



## Growth: the Harder I Work the Luckier I Get

**After working through this chapter you should be able to:**

- Discuss the growth of small hospitality firms as it applies to entrepreneurial and lifestyle firms;
- Understand the strengths and weaknesses of 'growth' models;
- Discuss the major components of growth strategies for small; hospitality firms and the role good fortune plays in their success; and
- Outline the major challenges the entrepreneur faces during the growth of firms.

### INTRODUCTION

Take 10 budding entrepreneurs, furnish with a certain sum of money and instructions to start, grow and sustain a successful small hospitality business; some would succeed, some would fail and others simply 'tread water'. Obviously, exact amounts of financing, time frames and so on would need to be established for everyone to compete equally but there would still be different outcomes for these firms. The key questions would be 'why' and 'what' caused them?

To understand why firms grow (or not) requires knowledge and acquired experience of economic conditions, markets, individual capabilities, strategic competence, an awareness of company strengths/weaknesses and so on. Furthermore, it is one thing simply ticking off these boxes but quite another to understand how all of this knowledge works holistically to bring about firm growth. Indeed, a single configuration of these factors would most certainly not be appropriate for all business development. There is yet another conundrum; what role does good fortune play in the successful growth of the small hospitality firm?

*Dictionary.com*, defines the word ‘growth’ in several ways:

- to increase by natural development as any living organism;
- to form and increase in size by an inorganic process;
- to arise or issue as a natural development from an original happening, circumstance, or source.

### Reflective practice

1. How would you define the organic and inorganic growth of small hospitality firms?

In an entrepreneurship context, commentators often divide organisations into growth or entrepreneurial and ‘lifestyle’ firms (see Chapter 5). The intent of the former is to achieve sustained growth through market expansion and increasing profitability, that is, through economic growth. These firms play a major role in wealth creation and yet only represent a minority of small hospitality firms. For example using aggregated data, Deakins and Freel (2006) assert “...out of every 100 small firms, four will provide around 50 per cent of all employment over a given time period” (p. 159). On the other hand, lifestyle firms are more concerned with survival by generating enough income to sustain a given living standard for the owner(s). Here, economic growth is part of a more holistic strategic aim but remains consistent with the above definitions. Thus, even though the hospitality industry is dominated by small and micro lifestyle businesses we can still assert that they are concerned with growing and developing albeit differently to truly entrepreneurial firms. This perspective broadly concurs with that of Schaper and Volery (2004) who make a similar case on the basis that all firms share at least one of three goals; all of which pertain to growth. These are:

- Survival; and
- Consolidation and continued success; and/or
- To expand or grow.

The following case is a typical example of a small hospitality lifestyle firm

### Changing the Harrogate Model: Alison’s ‘Spur of the Moment’ lifestyle business.

Notes from a meeting with Alison Evans, co-owner and operator of Westlands House Bed and Breakfast, Buxton, 22nd May 2007

Alison has recently resigned a teaching position with the University of Derby Buxton to work full-time on a three room bed and breakfast business established in February 2005. Alison, and her husband Alex, own the business, which was purchased in December 2004. Alison is now in her forties, the couple have no children and were wondering what the future would hold for them. They would often drive into the country at weekends just for something different to do; they were easily bored. Alison is a Derbyshire lass and her husband was brought up in Devon and Yorkshire. Now they run a thriving and attractive bed and breakfast business from their own home. Alison has been recently inspected and given a four star and silver award for her efforts.

The property is a well maintained late Victorian (circa 1901) stone house, semi-detached with a front and back garden and on-site parking for cars. Alison said that she and Alex more or less spontaneously bought the property with the intention of running a business. They have a mortgage on the property but were able to extend themselves financially by selling a previously owned freehold property elsewhere.

The house extends over four levels. There is a cellar which the couple eventually may convert into further living space. The ground floor has an elegant living room with deeply upholstered furniture, a sunny dining room, entrance lobby and kitchen—all used by guests. The first floor has three well-appointed guest rooms—doubles or twins with en-suite bathrooms. One room has a particularly large bathroom and a magnificent view from the bedroom to the rear of the property over the spectacular and rugged Derbyshire moors. The road frontage is very neat and well maintained and, at time of interview, leafy and verdant whilst being easily accessible (5 minutes by car) to downtown Buxton with its Opera House and Georgian and Edwardian terraces.

Buxton is a pretty elevated spa town, at 300 m, almost at the head of the River Wye in the High Peak Borough of the Peak District. There are just over 20 000 residents in the town and excellent rail and road links with Cheshire, Manchester and Sheffield. In any year in excess of 25 million visitors, predominantly from the domestic United Kingdom market, visit Buxton and environs. Most visitors are keen to see the natural scenery and enjoy short and long walks and hiking. A significant proportion of Alison's guests come for two major events in the town itself each season—the Gilbert and Sullivan Opera season and the Buxton Festival in July. In addition there are a number of smaller venues dotted around the town that are used for events such as Antique Fairs. One could assume that Alison made a wise choice in investing in property for her business based largely on Buxton's centrality in the United Kingdom and proximity to the former grimy industrial metropolitan areas of the Midlands and North. However, Alison is a Buxtonian by birth so in many ways she has made a commitment to her town in this business.

In the first 2 years of operation Alison, and to a lesser degree Alex, worked exceedingly hard to make Westlands a successful bed and breakfast business. Alison rose each morning by 7 am to prepare for a day of cooked English breakfast (eggs, bacon, black pudding, oatcakes, sausage and rounds of toast) and, having farewelled her guests, would make her way into the University campus to work full-time as an early childhood lecturer. At night she would return to Westlands, clear up after departed guests, make beds and wash and iron bed linen to the point of exhaustion. Alex had, and still has, a full time job outside of the bed and breakfast. His role has been accounts, finances and general support. Alex does not cook or clean or do

maintenance; those roles are filled by Alison. The telephone is answered by whoever is available. Alison and Alex have an answering machine and can access incoming calls away from the business as required. Alison is the prime contact and host for the business and, for 2 years, managed the business whilst holding down a full-time job. To understand the operating success of the business one must acknowledge the role of technology. Alison claims to have received most reservations through her website. It cost her £800 to set-up but this is money well spent. The second technological asset is the credit card processor. Now all bookings are taken with a deposit against a credit card, effectively minimising the risk of no-shows. Alison understands that for major events bookings are made up to 6 months in advance. Even late bookings are usually made a week prior. Alison is therefore seldom dependent on cold callers and last minute clients. She receives referrals from the neighbouring establishment which acts as a top-up. Alison estimates 20 per cent of her business is derived from repeat customers and referrals and the balance is from the Buxton Tourism Information Centre. Adding value by offering evening meals is considered unnecessary. Alison knows that there are many restaurants with a variety of cuisine and at a range of grades within easy walking distance. Shrewdly she worked out that clients expect fine dining experiences but are not prepared to pay for that standard of service under her own roof. Understanding the market needs and preferences and expectations is an important part of this case study.

Alison is fortunate in having a local network of bed and breakfast owners. Her neighbour, Hillary, runs a successful and slightly larger business (5 rooms and 5 stars) and has provided Alison with a lot of information to help her understand the customers' needs and, more importantly referral business when her accommodation is full. The adjoining house, on the other side of the property, has recently been sold and may revert to a bed and breakfast business which will mean three sets of accommodation businesses in a row. Alison is not anxious about this; she sees that there is sufficient demand for accommodation to make this an asset to her own operation. She assumes that the standards required of a bed and breakfast business would raise the tone of the street and she would welcome professional neighbours rather than a noisy family with teenagers.

In future Alison may consider expanding her business by converting the cellar and using existing second floor rooms that are currently occupied by Alison, for further guest accommodation. Alison and Alex could use the cellar for their own quarters.

Alison is a person of neat and tidy appearance and by her own account, a people person. This couple have a defined division of labour and responsibilities. Alison is the operational partner and Alex is in charge of finances. Alex is somewhat risk-averse, what Alison calls cautious, and an important check on Alison's tendency to impulsiveness. Alison recognises that the challenge to a successful, quality product delivered to the clients is her outgoing nature coupled to her ability to operate with networks of useful people for both her business and for herself. Alison and Alex have become shrewd judges of people and behaviour. Despite the characteristics described, Alison admits to originally having fears about having guests in her home. I suspect that after 2 years she has been able to overcome this trepidation and she admits that she can get a good night's rest now.

Many of the factors which impact this business depend on good judgement and prior knowledge. Insurance as appropriate, redecoration as required and to an expected level of

quality, minimised risk, partnerships, networks, and understanding the impacts that running a bed and breakfast has on one's lifestyle are all considered relevant in this case study. Alison and Alex can manage 2 weeks in each year to take a break from the business. This is partially due to being able to judge the peak demand periods surrounding events in Buxton (Opera, festivals and weddings) and partly to developing some skills in judging booking patterns and trends. Although this is the first year that Alison has committed totally to the bed and breakfast it is apparent that this decision was properly considered and relevant factors weighed up. Alison admits to the learning curve having been steep but reflects on support and advice from friends and being smart about decisions and the market. It is apparent that a good understanding of the market and supply in Buxton was central to Alison's decision to focus on this lifestyle business.

*Source: Wiltshier (2007).*

Clearly, both lifestyle and entrepreneurial perspectives are important so a discussion of growth must consider both. The main aim for this chapter is therefore to identify key factors responsible for the sustainable growth of hospitality organisations. It does this by first reviewing two important 'growth' models to clarify the stages through which firms progress when developing together with a discussion of some challenges faced by the entrepreneur at these times. Second, the chapter discusses several strategic growth perspectives addressing whether growth should be pursued in the first instance and then identifies key elements of each approach including the key enablers, dimensions and interrelatedness. The role of Ansoff's (1968) product/service/market matrix in decision-making is also introduced. The chapter continues by considering some important barriers to the growth of small hospitality firms.

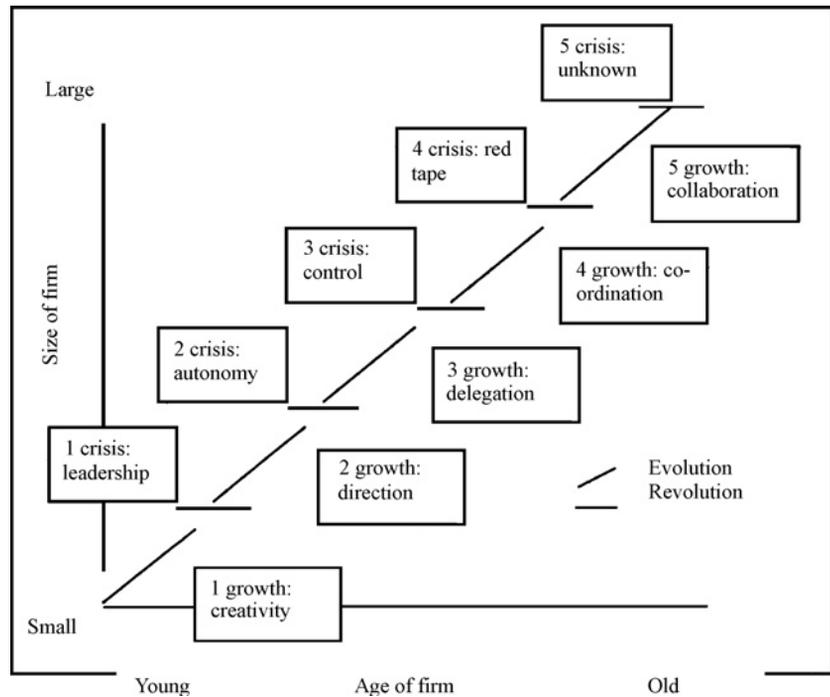
### **Key point 11.1**

A comprehensive discussion of growth must include both entrepreneurial and lifestyle firms.

## **GROWTH MODELS**

There have been several attempts to conceptualise the manner in which firms grow and some of the challenges that will be encountered along the way. The best known of these include Greiner (1972) and Churchill and Lewis (1983). Scott and Bruce (1987) and Burns (1996) used the Churchill and Lewis construct as a basis for their adaptations and additions.

Greiner's model essentially maps five stages of growth each characterized by a period of crisis which must be managed by shifting leadership style and



**FIGURE 11.1** Greiner's growth model.

Source: Greiner (1972).

practices and procedures in order to progress to the next stage of the model. The model is shown in Figure 11.1.

In short, each stage of the above model is defined by a particular entrepreneurial behaviour. For example, creativity characterizes stage 1, whereas collaboration defines stage 5. As the organisation grows within a stage it reaches a crisis point, that is, the point at which behaviour becomes inappropriate if it is to develop. In stage 1, 'random' creativity becomes difficult to harness productively unless the business establishes clear leadership and vision for all stakeholders. Stage 4 is characterised by a more managerial 'coordination' approach with clarity of goals and control procedures. The firm is now far too complex for only one entrepreneur to manage and thus begins to lose its original character. The standard policies and procedures are now likely to cause excessive bureaucratic 'red tape'. The model advocates a move toward collaboration between employees with a focus on 'mission' rather than slavishly adhering to standard practice. This perennial problem for all growth firms is a significant challenge. The entrepreneur must try and capture the original spirit of the small firm by establishing an appropriate business culture.

**TABLE 11.1** Greiner's model of firm growth

Attribute	Stage 1 Creativity	Stage 2 Direction	Stage 3 Delegation	Stage 4 Co-ordination	Stage 5 Collaboration
Management	Produce and sell	Operational efficiency	Market expansion	Organizational consolidation	Problem-solving and innovation
Organization structure	Informal	Centralized and functional	Decentralized and geographical	Line staff and product groups	Matrix
Top management style	Individualistic	Directive	Delegation	Watchdog	Participative
Control system	Market results	Standards and cost centres	Reports and profit centres	Plans and investment centres	Mutual goal setting
Management reward emphasis	Ownership	Salary and performance-based	Individual bonuses	Profit sharing and stock options	Team bonus
Crises	Leadership	Autonomy	Control	Red tape	Unknown

*Adapted from: Deakins and Freel (2006: p. 163).*

Greiner's construct may also be expressed in a tabular format as shown Table 11.1.

The Churchill and Lewis' (1983) model similarly follows the five-stage life-cycle pattern of Greiner (1972) but is more general and has no crises which precipitate the movement from one stage to the next. The stages are:

- I Existence;
- II Survival;
- III Success;
- IV Take-off; and
- V Maturity.

### Reflective practice

1. Through an internet search or through a small hospitality organization know to your consider whether either of the growth models in this chapter accurately reflect its growth and development?

Essentially, both constructs map the growth of firms from a relatively simple beginning where most things are fuzzy or difficult to define through to a highly formal bureaucratic structure which then has to be reconceptualised. Flexibility and qualities of the early simple structure must be reintroduced and retained through advanced leadership and management

**TABLE 11.2** Critique of growth models—some factors

- Most firms do not grow and therefore fail to reach the second or third stages.
- Growth experienced may not follow the prescribed pattern.
- Firms will plateau at particular stages and not progress further.
- The sequence of factors inherent in the models is not supported, for example many firms lurch from crisis to crisis in an unprescribed manner whilst other may have a relatively uniform unhindered progression.

*Adapted from: Burns (2001) and Deakins and Freel (2006).*

techniques. Another difference between the two models is that Churchill and Lewis differentiate between lifestyle and growth firms. During the third stage (success) there are two options. The first is ‘disengagement’ whereby the entrepreneur can choose to exploit an emerging niche and go no further. The second is the growth option where the entrepreneur chooses to establish a vision, strategy and clear objectives for continued expansion. However, like most models, both are simple representations of reality and should only be used heuristically. Burns (2001) and Deakins and Freel (2006) provide an adequate critique shown in Table 11.2.

#### **Key point 11.2**

Growth models help map the progress and development of firms but often do not reflect the reality of all growth situations. As such they should be only used for guidance, orientation and to aid decision-making for hospitality firms as much depends on context and situational specifics.

The following case illustrates a lifestyle-type firm where the entrepreneurs have managed to successfully integrate their business and way of life.

#### **Lifestyle Tourism Entrepreneurship in a South Australia wine Region**

Is it possible to combine your entrepreneurial pursuits with your lifestyle? Ben and Lisa Thompson believe that it is not only possible, but essential to their full enjoyment of life to conceive of their livelihood synonymously with their personal lifestyle. They are people who have sought and found a happy balance between comfort and necessity. They are also examples of what Richards and Wilson (2006), called ‘prosumers’, people engaged in a mixture of skilled production and consumption. Richards and Wilson cited lifestyle entrepreneurs as examples of this, such as the avid surfer who opens a surf-related business as a means of supporting a lifestyle preference. The Thompsons, both in their 60s, have realized this combination in a tourism context through the establishment and

operation of a vineyard, accommodation and restaurant complex in McLaren Vale, South Australia.

McLaren Vale is located in the Fleurieu Peninsula, one of the state of South Australia's 12 tourism regions. The region attracts more domestic same day visits than any other SA region (2.1 million) except the capital city of Adelaide (SATC, 2007). The Fleurieu Peninsula is positioned as the Water, Wine and Wildlife Region, and McLaren Vale is the region's dominant wine destination with approximately 50 cellar doors, and is joining the select group of areas that can claim to be part of the 'cradle of the Australian wine industry' (Faulkner, Oppermann and Fredline, 1999). Recent developments in McLaren Vale's marketing and management have raised the destination's profile, such as the construction of a gateway Visitor Information Centre, the integration of neighbouring wine producers with the local destination management organisation, and an active events agenda that emphasises the combination of food and wine, such as the annual *Sea and Vines Festival*, and *Meet your Maker* events when tourists spend a weekend with McLaren Vale winemakers.

Ben (a former government official) and Lisa (a former corporate executive) traded their city life in Adelaide for a more rural existence in McLaren Vale. Long-time self-described 'wine romantics' and lovers of country living, they saw the potential in a block of land with one residential building on it to establish a vineyard and hospitality operation that would allow them to pursue their love of wine. They began the project in 1998, and by 2007 had established a viable restaurant, catering and accommodation business, and had harvested and bottled a modest amount of their first grape crop. As Ben said, 'We took this three bedroom, three bathroom house which was entirely the wrong design and the wrong shape and colour and wrong everything else but in the most wonderful location. We decided we wanted to turn it into something that fitted the location on our terms. And we knew we were going to end up with some money at the end of it.'

While they feel that the change has been overwhelmingly positive, in many ways they have traded some constraints for others. As Lisa explains, 'in the office you're within the office system discipline. Here it's my own discipline, well not quite because it's also the discipline imposed by the vineyard, the guestrooms, and the food and beverage operations.'

Additionally, vineyard and hospitality work is physically demanding, and can take a heavy toll, particularly on a body that is wearing out. The biggest trade-off has been financial, as the returns generated in their new venture have fallen below their combined earning capacity in their former careers. However, the Thompsons feel that this has been more than offset by the psychic gains that they have realized in terms of greater happiness and satisfaction.

## References

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*Source: Gross (2007).*

## CHALLENGES FOR THE ENTREPRENEUR

Burns' (1996, pp. 241–242) notion of an entrepreneurial organization helps to explain the shift of procedural and behavioural emphasis as firms grow. He notes that on start up the entrepreneur sits at the centre of the firm with all reporting to her and operations are characterized by:

- An informal management style with all business decisions being similarly predisposed;
- Informal staff employer relationships;
- Hands-on training;
- Influencing structures rather than rigid control;
- Personal relationship-building; and
- Job flexibility.

It is also important to note that small entrepreneurial firms are by no means problem-free, especially if the entrepreneur has little or no experience of employing people. For example, where employees are not provided with clear guidelines, roles and responsibilities, communication can often become unclear between entrepreneur, employee and vice versa. In these situations employer/employee psychological contracts can become confused with misunderstandings becoming common. Ultimately this leads to unrest, dissatisfaction and can often lead to high levels of labour turnover. These situations may be particularly acute in small businesses where the entrepreneur employs family and friends. The negative fall-out is not only bad for business but also compromises former friendships and family relationships. The adage of actors never working with children or animals is appropriate here, that is, never work with family or friends!

Notwithstanding the problems that may occur resulting from communication breakdown and misunderstandings, Burns' idea of the small entrepreneurial firm structure can work well with only a few employees but once staff numbers begin increasing a different and more formal approach is warranted. Once the organization reaches this point a more formal design and clear structure become key. The negative side of formal reporting structures and hierarchies are well documented elsewhere (e.g., see Robbins, 2007, etc.) but, all things being equal, to operate efficiently and effectively, firms must adopt a structure which is appropriate to their size. Clearly, one cannot be too prescriptive here as even large and hierarchical organizations often establish smaller more organic internal structures for

the purpose of intrapreneurship. However at a pinch, simple standardized jobs are more suited to hierarchies and where the trading environment is undynamic and predictable; complex/creative jobs and a dynamic environment require flatter and more flexible organization design.

Of course technically the above prescriptions seem reasonable, however, people (including entrepreneurs) have a number of attitudes and behaviours which may actually detract from this logic. The small entrepreneurial firm is organic and some commentators note that it is simply an extension of the entrepreneur's personality and idiosyncracies. Du Toit (1980) takes this further by arguing that entrepreneurs were formerly difficult employees. Whilst this may be the case for some, there is general agreement that a key entrepreneurial trait is locus of control (Rotter, 1966; Cromie, 2000) where the individual attributes success to their own input rather than the impact of other variables. Indeed, an opportunity to gain control over one's destiny is one of the four most common reasons given by entrepreneurs for starting their own business (Zimmerer and Scarborough, 1996). Some cruelly refer to individuals with this characteristic as 'control freaks'!

The potential problem with an overly controlling and inexperienced founder is that they are likely to 'meddle' or micro-manage in the belief that only they can achieve the optimum outcome for their business even after stage one of Greiner's (1972) model has been surpassed. Kirby (2003) refers to this as 'founder's disease' (p. 287) which can cause an inordinate amount of problems in all areas of the business including role ambiguity for managers, informal reporting structures, staff alienation through reduced job tasks and autonomy and so on. To avoid these negative outcomes Kirby (2003, p. 287) notes that entrepreneurs must appreciate that:

- As firms grow they become more complex;
- They cannot make all of the decisions;
- Science cannot clone the founder; and
- Their authority will never equal the degree of responsibility.

In short, as firms grow so too must the entrepreneur by learning new skills. They must avoid the hands on approach in favour of a more strategic, monitoring and decision-making role. This can be difficult, at start-up founders typically spend almost 90 per cent of their effort 'doing' and 10 per cent 'thinking'. Clearly, delegation is important here so the firm will need to have a more formal structure including new control systems and team-working rather than relying on informal relationships and ill-defined operating procedures of the past.

A firm deciding to grow rather than remaining in lifestyle mode faces a number of challenges and choices. Growth models are reasonable in expressing the various stages through which the firm passes (notwithstanding the weaknesses identified earlier) but they do not make clear those issues responsible for success. These matters are vital and entrepreneurs must reflect and understand them if growth is to be sustainable.

**Key point 11.3**

The successful growth of hospitality firms depends not only issues of context but also the ability of the founder to become less 'hands on' and to develop a number of management competencies.

**Reflective practice**

1. Interview an entrepreneur known to you. Investigate what major challenges they faced during the growth of their hospitality firms and how they were dealt with.

**A SECRET FORMULA FOR SUCCESSFUL GROWTH?**

We have already established that a key trait of entrepreneurs is a strong sense of locus of control. It is therefore unsurprising that many successful ones attribute their success to personal efforts and competencies rather than anything else. A few may acknowledge that luck or chance played a role but many others do not. Research has identified a number of key enablers but not necessarily a winning formula. Good fortune is difficult to rationalise and is downplayed in much the same way as some chief executive officers overstate how their strategy, vision and insightfulness were responsible for record windfall profits, turnover, reduced costs and so on. Similarly, when national rates of interest and inflation are low governments are quick to point out the sage-like nature of their fiscal and monetary policies in bringing about such a state of affairs. In fact, many argue that these issues are more to do with global booms and recessions. The question becomes, was a particular government successful economically because it was riding an international period of good fortune? The answer is probably yes, although

economic and societal issues can be exacerbated at a nation state level by government policy.

Ultimately entrepreneurs are human beings (believe it or not!) and invest significant amounts of time and effort into their projects. When asking them the \$64,000 'luck' question many would probably answer, 'The harder I work, the luckier I get' and in a sense this is understandable given the sacrifices they have made and the amount of personal ego involved.

Obviously, arguing that all one needs to be a successful entrepreneur in the hospitality industry is good fortune would be something of an oversimplification. Whilst high early business failure rates might suggest that a reliance on chance alone is a factor, one must have the certain skills and abilities in order to capitalize on luck or chance if it is encountered. This is the essential difference between highly successful firms and those which become compromised and a number of researchers consider good fortune to be the differentiating factor (e.g., Reid and Jacobsen, 1988; Nelson and Winter, 1978). Indeed, the often quoted and perhaps mythological 'location, location, location' by Conrad Hilton is a tacit acknowledgement of good fortune. It certainly would be for budding entrepreneurs who happen to reside in a popular tourist destination prior to start-up and who want to convert their existing premises into a Bed and Breakfast or something similar. The same could not be said of entrepreneurs living elsewhere but relocating after identifying opportunities in primary tourist areas. Burns agrees (2001) noting that the distinguishing feature of successful entrepreneurs is recognising an opportunity and acting on it.

So what actually is a growth strategy and of what is it comprised? There is no shortage of available constructs and they are all quite similar. The only real differences between them are the focus and perspectives adopted. However first, Barringer and Ireland (2006) point out that developing a growth strategy will depend on whether the small hospitality firm can realistically take advantage of the following:

- Economies of scale—where increasing production lowers the average cost of each unit (bed night, restaurant meal, etc.). In the hospitality industry, economies of scale achieved through bulk purchase (in an attempt to minimize variable costs) are insignificant compared to other sectors but other economies may be realized through a sound knowledge of the product. For example, hotels have a limited amount of bedrooms to sell at a particular time. There is also the linked matter of 'perishability' where sales failure results in a missed revenue generating opportunity forever due to its intangibility and dimensionless nature. This defining characteristic

is usually dealt with by careful manipulation of room rates and yield management procedures. This is a common tactic used in other service industries (transport, entertainment, etc.) where fixed costs are similarly high.

- A scalable business model—where increased revenues will cost less to deliver than current revenues. This is clearly the case in the hospitality sector when all variable costs are covered and significant contributions are made to fixed costs and also helps to explain why hotels can offer such vast accommodation price reductions; profits increase as sales escalate. Clearly there is a fixity of supply issue here which limits actual growth unless the entrepreneur decides to acquire another property by various means including outright purchase, lease, amalgamating with another company, joint venture or partnership. However, before taking such a step the entrepreneur must be convinced that demand will increase.
- Influence and power—closely linked with market leadership through setting industry standards, enhanced access to major customers and suppliers and prestige. It also augments the firm's resilience and ability to recover from bad publicity. For example, neither of the above cases had any lasting negative effect on either company. Additionally, risk management becomes more effective with more expertise on which to draw from an inflated pool of employees and managers. Thus, better risk-management occurs through an ability to attract and retain good workers.

Top 100 Hotel Companies:

Is Bigger Better?

Chart: Top 100 Hotel Companies

By M.A. Baumann H&MM Contributing Editor

Is bigger better? Do bulging portfolios, brand segmentation, globalization and unprecedented growth give some companies a distinct advantage over others? Critics claim that size affects quality and consistency. They believe midtier firms actually can outperform the megacompanies by using a more-focused approach. Super-players say it isn't so, arguing that combined resources, brand identity and sheer magnitude give them stronger hands in shaping the industry's future and creating a healthier bottom line.

Mark Mutkoski, industry analyst for BT Alex.Brown in New York, explained the 'bigger is better' argument.

'There are a lot of advantages to being bigger' he said. 'It's more efficient to have more assets and brands. You also have a greater revenue base over which to spread costs. Particularly in franchising, you have to have critical mass before you can generate invested returns on

capital. If you're large, typically you have a greater asset base and have more opportunity to go in and focus efforts internally and focus on return.'

Large companies also have better access to capital, more-liquid stocks, and can borrow unsecured debt at attractive prices, which provides a huge advantage over smaller outfits, Mutkoski said.

Source: [http://www.hotel-online.com/News/PressReleases1998\\_4th/Oct98\\_BiggerBetter.html](http://www.hotel-online.com/News/PressReleases1998_4th/Oct98_BiggerBetter.html), accessed January 2008.

- Firms may seek growth due to significant increased demand from individual and other key customers. Failure to do so might risk loss of business.
- Market leadership—where the firm is usually number one or two in a particular niche. Being a market leader has particular advantages not only for securing extra business but also in terms of becoming a preferred employer and likely future business partner with former competitors. However, along with certain benefits come a number of disadvantages including increased public scrutiny through inflated stakeholder expectations of fairness and justice. The case below is some years old, however, the issue raised is perennial.

Adapted from Barringer and Ireland (2006: pp. 311–312).

### Reflective practice

#### *Profit* Nike Accused of 'Slave' Child Labor by Andreas Harsono

(AR) JAKARTA—An Indonesian labor advocate said that American shoe maker Nike Inc. is employing Indonesian children under 16 years old to produce their athletic sneakers, confirming an earlier report by an American lobbying group that the children work in sweatshops like 'slaves.'

Indera Nababan of the non-profit Yakoma PGI labor advocacy organization said on Monday that the employees are paid the official minimum wage of 5 200 Indonesian rupiah (US \$2.17) per day, which is 'just enough to survive to the following day to work again.'

'How can you live with [\$2.17] in an expensive metropolis like Jakarta' asked Nababan, adding that Nike Inc. has more than a dozen subcontractors in Indonesia, one of which, PT Nikomas Gemilang, based about 100 km west of Jakarta in Serang, employs child workers, he said.

**'We are subsidizing, encouraging and failing to criticize the enslavement of young people in the Third World.'**

Source: *Albion Monitor* June 30, 1996 (<http://www.monitor.net/monitor>).

Similarly, McDonald's is open to constant scrutiny for its business practices including employee working conditions, employment policies and ethical use of food products as the case below attests.

### **Fat flap at McDonald's**

May 3, 2001: 4:01 p.m. ET

### **McDonald's refutes class action suit alleging deceptive use of beef flavouring**

'While we are not familiar with the details of the litigation filed in Seattle, we have never made any vegetarian claims about our French fries or any other product', McDonald's said in a statement.

The statement is in response to Seattle attorney Harish Bharti's decision to sue Oak Brook, Ill.-based McDonald's after reading an e-mail from the company to a California man acknowledging its suppliers use tiny amounts of beef flavouring to flavour its fries. Bharti, who filed the suit on behalf of all vegetarians, said the e-mail contradicts previous claims McDonald's has made assuring customers it uses 100 per cent vegetable oil for its fries.

'This is an outrage. This is the height of corporate greed', Bharti told CNNfn.com. 'How can you be so insensitive? This is something that is ingested. You can't take it back'.

In its statement, McDonald's said beef flavouring is added during potato processing at the plant, and is standard in making French fries. McDonald's Corp. said it 'has always used' beef flavouring in its French fries, refuting allegations made in a class action lawsuit brought against it by a vegetarian lawyer.

'The natural flavouring consists of a minuscule amount of beef extract', the company said.

'These fries are then shipped to our restaurants. Our French fries are cooked in vegetable oil at our restaurants'.

*Source:* <http://money.cnn.com/2001/05/03/news/mcdonalds/> accessed January 2008.

Presuming that one or more of the above criteria can be realized by the business a decision may then be made to proceed in developing the small hospitality firm.

Storey (1994) divides the key enablers of small firm growth into three overall areas, each having a number of components shown in Table 11.3.

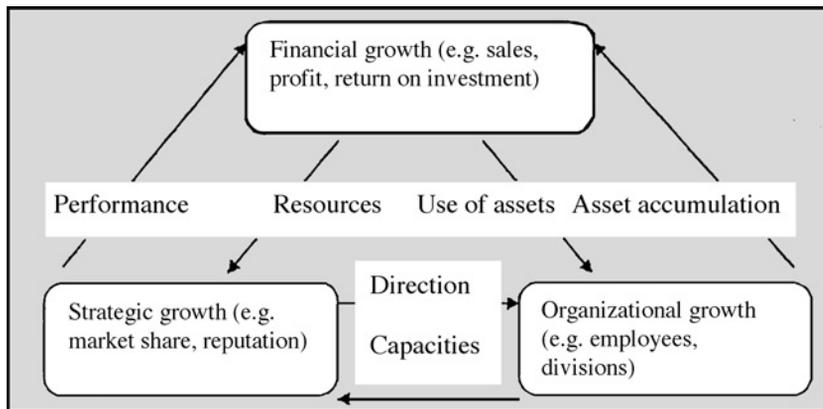
**TABLE 11.3** Key enablers for small firm growth

Entrepreneur	Organization	Strategy
Education	Location	Market positioning – niche with focus on quality (in short-term)
Management experience	Size and age – bigger firms are more likely to survive due to accumulated resources although new firms tend to grow faster than old ones	Innovation
Motivation	Niche – some will be more attractive than others	Effective management recruitment as firms become increasing complex to manage by founder
Ability to build teams	Ownership – of other businesses	External equity where possible will contribute to growth
Age as a proxy for accumulated experience and wealth		

*Adapted from: Deakins and Freel (2003).*

Schaper and Volery (2004) agree but use a different perspective where business growth is viewed from three perspectives of financial, strategic and organizational. The first concerns performance and how well the firm serves its markets through conversion of resources it is allocated into assets. Growth here provides the means for acquisition of further resources which stimulates strategic growth. Financial growth is also aided by sound strategy which contributes to further asset growth within a broader and growing organisational design or structure. These relationships are shown in Figure 11.2.

Not too dissimilarly, Burns (2001: p. 272–273) agrees and considers four important elements for successful growth, these are entrepreneurial character



**FIGURE 11.2** Dimensions and interrelatedness of growth dimensions.

*Adapted from Schaper and Volery (2004: p. 342).*

(comprised of key characteristics including risk-taking, desire for achievement, locus of control etc.); business culture (including overall ambition to grow); company strengths (including effective management team, financial control and comprehensive understanding of the market); and making good business decisions including:

- Using quality rather than price;
- Domination of a niche;
- Ongoing innovation; and
- Exploiting company areas of strength to compete.

In order to maximise the potency of each area, Burns (2001) recommends a re-engagement with the original pre start-up SWOT analyses to identify the strengths and weaknesses of current performance; conditions and situations will have undoubtedly changed since start-up. He then advocates developing a market strategy for the service being offered in terms of what would be appropriate generically; the stage in its life cycle; and how it fits with other hospitality services offered.

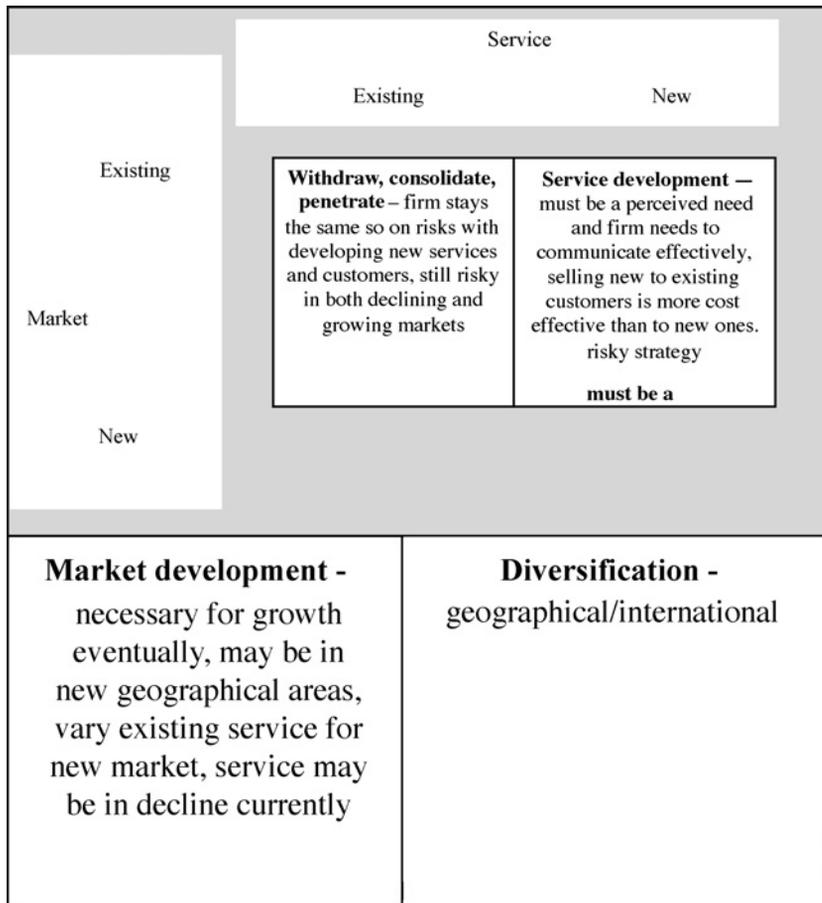
#### **Key point 11.4**

Whilst we can be reasonably confident about the essential ingredients for small hospitality firm growth, the 'recipe' or configuration of these inputs is less clear.

Additionally, Burns (2001) adopts Ansoff's (1968) product/market matrix model to help the conceptual phase of this planning process and is shown in Figure 11.3. This permits a systematic appraisal so risks and opportunities can be identified for each of the four quadrants.

When considering these, the entrepreneur needs to ask a series of questions before making a final decision:

- Existing service/existing market
  - Withdrawal
    - Is industry consolidating?
    - Have you achieved good growth so far?
    - Can you adapt to changing conditions to grow business?
  - Consolidation (same service different operating procedures)
    - Is market growing or declining?



**FIGURE 11.3** *The service/market matrix.*

*Adapted from Burns (2001).*

- Is market mature?
  - Penetration (selling more of same to existing and new customers)
    - Do you understand your customers fully and their buying behaviour?
    - Is market static, declining or growing?
- New service/existing market
  - Service development
    - Any market opportunities?
    - Replacing old service or selling alongside?

- Small or large differences between old and new services?
- Can you copy a competitor or will you need to a better service?
- Growth or mature phase for service?
- Are your customers loyal and growing?
- Do you have a strong customer focus?
- Do they ‘trust’ you?
  
- Existing service/new market
  - Market development
    - Are economies of scale important to your firm?
    - Is your service nearing decline?
    - Barriers to entry and exit: high or low?
  
- New service/new market
  - Diversification
    - Both are location based and each has challenges. However, international growth in the micro and small-firm sector of the hospitality industry is insignificant (with some exceptions) and so will not be discussed here. Small-scale geographical expansion can be seen in many resort regions whereby the successful entrepreneur may own a small hotel along the busy coastal strip and another establishment in the hinterland. Such examples are common and one advantage of this kind of growth is the inherent risk-spreading through cross-subsidization of one organization by the other.
    - Especially important where seasonality impacts on trade. For example, Great Yarmouth in the UK is a typical sea-side ‘bucket and spade’ resort attracting many low to medium spend tourists from June to September. Only a few miles inland, the Norfolk Broads attracts a somewhat different and more sophisticated market with a higher disposable income and expectations.

**TABLE 11.4** Related diversification

<b>Horizontal integration</b>	Activities are complimentary with firm’s current ones (see above example)
<b>Forward vertical integration</b>	Firm establishes a presence ‘nearer’ customer. Hotels may only integrate horizontally or backward vertically as they are directly at the client interface.
<b>Backward vertical integration</b>	Firm becomes own supplier. Hotels may diversify into travel agencies, transport, raw materials, linen supply, etc. The rationale here, amongst other things, is to control quality and reduce competition by establishing a direct chain from customer and supplier to hotel.

Whilst this market is also seasonal, a reasonable year-round trade is enjoyed by boat-hire companies, pubs and hotels alike. Recognizing this opportunity, several local entrepreneurs have grown geographically from the seaside location to the hinterland.

- Clearly, one cannot expect the same style of hospitality enterprise to thrive in both locations but provided market expectations are satisfied in both and the service offered reflects this, this type of growth can be successful.

This is an example of related diversification where the service remains in the same industry but outside its present market and service style or complexity. For example, accommodation and menu choice might be limited for the seaside location but considerably more complicated or 'customized' for the Broadland market having higher expectations. The three types of related diversification are shown in Table 11.4.

In short a key question for the hospitality entrepreneur is how risky are these options? According to Burns (2001) the lowest risk lies in market penetration, followed by service development with diversification (particularly into unrelated industries) as the least risk averse option. However, Ansoff's (1968) model is a simple guide and no more. Nonetheless it does allow a less subjective assessment of entrepreneurial options and pathways for growth. Most small hospitality firms, like others in different sectors, tend to grow internally by increment offering their existing product to the same and new markets or new services to existing customers (Burns, 1994). The following case is an example of both locational good fortune and risk management in terms of potential growth opportunities.

### **Marketing Wine and Wine Tourism in the 'Fortunate Islands'.**

*Source: Alonso, Sherridan and Scherrer (2007).* For many decades the Canary Islands have been a synonym of sunshine, package holidays and mass tourism, and a very popular destination for many travellers that mainly come from the U.K., Germany, Scandinavia and mainland Spain. Because of their mild climate and natural beauty, these islands are dubbed 'fortunate'. Not surprisingly, the number of tourists visiting the Spanish archipelago in recent years has reached the 10 million mark, more than six times the total number of its local residents.

Unknown to many tourists is the fact that the Canary Islands have produced wine for centuries, and some of the varieties are only produced in selected areas of the islands, and nowhere else in the world. However, for a long time the local wine industry went through a phase of decline, and eventually wine became a product for local consumption, with little or no impact outside the archipelago. This situation progressively changed in the early 1990s as

regional local wine denominations of origin were created, in part as a European Union (EU) initiative to preserve traditional foods, local culture and local landscapes (Sainz, 2002). Today, the Canary Islands not only continue to produce many unique varieties of wines, but the quality of the local wines has also increased, earning them international recognition. The vast majority of the islands' wineries are small and medium in size and family owned, and many are open to the public, for the most part offering tasting rooms, and cellar door sales. However, the recent re-development of the Canary wine industry also includes a blend of hospitality and wine with the opening of some restaurants, space for conferences on some winery grounds, and promotion of wine trails to visitors (Tacoronte-Acentejo, 2006). With sunshine, beaches, and landscape being among tourists' top reasons to visit the islands, other potential attractions, including the local wine industry, have been relegated to a secondary role. In fact, while currently efforts to promote and market the islands' wine regions are being undertaken, still very little is known about the local wine, wine tourism and wineries.

To investigate this relatively unknown industry, a study was conducted among wineries from the islands of Tenerife and La Palma. A total of 61 businesses were approached in both islands and their owners/managers invited for an interview; 23 wineries accepted the invitation to participate in the study, a 37.6 per cent response rate.

The winery owners and managers felt that there was considerable potential for wine tourism in the Canary Islands but this was often undermined by factors outside of their control. Stricter drink-drive laws, for example, had reduced visits to wineries and less participation in wine tasting, a crucial tool in the cellar door sales process. International terrorism sparked new aviation laws limiting the quantity of liquids permitted in in-cabin luggage. This reduced cellar door sales as tourists could not carry wine on board, as it exceeded the volume limits, and they did not feel comfortable with placing wine in their checked luggage in case it spilled or spoiled. Some winery owners even felt that the traditional tourism industry was sabotaging their local wine tourism efforts by importing cheap local wines rather than serving local

Canary Island wines at hotels and restaurants. Package deal tourism to the Canary Islands encouraged tourism enclaves rather than the exploration of the Canary Islands which could foster a rich culture of local wine production.

At the end of the day, winery owners wanted to build stronger associations with tourism but only in scenarios where there would be a genuine, quality, wine tourism experience. Their goal was to build relationships with the tourists and convert them into customers but also

achieve important long term goals such as building brand recognition and positive word of mouth experiences of wine in the Canary Islands.

## Questions

- 1 Using Ansoff's product/service/market matrix identify the strategy chosen by winery owners for future development of their industry and comment on the riskiness of this option?
- 2 Identify strategies that could help local wineries link their product to the tourism market?

- 3 Discuss potential difficulties wineries may face in the process of marketing their wines to tourists.

### Key point 11.5

Accepted wisdom concludes that an effective strategy for small business growth is to focus on quality rather than price; dominate a particular niche; innovate continually; exploit company areas of strength.

### Reflective practice

1. Interview a successful entrepreneur known to you. Find out what role opportunity and good fortune played in the development of their hospitality firm.
2. What other issues do they think are responsible for their success.
3. Were there any skills and competencies they had to acquire in order to become successful business founders?

## INTRINSIC AND EXTRINSIC GROWTH

Barringer and Ireland (2006) take a slightly different perspective of small firm development using the lens of intrinsic or internal and extrinsic or external growth. This focuses on matters intrinsic to firms such as whether to introduce, improve or enhance existing products. This internal growth may also be achieved by reconfiguring marketing strategies and expansion into other geographical areas including the international arena. In other words, development is a function of in-house skills and competencies; McDonald's is an example of a firm that has expanded internally. The other means of growth is through extrinsic or external means. Simply, this means using third parties in the form of mergers, alliances, joint ventures and so on. The use of a third party is not limited to physical 'bricks and mortar'. Recent evidence suggests that from almost 20,000 small UK businesses a key mode of external expansion in the Hotels & Restaurants' sector is through e-commerce, notably through own web sites and those of third parties (Carter and Mason, 2006). Another important mode of external expansion for hotels remains the 'franchise' and Ibis, Comfort Inn, Mercure and Courtyard are examples of

this approach. Additionally, many smaller hotels use the affiliated network model typified by Best Western.

Both types of growth have associated advantages and disadvantages. The main advantages of growing internally are based on incremental advances. A measured uniform growth strategy helps to ensure development is managed effectively requiring few significant changes. Additionally, the firm can exercise more control over quality standards and maintain its organisational culture. Moreover, a strategy of internal growth is more likely to foster innovation and intrapreneurship as long as appropriate rewards are bestowed on employees such as bonuses and accelerated promotion. Conversely, internal growth may be too slow-paced to achieve significant economies, market penetration and competitive advantage in particular geographical areas. This is typical in the hospitality industry where acquisitions and mergers are commonplace. Innovative service package ideas will almost certainly require input from organizations elsewhere in the service chain. Such new ideas would be difficult to offer by only one firm. Additionally, a basic issue is that of capacity and the effect of over supply. Too many new organizations providing the same product in a particular tourist location, be it accommodation or food and beverage provision, will ultimately force prices down and thus reduce overall profitability.

External growth may also be an option for expansion as acquisition of other firms effectively reduces competition, allows access to older establish brands and may lead to increased economies of scale. Additionally, expansion permits sharing of expertise and helps to diversify risk. On the other hand, external growth has some challenges which are similar to those experienced by firms growing internally although more extreme in nature. Essentially these fall into categories of organizational culture and operating procedure differences. For example, styles of service delivery and quality management philosophy and practice may differ between firms. These may be exacerbated if a firm chooses to expand internationally. Indeed, legal differences in employment law and antitrust regulations may prove significant for example.

However a small hospitality firm chooses to grow it is necessary to consider whether to develop new products (if entrepreneurs can identify a need to satisfy), to provide products that add value, to strike an appropriate balance between quality and price, to identify and exploit a niche, and to make sure the feasibility analysis is iterative. Firms will also increase their chances of sustainable growth (to a point) if they consider issues of service improvement, extension and differentiation. For example, the notorious Club 18–30 club was an ingenious marketing ruse by the Horizon Travel to fill unused seats on night flights to tourist destinations in continental Europe. Whilst the brand has been bought and sold by a number of companies the concept is still popular

despite (or perhaps because of) some negative publicity about the antics of customers and the occasional risqué slogan such as ‘One Swallow Doesn’t Make a Summer’!

### **Club 18–30’s controversial past**

By Clare Matheson

BBC News Online business reporter

The antics of Club 18–30 reps in Greece have earned the company another bout of negative publicity. BBC News Online goes behind the headlines to look at a company that has dominated the youth holiday market for years.

Despite being for 18–30 year olds the brand is now 38 years old

Club 18–30 began life in 1965 when it took 580 yuppies to the Costa Brava, an event that the tour operator claims ‘made history’. But Club 18–30 really came into its own in the 1970s and 1980s under the wing of ILG group, entering into common parlance as the generic name for youth holidays.

### **All change**

Even though ILG later collapsed in 1991, Club 18–30 survived, and was rescued by a management buy-out and re-launched as ‘The Club.’

In 1994 it reverted to its old name, but by 1999 it was all change again after Thomas Cook Group bought the brand. The group says it now owns 65 per cent of the youth holiday market and takes more than 110,000 guests away each year—most expecting a break filled with sun, sea, sex and sangria. And the formula seems to work. In the financial year of 2001–2002, Club 18–30 racked up sales worth £48 million, and ‘still managed to achieve a good profit’ despite only partly achieving its targets.

### **Sun, sea and sex**

Club 18–30 prides itself on the belief: ‘Nothing is sacred, if it’s going to be a good laugh then we’re in’.

That marketing has pulled in millions of holidaymakers, keen to align themselves with the party-loving attitude it promotes.

But that ‘in your face’ label has attracted plenty of controversy.

In 1995, its tongue-in-cheek adverts earned it a place in the Advertising Standards Authority’s Hall of Shame—it was the second most complained about firm that year.

### **‘Irresponsible’**

The Saatchi & Saatchi ads generated 490 complaints centred on posters featuring the taglines ‘Beaver Espana’ and ‘It’s not all sex, sex, sex. There’s a bit of sun and sea as well.’ Even today, Club 18–30 cannot steer clear of controversy. Three of its reps have just been acquitted of organising bar crawls in Faliriki, despite a ban brought in last week after a man

killed a tourist. And last month, five of the firm's reps quit after allegedly taking part in 'live sex acts' on a beach in the Greek resort of Kavos.

### Future controversy

But will the latest upsets affect the firm? Spokesman David Smithson said that 'from past experience' the current controversy was unlikely to affect business.

'It's a product that's aimed at a very specific target audience who are not discouraged by publicity', he added. A case in point, he described the raunchy 1990s advertising campaign as 'successful' and achieving 'its objective.'

'It's a younger audience that tends to recognise these incidents are blown out of proportion by the media', Mr Smithson added. 'But that's not to say we like or seek negative publicity'.

### Questions

- 1 Discuss whether Club 18–30 is an example of internal, external or a combination of both kinds of growth.
- 2 Identify the extent to which Club 18–30 is an example of service improvement, extension or differentiation.

*Source:* <http://news.bbc.co.uk/1/hi/business/3163077.stm>, accessed January 2007.

## BARRIERS TO GROWTH

It is one thing to advance notions of growth enabling factors and another to identify those which act as barriers to growth. Data aggregated by the Cranfield School of Management holds six primary culprits:

- A lack of planning—over two-thirds of owner-managed firms studied with a turnover of £10 million did not have any;
- A lack of market focus—many small firms diversify too early and lack market focus;
- A lack of effective leadership during times of change—most founders run their growing businesses as they did in start-up;
- Inappropriate objectives—sales growth is the sole and primary target, set without regard to others including gross margin, profit and cash generation;
- Failure to work 'smartly' and inability to delegate – too many owner-managers spend time interfering and overseeing work which others are employed to undertake. The most key activity for the owner-manager is focusing on future business strategy for the business; and

- Lacking a financial strategy and poor accountability—a majority of entrepreneurial firms in the UK use overdrafts as a long-term means of finance. This is due to ignorance of alternative sources, the ease with which overdrafts may be obtained and a result of having no business plans.

Adapted from CUSM (2007).

### Key point 11.6

Barriers to enter the hospitality industry are relatively low. Despite this, the rate of business failure is high. However, it is possible to mitigate the effect of each above barrier by careful research and planning. Therefore, the success or failure of the small hospitality firm depends on the extent to which the founder works ‘smarter’ rather than harder.

An earlier 1997 study by the ESRC Centre for Business Research found that increased competition, availability and cost of finance for expansion and marketing and sales skills were the most important barriers to small firm growth (Burns, 2001).

Based on the earlier work of Penrose (1959), Barringer and Ireland (2006) note that in addition to entrepreneurship, ‘managerial capacity’ is essential to administer opportunities as they are spotted. They consider this to be high on the list of those factors which challenge the growth of firms and use the terms ‘Adverse selection...’ (p. 315) and ‘Moral hazard...’ (p. 315) to explain the dilemma. Essentially, the former describes a situation where increased demand for labour creates a situation where the firm may not be able to achieve good ‘job fit’. Moral hazard is similarly unfortunate situation where new workers fail to share the aims and objectives of the founder. In short, there is no consistent organizational culture. The entrepreneur may hire managers to ensure this does not happen but this often results in a hierarchical structure with a pool of isolated and sometimes estranged managers. Clearly, growth becomes a challenge in itself and managers must be selected carefully with the knowledge that they will need to be trained, socialized and motivated in order to minimise problems as the firm grows.

### Reflective practice

1. Interview a successful hospitality entrepreneur known to you. Ask if there were any significant obstacles to overcome prior to start-up. If so, how were they overcome?

## SUMMARY

The term 'growth' is often only applied to the truly entrepreneurial firm as opposed to the 'lifestyle' organisation. This chapter contends that the process of growth needs to be understood in a more holistic way and as such is a pertinent topic for discussion irrespective of firm type. For example, all firms grow in one way or another as they are concerned with survival and/or consolidation and continued success and/or expansion. Moreover, they both make significant societal and economic contributions.

A firm's development may be conceptualised in a number of ways, this chapter discussed the 'growth' model approach as, for the sake of simplicity, divides progress into five stages. Each of these stages is characterized by a particular set of activities and leadership/management styles. For the sake of efficiency and effectiveness, with growth comes a need to make management and operational changes to cope with the new working environment. Some firms choose deliberate growth and will continue through all stages explicit in growth models but most hospitality firms rarely progress beyond the second or third stages. These constructs are useful for 'journey' mapping and insight but they do not address the inherent challenges of the growing firm in any detail.

Along with entrepreneurial success through growth comes the requirement for skill development and new competencies. This includes an acute need for delegation as once firms reach a certain size it becomes impossible for the founder to do everything. This problem is sometimes known as 'founders disease' where the entrepreneur 'meddles' in the work of her employees. Ultimately this can cause a number of problems if left unchecked including high labour turnover, role conflict and poor morale.

It is difficult to be prescriptive about enablers of successful growth but number of approaches are relevant here. They are similar in nature and content but often frame essential inputs differently for example Deakins and Freel (2003) divide them into three generic areas of entrepreneur, organization and strategy, Shaper and Volery (2004) focus on dimensions of finance, strategy and organization and their interrelationships. Burns (2001) prefers to use a frame which assess growth options in terms of the market and how risky they might be. However, before adopting any of them, the entrepreneur must answer an number of key questions, for example would growth allow the firm to take advantage of economies of scale. The hospitality industry differs from other industries including retail and manufacturing as the product is intangible and economies from suppliers of raw materials are not significant relatively speaking nor are they significantly different between competitors irrespective of firm size (within reason). Once this and other questions have

been answered to the satisfaction of the founder, a decision may be made to grow and develop the hospitality firm.

Accepted wisdom concludes that an effective strategy for small business growth is to focus on quality rather than price; dominate a particular niche; innovate continually; exploit company areas of strength. The strategic framework to achieve this differs between commentators but all agree that the basic elements must include:

- An entrepreneur of appropriate character having traits including risk-taking, locus of control, desire for achievement, etc;
- A positive business culture including and overall ambition to grow;
- A company possessing certain strengths including an effective management team, good financial control and a comprehensive understanding of its market; and
- An ability to make good business decisions.

However, there are a number of barriers to growth of which founders must be aware including a lack of planning, market focus and effective leadership. Others include having inappropriate objectives, impoverished knowledge of sources of finance and an inability to delegate. Clearly, these obstacles are not inherent or systemic in the hospitality industry. Indeed, the sector has low barriers to entry which in some ways may prove disadvantageous to some operators due to the sheer volume of competition. However, these challenges can be overcome by the entrepreneur so long as they are prepared to focus more attention on strategic matters rather than continuing to operate technically. In short, the fate of small businesses is less to do with working harder but rather, working smarter.

## CASE

### **Riu Hotels: From a Small Family Business to an International Company**

September 25, 2001—Riu Hotels: from a small family business to an international company came into being in 1953 with a small hotel in Majorca, and now has 96 establishments with 12,000 employees and is present in 10 countries.

A total of 96 holiday hotels with categories ranging from three to five stars in Spain, Portugal, the Caribbean, the United States, North Africa and the eastern Mediterranean, offering globally 25,960 rooms and just over 50,000 beds, with 1.5 million customers and 12,000 employees, united by one motto: give the guest service with heart. These figures sum up the RIU Group's ([www.riu.com](http://www.riu.com)) current situation. This small family business was created in 1953 in Playa de Palma (Majorca), with the purchase of the small 80-bed hotel San Francisco, and has now become the 31st biggest hotel chain in the world, specialising in sun and beach

holidays, with guests mainly of central European origin but also an incipient American clientele (from the United States, Canada and Argentina) as well as Spanish guests. The chain had a turnover of 105,000 million Pesetas (567 million dollars) in the year 2000 and foresees 120,000 million (14.3 per cent more) for the year 2001. This data consolidates RIU as the second largest chain in Spain in terms of turnover.

RIU's establishments are located in the Balearic Islands (16), the Canary Islands (36), Portugal (2), Baleares España Andalusia (7), Gerona (1), the Dominican Republic (7) Cuba (2), Florida (2), Mexico (4), Jamaica (1), Tunisia (11), Bulgaria (5), Cyprus (1) and Madeira (1).

RIU Hotels head office has been in the Riu Centre, in Playa de Palma, since 1982. One hundred fifty metres from the Riu Centre, on the beach front, is the Riu San Francisco, the chain's very first establishment, where the family business was started up in 1953 by Mr. Juan Riu and his son, Mr. Luis Riu Bertrán, both natives of the La Garrocha region of Gerona in Catalonia.

Luis Riu Bertrán was chief executive of the chain until his death, at the age of 65, on 7th April 1998. Since then the company has been directed by the second generation, in the form of Mr. Riu Bertrán's two children: Carmen Riu Güell (a specialist in administration and finance) and Luis Riu Güell (in charge of expansion). Both born in Palma, they share the post of chief executive.

All the hotels in the chain are managed by Riusa-II, a company created in 1993 for the running of hotels, 50 per cent of which belongs to the Riu family, with the other 50 per cent being held by the German tour operator TUI, RIU's traditional partner and number one tour operator in Europe.

Riusa-II and some shareholder-type companies together make up the RIU Hotels & Resorts Group.

For its part, TUI ([www.tui.com](http://www.tui.com)), a member of the HTU (Hapag Turistik Union) tourism consortium, renamed the TUI Group on January 1st 200, constitutes the tourism division of the industrial group PREUSSAG ([www.preussag.de](http://www.preussag.de)), the 21st biggest company in Germany in 1999. PREUSSAG purchased TUI in 1998 as part of its strategy to transfer investments to the tourism sector.

As from August 23rd 2001 the tourism consortium adopted the new name of 'World of TUI.' ([www.the-world-of-tui.com](http://www.the-world-of-tui.com))

Since its creation RIU Hotels has never shared out profits. They are reinvested in full in the creation of new hotels, the renovation of those already in existence or the purchase of other establishments. Like the 11 Iberotel hotels acquired in 1993 and the nine hotels bought from the British Belhaven chain. In this way the company has basically self-financed its growth and its current level of debt is low.

After the creation of the family business in the 1950s, the company grew in the '60s due to the opening up of Spain to Europe and the consequent in rush of European holiday tourists to Spanish beaches. After increasing its number of hotels in Majorca and consolidating itself as a company, in the '80s RIU expanded its activity in the Canary Islands, an archipelago which, added to the attraction of its beaches, is also a non-seasonal destination due to its mild climate, allowing hotels to remain open all year round.

Due to the importance of the turnover contributed to the chain by the Canaries (approximately half), RIU established part of its head offices in Playa del Inglés in Gran Canaria, amongst them the Human Resources Department and the Staff Training Centre, devoted to the retraining of the chain's professionals. After its solid expansion in the Canary Islands (where it is now the leader in the supply of accommodation), Riu Hotels began its internationalisation in the '90s, with the inauguration of the hotel Riu Taíno in Punta Cana (Dominican Republic). From this island, the beaches of which are amongst the most beautiful in the world, the chain has expanded to Cuba, Florida, Mexico, Jamaica and the Portuguese island of Madeira.

In November of 1997 RIU acquired the emblematic hotel Maspalomas Oasis in Gran Canaria, one of the best holiday establishments in Europe, and since then the chain's flagship in Spain.

At the beginning of 1998 the chain opened a Contracting and Sales Office in Madrid with the aim of opening up to the Spanish outward bound market, and struck up agreements with Spain's most important wholesalers. In mid-1999 RIU took over the management of 12 hotels in the Iberotel chain in Tunisia (8), Morocco (One hotel, later dissociated from the chain), Bulgaria (2) and Cyprus (1). Thus, the chain began its expansion in North Africa and the Eastern Mediterranean.

In the case of Morocco and Bulgaria this was RIU's debut of the franchise formula, with which the chain hopes to incorporate more new hotels over the coming years, preferably in Andalusia, the Algarve (Portugal) and the Canary Islands.

In October of 1999, 31 RIU hotels ranked amongst the 100 best hotels in the world in the holiday sector, according to the votes of TUI customers, for which the TUI-Holly prizes are awarded. And furthermore four RIU hotels were amongst the top 10, with the Riu Palace Maspalomas in first place for the second time in just 10 years of its existence. On 15th November 1999 the Riu Palace Mexico, a luxury five-star hotel, was opened. This establishment is buried deep in the Mayan Riviera and is the chain's new flagship outside of Spain.

High quality of service and personalised treatment of guests constitute the cornerstone of RIU's philosophy, a philosophy which has allowed a modest family business with 80 beds to be turned into an international hotel chain with over 50,000 in four decades. A chain which is still expanding, exclusively in sun and beach holiday destinations, without abandoning the values on which its success is founded, and which foresees an increase in its accommodation capacity in the first years of the 21st century with new hotels in the Canary Islands, Andalusia, Tunisia, Bulgaria, the Caribbean, the United States and Africa.

## Questions

1. Map the development of Riu Hotels using the growth theories in this chapter. Discuss the strategy followed, the challenges faced and how they were managed as the firm grew?

Source:[http://www.hotel-online.com/News/PR2001\\_3rd/Sept01\\_RIU.html](http://www.hotel-online.com/News/PR2001_3rd/Sept01_RIU.html), accessed January 2008.

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