



Hotel entrepreneurship in a turbulent environment



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ABSTRACT

This paper aims to explore the factors that stimulate entrepreneurship among small hotels in a former socialist economy which experienced a turbulent economic and social transition period. The study investigates how specific aspects such as a low level of competition and position of the entrepreneurs in society, acted as facilitating or inhibiting factors for entrepreneurship. The findings from in-depth interviews with 37 hotel entrepreneurs demonstrate that institutional deficiencies influence market orientation of the entrepreneurs and that the specific social context sets the conditions by which lifestyle-related motives will exist or not. They also underscore that investigation of entrepreneurs needs to take account of a broad range of socio-cultural factors and not solely entrepreneurial agency. Inclusion of a transitional economic and social setting into the broader theoretical framework of hospitality entrepreneurial research demonstrates the value of a contextualized approach.

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1. Introduction

In the last three decades, there has been increased interest in entrepreneurship and small hospitality and tourism firms (SHTF). Much of the literature is concerned with developed economies and has investigated the motivation and characteristics of small firms' owner-managers. It is argued that the vast majority of these individuals are lifestyle-oriented and do not seek to grow their businesses (Ateljevic and Doorne, 2000; Ateljevic, 2007; Getz and Petersen, 2005; Shaw and Williams, 2004). Consequently, they are described as 'lifestyle entrepreneurs' (Williams et al., 1989), 'non-entrepreneurs' (Shaw and Williams, 1998) and even as 'laggards' (Ioannides and Petersen, 2003).

Although such studies have made a significant contribution toward our knowledge of SHTF, they only partially explain factors that stimulate entrepreneurship. A majority of the studies investigating start-up motives of entrepreneurs somehow ignore the socio-cultural environment where entrepreneurs operate. In the most recent analysis of the field, Thomas et al. (2011, p. 966) demonstrate that 'almost exclusive attention is given to

agency (usually business motivation) with little consideration of significant mediating factors such as gender, ethnicity and wider socio-economic conditions.' This gap in the literature is somewhat surprising given that there is a growing recognition that entrepreneurship 'can be better understood within its historical, temporal, institutional, spatial, and social contexts' (Welter, 2011, p. 165). From this perspective, the socio-economic context where entrepreneurs are embedded is seen as a key factor which has an impact on the extent of entrepreneurship as well as the way entrepreneurs behave (Welter and Smallbone, 2011).

The aim of the present study is to address this gap and to investigate the socio-economic determinants of entrepreneurial activity among small hotels in the Republic of Croatia, which is a former socialist economy and represents a case study of SHTF in the economies of Central and Eastern Europe (CEE). It can be argued that the adopted perspective is of significant importance for researching entrepreneurship in transitional settings, as the institutional shift from socialism to capitalism offers a 'laboratory setting' to examine entrepreneurship in a turbulent environment that is characterized by complex political and economic changes' (Ireland et al., 2008, p. 124). Another reason for this perspective is that a number of studies found that social context can both foster and inhibit entrepreneurial endeavors and activities (Dickson and Weaver, 2008). The paper draws on two key ideas from the literature on SHTF and entrepreneurship in transition economies: the issue of entrepreneurial motivation to start a small firm, and the socio-economic environment for entrepreneurship.

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A major implication of our research is that it underlines that the socio-economic context can act positively on entrepreneurship even when it is expected to constrain it. We were able to arrive at this observation by going beyond the boundaries of micro-level presumptions and in this way, our study speaks to [Thomas et al.'s \(2011\)](#) call to focus more on mediating factors that influence hospitality and tourism entrepreneurs. Our study also demonstrates the value of a contextualized approach in entrepreneurship research ([Welter, 2011](#)). By understanding the nature, richness and diversity of the entrepreneurial phenomenon, researchers can offer more insightful and theoretically grounded explanations of entrepreneurship.

2. Theoretical background

2.1. Contextualized entrepreneurship research

Generic entrepreneurship research has undergone a shift in focus in the last twenty years, from individual entrepreneur to the role of the institutional environment on entrepreneurial activity ([Veciana and Urbano, 2008](#)). The rejection of the dominant 'psychological approach' has led entrepreneurship scholars to consider the institutional approach to entrepreneurship, as a much more promising approach to explain the complexities of the phenomena ([Shane, 2003](#)). The institutional perspective draws on the concept of formal and informal institutions introduced by [North \(1990\)](#) and the consequent studies have investigated a range of issues, for example, the impact of formal institutions on entrepreneurship, such as laws and regulations for market entry ([Smallbone and Welter, 2001](#)) or availability of finance ([Aidis et al., 2008](#)) and the impact of informal institutions on entrepreneurial activity, such as the impact of cultures ([Hayton et al., 2002](#)).

For instance, today it is widely acknowledged that too many rules and procedural requirements, or a lack of funding will not only negatively reflect on entrepreneurship rates but will also impede the trajectories of entrepreneurial ventures ([Veciana and Urbano, 2008](#)). In addition, numerous studies show that an insecure institutional framework is even more inhibiting to entrepreneurship than financial barriers ([Johnson et al., 2002](#); [Pissarides, 1998](#)). For example, [Johnson et al. \(2002\)](#) analyzed small manufacturing firms in five transition economies and found that entrepreneurs will reinvest less of their retained profit when they perceive insecure property rights, despite having their own money or suitable collateral. [Harbi and Anderson's \(2010\)](#) study further demonstrated that institutional conditions are also related to the form of entrepreneurship that emerges. Their findings suggest that corruption promotes self-employment (as necessity entrepreneurship) but discourages innovation (as opportunity entrepreneurship). Investigating the effects of culture on entrepreneurial activity, [Davidsson and Wiklund \(1997\)](#) proposed that cultures that promote a higher need for achievement and autonomy, as well as self-efficacy, will have higher firm-formation rates.

Despite the fact that institutional theory has proven highly useful in entrepreneurship research, it is still exclusively focused on the formal or informal constraints, whilst ignoring other factors that affect entrepreneurship ([Bruton et al., 2010](#); [Veciana and Urbano, 2008](#); [Welter, 2011](#)). This has led scholars to acknowledge the value of contextualized entrepreneurship research ([Welter, 2011](#)), which implies that a specific venture is embedded spatially, institutionally, and temporally. This position implies that entrepreneurship theory needs to be contextualized as well by 'paying attention to situational and temporal boundaries for entrepreneurship, in order to frame adequately research questions and designs' (p. 177). In order to bring this perspective to the H&T entrepreneurship studies, this study contextualized itself spatially (Croatia, small hotel firms),

institutionally (regulatory environment, country history and the position of entrepreneurship) and temporally (economic restructuring, transition). A contextualized theory perspective implies that the study also integrates the theoretical "context lens" that has dominated research so far. Thus, issues around small firms in H&T and transition economies are discussed in order to enhance the contextualized dimension.

2.2. Small firms in hospitality and tourism

Since [Shaw and Williams \(1987\)](#) and [Williams et al. \(1989\)](#) observed the characteristic of SHTF, arguing that they represent forms of consumption as much as production, many subsequent studies ([Table 1](#)) have confirmed the prioritization of consciously selected lifestyle motives in running those businesses. Most studies, conducted mainly in developed economies, argue that SHTF can be generically described as lifestyle enterprises. According to [Morrison et al. \(2001, p. 17\)](#) lifestyle entrepreneurs are those who are likely to be concerned with:

survival and securing sufficient income to ensure that the business provides them and their family with a satisfactory level of funds to sustain enjoyment in their chosen lifestyle. . . [The] lifestyle proprietor defines an individual who has a multiple set of goals associated with their businesses. Profitability in their business operations will be only one of these goals.

[Thomas \(2004\)](#) argues that the behavior of this type of entrepreneur very often does not fit with traditional models of business activity and profit-oriented goals. These entrepreneurs have multiple goals, but they are mostly personal and non-economic, such as to 'be my own boss' ([Chen and Elston, 2013](#)); to do interesting work ([Page et al., 1999](#)); to enjoy a good lifestyle ([Hall and Rusher, 2004](#)); and to live in a certain area ([Getz and Carlsen, 2000](#)). [Andersson et al.'s \(2002, p. 101\)](#) results demonstrate that 'even when the owners set out explicitly to make money, their underlying preferences were to move to or remain in the country or in small towns and resorts.'

Despite a significant growth in the number of studies investigating SHTF ([Table 1](#)), those studies have three limitations: (i) knowledge on the subject is mainly drawn from the perspective of western developed economies, with a paucity of studies focusing on transition and developing countries; (ii) almost exclusive attention is given on business motivation, with limited consideration of mediating factors such as entrepreneurs' socio-economic environment; and (iii) reliance on quantitative methods (see also [Thomas et al., 2011](#)) has been useful in highlighting distinguishing characteristics of small firms and their owners, but is limited in explaining in detail the range of social, economic, cultural and political issues affecting them. Although [Shaw and Williams \(1998\)](#) observed more than a decade ago that many entrepreneurs become embedded in their communities, [Ateljevic and Doorne \(2003, p. 127\)](#) argue that 'the socio-cultural barriers and local contingencies shaping entrepreneurship have been traditionally overlooked in the process.' In recent years, an increasing number of scholars have aimed to include in-depth cultural analysis of entrepreneurs, such as [Ateljevic and Doorne \(2003\)](#) and [Tucker \(2010\)](#). These studies reveal the limitations of the overtly individualistic approach but they do not explicitly analyze how different mediating factors shape motivations and behaviors of hospitality and tourism entrepreneurs.

Analysis of available case studies originating from the CEE and from developing economies (see [Table 1](#)) further justifies the calls to contextualize entrepreneurship research. First, such studies reveal a mix of both economic and non-economic entry motives which exist simultaneously. Particularly interesting dimensions are autonomy and independence, which are seen as purely

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