“The entrepreneurial environment and the life-cycle growth and development approach to analyzing tourism and hospitality family businesses in West Virginia”

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SECTION 1. Macroeconomic processes and regional economies management

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Abstract

Entrepreneurship has been recognized as an important factor in the process of economic development, job creation and poverty reduction. This paper examines various factors influencing the performance and success of small tourism and hospitality businesses that operate in West Virginia. The model addresses the effect of human capital factors, innovation, family business history, government regulation, industry grouping and competitive forces on the level of economic profit. Policy recommendations are provided based on the empirical results.

Keywords: tourism and hospitality, growth, development, life cycle, entrepreneurship.
JEL Classification: O17.

Introduction

West Virginia's economy was once dominated by mining, logging and manufacturing, but these industries have been in decline for many years. In response to these negative economic trends, the West Virginia Development Office has created several programs that focus on the state's natural resources to provide opportunities for entrepreneurial businesses in the tourism and hospitality sector. These efforts were aided by a renewed appreciation of Appalachian culture and art.

The West Virginia state government also has taken steps to promote growth by introducing legal reforms such as reductions in business tax rates and privatization of workman's compensation. Such reforms have been helpful, but state policies and energy costs still result in a relatively high cost of doing business and the lack of a competitive market structure for small entrepreneurial businesses. Small businesses find it difficult to survive and compete against large, established national franchises.

1. The life-cycle growth and development model

Several models have been advanced that attempt to label and explain the various stages of development of small business firms (Cowan, 1990; Galbraith, 1982). Models of organizational life cycles and stages of development provide information on the types of problems encountered by firms over time and suggest that each stage of development is associated with a unique set of problems (Ackoff, 1963; Kazanjian, 1988; Kuratko and Hodgetts, 1989).

The most supported model of life-cycle growth and development was developed by Kazanjian (1988) which identifies 4 specific stages that the entrepreneurial firm passes through (Table 1). This model identifies the problems confronted by these businesses at different levels of growth and development.

Table 1. Stages of growth and development of an entrepreneurial firm

Stage 1	Conception and development stage
Stage 2	Commercialization stage
Stage 3	Growth stage
Stage 4	Stability stage

Entrepreneurial competence plays an important role in strategic management and is particularly important for a new venture. A firm's competence is understood in terms of how it matches the basic requirements for success in its industry environment and in terms of skills and capabilities relative to firm's competitors. The entrepreneurial skills that can be applied include financial, managerial, functional and organizational skills, and are influenced by an entrepreneurial firm's reputation and history (Andrews, 1987). Distinctive competence arises from the strengths and weaknesses of the individuals in the firm, the degree to which an individual's capability is effectively applied to a common task, and coordination of a group task. In a wider definition of competence, Kay (1995) refers to four types of general competence that a firm may possess: architecture, reputation, innovation and control of strategic assets (Table 2).

A firm with limited competence lacks important contacts, credibility with buyers, and other industry-specific information and may have a greater possibility of failure (Bruderl and Schussler, 1990). This implies that industry-specific information is a significant determinant of venture survival (Bruderl et al., 1992).

Table 2. Types of general competence that a firm may possess

Type	Characteristics
Architecture	The venture must have the ability to create knowledge, respond to changing circumstances, foster easy and open exchanges of information within the firm and other groups of firms, know where critical interactions occur, and collect information about such interactions in a timely and cost-effective manner.
Reputation	The positioning of the venture and its managers in external status hierarchies communicates information to customers and shareholders on quality, efficiency, dependability and related performance attributes. Possession of a positive reputation serves to lower the search costs for customers, buyers and suppliers and thus aids them in their decisions regarding doing business with the venture.
Innovation	Innovations are resources which when skillfully developed and marketed can lead to strong advantages. The capabilities involved in bringing new innovations to market include limiting bureaucratic pressures during product development, providing a place within a firm where new products can mature without being stifled by standardized control systems, and creating channels through which innovations can be matched to customer needs
Control of strategic assets	Skills at exploiting market situations that limit the extent of price competition, restrict entry or imitation, or raise the price of switching to substitute products can provide long-term advantages to the firms that possess them. Competence in controlling strategic assets enhances a firm's profitability.

New entrepreneurial venture performance appears to be enhanced by a management team with high levels of industry-related competence. Success is more likely to be achieved by those entering an industry in which they have prior experience (Vesper, 1990; Chandler and Hanks, 1991). Entrepreneurial firms need to be well managed by individuals with solid entrepreneurial, business and marketing skills.

Tourism and hospitality services have the potential to help communities solve some of their socio-economic development challenges (Coviello et al., 2006). Tourism development in West Virginia is facilitated by both multinational corporations and locally owned small enterprises, but there can be both positive and negative effects. Capital-rich multinational corporations are the key players in the international tourism sector and have been criticized for generating minimal direct benefits to the local communities (Glancey and McQuaid, 2000). In rural, underdeveloped communities, both small enterprises and self-employment have the potential to bring benefits directly back into the host communities.

There have been changes in the entrepreneurial environment, business culture, and management during the financial and real estate crisis, but there have been no studies examining family businesses and entrepreneurial firms that operate in tourism and hospitality industries. There is a need for an analysis of entrepreneurship in family businesses to identify and describe the environmental factors that have an impact on the development of family businesses in West Virginia. The Appalachian region experience may not be the same as in other regions of the US economy, but it can provide an example for the analysis of the role that environment can play in entrepreneurial development.

The data for the analysis were generated by survey questionnaire that was administered in March and April of 2005. A random sample of 50 small family businesses that operate within the West Virginia's tourism and hospitality industry was selected. These businesses are typically small with the number of employees ranging from one through fifty and have low sales volume and profit margins relative to large corporations. The questionnaire sought information on the size and nature of the operation, business objectives, level of employment, financial assistance received and desired, non-financial support, business training needs, socioeconomic conditions, and policies on taxation, credit financing and reporting requirements for small businesses.

2. Business characteristics

Entrepreneurial firms within the tourism industry have developed in many areas of the Appalachian region of West Virginia. Tourism activities cover a wide spectrum of services such as bed and breakfasts, hotels, restaurants, transportation services, and other travel agency services. The most common tourist activities provided by these businesses are national parks/nature experiences and other outdoor activities, arts festivals/cultural events, and visiting small country and art galleries. The entrepreneurs in these businesses were able to increase productivity and competitiveness primarily in domestic markets that contributed to regional economic growth particularly in the 1990s.

The businesses included in this study are relatively young; the average length of activity was about fifteen years in operation. Only about 30% of the respondents had already set up their ventures prior to the 1990s. The sizes of businesses are relatively small. 40% of the businesses employed fewer than 10 employees, and 60% of the businesses employed from 10 to 30 employees.

Successful small tourism and hospitality businesses are typically those that developed a strong competitive advantage by focusing on a particular product or niche market rather than by diversifying services. Offering higher quality services and products has been the key to their survival and growth. The tourism and hospitality business in West Virginia has been perceived to be oriented towards more tourists who are better educated, more culturally aware, better attuned to the natural environment and more active. These social trends have generated new demand patterns for travel and tourism and changing product needs during late 1990s and early 2000s.

The decision to set up a business was based on a variety of reasons such as a better way of life (80%), a recognized market opportunity (90%), the desire for independence (50%), to supplement family income (75%) and, unemployment or company layoff (20%). Related studies of small and family-based businesses operating within tourism and hospitality have highlighted similar results stressing that strong motivational elements associated with lifestyle and family related goals contributed to the firm's success (Getz and Carlsen, 2000).

The overall education level of the entrepreneurs was below the national average. 60% of respondents had graduated from high school, 34% had some college, and the remaining group of respondents had some of high school education. The reasons given for going into business were diverse. The most common reason was "to let an entrepreneur do the kind of work he/she wanted to do" (60%) and "to continue the family business" (45%). 55% of the firms started with funds provided solely by their owners, and the rest of the respondents used the funding that came from banks, small business investment companies funds, or West Virginia Small Business Firms funding. 49% of entrepreneurs operated at the commercial stage, 45% at the growth stage, and the remaining 6% were at the stability stage.

Respondents were asked to identify important economic concerns regarding running their family businesses at various stages of their growth and development. The respondents were asked to comment on the stages they have reached but answers were not expected on stages that they did not obtain. Table 3 presents the relative frequencies of occurrence of each type of problems encountered at the four different stages of family business' development.

Table 3. Important concerns while running the family business

Name of activity	Percentage of occurrences (according to the stage of firm's development)			
	Development	Commercialization	Growth	Stability
Domestic competition	97	77	69	33
Foreign competition	24	34	14	27
Low demand	36	89	99	100
Energy costs	25	46	89	99
Growth of economy	15	56	98	100
Regulatory environment	67	57	66	89
State or local taxes	56	67	98	39
Unavailability of financial assistance	20	15	22	5

The survey results indicate changes from the first three stages of development to the stability stage. The majority of problems constraining entrepreneurs did not occur during the first two stages of growth and development. The majority of firms managed not only to survive but also to increase their family business activities during their first two stages of operation. More problems developed during the third and fourth stages of operation. The identified problems were related to the economic downturn of the US national economy during the last few years. The respondents also repeatedly expressed that the greatest hurdles to the economic growth of their businesses were the increasing costs of energy and gasoline that have also affected the growth of nationwide travel and tourism.

The success of these businesses in the presence of inadequate economic and financial environment indicates that there must be some competencies working in the background. Table 4 summarizes the competencies reported by the respondents.

Innovation is one of the key elements of competency at all stages. New and family businesses that are innovative or oriented towards innovative strategies are typically low in key resources, such as financial, human, and social capital. Although the resources that a start-up family business has at its disposal may be sufficient to pioneer the market, growth creates a considerable and dangerous strain on these resources.

Architecture plays an important role as a competency. It involves skills of knowing where critical interactions occur for a business and collecting information about such interactions in the most timely and cost-effective manner. This competency plays a very important role at the earlier stages of firm's growth and development.

Table 4. Occurrence of competencies expressed as necessary for success

Type of competency	Percentage of occurrences (according to the stage of firm's development)			
	Development	Commercialization	Growth	Stability
Architecture	90	89	96	75
Reputation	26	90	99	80
Innovation	69	89	94	97
Control of strategic assets	76	88	69	55

Reputation plays an important role at the later stages of firm's growth and development. Possession of a positive reputation serves to lower the search costs of customers, buyers, and suppliers and aids them in their decisions regarding doing business with the family firm. Because it takes a long time to develop and is difficult to imitate, the reputation of family firms can be a source of sustainable competitive advantage in a very difficult environment that operates under recessionary pressures.

Competence in controlling strategic assets enhances firm profitability. The control of strategic assets has been mentioned as more important at the earlier stages of growth and development. Skills developed in exploiting market situations that limit the extent of price competition, restrict entry, or raise the price of switching to substitute products provide long-term advantages to the family firms that possess them.

The specific sets of competencies that are necessary for success vary widely across West Virginia's family businesses and are difficult to know in advance of entry due to the nature of the tourism and hospitality industry. Different competencies are needed at different levels of the entry process and the different stages of a firm's growth and development. A family business can be successful with largely industry-specific competencies at the time of initial entry, but it will require organizational and marketing capabilities to grow and prosper particularly during economic slowdowns.

Today's economic problems have held back business development in West Virginia. Those who survived the most recent crisis realized that the product/service strategy and its quality provided were of paramount importance. The surviving businesses also concentrated on providing products and services with cost advantages. The reduction in costs has been achieved by taking advantage of economies of scale that are derived from the integrated operating methods of businesses in the industry. The successful businesses became market oriented, willing to seek out customers, delivering a high-quality product, and always searching for opportunities to improve their performance.

3. Business environment

Information about the elements of the business environment represented as "received" and "desired" are presented in Table 5. The level of support received was much lower than what was desired in all categories. For example, the majority of respondents indicated that management training seminars and workshops are desirable but few received them. A large percentage of respondents reported that technical and financial assistance, small business and management training, incubator centers are needed for their business growth and development. Only 10% of the respondents were able to take advantage of incubator centers. Preferential loans to small businesses were desired by 99% of the respondents but only 10% received them.

Table 5. Environmental evaluation

	Received	Desired
Preferential loans to small businesses	10%	99%
Small business management training	5%	87%
Technical and financial assistance	14%	83%
Incubator centers	10%	80%
Tax allowance and credits	4%	78%
Short-term credit	24%	60%
Support from friends and family	80%	56%
Project financing	2%	34%
Educational background	25%	32%
Borrowing from friends/family	25%	30%

Respondents would like to have greater access to tax allowances (78%), project financing (34%), small business training (87%), and short-term credit (60%). The pattern of receiving actual assistance indicated a reliance on personal sources such as borrowing from friends and family. Many of the respondents used reinvesting or support from friends and families, and some short-term credit financing as a source of financial support. According to the respondents, a lack of regulation of the banking system has also been unsatisfactory, and a new government's credit policy has not been able to help the private sector during the recent financial and real estate crises.

Policy implications and conclusions

The private sector in the tourism and hospitality industry in West Virginia has created economic growth during difficult economic and financial times, but these entrepreneurial businesses have been facing difficulties. Environmental pressures have altered the basic nature of their businesses bringing an increase in quality and intensity within their services and products. Successful entrepreneurs are typically those who have focused on a particular product or niche market and developed a strong competitive advantage rather than by diversifying. The chances of small family business firms' survival and growth at different stages of development are related to the numbers and types of barriers to operation that they encounter. Despite many problems and obstacles encountered, the family businesses were able to grow.

A new venture can refer to the existing industry and adopt a flexible posture so it can more quickly learn what competencies are necessary for success. The ability to adapt to the environment is often difficult due to a new firm's inertia, however, architecture, reputation, innovation, and control of strategic assets allow an entrepreneurial family business to assess the environment, learn and take the risk of entry.

Certain policy measures are needed to promote business growth and development. It is important that local authorities pursue joint economic and tax incentive policies to improve and promote the creation of the necessary economic conditions to support the growth of already operating firms and encourage a development of new entrepreneurial activities. The government of West Virginia needs to create the conditions that will reassure private investors and encourage them to consider tourism development as an attractive investment opportunity. One factor that is important in predicting entrepreneurial success is encouraging or teaching business owners how to be innovative with regard to service/products and processes. To be innovative requires a clear vision or idea of what one wants to achieve, a safe group climate that allows one to propose ideas, and policies that support innovation and attract customers to the eco-friendly tourist and hospitality products and services.

The importance of other economic factors has not diminished. The results indicate that entrepreneurial development and small business growth is still hindered by high taxation and the unavailability of low-cost financing to small business. Other perceived difficulties include unfavorable credit terms, the lack of tax incentives, incubator centers and project financing. Environmental factors that will assist small business expansion include providing technical support, increasing opportunities for entrepreneurial and business training, promoting small business success and small business networks, creating societal awareness of entrepreneurship, and reducing reporting requirements for small businesses. Government policies should be enacted to improve these conditions

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