
E-innovation: Internet impacts on small UK hospitality firms

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Abstract

Within the small firms sector, the Web is anticipated to bring unprecedented new opportunities for business development and competitive advantage. The reality in small firms, however, may be that lack of understanding of the value the Net may provide in the context of their own organisation, deters many owners from gaining such advantages. This paper looks at six cases of small hospitality firms. "E-innovation" here represents innovative strategy enabling customers to do what best serves their purpose via information communications technology. These small hospitality firms have adopted the Web and used it; as a result they have changed business processes and personal expectations. Suggests that the current narrow focus on business growth or on technology alone seen in current initiatives may miss owners such as these who took up the Net for social and personal reasons but developed business uses alongside them. Recommends that an integrated hosting of such firms would provide better customer access, and therefore lead to benefits for such firms. Where targets are set for increases in tourism, it is also recommended that the Internet might play a part in developing such growth, if integrated and applied to the context of hospitality firms.

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The Internet and small firms: UK perspectives

Recent work by UK economists suggests that new information communication technologies have the potential to significantly increase the UK's productivity and GDP growth rate (PriceWaterhouseCoopers, 2001). This view is shared by policymakers who have expressed a commitment to giving:

... every individual, business and community in the UK the opportunity to participate fully in the benefits flowing from these changes ... to getting the UK online ... (UK Online, 2001).

Despite this, however, in performance terms, the UK still ranks lower than some of its competitors. While in terms of broadband connectivity it lags behind all other G8 countries, with a ranking of twenty-first place (OfTel, 2000; OECD, 2000), the picture is improved by exploring small firms' engagement with the Net. Worldwide, the UK ranks fourth in G8 comparisons behind Sweden, the USA and Canada in terms of the percentage of SMEs connected (UK Online, 2001).

The "small firms" emphasis is important given that 99 per cent of the UK's business community are "small firms". Similarly, the UK tourism industry consists of some 127,000 businesses, 80 per cent of which have a turnover of less than £250,000 per annum and can be classified as "small firms" (DCMS, 2001). The importance of tourism and hospitality to the UK is demonstrated by figures from the Department for Culture Media and Sport (DCMS), which describe the tourist industry as in continued growth, attributing 7 per cent of all employment to tourism (2.1 million people) and estimating that one in six of all new jobs created in the last ten years, were related to this industry. Given the 26 million visits to the UK and visitor expenditure totalling £12.8 billion in 1998, tourism is the UK's leading invisible export (BTA, 2001).

Whether in tourism and hospitality or not, governmental expectations are that by helping small firms to improve their business performance, the UK's productivity and competitiveness can be similarly improved (Hewitt, 2001). Certainly some commentators predict benefits for SMEs that use Internet-based activities (Buhalis and Main,



1998; Morrison and Thomas, 1999). Others see key benefits for hospitality firms in the use of new technology, particularly in their use of new budgeting and CRM techniques (Gray *et al.*, 2000; Burgess, 2000; Brown and Atkinson, 2001). To extend and empower SME Internet access and use, a range of measures and policies have developed through various funding sources over the last five years (Martin and Matlay, 2001). Small firms then might be expected to be significant users of the Net for B2B and B2C transactions. Across all business sectors, however, although access to the Internet is improved, engagement and use of the Net is still at low levels within small firms (Martin, 2001).

The hospitality industry worldwide shows more variable patterns. In their comparative European study, Anckar and Walden (2001, p. 241) comment on the impact of B2B in the travel industry and on the relative low take-up of ICT possibilities among smaller hospitality firms. However, this view is countered by a study based in the USA and Canada where most participating B&Bs and inns had Web sites, which owners felt were cost-effective in increasing foreign guest numbers, and therefore these respondents liked the Web, which they described as an inexpensive form of marketing that reaches clients from around the world (Lituchy and Rail, 2000). Similarly, in the UK, samples from four business sectors – manufacturing, professional services, care and hospitality – showed reluctance across all sectors but more involvement in hospitality firms than any other sector (Martin, 2001).

Compiling a sample: cases selected

From the study above which involved a survey of 128 firms, the hospitality sector was more likely to be connected or planning to connect than any other sector. In the year following this earlier study, a group of 30 companies, which had adopted the Internet within their operation, was compiled from an initial sample of 47 firms. These were found via the Net using search engines Yahoo!, Excite and Askalix, and via online trade directories such as Applegate.co.uk, and via recommendations

from Business links, etc. as to “firms with Internet capability”.

The resulting sample is not representative of all small firms, either in the West Midlands where the survey was based, or nationally. Only those already online and with effective Web sites were selected to participate, whereas current figures on adoption indicate 80 per cent SME access to the Internet with far fewer able to implement and embed these new technologies (UK Online, 2001, International Benchmarking Survey executive summary).

Sites were tested against the following criteria, informed by Johnson and Hignite’s (2000) study of user views on WWW access and by previous work (Martin and Matlay, 2003):

- Time to load, particularly the first three screens.
- Types of information held on the first three screens.
- Site design (e.g. use of white space).
- Error avoidance, both in terms of faulty links, dead ends, etc. and in terms of accuracy of information.
- Time of response to Web-based inquiry.
- Features related to the DTI adoption ladder (UK Online, 2001), especially whether there were interactive facilities to collect customer data or feedback.
- “Feel”, i.e. whether the site conveyed a feel for the company or whether it was formulaic, following a standard pattern rather than incorporating particular company features.

The sample proved to be comprised mainly of businesses with less than ten employees. In terms of innovation the hospitality firms seemed to have a clear idea of the new services or new relationships, which the Net had enabled them to form. Of these, six have been selected to show how the Internet has empowered new developments within their firm. Three are public houses that have “grown” restaurants and bed and breakfast potential; three are traditional bed and breakfast. All are located in or around a key historic rural market town in the heart of England. This region typifies the varied nature of rural tourism described by Alexander and McKenna (1999), with potential for growth linked to:

... changing consumer trends and behaviour; higher levels of disposable income, improved lifestyles, increases in health awareness, car ownership and second holiday/weekend break markets.

E-innovation

The cases selected show a clear relationship between the adoption and implementation of the Internet and the development of new products services or ways of doing business. This is termed “e-innovation”. Here, innovation relates to the development of customer relationships to provide long-term business benefits and easier experiences for the customer. Innovation strategy can be seen as better enabling “customers to do what serves their purpose” (Drucker, 1999, p. 225).

Here each company had found a route to embed the Net into their normal operations and built routes to allow customers flexible use of their site. Links were offered with local tourist attractions and with transport companies. The site was updated regularly with news and ideas to help attract customers back to the site “to find out what was new”. Details were taken from customers and added to profiles on a database so that when particular promotions were running these customers could be re-directed back to the site or sent details directly by more traditional means. Dialogue occurred in real time, with extra information added to enable customers to develop a particular interest in the town and its environs – and therefore also in the bed and breakfast or restaurant. In two cases links were also provided with the owner’s particular interest, e.g. a car enthusiasts group, and space for discussion and a news board were being added.

Discussion of cases

In each case the Internet had been adopted for reasons other than direct logical business strategy. This might not be unexpected. Incorporation of IT in small- and medium-sized hospitality organisations is not always a rational managerial decision according to Buhalis and Main (1998) but is more often associated with

dynamic relationships between stakeholders and other variables which are related to their characteristics. These personal reasons included the desire to communicate with relatives living in Australia, the need to support a child completing homework projects, purchase of items for home or personal use and sourcing information. Business reasons included marketing and sales, establishing a presence for foreign visitors who were looking at holiday destinations in the UK, sourcing information about customers, linking with other companies and locating new suppliers (see Table I).

Although originally not familiar with IT, once interest had developed, these entrepreneurs recognised the importance of the Internet at a general business level but also realised that they lacked specific appreciation of the “value” of the Web for business and social relationships and found it far too complex to implement (McGowan *et al.*, 2001, p. 126; Sparkes and Thomas, 2001). They therefore went to Web designers to develop their site, and received help and advice from these private companies. No examples were found of firms accessing schemes to help them to set up a Web site or to receive training to help develop their understanding, despite there being regional initiatives specifically targeting ICT use in SMEs during the previous three years. Through the support of their Web designers and their own exploration of the Internet, these owners did however follow the pattern suggested by Sparkes and Thomas (2001, p. 331) in gaining access to the Internet and developing “user friendly” Web sites, linking to overseas markets through the Internet and establishing a long-term customer base.

The accent on customers and customer service leads to models of customer service factors related to marketing on the Internet. Ditto and Pille (1998) suggest three levels for the degree of consumer impact provided by a Web site, which seem to have particular resonance in these cases, i.e. informational, transactional and relational levels. When these three factors are combined, a shared vision for the Web site results creating an interactive Web presence.

The informational is the most basic level, with the Web site merely providing the same

Table I Summary of cases selected for discussion

	Bed and breakfast		Pub and restaurant		
A	B	C	D	E	F
Background					
Set up 20 years earlier; family owned in centre of town; five employees	Purchased from original founder, 18 years earlier; family owned on outskirts of town; four employees	Family owned on outskirts of town; set up 26 years earlier; five employees	Family owned in centre of town; set up 17 years earlier; ten employees; no room for B&B	Family owned on outskirts of town; set up 15 years earlier; eight employees; submitted plans for approval for B&B	Family owned outside town in village; purchased from owners as run down pub 11 years earlier; nine employees; developing new B&B accommodation
Net use					
Owners purchase items themselves on the Net, e.g. a holiday, shirts from the Far East; Web site used for responding to customer inquiries, keeping records of customers, developing new marketing promotions; checked every other day; regularly updated, e.g. new pictures added	Owners purchase items themselves from Net, herbal remedies, tea and vitamin pills; Web site used for responding to customer inquiries, keeping records of customers, developing new marketing promotions	Owners source information on the Web but have never used it themselves for purchase (potential for fraud if using credit cards is given as a reason); Web site has been a simple information site but is now being updated to make it more interactive	Keen Web user, family overseas led to early adopting of the Internet for e-mails, now use includes videoconferencing despite earlier being self-professed technophobes. Information sourced and items purchased; Web site is part of marketing strategy, provides routes for customer access and promotions	Sources information and is part of a club for car owners, with regular e-mail use and Web-based discussions; never purchased online but no particular reason for not doing so, but sometimes sources information on the Net, sourced suppliers on the Net for furniture and food items; child now needs to find data for school projects and this is the most pressing reason for using it	Irregular Web user although sees the potential, thinks it is too early for it to be really effective for small firms; purchasing online has met with some technical difficulties (non arrival, duplicates, etc.); Web site used as sales site as part of a larger site for the town, offers joint promotions via the Web; information and inquiries only; checks site every other day but also uses as a way to keep in contact with regular users and send details of special offers etc. via database
Web site					
Second generation Web site, being developed further to take orders online; links with local sites, such as transport and attractions; reciprocal links with craft interest groups (embroiderers, quilt makers, etc. leading to new customers from the USA; hosted by town	First generation Web site, in existence three years; trade-online facilities now available; links with other local sites, shops, play areas, pubs with play areas, cinemas, sporting facilities, theatre with a special focus on children's specialisms and disabled access routes; hosted by town	First generation Web site, only used as "presence" but now linking with other firms to promote special offers; new development will include better integration, and speedier access; links with other local sites, amenities and transport; hosted by town	Second generation Web site has trade online routes which were due to go live soon after the survey ended; already has reciprocal links with other restaurants in the UK and France for "foodies" and with key suppliers of fresh food and specialised gourmet food goods	Site is first generation and is used for information and inquiries only in terms of customers; links with car owners association and with traders; waiting to see how trading online works for other people; sourced suppliers for garden and building work and supplies; "not ready for trading online yet"	Links with other local sites, hosted by town, second generation site as first site was problematic; uses as a way to compare with competitors, and to link with suppliers and other local companies; trading online not seen as useful yet, but will be when equipment and connections improve

information available through traditional marketing. Here the customer can learn about the enterprise in a one-way process similar to conventional non-interactive marketing. This is entry level for most firms according to the adoption ladder (UK Online, 2001). The transactional level enables communication with the customer, who identify with the site via options such as a "virtual tour". There is two-way communication albeit with the purpose of the customers contacting the enterprise by e-mail, telephone or post.

At the relational level, the enterprise can develop interactivity with a customer, enabling the development of a continuous relationship from the original transaction, via the Internet. This may be through such means as the creation of egroups and eboards to support virtual communities representing customer groups with similar needs or interests. This might also be through "live interaction" to enable dialogue to occur. Higher connectivity is expected to enhance this level of activity. In order to create a site working at the relational level, an SME will need to see the Internet not in terms of technology or marketing alone but as a key factor in the management of the enterprise.

The sites developed by these firms had begun as informational but had rapidly transformed into transactional sites; now all were converting to relational sites, within the context and scope of the facilities at their disposal in terms of connectivity and equipment. The experience of going through this process led all owners to agree on the need for understanding the Net and seizing the opportunities it offered, as with these comments from the different firms interviewed:

If I was advising other companies in this business . . . I would tell them to grasp this new exciting way to develop your business – but! The but is that you need to use reliable companies to help you and to understand the process . . .

If I was giving anyone advice on setting up their site I would say that they should really try to understand the process first. If you go to a Web designer his or her company will actually be a mixture of technical people and creative people. They often don't seem to talk to each other as they have so little in common and neither may talk properly to you to understand your business. When we set it up I really didn't understand anything about it. I feel that I have a much better

appreciation of it now than I did then, and have learned a lot through the experience, but I wish I'd started out better equipped.

The other really important aspect is to understand about the Web first, and that you should look for someone who will set the site up the way you want it, and will do it so people find you when you're on the Web, and will maintain that relationship later. Without these factors, you could spend a lot of money on very little.

The e-adoption ladder

The six cases mapped on to the middle stage of the e-adoption ladder, with stage 1 (e-mail) being established early on, and stage 2 (Web site) also evident, since it can be seen from Table I that some are now developing second-generation sites. Stage 3 relates to ecommerce and assumes cash transactions online. Here four cases were either already trading online or setting up facilities to do so. The other two were reviewing ways to develop the site with this in mind.

Customer service

Owners also described their own customer service in contrast to that offered to them by larger firms. A common complaint was that very large communications firms (e.g. BT) had proved unreliable in rural areas, and that current call centre-based complaints systems, sometimes in Ireland or India, offered very little real customer response:

So here we are, a very small company with few resources and there they are – a very large company with what must be very large resources, yet we respond to our customers in innovative ways and round the clock thanks to the Net, while they offer no service. If the market opens up, as it should, they will suffer as a result. Once people have the choice they use it.

Customer service factors again come to the fore, with owners recognising the need for rapid and effective follow-up when inquiries are made and for subsequently delivering what is promised. Experience as private purchasers also led them to develop their sites in different ways and to try to ensure that promises made virtually were just as real as those made through

more traditional routes and therefore needed to be kept.

... the Internet does offer opportunities for companies like ours, but only as a part of a larger marketing plan and if you can fulfil the requirements when people do contact you. As a consumer I have used the Net to purchase items ... the process goes smoothly as long as everything goes according to plan. If you have a problem or if you want something slightly different, everything breaks down because there's no human contact to ask for help. It's much more rigid than a system involving people would be ...

Developing a relationship with customers was seen as a key part of using the Web, both in terms of "dialogue" during the inquiry stage and in terms of providing other useful items on the site. Owners had also evolved their own views as to what was effective in a Web site, evaluating their own against their counterparts locally.

Knowledge and information access characteristics of owner-managers

Looking at competitors' sites I think we still feel fairly confident about our own, which isn't slow to download, is very simple but gives a feel for who we are and links in with other useful sites (local Hotel and Catering Association links, national links with the Good Pub guide and the RAC sites), so people can find you in a number of ways.

The point made about "looking at competitors" comes out strongly across all cases. Owners themselves assessed competitors in terms of how "findable" the sites were on the Net, how well designed for ease of access and how well the firm promoted itself. Some had also learned new marketing ideas by looking at similar operations in other countries or areas of the UK. One example of this was the "special offers" made by combining accommodation and meal deals with local events, seen on a US site, discussed with local firms and implemented.

This, however, was not a new process. Before the Net, all had used the same techniques, e.g. to scope the market via trade directories, etc. That is to say that their sales and marketing techniques had been developed before the Internet had emerged as a factor in their business. Skills and techniques were transferred

across and improved on with new technology. Owners here had contextualised the Net and transferred existing skills to embed it into their operation.

This ability to contextualise new technology and to transfer techniques successfully from one area to another was a key differentiator. This marked the difference between firms in the sample, and it also marked the difference between these firms and other firms not successfully using technology seen in previous studies (Martin, 2001; Martin and Matlay, 2003). The way in which knowledge was shared and reinvented in these firms led to effective use of new technology, effective use of existing skills in new contexts. Hence the knowledge attributes possessed by owner and staff were seen to be a key factor for successful implementation of the Internet.

This might be anticipated given the relationship suggested between information interpretation, decision making and knowledge set against the importance of personal context. Knowledge has been described as a mixture of framed experiences, values, contextual information, and expert insights, which together provide a framework for evaluating and incorporating new experiences and information (Davenport and Prusak, 1998). This impacts on how information is interpreted and the development of "know-how" (Huber, 1991). Similarly, information becomes knowledge in a process that is firmly based upon the commitment and beliefs of its holder (Nonaka, 1994).

Information sources are also key to the process. During the decision-making process, information is analysed by checking collected data against the "real picture of the world" (i.e. in these small firms, that perceived by the owner-manager), before innovation strategies occur. The process of ICT adoption relies on this process, together with aspects such as attitude to risk and human and intellectual capital available within the firm (and whether it is recognised and utilised by the owner-manager). Prior to adoption, entrepreneurs may "scope the market" in the way most useful for them, for useful data to assist decision making. Having collated data, the next step is to identify trends or locate useful information through

analysis in order for knowledge creation to occur, whether tacit or explicit (Nonaka, 1994).

In addition, whereas in familiar situations owners may rely on established information sources, new technologies stretch existing social capital resources (Wright *et al.*, 2003; Martin and Matlay, 2003; Martin, 2001).

Entrepreneurs may have gained initial competitive edge as a result of tacit knowledge gathered in non-ICT contexts but may now have difficulty in developing new ICTs-based knowledge given problems in identifying both the type of data necessary for their firm and how to access it. Also, bias may result from informal absorption of information from limited sources (Greenbank, 2000; Marsick and Watkins, 1997; Earl, 1990). Hence the routes available to source information and the ability to evaluate it effectively are also important.

Those owners able to source information in new ways and again contextualise it, were those who were able to implement new ideas and innovate.

Conclusions/recommendations

The adoption of ICTs by small firms remains a patchy process despite recent improvements, mimicking the firms discussed by Storey, which were:

... more likely to be buffeted by strategic and environmental shocks for which they did not have the managerial skills to respond (Storey, 1994, p. 105).

The new Internet environment calls for new knowledge-creating managerial skills from SME owners, linked with their ability to access a range of information sources, apply this to their own situation and develop knowledge and innovation as a result. This generalisation about small firms also holds good for the hospitality SMEs in this micro-level study.

In this small sample, owners had demonstrated an ability to embed the Net by transferring existing ideas and skills and building upon them. This echoes the views of McGowan *et al.* (2001, p. 134) that entrepreneurs need to concentrate on their own strengths in a proactive and conscious way and in doing so they can self-develop into a conscious/competent marketing oriented

Internet user. This seemed to be true for these cases. Each had developed an understanding of the Web holistically based on home, social and business needs and had developed different business profiles as a result. Their consciousness of how the Internet works had led them to reflect on their own working practice and to develop new ideas accordingly.

E-innovation had enabled the development of new relationships with customers, longer lasting and with more potential for competitive advantage, via the use of new technology. The new visitors attracted from overseas were also balanced by the return business gained and the new activities developed for particular interest groups. Whether these cases are typical of all small hospitality firms remains to be seen. Further research involving larger and more mixed samples would help to identify this. Some firms may need more support than those taking part in the study, in developing understanding of Web value in the context of their own firm or lives. Similarly, given previous work identifying the importance of knowledge and learning factors in other sectors such as those involved in exporting (Toften and Olsen, 2003), and offering basic marketing approaches for such firms (Harris and Watkins, 1998), further research with SMEs in other sectors might reveal whether this is a common factor for other firms of a similar size or across other sectors.

Despite the hype about Internet-based advantages for small firms and the pressures especially felt by hospitality firms in rural areas, little support seems to be focussed on this area in tourism and hospitality. As an example, it is noticeable that new reports designed to draw together resources to develop the tourist industry in the UK, enabling it to meet governmental targets for growth, do not make any mention of the Internet or of its potential impacts if used in an integrated way for a town or a region (BTDC, 2001).

Here, firms had already recognised that foreign or home visitors responded better when offered an experience in context, i.e. if seeking accommodation it was useful to have links to local amenities, maps, restaurants and cafes on the same site, or even to offer special deals with restaurants and attractions offering discounts or packages for those coming at a particular time

of year. Three of those taking part were hosted by the town's own site, which enhanced their ability to be found and immediately associated them with the town itself. In terms of the pub/restaurants, again maps, links with amenities and with local places to stay, with taxis and other transport firms also meant that this seemed to be an easier experience for visitors or home-based customers. These cases therefore demonstrate the value of "town" sites for mutual support and establishing presence.

If areas such as these are to recover from the reported decline in visitor numbers suffered as a combined result of foot and mouth disease and of 11 September, innovative new ways to develop products and services will need to be identified; one route might surely be the development of a more integrated hosting system, with support for small firms to go online, helping them to develop their understanding of the Net and to identify the relevance of this new medium in the context of their own firm. Similarly, measures to address low take-up of opportunities provided by the Net might be met by more holistic views of the small firm owner.

As with earlier studies, the key message seems to be that small firms need to be seen in the context of their own reality in terms of sector, size, experience and aspirations, rather than as a homogeneous body of firms requiring standard support (Wright *et al.*, 2003; Martin, 2001; Martin and Matlay, 2001). Similarly, rather than the determined focus on business growth or on the nature of the technology seen in current programmes of support, a more diverse range of measures might engage these sorts of small firm entrepreneurs, whose private and social needs to use the Web empowered them to develop Web facilities for their business concerns.

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