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0. Abstract

Due to more turbulent market environments in the end of the 90's, there seems to be a need for new ways of organising tourism firms. In the article I explain why new organisational models are of importance. Thereafter I introduce the business federation as a possible model to use as it seeks to be able to highlight business paradoxes in a good way. In order to operations the business federation I introduce certain building blocks. In the end of the paper I explain how it is possible to use the building blocks in tourism firms.

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1. Introduction

In the latter half of the 19th century, the modern business enterprise took form, quickly taking the place of market mechanisms in coordinating economic activity (Chandler, 1977). As integrating all activities inside an organisation became more efficient than to buy them in the marketplace, companies grew into vertically integrated entities (Williamson, 1975). Vertically integrated hierarchies were very successful because of simultaneous growth in customer demand provided an outlet for the mass-produced goods.

As customer tastes became more advanced, tourism companies moved toward matrix forms and network forms. This helped companies in the attempt to integrate different areas of business. However, during the first part of the 90's, companies faced an

acceleration in the rate of competitive changes that effected how companies best could compete. The competitive landscape was reshaped by forces such as globalisation, technological change and deregulation of service offerings. Social changes, such as more women in leading positions, also led to new ways of organising tourism firms.

Competitive and social forces place heavy demands on tourism companies. Managers try to couple the advantages associated with former competitive regimes, such as scale economics resulting from resource accumulation and control, with responses to the challenges of the new reality. Specifically, Snow, Miles and Coleman (1992) caution that managers who want their companies to be strong competitors in the 21st century will need to search globally for opportunities and resources, to maximise returns on the assets dedicated to a business and to perform only those functions for which the company can develop expert skill and outsource the rest of the activities in which the company does not have a competitive advantage. These authors claim that the new competitive reality demands companies to be simultaneously efficient and adaptive. Tushman and O'Reilly (1997) go a step further when they state that companies will have to manage internally inconsistent competencies, structures and cultures, yet with a single vision.

Itintich, D'Aveni and Lewin (1996) warn that dominant paradigms in organisational theory based on uncertainty avoidance and stability seeking are inadequate in the new competitive context. Several alternative approaches have been introduced for coping with the new paradoxes such as the one of efficiency versus adaptiveness, such as the network (Miles and Snow, 1986), the virtual corporation (Davidow and Malone, 1992) and the horizontal organisation (Ostroff and Smith, 1992).

2. Introduction of the business federation

Handy (1992) adds that executives are facing a number of paradoxes: 1. The need to attain the advantages of large companies as well as small ones, 2. The recognition that open and free markets are the best guarantee of efficiency, yet personal preferences often lead managers to organise operations for centralised control, 3. Managers' desire to run businesses as they were wholly owned, but since they are a part of a larger group they will have to be managed on the basis of shared interest and mutual respect.

Handy advances that the concept of federation to be particularly appropriate to deal with these contradictions. Moreover, the author adds an additional factor that should be of great importance for service employees. Service employees expect the company to recognise their individual talent and demand space and autonomy to provide their contributions. Service employees feel proud of their knowledge and will not give up too much decision making to management.

As companies increasingly face this new management reality, Handy argues that "the move to federation is inevitable". To help to understand how it is supposed to work, Handy (1992) puts forward five principles of the federation:

1. *Subsidiary* means that the power belongs to the lowest possible point in the organisation. Only with the agreement of the lower units can upper levels exercise authority, in a sort of inverted delegation.
2. *Interdependence* which implies that power and expertise are spread around to avoid the risk and pitfalls associated with placing them in a single center.
3. *A set of basic and common rules of conduct*. The federation needs mechanisms for holding the pieces together.
4. *Separation to keep management, monitoring and governance in segregated units*. Governance will ultimately be democratic, accountable to all the stakeholder groups on which the firm depends.
5. *Twin citizenship*. Any organisational member feels like citizen of both a local unit and the federated union. The whole draws its strengths from strong leadership and entrepreneurial activities of local units.

3. Operating rules and basis components of the business federation with an emphasis on the tourism industry.

Recent research has put forward a first description of the basic building blocks of the business federation (Masifern and Masifern, 1997). Some initial empirical tests of the federation has been conducted (Masifern, 1997; Masifern et al, 1997, Vila and Syvertsen, 1998).

In this paper I try to operationalise certain building blocks, particularly suited for the tourism industry. Even though operating as a business federation is a complex task (Masifern and Masifern, 1997) it is possible to identify some design parameters which to ascertain a description of this organisational form.

I focus on autonomy, support services, control mechanisms, ownership, and interrelationships. I do not believe that these parameters are sufficient to give a complete picture of federalist behavior, however, they can highlight certain patterns. I will also relate federalist behavior to performance. In this way I will try to answer why some organisations fare better than others.

Autonomy. The business federation operates with discrete local units that have substantial authority when it comes to satisfy local clients. Autonomy puts decision making rights in the hands of those who are closest to the markets since it is assumed that the growing complexity and variety of local demands put service employees in a better position than headquarters to address client issues (Asava et al, 1994).

Autonomy refers to the right employees have to make independent decisions. They expect considerable discretion, freedom and independence in scheduling work, determining work tasks, and choosing methods.

Service employees achieve autonomy by protecting the highly skilled nature of their work through direct control over work tasks (Freidson, 1984). Autonomy refers to the exclusive rights employees have to evaluate the competence of colleagues in executing activities and tasks, for example through peer reviews

(Greenwood et al, 1990). They take advice and seek support from peers and junior experts more on an informal basis than through formal rules.

Service employees are goal-oriented and tend to be opportunistic about how they direct their efforts to reach specific goals. Furthermore, they are presumed to specialise except among the newest associates who have not yet picked a speciality. Specialisation represents a deepening of expertise and knowledge. While specialisation may result in performing more narrowly defined tasks the depth in which the work is performed is greater requiring a high degree of expertise (Wholey, 1985).

Most research on autonomy focuses on the individual level of analysis, which stands in contract to the business practices of employees working in groups. Employees share a complex division of labour, for example reflected in tourism firms specialise in types of practices.

There is an increased research interest for self-managed and semi-autonomous work groups. Researchers have proposed that groups with task interdependence have a positive effect on motivation (Kiggundi, 1983; Wong and Campion, 1991), and, in turn, on group effectiveness (Larson and Fasto, 1989; Saavendra et al., 1993).

Acceptance of the assumption that semi-autonomous groups need to be high on task interdependence implicitly suggests that when groups are low on task interdependence, performance may suffer. Forcing autonomy and decision making, when group members naturally carry out their tasks independently of one another may lead to dysfunctional outcomes (Hackman, 1977; Pearce and Ravlin, 1987). On the other hand, for individuals working independently and having respect each other's competence lack of autonomy at the group level may harm performance. This is because group members may find it overly time-consuming and ineffective to reach consensus on decisions that may be more effectively handled at the individual level. Excessive time may be spent on co-ordination activities that members may feel are unnecessary.

Performance. Since Berle and Means (1932) emphasised the importance of the separation of ownership from control in the modern corporation it has been suggested that autonomy may moderate strategy-performance relationships. I assume that autonomy has a positive effect on performance because it is in accordance with the wishes of both the client and the professional market.

Local units co-ordinate activities and try to achieve synergies. In such situations local autonomy can become secondary (Pitts and Chittipeddi, 1985). The reason for this can be that co-ordination gives greater benefits than sub optimising at the local levels.

Theory on self-managed teams suggests that autonomy of decisions enhances intrinsic motivation of group members, which in turn results in higher performance (Hackman, 1977; Pearce and Ravlin, 1987). Although some support has been found for this proposition (Beekun, 1989; Cohen and Ledford, 1994; Pasmore and Khalsa, 1983), other researchers have not found significant results, explained by structural variables not addressed in these studies (Goodman et al, 1987; Pearce and Ravlin, 1987).

Boosting units. A trend in the business literature on multinational firms is the recognition that certain tasks are performed better by headquarters than the local units because greater possibilities to achieve economics of scale (Teece, 1980). However, such tasks represent a significant piece of headquarters' cost, and should therefore contribute significantly to the value creation (Coold et al, 1994).

One task that can be effectively taken care of by headquarters is the creation of supply services. Centralising supply services at corporate level can facilitate reaching a critical mass which otherwise would not have been possible by duplicating services located at the local levels. Centralisation allows services to be provided more cost-effectively, or functional skills to be better utilised (Goold et al, 1987).

Local units that receive support services are supposed to enhance the position in the marketplace. This is the reason why support services are referred to as boosting units. By using boosting units innovations can be implemented rapidly locally, more or less independent of geographic location (Davenport et al, 1997). Boosting units can also help to co-ordinate activities between business units. Boosting units can, in turn, enhance consistency and achieve cohesion within the firm.

Performance. I believe that there are two reasons why the use of boosting units can have a positive effect on performance. In a world that is coming more homogeneous only headquarters will be able to achieve

economics of scale in order to achieve critical mass. Secondly, by leaving production of boosting to headquarters it is possible for local units to concentrate on serving local clients.

Control mechanisms, defined as any process in which one party affect others behavior (Goold and Quinn, 1990), can be used by headquarters in order to be reasonably confident that unpleasant surprises will not occur at local levels. Furthermore, using control mechanisms makes it more likely that local units will use their knowledge to pursue the interests of the corporations as a whole and not just their own partial interests (Chakravarthy and Lorange, 1990).

Headquarters can use formal and social means of control in the relationship with local units. Whereas formal means of control ensure predictability through the specification of how people in the organisation should behave, social means of control utilise organisational norms and values to encourage desirable outcomes (Child, 1984). The key difference is that when formal means control can be regarded as a strict evaluation of performance social means of control rely more on normative considerations in order to influence behavior. Furthermore, while formal means of control rely more on delegation without loosing control over what is going on, the aim of social means of control is to induce desirable behavior through what members of an organisation accept as legitimate (Child, 1984). A strong professional requirement is one example of social control (Child, 1984). Another social control mechanism is what Ouchi (1980) called "a clan".

Social means of control consist of ideology and culture. Ideology, defined as an integrated set of beliefs that bind individuals to the organisation and provide a shared meaning (Starbuck, 1982), means that organisational members have the basic beliefs of how organisations work, or should work.

Ideology can help to reduce mental uncertainty by providing meaning and understanding (Levinhagen et al. 1993). An ideology can help to "organise" uncertainties by identifying and crystallising a firm's agenda (Simons, 1994). This leads to a common frame of reference and familiarity with common methods through schooling, standards and vocabulary.

Culture, regarded as a subgroup of ideological means of control, are beliefs, norms, routines and values that are collectively developed over time (Moncoulides and Heck, 1993). Culture can be defined as common cognitive mind set so that even people who do not know each other personally will have a common understanding, manifested in behaviors and language. Cultures are developed through a feeling of belonging, for example that professionals believe they are equal partners in determining the future of the company.

The surest, although not the only basis of an ideological dominance in an organisation, is homogeneity of participants. If many members of an organisation subscribe to a particular ideology the principles of the ideology will fundamentally influence the organisation.

Recruitment is one way to promote homogeneity within an organisation. The business literature suggests that there is a tendency to select new members on the basis of similarity to those who already participate in the organisation (Kanter, 1977). A second process that leads to homogeneity is socialisation. Even if some participants enter an organisation without subscribing to its dominant ideology they may be influenced after joining the organisation (Gainer, 1972). Trade journals and industry newsletters can serve as features of socialisation. Industry events such as conferences and trade shows are reasoned to diffuse norms by setting standards and exchanging information.

Even when there is no homogeneity among participants it is possible for an ideology to be dominant in an organisation. Just as complete consensus is not necessary for an organisation to set and act on a goal (Cyert and March, 1963), complete ideological homogeneity is not necessary for an organisation to be influenced by an ideology. Authority and power may allow professionals to make decisions in accordance with an ideology even when significant ideological heterogeneity exists in the organisation.

Performance. I believe that social means of control can have a positive effect on performance because such mechanisms can regulate behavior.

This is also in accordance with research conducted by Kotter and Heskett (1992) who suggested that companies emphasising social control mechanisms outperformed firms that did not possess such traits. Such positive findings have usually explained by synergies within the firm. Alchian and Demsetz (1972) stressed that the reason for the existence of the firm lies in what they call "team production". Team production exists when the collective output from a group of individuals is greater than the sum of their

individual output, and where it is simultaneously difficult to discover each individual's specific contribution to the group effort. Thus, in addition to the productive potential of human capital (Becker, 1964), some form of organisational or social capital accounts for the extra production.

On the other hand, however, it is not possible to take for granted the direction of causality between control mechanisms and de facto control (Levine and Tyson, 1990). Scholars have also suggested a number of unintended negative consequences resulting from implementation of control mechanisms such as behavioral displacement, gamesmanship, operating delays, and negative attitudes (Goold and Quinn, 1990),

Ownership. Since Berle and Means (1932) raised the issue, ownership of resources generated in the modern corporation has been a matter of great concern. Jensen and Meckling (1976) formulated the study of this problem under the rubric "agency costs". One proposal for reducing agency costs is for management of the firm to hold a portion of the stock.

The business federation suggests that a feel of ownership of resources should be a part of the incentive system. A feel of ownership for local managers can have positive effects both on the client market and on the talent market for employee. Demanding customers require flexible organisations with a broad range of offerings as well as an ability to tailor-make outputs to individual needs. In many industries there is a tough competition for the best talent, and without offering a feel of ownership companies can loose in the professional market.

Performance. Researchers have identified a positive relationship between ownership and performance (Kim et al. 1988; Osward and Jahera, 1991; Morch et al., 1988; and Mehran, 1992). These academics suggest that there is a positive relationship between ownership and performance, however only for low levels of stocks. As ownership increases managers are supposed to get entrenched because they have their capital tied to the firm. They typically have an incentive to undergo some of the benefits of higher leverage in order to reduce the possibilities of bankruptcy.

However, Molz (1988), Chaganti et al. (1985), Tsetsekos and De Fusco (1990) found no statistically significant relationship between ownership and performance. Thus, the evidence of the effect of inside ownership is mixed. Osward and Jahera (1991) pointed out that a potential factor contributing to these inconsistent findings could be the different indicators researchers adopted to ownership and performance. These authors stated that the use of differing terms to describe ownership as a concept and use of various indices to measure it can contribute to these conflicting results. Equally, there is a lack of consistency among researchers on which performance measure to use, for example return on assets or total return to investors.

4. The relevance of the building blocks for tourism firms

There are different reasons why I want to link the tourism industry to the building blocks. Many of the large tourism companies like hotel chains and airlines are global in scope and at the same time must try to satisfy local needs. Not all of them have been able to maximise these considerations at the same time.

Furthermore, local units of a tourism chain may have great advantages of co-ordinating efforts, for example booking routines, discount cards for clients, etc. Survey services for corporate level can be regarded as an asset as it is possible for achieving economics of scale for the chain as such, for example when it comes to logos and marketing campaigns. Furthermore, corporate level can use social means of control in order to keep the whole organisation together. While past economic regimes rewarded firms for maintaining strong organisational hierarchies and strict work rules, the new business regime is increasingly becoming dependent upon the service employee in the front line. In such an environment "soft" measures of control can be the only avenue to peruse.

5. Final comments

Increasingly complex tourism companies need to get both benefits of adaptability and efficiency. Such firms need further need to be global and local at the same time. Tourism organisations such as large international chains seem to go long down the road to decentralisation, pushing toward a more federated structure.

The business federation provides a new logic of how to think about the relationship between local units and the centre, as well as deciding upon the horizontal relationships among business units. The role of the local units as front-office in the client contact represents the entrepreneurial heart of the international firm. Even if

the federation might give some interesting insights, it is not the only path for tourism organisations. Some firms are retaining high degrees of centralisation as they expand globally, but a leading management thinker as Handy (1992) would argue that the trend of local autonomy is going in the direction proposed in this article.

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