FACTORS ENHANCING ECONOMIC PERFORMANCE IN HOSPITALITY. THE PARADIGM OF GREEK HOTEL COMPANIES

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ABSTRACT

Hotel managers focus on identifying, creating or developing competitive advantages that can be utilised in order to improve the company's economic performance and bottom line. This paper attempts to identify those internal factors having enhanced the financial performance in the Greek hospitality sector during 2008-2010. The survey was conducted in Greek high-class hotel companies and reveals that the enhancement of a hotel's economic performance can be achieved by the following key factors: exceptional services; well-trained and highly motivated associates; contemporary managerial approaches; pricing tactics maximising the revenue per room; investments in new technology systems; organization of activities keeping the guests (and the revenues) within the premises; application of sustainable practices; niche marketing and advertising so as to attract new guests; and, formal cooperation with other tourism stakeholders. The findings of this study are suggested as best practices for the hospitality industry.

Key words: *Economic performance; hotels; hospitality; profitability; success factors.*

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INTRODUCTION

Tourism is a key driver of socio-economic progress through the creation of jobs and enterprises, infrastructure development and revenues earned. International tourism rebounded strongly in 2010, with 940 million international tourist arrivals (up by 6,6% over 2009) and tourism receipts to have reached US$ 919 billion worldwide (693 billion euros), up by 4,7% in relation to 2009. Europe remains the region with the highest tourist arrivals (471 million) and tourism receipts ($441 billion) maintaining the largest share of the international tourism market (UNWTO Tourism Highlights, 2011). Greece is ranked 21st in Europe and 29th overall, in the Travel & Tourism Competitiveness Index rankings 2011, down by three positions in Europe and five positions overall since 2009 (World Economic Forum, 2009 & 2011). Table 1 summarizes the basic figures and performance indicators of the Greek tourism for the years 2009 and 2010.

Table 1: Basic Figures of Greek Tourism for the Years 2009 & 2010

Basic Figures & Performance Indicators	*YEAR*	
	2009	*2010*
Contribution to GDP	**15,7%**	**15,4%**
Contribution to Employment	**17,4%**	**17,1%**
World Rank-Tourist Arrivals	**16th**	**17th**
World Rank-Receipts	**15th**	**21st**
International Tourism Receipts (billion)	**10,4 €**	**9,6 €**
Average per Capita Expenditure	**697 €**	**640 €**
Market Share World - Arrivals &	**1,7%**	**1,6% & 1,4%**

Source: Association of Greek Tourism Enterprises, 2009-2010

The hospitality industry is part of the travel and tourism industry and, consequently, there is a strong interrelation between these two industries (Walker, 2010). Whenever tourism goes well, there is an increase in hospitality as well. This is the reason why the hospitality industry is considered cyclical, sometimes experiencing falling occupancy rates and revenues, while at other times increasing these two variables significantly (Hayes et al., 2011).

In 2010 the average occupancy rate for all the Greek hotels was 60,0% and in 2009 this rate was 51,1%. At the same time the average revenue per available room (RevPAR) in 2010 was 13.274,39 euros, decreased by 13,4% in relation to 2009 (ITEP, 2011). The hotel capacity in Greece in the years 2009 and 2010 was as follows (Table 2).

Table 2: Hotel capacity in Greece (2009-2010)

Hotel Capacity	2009	2010
Hotels	9.559	9.732
Rooms	383.000	397.700
Beds	732.279	763.407
Distribution of beds per class	5* 91.770	5* 102.428
	4* 187.494	4* 196.862
	3* 171.202	3* 177.923
	2* 226.707	2* 230.358
	1* 55.106	1* 55.835
International arrivals per bed	20,4	19,7
Average hotel size in rooms	40	41

SETE & Greek Chamber of Hotels (2010)

Due to the high number of lodgings operating in Greece, the competition in the Greek hospitality sector is particularly keen. In 2009 and 2010 the average index of gross profit margin decreased in Greece (especially in 2009) irrespectively of the hotel rating. The 3-star hotels had the highest gross profit margin (33,8%) while the 5-star hotels had the lowest (22,09%). Moreover, the operating profit margin was negative and the net profit EBITDA margin was higher in the 3-star hotels (23,33%) compared with the other hotel categories. As for the net profit margin (before taxes), the rate was negative for the majority of hotels and geographical areas (ICAP, 2011).

LITERATURE REVIEW

The success of a hotel company depends on a number of external and internal factors. External factors include several macro-environments such as demographic, economic, natural, technological, etc., and, therefore, companies have little or no control over these factors (Gursoy & Swanger, 2007).

Internal factors include various kinds of knowledge, production equipment, buildings, personnel, capital, marketing capabilities, and other company resources that can influence the company level of success. These internal factors can be labelled company competencies (Harmsen et al., 2000). Although the external environment influences company success, sustained competitive advantages derive from the internal resources and capabilities (also referred to as core competencies) that a company controls (Barney et al., 2001). The term "resources" includes competencies, assets, capabilities, resources, information and knowledge (Kim and Oh, 2004). Core competencies are those processes, skills and assets within the firm that it relies on to achieve competitive advantages (Olsen et al., 1998). Therefore, hotel managers should focus on identifying, creating or developing competitive advantages that can be utilised in order to enhance the company's economic performance and bottom line.

The major competitive methods of the hotel firms include: new product development; strategic alliances; brand repositioning; technological innovation; data base marketing; pricing tactics; diversification; service quality management; employees as important assets; in-room sales and entertainment; conservation/ecology programs; and management information systems (Olsen et al., 1998). Some companies are successful because of the identification of the right success factors and implementation of new competitive methods, while others fail because of their inability to identify and implement the proper strategies. Among the internal strategic factors, the human resources, product development, innovation, technology, customer service, and marketing strategies are considered to have a significant impact on a company's financial success (Gursoy & Swanger, 2007).

Amit Sharma and Arun Upneja (2005) in their article "Factors influencing financial performance of small hotels in Tanzania" found out the following (internal) factors as affecting profitability and performance of small hotels in Tanzania: low volume and low prices of rentable rooms; high cost of goods sold, and high cost to sales percentages of controllable expenses; limited investment in technology and equipment; lack of product and service variety and quality; lack of formal training and education opportunities for employees.

Another study by Alison Morrison and Rivanda Teixeira (2004) shows the internal and external contextual factors that were found to impact on performance in the small tourism businesses. The internal factors include the owner's-manager's management capabilities; ownership and organisational structure; involvement in a range of business activities; and, staff and skills. Gu (2005) pointed out that size, occupancy, and ownership are not the only factors that may affect the profitability of hotels. Other factors, such as branding, management systems, service quality, franchise status, guest demographics, etc., may also have impacts on their profitability. The study concluded that economies of scale are the key to profitability.

Finally, the research results of a study by Ottenbacher et al. (2006) revealed that out of 23 factors that had been identified as potentially determining success in new services development, seven factors were found to play a distinctive role: market attractiveness, strategic human resource management, market responsiveness, employees training, empowerment, employee commitment and marketing synergy.

METHODOLOGY

The purpose of this study is to explore the determinants of success for some of the most well-known and profitable hotel companies in Greece. In order to identify the internal strategic factors that enabled the hotel companies to gain their competitive advantages and have significant economic results in the middle of a financial crisis, we applied a methodological approach that includes the following steps:

- Data collection and calculation of various performance indicators.
- Benchmarking as well as empirical analysis for the economic assessment of several Greek hotels and for the identification of the most profitable and successful ones.

- Developing and sending a questionnaire to the successful hotels aiming to identify those factors that have contributed in the enhancement of their economic performance.
- Elaboration of the answers and presentation of the results as best practices for the hotel industry.

3.1 Data collection and measurement of performance indicators

For the purposes of this study the hotel performance assessment methods concern the following variables: Labor productivity, Market share, Average occupancy rate, Turnover (Sales), Net profits (before taxes) and EBITDA, for the period 2008-2010. An extensive elaboration of data published in several sector studies and financial directories (ICAP, 2008-2011) took place so as to gather and calculate the above variables. We measured the labour productivity of each hotel company by dividing the total revenue by the number of employees registered with the local Social Security Organization. The market shares were calculated as a percentage of the turnover (sales) of the hotel enterprises on the total market value of the 5 and 4-star hotels (which in turn is equal to the total sum of turnovers of all the Greek 5 and 4-star hotels).

EBITDA (*Earnings before interest, taxes, depreciation and amortization)* was calculated as follows: Operating margin + Financial costs + Accounted depreciation *costs.*

3.2 Benchmarking and empirical analysis

In order to compare the performance of the hotel companies and identify the most profitable and successful ones, benchmarking process and empirical analysis for the period 2008-2010 was carried out. By scrutinising the results we selected 104 hotels, with occupancy rates to vary from 44 to 100 per cent on an average, net profits (before taxes) from 4.500.000 to 100.000 euros and market shares (in terms of value) from 0,1% to 2,6%. Moreover, the hotels' labour productivity varies from 12.650 to 91.760 euros, the turnover (sales) from 4.743.994 to 38.190.580 euros and the EBITDA from 1.236.088 to 12.487.846 euros (all the above figures are the averages for the years 2008, 2009 and 2010). It is noticeable that among these 104 hotels there are four hotel companies with a total of 26 hotels which have negative net profits (losses) but yet, the benchmarking analysis showed that their overall performance is positive and that's why they are considered successful and were included in the sample.

3.3 Developing and sending questionnaires

Through the literature review we identified several methods utilized by the hotel industry towards creation of growth and value. We evaluated these methods and we discerned the most important factors for the enhancement of economic performance and profitability. A structured questionnaire was developed to serve as the main data collection tool in the study. The questionnaire comprised 19 closed-ended and one open-ended questions. The first section of the questionnaire sought from the respondent hotels relevant demographic information such as business structure, size, rating, etc. (independent variables).

In terms of the dependent variables, the questionnaire included 9 internal factors (and their subcategories) considered to increase hotel performance. These factors are: Exceptional service; Technological innovation; Management capability; Strategic alliances; Niche marketing & advertising; Pricing tactics; Environmental program; In-house animation & outdoor events; Highly motivated Staff; Others. The hotel managers were asked to specify the 10th (and any additional) factor(s) based on their experience and measure each factor using a 5-point Likert scale (5 = extremely important, 1 = not important at all) as to their importance for financial success in their enterprise.

The questionnaires were sent electronically in April 2012 to the hotel managers of 104 hotels that were found to be profitable and are among the most well-known and successful companies in Greece.

The answered questionnaires were collected by June 2012. Four (4) answered questionnaires were not complete and, therefore, they were excluded from the sample and fifty nine (59) questionnaires were answered properly. This response rate (56,7%)

is considered to be satisfactory and sufficient for reliable conclusions. The basic characteristics of the sample are (Table 3):

Table 3: Sample characteristics

Number of Hotels	Classification	Bed Capacity
24	**5***	**13.919**
33	**4***	**18.410**
2	**3***	**725**
Total Number of Employees: 9.323		
Location: City hotels (10), Resort hotels (49)		
Total Market Share (in terms of value): 18,2%		

RESULTS AND SUGGESTIONS

The main findings of the survey are summarized in the Table 4.

Table 4: Statistics and ranking of success factors

Factor	Mean	Rank
Exceptional service	**4,15**	**1**
Highly motivated staff	**3,95**	**2**
Management capability	**3,80**	**3**
Pricing tactics	**3,75**	**4**
Technological innovation	**3,72**	**5**
In-house animation & outdoor events	**3,70**	**6**
Environmental program	**3,68**	**7**
Niche marketing & advertising	**3,66**	**8**
Strategic alliances	**3,65**	**9**
Others	**3,60**	**10**

As can be seen in Table 4 the “Exceptional service” and the “Highly motivated staff” were ranked as the most important factors enhancing economic performance and profitability in the total sample. The factors identified in the open-ended question “Others” include the following findings: spa; conference & meeting facilities; business centre; executive (VIP) lounge; sport & leisure facilities; health club, fitness centre, gym, sauna, massage; loyalty programs for guests and travel agents; special privileges to repeaters.

In terms of the dependent variables, the following aspects were highlighted for each factor and are suggested as best practices for the hotel industry:

Exceptional service: hotels fully committed to the value of warm, traditional hospitality; strong emphasis on personalised service; valet services; signature services.

Highly motivated staff: continuous productivity updating, recruitment and work evaluation; associates undergoing frequent training to upgrade their skills and be professional, attentive, efficient, courteous and committed; special emphasis is placed on work relations, communication, organisational planning, maximization of human potential and level of performance; staff/trainees mobility from other countries for lower cost.

Management capability: total quality management; database management; yield management; management by walking around and interact with employees and guests.

Pricing tactics: special offers and discounts; several packages (e.g. family, weekend, honeymoon, business, gastronomy, stay & drive, etc.); all inclusive; gift vouchers.

Technological innovation: latest guest security, business and entertainment systems; high-speed/WiFi Internet; website with booking engine; property management systems.

In-house animation & outdoor events: organization of several performances, theme nights and entertainment activities so as to keep the guests within the premises.

Environmental program: the EU Eco-label, Green Key, ISO 14001, International Hotels' Environment Initiative, Travelife Sustainability System, Blue Flag and individual application of green practices are among the schemes followed by the majority of the sampled hotels.

Niche marketing & advertising: membership in the Leading or the Small Luxury Hotels of the World; social media; word of mouth advertisement; global distribution systems (GDS); Trip Advisor.

Strategic alliances: partnership with airlines; rent a car; mobile telephony companies for free handsets; sea and land transporters; other hotels and restaurants; golf courts.

CONCLUSION

The possibility to identify and suggest variables contributing to the economic success of the hotel enterprises is very attractive to hoteliers, especially nowadays that the hospitality industry and the entire economy are undergoing a serious financial crisis.

The findings of this study suggest that if hoteliers wish to be successful and profitable, they need to provide traditional, warm, personalized and exceptional services; place special emphasis on well-trained and highly motivated associates; apply contemporary managerial approaches and pricing tactics, such as special offers and packages maximising the revenue per room based on demand projections; invest in new technology systems concerning guest security and business meetings, as well as in systems increasing reservations and hotel sales; organize events and activities so as to keep the guests (and the revenues) within the premises; apply sustainable practices that benefit the environment, attract guests, reduce the operating costs and increase profitability; use the social media, word of mouth advertisement, travel websites, GDS and hospitality organizations to help the hotels best showcase their quality and to attract new guests; and, cooperate formally with other tourism stakeholders (airlines, land and sea transporters, etc.), so as to maximize occupancy and turnover.

Future research should consider qualitative methods (to supplement and enrich the quantitative methods and findings) so as to understand the relative impact of each success factor on the overall performance of the hotel sector. This is likely to provide a perspective on why and to what extent companies should invest in each specific success factor.

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