line with Penrose's theory of the growth of the firm in showing that growth does not depend on the stock of resources a firm possesses, but on the actual and potential services that those resources can render.

7.4 INTERNATIONAL LONG-HAUL PASSENGER RESOURCE

7.4.1 International Long-Haul Passenger Service Resource Formation

Air Seychelles original goal was to exclusively serve the domestic market from the founding of the company. This, however, was obstructed in 1983. As earlier indicated, up to 1983, Air Seychelles' the exclusive focus had been on domestic market resources. In starting to service the domestic market, Air Seychelles choose for the unchallenged sector. In the midst of a rather limiting industry Air Seychelles took the possibility of moving upstream into international long haul passenger services as its strategy path. Even if Air Seychelles was forced into the international long haul passenger service, this could also been seen as its next logical and obvious step in becoming a national airline carrier. Air Seychelles' new international long haul passenger resources were confronted

with numerous resources enhancing initiatives, especially concerning service provision, just like Air Seychelles earlier did with its domestic service resources.

When in 1983, compelled to expand its services expand into international long-haul passenger business, Air Seychelles, without any tangible international service resource, acquired a Douglas DC10 through a wet lease agreement with the British Caledonian airways and started its first weekly flight to Europe.

During the 1983 to 1996, the industry conditions were harsh. Subsequently, Air Seychelles experienced a relative standstill asset-wise alongside the industry but was able to build experience and resources. After 1996 there were favourable industry conditions but Air Seychelles resources developed along with the industry on a convergent strategy path. This meant that although there were economic and political possibilities of “acting otherwise”, of released strategy, Air Seychelles enhanced and enlarged its capacity dramatically but along the same lines of the industry. Between 1996 and 2000, France, Air Seychelles’ principle market, was supplying on average number of 25,682 visitors in a year, whilst South Africa, the 9th market was supplying on average 4,696 visitors a year (Management and Information Systems Division, 2001b). Although many aspects of the carrier service have changed in its basics services had not.

For Air Seychelles new knowledge development remained out of reach at that time mostly because apart from the afore-mentioned, none of the airlines operating in this sector had proven to be successful. In a sense, Air Seychelles was entering in ‘unknown territory’ and none of its competitors or collaborators had the know-how to assist. Most airlines left this sector because it was not economically viable. This proved an entry barrier – at least for some time. It comes to show that the airline sector in these days was limiting in terms of information and knowledge as well as limiting in terms of economics.

A complex factor was the training of staff who had never worked in an international airline operation before, and there were no local institution providing training in this domain. Air Seychelles used its capabilities and organisation resources acquired in the domestic service and the hiring of experience and qualified expatriate staff as a starting point to develop its own human resources to serve the international passenger services (Elizabeth, 2007). As a result, the integration of intangible assets, in terms of knowledge and skills, and airline operations into capability subsequently needed more time than expected.

After the decision to operate in the long haul international passenger destination, Air Seychelles was able to develop and enhance its organisational resources to the high standard. Since the 1990s new developments in the field of airline sector have been incremental only. However, Air Seychelles creation of resources has mainly been radical. Twenty years of resource enhancing discontinuities on a convergent path and during the 1980s and early 1990s on an inertial path (development alongside an industry survival path) have created a solid sector standard.

Innovative, frame-breaking change in the tourism industry and in the airline sector in particular is very difficult. The aforementioned twenty five year unchallenged sector standard of airline sector in Seychelles demonstrates this point. The combination of the airline sector characteristics of capital intensity, long life spans, economies of scale and the time span between building and commencement provide a high-risk context for resource-destroying discontinuities. Another explanation of this difficulty is the conservatism of both firms and customers. This highlights the cognitive or psychological - as opposed to material - myopia that constrain a firm to a particular strategy path, thereby creating a competence trap in which increases in capability create alternatives that are ever more difficult to contemplate. In other words, the better a company gets, the more difficult it becomes to change. This myopia is of profound significance for the development of resources in a firm.

The development or evolution of the resources in Air Seychelles resembles a batch of organisational capability which, without interference emanating from the firm, will over time turn into a batch of organisational rigidity - a rigidity also long embraced and stimulated by faithful customers (e.g. Bower and Christensen, 1995). In Air Seychelles' history the latter is aptly illustrated by the long haul passenger service case in which customers "encouraged" Air Seychelles to keep to its 'Creole inspired services'.

The tourism industry and the airline's influence on Air Seychelles' International operation resource formation is an interesting one. Air Seychelles' initial use of technology and non-technological resource and its consequent convergent development made Air Seychelles, initially, a small and mediocre player in the successful long haul passenger service operations. Only after it decided to move closer to the sector by way of a modern fleet and a well developed organisational capabilities, did it become the most important player in the Seychelles tourism industry and the European visitor transfer market. The fact that it was closer to the industry, and to the airline operation in terms of strategy, paints a more interesting for the future.

Tangible organisational asset development is clearly intermittent and in the airline sector intermittent in large steps, but the way in which Air Seychelles built these assets developed over time into a typical style. To be able to explain this typical style and to shed light on its casting resources development, there is a need to take a look at Air Seychelles' historical tradition.

Most of Air Seychelles tangible assets acquired in the 1990s were still capable of some operations, but most of them were replaced by more modern and more efficient successors. Air Seychelles could probably have earned more money in those early days by building less solidly, but the long term was Air Seychelles' main driving force. By choosing the right options (ex post rationalisation) this long run development supplied Air Seychelles' prosperity in the long term.

In terms of economics investments in tourism development or services are based on sunk cost and mobility barriers because of the capital investment involved. For example, an investment in an airline, in "normal" circumstances, will not be able to transfer to another project immediately because of large investments and because of its concern for capacity utilisation. For an airline company to move or diversify, for instance, into sea transportation is unlikely because of the large amount of capital investment needed combined with required know-how.

As indicated earlier, aircrafts are at the start of the service process and the demand for economies of scale also determines the large scale and capital intensity for the subsequent production steps. The timing of replacement of the aircrafts is crucial to the survival of an airline, and the moment of fleet replacement is the moment an airline changes fundamentally. This is accompanied by the adaptation of skills related to the new aircraft. This issue has also been highlighted by Tang (1988) in explaining the problem of an escalating commitment in industries where process technologies are continually progressing. Vintage models of technological change recognise economic forces in adopting process innovations, such as sunk cost and the revenues from new technology (Tang and Zannetos, 1992).

The interaction between firm and industry reveals interesting aspects concerning the role of management. Ever since it entered the long haul passenger international service, Air Seychelles had kept close track of every new innovation in the industry, and as indicated by Ms Shirin Renaud, Corporate planner for Air Seychelles, the success of Air Seychelles

was also as a result of the staff keeping abreast of the industries in which they operate (Renaud, 2007).

As a consequence, the start of the long haul passenger service resources went along a reorientation strategy path because this engaged new physical resources as well as serving an entirely new market, both regional and long haul. Chapter 6 discussed this move rather extensively, but an important point to be stressed concerning resources is the fact that timing was crucial to this innovation.

7.4.2 Innovations in Air Seychelles

Resource formation is by nature an initiating activity. Insights from business literature refer to the profound impact of initiating activities on path dynamics. In a way, the description of multiple creation processes amounts to a path of resource formation. This compilation of processes may be compared with taking a number of snapshots and trying to watch these few pictures as if they were a movie, whereas the real movie is the actual development process.

Capitalising on the time and effort spent on resource creation alone, the both domestic and international long haul passenger processes of acquisition of resource is appealing to a modern-day ideal of speed and flexibility of expansion. By capitalising on resource impact and the ability to create new resources - which is what core competence is about - the good old-fashioned approach might be more interesting. Drawing from the dynamic capabilities view, a sustainable competitive advantage results from the ability to continuously improve, innovate, and reconfigure resources to match evolving environmental needs (e.g. Teece *et al.*, (1997). The topic of innovation is profoundly rooted in managerial studies since it has been traditionally considered as one of the most important determinant of competitive advantage (Rumelt, 1987). 'Resource reconfigurability' is herein proposed as a dynamic capability that enables managers to create new productive configurations of functional competencies by detecting new opportunities and recombining existing resources in innovative ways. Air Seychelles achieved a sustainable competitive advantage as a result of the airline's ability to continuously improve, innovate, and reconfigure resources to match evolving business needs. In a way the tourism industry and the airline sector practically determined the route for survival of Air Seychelles for the last thirty or so years. An airline needed to continuously improve, innovate and reconfigure its physical, financial, human and organisational resources.

Empirical analyses on product innovation have mainly put emphasis on the role of technology. Although technological knowledge is important in underpinning product innovation, market knowledge – that is customers and competitors knowledge - is important as well. Product innovation is one of the most fruitful strategies in modern economies, where an increasing number of industries is characterized by rapid pace of innovation (e.g. Nonaka and Takeuchi, 1995; Brown and Eisenhardt, 1998).

Innovations in the tourism industry and the airline sector may be difficult and there was not much innovation in the physical resources of Air Seychelles. The most important physical resources of the airlines are the aircrafts and Air Seychelles acquired the industry standards.

Given the interdependency of different tourism products and services at the country of tourist destination, a potential synergy can be achieved in the marketing decisions. Seychelles' marketing strategy for the tourism industry has been to target the wealthier niche of Western European tourists. To attract this niche of high paying tourists, Air Seychelles International services decided to implement a strategy to maintain a young and dynamic fleet. This was characterised by constant changes of the aircraft and a case in point is the purchase of the Boeing Dreamliner which is still under construction and to be delivered in 2010.

Moreover, an airline needs to operate at a certain volume of passengers to operate efficiently and at a profit. Whether an airline operates a particular flight at twenty percent of eighty percent seat occupancy, its aircraft maintenance costs are the same, its airport dues are the same, it pays the same wages to cabin staff and pilots and to its airport and other personnel, and its fuel costs only marginally vary (Middleton, 1988). Performance of the service involves a high level of fixed costs regardless how many passengers are carried. Although the operating costs are mainly fixed regardless of seat occupancy, the revenue side varies dramatically. If an economy seat on a Mahé - Johannesburg return flight costs SR4000, sales of forty seats would produce basic gross revenue of SR160,000. The sale of one hundred seats would produce SR400,000. If the fixed cost of operating the flight is SR200,000, forty seats occupancy produces a loss of SR40,000, and the sale of one hundred seats would produce a surplus of SR200,000. This implies that because of the high fixed costs of operation force all service operators' attention on the need to generate extra demand, especially additional or marginal sales, a very high proportion of which represents revenue gain with little or no extra cost. For the business

to survive over the long run, the average prices charged must be high enough to generate sufficient revenue to cover all fixed and variable costs and provide an acceptable return on the assets employed. Further, the average price over the year ought to be such that it covers and take into considerations seasonal factors. To maximise its revenues (financial resources), Air Seychelles formed alliances with other airlines serving the Seychelles, thus ensuring higher seat occupancy on the flights and higher returns.

As seen there are three episodes in the development of Air Seychelles and consequently there were therefore three discontinuities during the past thirty years, while some other discontinuities are in the making. Research has demonstrated that organisations that initiate these technological innovations will have higher growth rates than other firms in the industry (Tushman and Anderson, 1986). The opposite of this conclusion, however, reflects the opinion of most of the Air Seychelles' staff interviewed. Air Seychelles did not initiate major technological innovations, and the major innovations were in other domains. This opinion has been substantiated over the years by historical examples of innovative and inventive companies.

The role of the tourism industry in resource formation of Air Seychelles is important, not only in incrementally but also in radically enforcing innovations. It is noted that like most other airlines Air Seychelles invests in certain new resource innovations, and also in creating industry standards.

Technological developments move across the globe very rapidly and it depends on the joint acceptance and interaction among firms and customers which of these "elegant" developments either become relevant or imperative or remain elegant. To remain relevant, however, Air Seychelles had to establish which innovations and developments would enhance their strategy path or which developments have to be adopted and which decisions to depart from established strategy have to be made.

7.5 A COMPARATIVE VIEW

7.5.1 Processes and Strategic Innovation

This section provides a comparative view of the transformation of Air Seychelles resources as was created and maintain as the airline operated within the tourism industry as discussed in Chapters 4 to 6. As seen earlier, strategic innovation is recognized by decisions and their implementation, which involve organisation in significant transformations, liable to have an impact on all organisation's internal activities and

systems (e.g. Smith *et al.*, 1990). These decisions and their implementation give rise to major changes in products and markets, production processes and technologies, and the organisation of work.

Process theory has been appropriate to measure strategic innovation as it provides explanations in terms of sequence of events leading to an outcome (Langley, 1999). Strategy process research offers a deeper, more sophisticated and alternative interpretation of the environment-firm relationships (Herrmann, 2005). As suggests by Pettigrew (1997: 338) the analysis of process data is “to account for and explain the what, why and how of the links between context, processes and outcomes”.

In applying the process research, Pettigrew (1997) suggests sticking to a small number of cases and linking these to clear outcomes in order to provide an illuminating comparative element in a research project. Although this research project capitalises only on one case – Air Seychelles Ltd - it does involve three episodes of transformation through time and across two services, the domestic and the international long haul passenger services. The objective of this comparative view is to enlarge insights into the processes of transformation by systematically comparing these processes. First, the focus is on comparisons across the two passenger services, such as the specifics of Air Seychelles domestic and international long-haul passenger services formation. Second, a view across time is provided to compare the temporal transformation.

7.5.2 Comparison of the Domestic and International Services

Many if not most of the similarities in the resource formation of Air Seychelles are based on the comparability of the domestic and the international services. The development of the resources in the domestic operations preceded that of the international long haul passenger services. As mentioned earlier, Air Seychelles started to transfer its domestic experience to its international operation. The skills and resources acquired in the Air Seychelles domestic operations were utilised in the development of the international passenger services. However, from the moment Air Seychelles had a domestic and an international service the subsequent processes were in a sense streamlined and integrated. Moreover, in the international services, for Air Seychelles, the increasing joint ventures and alliances with other airlines were the foundation of their airline service philosophy. For the domestic services, as the other islands other than Mahé developed their tourism capabilities, visitors opted to fly from Europe and transfer to these islands immediately upon their arrival at the Seychelles International Airport on Mahé. Air

Seychelles integrated and synchronised their domestic and international operations such that visitors from Europe would immediately transfer to the other islands. To that end corporate development, including the operations in domestic and international services, were completely integrated and achieve strategic fit.

Since the 1980s a convergent process between the domestic service strategy path and long haul passenger strategy path has been under way, joining together Air Seychelles' strategy paths. This has increased the common ground for resource formation, adding to Air Seychelles' philosophy of the best of both airline services.

Though the current strategy is the seamless integration of the two services, an important difference in resource formation between domestic and international services is the very reason why these resources were developed. The two services serve different markets, have different business environmental boundaries and have different goals, values and core competencies. The domestic operations were initiated basically to ensure efficient transfer of visitors between Mahé and the other important tourist islands in Seychelles. Whilst the international services were initiated to provide services left void by the departing airline carriers serving Seychelles. This was important to ensure a steady flow of visitors to the island. Hence, these differences between the two services of Air Seychelles stem from the arena of initial conditions. From the foundation of Air Seychelles in 1978, the "grand vision" has been that of transformation initially of the domestic services and consequently the international services, and the management of the airline was committed to achieving this vision.

Seychelles' marketing strategy for the tourism industry has always been to target the wealthier niche of Western European tourists. This was as part of the strategy to maximise visitor expenditure and a means to preserve the environment – contrary to a strategy of promoting mass tourism. To attract this niche of high paying tourists, Air Seychelles International services decided to implement a strategy to maintain a young and dynamic fleet. This was characterised by constant changes of the aircraft and a case in point is the purchase of the Boeing Dreamliner which is still under construction and to be delivered in 2010. Air Seychelles is also expected to be one of the first airlines to launch the new dream liner 787 in 2010 and "will strive to replace all of its aircraft with the new 787s by 2012", according to Captain Savy (Seychelles Nation, 7 May 2007). However, this resource and capability strategy was not replicated and benchmarked across the firm. The same did not happen in the domestic services. For example, the Shorts 360 aircrafts

are old and often had to be repaired and undergo maintenance. For long stretch of time one or both aircrafts were out of commission.

To this end, Air Seychelles was able to move beyond generally accepted practice and develop on a reorientation path; developing strategies to attract and offering services to the wealthier niche of western European tourists. As such, there has always been a compelling perspective guiding the company in this core activity. This contrasts sharply with the vision guiding the international services operation, which included investing surplus financial resources and spreading risks, by exploring various regional and long haul destinations (Padayachy, 2007).

7.5.3 The Formation of the Domestic and International Services

There is an interesting formation pattern by Air Seychelles domestic and long haul international operations. Becoming a domestic and international airline in the early days, Air Seychelles took well-established industry technologies. The airline acquired aircrafts that had proved successful within the airline sector and adopted standard industry practices. The primary domestic operations and process of transformation developed along an identical path industry. However, clear differences in terms of formation between domestic and international operations are evident, as has been previously indicated.

Concerning domestic resource formation, initially acquisitions of small aircrafts and their companies formed the basis for most of the principal resources. The acquisition and leasing of aircrafts instead of building and buying approach had clear influence on the relationship between Air Seychelles' domestic operation and the international operations. Opportunities for growth involve dynamic capabilities closely related to existing capabilities (Teece and Pisano, 1994). As a result, opportunities are most effective when they are close to previous resource use (Teece *et al.*, 1997).

If a firm is to develop dynamic capabilities, learning is crucial. As change is costly, the ability of firms to make the necessary adjustments depends upon their ability to scan the environment to evaluate the markets and competitors and to quickly accomplish reconfiguration and transformation ahead of competition (Teece *et al.*, 1997; Pettus, 2001). Within the domestics and international operations' decisions to develop resources have been preceded by intensive integrative studies which were directed at the strategic long-term development of an airline. It was also a step-by-step process interspersed by long periods of focus and learning before the next step was taken. Consequently, each

process step is known in full detail. Clearly this was not the case for the domestic operation as since the initiation of the international operations, more emphasis has been placed on the development of long haul passenger operations. Also, those who guided the formation of resources are different for domestic and international operations. Naturally management initiated and oversaw both operations, domestic and international.

However, the management remained deeply involved in the international operation. During the early period of a domestic and international integrated company it was the executive director who directed the entire operation of resource creation (Padayachy, 2007). Subsequently for the domestic operations, it was managed at arm's length by middle management. As earlier indicated, a case in point was in 1986 a manager, Mrs Lisa Padayachy, was recruited from Mahé to run the domestic services on Praslin. Subsequently, the domestic services became a more integral part of the corporate view especially in 1990s.

Air Seychelles built its international long haul operation by radical and incremental development, whereas it bought and acquired its domestic operation. After the formation of the international long haul passenger operations in 1983, Air Seychelles had an eye for long-term development with reference to its international operation whereas its domestic operation was development along opportunities. The international operation was initiated and developed by top management; domestic operations were only initiated by top management. Finally, Air Seychelles domestic operation is closely knit and integrated on a single location and a few dedicated routes. In comparing the history of Air Seychelles domestic operations with Air Seychelles international operations it is demonstrated that better resources emanate from the firm if there is an emphasis on building instead of buying resources; long-term development instead of opportunistic developments, top management involvement instead of top management investment, and service process integration instead of dispersed service processes.

Since both the domestic and the international long haul passenger services functioned rather independently, organisational capability development has been local too. Domestic operations development has been completely incremental, in contrast with the international operations which have been mainly radical. Once the limits of incrementalism have been reached, the operations do not develop rapidly.

When a firm has extracted the maximum value it can from its existing resource base, it must develop dynamic capabilities to maintain growth in a dynamically changing

environment (Pettus, 2001). From a dynamical capability perspective, the firm continually replaces previously defined sources of competitive advantage with new sources of advantage to provide for dynamic firm growth (Hamel and Heene, 1994). The context of resource formation is the playing field in which the company interacts with its industry. As indicated before, in both the domestic and the international operations there were two survival paths. In both operations Air Seychelles among other things includes high capital investment and large volumes due to economies of scale. Consequently, in many ways the playing fields of domestic and the international operations were comparable and experience in the tourism industry which can be transferred between domestic and international operations. As mentioned earlier, Air Seychelles started to transfer its domestic experience to its international operation. The fact that these two sectors are in many ways comparable make the aforementioned firm-emanating differences between domestic services and international passenger services resource formation more interesting.

7.5.4 Comparing Air Seychelles across Time

Besides appearing in a different time-period, the resource formation processes of Air Seychelles also appear in a different time, spirit and contextual circumstances. A comparison across time provides insights into the influence of these changing circumstances on resource formation. Interestingly, an enabling industry is not a prerequisite, nor a guarantee for important resource formation episodes. The most important resource-destroying discontinuities, for example, take place in the midst of difficult social, economic and political circumstances. Apart from continuous creation of resources, continuities took place in a period of commitment to one activity, of making the best of the little that was available to the company. This is not to say that the latter conditions are prerequisite, but it does highlight the fact that limiting conditions in the business environment do not have to prevent a company from endorsing resource moves during periods of limiting industry conditions.

In Chapter 6, it is argued that that the thirty-seven years of tourism industry and civil aviation and airline history in Seychelles, Air Seychelles went through three phases or episodes of development; the exploration phase between 1971 and 1983; the growth phase between 1983 and 1996; and the consolidation phase of 1996 and 2007.

During the first episode, 1971 to 1983, Air Seychelles became a highly effective small domestic airline, by 1978, initially serving Mahé and Praslin, the main and the second

largest islands respectively. The airline went on to operate routes to other smaller islands, as airstrips were built on those islands. With the incessantly transformative intent typical of entrepreneur, Air Seychelles met an almost equally incessantly enabling industry environment. In being confronted by a developing and enabling industry, Air Seychelles moved along a convergent path of resource formation. This means that there were almost no alternatives to “acting otherwise” than the well-defined industry survival path, and it appeared that Air Seychelles did try to do otherwise. In those days this meant servicing the domestic operations and supporting the European long haul passenger services. To survive in the Seychelles tourism industry and airline sector Air Seychelles needed to ensure that these downstream activities are rationalised and efficient. Rationalised domestic operations were considered by the Seychelles Government as a vital requirement for the development of tourism and especially on the other islands of the Seychelles. Air Seychelles managed to rationalise and run an effective domestic service due to the protection they enjoyed from government. As a consequence, Air Seychelles managed to survive by efficient servicing of the domestic routes.

The circumstances of the first episode of development changed in the second episode, from 1983 to 1996. It was the time that Air Seychelles was forced to launch into long haul passenger service as a result of most carriers pulling out their services to Seychelles as the route was not seen as a profitable one. Within a very short time, Air Seychelles had to create resources to serve the European markets, within a short period more possibilities was explored leading to an inertial path of resource formation. The creation of especially the physical, human and organisation resources has to be continuously developed. This transpired with the lease agreement with BOAC for the Douglas DC10, the joint venture and alliance with other established airlines like Air France, training of staff and the entrepreneurial spirit of the executives. Initially in this period the operations were in an instable environment, with consternation among the carriers operating in the international long haul passenger service. In response to this, the creation of the new resources was often radical innovation. However, following this and in a more stable environment, the development of resources and capabilities was often incremental innovation. In these days the incessantly transformative and entrepreneurial Air Seychelles was forced to act defiantly from the industry.

As Air Seychelles entered the long haul passenger operations between the European market and Seychelles, a period of where the firm creation and development of resources became apparent because of an enabling industry and a zeal for reconstruction and transformation at Air Seychelles. The consequent reorientation path of resource formation

at Air Seychelles created a fast growing fully-fledged integrated Airline. It is interesting to note that it was not until this reorientation path that Air Seychelles' domestic and international operation resources showed up well. Although the 1980s followed along a reorientation path of resource formation as well, Air Seychelles lost its momentum as if it were satisfied towards the end of servicing the European market and maintaining a viable and profitable tourism industry, although it was not registering profits and relied on Seychelles Government subsidy. Its well-pruned competence of Airline services was watered down although a modern fleet was acquired. During the 1990s Air Seychelles' change in attitude became visible in its behaviour. It was the entrepreneurial spirit of the management and the protection of Seychelles Government that subsequently turned the airline into a profit making organisation.

During the third episode of development, 1996 to 2007, Air Seychelles transformed into a profit making and highly effective small integrated domestic and international airline. This was in great part because of the management and leadership of Air Seychelles, which vigorously addressed the critical issues of cost control and management within the new operating scenario. There was a 0.3% increase in the number of passengers on Air Seychelles domestic and international route networks combined in 2005. This was despite the fact that there was reduction in seating capacity. The traffic increase came from a rise in visitor arrivals to Seychelles and better filling of the Air Seychelles capacity (Air Seychelles, 2006).

During the years 1996 to 2004, the number of visitors' arrival to Seychelles had reached a plateau and was stagnant. This period was comparable to the harsh conditions of 1980 to 1983. However, Air Seychelles' intent did decline to that of a helpless company "developing" along an inertial path of resource formation. However, as was the case in the early 1980s many airline that had returned to operating long haul international passenger service to Seychelles again stopped their operations. It seemed that all the airline companies operating to Europe had lost their will to operate in Seychelles, while Air Seychelles confronted the harsh conditions the airline had to face with incessant transformative intent.

During the 1990s and 2000s Air Seychelles still had to face difficult and limiting conditions, but its attitude changed remarkably from the domestic airline company of the late 1970s and early 1980s. Moving in between the radical innovation approach followed by the incremental approach in the exploratory stage in 1971 to 1983; then again a radical innovation approach as they had to moved abruptly into the international long haul

passenger service in 1983, followed by a incremental innovation in the growth stage of 1983 and 1996; and finally in the consolidation stage of 1996 to 2007, where they initially started with a radical innovation approach to turn the company into a profit making organisation, followed by an incremental innovation approach when the environment was more stable. As Air Seychelles constantly changes its strategic innovation to co-evolve with its environment, the airline regained its posture of an incessantly transformative intent.

The open sky policy adopted by the Seychelles Government in 2004 had an important impact on how Air Seychelles positioned its resources. The airline was able to remain competitive by developing resources and positions that enabled it to sustain its competitive advantage. Air Seychelles reviewed its networks of routes, aircrafts and human resources.

It would appear that the strategy use by Air Seychelles to co-evolve with its business environment was whenever there was a discontinuity in the industry strategy path; Air Seychelles initially respond initially and immediately by creating resources through radical innovation followed by incremental innovation to develop the resources once stability is established. In 2007, Air Seychelles, unlike the early formative years, was as strong as it ever was.

7.6 CHAPTER SUMMARY

At the start of this chapter it was suggested that at the end of the day we want to understand the coming into being of our resources better. This better understanding is found in the interaction between a firm and its industry concerning resource-formation processes. The basic reason why a resource should be created turned out to be important. Also, difficult circumstances and failure while developing resources - and surviving amidst these circumstances - create resources that are otherwise hard to learn in a company. It was concluded that resource formation-wise building is better than buying; long-term development is better than opportunism; top management development better than top management initiation; and single location is better than multiple location.

This chapter highlights the outcomes of the thirty years process of creation, development and use of internal and external resources of Air Seychelles and in doing so address the fourth objective of the study, which is to link change processes to organisational performance. The focus was on key processes, discontinuities and reorientation paths in

the creation and development of Air Seychelles' resources in its international long haul activity and its domestic activity through time.

Important insights coming from Air Seychelles' resource formation over time is how to behave in an industry. Both the domestic and the international long haul passenger services are highly cyclical and follow the industry life cycle. Being at the mercy of industry circumstances is not the way to go comparing the three periods in the evolution and transformation of Air Seychelles. Even when the industry is enabling a firm still has to be transformative in its intent. In the early 1990s Air Seychelles became steadily less transformative (entrepreneurial), in spite of its high technology standards, and lost momentum because it lost vision of what to do next. Replacing important resources for yet unknown new generation resources is without doubt one of the most difficult challenges a company has to face. The strategy path of adopting a radical innovation approach for creating new resources and utilising the incremental innovation approach for its developments has been a successful strategy for Air Seychelles.

CHAPTER 8 DISCUSSIONS AND CONCLUSION

8.1 INTRODUCTION

As seen in Chapter 2, both organisations and scholars of management sciences have long sought how competitive advantage is attained and sustained in dynamic environments. The answer to this quest differs from person to person and from organisation to organisation depending on the context, internal and external, of the organisation under study and the methodological approach adopted. As also seen earlier in Chapter 1, it is as a result of these that some scholars have suggested that the answer lies in the environmental (external) perspective; yet others have suggested the firm (internal) perspective; whilst still others suggest integration between the two perspectives.

As indicated at the start of this study, the purpose of this thesis is to understand performance, in particular, the attainment and sustenance of competitive advantage. This was achieved by focusing on the interactions, context and fusion of a firm and its industry over time. The study proposed a contextual and processual framework to build a theoretical perspective of competitive advantage by focusing on the interaction between the firm and its industry. By considering how a firm and the industry interact in developing resources and practice, a contextualist analysis of the processes was undertaken at the levels of the firm and industry, over time.

This chapter presents the discussions and conclusion, linking the problem to the literature review and findings, and comments on the implications, elaborating what has been learnt in this study. Having come to end of the study, perhaps the most pertinent and also difficult question, is what has been learnt from this study and, given the currently findings, what could be done differently? This final chapter therefore looks at the results of the analysis in terms of the study objectives as outlined in Chapter 1.

8.2 RESEARCH MOTIVATION AND EXPECTATIONS

8.2.1 Contribution to Theory

In section 1.2.1 reference was made to Mintzberg *et al.* (1998), who referring to the fable of blind men and the elephants indicated that each person standing at one part of the 'elephant' make one's limited analytic assessment of the situation. Outlining the epistemological assumptions – how this study construes the shape of the social world, and indicating the theory of methods that guides our study and the concept of contextualism to capture the complexity of understanding the interaction between the industry and the firm

through time - has been useful. By informing on the epistemology, this study indicated from where and how the strategy 'elephant' is perceived. Contextualism implies searching for continuity and change, patterns and idiosyncrasies, processes and structuring. It provided the framework to giving history and social processes over time, revealing the deep-seated continuities and changes through time. It offered the opportunity to examine continuous processes in context and to draw in the significance of three interconnected levels of analysis. It provided the opportunity to reveal multiple sources of loops of associations, and possible causation, and connectivity, crucial in identifying and explaining patterns in the process of change.

This study marks a further step towards an integrative perspective on the dynamic capabilities and resource-based view of the firm and competitive positioning (Pettigrew *et al.*, 2001; Pettigrew and Whipp, 1991; Amit and Shoemaker, 1993; Fahy and Hooley, 2002), fully acknowledging the dual role of resources and industry conditions in organisational success. However, the interactions between the capabilities emanating from the firm and the transformation that ensues as enforced by the industry seems to be underestimated in the resource based view of the firm and dynamic capabilities literature. The resources of the firm and dynamic capabilities, both rare and valuable, determine the competitive advantage of the firm. Many resource-based view of the firm theorists acknowledge that resources may become specialised to others and evolve in a dynamic systems (Teece *et al.*, 2000). The dynamic interaction effects of the firm and the industry appreciate the dynamism of the system. It is at the level of interaction that things happen. A significant number of research initiatives have been carried out on the internal and external approaches, and the contribution of this study was to link the two perspectives and investigate the interactions between them. This study adopted Pettigrew *et al.*, (2001) view of the contextual approach that theoretically sound and practically useful research on change should explore the contexts, content, and the process of a change together with their interconnections over time.

This focus on changing rather than on change presents scholars with a dual challenge: (1) to attempt to 'catch reality in flight' and (2) to study long-term processes in their contexts in order to elevate embeddedness to a principle of method (Pettigrew *et al.*, 2001). Pettigrew (1985b) suggests that organisational strategy be examined by dividing strategic aspects into categories of context, content and process. The need to integrate these three elements in strategic change research has for long been advocated, perhaps most strongly by Pettigrew himself (1987, 1990, 1992, 1997, 2001). This thesis attempted to

follow in this tradition. Doing so also provides a conceptual guide for implementing strategic change, which is regarded as a continuous process occurring in given contexts.

Relating to content, from a substantive point of view, the issue of competitive advantage is a major concern for academics in the field of strategy focused on emerging economies, such as Seychelles, since more research are needed in order to assemble a body of knowledge on competitiveness of firms and the economy. As indicated in Chapter 1, few studies have explored sustainable competitive advantage in African management settings, fewer have explored sustainable competitive advantage in micro state environment and even fewer in the Seychelles tourism setting. This study is an attempt in this direction.

With regards to process, the research that generated process research practice tries to track specific processes of strategy formation to understand the effect of the course of the process on the outcome (Sminia, 2005). The research design was influenced by four considerations. Firstly, the why and the how questions rather than the what questions dominated calls for research in the literature aimed at the closing of the gaps identified in chapters 2 and 3, thus a clear indication of the need for case study research (Yin, 1994) and for research of a longitudinal nature that satisfies requests for rich institutional detail of refocusing processes (Eisenhardt, 1989; Hinings, 1997). Secondly, various scholars (e.g. Pettigrew, 1985a, 1985b, 1990, 1997; Pettigrew and Whipp, 1991; Ferlie and McNulty, 1997) have noted that extended periods of time it take for generally successful firms to fundamentally adjust themselves to their external environment, pointing out again to the need for a longitudinal research design in order to address the gaps in corporate refocusing literature. Thirdly, these time-consuming adaptations to the external environment or trying to attain strategic firm has been described as evolutionary (e.g. Eisenhardt and Galunic, 2000) and from a process research perspective, as indicated by Volberda and Lewin (2003) there is a need for research to explicate such underlying evolutionary processes. In view of this, the transformation of Air Seychelles as conceptualised in this study; as a phenomenon that evolves over time, attaining and sustaining competitive advantage by building on both internal and external resources and driven by an evolutionary process. Fourthly, the relative lack of in-depth research on how firms within the tourism industry in Seychelles attain and sustain competitive advantage over time and their contemporary and multi-faceted nature, especially when considered in conjunction, renders the case study research strategy and its ability to cope with theoretical pluralism particularly suited for this thesis.

This study is also in respond to Moran and Ghoshal (1999) who indicate the necessity of more process studies, theorising and modelling in business strategy, in particular when in the presence of unfolding courses of action in time and place and of many interdependent decisions taken at different levels of the firm. As in Chapter 1, management research, have emphasised on variance theory (Chiles, 2003), the more dominant of the two fundamental types of theory in social science research (Mohr, 1982). Variance theory does not address the complex dynamism of a variety of fundamental organisational processes including adaptation, co-evolution, improvisation, selection and self-organisation (Chiles, 2003). Orton (1997), referring to Weick (1969, 1979), calls for a shift in research attention from static organisation forms towards a more dynamic organisational processes.

Our argument is that one way Air Seychelles regained its competitiveness was through the co-evolution of resources and scope, or the interactive evolution of resources and the business environment. Transformations in the firm's resource set induce alterations in the business environment, which in turn lead to changes in the firm's resource set, and so on, thus facilitating the development of a dynamic competitive advantage. This is a guided process that is only revealed through the analysis of longitudinal chains of events that link dimensions of resources to dimensions of scope. This process integrates the dichotomy of strategy into one dynamic perspective of strategy, where both resources and business environment are the basis of the firm's behaviour and, ultimately, of its competitive advantage (e.g. Cuervo-Cazurra, 2003).

With regards to context; the selection of how Air Seychelles attained and sustained competitive advantage within the tourism industry in Seychelles as a subject for this study satisfies the conditions for single case study research (e.g. Yin, 1994; Pettigrew 1990; 2001), as discussed in Chapters 3 and 4. It was seen that the national socio-economic development was intrinsically linked to the national tourism development, and the development and transformation of Air Seychelles intrinsically linked to the national tourism development.

Further, Pettigrew *et al.* (2001) suggest that students of organisational change should pay greater attention to six key interconnected analytical areas: (1) the examination of multiple contexts and levels of analysis in studying organisational change; (2) the inclusion of time, history and process and organisational performance outcomes; (3) the link between change processes and organisational performance outcomes; (4) the investigation of international and cross-cultural comparisons in research on organisational change; (5) the

study of receptivity, customisation, sequencing, pace, and episode versus continuous change process; and (6) the partnership between scholars and practitioners in studying organisational change.

As indicated in Chapter 1, this study proposes a contextual framework paying particular attention to three of six interconnected analytic areas: (1) The examination of multiple contexts and levels of analysis in studying organisational change; (2) the inclusion of time, history and process and organisational performance outcomes, and (3) the link between change processes and organisational performance outcomes. This approach, subject of our first objective, contributes another contextual perspective by integrating multiple contexts and levels of analysis to the strategic management theory.

8.2.2 Understanding the Historical Context of Tourism Development in Seychelles

A major element of the external contexts of Air Seychelles is the tourism industry in Seychelles in which it operates. Context is a type of situation of an organisation in terms of configuration. As seen in Chapters 1, 2 and 3, the context of organisations can be divided into two categories: internal context and external context. Internal context includes the organisation's structure, culture, distribution of power, skills base, internal resources and so on. External context includes wider elements of an organisation's environment such as the economic, legal, environmental and social context within which the organisation operates. If the external context is changing, then the internal context needs to respond concurrently, hence our focus on the interactions between the two. Chakravarthy (1987) suggests that the lack of fit between a strategic plan and its contexts could result in strategic plans tending not to be subjected to corrective action. As seen in this study, whenever the external context of Air Seychelles changes, the airline had to respond appropriately and adjust its internal context to achieve strategic fit (Morel, 2007; Charles, 2007; Padayachy, 2007). Thus, contexts do impact on strategy implementation.

Tourist attraction is centred on the destination. The choice of the Seychelles Islands as a holiday destination depends on manifold factors. Cooper (2002) argues that the destination is probably the most important element of the tourism system, motivating visitation, delivering visitor experiences and contributing to enduring memories of the tourism experience. With the increased growth in the demand for tourism, combined with the changing nature of the tourism consumer, places destinations under pressure to be competitive and sustainable. For these conditions to materialise, effective management

and planning of tourism destinations is crucial. A prerequisite is the understanding of the context in which the industry operates. This is also vital for the maintenance of a profitable and sustainable tourism industry. Hence sustainability is central to the management of both markets and the destination. Sustainability has become the organising concept for tourism policy; a concept which has demonstrable advantages for the tourism industry as a whole (De Kadt, 1992).

The benefit of understanding the tourism industry, tracking visitors trends and their economic and other consequences, results in gaining insights of the competitive environment, which facilitates our understanding of tourism and the development of programmes to benefit from it. Such evidence-informed programmes and policy interventions would result in increased economic growth, rising government receipts, and growing employment and income. In order to understand the outer context of the tourism industry or even to establish the major market segments of a country's tourism, the growth and structure of foreign tourism were examined for a number of years. In addition, the construction of a tourist profile so that the types of foreign visitors to the destination country would be identified can be determined by marketing research and surveys carried out on a continuous and not an *ad hoc* basis. The main purpose of such research and surveys is to gather data that are not provided in the basic tourist statistics arrivals, receipts, etc. The emphasis would be on market data related to the composition of the foreign population, purpose of arrival, length of stay; expenditure of visitors, and reason for choosing the destination country.

As indicated in Chapter 4, the business environment or the tourism industry has a structure which may be seen as a set of objective condition which can create pressures for transformation in so far as a firm's viability depends upon the extent to which its behaviour is appropriate to the environmental conditions (e.g. Child and Smith, 1987; Smith *et al.*, 1990).

The tourism industry in the Seychelles appeared to have distinct survival paths leading to success. The principal markets are the long-haul tourist from Western Europe. However, the long haul market is of limited size and the cost of the 8000 km flight from Europe restricts the Seychelles as a holiday destination to the wealthier segment of tourists – the targeted niche. However, one of the interesting features that emerged from the fluctuations in the world tourism in the 1980s and 1990s was that the long-haul travel grew faster than short haul. This niche market has been actively sought by many tourist destinations because of its spending power, lower sensitivity to economic changes and

greater receptivity and sympathy to encounters with the host population. Further, this section of the market is seen to have less negative influence on the environment; the physical environment being one of the features that is marketed by Seychelles. This implies that the marketing competition to attract this niche market is very intense. In addition, Seychelles has attracted a growing number of relatively wealthy visitors from shorter regional and medium haul countries of the Middle East and Eastern and Southern Africa. The long haul tourist market from Europe and the shorter haul market form two distinct sector survival paths leading to success.

For over 30 years, Western Europe remains the predominant market area for Seychelles and accounts for more than 60% of the annual figures of visitors' arrivals. The main tourist countries of visitors' origins are France, United Kingdom, Italy and Germany. The numbers of visitors from these countries grew steadily over the last 30 years. In the early 1970s and late 1980s the market sources were closely related to the operation of the national airlines of the main source countries.

Besides the "objective" arguments, the choice of the Seychelles Islands as a long haul holiday destination refers also to "cognitive" arguments. The notion of the industry as a system of innovation and production departs from the traditional concept of the industry used in industrial economics because it examines other agents in addition to firms, it places a lot of attention on knowledge and boundaries, on non market as well as on market interactions, and on institutions. This approach is highly emphasised in the evolutionary literature and concerns the coordination and problem-solving nature of organisational routines (e.g. Ghemawat, 1991; Grant, 2005). Hence, their specificities are shown to be related to the "cognitive" features of the operational or search tasks at hand.

The 'industrial' approach recognises that firms are active actors who shape their technological and market environments and not passive automation for the transformation of inputs into outputs in response to market price signals. The concept of interactions between the industry and the firm attempts at providing the multi-perspective approach that takes into account some factors and dimensions identified by the internal perspective – core competencies and capabilities - and propose a methodology for the analysis of sectors which could allow for comparability.

Smith *et al.* (1990) begin their argument concerning industrial survival paths by drawing on their insights from industrial organisation and population ecology. When the industry is viewed as an objective reality, the concept of strategic groups would appear to contribute

to the discussion. A strategic group has been defined as “a group of firms within the same industry making similar decisions in key areas” (Reger and Huff, 1993) or “having similar assets, strengths and competencies” (McGee, Thomas, and Pruett, 1995).

This view of strategic group dynamics focuses on institutional criteria influencing or determining the membership of a typical firm in a typical strategic group. Highly competitive industries determine the membership of a firm in a certain strategic group and consequently the industry survival path it must take for future success. The industry survival path followed, however, is not only an effect of economic conditions and the characteristics of the firm, but also reflects the perception of an industry as a cognitive reality.

The history of the development of Air Seychelles has been characterised by the organisation not following other members of the airline industry though the change was similar to others in the strategic group. This was because Air Seychelles' initial mission was specific to bringing visitors to Seychelles and profit making was a second consideration.

Tourism industry in Seychelles is also seen as a collaborative network. Air Seychelles operates in the transport sector and the forms of transport and the ways in which they are marketed have a massive influence on tourists' behaviour, and the types of products, which the travellers purchase. Most tourists combine in their travel purchase decisions, not to one, but several services and products. Cooper (2002) notes arguably that the destination is the most important element of the tourism system, motivating visitation, delivering visitor experiences and contributing to enduring memories of the tourism experience. A person on vacation chooses the attractions of a destination together with the products of accommodation, transport and other services and facilities. The sales of tourist accommodation suppliers at a destination are, therefore, influenced to some extent by the marketing decisions made by tour operators and travel agents, attractions, transport interests and tourist boards, which together or separately promote the destination and its activities and facilities (Middleton, 1988). Over time, there is a relationship underlying the capacity of different tourism products at a destination, and a potential synergy to be achieved in their marketing decisions, if different suppliers can find ways to combine their respective efforts (Middleton, 1988). This implies that the performance of Air Seychelles is intrinsically linked with how Seychelles as a tourist destination is marketed. The business environment of Air Seychelles, therefore, is the tourism industry and more importantly the interdependence between the airline and the international visitors to the Seychelles. This

interdependence can be illustrated, for example, when the country decides to increase its number of visitors. The basic consideration is the number of tourists that can be comfortably accommodated in the country at any one time. This will depend on the available accommodation - new resorts or hotels, availability of beaches – which would imply opening new islands in the archipelago to tourism, the availability of air transport to Seychelles, and so on.

Shaw (1990) notes that the demand analysis in any transport industry poses problems because it cannot be viewed in isolation; rather, it has inextricable links with supply. When an airline introduces a service on a route, notable developments may follow. A case in point in Seychelles is, after the introduction of Emirates Airline in 2004, the signing of a joint agreement between the Emirates Hotels and Resorts and the Government of Seychelles to construct the 'Emirates Cap Ternay Resort & Spa'. The new multi-million dollar resort project to be developed at Cap Ternay on Mahé starting in 2008 is expected to employ a large number of Seychellois and also generate greater career and business opportunities for the Seychelles people working in the tourism industry (Seychelles Nation, 5 May 2007). The US\$253 million project is the largest-ever undertaken in Seychelles and is expected to occupy some 44 hectares of land for the hotel only. The Seychelles government is not financially involved in the project but only leasing the site. Boasting over 400 rooms, each category of rooms unique in their own design, the resort will directly employ a large workforce of 700 people for its operations and will provide training and career development and opportunities for aspiring Seychellois staff. The site set to be developed falls in a Nature Reserve. The Department for Tourism and Transport is to work in collaboration with the Ministry of Environment and Natural Resources to carry out an extensive field survey of the area to identify any endangered species of flora or fauna hence assist in determining whether any relocation would be necessary to ensure their survival. In addition, Emirates Hotels and Resorts have agreed to set up a trust fund with the backing of the Seychelles government to ensure the proper management of the immediate environment around the resort (Seychelles Nation, 5 May 2007).

Some tourists tend to use the same hotel groups, airline or travel agent on each or most occasions – brand loyalty - whilst others may decide to purchase on each occasion according to price, convenience and availability. Loyal customers are highly attracted to producers for obvious reasons of constant satisfaction. A combination of high spending, high frequency and high loyalty would be the best reasons for designing products and promotional campaigns aimed at securing, and retaining such valuable customers.

The number of international visitors to Seychelles directly affects the performance of Air Seychelles. The ability of Air Seychelles to supply the Seychelles tourism market with international visitors may also generate demand. Further, most airlines, forecast their passenger volume over a long-term period by product type (first class, business class, or types of economy), and by route. Projected sales based partly on previous years' operations and partly upon estimates (Middleton, 1988). Airline capacity and operations are scheduled on such projections. In cases of deviation of the projections, a variance analysis is undertaken to establish the cause of drops and consider actions to be taken to generate more sales.

The second objective of this study is to understand the process and the context in which the transformation of Air Seychelles proceeded and locate this within the various aspects of the tourism industry in Seychelles. Consequently this study conducted a historical analysis of the tourism industry in the Seychelles, including fitting the 'Butler's Area Tourism Life Cycle' model to the development of tourism in Seychelles.

8.2.3 Expounding the Evolution of Resources and Capabilities

One might question whether the development and success of Air Seychelles can be attributed to innovations within the firm or to development in the tourism industry. That is, whether Air Seychelles' performance could be attributed to situations created by management of the firm or by way of an aggregated explanation attributed to the industry. It would appear that to some extent the financial performance of Air Seychelles can be attributed to the management team and at other times to the industry. From a global perspective of the industry, where few airlines, in recent times, were registering profits, it would appear that explanation could be attributed to management of the firm. However, taking a more local and Seychelles view where few airlines operate in the industry and the majority of visitors to the islands are served by Air Seychelles, financial performance could also be explained at the industry level, though much of it would remain unexplained, implying the importance of the firm, and interactions between the firm and the industry. An emphasis of this study is the interaction between the industry and the firm. The need for interaction between internal and external characteristics is important to business strategy.

Resources in themselves cannot generate a competitive advantage and can only become a competitive advantage when it is applied to an industry (Kay, 1993). Amit and Schoemaker (1993) contend that resources must be overlapping or in accordance with strategic industry factors that are prevalent at the present time and likely to be important in

the future if advantage is to be attained. Though it is the basic premise of the resource-based view to explore multiple levels of analysis, most authors on the subject addresses one level of analysis at a time: industry, strategic group, firm, department, routines (group-level) and skills (individual). Notable exceptions include Amit and Schoemaker (1993); Ghemawat *et al.* (1999); Grant (2005); Teece, Rumelt, Dosi and Winter, (1994); Pettigrew, 1985a, 1985b; Teece *et al.*, (2000) and Pettigrew *et al.*, (2001).

The interactive process approach used here is to examine how a firm in the tourism industry in Seychelles achieves sustainable competitive advantage. This is not a new initiative as there have been other studies that have merged processual approaches with a re-conceptualisation of action and structure (Edwards, 2000). Rather, this study proposes a framework that helps to overcome the dualism between the inner and outer perspectives and conceptualisation and implementation. The term 'interactive process' is common to the field of innovation and has been used elsewhere to describe intra- and inter-firm innovation activities (Edwards, 2000). In this study the term interactive is used to note the relationship between the inner and the outer context over time.

Though it may be possible to achieve small, limited impact by focusing on only one level of analysis at a time, the greatest and longest-lasting impact is achieved by considering all the levels together (Ferlie and Shortell, 2001). Rather than treating the firm-level concepts and the industry-level concepts as distinct and separate, the process was described as holistically as possible. Further, it becomes clear that the historical development of Air Seychelles is intrinsically linked to the political and economic development of the country. This implies that changes in the larger social, political, economical and industrial environment will be aligned with the goals and objectives of the firm. The focus was not sequentially on internal firm characteristics and on external or industry characteristics, but on the interaction or the interplay of these levels of analysis and their joint effect on the creation and development of resources. As Ferlie and Shortell (2001) note that the multilevel approach to change does not imply that every transformation or change efforts must be directed at all levels simultaneously, rather it means that a change aimed at primarily one level needs be considered within the context of the other levels. This was also true in the case of Air Seychelles.

As indicated by the interviewees from the airline, Air Seychelles staff has a strong understanding not only of the external context, but also the internal, including internal systems structure and process. This is the cause of not only internal but also external strategic fit (e.g. Charles, 2007; Renaud, 2007; Morel, 2007; Elizabeth, 2007). Before

making any strategic decision for an organisation, it is essential to be thoroughly familiar with the context of the organisation, such as resources, structure, systems, people and history (Miles and Snow, 1978). Mintzberg and Quinn (1998) claim that there are various internal contexts appropriate to manage strategies in terms of organisational configuration. Those contexts are entrepreneurial, mature, professional, innovative, diversified, and international. With this understanding, top managers can make decisions on strategy content in terms of internal logic, and not just possess some external logic like market opportunities. In such situations, change aimed at primarily one level is considered within the context of other levels.

As seen in Chapter 6, the entrepreneurial leadership has been catalytical in the development of Air Seychelles. In analysing strategic management, the functions of managers as organisational leaders need to be understood. Bass (1985) and Burns (1978) suggest the concept of transformational change in organisations is usually identified with leadership. Indeed as indicated by all staff of Air Seychelles interviewed, the recent developments in Air Seychelles where the airline is registering profits has to do with the leadership (e.g. Charles, 2007; Renaud, 2007; Morel, 2007; Padayachy, 2007; Elizabeth, 2007). Mullins (1996: 246) claimed that leadership is "a relationship through which one person influences the behaviour or action of other people". With a shared strategic vision and commitment to that vision, staff of Air Seychelles motivated themselves to learn, (e.g. Braham, 1995) which also helps to identify the strategic objective to be accomplished by the organisation. Strategic leadership, to maintain the balance of the socio-technical system, influences employees attitudes of behaviour and motivation, and thereby the level of organisational performance and strategy effectiveness (Beer, 1980; Mullins, 1996). As seen, leadership is one of the key factors which can impact upon the development and implementation of strategy in Air Seychelles.

As to whether the organisational transformation of Air Seychelles is ascribed to industry developments or firm-level success, it is noted that the Air Seychelles success may be attributed to a larger extent to firm-level success, created by management, and to a lesser extent the development in the industry. However, the contribution and the development of the industry should not be underestimated. The performance of Air Seychelles is partly explained at the industry level. Since Air Seychelles ventured into long-haul passenger services, except for the period of stagnation in the 1990s, the number of visitors to Seychelles has kept on increasing. However, performance of Air Seychelles is better explained at the firm level. Air Seychelles launched its international long-haul passenger

service when other established airlines were on their way out, because long-haul passenger service Seychelles was not a viable enterprise.

This study tried to understand the patterns of resource development and what conditions influence these developments (Fahy and Hooley, 2002) by carrying out a case study analysis of thirty years existence of Air Seychelles. The subject of the third objective is to test the evolution of resources and capabilities in Air Seychelles and the impact of these on performance.

8.2.4 Informing and Impacting Practice

Pettigrew (2001) argues that one of the commonest dichotomies in the modernist conceptions of science has been that of theory and practice. Whittington (2004) argues that many articles published in strategy journals value scientific detachment over practical engagement. Pettigrew *et al.*, (2001) contend that comments made by Kahn (1974) that literature on organisational change are characterised by 'a few theoretical propositions' repeated without 'additional data and development', 'reiterated without proof or disproof', and a 'few sturdy empirical observations' that are 'quoted with reverence but without refinement or explication', although made over a quarter of a century ago, are considered by some contemporary scholars as disarmingly accurate.

Johnson and Scholes (1997) view strategic change management as a set of logical processes. This prescriptive approach involves resource planning, organisational structure and design, and managing strategic change. The logic of implementation is designing structures with resources required which are appropriate to carry through the strategy and using them as mechanisms of managing strategic change (Millett, 1998), Strategy implementation is regarded as a process underpinned by objective analysis and planning. This is the logical process that needs to be mapped out in order to identify and deal with problems proactively.

Pettigrew *et al.*, (2001) argue that there has been pressure for management to become practically oriented social sciences. Further, Pettigrew *et al.*, (2001) argue that management and organisational research are challenged to develop knowledge in the image of science while also contributing to practice and policy making. They further maintain that management has been asked to meet the dual demands of theory and practice. Whittington *et al.* (2001) suggest we regard theory and practice as a tightly linked duality.

When the evolution of Air Seychelles is analysed through time, a pattern emerges. A continuous process is observed, where strategies are formulated and implemented – a process from strategy formation to strategy implementation. The experience from the strategy implementation in turn informs strategy formation in the next planning cycle. This is coupled with the continuous interaction between the industry and firm, acting together to produce outcomes. The emerging outcome and pattern is directly observable at the level of the firm and also at the level of the industry. At the level of the firm, this has been referred to as strategy path, and at the level of the industry as an industry survival path. However, both concepts are rooted in same actual practice, but emphasise reality from a different angle - a firm-view or an industry-view. In emphasising reality from the different angles, this study move beyond theory and venture into the domain of implementation

After the analysis and discussion of the organisational context and strategy content issues, the final stage of the conceptual framework is strategic implementation of processes. Mintzberg (1989) claims that an understanding of the context of an organisation and the forces it is experiencing can lead to a greatly improved change in management. Management of strategic changes has been regarded as a core process in strategy implementation, which is about the 'how' aspect of translating strategy into action. Millett (1998) differentiated the perspectives on strategic change in three ways; the logic of strategy implementation, the life cycles of organisations, and the core competencies involved in strategic change.

The growth in the strategic management philosophy has meant increasing attention and resources are being devoted to training, rather than education, of the upcoming management cadres, with various courses, textbooks and consultants arguing that there exists a single, standard 'best practice' in management, irrespective of context. As a result such a socialisation process is expected to transplant its own, obviously superior, baggage into different cultural contexts (Baldacchino, 1997: 506). Exploring strategic management in Seychelles, Baldacchino (1997) argues that with the rapid interest in professional management formation, there has been a tendency to root such developments in the 'how-to' technical side.

In Air Seychelles a lot on attention and resources are devoted to training. Air Seychelles has programmes of training not only for the local crew and pilots but other support services. The airline has takes advantage of training opportunities offered locally and overseas. A case in point is the inauguration of the Air Seychelles' new Technical Block

and Training Academy at the Seychelles International Airport at Pointe Larue on Mahé, in March 2006, by the President of the Republic (Silhouette, 2006).

With the implementation of strategies in Air Seychelles, strategic learning is a significant core competence because organisational learning and knowledge management are significant aspects of developing competitive advantage (Millett, 1998). "Core competencies are the collective learning in the organisation" (Prahalad and Hamel, 1990: 82). Moreover, Rosenblum and Keller (1994: 28) emphasizes that "learning is a strategic competency of our firm ... we saw it as a basis for the evolution of our business". Generally, learning is regarded as critical to enhance and realise the value creating potential of an organisation in order to develop core competencies. Such core competencies offer the organisation the potential to compete in different markets, provide significant value to end-user customers, and create barriers to competitor duplication.

The case of Air Seychelles is a learning organisation committed to continual improvement of every facet of itself in terms of its products and services in order to differentiate itself from its competitors. Employees evolve and grow in the process transforming the organisation, and the organisation learns from them about efficiency, quality improvement and innovation. With employees empowered to make more decisions, they need to understand those decisions in the overall context of the organisation (Braham, 1995). According to Mr Patrick Elizabeth (2007), strategic learning and knowledge management is a significant core competence of Air Seychelles, and significant aspects of developing competitive advantage (e.g. Millett, 1998). As a learning organisation, Air Seychelles is committed to continual improvement of every facet of its services in order to differentiate itself from its competitors (Elizabeth, 2007; Charles, 2007).

Increasingly, innovation in organisations is understood to represent the development and implementation of new ideas over time and engage in transactions with the organisation's environment (Edwards, 2000). Further as Collins and Porras (1999) note, the underlying habits of long-successful, visionary companies as an orientation towards evolutionary change, by experimenting and keeping what works. This view is reiterated by Mr Patrick Elizabeth who highlighted that innovations at Air Seychelles, especially in difficult times, were as a result of learning from one's mistakes, better research and better planning (Elizabeth, 2007). As seen in the case of Air Seychelles, it is also apparent that innovation is not static, but a complex process produced by the interaction between structural influences and actions of individuals (e.g. Edwards, 2000).

This study attempts to link change processes and action to outcome and in the process provides some insight into what strategies led Air Seychelles to sustainable competitive advantage and long-term success over time. In the process, this study attempted to bridge the gap between strategy formulation or intent and practice, or implementation. Strategy implementation is an important aspect of strategic management. Strategy analysis and choice are of little value to an organisation unless the strategies are capable of being implemented. It is in the process from strategic choices to strategy implementation that important enabling factors come to light on the strategic management scene.

This study contributes not only to theory but also to the development of strategic management practice. Managers have to create and administer not only the resources and capabilities inside the firm, but also the activities, markets, and geographies of the business environment in which the firm competes, to achieve the competitive advantage that would assure the survival of the firm and lead to profitability. By viewing the development of resources and the business environment as part of a co-evolutionary process, they can gain a dynamic view of the interrelations among resources and activities as the sources of the transformation of the firm and its competitive advantage (e.g. Cuervo-Cazurra, 2003).

8.3 OBJECTIVES OF THE STUDY

The main and rather ambitious objective of this thesis is to understand the complex reality of business life in attaining and sustaining competitive advantage. It also involves developing and empirically analysing a contextual and processual framework on how Air Seychelles, probably the smallest airline operating long-haul passenger services, created and used internal and external resources; how this duality impact strategy, focusing on interaction over time, and undertake an analysis and conceptual interpretation of the principles and procedures of competitive strategy formulation and their application to the tourism industry in Seychelles. Distinguishing between the internal and the external context or environment is common to most approaches of strategy analysis (Grant, 2005; Pettigrew, 1998). The identification of the internal and external context of the environment has given rise to the two main perspectives to competitive advantage, as depicted previously in Chapters 1 and 2. Teece *et al.* (1997) stress the need to exploit existing internal and external firm-specific competencies in the face of changing environments. These two perspectives can be seen as two sides of one competitive picture, one perspective focusing on defining what advantages need to be created and the other

focusing on how to create them (Day *et al.*, 1997), and by turning to either one or the other would, like in the case of the six blind men and the elephant depicted in Chapter 1, lead to different conclusions about its nature. As seen in Chapters 1, 2 and 3, this approach is following Pettigrew (1985b, 1990) who suggest that one way to respond to research on organisation change, which has mostly been ahistorical, aprocessual, and acontextual in character, is to encourage a form of research which is contextualist and processual in character.

As stressed in the proposed framework, context, content and process are interrelated to each other. Boal and Bryson (1978) identify four theoretical models to represent interrelationships between contextual, process, and outcome variables. Those models are independent, intervening, moderating, and interaction effects. In the independent effects model, contextual and process have independent effects on outcomes. In the intervening effects models, contextual factors impact outcomes through their effects on process-related variables. In the moderating effects models, context moderates the effect of process on outcomes. Finally, in the interaction effects model, context and process jointly determine outcomes. In another aspect, content and process tend to be referred to as formulation and implementation respectively. Majone and Wildavsky (1978) argue that formulation should be seen as part of implementation, rather than preceding implementation.

Generally, conceptualised context facilitates as the base of the strategy cone on which content and process of strategy exist concurrently, and is the dimension of strategy on which all other strategic activities are built on. As seen in this study, the content of strategy involves the information gathered from organisation's context and the process involves organising the information, articulating and communicating the constructed rationale, and activating the anticipated plan.

Our understanding of performance, the attainment and sustenance of competitive advantage is achieved by undertaking a longitudinal analysis of Air Seychelles for the last three decades. When the circumstances surrounding the birth and gradual development of Air Seychelles is taken into perspective, special local forces and routines of the past appears to be important in building up resources, external and internal, to achieve competitiveness. In some way, path dependence includes a co-evolution between Air Seychelles and its business environment.

In the complex and interrelated world of firms and their business environment, strategic management is principally concerned with how firms adapt to their changing environment (Grant, 2005). As indicated earlier in chapter three, an underlying premise of this study is that theoretically sound and practically useful research on organisational change should explore content, context and process and their interconnectedness through time (Pettigrew, 1990).

As seen in the study, contextualist analysis of a process, such as strategic change process, draws on phenomena at vertical and horizontal levels of analysis and the interconnections between those levels through time. The vertical level refers to the interdependence between higher or lower levels of analysis upon phenomena to be explained at some further level; for example, the impact of a changing socioeconomic context on features of intra-organisational context and interest-group behaviour. The horizontal level refers to the sequential interconnectedness among phenomena in historical, present, and future time. An approach that offers both multilevel or vertical analysis and processual, or horizontal, analysis is said to be contextualist in character. In adopting a contextual analytical approach implies coming up with specific objectives to address several issues.

The first issue was to understand the interaction of firms and their industry through time. This formed the basis of the first objective and is achieved by presenting and empirically analysing a proposed contextual and processual framework, highlighting time, three levels of analysis, and strategy formulation and strategy implementation. The emphasis in analysing change in a contextualist mode, are firstly the importance of embeddedness, studying change in the context of interconnected levels of analysis Pettigrew (1985b, 1990). The framework, representing the perceived business reality, is based on empirical observations combined with theoretical frameworks on the integration of different perspectives. The proposed framework was presented in Chapter 4.

The second issue was to understand the process and the context in which the transformation proceeded and locate this within the various aspects of the tourism industry in Seychelles. The second objective was thus to provide an overview of the tourism industry in Seychelles, describing the competitive landscape of the tourism industry in Seychelles over time and its implication for competitive strategy. This provides the context within which the firms operate within the industry, highlighting the importance of temporal interconnectedness, locating change in past, present, and future time.

The third issue was to obtain an understanding of how firms use their resources to attain and sustain competitive advantage and formed the basis of the third objectives. This objective was met by presenting a case study of Air Seychelles, a successful airline company operating in the tourism industry in Seychelles, and addressing four research questions and propositions. So as to provide an answer to the research questions, an iterative approach is adopted. In going back and forth between theory and data, the questions concerning resources and capabilities in the firms are answered. Essentially, three insights are required to put together a framework on how firms use their resources to attain and sustain competitive advantage. First, there is need for a conceptual understanding of the composition of the resources and capabilities of the firm; secondly, a conceptual understanding of the firms boundary; and thirdly, a conceptual understanding the interactions between the firms and their industries. Though this framework was developed for the firm under study to describe and analyse how the firm co-evolve with the industry to attain and sustain competitive advantage, the framework is general enough to be of conceptual and analytical assistance to understand how other firms attain and maintain competitive advantage within their respective industry.

The fourth issue, and the subject of the fourth objective, was to link change processes and action to performance. The contextual empirical research efforts serve as a demonstration of the analytical generalisation and other general claims of this study, and concentrates on the many complexities of resource and capability formation (Yin, 1994). The effort was to study Air Seychelles across three levels of analysis over time: the processual development of Air Seychelles; the processual development of the tourism industry in Seychelles; and the interactions between the firm and the tourism industry over time. It is when the firm interacts with its industry that capabilities of the firms can be unleashed into actual performance.

A clear linear sequence of action seems to unfurl as the four objectives of this thesis is addressed. Firstly this study explores theory and the epistemology. Consequently, the theory of method is formulated. This study subsequently provide the context to the research by presenting the external (tourism) industry structure. Finally an empirical research effort is presented. However, this is not a linear exercise. The iterative nature of this study is explained, and subsequently disproved the assumption that theory is either planted in theory or in data (e.g. Orton, 1997). However, in following the process research idea that good process research needs a double grounding; this study goes back and forth through several cycles between theory and data.

8.4 INTEGRATING MULTIPLE CONTEXT AND LEVELS OF ANALYSIS

The first objective of this study was to integrate multiple context and level of analysis in strategic management. In meeting this objective, a proposed contextual and processual framework, highlighting time, three levels of analysis, and strategy formulation and strategy implementation was presented in chapter three. Not only is the business reality a set of variables indicating the quantitative and static dimension of the firms best described by variance theory, it is also the interaction of processes and dynamic systems operating in the contexts of the firms and the industry, better explained by process theory. As seen in this study, there is more than a quantitative dimension to the business reality of firms; there is also a qualitative facet. This framework aimed at reflecting the business reality of the firms operating in the tourism industry in Seychelles, by studying the creation and transformation of Air Seychelles as it operates within the tourism industry in Seychelles. Of note, is that a case study of Air Seychelles without relating to contextualism would not have provided an integrated inner and outer perspective.

Responding to calls made by some authors (e.g. Orton, 1997; Pettigrew and Whip, 1991; Fahy and Hooley, 2002), the research attention in this study shifts to a more dynamic organisational process rather than the static organisation form. In contrast to the variance theory, the process theory is found to be adequate to address the complex dynamism of the variety of organisational process (Chiles, 2003) attributed to Air Seychelles. In this sense, this study made a further step towards integrating perspectives on the dynamic capabilities and resource based view of the firm and competitive position, heeding calls from several authors (e.g. Henderson and Cockburn, 1994; Amit and Schoemaker, 1993; Fahy and Hooley, 2002; Pettigrew, and Whipp, 1991; Pettigrew *et al.*, 2001) and acknowledge the dual role of the resources and industry conditions in organisational success.

There is a logical sequence with regards to epistemology and methodology. Methodologies on how to carry out process research reflect certain epistemological and ontological assumptions. Epistemology informs our orientation about theory, methodology and practice. The epistemology position adopted in this study provided the foundation for the methodology. This study aimed at enhancing our understanding of the process by which a firm formulates and implements strategies in its industry. The challenge was how to study an evolving process where a firm formulates strategy to attain and sustain competitive strategy. Pettigrew's *et al.* (2001) argument that contextualist inquiry

recognises that processes of change are embedded in contexts and, the notion that they can only be studied as such, creates a need to conceptualise and study the interactive field within which changes emerge over time. They further argue that the only way to reveal the relationship between multiple levels of context in the interaction field is to have a time series sufficiently long to show how firm, industry and economic levels of context interact to energise change processes.

There are various epistemological positions concerning the ground of understanding in this world. Hatcher (1990) argues that during the millennia preceding modern science, the basic problem of epistemology was taken to be 'How is it possible for us to attain knowledge?', whereas the question now become "What is it about modern scientific methods and practice that has enabled us to attain knowledge?" In other words, modern post scientific epistemology has concerned itself with the developing a proper and accurate description of essentials of scientific method and practice. Such as descriptive epistemology is essentially a posterior and pragmatic. In contrast pre-modern epistemologies tended rather to be priori and speculative.

In line with the research challenge presented, what was needed was an epistemology able to capture the complexity of understanding interactions between collective structures and individual actions, between the industry and the firm, through time. When it comes to understanding how a firm in the tourism industry attain and sustain competitive advantage, it is evident that this cannot be studied without including the context. In response to the epistemological question as raised by Hatcher (1990), "What is it about modern scientific methods and practice that has enabled us to attain knowledge?" this study adopted the contextualism as the scientific method. For Pettigrew (1990), contextualism describes the essence of the case study approach. Case study research emphasises detailed contextual analysis of a limited number of events or conditions and their relationships. The three dimensional framework includes the vertical interdependencies between higher and lower levels of analyses as well as the horizontal interconnectedness in historical, present and future time. The third dimension captures the interrelatedness of context and action. Altogether contextualism through the case study approach leads to a holistic and multi-faceted understanding where causation is neither linear nor singular.

The study discussed the epistemological position in chapter three in order to provide a foundation to the methodology. Emphasis was laid on being able to incorporate both the inner and outer perspectives of competitive advantage to be able to embrace the complex reality of business life, focusing on the interaction between the industry and the firm. In

doing so the study tried to uphold scientific practices and refine common sense as suggested by Pepper (1942).

The proposed framework points explicitly to the industry as a co-evolutionary process developing alongside the firm. In this way, some middle ground is covered in between the external and the internal perspectives to competitive advantage. As indicated in Chapter 4 technological innovations can be viewed along an axis from incremental to radical. The incremental end of the spectrum would contain innovations that follow what Nelson and Winter (1982) refer to as a technological trajectory. At the opposite end would be innovations that are described by Freeman and Perez (1988) as shifts of the 'techno-economic paradigm.' Ehmberg and Jacobsson (1996) distinguish these radical innovations as radical breaks with past practice in a given industry; discontinuities in Nelson and Winter's trajectories that completely disrupt the status quo and force the adoption of new standards and best practices across an industry. Whilst an incremental innovation is one that builds on existing investments and can only realize its full value as an element of an existing production process, a radical innovation requires a substantial change in the technology and organization of production, undermining the value of investments in previous technology and organization.

An industry's forces in a resource formation process have been addressed as the relationship between the competitors, the customers and the suppliers (Grant, 2005). The interaction between Air Seychelles and its industry produces resources and capabilities and consequent types of path development. Resources can be limited or enforced so that they develop alongside their Industry (convergent path); resources can be enabled or enforced so that they develop away from the industry (reorientation path); and resource development can arrive at a standstill due to a limiting industry and/or a reproductive firm (inertial path).

In understanding competition strategies of firms operating in the tourism industry in Seychelles, complementing theories and perspectives allowed for valuable understanding of possibilities of how a firm possibly strategise to attain and maintain competitive advantage. The in-depth case study of a firm over time allows for continuous deepening into theories found relevant to further understand the case.

The review of the different perspectives of competitive advantage, and its evolution has been useful. This study identifies three perspectives: the industrial or environmental perspective; the internal or resource-based perspective; and a perspective aimed at

integrating the two. The industrial environment perspective focuses on the industry as the source of the firm's competitive advantage. The internal perspective focuses on the internal resources of the firm as the source of the firm's competitive advantage and is placed at the opposite end of the industry perspective. Other authors have attempted to combine the opposite approaches in order to construct a more exhaustive model.

Porter's contribution focused on industrial environment; however, he does give room to the capability of the single firm in finding a distinctive successful position. According to his approach, the opportunities from which firms can choose their strategy are limited to only three options, but firms are given more freedom to decide the best strategy depending on the specific industry in which they operate. Though Porter's contribution is still tied to industry analysis, it represents a step forward in the analysis of the firm's strategy.

The resource based view of the firm focuses on the internal resources and capabilities owned by the single firm. Industry analysis is completely abandoned and the work of the firm involves understanding the relationship between resource accumulation and competitive advantage construction. The firm and its strategy receive greater attention and the results are satisfactory because of the greater knowledge gained in studying the firm. Nevertheless, the resource view is the object of much criticism, including inability to understand which mechanisms underpin competitive advantage creation and the excessively long list of strategic resources, which finally lose strategic significance. With the attempt to integrate the different perspectives, the approach is more balanced, moving towards new concepts. It fulfils the need for a more complex and exhaustive approach, capable of studying both, the industrial environment and the firm, their interactions, while also concerned with cognitive and relationships issues, emphasis on the importance of processes necessary to construct successful market positions, and the inclusion of the issue of time.

Air Seychelles started off being a transformative actor in the way it designed its company's production process. It opted to initially operate as a Domestic airline. The tourism industry, however, did not enable this to happen: a so-called industry-blocked ability of Air Seychelles leading to a blocked strategy path. As a consequence, Air Seychelles had to develop along a convergent path by conforming itself to the industry and also become a player in the long-haul passenger sector. For over thirty years the airline went by along these lines of forced conformity. Meanwhile, Air Seychelles managed to stay transformative and entrepreneurial as it seized every opportunity. During the 1990s and 2000s Air Seychelles environment became more permissive and development went along

a deviation from the strategy path (firm-released ability). This is in line with research on strategy reveals that a firm's resource make-up reflects its history in many ways. Firstly, starting from the initial setting up, a firm develops by way of a "local search on a rugged landscape" (Levinthal, 1995:27), implying that the past lives on in the future (Pettigrew, 1987, 1990). Secondly, resources and capabilities develop automatically following a commitment because of learning and repetition (Grant, 2005); the resource and capabilities make-up results from a firm's common business activity. Thirdly, a firm's activities are highly interdependent with the industry development over time (Håkansson and Snehota, 1989; Pettigrew 1987, 1990).

As seen earlier, organisations operating as complex adaptive systems are connected or seek to be connected, like all living systems. Organisations if they are to operate like a complex adaptive system ensure that they are connected internally and externally. Externally, organisations need to foster excellent communications and links to the diverse environments in which they exist and which they influence. Internally, effective communications foster accurate unimpeded information and intelligence flows around the enterprise (Carlisle and McMillan, 2006). This has been the case of Air Seychelles, like unto a complex adaptive system, have sought to be connected strategically internally and externally with collaborators, competitors, the tourism industry and bigger Seychelles' economy.

The proposed framework was developed specifically to describe and analyse how Air Seychelles attained and maintained competitive advantage. Air Seychelles operates in the service industry. There has been great deal of discussions in the literature concerning the nature of service firms. Some scholars argue that these organisations are unique and different from manufacturing firms, whilst others argue that any difference that exist do so in degree rather than in kind, and therefore existing organisational models that are robust enough to incorporate any nuances found in the service sector (Skaggs and Youndt, 2004). However, there appears to be general agreement that differences do exist between service and manufacturing in specific areas (Skaggs and Youndt, 2004).

Although this conceptual framework has been useful to describe and analyse how Air Seychelles attained competitive advantage, the concepts of this contextual and processual approach are general enough to be applied to other firms in the same (service) industries. However it should be noted that whole of an industry is a complex, idiosyncratic fusion of aforementioned realities and provides firms in the industry with an enabling, limiting and

enforcing context over time. Although firms may operate in the same industry, it does not mean that they are all exposed to the same context.

8.5 THE TOURISM DEVELOPMENT PROCESS IN SEYCHELLES

The second objective of this study is to provide an overview of the tourism industry in Seychelles. This is achieved by using the Butler Tourism Area Life Cycle model to describe the trend of the visitors' arrival in Seychelles. A description of the competitive landscape of the tourism industry in Seychelles and its implication for competitive strategy is presented in Chapter 5. The study highlighted the services and products being sold by the industry. As seen in this study, the Butler's tourism area life-cycle model (1980) not only describes the physical evolution of a tourist destination, but also the evolution of its market. In identifying the target markets, this study provides the contextual framework within which the firm operates within the industry and its implication for competitive strategy.

The Seychelles Islands, as a tourism destination, is currently being marketed as an eco-tourism destination. Its beaches, sea, and the tropical all-year round climate, has been marketed as under the brand and logo of 'unique by a thousand miles' and 'the Seychelles Islands, another World'. In the thirty years history of tourism in Seychelles, the major market has been Western Europe and in particular four countries: UK; France; Italy and Germany. As a tourism destination, the Seychelles failed to develop resources and capabilities to adapt to other markets except those four. It should be noted that though the market has been viable because of the disposable income of visitors from these countries, these are volatile markets requiring a lot of efforts to satisfy and maintain (Germain, 2007).

The Butler's Tourism Area Life Cycle model has been helpful in understanding the development of tourism in Seychelles by the use of a time series analysis of the industry. This provided important insight in the development of the tourism industry in Seychelles that can be useful both for the planning of the Seychelles tourism products, but also for Air Seychelles. From 1971 to 1997, the Seychelles tourism industry has passed through the stages of Butler's exploration, involvement, development and consolidation stages. The period 1997 to 2007 is seen as a crucial period in the life-cycle of the tourism industry in Seychelles. During this stagnation stage, the industry did not seem to grow until 2004. According to Butler (1991) after going through the Tourism Area Life Cycle stages until the stagnation stage, the industry may decline or rejuvenate. However as of 2007, there are indications that the industry may be in a rejuvenation stage, after a brief period of decline.

As seen in the study, the influx of tourists, especially from these four major tourist market countries, has been initially dependent on their national carriers operating into Seychelles. When these national carriers pulled their operation out from operating in Seychelles, the number of visitors from UK, France, Italy and Germany fell. Air Seychelles, to remedy this situation, initially step up its long haul passenger service and opted in many instances to form strategic alliances and to code share with some national carriers from these four countries.

As indicated in Chapter 1, looking at the global trends in the past ten years and at the Seychelles' performance in the tourism industry, an inconsistency can be observed. Compared to other sister-island destinations, for example La Réunion and Mauritius, the Seychelles did not experience a comparable increase in tourist arrivals and in tourism revenue. The Butler Tourism Area Life Cycle provides an answer to this situation, by indicating that Seychelles was during that time at the stagnation and possible decline stage. The higher cost of accommodation and travel, deficiencies in services and maintenance of facilities, and a limited range of diversions handicap Seychelles in attracting tourists compared to other Indian Ocean tourist destinations.

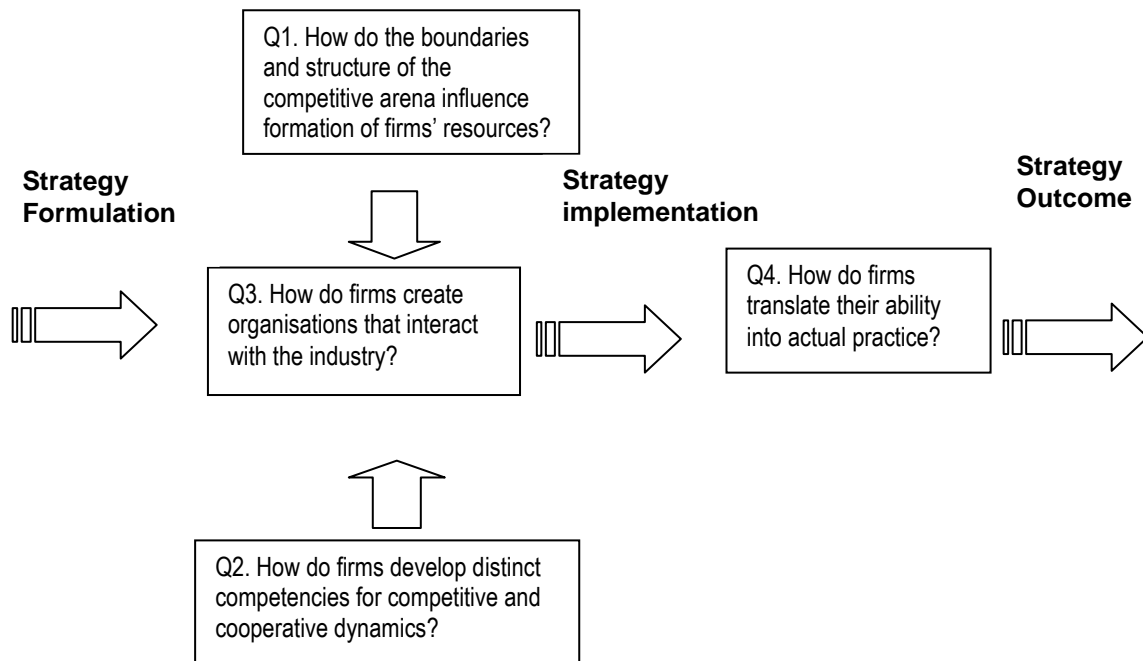
For any strategic plan or vision it is important to understand the dynamics of change and development in a destination. Here there is a continuing debate relating to the value of the incorporating contexts, content and process together with their interconnection through time (Pettigrew and Whipp, 1991) and even the life cycle approach as an analytical technique for the management of destinations (Butler, 1980). By integrating the long-term perspective provided by contextual and processual framework, including the life cycle with the concept of strategic planning, it is possible to devise appropriate management strategies for destinations as they reach various stages of the life cycle. In other words, by careful management, is it possible that sustainable tourism can be achieved for destinations at each stage of the cycle? Butler (1992) argues that this long-term perspective provides control and responsibility to prevent the destination exceeding capacity and the inevitable decline in visitation which follows. This view is supported by Bramwell and Lane (1993) who identify a key element of sustainability as the idea of holistic planning and strategy formation. In other words, as Farrell (1992) says, the destination formula is constantly reviewed and adjusted with differing strategies appropriate to particular stages of the destination life cycle. It could therefore be argued that sustainability demands a strategic planning perspective which takes account of all variables at a destination.

8.6 HOW AIR SEYCHELLES SUSTAIN COMPETITIVE ADVANTAGE

8.6.1 Sustaining Competitive Advantage over Time

The third objective to describe and analyse how firms use their resources to sustain competitive advantage was met by presenting a detailed case study of Air Seychelles – a firm operating in the tourism industry in Seychelles, and addressing four research questions and propositions. In order to provide an answer to the research questions, the aforementioned iterative-grounded theory approach was adopted. In moving back and forth between theory and data, the questions concerning the resource formation in Air Seychelles as it operates in the tourism industry in Seychelles was analysed. The contextualist empirical research effort served as a demonstration of the more general claims of this thesis and concentrates on the many complexities of resource formation (Yin, 1994). It is in the interaction of a firm with its industry that the potentialities are set for actual practice producing resources.

Figure 8-1: Research Questions



An effort was made to study Air Seychelles across three levels of analysis in time; the processual development of Air Seychelles; the processual development of the tourism industry; and the processual development of the interaction between Air Seychelles and their industry. Chapters 4, 5 and 6 provided a precise processual description and analysis of how Air Seychelles interact with their environment – the tourism industry in Seychelles.

Chapter 7 provided an analysis of the output of the firm with a comparative analysis between the international and the domestic services over time.

In a quest to understand performance and the attainment and sustenance of competitive advantage over of firms over time, this study explored literature in this field. Many disciplines offer potential insights in this area. However, the resource-based view and the dynamic capabilities were taken as a starting point. The resource-based view originates from the field of economics, and this is where the study starts off. From an economic starting point, insights from other fields of study have been added. Within the evolutionary theory of economic development, at the industry level, the concept of path or trajectory, referring to an ongoing process following a particular course, has been adopted as a central concept at both the firm level and industry level. At the firm level this was referred to as a strategy path and at the industry level as an industry survival path. Next, the four research questions will be discussed and answered.

8.6.2 How do the boundaries and structure of the competitive arena influence formation of firms' resources?

The first research question aims at defining the boundaries and structure of the competitive environment, embedding the firm in its environment. This is an effort to embed Air Seychelles within its operating environment and in doing so Air Seychelles have been analysed in terms of organisational assets and its ability to use these while delivering their products and services. *In line with the first proposition, the boundaries and structure of the competitive arena are defined as a set of objective conditions that create pressures for transformation; cognitive areas with which its members identify as a domain of ideas and practices; and a collaborative and competitive network of relationships (e.g. Child and Smith, 1987; Smith et al., 1990).*

The boundaries and structure of the competitive arena are defined as a set of objective conditions that create pressures for transformation. For over three decades, the tourism industry clearly imposed rules and norms for survival in terms of necessary resources for Air Seychelles as it co-evolve with tourism industry in Seychelles. To a large extent the development path of Air Seychelles was determined by the external environment. Especially when the industry, due to circumstances become limiting, bare necessities became rather evident. For example, a continuing demand for any firm in tourism industry has been capital or access to capital (financial resources) for the necessary resource investments. However, this is not only limited to resources, but also to changing circumstances. When in the 1980s, there was a decline in the number of visitors and

many carriers stopped operating in Seychelles, Air Seychelles, though at that time only a domestic operator, had to fill in the void to sustain the number of long haul visitors to the Seychelles. If there were changes in the business environment, as in the aforementioned case and the business environment was seen as unstable, the entrepreneurial Air Seychelles adopted radical innovations. Another case in point was when the Seychelles Authorities decided on the open sky policies in 2004 and the industry saw a change in its competitive structure, Air Seychelles has to radically readjust strategies so as to remain viable. However, in period of a more stable environment Air Seychelles employed an incremental innovation approach to co-evolve with its environment. This supports Kauffman's (1995) findings in his studies on rugged landscape that it is likely to be beneficial for an organisation to focus more on its innovative resources on the search for radical innovations than vice versa.

Studies on market orientation have explicitly addressed the issue of how 'market-oriented' organizations learn about customers, competitors, and channel members in order to continuously sense and act on events and trends in present and prospective markets (e.g. Slater and Narver, 1990; Day, 1994). The main idea is that the 'most distinctive features of market-driven organizations are their mastery of market-sensing and customer-linking capabilities' (Day, 1994: 37). These capabilities are rooted in the organizational processes of information acquisition, dissemination/interpretation and use that are more systematic, thoughtful, and anticipatory than in other firms. Studies on organizational capabilities, on the other hand, explore the processes through which market knowledge is gathered and integrated over time (e.g. Kogut and Zander, 1992; Henderson and Cockburn, 1994; Teece *et al.*, 1997).

As seen in Chapter 2, Grant (2005) argues that the prerequisite of effective environment analysis is to distinguish the vital from the important. Firstly for the firm to make a profit it must create value for its customers. Hence firms must understand its customers. Secondly, in creating value, firms acquire goods and services from suppliers and must understand suppliers and form relationships with them. Thirdly, the firm's ability to generate profitability from value-creating activity depends on the intensity of competition among firms that vie for the same value-creating opportunities. Hence firms must understand competition (Grant, 2005). Further, Grant (2005) argues that competition between industry participants is ultimately a battle for competitive advantage in which firms rival each other to attract customers and manoeuvre for positional advantage.

In addressing the first issue of understanding its customers, Air Seychelles has developed its capabilities by understanding the visitors from the four main market countries. Air Seychelles uses business intelligence from different sources. As indicated in the interviews, Air Seychelles carries out regular customers' surveys and has a strategy of implementing strategies based on finding of these surveys (e.g. Charles, 2007; Elizabeth, 2007; Padayachy, 2007). As Elizabeth (2007) also indicated, capabilities within Air Seychelles built capabilities through research and strategic planning. Ms Shirin Renaud indicated that Air Seychelles has developed capabilities through the learning process and staff not only understand the business environment but are relatively good at what they do (Renaud, 2007).

Relating to the second issue of understanding suppliers and forming relationships with them, Air Seychelles worked closely with and established collaborative network with tour operators, the Seychelles Tourism Board, accommodation establishments and other key stakeholders (Charles, 2007; Elizabeth, 2007). The marketing strategy of Air Seychelles which focuses on the Creole Culture - Flying the Creole Spirit - is a strategy in concert with the Seychelles Tourism Board to use the Creole culture as the marketing focus.

In addressing the third issue of understanding competition, Air Seychelles concentrate on specific long haul markets (UK, France, Italy and Germany) and over the thirty years have come to understand this market well. To generate better profitability, enhance value-creating activity and strengthen their presence in these markets, Air Seychelles entered into strategic alliance with established airlines, the like of Air France. Further, their market positioning was such that they focus on direct flights from the main market, locks out competition from new entrants the like of Emirates and Qatar, which bring in visitors through their hub in the Middle East, though their fare are lower (Charles, 2007).

Subsequently, to survive and prosper in the tourism industry and achieve competitive advantage, Air Seychelles met the two criteria; firstly it supplied the services the customers wanted and secondly it survived competition (Grant, 2005). In satisfying the first criterion, and as suggested by Grant (2005), the airline looked closely at the customers of the industry as the basic rationale for the existence of the industry and as the underlying source of profit. This implies that Air Seychelles identified who the customers were, what were their needs, and how they chose between competing offerings. As seen in the study, Air Seychelles aimed at satisfying their major European market of the UK, France, Germany and Italy. To satisfy the second criterion required an examination of the basis of competition in the industry; its intensity and the key dimensions (Grant, 2005).

These would offer a basic framework for identifying key success factors in the industry (e.g. Grant, 2005). These are primary process performance measures that most closely define and track how the process must perform to be considered successful. They are directly related to strategic and business plan objectives and goals. In reconstructing the external perspective and in using business data an answer could be provided on how firms define the industry boundaries and structure of the competitive arena in order to understand, outmanoeuvre, and react to existing rivals, without upsetting the prevailing rules.

The boundaries and structure of the competitive arena are also defined as set of cognitive areas with which its members identify as a domain of ideas and practices. On top of these aforementioned necessities there are multiple realities based on both the perceptions of ideas, beliefs and convictions actively held in the industry and these bare necessities. For example, some new entrants revolutionised the Airline sector in Seychelles by focusing on niche markets. With the entrance of Emirates and Qatar Airways in the 2004, access to the islands increased. The initial reaction of Air Seychelles was to stop servicing some destinations. It would appear that the initial thinking was that the new entrants were vying for the same market. However, this was later proved not to be the case, as Air Seychelles maintained its market and there was an overall increase in the number of visitors to the islands. Here a revolution was taking place outside the influence sphere of Air Seychelles which in turn was enforced on Air Seychelles by the industry.

In the 1980s and again in the 1990s a new airline sector survival path emerged in the airline sector due to the changes in the tourism industry. Most of the airlines from the major markets left industry in the bad times and returns in the good times. When the tourism industry in Seychelles experienced bad times, Air Seychelles has to invest in services to keep the visitors to Seychelles at its maximum. However, during good times, Air Seychelles has intense competition with the other airlines on these routes. During each of these periods, there are new possibilities for the both the airline sector and the tourism industry. For quite some time Air Seychelles has been able to carry most of the visitors to Seychelles. Besides referring to the possibility of more than one survival path in the industry for a firm it also demonstrates the influence of the tourism industry and the airline sector on the resources of Air Seychelles.

In the tourism industry in Seychelles, as in most other industries, there are many parties, such as the Seychelles Civil Aviation Authority, the Seychelles Tourism Board, the

Department of Tourism. During most the last thirty-five years, these agencies played an important part in organising and reorganising the tourism industry, and in many ways the industry to influenced and sometimes determined the resources of the firm.

Influences of the tourism industry and the airline sector have been profound and in the earlier years almost determinate. Chapter 5, which relates the historical development of the tourism industry in Seychelles, and Chapter 6, a case study of Air Seychelles, has been most illuminating in this respect. Both in the Domestic and International services there were corresponding sector survival paths to the company's strategy paths. The interaction between these corresponding paths is explicit. The resource formation in other firms in the industry is an important guideline or feedback effect for Air Seychelles. Throughout its history, Air Seychelles kept close track of its competitors' movements in relation to its own developments. Because of the high risk and long-term commitment in the airline sector what "others" do is extremely important. Not only because a firm can miss out on new developments, but also because other firms, or even the industry as a whole, determine whether or not a new innovation becomes the industry standard.

The boundaries and structure of the competitive arena are thirdly defined as a collaborative and competitive network of relationships. Firms map their business landscape by identifying and calibrating key relationships among players (Ghemawat *et al.*, 1999). Over the years Air Seychelles have mapped their business landscape by identifying and calibrating key relationships among players. In line with the study's proposition, the boundaries and structure of the competitive arena are defined as a set of objective conditions that create pressures for transformation; cognitive areas with which its members identify as a domain of ideas and practices, and a collaborative and competitive network of relationships (e.g. Child and Smith, 1987; Smith *et al.*, 1990).

As mentioned before, the influence of the airline sector and the tourism industry on the resources of Air Seychelles has been enabling, limiting and enforcing. In line with the aforementioned remarks concerning the reproductive or transformative intent of the company, industry forces are independent of a particular firm. Because the interaction between firms and industry determines ability and practice, this thesis's call for synthesis of firm and industry behaviour is fitting.

8.6.3 How do firms develop distinct competencies for competitive and cooperative dynamics?

From the internal perspective of the resource-based view, the second research question is: In what ways do firms develop distinct competencies to collaborate and compete at the same time within the framework of the business landscape of the tourism industry in Seychelles? Of note is that there has been a tendency to move away from the winner take all mentality to the notion of collaboration and competing at the same time (Brandenburger and Nalebuff, 1996). Based on the literature review in Chapter 2 and reflections on empirical data an answer has been provided by way of a reconstructed resource-based view and dynamic capabilities approaches to identify how firms build competitive advantages through resources and translate these into actual implementation. *In line with the second proposition, firms' resources, organisational capabilities and core competence needs be developed into distinct competencies needed for the firm to collaborate and compete within the business landscape (e.g. Grant, 2005).*

Miller, Eisentat and Foote (2002) argue that though popular brands and unique capabilities help sustain a firm's competitive advantage, they cannot be built by imitation. As had been the case with Air Seychelles, ingenious executives have been able to develop sustainable capabilities not by emulating others, but by using their organisational design and processes to identify, build on, and leverage their 'asymmetries' - their evolving unique experiences, contacts, or assets. Consistent with previous research findings, for example Miller *et al.*, (2002), managers and executives at Air Seychelles grew capabilities that sustain competitive advantage by constantly identifying and growing asymmetries, embedding and empowering them within the organisational design, and shaping market focus to exploit them.

As seen in Chapter 2, Greenley *et al.*, (2004) suggest that sustainable competitive advantage is achieved when management capabilities, used to create and implement strategy, are resistant to competitive imitation, creating a competitive barrier in the long term. In the case of Air Seychelles, developing services based on the Creole culture is difficult to be acquired by competitors and is likely to be less effective in another firm. As seen earlier, other airlines found that transaction costs to flying directly to Seychelles to be high. In terms of capabilities, these would likely feature non-transferability (e.g. Greenley *et al.*, 2004; Grant, 1995). As a result competitive advantage was achieved through the provision of greater value to customers, and this can lead to superior performance as

measured in conventional terms such as market-based and financial-based performance (e.g. Fahy and Smithee, 1999).

Teece *et al.*, (2000) argue that the essence of strategy is not the structure of the company's products and markets but the dynamics of its behaviour. Yung-Ching and Tsui-Hsu (2006) identify dynamic capabilities as a set of specific and identifiable processes or as a pool of resources that firms can integrate, reconfigure, renew and transfer their controllable resources. Air Seychelles has been analysed in terms of organisational assets and its ability to use these to provide domestic and international air travel services. Not only have Air Seychelles investment decisions been studied but also the development of intangible assets such as knowledge and the development of organisational capabilities after the commencement of services. As a result of such decisions and behaviour, such as investment decisions influence the resources of the firm and the future development of these for a long time. This behaviour also implies that during a firm's specific, long term, commitment resources would be developed.

Yung-Ching and Tsui-Hsu (2006) identifies four major sections which appear in the literature of dynamic capabilities: networking and partnerships; knowledge management systems; information communication and technology; and, creativity and innovation. Dagnino (2003) suggests that research on dynamic capabilities is an investigation arena invigorated, on the one hand, by the convergence of different lines of scholarly inquiry, for instance, evolutionary economics, strategic management, technology and organisation studies, business history, economic growth theory, and on the other hand, by a range of theoretical and practical applications, for example, knowledge transfer and replication within and between business firms, production and manufacturing systems and so on. From the perspective of reconstructing the resource-based view of the firm and dynamic capabilities approaches to identify how firms build competitive advantages through resources and translate these into actual implementation tie in well with interaction between the industry and the firm over time, and augurs well with various components of our proposed contextual and processual model.

Grant (2005) submits that establishing competitive advantage involves formulating and implementing a strategy that exploits a firm's portfolio of resources and capabilities. These resources are the essence of superior performance. Teece *et al.*, (1992:26) suggest that since history matters, groups of firm-specific assets need to be viewed in dynamic terms; as changing through time. Hence, any investment in an airline would solidify capital and commit the behaviour and the dominant logic of a firm, leading a firm

on a strategy path over time. In the case of Air Seychelles, some of the key features of its competitiveness were human resources, maintaining a young fleet of aircrafts, promoting the 'Creole Culture' and operating direct flights into Seychelles. However, the real issue explaining relative competitive performance in Air Seychelles is not just the isolation of these features but the convergent interactions and interconnected loops among these features in the firm over time. In other words, one of the ways that Air Seychelles regained its competitiveness was through the co-evolution of resources and scope, or the interactive evolution of resources and the business environment, which in turn led to changes in the firm's resource set, thus facilitating the development of a dynamic competitive advantage.

According to Grant (2005:165), 'organisational capability is clearly path dependent'. That is, a firm's current capabilities are not only a result of its history, but this history can also constraint the capabilities that a firm can perform in future. When one observes how Air Seychelles has developed its resources and capabilities over the three decades, one clearly sees that its capabilities were path dependent and as a result of its history. When the aircrafts, like in the case of the Boeing 707, were no longer the viable aircraft to service its main market destination, these capabilities constrained the capabilities for future development and hence a need to develop along a new strategic path (e.g. Charles, 2007; Elizabeth, 2007).

Kay (1993) contends that during a firm's specific commitment resources will be developed automatically due to learning and repetition. Establishing competitive advantage involves formulating and implementing a strategy that exploits a firm's portfolio of resources and capabilities (Grant, 2005). Resource accumulation within such a period of commitment will be mostly incrementally since organisational asset-wise the company is locked-in for the time being. Sometimes this might be an intentional process of resource formation. However, resource formation will not always be planned like Air Seychelles' investments in the international airline created the basis for a new - unplanned - operation.

The formation and development of resources over time within a firm can easily be characterised as a learning process. This process of asset evolution is supposed to be governed by what is referred to as 'dynamic capabilities.' Dynamic capabilities are referred to as the ability of the firms to achieve new forms of competitive advantage by renewing competencies so as to achieve congruence with changing environment (Teece *et al*; 2000). Further, Teece *et al*; (2000) argue that competitive advantage requires that firm exploit both the existing internal and external firm-specific capabilities and of

developing new ones. According to these authors, a firm first develops firm-specific capabilities and they renew competencies to respond to the shifts in business environment, intimately tied to the firm's business processes, market positions, and expansion paths.

A change in a firm's pool of available assets and capability is gained by a change in commitment towards a particular path commitment. For example, when Air Seychelles decided to launch into international long-haul services, there was a need to change the firm's pool of available assets and capabilities. Given a specific commitment, resources are developed automatically because of learning and repetition (Grant, 2005). Consequently, a 'strategy path' is a firm's course of strategy through time based on certain resources, starting from its foundation until the present and moving on to the future. Grant (2005) suggest that to understand the origin of a firm's capability, a useful starting point is to study the circumstances that existed and events that occurred at the time of the firm's founding and early development. Teece *et al.* (1997) have also referred to previous investments and the repertoire of routines as constraints on future behaviour. In turn, the structures of the past also enable and even enforce future behaviour (Giddens, 1984; Sztompka, 1991). In understanding the strategy path, processual concepts are needed to describe or qualify an ongoing process. Truly processual concepts show aspects of a phenomenon while in action: they are a combination of available assets and capability. Teece *et al.*, (1992, 1997) use several overlapping concepts to describe an ongoing process, such as path commitment, learning, path dependence, and path change.

Given the dynamic environment within which the tourism industry operates and the amount of capital investment, sudden changes of a strategy path for a company such as Air Seychelles are difficult. Once decided a firm's space to change its commitment is highly limited. On the other hand, when a firm has the chance to change its commitment, such as the decision to launch into the international long haul passenger service or decide to launch into new markets, these have a profound and long-term influence on resources. As such, the airline is proverbial in terms of "real" strategy: long term, high risk, big impact commitment.

The ability of Air Seychelles to fundamentally change its technological commitments differed over the years. These were more forthcoming in the 1990s - and to a larger extent the 2000s. Air Seychelles' competence was well-developed during these periods. However, during the 1980s this was not the case and in Chapters 6 there are ample indications as to why. One important reason was the limiting industry circumstances.

More important was Air Seychelles slowly decreasing transformative intent, ability and focus. In the 2000s, Air Seychelles regained its capacity for “breakthrough” strategies, as indicated by the firm’s innovations. As soon as Air Seychelles loses its transformative intent, sector and industry forces have a bigger “enforcing” impact.

Over time, Air Seychelles clearly went through either reproductive or transformative phases more or less independently of the industry forces. During the 1980s Air Seychelles was incessantly transformative in a limiting industry, whereas this was also the case in the 1990s in an enabling industry. In line with the second proposition, firms’ resources, organisational capabilities and core competence needs be developed into distinct competencies needed for the firm to collaborate and compete within the business landscape (e.g. Grant, 2005).

Air Seychelles was reproductive both in an enabling industry at the end of the 1980s and also in a limiting industry in the 1990s. In asking the question in what way do a firm’s resources emanate from the firm? - Whether or not a firm faces its sector and industry intentionally transformative is crucial. However, although the intent of the firm is rather independent of the industry, practice turned out to be an outcome of interaction between the firm and its industry.

8.6.4 How do firms create organisations that interact with the industry?

The third research question is about the combined effect of the first and the second research question. The third question is about which combined resources and capabilities occurs as a result of the interaction of the firm with its industry. In other words, the third research question is about the potential resources ability developed with the interaction between the firm and the industry. The study makes the following proposition: *Goals and values, co-evolution and strategic renewal, and strategic fit are components of interactive processes between the firms and its business environment over time that produces competitive advantage (e.g. Grant, 2005; Volberda and Lewin, 2003; Porter, 1991).*

In other words in a situation where the transformative firm acts within the industry, there are several possibilities for a firm to act. Whether or not the firm takes these possibilities is known in the firm’s resource practice only. What is interesting about the aforementioned ideal-type abilities is that even in a limiting industry a transformative firm always has the choice to act otherwise. This may not always lead to higher profits - or lower losses – but it does equip a firm to act when better times occur.

The harsh limiting years of the 1980s appeared not to provide Air Seychelles with anything other than meagre survival. Even though Air Seychelles did not really impact the world around it in a “transformative way” it did develop like that in terms of intangible resources. As soon as there was a chance to act, Air Seychelles turned out to be prepared to move into other regional routes. At that point in time the industry also became enabling, creating a favourable situation for Air Seychelles. Later, Air Seychelles moved out of some regional routes. However, later into the 1990s the industry remained ‘enabling’ but Air Seychelles became less focused and started watering down its resources – for the example, aircrafts in the Domestic services were not upgraded. At the end of the 1990s, Air Seychelles was not able resource-wise to move ahead. During the years 2000s Air Seychelles became reproductive in its behaviour and the industry ever more limiting.

The combination or interaction of the resources of a firm and the resources of the industry indicate possible or theoretical resource ability. In theory, resource ability-wise, Air Seychelles should not have survived the 1980s and 1990s. When studying these years one wonders how Air Seychelles managed to survive. This leads to the observation that no matter how ingenious a theory, in spite of industry conditions - even in the tourism industry - a firm has the ability to influence its performance and resources; the ability to act otherwise than expected or accepted. This is entering the realm of “resource practice”.

“Insights” gathered from the literature were compared with the Air Seychelles explanations. This provided interesting and sometimes contrasting views concerning the tourism industry in general and Air Seychelles in particular. As a whole, this process generated Air Seychelles’ story of transformation. However, in order to gain insight into generative mechanisms as the defined types of abilities and subsequent practice more specific questions needed to be answered.

The most difficult item of analysis was answering the question whether Air Seychelles was reproductive or transformative and the industry enabling, limiting or enforcing during a certain period. The aforementioned distinction between continuity and change functioned as an important indicator in this respect. Furthermore, continuity or change at the level of the firm was compared to that in the industry or vice versa. Contrasting moves were analysed in more detail. At the level of the firm collective resources such as organisational assets and organisational capabilities were analysed to observe whether changes allowed the resource to develop or act as a break to the resource development. An ongoing

resource points to development along the firm's strategy path, and the break in the development of a resource point to departure to the firm strategy path.

At the level of the industry developments in terms of objective reality, cognitive reality and interactive reality were fused. The three labels in a way constitute a circle, because an industry being extremely enabling or extremely limiting ends in being enforcing to a firm. That is to say a firm has no ability left to act otherwise.

In line with the proposition, goals and values, co-evolution and strategic renewal, and strategic fit are components of interactive processes between the firms and its business environment over time that produces competitive advantage (e.g. Grant, 2005; Volberda and Lewin, 2003; Porter, 1991).

8.6.5 How do firms translate their resources into actual practice?

Subsequently, the fourth research question addresses is: how do firms build competitive advantage through resource and translate these into actual implementation? *In answer to the fourth question, the study makes the following proposition: Key processes and strategy path are essential components of how firms use resources to translate strategy implementation into competitive advantage (Grant, 2005; Hooley et al., 2001).* Firms combine their resources (core competencies and capabilities) to develop a strategic path highlighting the interaction between the industry and the firm (Day et al., 1997), having the foresight to identify which resources or capabilities, as processes, would lead to superior resources and capabilities. In one way this research question is difficult to answer. However, it turns out that anytime Air Seychelles faced an enabling industry with a transformative intent, resource-destroying discontinuities occurred – a firm-released deviation from established strategy path. Cases in points are when in 1977 the company ventured into domestics air travel, again in 1983 when they embarked in international air travel and the decision to replace its international fleet with Boeing Dreamliners from 2010.

As was seen in Chapters 5 and 6, anytime Air Seychelles faced a limiting sector with a transformative intent, it survived miraculously. Air Seychelles moved along a convergent path during the 1980s and 1990s on which it slowly got hold of the resources needed to survive as an airline passenger services producer. In surviving Air Seychelles showed its transformative attitude and contradicted the expected. In the late 1990s and early 2000s, still developing on a convergent path, it has been able to move to the top of the industry with respect to the air travel sector. Besides that it created basic resources for domestic

air travel; towards the end of the 1980s and the start of the 1990s, Air Seychelles faced the limiting international air travel with a transformative intent. Again the result was a successful survival. As it turns out from Air Seychelles' history, anytime Air Seychelles faced a limiting sector with a reproductive intent, it became a "feather in the wind".

Some of the most important means of achieving a competitive advantage in the dynamic tourism markets are innovative moves and strategic flexibility (Barney, 1991; Sambamurthy, 2000). As previously seen, a basic premise of this study is that a sustainable competitive advantage comes from the capacity to continuously improve, innovate, upgrade, and configure resources and competencies to match environmental needs (Eisenhardt and Tabrizi, 1995). As discussed earlier in Chapter 2, section 2.4.5, there is a broad consensus that any advantage from static competencies is short-lived in rapidly changing environments. Sustainable competitive advantage does not arise from a few transient competencies, but from the dynamic capability to continuously transform new competencies that match changing environmental contingencies. In fact in Air Seychelles, the dynamic capability to reconfigure and adapt existing resources has been viewed as the leading source of sustainable competitive advantage (e.g. Collis, 1994; Teece *et al.*, 1997). Such advantage in Air Seychelles was achieved by sensing new opportunities and fully exploiting existing resources to adapt to new environments (D'Aveni 1994). 'Resource reconfigurability' - the dynamic capability to identify new opportunities, organize effectively and efficiently, change rapidly and continuously, and transform existing resources into new competencies in order to take advantage of these opportunities - is herein proposed as a critical success factor in managing radical change in high-velocity industries, such as the Seychelles Tourism Industry (e.g. Teece and Pisano, 1994).

Chapter six indicated that resource and capability formation within Air Seychelles is different from tourism-resource formation as seen both from the firm-level and from the industry-level. This comparison led to an interesting performance indicator relative to the industry. Through time Air Seychelles moved closer to the industry in terms of its intangible assets. Later in time this overture to the industry was followed in terms of tangible assets and capabilities. Until recently this was opposed to the developments in the airline services. Out of the development pattern of Air Seychelles it can be concluded that in terms of technology development an intimate relationship between the industry (knowledge) and the firm provided Air Seychelles with enabling circumstances for building and developing.

In 2007, a departure from the strategy plan was emerging within Air Seychelles. The open sky policy, advocated by government, and subsequent flights introduced by Qatar Airlines and Emirates, forced Air Seychelles to reconsider its strategy. Of course, there were many other developments taking place in the airline sector and the tourism industry in this respect and this is what social becoming of resources is about: interaction between firm and sector and the industry. However, there were many indications that this development of which Air Seychelles is part will lead to a more efficient product offering. As the history of Air Seychelles, its sectors and industry has shown, resource practices always reveal some unexpected moves because of unexpected behaviour in either firm or industry, or in both.

8.7 STUDY LIMITATION AND SCOPE FOR FUTURE RESEARCH

In Chapter 1 reference is made to the fable entitled “The Blind Men and the Elephant”, contending that we do not obtain a view of an elephant by adding ‘scaly’, ‘long and soft’, ‘massive’ and ‘cylindrical’, as perceived by the blind men, together in any conceivable proportions. Though an elephant is body and legs, trunk and tusk, ears and tail, it is more than the sum of the parts. One has to understand the parts to appreciate the whole; however, without the development of an overall perspective, we remain lost in our individual investigations. This may imply that the body of theory used to analyse and explain the observed phenomena may present certain perspective and determine what one sees and, maybe even more important, what one does not see.

Following calls for empirical researchers to make clear the theory of methods which guides their inquiry, (e.g. Pettigrew, 1990 and Miles and Huberman, 1994), the epistemological assumptions of this study was presented; how this study construes the shape of the social world, and indicate the theory of methods that guides our inquiry. A brief review the literature on contextualism was offered and, based on this review, an epistemology was presented. By doing this, the study indicated from what position it is viewing the strategy elephant: the contextual and processual methods of research. This implies that the problems raised by the study may also be viewed by the other world hypothesis proposed by Pepper (1942).

For example, one of the limitations of the study is identifying factors associated with the sustained competitive advantage relative to other firms. The study is limited to the tourism industry in Seychelles and to one firm operating in the air transport sector. Future research could explore such issues and make comparative analysis over time of

successful and unsuccessful airlines, by adopting the 'formism' approach – analytic/reductionist theory and dispersive/descriptive theory – and possibly using the multivariate statistical approach.

Secondly, the study aimed at understanding the context and structure of the tourism industry in Seychelles, providing a historical description and the context of tourism development in Seychelles. However, this study does not address the issues of how Seychelles, as a country, position itself as a tourism destination vis-à-vis other destinations. It is noted in section 1.3.2 that looking at global trends in the recent last years and the Seychelles' performance in the tourism industry, an inconsistency is observed. Compared to other sister island destinations, for example La Reunion and Mauritius, the Seychelles did not experience a comparable increase in tourist arrivals and in tourism revenue. This is because the islands were at different stages of the Butler's Tourism Area Life Cycle. For example, the development of tourism as an industry in Seychelles preceded that of Mauritius (Germain, 2007). To understand the competitiveness and strategic change of the tourism industry in Seychelles, a comparative study with other similar regional island destination could be undertaken. Further, the tourism industry in Seychelles may have gone through all the stages of the Butler Tourism Area Cycle in the thirty years of tourism in Seychelles. What happens later is not covered by the model and may be an area of future research. Further, no research in the Seychelles context has been carried out on the use and implications of tourist imagery in particular in relation to the overall national marketing strategy.

Thirdly, a further limitation is the study of one firm under longitudinal investigation and their location – limited to the islands of Seychelles. There have been few longitudinal attempts to link change processes and practices to firm performance. An example is the well-known and influential book 'Built to Last' by Collins and Porras (1999). It is well researched and draws on a reasonably large sample of matched pairs of visionary and comparative companies, strong analysis of the factors that built and sustained the visionary elements, and commendable use of survey data and historical investigations. Following in this tradition future research could explore matched pairs of visionary and comparative companies operating in the tourism industry.

Fourthly, one of the objectives of this study was to describe and analyse how a firm uses its resources to sustain competitive advantage in the context of the historical development of the industry. The Resource-Based View of the firm looks inside the firm in terms of the resources it owns. It was seen that Air Seychelles is a collection of resources and

knowledge as one of these resources. It was also seen that in Air Seychelles knowledge and skills is a major source of competitive advantage, because they are accumulated through learning processes and, for this reason, they are characterized by imperfect imitability, imperfect substitutability and limited mobility (e.g. Grant, 2005; Barney, 1986, 1991; Dierickx and Cool, 1989; Amit and Schoemaker, 1993; Leonard-Barton, 1995; Henderson and Cockburn, 1994; Kogut and Zander, 1996). Yet, the resource-based view of the firm fails to understand how firms accumulate such resources (Nonaka *et al.*, 2000). As this study does not address the issue of dynamism, that is the way in which the firm continuously builds such resources, this could be a subject of future studies. As Nonaka *et al.*, suggests: 'the organization actively interacts with its environment, and reshapes the environment and even itself through the process of knowledge creation' (Nonaka *et al.*, 2000: 4). In his perspective a relevant problem, and potential subject of future research, is to understand what capabilities drive the dynamic processes through which new knowledge is created out of existing firm-specific capabilities.

8.8 CONCLUSIONS – WHAT HAVE WE LEARNT

One of the most difficult questions in the light of thesis in general and this study about resource formation and development, in particular, is what would one do differently given the findings. This is the ultimate question every manager will ask after any research effort is presented.

Competitive advantage is the result of a firm's planned strategy. The strategic direction is realised through the ability of producing greater profits than the competitors – as seen in the case of Air Seychelles. As seen, many factors are equally important in producing a position of success. Some of these are industrial factors; others are resources and competencies of the firm. The sum of all these factors results in creating and sustaining a successful competitive advantage.

In answering the above question, a management researcher would focus on the synthesis of the industry resource formation and firm resource and capability formation, and competitive advantage as a process more of interaction between the industry and the firm, it should emphasise the importance of epistemology and methodology in management research. Finally, it would emphasise the necessity to include genuine management practice into research efforts. Our emphasis is on contextualism; the other world views would not have provided an adequate answer to the problem under study.

From the point of view of the manager or the management team, answering this question may present more difficulty. In the Air Seychelles management perspective, there could be four areas of emphasis.

In the first instance to encourage resource formation and development, there is a need to maintain a vision that can only be reached by an incessant transformative intent. When Air Seychelles, in 1983 set the goal to become an international carrier, and for some years until 1993, there was focus on two fronts, the domestic and the international services. This in some sense watered down its resources. The danger of losing vision is always present. After the impressive turnaround of 1992 and the numerous smaller organisational turnarounds leading Air Seychelles to the business unit organisation, there is now a considerable risk of complacency - particularly since Air Seychelles in 2006 in its ninth successive profitable year, a phenomenon unknown since the early 1970s.

Secondly, with respect to Air Seychelles' operation resource-formation, efforts could also be focused on the long-term development of the strategy path of the domestic services, which may be heading for a deviation from established strategy path. The domestic service is currently facing competition from high speed ferry services from the port in Victoria to Praslin, and Air Seychelles has been losing a significant percentage of this market share to the competition. This implies that a visitor, upon disembarking at the Seychelles International Airport, endures a thirty minutes bus ride to Victoria to take an hour long ferry trip to Praslin Island. Most of the visitors, who are from Europe, would have previously endured a twelve hour airplane journey. The alternative, using the Air Seychelles domestic service, implies a three minutes walk across to the domestic terminal to board a 15 minutes air trip to Praslin Island. However, unlike the international fleet, currently the domestic fleet is old, often experience delays because of breakdown. There is need to keep the domestic fleet, an important resources, at par with the international fleet, and realise the importance of integrating the two services. In the international services, the impact of new technology on innovations such as the introduction of the Boeing Dreamliner and other forms of innovations would revolutionise the tourism industry in general and the airline sector in particular. Of course, these statements involve quite some speculation, but prolonging the strategy path in terms of resource formation makes these developments possible.

Thirdly, with respect to its airline operations, Air Seychelles could continue to move closer still to the airline sector in terms of developments and learning. It is noted that developing resources and capabilities, especially the development of its human resource has been

key to the transformation of Air Seychelles. In continuing its usual method of development this might even include further joint ventures and strategic alliances with partners. Furthermore, greater effort could be invested in cross-pollination.

Fourthly, based on the general trend towards a focus on core activities, Air Seychelles could expose its two-domain rationale to the extent that it will become obsolete. From 1983 and especially from 1987, Air Seychelles slowly integrated its domestic and international operations. The integration of the two services, domestic and international, is a core competence that has not only strengthened the operation of the airline but also one that cannot be imitated by competitors. Currently a greater number of visitors proceed to Praslin immediately upon arrival to Seychelles. Indeed some visitors cancel their international flights if they cannot be guaranteed a connecting domestic flight to Praslin Island (Padayachy, 2007). They do not want to spend time on Mahé Island. Subsequently, they return directly from Praslin. Air Seychelles has integrated their domestic and international services to facilitate international checking at the domestic counter in Praslin, embark on the domestic flight to Mahé and transfer directly to international departure at the Seychelles International Airport, without having to check in for the international flight. In order to rationalise this joint domestic and international company, this integration needs to be future develop in future to enhance the competitive advantage of both sectors beyond face-value validity or it will be split into two independent parts.

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ANNEX A: INTERVIEW QUESTIONS

A: Background / General Information

- When did your career with Air Seychelles?
- How would you describe Air Seychelles in that year, in terms of their problems, challenges and management philosophy?
- What were the main characteristics of periods under the different CEOs? What were the leadership styles?
- Main issues at different stages; periods; under different leaderships in terms of structures and functioning of the firms?
- How the main issues were addressed
- Identify major changes and transformations at different periods and how these were addressed;
- What major strategic innovation took place? What major management decisions were taken and how were they implemented? What was the outcome in terms of major changes in products and markets, production processes and technologies, and the organisation of work? Describe the work environment.

B: Defining the Boundaries and Structure of the Competitive Arena

Q - How do firms define the boundaries and structure of the competitive arena in order to understand, and react to the existing rivals, without upsetting the prevailing rules?

1. The External Environment as a Set of Objective Conditions

- Did the business environment create pressures for transformation?
- What sort of pressures? To what extent did the firm's viability depend upon its behaviour in response to the environmental conditions?
- What were the Major macroeconomic characteristics in the different periods that affected operation the firm?
- Major industry structural characteristics? Market concentration? Height of entry barriers such as capital intensity, research and development intensity and technological specificities? Buyer and seller power? Labour market conditions? Governmental actions towards the industry?
- How have the above evolved over the years? How has the firm adapted to the business environment changes?
- Did management recognise a survival path and transform the organisations as and when it is required?

- Can an industry life-cycle model be identified as the way firms develop through several phases of development from its founding era through to maturity?
- Was management able to recognise, interpret and implement the emergent requirements of their industry in the products, processes and organisational modes?

2. The External Environment as a Cognitive Arena

- To what extent to the firm the environment is a cognitive arena with which its members identify as a domain of ideas and practices relevant to their own actions?
- Does the industry provide a set of external standards against which the firms' current strategy and structure is crafted? How?
- In your estimation, do senior managers of constituent firms hold very similar constructs of the industry's operational dynamics? Is the tourism industry in Seychelles characterised by distinctive corporate languages, constructs and framework? Do these have an important influence on the evolvement of learning paths in the industry?
- Do such dynamics effectively furnish the rules for operating in the industry? How has it done do in the different stages of the firm's and industry evolution?
- How have new entrants change the business environment over the years?
- How have technological conditions affected the operating environment over the years?
- Do you think that at any point of the history of your firm, the organisation had defined or 'enacted' the business environment? If yes, how?

3. The External Environment as a Collaborative Network

- Describe the networks of relationships with competitors and other parties developed over the years? What type of alliances did the firm develop?
- How have these collaborative networks facilitated organisational transformations? Management practices? Technological change?
- What roles have consultants played in facilitating organisational transformation?
- Was transformation will implanted the organisational core within a network externalised transactions with designers, suppliers, distributors and production sub-contractors? If yes, how?
- How have the firms benefited in terms of product services and competitive advantage? Resources? Core competences?

- How did collaborating firms benefit? What are some of the tangible results? How has it assisted in developing resources and capabilities within the firm?
- In dealing with change, what role did the collaborative relationships play?

C: The Internal Component of the Proposed Framework

Q- In what ways do firms develop distinct competencies to collaborate and compete at the same time within the framework of the business landscape of the travel and tourism industry in Seychelles?

1. Firms' Resources

- What capabilities do firms operating in the tourism industry in Seychelles?
- How do firms develop capabilities required to serve customers requirements across a wide front?
- How is the ability of the firm closely connected to the development of skills, organisational routines, and cognitions?
- What are the major resources of the firms? How has these been developed over time? What was the original impulse for the development of these resources?
- How have the firm linked resources to capabilities over its different period of development? How successful has it been? What are the main issues?

2. Organisational Capability

- What capabilities have been responsible for dynamic improvement of the firm? Where do these capabilities reside? Functional area? Services? Human resources? How have these capabilities transformed the functional area and the firm?
- How have the leadership at different period of the firm's development, organised or develop a culture whereby individual resources work together to create organisational capability? How was it supported in terms of the firm's operations?
- How have management supported resources working together to create organisational capabilities? What were the problems?

3. Core Competence

- What would you identify as the core competence of the firm? Does the core competence lead to persistently satisfying the customer better than the competition? Lower costs? Both?

- How does the firm contribute to the ultimate customer value to visitors to Seychelles? How efficient and effective is the contribution?
- Has the firm been able to create new resources to a desired end?

D: The Firm-Industry Interaction

Q - How do firms create organisations that interact with the industry, changing and producing a continuous flow of competitive advantages?

1. Goals and Values

- What is the sense of mission in the firm/functional area? What successfully unify, edify and capture the imaginations of organisational members?
- How does the sense of mission assist the firm in its pursuit of profits?
- What was the aim of Air Seychelles at the time of its founding?
- What organisational values are integral to organisational members' sense of who they are? What they represent? What they want to achieve? How they intend to achieve it?
- How have the goals and values evolved over time? Why?

2. Co-evolution and Strategic Renewal

- How has the firm find its appropriate balance of exploitation, exploration and adaptations to maintain a dynamic fit with its environment at different stages of its development?
- At different periods of time and at crucial point their developments, what sets of activities were undertaken by the firm to alter its path dependence?
- At critical periods of transformation, how did the firm regulate internal rates of change to equal or exceed that of the environment? How did the firm optimise self-organisation? How did the firm synchronise concurrent exploitation and exploration?

3. Strategic Fit

- At the different period of the firm's development, how was the firm able to lock out competitors?
- How was the firm able to perform required activities more efficiently than the competition? How did the firm develop and deploy resources and capabilities?
- How did the firm exploit emerging strategic positions?

E: Implementing Strategies

Q - How do firms build competitive advantage through resources and translate these into actual implementation?

1. Key Processes

- Does the firm constantly delve within themselves to discover and build on their unique hard to copy assets, knowledge, relationships, and experiences? What are the key processes? Describe these processes? How have they assisted in achieving good performance?
- Have the firm been able to identify capabilities and core competences and able to replicate them internally?
- What have been the key processes in marketing? Innovation? Learning?
- Have the firm been able to identify marketing as the process by which organisational capabilities are matched to the requirements of the chosen customers?
- Does the firm communicate internally with employees to ensure that strategies are understood and roles of the individuals in achieving organisational goals are clear?

2. Strategy Path

- How has the capabilities of the firm constraint or helped the firm's performance?
- At critical point of the firm's development, how have the temporal patterns of resource acquisition assisted the firm? Hindered the firm? Its impact on competitive advantage? On competitors that try to imitate? How did the response protect the temporal gap between the form and the competition?