



Small accommodation business growth in rural areas: Effects on guest experience and financial performance

Shun Ye^a, Honggen Xiao^b, Lingqiang Zhou^{a,c,*}

^a School of Management, Zhejiang University, 866 Yuhangtang Road, Hangzhou, China

^b School of Hotel and Tourism Management, The Hong Kong Polytechnic University, 17 Science Museum Path, TST East, Kowloon, Hong Kong

^c School of Business, Zhejiang University City College, 51 Huzhou Street, Hangzhou, China

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ABSTRACT

Rural tourism development features growth of small accommodation businesses (SABs). The disparity between the applause that appreciates increased economic benefits from SAB development, and the criticism on its potential damage to rural tourism experience, makes it necessary to verify the exact consequences of SAB growth. Drawing on business growth theory, this study models, tests and compares the effects of SAB size on various guest experiences and financial performance in the context of a highly dynamic rural destination, the north of China's Zhejiang Province. Data was collected from 188 SABs and 873 guests, and analyzed through hierarchical linear modelling and multiple linear regression. The result points to a trade-off faced by entrepreneurs between enhancing guest experience and achieving economic goals as SAB size increases. Implications of the study for research and practice are also discussed.

1. Introduction

Tourism and hospitality industry features large numbers of small accommodation businesses (SABs) such as B&B, home stay, and guesthouse. These special forms of accommodation are regarded as in contrast to conventional hotels, and thus are named as “quasi-hotels” (Slattery, 2002). SABs represent the core service and provide a large share of accommodating capacity in most rural destinations, and play a central role in rural tourism development, poverty relief and rural revitalization (Komppula, 2014). Due to a growing market demand in recent decades, most SABs have saw rapid growth in business size, e.g. room number, investment, facilities (Turner, 2011). This trend has been observed in various contexts (Huang, 2008; Iorio and Corsale, 2010; Komppula, 2014; Rogerson, 2004). Scholars envision that with boom of e-business and sharing economy platforms (e.g. Airbnb), SABs will continue to expand in scale and thereby reshape future dynamics of the hospitality industry (Guttentag, 2015; Sigala, 2015).

Growth of SABs occurs on the early stage of their business lifecycle, and represents a transition of rural home to commercial business (Lynch, 2003, 2005). Therefore, it has both economic and socio-cultural consequences which are worthy of in-depth investigation. A literature review reveals that there is a disparity of attitudes regarding SAB growth and its impacts. Those who are supportive appreciate the economic significance of SABs as a typical form of indigenous tourism, and

expect their growth to bring about more financial reward to rural households and boost local economy (Ateljevic, 2007; Goodwin and Santilli, 2009). Other scholars, in contrast, insist that SAB development should be advocated not only based on income generation, but also on preserving its attractiveness such as traditional lifestyle, quality service and memorable experience (e.g. Shaw and Williams, 1994). Increased SAB business scale, however, may bring about negative changes (e.g. lagged service quality control, eclipsed authenticity, and weakened experiential elements), and thus cause damage to tourist experience and further to destination competitiveness and sustainability in the long-run (Fuller et al., 2005).

The afore-mentioned disparity of views alludes to a zero-sum game regarding SAB growth between the short-term economic benefits and long-term sustainability, between commercial value and authenticity, and between financial rewards and rural tourist experience. If this holds for true, then SAB entrepreneurs may face a dilemma when growing their businesses, in terms of whether to satisfy investors (better financial performance) at the cost of satisfying tourists (quality, enjoyable and authentic experience), or the other way around.

Despite these suspicions and disputes, few empirical research has been conducted to examine the exact effects of SAB growth. This study aims to fill this gap by investigating the influence of SAB size increase on guest experience and financial performance in the context of rural China. Hypothesized relationships were built based on previous

* Corresponding author at: School of Management, Zhejiang University, 866 Yuhangtang Road, Hangzhou, China.

E-mail addresses: yeshun1989@163.com (S. Ye), honggen.xiao@polyu.edu.hk (H. Xiao), zhoulinqiang@zju.edu.cn (L. Zhou).



Fig. 1. *Nongjiale* in a glance.

research, and tested with a hierarchical data set comprising 188 rural SABs and 873 guests in five villages in the north of Zhejiang Province. Different effects of SAB size increase were compared and contrasted between financial performance and guest experience.

2. Research context: SAB development in rural China

Rural tourism destinations in China have been dominated for long by a typical form of rural SAB known as *Nongjiale* (Happy Farm House) (Fig. 1). The earliest *Nongjiales* date back to 1987, and their establishment was the spontaneous reaction of peasant family entrepreneurs to the flood of tourists heading to rural areas for leisure and sightseeing. In 2005, the government initiated a program officially named “Building Socialist New Countryside” to encourage peasants to start their own accommodation businesses with vacant residential properties. Since then, *Nongjiales* have been soaring in number, reaching 1.5 million in 2012 in total (National Bureau of Statistics PRC, 2013).

Unlike the case in developed countries, where SABs are typically established out of “lifestyle” motivations, rural SABs in China are mostly profit-oriented businesses, and thus incline to expand their accommodating capacity in response to the increasing rural tourism demand (Meng, 2008; Wang and Chen, 2013). However, these expansions brought problems such as homogenization of products and damage to rural culture and environment. In light of these, the government launched a program named “Upgrading Rural Tourism Campaign” in 2013, and encouraged existing rural SABs to take more delicate growth strategies. In the meantime, fierce competition forced some existing SABs and new-entrants to adopt differentiation strategy, which gives birth to another form of rural SAB, “*Minsu*” (民宿, Local Home Stay). Compared with *Nongjiale*, *Minsus* are small-scaled, exquisite, and well-designed-and-decorated accommodation units, which typically require more capital investment and staff (Fig. 2).

Both *Nongjiale* and *Minsu* are popular forms of SABs in rural destinations of China at present. Local governments expect the promotion of *Minsu* and improvement of *Nongjiale* could help in revitalizing rural areas, while preserving rural culture and lifestyle and keeping rural nostalgia.

3. Literature review

3.1. Small accommodation business

SABs have been approached from small business, family business, and entrepreneurship perspectives (Lynch, 2005). The small business perspective regards size as the distinguishing feature of SABs (Ateljevic, 2007; Thomas, 1998), and is focused on investigating other unique characteristics associated with small size. The family business perspective, comparatively, emphasizes on family ownership and family involvement, and strives to examine how family goals and lifecycles affect the running of SABs (Getz and Carlsen, 2000; Getz et al., 2004). Also pervasive in previous researches is the entrepreneurship perspective which focuses on the start-ups of SABs, where entrepreneurship motives (especially lifestyle motivation) is the major concern (Di Domenico, 2008; Morrison et al., 2010).

These three streams of research, consciously or unconsciously, treat SAB as homogeneous and static. However, SABs are businesses with various sizes and may grow or diminish through time. As market demand increases, SAB entrepreneurs tend to expand their original houses in order to enlarge the accommodating capacity (Cassel and Petterson, 2015). Nonetheless, these growth trends and its consequences have rarely been examined by existing tourism and hospitality literature. Mottiar and Laurincikova (2009) criticized that a static perspective is commonly employed when examining SABs, with their change and growth largely neglected. Therefore, SAB research is in need of a “growth lens” so as to capture the potential impacts of SAB size increase (Getz and Page, 1997; Shaw and Williams, 1994).

3.2. Business growth theory and SAB growth

Classical business growth theory views growth as a process of change through time, in both quantity and quality (Bjerke and Hultman, 2004; Penrose, 1959). Quantitative growth refers to increased business size in terms of input indicators including capital, labor and production scale (Garnsey et al., 2006). As for SABs, business size increase is commonly represented by enlarged accommodating capacity, more capital invested (investment size), and more staff hired



Fig. 2. *Minsu* in a glance.

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