



## Choosing between exiting or innovative solutions for bed and breakfasts

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### ABSTRACT

Choosing between an exit and innovative solution are discussed in responding to the issues of oversupply and homogeneity facing bed and breakfast businesses in Taiwan. A grounded theory using semi-structured interviews was used to identify the form of stewardship-based exit strategy, as well as factors that determine the success of B&Bs. Face-to-face interviews with 30 B&B owners identified eight factors: personal values, thanksgiving, sense of happiness, dedication to community, family identity, provision of family-oriented and fun environment, experience of thematic B&B, and eco-tourism travelers. A competitive differentiation strategy drawing on one or many elements of these factors may be implemented, depending on the preference of B&B owners and the unique destination resources that they can integrate and reconfigure. Grounded theory helps clarify the innovative solutions with differentiation strategies that are important for sustainability of B&Bs when the market is in the saturation or decline stage of the product life cycle.

## 1. Introduction

### 1.1. Background and issue

The environmental heritage in Taiwan has attracted many investors pursuing a leisure lifestyle living in rural areas, especially retirees. Numerous bed and breakfast (B&B) businesses have sprung up in Taiwan, run by family entrepreneurs who are self-employed, offering their redundant rooms for additional income. In some cases, B&Bs even offer a leisure space that reflects the owners' lifestyle and dreams (Chou, 2008; Hsieh and Lin, 2010). In Nantou there are B&Bs built as European-style royal castles standing atop local peaks (Chen et al., 2016). Statistics from the Tourism Bureau of Taiwan show that legally registered B&Bs have nearly tripled in the last decade, to 6652 businesses with 26,920 rooms in 2016 (Taiwan Tourism Bureau, 2016). However, average room occupancy rate of B&Bs is at around 20% (Taiwan Tourism Bureau, 2016). This is the result of oversupply and homogeneity of B&Bs. Therefore, this study explores what action the owners of B&B take in relation to exiting the business or implementing innovative solutions, for the sustainability of their B&Bs.

The perspective of the product life cycle, consisting of four stages argues that every product or business must strategically respond to the rapidly changing environment (Benur and Bramwell, 2015; Kozak and Martin, 2012). Each of the stages of the cycle requires a different strategy for innovative operations, as each stage involves different

opportunities and problems for the business. Ramadani et al. (2014) stress that the success of B&Bs depends on the interactive model of opportunities and resources integrated to create an innovative solution for the sustainability of the business. In addition, a unique destination resource integration can create a thematic and spatial travel for differentiating businesses (Benur and Bramwell, 2015). This is because rural tourism is not merely one night of B&B accommodations, but also involves experience of the beauty of the local community and environment (Benur and Bramwell, 2015; Kastenholz et al., 2012). Therefore, this study provides a set of guidelines for innovative solutions via differentiation strategies for B&B owners.

Grounded theory was used to clarify the thinking of B&B owners in considering how they will continue their businesses when the market is saturated or declining. Strauss and Corbin (1998) stress that this approach can help to understand the contextual thematic topics of a phenomenon by using open coding, axial coding, and selective coding in the analytic process. This theory is therefore used to clarify the choices of exiting or innovative solutions with differentiation strategies for continuity of B&B businesses in Taiwan.

This paper begins by describing the characteristics of Taiwan's family-owned bed and breakfast (B&B) businesses, followed by exit strategies with socioemotional wealth, integration of an innovative solution for a sustainable B&B business, and grounded theory. A grounded theory using semi-structured interviews with open-ended question design is used for data collection and analysis. Finally, the

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results are analyzed and discussions and conclusions are provided.

## 1.2. The purpose of this study

The purposes of this study are as follows: (1) explore whether B&B owners choose an exit or innovative solution by using grounded theory; and (2) provide a set of guidelines for innovative solutions with differentiation strategies for B&B owners to pursue sustainability for their businesses.

## 2. Literature review

### 2.1. Characteristics of Taiwan's family bed and breakfast (B&B) business

Taiwan is a small island with abundant mountains and coastlines which offer an opportunity for leisure lifestyles. Taiwan's natural environments can be easily accessed. Most mountain and coast attractions are within two hours from major cities (Taiwan Tourism Bureau, 2016). Affordable prices for the experience of a different leisure lifestyle in an outdoor environment also contribute to the prosperity of B&B development. Following the embrace of unique local culture, ecology, and cuisines, B&Bs dominate rural tourism, representing the leisure lifestyle and wealthy life (Chen et al., 2016, 2013; Wu and Yang, 2010). B&Bs in Taiwan have become a symbol of retirement life and an extension of the new lifestyle residing in the minds of Taiwanese people (Hsieh and Lin, 2010; Wu and Yang, 2010).

According to [Ramadani et al. \(2014\)](#), an ethnic entrepreneurship theory explains the characteristics of small family businesses which are influenced by socio-cultural or ethnic origins. This theory helps understand the development of B&Bs in Taiwan, as it begins by focusing on the psychological values of founders. This further helps identify new opportunities for introducing new product or service that can cope with issues of operations that are in the mature or declining stages of life cycle ([Ramadani et al., 2014](#); [Wang and Altinay, 2010](#)). Some scholars argue that ethnic entrepreneurs may arise from a class-based context of disadvantage, which cannot be employed in the labor market due to structural barriers and skill deficiencies ([Tajeddini and Mueller, 2012](#); [Wang and Altinay, 2010](#); [Zhou, 2004](#)). However, other scholars contend that some ethnic entrepreneurs are pursuing upward socio-economic mobility for a desired quality of life and lifestyle ([Ramadani et al., 2014](#); [Wang and Altinay, 2010](#)). Although this theory mainly applies to minority groups living in a foreign country, this concept may be useful in the context of the B&Bs in Taiwan.

In the process of ethnic entrepreneurship, the psychological values of founders, opportunities, and resources are factors that sustain the family business ([Ramadani et al., 2014](#); [Schaper and Volery, 2004](#)). In addition, the concept of exit with socioemotional wealth is applied, as successful succession of the family business is a socio-cultural trait in many societies, including Chinese society ([DeTienne and Chirico, 2013](#); [Wang and Altinay, 2010](#)). Succession refers to a process in which new owners enter an existing family business, and old owners exit that business. This involves the transition of ownership from founders to the next generation of family members ([Wang and Altinay, 2010](#)). This enables the business to pursue new opportunities as the sources of human, social, and financial capital are reshuffled by new ownership ([Nordqvist et al., 2013](#)). Since study of family entrepreneurship among B&Bs in Taiwan is lacking, this study explores how the owners of B&Bs think about their businesses, succession, exit plans, and sustainability.

### 2.2. Exit strategies with socioemotional wealth

According to [DeTienne and Chirico \(2013\)](#), socioemotional wealth shapes the behavior of owners in their choice of exit strategies. Socioemotional wealth refers to the nonfinancial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty ([Gomez-](#)

[Mejia et al., 2007](#)). This is the control power of owner-and-manager role in the identity fit between family and firm in pursuit of non-financial goals. These goals are the visibility of the family in the firm, the transgenerational sustainability intentions of the family, and the capability of the firm for self-enhancement of the family ([Zellweger et al., 2013](#), p. 1043). It is therefore important to note that when family businesses face a strategic dilemma, they often prefer accepting an increased risk of poor business performance in order to maintain family control ([Filser et al., 2013](#); [Gomez-Mejia et al., 2007](#); [Singal, 2014](#)).

[DeTienne and Chirico \(2013\)](#) further stress that stewardship, financial reward, and voluntary cessation are three forms of exit strategies for family businesses. Stewardship-based exit strategies refer to symbols of socioemotional wealth and generally involve transfer of ownership to a family member, often the founder's children ([DeTienne and Chirico, 2013](#); [Gomez-Mejia et al., 2011](#)). They are intrinsically motivated by family's affective needs such as lifestyle, identity, and autonomy, but less motivated by extrinsic rewards such as financial gain ([DeTienne et al., 2014](#)). A financial reward-based exit strategy entails the loss of socioemotional wealth as such strategies involve initial public offerings (IOP), substantial value returns, or acquisitions by other companies ([DeTienne and Chirico, 2013](#)). This transfers ownership to outsiders for financial gain, the primary motive for pursuing this exit strategy ([DeTienne et al., 2014](#)).

Finally, a voluntary cessation-based exit strategy refers to the liquidation of the assets or discontinuance of the business, which differs from the bankruptcy of the business ([DeTienne and Chirico, 2013](#)). This is the low-risk strategic choice since the purpose for creating a new venture has changed or disappeared, and the founder simply leaves the business ([DeTienne et al., 2014](#)). However, the succession of ownership transfer to either family members or outsiders is the choice of many founders whose values determine the chosen exit strategy. This value creation, in terms of lifestyle or growth, is the target of this study.

### 2.3. Integrating an innovative solution for a sustainable B&B business

In the process of creating a sustainable business, opportunities and resources are two factors that guide family entrepreneurs in their search for innovative solutions ([Ramadani et al., 2014](#)). New business opportunities are mainly recognized through a discovery process and benefits are obtained from the creation of a particular value ([Angelsberger et al., 2017](#)). This involves both accidental discovery and purposeful search ([Ardichvili et al., 2003](#)). Accidental discovery refers to identification of opportunities by chance or alertness. Purposeful search refers to identification of an opportunity using a systematic search process. Through these processes of discovery, evaluation, and exploitation of opportunities, entrepreneurs recognize and use the value of a particular opportunity ([Angelsberger et al., 2017](#); [Shane and Venkataraman, 2000](#)).

[Angelsberger et al. \(2017\)](#) further explain that innovation opportunities are created by sources of new information, social networks, regulations, demographics, and technological changes. The resources naturally possessed by family business are primarily consist of human, social, and financial capital ([Ratten and Tajeddini, 2017](#)). Human capital refers to members of the family who have knowledge, skills, and expertise in a particular industry. This includes B&B owners' abilities and experiences associated with business management, marketing activities, and training and development. Social capital refers to the relationships with employees and outsiders as such friends, suppliers, distributors, customers, or even competitors. [Park \(2005\)](#) stresses that new business opportunities can be recognized and created through social networks, which for example, may inspire new ways of marketing programs within online platforms. Financial capital refers to cash investments available to the family business as well as to measures of return on investment judged by B&B owners.

The destination resources associated with legacy of environmental and socio-cultural characteristics include local cultural, heritage, history, lifestyle, climatic conditions, landscape, and ecology ([Benur and](#)

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