

Entrepreneurship in Hospitality and Tourism

A Global Perspective

Maureen Brookes and Levent Altinay



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Introduction

This textbook has been designed to develop your understanding of entrepreneurship within hospitality and tourism. Schumpeter (1934: 354) is often credited with the first definition of entrepreneurs as those 'individuals whose function is to carry out new combinations of means of production'. While entrepreneurship can therefore be considered the process by which individuals carry out this function, there is no universally accepted definition of entrepreneurship (Spencer *et al.*, 2008). Academics have examined entrepreneurs and entrepreneurship, from a wide range of theoretical perspectives and within a variety of different contexts. Entrepreneurship has been explored through decision sciences, economics, management, sociology and psychology. Entrepreneurs and entrepreneurship have been studied through the endeavours of individuals working for themselves, and individuals working within corporations. They have been explored as part of social and professional networks, including franchising. Additionally, the value of entrepreneurship has also been considered from both economic and social perspectives. Despite this diversity, there is general consensus that entrepreneurs and entrepreneurship make an economic contribution at both a national and global level.

There is also a general agreement that there are two concepts fundamental to entrepreneurship. The first concept is opportunities, which are argued either to be created or discovered by entrepreneurs and which arise out of market dynamics or inefficiencies (Edelman and Yli-Renko, 2010). These opportunities are the situations in which new means of production can be carried out (Shane and Venkataraman, 2000). The Global Entrepreneurship Monitor (Singer *et al.*, 2014) identifies that entrepreneurs have the capability to detect opportunities, seize them and transform them into a venture, whether this be for economic or social gains. In fact, some view entrepreneurship as the nexus of the individual and the opportunity (Sarason *et al.*, 2006). The second concept fundamental to entrepreneurship is innovation, or more specifically, the new or novel combination of resources identified to address an opportunity (Schumpeter, 1934) that yields new products, services, methods of production or markets. Entrepreneurs are the creative force behind innovation, and entrepreneurial mindsets support innovation, change and growth (Chirico *et al.*, 2011).

Entrepreneurs and entrepreneurship are vitally important within the hospitality and tourism industries. Although frequently considered distinct industrial

sectors, hospitality and tourism are closely intertwined sectors that meet customers' recreation, leisure and entertainment needs, and the needs of international and domestic business and leisure travellers. Subsectors include, hotels and other types of lodging, restaurants, pubs, bars, nightclubs, contract catering, gaming, events, visitor attractions and travel and transport (International Labour Office (ILO), 2010). Combined, hospitality and tourism contribute significantly to local, regional, national and global economies. According to the UNWTO (2014), international tourist arrivals grew to 1.135 billion in 2014, generating US\$ 1.5 trillion in export earnings. International visitor spending on hospitality, including accommodation, food and drink, entertainment, shopping and other services reached an estimated US\$ 1,245 billion (Euro 937 billion). Forecasts are for continued growth with 1.8 billion international tourist arrivals predicted by 2030. Arrivals in emerging economy destinations (Asia Pacific, Central and Eastern Europe, Middle East and Africa) are expected to increase at twice the rate of those in advanced economies. Like entrepreneurship therefore, hospitality and tourism are important to many national economies, creating jobs and contributing to national gross domestic product (GDP). For many countries, domestic tourism is also important to economic health and the provision of stable revenue streams, particularly in times of environmental uncertainty (OECD, 2014).

History identifies numerous hospitality and tourism entrepreneurs across the different industry subsectors who were influential in developing the industry as we know it today. One of the best known hotel entrepreneurs is Conrad Hilton, who bought his first hotel in Cisco, Texas in 1919. He subsequently expanded throughout the US and formed the Hilton Hotels Corporation in 1946. In 1948, the name was changed to the Hilton International Company which became the world's first international hotel chain. Today, Hilton International has 540 hotels in 78 countries and 6 continents, operating under 13 different brands (www.hilton.com, 2015). JW Marriott was another hospitality entrepreneur who started out with a root beer stand in Washington, DC in the USA in 1927. That business soon became a family restaurant known as The Hot Shoppe. It wasn't until 1957 that Marriott opened his first hotel, the Twin Bridges Motor Hotel in Arlington, Virginia. In 1967, he formed Marriott Inc. expanding through the development of hotels, different restaurant brands, airline in-flight food service, and contract catering. Today Marriott International has a portfolio of 19 lodging brands and 4200 properties, operating in 79 countries across the globe (www.marriott.com, 2015). One of the world's largest fast food brands, also began life through an entrepreneurial founder by the name of Fred DeLucca. As a 17 year old, DeLucca was trying to fund his university tuition when a family friend suggested opening a submarine sandwich shop and provided a loan to start the enterprise in 1965 in

Connecticut, USA. The partners grew the outlets slowly and began to franchise in 1974. Today, the Subway empire comprises over 43,000 outlets in over 110 countries (www.subway.com, 2015).

One of the world's most famous visitor attractions is Disneyland. This theme park would not have been opened without the efforts of the entrepreneurial Walt Disney, best known as an animator and film maker. This entrepreneur first envisaged the idea for a theme park in the late 1940s as a place where his employees could spend time with their children (<http://thewaltdisneycompany.com/about-disney>, 2015). With funding from the Bank of America, Disneyland, one of the world's first theme parks, opened on July 17, 1955 in California and attracted visitors from around the globe. Disney theme parks were later opened in Florida, Japan, France and Hong Kong and at the time of writing this book, a new theme park is scheduled to open in Shanghai, China. Within the travel and transport sector, Sir Freddie Laker, an English entrepreneur, was best known for founding Laker Airways in 1966, considered the original no-frills airline business model which many airlines such as Southwest Airlines and EasyJet replicate successfully today (<http://www.telegraph.co.uk/news/obituaries/1510173/Sir-Freddie-Laker.html>, 2015). Richard Branson is also a well-known entrepreneur within the airline sector, starting Virgin Atlantic Airways in 1984, and subsequently a number of other regional airlines. His most recent tourism entrepreneurial venture however is Virgin Galactic, a space tourism company launched in 2004 (<http://www.virgingalactic.com/>, 2015).

In addition to these famous hospitality and tourism entrepreneurs, there are countless individuals who represent the backbone of the industry and operate many small to medium-size enterprises (SMEs). These individuals identified opportunities which could be fulfilled through the development of a hospitality or tourism business, but did not develop their enterprise into larger international organisations such as those described above. In the UK, SMEs represent 80% of the hospitality and tourism sector (Tourism Alliance, 2010) and there are more than 250 million hospitality and tourism SMEs in Europe (ILO, 2010). While there are wide variations across countries, the ILO (2010) also reports that 80% of people employed in the hospitality and tourism sectors are within SMEs. This employment was created by the numerous hospitality and tourism entrepreneurs who identified market opportunities within these industrial sectors and pursued them.

There is no global agreement on the definition of an SME. The European Union defines an SME as an organisation with less than 250 employees, with turnover of no more than Euros 50 million and a balance sheet of no more than Euros 43 million. In the US, however SMEs are businesses with fewer than 500 employees

and the maximum revenue varies depending on industrial sectors. While the definition changes depending on geographical location, there is general agreement that SMEs are essential for economic prosperity and job creation. However, SMEs are also noted for their failure rate. European Commission research suggests that only 50% of firms are still trading 5 years after their start up (EC, 2015). As such, SMEs are argued to reflect what Schumpeter (1934) termed as 'creative destruction'. Schumpeter argued that business failure is an inherent part of economic growth in a free market economy. As some enterprises fail, other new enterprises are started and this situation leads to competition and innovation, which in turn drives change, productivity and economic growth.

It would seem therefore that both entrepreneurs and entrepreneurship drive innovation and economic growth. In addition, entrepreneurs are extremely important in the hospitality and tourism industries, through the development of SMEs which are the backbone of the industry, or through the subsequent creation of global, multi-sector industries. This textbook therefore has been designed to develop your understanding of the different types of entrepreneurship within hospitality and tourism. It is structured around three key themes. The first section introduces you to different theoretical perspectives of entrepreneurs and entrepreneurship. The second section identifies different types of entrepreneurship that exist within these sectors today, including social, corporate, ethnic minority, franchising and social franchising. The third and final section explores the growth of entrepreneurship and some of the challenges entrepreneurs face when trying to grow their business enterprises. Each theme is introduced by an editorial which explains the relevance of the theme and provides an overview of the chapters contained within that theme. The different chapters contain case study examples of hospitality and tourism entrepreneurs and entrepreneurial enterprises from different countries to illustrate the key arguments presented. Each chapter also contains a number of questions to aid your understanding of the chapter content and its application to hospitality and tourism. We hope you enjoy reading this text.

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