

Recession and Family Firm Performance: An Assessment of Small U.K. Family-Owned Hotels

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Abstract

The prevailing view in the literature is that small family firms outperform nonfamily businesses. The nature of the former's management style also means that these businesses are more likely to sustain their performance in a recession. Drucker (1985b) extended the Schumpeterian view that the most important time for entrepreneurial behavior is in periods of environmental turbulence such as during a major economic downturn. A mail survey of small family-owned and nonfamily U.K. hotels was utilized to assess business performance, entrepreneurial orientation, and strategic flexibility. Results indicated that family-owned hotels outperformed nonfamily businesses. Family-owned hotels which enjoyed sales growth during the recession were those which exhibit an entrepreneurial orientation and strategic flexibility. This conclusion was found to apply to both family-owned and nonfamily hotels. The implications of these results are that small family firms seeking to survive in a recession should probably exhibit an entrepreneurial orientation and be strategically flexible.

Keywords: Entrepreneurship, recession, strategic flexibility, family business, small hotels

JEL Classification codes: M1, M3

The subprime mortgage crisis triggered a subsequent meltdown in the world's financial markets, which in turn resulted in the 2008/9 global recession. One very obvious impact of the economic downturn was that the total wealth of virtually all consumers in developed nations has been reduced following the onset of this global crisis (Cooper, 2008). In the United Kingdom, where financial institutions represent a very significant proportion of the country's total gross domestic product (GDP), the length and depth of the recession have been greater than in most other developed economies, as was evidenced by the announcement in October 2009 that the United Kingdom had been in recession for the longest period since records began in 1955 (Chapman, 2009).

Traditionally, small firms suffer more than larger firms during an economic downturn because the former tend to have very limited financial resources. Additionally, small firms are heavily reliant upon bank borrowing, and during a recession, banks tend to exhibit an unwillingness to grant additional loans to small firms (DeDee & Vorhies, 1998). In terms of whether family firms are more able to weather a recession than nonfamily firms, Braun and Latham's (2009) study of the performance during the 2001 recession in the United States concluded that small family firms were better able to survive a downturn than small nonfamily firms. Hence one purpose of this paper is to determine whether this perspective is applicable to small U.K. family firms in the current recession.

From his studies of organizational performance during economic downturns, the Austrian economist Schumpeter (1934) posited that business survival rates were likely to be highest among entrepreneurial firms. The other purpose of this paper, therefore, is to determine whether this theory is applicable to small U.K. family-owned businesses during a major recession.

Family Firms

As noted by Sindhuja (2009), there is a lack of consensus in the literature in terms of defining what constitutes a family firm. However, it would appear that three key issues have been commonly employed by researchers when defining the family firm. These are whether (a) a firm is managed by members drawn from a single dominant family group (Daily & Dollinger, 1993); (b) a single dominant family group owns more than 50% of the shares in a business (Cromie, Stephenson, & Montieth, 1995); and (c) the members of the firm represent an emotional kinship group, perceiving their firm to be a family business (Gasson et al., 1988). Cowling and Westhead (1996) consolidated these various perspectives and proposed that when researching family firms, one should seek to determine whether (a) more than 50% of voting shares are owned by a single family group, and (b) the company is perceived by the respondent to be a family business. Cowling and Westhead also added a third dimension, namely, whether 51% or more of the management team is drawn from the largest family group which owns the company. Other researchers, however, have pointed out that this last dimension would exclude firms where a family holds the majority of the shares, or the family defines business strategy but employs professional managers to oversee day-to-day operations (Chaston, 2009).

The American academic Chandler (1977) was somewhat dismissive of family firms. Chandler believed that family ownership is dysfunctional and that the structure of family firms means they can never be as successful as large, professionally managed, equity-based corporations. Research on the small and medium-size (SME) sector has led to the identification of the important role of family firms (Chaston, 2009). Chandler's views are now seen as somewhat narrow and not adequately reflective of reality. Trevinyo-Rodriguez (2009) noted that in most countries, family firms are the dominant business structure: they represent 60% in France; 60% in Germany; 74% in The Netherlands; 74% in Spain; between 70% and 80% in Argentina, Chile, and Uruguay; and between 85% and 98% in Mexico and Brazil of the total trading entities in these respective countries. In the United States, approximately 22.9 million of all U.S. firms are classified as small businesses, and of these, depending upon which taxonomy is utilized, 65% to 68% can be considered as family firms. Furthermore, it is estimated that family firms generate 64% of the total U.S. GDP and employ 62% of the entire work force (Astrachan & Shanker, 2003).

An area of small business research which has received significant attention over the years is the issue of the differences which exist between family and nonfamily firms (Ibrahim, Angelidas, & Parsa, 2008). The advantages enjoyed by family firms include a greater focus on building customer loyalty, an emphasis on playing a more active role in the community, and a reliance on a culture of shared values (Montgomery & Sinclair, 2000). Family firms may also be nimbler, more customer-oriented, and more quality focused; this combination allows them to be well-suited for surviving in increasingly competitive global markets (Chaston, 2002).

Small Firm Performance

Anderson and Reeb (2003) reported that family firms tend to outperform nonfamily firms. Studies show that good planning is a key to the success of family firms (Aram & Cowen, 1990) and is a major contributor to profitability (Knight, 1993). In their study of U.S. small firms, Daily and Dollinger (1992) found that net profit margins were higher in family-owned and family-managed firms than those of the firms' major competitors. Previously, Demsetz (1983) had suggested that the higher performance of family firms was due to the fact that their owners are more likely to maximize the value of the firm than professional managers of nonfamily businesses, who may use strategies more suited to maximizing short-term performance. Demsetz believed that these managers prefer to maximize their own utility function, realizing immediate financial gains for themselves, rather than pursuing activities which optimize long-term business performance.

Daily and Dollinger (1993) concluded that family firms tend to have fewer employees than their nonfamily counterparts because many family firms do not seek to increase their employment size other than to implement actions consistent with meeting the needs of employing more family members. Daily and Dollinger found that professionally managed, independent manufacturing firms with fewer than 500 employees were significantly

larger in terms of number of employees than family-owned and family-managed firms. Cromie et al. (1995) investigated family and nonfamily quoted and unquoted companies in Ireland and also found that family firms were smaller in terms of the number of employees when compared with nonfamily firms.

Another suggestion is that family firms do not place high emphasis on short-term sales performance or expanding their workforce because these organizations have objectives other than immediate financial performance (Stoy Hayward, 1989). Hay and Morris (1984) proposed that for family firms in the United Kingdom, the most important aim is to pass the business onto the next generation. Donckels and Frohlich (1991) noted that owner-managers of family firms reported markedly different objectives for their businesses than nonfamily managers. Donckels and Frohlich found that owner-managers emphasize the need to maintain the financial independence of both the family and the business and have a greater propensity to retain generated profits within the business. Other research studies have shown that the owners of family companies reported a desire to pass the business onto the next generation; for these companies, business stability is just as important as business expansion.

Westhead and Cowling (1997), however, were unable to support earlier studies showing that in the United Kingdom, family firms outperform nonfamily businesses. They found evidence to suggest that family and nonfamily companies have very similar growth ambitions. Nevertheless, they did conclude that family companies are not profit maximizers because they place greater importance on two other business objectives: to maintain/enhance the lifestyle of the owners and to provide employment for family members.

Entrepreneurship and Recession

Schumpeter (1934) analyzed the performance of firms during the 1930s Great Depression and concluded that business survival rates were likely to be highest among entrepreneurial firms. Schumpeter's perception of entrepreneurship was restricted to that of a meta-economic event caused by a major market change such as the introduction of a new technology. Drucker (1985a) shared Schumpeter's view of the importance of entrepreneurship and described meta-event outcomes as being firms that are "firstest with the mostest" (p. 11). However, Drucker (1985b) did not accept Schumpeter's view of entrepreneurship as being confined to meta-economic events. In Drucker's (1985b) opinion, the development of other forms of new products or new operational processes should also be considered as entrepreneurial.

Miller (1983) suggested that entrepreneurial orientation is demonstrated by the extent to which top managers take risks, favor change, and exploit innovation to achieve competitive advantage. Covin and Slevin (1988) echoed this view when they defined entrepreneurial orientation in terms of the extent to which "managers are inclined to take business-related risks, favour change and innovation, and compete aggressively with other firms" (p. 219). Covin and Slevin developed a quantitative measure of entrepreneurial orientation based upon previous theorizing by Khandwalla (1977), Miller (1983), and Miller and Friesen (1982).

During a period of economic downturn, the intensity of competition will usually increase as firms seek to sustain revenue in the face of a decline in customer spending (Hall, 1980). The majority of firms tend to adopt the survival strategy of reducing internal operating costs and utilizing the savings achieved to offer lower prices (Bacot, Hartman, & Lundberg, 1992). Although price cuts may assist a firm sustain an acceptable revenue flow during a recession, the strategy will usually be accompanied by a reduction in profits (Goodell & Martin, 1992). Such outcomes frequently occur among retail sector firms (Wener, McDermott, & Rotz, 2004), as illustrated in the 2008 recession by major U.K. retailers who implemented price cuts across their entire product range. Price cuts increased total sales, but typically also led to a major fall in total profits. Similar outcomes have been reported for service sector firms in the United States (Bustillo, 2009). Furthermore, those firms which entered the recession with limited financial reserves, servicing high debt levels or unable to attract new investors, face the risk that declining profits may ultimately lead to bankruptcy (Quilter, 2009).

Drucker (1955) argued that a characteristic of postwar business is market volatility and that a critical attribute of successful managers is their ability to act entrepreneurially in response to significant market changes such as those which occur during an economic downturn. Other studies have also concluded that firms which focus on creating new products and services are more likely to emerge from a recession in a stronger market position than their competitors who choose to cut costs or improve internal efficiencies (Trott, 1998). Ghemawar (1993) reviewed the failure of the U.S. semiconductor industry, then market leaders, to invest in the development of the next generation of random access memory chips (DRAMs) during the 1970s recession. Gilbert's

(1990) analysis of the behavior of many U.S. firms during the 1980s recession also revealed that the firms' management made the mistake of focusing on short-term actions. The importance of ongoing investment in new products and entrepreneurial behavior has been endorsed by a survey of over 1000 chief executive officers (CEOs) of major businesses in both the manufacturing and service sectors conducted by IBM (2008). The CEOs expressed the view that, in the face of the worst recession since the 1930s, long term survival and growth are critically dependent upon sustaining spending on new products, improving internal processes, and embedding an entrepreneurial culture across an entire organization.

Small Firms in Recession

During a recession, there is a tendency for bankruptcy levels among small firms to be higher than those of their counterparts in the large firm sector (Chaston, 2009). This result reflects the fact that large firms have access to larger financial reserves or external borrowing whereas small firms tend to be reliant on bank borrowing and are less able to persuade banks to lend to them during an economic downturn. In relation to external borrowing, DeDee and Vorhies (1998) asserted that a key difference between small family-owned and nonfamily businesses is that the former tend to be conservative and more risk averse. They are less willing to allocate financial reserves to high-risk activities such as entering new markets and prefer self-funding over borrowing when implementing a growth strategy. As a consequence, family firms are usually in a much better financial position to weather an economic downturn than their nonfamily firm counterparts. This view is shared by Braun and Latham (2009) who expressed the view that "the family's organizational stewardship leading up to the recession provides distinctive performance advantages. Furthermore, as market uncertainty arises and time becomes of essence, the gains of swift decision making with the firm's resources accrue also to outside shareholders" (p. 31). Braun and Latham also maintained that family firms' conservative strategy of retaining a greater proportion of profits within the business provides financial resources that can be used to implement actions to sustain sales during an economic downturn.

According to Yammeesri and Lodh (2004), the stronger financial position of family firms is due to the business being perceived by the owners as an asset to be passed on to their descendants rather than wealth to be consumed by the current generation. As a consequence, family shareholders will monitor the firm's management and seek to maximize long-term performance. Thus, the owners adopt a longer term perspective in relation to the business, employees, customers, and other important stakeholders. In addition, family shareholders often have accumulated extensive knowledge from their long experience of the business because they have been in contact with the operation from their early childhood (Westhead & Howorth, 2006). This familiarity means they are better informed about the firm than managers in nonfamily businesses, many of whom often remain with a firm for just a few years. This accumulated knowledge is extremely useful when managers need to implement changes in order to survive a recession (Chaston, 2002).

These findings concerning the performance of family firms provide the basis for the following hypothesis:

H1: During the current recession, small family firms will outperform small nonfamily firms.

Family Firm Entrepreneurship

Naldi, Nordqvist, Sjöberg, and Wiklund (2007) stated that the performance of small family firms was enhanced by entrepreneurial behavior. Naldi et al. proposed that to sustain success, family firms need to focus on being innovative because acquiring the necessary skills to act proactively will strengthen their competitive position. Zahra (2005) also argued that entrepreneurial behavior had the potential to enhance the business performance of family firms. Zahra posited that the willingness of the CEO to engage in risk taking as the leader of the family firm had a critical influence over business performance. According to Yan and Sorenson (2003), the role of the CEO in a family firm is the dominant factor influencing the level of entrepreneurial behavior exhibited by the organization. In their view, a critical role of the family firm CEO is to intercede in the management team's decision making in terms of supporting the acceptance of risk by team members. Yan and Sorenson believed that another important leadership role was to ensure that relationship conflict did not occur that might damage the adoption of innovative business strategies.

Kellermanns, Eddleston, Barnett, and Pearson (2008) examined the influence of management succession in relation to entrepreneurial behavior and concluded that being entrepreneurial was mediated by the degree

to which the founder expected the firm to be managed by successive generations of the family. Founders who did not expect the business would be managed by the next generation of the family were less interested in creating an entrepreneurial culture inside the organization (Kellermanns et al., 2008). In a nutshell, “knowing that the benefits of his or her behavior will accrue to future generations of the family, the CEO may be highly motivated to continue to pursue entrepreneurial ventures” (Kellermanns et al., 2008, p. 13).

A review of the family firm literature reveals only a limited amount of information concerning the performance of family firms during a period of recession in relation to their level of entrepreneurial behavior (Chrisman, Chua, & Sharma, 2005). Chrisman et al. (2005) argued that existing entrepreneurship research, although not totally neglecting family firms, used very selective lenses that often ignored the family dimension when examining innovative behavior. Breton-Miller and Miller (2008) put forward that many family firms avoid risky, innovative ventures and long-term infrastructure investments. According to Breton-Miller and Miller, such organizations are unlikely to exhibit an entrepreneurial orientation. An exception to this perspective is provided by Lee (2006) who examined the performance of U.S. family firms over a number of years during which these organizations faced an economic downturn. Lee concluded that during an economic downturn, entrepreneurial family firms are likely to grow faster and be more profitable than nonentrepreneurial family businesses.

These findings, when associated with the more general theory concerning the importance of entrepreneurship to ensure survival during a recession, generate the following second hypothesis:

H2: Family firms sustaining business performance in a period of recession will exhibit an entrepreneurial orientation.

Flexibility and Competence

A characteristic difficulty of service markets is the issue of being able to offer a product proposition which is tangibly different from those of the competitors. The internal competences of service firms are often critical in achieving perceived superiority over other firms in the same market sector (Matthews, 2003). Prahalad and Ramaswamy (2000) claimed that the most critical competence in volatile service markets is strategic flexibility. This attribute will determine the speed and effectiveness with which firms respond to changing customer behavior. There are many definitions within the literature of what constitutes strategic flexibility. Possibly one which seems to capture the essence of the concept is the definition proposed by Sanchez (1995): strategic flexibility represents an organization's ability to perceive the existence of alternative opportunities within a market and to then enact actions most likely to optimize future business performance. This viewpoint on the importance of strategic flexibility provides the basis for the following third hypothesis:

H3: Successful small family firms exhibit a high level of strategic flexibility.

Methodology

The hotel industry was selected as the focus of this study because this service sector provides a very rapid indicator of any adverse shifts in discretionary consumer spending patterns during an economic downturn (Kent, 2009). Available data on the 2008 recession in relation to the U.K. hotel and tourism industries have indicated that for three months of 2008, sector revenue declined by 5.1% versus that of the previous year (Duncan, 2009). In addition, most small hotels tend to be family businesses offering relatively similar service propositions.

Laforet and Tann (2006) suggested that managers do not all exhibit a common approach to strategic decision making. The managerial priorities and behavior in a one-person business are very different from those of a company employing over 200 members of staff (Rutherford, McMullen, & Oswald, 2001). Rutherford et al. (2001) have proposed that a classification of firms based on employee numbers is mandatory when researching SME firms. As a consequence, the sample frame was restricted to firms employing between 10 and 49 employees.

A sample frame of 500 U.K. small rural hotels with 10-49 employees was created using a commercial database. To minimize variance caused by different service provision portfolios, the mailing was restricted to the managing directors of rural hotels in the South West United Kingdom. A characteristic of hotels in this region is that their dominant revenue source is tourism. Prior to the mailing of the survey, a small-scale pilot

study of 25 hotels was undertaken. The purpose of the pilot study was to identify any areas where revisions in design might enhance the effectiveness of the survey. Although there is a risk that mail surveys may be answered by junior or uninformed members of staff, this outcome is less prevalent in the small business sector. Researchers seeking to validate the expertise of respondents in studies of the SME sector have confirmed that, in the majority of cases, mailings sent to the managing director are answered by this individual or, where the task is delegated, the person involved is usually another member of the organization's senior management team (Chaston, 2002).

The methodology used to determine whether a firm is owned and controlled by a single family was proposed by Westhead and Cowling (1997) and subsequently used by other researchers (Mroczkowski & Tanewski, 2007): respondents had to say whether a single family owns between 51% and 100% of a business. Business performance was measured by asking respondents to comment on average sales growth over the previous 12 months on a 5-point scale of sales; that is, whether sales declined by more than 10%, sales declined by 1-10%, there was no change in sales, sales increased by 1-10%, or sales increased by more than 10%. This scale has been validated in earlier studies as an effective mechanism through which to assess the performance of U.K. small firms (Chaston & Mangles, 1997; Chaston, Badger, & Sadler-Smith, 1999).

The scale developed by Covin and Slevin (1988) was used to measure entrepreneurial orientation. This scale has also been validated in the specific context of research on small family firms (Yener & Aykol, 2008). Respondents were asked to indicate their views using a 5-point scale ranging from "very strongly disagree" through to "very strongly agree." This scale assumes that a conservative versus an entrepreneurial orientation exists as a continuum. The scale is not intended to measure absolute values. Instead, the strength of entrepreneurial orientation is assessed in relation to whether a hotel has a higher or lower score relative to the mean score for the entire sample. Covin and Slevin recommended using statistical tests to interpret the measurement of entrepreneurial orientation; that is, both a *t*-test and regression analysis.

The scale developed by Chaston and Mangles (1997) and further validated by Chaston, Badger, and Sadler-Smith (1999) was used to measure strategic flexibility. The scale assesses factors concerning the ability to identify new market opportunities, manage innovation, and launch new products. Respondents are asked to comment on a 5-point scale ranging from "very strongly disagree" through to "very strongly agree." Flexibility is calculated as being the overall mean value for the responses concerning the measured factors. This scale assumes that strategic flexibility exists as a continuum and is not intended to measure absolute values. Instead, the strength of strategic flexibility is assessed in relation to whether a hotel has a higher or lower score relative to the mean score for the entire sample.

Results

The initial mailing generated 126 useable surveys, and a follow-up re-mailing generated a further 30 responses. The total response of 156 represents a total response rate of 31.2%. Within the sample, 106 firms indicated the attribute of a single family owning between 51% and 100% of the business. In other words, 68% of the hotels responding to the survey could be considered as family-owned businesses. The percentage shows that only a minority of small firms are not family-owned enterprises, as evidenced in other studies of the U.K. small business sector (Chaston, 2002). To assess the potential influence of nonresponse, a variance analysis was undertaken comparing the responses from the first 78 respondents with those from 78 respondents whose forms were received later. There was no indication of significant variance between these two groups of respondents, which would suggest that nonresponse is not a cause for major concern in relation to the validity of the conclusions to be drawn from the data obtained.

Kellermanns et al. (2008) suggested that entrepreneurial orientation may be influenced by whether the founder or a subsequent generation is running the family business. Hence, respondents were asked whether the hotel was a first or subsequent generation operation. Although visual examination of the data suggested some variation between first and subsequent generation respondents, an ANOVA test revealed no statistically significant differences. Hence, all further analysis was undertaken on all respondents to the survey.

The calculated mean values for sales growth for family- and nonfamily-owned hotels were 2.96 and 2.54 respectively. A *t*-test of these two means was significant at $p < 0.05$. The calculated Cronbach alpha score for the entrepreneurial orientation scale was 0.79. Calculated mean values for the entrepreneurial orientation for family- and nonfamily-owned hotels were 2.80 and 2.71 respectively. A *t*-test of these two means was not

significant at $p < 0.05$. Regression analyses aimed at testing the relationship between business performance and entrepreneurial orientation for both types of hotel were statistically significant at $p < 0.05$ (family-owned hotels $R^2 = 0.22$; $F = 3.17$; $t = 1.92$; nonfamily-owned hotels $R^2 = 0.24$, $F = 3.28$, $t = 1.97$).

The calculated Cronbach alpha score for the strategic flexibility scale was 0.81. Calculated mean values for strategic flexibility for family- and nonfamily-owned hotels were 2.74 and 2.69 respectively. A t -test of these two means was not significant at $p < 0.05$. A regression analysis of business performance in relation to strategic flexibility was significant at $p < 0.05$ for both types of hotel (family-owned hotels $R^2 = 0.092$; $F = 9.14$; $t = 3.08$, $p < 0.04$; nonfamily-owned hotels $R^2 = 0.11$; $F = 10.64$; $t = 3.08$).

Conclusions

The calculated mean values for sales growth for family- and nonfamily-owned hotels were 2.96 and 2.54 respectively with the t -test for these two means significant at $p < 0.05$. Hence, the data appear to support hypothesis $H1$ according to which during the current recession, small family firms will outperform small nonfamily firms. The regression analysis of business performance in relation to entrepreneurial orientation for family-owned hotels was statistically significant at $p < 0.05$; the data support hypothesis $H2$ according to which higher business performance will be found among family firms which exhibit an entrepreneurial orientation.

The t -test for the calculated mean values for entrepreneurial orientation in family-owned versus nonfamily hotels was not significant at $p < 0.05$ whereas the regression analysis of business performance in relation to entrepreneurial orientation for nonfamily hotels was statistically significant at $p < 0.05$. These results would suggest that the relationship between higher business performance and entrepreneurial orientation is not unique to family-owned hotels; the same outcome is also apparent for small nonfamily hotels within the sample.

The regression analysis of business performance in relation to strategic flexibility was statistically significant at $p < 0.05$. This result indicates that sales growth was higher among family-owned hotels reporting a higher level of strategic flexibility. This outcome would appear to support hypothesis $H3$ according to which successful small family firms exhibit a high level of strategic flexibility. Nevertheless, the t -test for the calculated mean values for strategic flexibility in family-owned versus nonfamily hotels was not significant at $p < 0.05$ whereas the regression analysis of business performance in relation to strategic flexibility for nonfamily hotels was statistically significant at $p < 0.05$. These results would suggest that the relationship between higher business performance and strategic flexibility is not unique to family-owned hotels; the same outcome is apparent for small nonfamily hotels within the sample.

Discussion

Most studies about family and nonfamily firms have shown that family-owned business entities are able to outperform organizations which are not under the control of a family (Anderson & Reeb, 2003; Daily & Dollinger, 1992). The present research study has also found that small family firms outperform nonfamily firms. As this study was undertaken during an economic downturn, the conclusions also support Braun and Latham's (2009) findings that in the United States, family firms appear to be more able to survive poor economic conditions than small, nonfamily businesses.

Entrepreneurially orientated firms are usually the first to exploit emerging marketing opportunities. These firms act more rapidly than their slower to respond and more conservative counterparts in the same business sector (Covin & Slevin, 1988; Miller & Friesen, 1982). Drucker (1955) claimed that this capability is critical in an economic downturn. The CEOs of major companies have endorsed the view that during the current recession, it is important to sustain spending on new products, improve internal processes, and embed an entrepreneurial culture across the entire organization (IBM, 2008). The present study provides quantitative evidence that an entrepreneurial orientation is beneficial in terms of delivering a positive influence over sales growth performance among small family-owned hotels in the United Kingdom during the current economic downturn. This conclusion is not just applicable to family-owned hotels as the same outcome was noted for the nonfamily businesses in the sample.

Trott's (1998) study of business survival during a recession suggested that firms which exhibit strategic flexibility are more likely to emerge from a recession in a stronger market position. In Trott's view, competitors who choose to focus on short-term actions such as cutting costs and improving internal efficiencies often

weaken their long-term market position. In the specific case of service sector firms, although restructuring and reducing employee numbers during the recession can be seen as necessary actions, Brigance (2008) posited that to sustain long-term market position and to retain consumer confidence, service firms must focus on developing new services that will be sought by consumers during the recession and when the level of consumer spending eventually begins to increase. The results of this study show the benefits which accrue to family-owned hotels exhibiting strategic flexibility, but these results also suggest that the same conclusion can be drawn in relation to small nonfamily firms. The regression analysis shows that all the hotels which exhibited a high level of flexibility achieved a higher sales growth rate when compared with their less strategically flexible counterparts.

Although this study has indicated higher sales performance for family-owned hotels, differences between family and nonfamily businesses in relation to factors such as entrepreneurial orientation or strategic flexibility were not evident. One possible reason for this outcome is that some studies have adopted a univariate approach to data generation (Westhead, 1997). As a consequence, conclusions are reached about data sets which do not contain any information about nonfamily firms. Another significant issue is that many family firm research studies have focused on U.S. small businesses. Research studies by Yener and Aykol (2008) and Westhead and Cowling (1997) have shown that there are a number of differences in the nature of the business culture which exists in the various countries where studies have been undertaken.

A potential weakness of the present study was its focus on the performance of respondent hotels over a 12-month period. Further understanding of the role of entrepreneurial behavior and strategic flexibility during changing economic conditions would be generated by the implementation of a longitudinal study to obtain additional data as the economy begins to exhibit signs of recovery. Additionally, the primary focus of this study was how small family-owned U.K. hotels are responding to the current recession. Further research could usefully determine whether the conclusions reached in this study are of relevance to small family firms in other service sector markets.

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