Capacities and Competencies as Sources of Competitive Advantage: The Case Study of Latvian Hotels

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Abstract

This paper focuses on describing how capacities and competences could be use for achieving a sustainable competitive advantage within hotels management since tourism has gained a special position in the export of services and regional development and entrepreneurship in Latvia, and played a significant role in the rapid transition from ineffective planning to full-scale competition.

In this study the focus is on Latvian hotels, since hospitality industry and tourism in general mirror the development of this country, presenting the process through which competencies and capacities can be used as determinants of the competitive advantage.

Keywords: *competitive advantage, hotels, capacities, competencies, tourism*

JEL classification: L69, M10

1. Introduction

The current economic recession revealed more acutely the presence or lack of the necessary success factors in enterprises. Especially it is notable in economies in transition such as Latvia, who enjoyed a rapid economic growth during the last decade before the crisis. A closer exploration of these success factors is needed for better understanding of the underlying reasons for this situation.

For several decades influential stream of research has been investigating firms' internal endowment with resources as the main source of sustainable competitive advantage in the resource based theory framework. In contrast to the prominent 'competitive forces' approach (Porter, 1980), which focuses on the analysis of the external environment, and the 'strategic conflict' approach (Shapiro, 1989), which similarly concentrates on market imperfections and industry entry barriers, the resource-based view focuses on revealing specific internal company resources and the company's abilities to use them in order to obtain a better position compared with its competitors in the given industry (Grant, 1991; Peteraf, 1993; Barney, 1991; Teece, Pisano, Shuen, 1997). The popularity of the resource based view may be explained by its novelty as well as by its better explanatory

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power of strikingly different performance of the enterprises within the same industry. For instance, in 1991, Richard Nelson suggested that ‘it is organizational differences, especially differences in abilities to generate and gain from innovation, rather than differences in command over particular technologies, that are the source of durable, not easily imitable, differences among firms’. Moreover, various researchers have suggested that in the turbulent and uncertain environments of modern knowledge economies, resource-based theory is the most appropriate approach for performance analysis and strategy formulation for firms (Bettis and Hitt, 1995; Hamel and Prahalad, 1994; Gold, Malhorta, Segars, 2001). In the present study we use the terms “competencies” and “capacities” as internal resources of a firm. We define capacity as the basic assets of an enterprise needed for day-to-day activities and long term development. On the other hand, in line with Grant[1] (1991: 118-119) competency may be defined as organizational ability to perform certain task or activity.

There is as yet no consensus about which particular capacities and competencies and, more importantly, which combinations of these are best for successful development of an enterprise. Indeed, recent studies have suggested that both resources and the most favourable combination of these required to gain a sustainable competitive advantage are usually country-, industry- or even case-specific (Pisano, 1994; Collis, 1994; Roper, 1997; Jolly, 2000; Foreman-Peck, Makepeace, Morgan, 2006). Very often, the optimum division of resources depends on the strategy chosen by enterprise: to compete either on price, quality, or innovative products or services. Yet, more empirical, in particular, qualitative and case-based research is needed to refine the extensive but often inconsistent domain of resource-based theory.

Existing studies on firms’ internal resources and their impact on the performance and innovation output are usually done in the Western countries while “in transition economies the majority of the emphasis has been placed on creating the applicable political and economic environment within which organizations can develop.” (Leskovar-Spacapan and Bastic, 2007: 533). Thus it is not clear whether the conventional findings may be applied to the firms operating within different environmental backgrounds.

In this study the focus is on Latvian hotels, since hospitality industry and tourism in general mirror the development of this country. Tourism has gained a special position in the export of services and regional development and entrepreneurship, and played a significant role in the rapid transition from ineffective planning to full-scale competition. Tourism is also one of the most traditional sectors in national economy: Latvian sea cost was a popular destination for summer vacations since the beginning of the last century. Exports of tourism constituted 18% of all exported services in 2007 (Latvijas Turisma …, 2009), and direct proceeds from tourism in Latvia accounted for 1,5% of GDP in 2008. Till year 2008 there was a prompt increase in the general number or foreign visitors:

[1] It should be noted that Grant (1991) uses different names for his concepts.

average growth in the period from 2002 to 2008 was 16,1% per year. Similar increase was observed in the number of hotel visitors – average increase was 15,4%. This led to expansion of hotels as more entrepreneurs were willing to enter tourism industry. Particular increase in the number of hotels took place one year after Latvia joined EU – in 2005 number of hotels increased by 32,4% comparing with previous year. Almost half of tourism enterprises is concentrated in Riga (49,9%) and about 95% of all falls within small and medium enterprises category.

Till 2008 tourism was considered a priority sector of Latvian economy, however, with economic downturn a new economic strategy was created and such precedence is not present anymore. Year 2009 brought along an increase of value-added tax (VAT) by 3% for all sectors and by 16% for tourism industry in Latvia. Concomitantly, tourism faced severe decrease since 2008 (in 2009 the number of overnight stays in accommodation establishments reached the level of 2005). However, in May 2010 VAT was diminished to 10% in tourism sector with the aim of increasing the number of employees by 2000 people.

Yet, according to Strategy of Latvian tourism development (Latvijas Turisma 2009), there are several main problems within Latvian tourism industry. First, it is lack of quality in supply of tourism products and services. Second, rapid price growth within last few years was not accompanied with increase of value added to customers and development of new products and services. Third, seasonality of tourism products and services in Latvia causes huge fluctuations of turnover and instability of work places. And finally, there is lack of cooperation in all levels of tourism industry in Latvia. Thus one of the main aims in developing competitive and sustainable tourism branch in Latvia is putting emphasis on upgrading internal organizational competencies that in its turn will lead to new, innovative product elaboration.

A study of Vedina and Baumane (2011) revealed that when compared to Polish, German, and to a lesser extent, Estonian small and medium enterprises (SMEs), Latvian enterprises have the lowest estimations of almost all managerial and employees' competencies and underperformed in terms of the number of present and planned innovations, in particular in the tourism sector and especially with regard to process-related innovations. The authors suggested that more attention should be given to the development of internal resources in Latvian SMEs.

The objective of this follow-up study is to explore the case-specific background for competencies and capacities as prerequisites for innovation and competitive advantage in Latvian hotels. First, we discuss theoretical issues and report the proposed theoretical framework for assessment of enterprise performance according to its usage of resource bundles. Next, the methodology and most relevant results of the previous study (Study 1) are presented. Finally, we map and describe in more details three cases identified as typical in Latvian hospitality industry (Study 2).

2. Competencies and capacities as determinants of firms' competitive advantage

The underlying assumption in the resource based theory is that firms possess bundles of specific resources that can be used as a source of competitive advantage. Though, as emphasized by Barney (2001), not all firms embrace resources that lead to superior performance over competitors. Furthermore, to lead to competitive advantage, resources have to conform to certain characteristics: value, rareness, inimitability and non-substitutability (Barney, 1991). Otherwise, if rivals may easily obtain the same resources as the given firm, any supremacy over other actors within industry will disappear. Moreover, the longer time it takes or more costly it is for competitors to obtain valuable resources, the more possible it is to refer to sustained competitive advantage that is reflected in superior financial performance (Day, 1994; Fahy and Smithee, 1999). Thus, understanding what resources are of the key relevance for acquiring ascendancy over competitors is one of the major tasks for top management in every industry.

It is even more important for SMEs as they usually are too busy with elementary survival to evaluate their internal competencies and base development strategies upon it (Mole, 2002; Vanags and Rastrigina, 2007). The need to identify new ways of combining resources forces SMEs to be more innovative. In fact, innovations may be even more important for SMEs than for large firms; some authors (Fritz, 1989; Sweeney, 1983; cf. Radas and Božic, 2009) deem that SMEs are more likely than their larger counterparts to use product innovations as a means to becoming competitive. In addition, traditional Schumpeterian theory suggested that small firms encompass a dynamic creativity and are the driving force of innovation through the introduction of radical new products and industry structures (Schumpeter, 1934). Thus, it is important to identify factors contributing to or hampering innovations, and the resources needed for their development.

Although the past few decades have produced a large number of often contradictory and overlapping terms and concepts relating to the resource-based view, it is possible to draw a separating line between two major types of resources: basic assets (e.g. financial, physical, technological and human resources) and competencies (e.g. knowledge and skills, organizational ability within the firm to use its basic assets and to recognize opportunities, ability to create knowledge and innovations, etc.). According to Barney (2001: 138), 'resources are the tangible and intangible assets firms use to conceive of and implement their strategies'. Many other researchers have distinguished between different types of resources, using various concepts, thus creating controversies and inconsistencies regarding both the theoretical and practical aspects of the resource-based view of the firm (Priem and Butler, 2001; Foss and Knudsen, 2003). To avoid further confusion about terms used for various types of resources, within this chapter we call the first aforementioned group 'capacities' and the second 'competencies'. After that it is possible to make a further distinction between types of competencies, as some are simpler and thus more easily obtained by competitors, whereas others are more complex as they are embedded in certain social context and created by mutual interaction.

Managerial and technical competence were first outlined about 40 years ago by Abramovitz as one of the four most important aspects of social capability, which he considered to be the main reason for differences in the abilities of different countries to exploit their potential for catching up (Fagerberg and Srholec, 2008). As Wright and McMahan (1992) and Wright *et al*. (1994) assert, competitive advantage is likely to be derived from the human capital pool, in terms of the skills or expertise of the workforce and their willingness to work. Research to support this view has identified weak management skills as a major factor inhibiting innovation by reducing the commitment of firms to the development and implementation of new products and processes (cf. Hewitt-Dundas, 2006).

Among the more complex competencies of the firm is innovation ability which is defined as superior "skill" to transform other resources possessed by organization into innovation output (Hayes and Pisano, 1996; Lawso and Samson, 2001). Importance of innovation as driving force in obtaining competitive advantage and superior performance, as well as crucial role of innovation capabilities in rapidly changing environments, when it is not possible to forecast future situation, is depicted in various studies (Snoj, Milfelner, Gabrijan, 2007; Prajogo and Ahmed, 2006; McEvily et al., 2004; Shoham and Fieganbaum, 2002; Roberts, 1998). Empirical studies have demonstrated that innovating firms grow faster, have higher productivity and are more profitable than their less innovative counterparts (cf. Hewitt-Dundas, 2006). In particular, this issue is frequently addressed in the context of small and medium-sized enterprises (SMEs) (Henneke, 2007; Peters and Pickkemaat, 2006; Hult *et al*., 2004). Besides being key contributors to economic growth, innovations and market competition (Acs and Audretsch, 1990), SMEs are a crucial source of innovative potential and job creation possibilities (Johnson and Loveman, 1995). However, SMEs face particular problems in the formulation of their innovation strategies, including (i) deficiencies arising from their limited resources and range of technological competencies; (ii) the greater influence of their owners/managers on the decision-making process; (iii) their dependence on a small numbers of customers and suppliers; and (iv) a focus on the efficiency of current operations, to name just a few (Badger *et al.*, 2001).

Fagerberg and Srholec (2008) point out the existence of a large overlap between several concepts used to determine the factors contributing to innovation, as well as the weak relationship between conceptual and empirical work in this area. For instance, according to Hurley and Hult (1998), innovation in organizations depends on two factors: an innovation-oriented culture and the capacity to innovate (having access to technologies and R&D). Many studies examining the effect of cultural (soft) factors and technological (hard) factors in isolation have concluded that soft factors are more important than hard factors, as it is less difficult for competitors to obtain technologies than to create a suitable innovation-oriented culture (Powell, 1995; McDonough and Kahn, 1996; Samson and Terziovski, 1999; Dow et al., 1999). However, later study by Prajogo and Ahmed (2006), investigating the inter-relation of cultural and technological factors and their mutual effect on a firm's innovation performance, concluded that the effect of cultural factors on innovation performance is mediated by technological factors, and that there is no direct relationship between innovation-oriented culture and innovation output. This provides the basis for a more thorough search for other factors, which may mediate and contribute to the effect of the aforementioned cultural factors.

Another factor affecting development of new products and services is the firm's ability to collaborate with other market players in order to gain and share relevant information and to cooperate in innovation projects when the sole capital of one enterprise is insufficient (Inkpen and Tsang, 2005; Kogut, 1998). Collaboration with other companies (often with competitors) is especially important for SMEs because of their restricted financial capacity to develop costly research and development activities (Roper, 1997; Ingram and Roberts, 2000). Many studies have been conducted demonstrating the importance of strategic alliances and collaboration with other players within the same industry in raising the innovation output of SMEs (Lee *et al.*, 2001; Roper, 1997; Gulati, 1998; Ahuja, 2000).

The final, but not the least, group of specific resources enabling a firm to increase its innovation ability is its market and entrepreneurial orientation. Market orientation was shown to have a strong link with innovation (cf. Radas and Božic, 2009). Previous research also found that an entrepreneurial orientation leads to innovations (Day, 1994; Fahy and Smithee, 1999; Ottenbacher, 2007). According to the studies of Lee *et al*. (2001) and Leskovar-Spacapan and Bastic (2007), having a risk-taking propensity and proactivity as components of the firm's entrepreneurial orientation is reflected in innovation performance.

3. Study 1

Framework for enterprise assessment: main constructs

The Study 1 (Vedina and Baumane, 2011) elaborated a theoretical framework for the analysis of innovation capabilities of SMEs within resource based theory along with operationalization of the concepts used in previous research. Enterprise's 'competencies' were separated into two broad groups: essential competencies needed for survival and growth and innovation facilitating competencies. Essential competencies relate to the skills and knowledge of employees' and management - employees' competency scale -, and a market orientation of the firm. As innovation facilitating competencies the framework distinguished innovation-facilitating culture, collaboration ability and entrepreneurial orientation of the SME. All scales consisted of various items drawn from the approaches referred to in the previous section.

'Capacity' was defined as the access to the basic assets of an enterprise (technological resources, financial resources and human resources) that are needed for development of new products or services. The use of 'human resources' in terms of capacities did not imply a particular level of skills, knowledge and education for the personnel, but rather the simple access to of the SME to the employment resources needed for development of new products and services; we did not evaluate the employees' abilities or competences.

Innovation output was measured as any development of new products/services, implementation of new technologies, introduction of marketing changes or changes in organizational systems that had taken place within the previous 3 years and/or were planned for the next 3 years.

As performance indicators the percentage changes in number of employees, turnover, costs and profit each year from 2005 to 2008 were chosen. Due to usual refusal of respondents to indicate exact figures of turnover, profit and number of employees, asking for absolute figures was not suitable. A trend to conceal key performance indicators was especially visible in Latvia. The main reason for reluctance of Latvian managers and owners of SMEs to disclose their profit and number of employees is still persistent avoidance of taxation, double accountancy and undeclared employment when officially registered numbers are different from reality making respondents cautious to indicate performance figures in the surveys (Undeclared employment in Latvia, 2007).

A set of the most useful resources needed for sustained competitive advantage of the firm may depend on strategy that particular firm chooses in order to compete with others. Thus a question was included on what kind of strategy is used by the firm: either to offer lower price, better quality or innovative products to its customers in comparison with competitors.

Methodology and research design

The survey took place in 2009. Altogether 133 enterprises in tourism sector from five different countries (Latvia, Estonia, Poland, Germany and Sweden) participated in the study, 39 of them belonging to Latvian hospitality sector. Data was gathered either via face-to-face or telephone interview, or by sending a questionnaire via e-mail. The respondents were top managers or owners of SMEs in the tourism sector. The target group of respondents were top managers or owners of SMEs (one person from each company), as they are believed to know all major processes taking place within their enterprises and are involved in strategy development and implementation. Process of data gathering implied direct telephone call to the enterprise in order to identify key person to address the questionnaire, introduction of the research background and idea to that person (top manager or owner) and sending questionnaire via the electronic mail.

Respondents were asked to assess the competencies and capacities in their company on a five-point Likert scale from 'very poor' to 'very good', or to state whether they agreed with the given statements (from 'completely disagree' to 'completely agree'). The also answered the questions about the undertaken and planned innovations, estimate the changes in turnover, costs, profit and number of employees on the grading 5-point scale and indicate their competitive strategy type. In addition to the pre-defined three strategies, an alternative choice of strategy was offered to the respondent if none of those were appropriate; in such case the respondents were asked to specify the kind of strategy their enterprise implements.

Findings

Analysis of self-perceived capacities and competencies assessed by hotels showed that essential competencies of hotels were evaluated higher than innovation facilitating competencies. In general almost all hotels evaluate their staff and management competencies as being very good or good. Market orientation is also reported as being good. The competencies with regard to innovation facilitating culture are also evaluated as being good, but collaboration and entrepreneurial orientation appeared to be assessed only as average with entrepreneurial orientation competencies ranking as the lowest competency among others. According to these preliminary results capacities to access tangible resources for short term development were evaluated as being good whereas capacities for long-term development are assessed only as being average. It was also not possible to make any conclusions about innovation output of the firms as data was very scarce. Interestingly enough is the fact that half of hotels indicated mixed strategies or even proposed their own strategy in competing with rivals.

However, Latvian tourism SMEs still had the lowest estimations for almost all competencies compared to their counterparts in Estonia, Poland and Germany. They were less involved in introduction of innovations, tending to have negative responses when asked about plans to implement new technology for improving the performance in the next 3 years notwithstanding somewhat higher ratings for plans to launch new products/services in the next 3 years. Latvian SMEs underperformed in terms of the number of present and planned innovations, in particular in the tourism sector and especially with regard to process-related innovations.

The authors suggested that whilst striving to introduce new products/services to the market, Latvian hotels and other SMEs may overlook the importance of improving their competencies; that is, internal resources, which are more difficult for competitors to imitate, and thus, may have a stronger basis to be a source of competitive advantage. They suggested that more attention should be given to the development of internal resources in Latvian SMEs.

As these findings raised more questions instead of providing answers to research questions, the authors decided to conduct a case study in order to find out why innovation facilitating competencies are so poorly developed in comparison to human competencies and market orientation of the firms operating in Latvian hotel industry.

4. Study 2

Based on the results of the Study 1 the authors mapped the responses and categorized them by their competitive strategy type. Three most typical types of hotels were identified. There were two criteria to choose particular hotels for Study 2. First yardstick was the length of the hotel operation time of at least seven years, thus proving long term ability to compete with the other market players. Other criterion for choosing the case was its strategy defined in the questionnaire. As it was stated above, half of the hotels outlined mixed or alternative strategies as their concept to compete with rivals. Often these distinctive strategies comprised both providing better quality and lower price in comparison to competitors what is considered as being controversial in theory. In addition we aimed at selecting possibly varied cases in their market positioning and reputation.

Next, follow-up interviews were conducted in hotels, which were the most salient representatives of these types. The semi-structured interviews that lasted about an hour and a half covered the following topics:

1) what resources are regarded as the most important for the hotel industry;
2) how do managers obtain or create those resources;
3) why entrepreneurial orientation is rather low in Latvian hospitality business;
4) are innovations relevant for long term development, and if so, what kind of innovations are these.

Interviews revealed that different strategies of hotels imply diverse approaches to innovations among those hotels making it possible to classify cases examined as Conservative market leader, Moderate innovator and Market follower. Cases selected for this study are described below.

Case A: Conservative market leader

A four star hotel located in the prestigious area of Old Riga, the owners of which are actively involved in hotel management. This small hotel (38 rooms) is considered to be market leader among its category hotels and it is very well known in Latvian society due to frequent appearance of its owners in mass media. The hotel is claiming to provide the best quality in its category for the lowest price. Hotel A was founded in 2001 and it is optimistic about its future though market situation and socio-economical conditions are very tough now. The hotel was able to reduce prices and still offer high quality, so even in low seasons it is filled in more then by 60%, which did not happen during previous years, when market prices were much higher. Despite of the decrease in the profits the owner of hotel A believes it will be able to survive tough times and wait until competition will decrease due to the high death rate of other small hotels. In general this hotel is very conservative in its approach and this is seen as its key for success. All decision making is always based on calculations; the owner's opinion is that there is no space for innovations in city hotels, as supplementary investments in new technologies or in development of new products would not lead to additional profits.

Case B: Moderate innovator

This hotel was founded in 1994. The interview was held with the general manager, who worked there for ten years starting as office administrator, and then becoming a manager and recently the general manager of the hotel. Hotel B is a middle size hotel with 50 rooms. It is situated in the outer part of Riga's center. Hotel B's general manager admits that the best times for hotel industry were 2003-2006, when the hotel was almost full even during the low season, but in summers they were not able to satisfy the huge demand. Competition was not felt at those years, as many hotels, which are operating now were then still in a construction phase.

This hotel's strategy is similar to the one of hotel A in terms of putting emphasis on high quality and low price, but in addition it tries to be ahead of competitors in developing new products and services. This hotel claimed to make continuous efforts in finding new ways to improve its service quality and offer additional value to customers.

Case C: Market follower

This is a small hotel (11 rooms) in the very central location of Old Town. It was founded in 1994 as a boutique hotel for the mistress of a rich businessman. During several years it operated almost without profits, as it was not opened for the wider public but served as a meeting place for its owner's business partners. Later it operated as a regular hotel, but a couple of years ago it was sold to other owners. For this hotel the changes in the market situation and especially the increase of VAT from 5% to 21% that took place in Latvian hospitality industry in 2008 are very threatening. The owners and managers are searching for new ways of gaining customers, though their financial situation is not allowing making any extra expenditure. As its strategy hotel C sees providing distinctive products – non standardized rooms and individual approach to every customer. Room prices are already reduced to the lowest possible level and several staff members were fired, so there is no more space for further cost reductions. Thus hotel C may rely only on new bright ideas of how to make this small place more attractive for clients. However, implementation of ideas needs financial resources and those are very scarce right now, so it seems to be a vicious circle for hotel C. Due to their small size and restricted financial resources hotel C sees its strategy as mainly dependant on the market situation. Their clients are not demanding very high quality standards and their decision making about where to stay depends on price. Thus hotel C is not aiming at any radical innovations or costly improvements, but does its best to satisfy clients with its friendly atmosphere and responsiveness to all needs.

Main resources for successful operation in the hotel industry

All interviews have displayed awareness of hotel managers that human resources are of the major importance for the long term development of their business. The main competency possessed by a good employee in hotel industry is teamwork ability. Hotel staff often has to substitute each other and it is not possible to draw very precise list of tasks for each position as unexpected situations are taking place every day and many urgent problems appear that need to be solved. In one interview teamwork of employees was compared with clock mechanism where every cogwheel is of a great importance in providing precise run of a whole. For these small and middle sized hotels their service quality and personal approach to each client was seen as their major strength. Thus paying attention to small details was emphasized as being very important for creating the added value to their customers.

Overall trend that was shown in the survey results – the studied hotels in Latvia seem to be satisfied with the skills and professionalism of their staff – was confirmed in the interviews.

However, there were differences in attitudes towards development of employees' skills and knowledge. Namely, hotel B (innovator) emphasized employees' trainings as an important part of their human resource policy. Moreover, they even organize maid excursions and experience exchanges to other hotels in order to make their work more interesting and show how are the same tasks done in other places. Talking about current situation when hotel is forced to reduce costs wherever it is possible, general manager of hotel B stressed that employees' education and marketing activities will not be ceased as these are seen as the main resources for the long term development of hotel. On the other hand, the general manager of hotel B claimed that such inner qualities of people as kindness and responsiveness to clients' needs are even more important than knowledge as the latter may be gained, but a person's character rarely changes.

On the contrary, hotel A (conservative market leader) does not pay so big attention to the trainings of their employees. Hotel provided some courses in the more profitable years, but it was not done systematically. Moreover, according to the owner of the hotel, added value of those courses was employees' satisfaction and thus raised loyalty and not that much increase in knowledge needed for fulfilling their tasks. Asked how they provide that the cogwheels are running and the clock is functioning so well, hotel owner's answer was that the presence of all owners and their involvement in daily management creates good example of how things should be done which is followed by their staff. It was also added that the majority of employees are still working in the hotel since the first day it was opened, what proves their job satisfaction.

Hotel C admitted that education of their staff is important, but so far they haven't provided any training for their employees besides the obligatory ones as work safety standards and sanitary standard courses for kitchen workers. Nevertheless, the general manager of hotel C considers necessity of marketing and psychology courses for administrators to develop their communication skills with customers. She sees open and active communication with clients and sincere involvement in guests' problems as the key factor for success of her hotel.

Market orientation was also confirmed to be of a great importance for small and medium hotels. Interviewed hotel representatives see their ability to be flexible and responsive to clients' needs as their major strength. They are well informed about who their target customers are, what the market situation is and who their competitors are. Though, talking about competitors, it was found out that players in the hotel industry very often collaborate with their rivals. It was even stated that other hotels are not perceived as being competitors as every hotel has its distinctive product and nearby located venues collaborate with each other in landing each other guests in cases of overbooking and even landing and borrowing chairs, dishes and staff members when bigger events are taking place. On the other hand, information sharing with other organizations was not evaluated equally positive in all interviews. The main role in facilitation of information sharing among hotels is played by the Latvian Hotel and Restaurant Association. However, there are problems in official market information available as Association has some statistics only about their members and not about the whole industry. Whereas Central Statistical Bureau has only aggregated data, that is not applicable in thorough market analysis. Taking into account that small and medium hotels usually do not have R&D departments, availability of sound statistics from hospitality industry is of a special importance.

The most important resource needed for long term development of Latvian hotels is the access to financial resources. This result was also found for SMEs in other participating countries in Study 1, which confirmed that access to financial resources was the most important capacity for new product development, followed by access to technologies. Access to financial resources combined with entrepreneurial orientation and an innovation-facilitating culture contributed most to the number of undertaken or planned innovations, and to profit and turnover (Vedina and Baumane, 2011). However, this resource is much more important for the smallest hotels as bigger ones are able to make savings during the high season. On the other hand, none of the interviews have revealed ambitions of their hotels to expand and grow. Thus long term development was understood as the ability to renovate their venues and apply some newer technologies if possible.

Entrepreneurial orientation and innovations

Competencies of risk taking ability and efforts to be ahead of competitors were evaluated below average in the initial survey conducted among Latvian hotels. Thus interviews aimed at finding out if these competencies are necessary for hotels and, if so, why those are so poorly developed.

The positions of the hotel managers with regard to the necessity of innovations and entrepreneurial orientation were different. Their opinions were in line with competitive strategies stated by hotels.

Hotel B, who claimed implementing a strategy mix of offering high quality for low price along with being ahead of competitors in introducing new products and services, stressed its efforts to generate innovative ideas. The general manager of this hotel emphasized importance of the additional services such as excursions, transfers to the airport, availability of wireless Internet, etc. Development of ideas in this hotel takes place together with employees who are not evasive to offer their suggestions to the general manager.

Conversely, hotel A, whose strategy is to offer superior quality for lower price, is very skeptical about Riga's hotels' ability to innovate. The hotel owner grounded his reasoning on the lack of physical space and restricted demand depending on tourists who won't be happy to pay more for costly technologies introduced in the hotel. Overall hotel A owner described his venture as being very conservative and prudent implementing any innovations or taking risks.

The manager of hotel C, the smallest and most vulnerable for any changes in business environment, sees the importance of innovations, but does not have financial resources to implement new ideas or even to make renovations needed in the hotel. This hotel sees responsiveness to clients' needs as its main resource and this implies implementation of different small improvements in order to satisfy its guests. Here new ideas are not created among the hotel employees or in the head of the general manager, but are driven by customers. The typical guests of this hotel are Scandinavian couples who visit Riga for 2 days and their decision which hotel to chose mainly depends on price, and not on any extra services provided in the hotel.

The general manager admits that such a small hotel is not able to introduce any relevant innovations, but she believes that even small improvements and new ideas how to solve customers' problems are significant in the hotel business, while satisfied guests are indicators of hotel's success. On the other hand, she was not able to name any hotels in Riga being truly innovative. This was explained by easiness to copy good ideas by competitors, making innovator to be unique only for a very short period of time.

A summary of the main findings is depicted in the table 1 below.

Table 1. Hotels' competitive strategies, main resources and attitudes towards implementation of innovation

	Conservative market leader	Moderate innovator	Market follower
Strategy to compete with rivals	Best quality for lowest price	Best quality for lowest price along with being ahead of competitors in introducing new products and services	Providing different product and individual approach to every customer
Development of human resources	Does not see trainings as being very important. Involvement of owners in daily management creates leading by example, so employees do not need additional courses.	Sees employees' education as one of the most important factors for future development. Makes continuous investments in providing trainings and courses for their employees.	Admits importance of education and sees necessity of providing specific courses for their employees but can not afford it.
Market orientation	See responsiveness to the clients' needs and individual attitude to each client as their core competency.		
Collaboration with others	Does not perceive other hotels as their competitors. Actively collaborate and share information with others.		
Capacity for long term development	Financial resources		

	Conservative market leader	Moderate innovator	Market follower
Importance of innovations	There is no space for innovations in city hotels. All innovations are connected with expenditures and this is rarely worthwhile.	Putting effort on development of new ideas and providing new services to its guests.	New ideas mainly come from clients. Is not able to implement any radical innovations due to the lack of financial resources. However, sees ability to innovate as being very important and introduces small improvements.

Conclusions

The study has revealed that hotel managers evaluate human resources as being of crucial importance for long term business development. However, attitudes towards importance of training and education vary. This study has showed that hotels admitting importance of innovations are more inclined to provide regular trainings for their employees, whereas the hotel with conservative and risk aversive approach is not paying so much attention to this issue.

Responsiveness to clients' needs is considered to be the most important competency from the market orientation bunch of resources and all hotels see this ability as their strength and the key of their success.

Interviews with hotel managers revealed that they all actively collaborate with other hotels and even within the last years, when number of new built hotels have increased dramatically, cooperation among hotels have not reduced.

For long term development financial resources are of the major importance. However, lack of those was seen as a problem only for the smallest hotel as bigger ones are able to make savings during the high season. In addition none of the hotels interviewed has revealed any plans for further expansion or growth, thus by long term development they mainly understood renovation and new equipment.

During the interviews very different attitudes about abilities and necessity to innovate where shown. An interesting fact is that all hotels interviewed associated innovations only with introduction of new products or technologies for improving their service quality and customer satisfaction. Accordingly, they linked innovations with expenditures leading to higher prices in order to compensate for those costs. Thus hotels are sceptical about the demand for such innovations. On the other hand no one was talking about innovations in terms of cost reduction which may be especially important nowadays when customers are searching for the cheapest possible offers. This may be due to the lack of understanding in wider society about the meaning of term innovation perceiving all innovations as being radical and product oriented.

Furthermore, this case study showed that attitudes towards entrepreneurial orientation that is considered to be as one the most important competencies in theory are rather controversial among small and medium hotels in Latvia.

The findings of this study are in line with the other authors' (Sundbo, 1997; Ottenbacher, 2007) statements that innovations in the hotel industry are market driven. As long as customers will pay more attention to price than to quality, ability to cut costs without visible decrease of quality may prove as the most important ability of small and medium hotels in Latvia. Thus introduction of new products may be less important than process or organizational innovations leading to cost reduction. Accordingly, the main implication of this study for small and medium hotel managers is to reconsider their attitude towards innovations from viewing it only as implementation of new costly products or services to finding new ways of process and organizational innovations for cost savings. Taking into account that the qualitative studies of Latvian hotels are still in an initial stage it may be too early to draw any other suggestions for hospitality management, as more empirical evidence is needed for any further claims.

It may be concluded that the findings of the case study conducted as a complementary part of the initial study helps to gain a deeper understanding about the situation in the Latvian hospitality industry and the importance of internal resources for innovation implementation in the small and medium hotels. In general, all initial trends exhibited in the survey were approved in the interviews.

It was possible to classify hotels according to their strategy and it may be assumed that various strategies go hand in hand with different approaches to new idea implementation. However, it is clear that the results cannot be generalized on the available data and more research is needed to find out which strategies are more appropriate for current situation in the hospitality industry.

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