Perception of cost, cost drivers, human resource management, long and short term critical success factors in the hotel industry: Recommendations for hotel management

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The main objective of the authors is to analyze the perception of hotel owners and managers on the importance of success factors, like human resource management and cost management. The central question is: What do owners and managers think about the influence of these factors on a hotel’s success and which interdependencies can be observed empirically. They further analyzed whether there were differences in manager perceptions that could be correlated to basic hotel characteristics such as quality standard, operating mode, hotel type or size. The results were based on 95 answers of hotel owners/senior managers in Germany. Important results for human resource management were the fact that managers are largely aware of its importance and aim at the goals that are supposed to influence success. Only with regard to a more long term perspective hoteliers displayed some deficits in a temporary understanding of human capital management. In the area of cost management the main starting points identified by hotel managers were in cost cutting, including general as well as personnel costs. Another result was that about 80% of the target group has an understanding of short and long term business success drivers which is more than expected. This understanding is higher for managers in chain hotels. Managers of individual hotels need some improvements especially within completion of the short term performance point of view towards a more long term value perspective. This mainly refers to the transfer of perceived differences between business and value drivers into management action.

Key words: Hotel, hotel management, success factors, cost drivers, value drivers, human resource management, value based management, key performance indicators, cost management.

INTRODUCTION

Due to ongoing and emerging competition it is increasingly difficult for small and medium sized hotels to increase profitability through revenue measures such as price increases or higher occupancy rates. Therefore in order to increase performance in a typical hotel, staff and cost reductions are always under discussion by the management team. This study analyzed the influence of human resource management (HRM) and cost management upon the success of hotels.

The study referred to the German market and was based on 95 standardized online-interviews with owners, directors or senior managers of hotels with mostly between 4 to 100 employees and 2 to 5 stars.

In the hospitality industry almost 80% of all hotels are small or medium sized companies (SMCs) with fewer than 50 rooms (Warnecke et al., 2012: 112-117). Very often they do not have academically trained managers or professional performance measurement. A successful
manager especially in small and medium sized hotels (which is the majority in the target population as well as in the sample) must show a large range of skills. Most of a manager’s time must be spent ensuring the guests feel welcome. However, this research focused on his skills as a business manager.

Understanding management behaviour and critical success factors in small and medium sized hotels provides a basis for improving strategic decisions in such hotels.

Within this framework the main objective of the research was to analyze the influence of different ownership structures (lease, franchise, management contract), hotel types and sizes on HRM and cost management. Anyhow, one of the major findings was that – more than these factors – the degree of professionalism and the self-conception of the managers and the businesses were fundamental factors which had a significant influence on a hotel’s human resource and cost management. A high proportion of hotel managers had difficulties identifying typical business indicators. Accordingly, the study was based on the following research questions in the field of HRM, cost management, business success and general management:

1. What are the basic principles and objectives of HRM in hotels?
2. Is there a correlation between deficient HRM and employee turnover? How does the size of a hotel influence the correlation?
3. What are – from the management point of view – the main starting points for cost cutting?
4. Does size, operating mode or quality standard correlate with the management style and/or cost structure?
5. How do management teams recognize and evaluate long term critical success factors and value drivers?
6. What are the basic cost drivers behind different types of costs (personnel, marketing, property, cost of sales)?
7. Is there a correlation between the percentage of staff cost and the operating profit margin?
8. What recommendations can be derived for top management in the industry?

METHODS

With the framework of this survey and the available sources, random sampling methods are hard to implement because German hotels are a difficult target group to reach. For reasons of research economics a convenience sample was applied which does not purport to be representative.

In 2010 the German hospitality industry consisted of 13,779 hotels. A total of 1,840 hotels were randomly selected and contacted between March and July 2011 during the empirical data collection. The personal email addresses of owners and senior managers of these hotels were investigated and they were invited to participate in an online survey. Of this total, 219 were individual hotels, 447 were individual hotels belonging to a hotel cooperation and 1,174 belonged to hotel groups.

107 completed surveys were received, and after plausibility checks, 95 applicable questionnaires was remained. The response rate was about 5% which, considering the sensitivity of the questions and the low involvement of the participants constitutes a satisfactory number.

The majority of the participants were managers responsible for the relevant department or the business management itself, which can be seen as an indicator of the reliability of the responses.

Theoretical background

As an introduction, the important basics of success factors in the hotel industry, the business as a whole and the particularities in the sample are described.

Introduction of success factors

How to generate success is the most fascinating question in business management (Fuchs and Brehm, 2012: 173-174). The aim of all business decisions is to secure the long term continuation and development of the company. Managers strive to achieve this as the outcome of the company’s economic activity. The general assumption is that a company is successful (or failure) of a company more or less directly and can actively be managed. Thus a factor of influence can be a success factor as well. The relationship between success and success factors is based on cause and effect. Success represents the dependent variable as an effect, and the influencing variables are seen as independent causes. But there are no simple one-to-one explanations. Not surprisingly success can have many origins, otherwise there would be only one correct course of action for achieving success. However, for the scientist there is something problematic about arguing that success are derives from multiple causes. Both influencing factors and success are best described across several dimensions.

By way of deepening the success oriented, economic perspective the following research focuses on two fundamental hotel-specific success factors: given that hotels are professional service businesses and the first factor is HRM because service is people business; the second is professional cost management. Cost management is important as the capacities are rising while there is no opportunity for raising prices. Both are factors over which hotel management can have a significant influence in tailoring to his area of business.

Indicators of success can be divided into those specific to the lodging business (that is average room rate, occupancy, average duration of stay), and the more general economic success indicators (revenue, gross operating profit (GOP) and return on sales (ROS)) (Barrows et al., 2012: 360-361, 555; Schaefting, 2010: 180, 331).

As a rule it can be assumed that the operating success of a hotel (guest satisfaction, average duration of stay) can lead to economic success or at least forms the long term prerequisite for it if the management is competent (Fuchs and Brehm, 2012: 179).

Success in economic activity is normally expressed in key figures (see above). Every management team relies on these figures when planning, managing and controlling their business.

During periods of commoditization it is important to stand apart from the competition. This is particularly true where the quality of touch-points with the guest is critical, and is directly related to personnel. This necessitates a change from regarding staff as a cost factor to regarding it as a wealth factor.
**Definition of hotel**

The hotel industry is part of the service industry. The product “hotel” is a combination of different services which can be subdivided into three different areas: lodging service, gastronomic service and other services (Haenssler, 2011, 79; 2008, 348).

The lodging service comprises the provision of rooms and guest lounges in combination with the delivery of services such as cleaning or room service.

Gastronomic services include the offering of food and beverages in restaurants and guestrooms.

Finally, other services extend the lodging and gastronomic offer and consist of services such as childcare, wellness facilities like pools or saunas and offers in the MICE sector (hotel with facilities for meetings, incentives, conferences and events).

All the subservices combined are regarded as one complete package by the guest. Together they constitute the hotel’s offer.

Especially in hotel business service specifics play an important role since the guest is an ‘external factor’ at the centre of all operations. The aim is to ideally satisfy all guests and to secure a consistent quality level. The operating structure of the company should be designed in a way that optimizes readiness for service while at the same time minimizes costs.

**Hotels in the sample**

In order to differentiate the analysis, the data was grouped according to several hotel characteristics: operating mode, hotel type, size, quality standard (in a few cases relative to ownership structure).

Operating mode describes the subdivision into individual hotels (hotel keeper/owner managed company), companies in hotel cooperations, and chain or brand hotels. The majority (48%) of the queried hotels were individual hotels that were part of a cooperation, followed by the chain hotels at 32%. The remaining 20% were individual hotels not involved in a cooperation.

The hotel type shows the hotel’s subsector or specialty that is MICE-hotel, sports and spa hotel, holiday hotel or standard hotel, where applicable. The sample included a high proportion of standard, unspecialized hotels (46%). Congress and holiday hotels comprised 26% and 21% of the sample. Only 7% were specialty sports and spa hotels (Figure 1).

**Size in turnover**

Compared to the average in hotel business the sample contained more large companies. If it is assumed that the level of professionalization increases with size the results are rather typical for larger, more professional, hotels. Over 55% (n = 47) of the sample reported annual turnover between 1 and 5 million Euro. Almost 24% of the sample reported less than 1 million EUR turnover, and the remaining 20% reported more than 5 million EUR. In contrast, only about 10 to 15% of the hotels in the German hotel market (excluding inns, b&b, pensions) generate a turnover of more than 1 million EUR (Figure 2).

Quality levels describe the quality standard of a hotel. This follows the „Deutsche Hotel-Klassifizierung©“ (German Hotel Classification) of the „Deutscher Hotel- und Gaststättenverband“ (German hotel and restaurant association). In Germany the rating of a standard or quality standard is defined by a five-star system: tourist (**), standard (**), comfort (***) , first class (****) and luxury (*****). These can also be marked with the addendum Superior to show that crucial parts for the next star-level have been reached, but not yet the full requirement catalogue. For purposes of simplification these are sometimes pooled in segments: 1-2 stars fit the economy/low budget segment, 3-4 stars the midscale segment and 5 stars the upscale/luxury segment.

The mid- to upscale segment was most strongly represented in the research sample. 4-star hotels comprised the largest group at 50% followed by 3-star businesses at 34%. 5-star hotels comprised 12% of the sample. Finally, the 2-star segment represented 4%. The proportion of 4 to 5 star hotels in the sample was 62%, significantly higher than its population in Germany where they comprise only about 30%. The largest group in the German market is 3-star hotels (about 60% of all certified hotels: DEHOGA, 2012). This group formed only 34% of the research sample. For these reasons, we conclude that the more professional businesses are overrepresented in the sample (Figure 3).

With regard to the turnover and quality standard criteria, the sample showed a strong tendency towards bigger or rather higher class businesses. Still the sample differed only slightly from the market with regard to relevant success indices as illustrated in the German hotel market.

**The German hotel market**

The following paragraph helps to classify the results by giving a short overview of the offer in the German hotel market. Current developments and demand are considered.

**Supply**

According to the German Federal Statistical Office (2011) the overall number of lodging companies in Germany totals 56,035 (all figures were obtained in July 2011). Among these are 36,298 classic business types, which include full-service hotels (13,735), hotels with breakfast only (8,038), inns (8,820) and pensions (5,705). Other lodging companies, which include holiday homes and youth hostels, total 19,741. According to the business consultancy TreuSag Solutions, in 2011 a further 157 full offer hotels with 23,055 beds were launched, most of these belonging to the 4-star category. The trend to higher bed capacities does not stop in 2012.

The lodging trade in Germany is characterized by mid-tier and small-scale enterprises: More than 40% of all businesses generate an annual turnover of less than 100,000 Euro whereas only 7% generate a turnover of more than 1 million Euro (Warnecke et al., 2012: 32-33).

**Upcoming branded hotels as recent development**

In the last several years the growth of hotel corporations in Germany has been driven mainly by expanding international hotel chains (Warnecke et al., 2012: 152-153). Additionally large hotel corporations like Hilton have expanded within the German market by extending their brand portfolio (e.g. Waldorf Astoria Berlin opening in autumn 2012). In order to withstand this increasing brand exposure, individual hotels have increasingly turned to hotel cooperations to counteract the competitive pressure.

**Demand – market development**

In 2011, the German lodging trade generated a net turnover of 18,649 million Euro, a 3.9% increase over the previous year (Warnecke et al., 2012).

As an annual average the demand for rooms led to an occupancy of 65.1%, grown by 2.7% during the previous year.

As part of the recovering economic situation and the reduction of the value added tax on 01.01.2010 net room rates averaged 92 Euro in 2011.

The increased demand had a positive effect on the most important operating index of the hotel business: the so-called RevPar
Figure 1. Allocation of hotel type.

Figure 2. Allocation of turnover groups.

Figure 3. Allocation of quality levels.

In 2011 the occupancy in all 3 market segments increased slightly (AHGZ, 2012: 10), in average by about 1.5 points, so that the average occupancy increased to over 65%. Room rates increased by about 2% and the RevPar by about 4%. In the economy segment the average occupancy was almost 70% and led to a RevPar of 43.70 EUR. In the midscale segment occupancy was at 64% with a RevPar of 45.30 EUR. Finally, in the upscale segment, occupancy increased by 1.8 points to 65%, which led to a RevPar of 67.30 EUR (AHGZ, 2012: 10).

This shows that due to the growing demand, the occupancy rates, net room rates and RevPar all increased.

RESULTS AND DISCUSSION

Following the questions proposed in the introduction the central results are presented and discussed as follows. Before that the relevant subject matter will be briefly presented.

Basic principles and targets of HRM in hotels

HRM is a management function within an organization...
that structures the process of recruitment, development and deployment of the people who work in the organization to reach corporate and individual goals. If the covered issues are linked to strategy it is also called strategic. While HRM deals with people as a resource to support or help the managers in a certain task human capital management (HCM) goes beyond this. It is strategic as well. HCM means to manage people as an asset that leads (Scholz et al., 2011) to an optimal accumulation of human capital in order to create value. So people are becoming value creating assets. HCM includes professional measurement and reporting of the 'capital development' (Ingham, 2007: 15-19). In conclusion HRM and HCM are two sides of the same coin.

The first area of empirical interest was to determine where the responsibility for HRM lay within each company.

In the mid-tier characterized hotel and with a high share of owners and lessees (see above > 80%) it showed that in 72% of these businesses general management was responsible for HRM. Such a large proportion is not surprising given that hotels are part of the service industry. Basically it can be assumed that seeing the topic human resources as a key success factor grants an adequate importance in service industry. At least the allocation of responsibility proves that for all groups.

With regard to HRM the empirical data confirmed other expectations as well: responsibility for the HRM function was situated with HRM specialists at an above average rate within the chain hotel trade, management-led businesses, hotels with higher turnover and higher quality standard hotels. The distinction is very clear across quality levels: 86% of 2- and 3-star hotels assign HRM responsibility to general management. The reverse is true for 5-star businesses–over 80% assign HRM responsibility to HRM specialists (Note that the 5-star group is represented by only 11 hotels in this study). In evaluating the professionalism of the HRM function of a business the HRM goals and main functions are good indicators. Hence, we next determined which tasks or functions were assigned to HRM. Due to the traditionally high rate of staff turnover in the hotel industry, it is not surprising that staff requirement planning and staff recruitment were the most commonly identified HRM functions. They can be described as value adding functions. Also to be evaluated positively was that the lower value adding functions of HRM were not so relevant. As illustrated in Figure 4 almost 95% identified staff recruitment and 87% staff recruitment planning as important tasks of the HRM function. While "Only" 61% identified payroll accounting as an important task.

Small businesses in particular perceived this task as irrelevant and chose to focus their limited resources on other personnel tasks instead. "Unimportant" functions such as payroll accounting can easily be outsourced in small businesses.

The next area of interest was the stated goals of the HRM function. On this point, practice and theory were in unison: quite similar as in other industries the main goals of HRM were identified as, enhancing motivation"(84% agree) approval and "raising qualification" (79% agree) as shown in Figure 5.

The goal of raising qualification was notable for that it decreased significantly with the quality standard, especially in the low budget segment: Of the four 2-star hotels only one agreed with this HRM goal.

The goal of reducing personnel expenses received only 48% approval which, in the face of social desirability, influences must be critically challenged. We suspect that management attaches higher importance to this goal than its approval level indicates.

The low approval level for the goal of "value added of staff" (only 21% of the interviewees identified this goal as relevant) indicates a low level of professionalism. Modern approaches to HCM assume that in the end, the employee value added is more important than the personnel
Correlation between missing HRM and employee turnover and the influence of hotel size

One of the main problems in hotel business is frequent employee turnover which reaches rates of up to 60% (Fuhrmann and Winter, 2011: 160; Gardini, 2009: 510). Part of the reason for this high rate lies in the seasonal nature of the work. However, low wages, poor working hours and strenuous work are frequently stated as reasons (Fuhrmann and Winter, 2011: 161).

The empirical data generated in the surveys indicated much lower levels of employee turnover, and correspondingly lower level of concern. Employee turnover was addressed by 95 hotels. Thirteen stated that they do not collect data on employee turnover. With one exception these were smaller, owner managed hotels or hotels in a lessee contract. All franchise hotels and management contract hotels indicated that they do collect data on employee turnover.

When asked about employee turnover rates, only one hotel stated that its rate was above 50%. 52% indicated a turnover rate of less than 10%, while 88%, or 71 of 81 hotels indicated a rate of less than 20%. The mean employee turnover rate (metric with group mean values) was approximately 12% (Owing to employee turnover being a sensitive topic, interviewees were asked to indicate their turnover rate within ranges (e.g. less than 10%, less than 20%, etc.), rather than to report them specifically).

No significant differences in employee turnover rates could be perceived between the size groups. This is surprising because larger businesses make more of an effort to look after their staff e.g. by personnel development. One possible explanation could be that these hotels are often used as a career booster in CVs and by that the seemingly positive influence of personnel development measurements on the overall duration of a job contract in a hotel has later negative effects.

The businesses that reported personnel development activities for their staff did not report significantly lower employee turnover rates. In fact, those hotels with higher turnover rates (>21%) were twice as numerous (13.8%) as those without (6.2%) personnel development activities. It is apparent that bigger companies offer an appropriate personnel development and still their staff remain in their companies shorter. One possible influencing factor could be that larger businesses do more frequent performance evaluations, which raises employee turnover rates through terminations.

As a rule a longer period of employment would be helpful and desirable in the hotel business because the personal relationship between guest and employee is often of great importance. This is especially true where the hotel serves a large share of regulars: the higher the share of regulars, the higher the influence of long term employees on guest satisfaction.

The best results in this case were achieved by hotels with 3 to 5 million EUR annual turnover – 95% experience employee turnover of less than 20% annually. The tendency toward lower employee turnover rates in smaller hotels might have multiple reasons. Some include: the relationship between management/owner and employees is more personal, employees may have a less distinct interest in their careers, and there might be more variety and freedom in the work. Finally, the location may be of importance especially more rural locations, as it may attract local employees. This may have a positive effect on employee turnover rates. With regard to further criteria of differentiation the sample does not provide any significant differences.
The influence of size, quality standard and operating mode on cost structure and management

Cost management is the deliberate exertion of influence on cost levels and cost structures with the aim of increasing performance. Therefore collecting, analyzing, evaluating, and reporting of cost information is needed and part of cost management.

An increase in business value can be targeted at the same time (Goetze, 2010: 271). The cost structure in the hotel industry shows some particularities. One important aspect is the high level of fixed costs (Henschel, 2008, 312; Merz, 2011, w.p.). However, most hotels do not strictly separate variable and fixed costs in their accounting. From the authors’ personal experience within the hotel industry it is known that many hoteliers only make rough estimates. In the survey an estimate of the share of fixed costs from the overall costs was required. More than half of the participants reported fixed costs of less than 50%; the average based on group average values was 46% (Figure 6).

Only 7 of 89 hotels stated a fixed cost share of more than 70%. Still less but relatively high fixed costs applied to individual hotels (54%) and businesses with 1 to 3 million EUR turnover (53% metrical group average). Correspondingly businesses with more than 3 million EUR annual turnover were slightly below the 46% average.

In comparison to the assumed value of 70 to 90% (Henschel, 2008: 316; Gewald, 2001: 75-83) in business specific literature the value in this analysis was significantly lower. The reason for this discrepancy may be related to the way the question was worded or simply that the participants lack cost transparency.

Fixed costs are an important point of discussion in the hotel business. The exact definition of fixed costs, as well as their specific influence, is essential prerequisites for cost management. There is another difference to be considered for managers, which is more specific for the hotel business: Costs can be divided into investment-related and operating expenses in the hotel business (Haenssler, 2011: 288-295; Merz, 2011, w.p.). Investment-related costs include interest, taxes, depreciation, rents/leases, rates, and maintenance (mostly characterized as undistributed operating expenses and fixed charges in the Uniform System of Accounts for Lodging Industry (USALI, Hotel Association of New York 2007)). Operating expenses include personnel expenses, cost of sales, goods and material employed, power supply, insurance, etc.

The investment-related costs (fixed charges) comprise 24% of the total turnover on average for the hotels in this survey. Among these costs rent, depreciation and interest play an important role. The main cost drivers, as main factors of influence on the cost situation, were the size of the F&B department (Food and Beverage) and the quality standard. This was true for all the subcategories analyzed.

Operating expenses averaged 55% of turnover. For hotels with 1 to 3 million EUR turnover they reached as high as 62%.

Generally speaking chain hotels have got by far the best cost efficiency in fix and operating costs (Figures 6 and 7).

Together, investment-related and operating costs comprised 78% of turnover on average. The components of cost varied according to the services offered by the hotel, but were primarily dominated by goods, staff costs, and investment-related costs. The costs for goods averaged 23%, but varied significantly depending on the size of the F&B department. For example, costs are significantly lower for hotels with breakfast only than for full service hotels that offer a permanent restaurant service. Costs also varied depending on the quality level. The average for 2 to 3 star hotels was 20%; that for 4 to 5 stars was 25%. As these costs are variable they can easily be managed and reduced. As main cost drivers again quality standard and size of F&B department are
In most hotels personnel expenses were regarded as fixed costs. The personnel expenses took up a significantly higher share of turnover. For 34 of 80 answering hotels they made up 31 to 40% of the overall turnover, for 24 hotels they were between 21 to 30%, and 15 hotels reported personnel expenses of over 50%. The mean value calculated based on group means was 33%. Personnel expenses are of central importance since they form the largest share of turnover among all types of costs. The empirical results showed that quality level has a significant influence on personnel expenses. While the mean value of personnel expenses in the 2-star-segment comprised 20% of turnover it rose with increasing quality standard. In the 5-star-segment the mean value was 36% (Figure 8).

The investment-related costs of 24% were already mentioned above. All other types of costs as marketing, power supply or insurance costs played a secondary part. Marketing costs reached an average of 9%, but were influenced by location, competitor behavior, quality standard and occupancy.

Other expenses such as taxes, power, insurance and other dues totaled 16% of sales. In spite of the primary focus on personnel expenses and costs of sales, also control measures were necessary for an extensive variety of costs.

Starting points for cost cutting

Of special interest is the question in which area hotel management sees potential for cost cutting. To improve returns and profitability this includes all measures implemented by a company to reduce its expenses in short and long term perspective. It is about finding out if the biggest cost factors should be the starting points for action. Costs of sales were identified by 52% of the hotels surveyed, followed by investment-related costs, identified by 43%. Despite the low wage level and heavy work load of employees in hotel business, 36% still identified cost cutting potential in personnel expenses. Within the subgroups, 43% of chain hotels identified personnel expenses as having cost cutting potential, and 37% identified cost of sales. In 5-star hotels 9 of 11 hotels (82%) saw the cost of sales as potential saving point; in the 3-star-segment investment-related costs were identified most often (59%).

Another question is about responsibility for cost accounting. Most participating hotels have already located the cost management function in the management or controller’s department. However, 32% of the hotels stated that cost management is taken care of in each department separately.

Operating margin connected to structural hotel features

In a first step operating margin or ROS were analyzed. This is a widely used ratio to evaluate a company’s operational efficiency. Based on group mean values, the average ROS in our sample was 17% (n=72). Values were widely spread. As Figure 9 shows 16 of 70 (23%)
hotels reported a rate of return of more than 21% whereas more than 54% of the hotels estimated their rate of return to be less than 10%.

The operating margin stated by the hotels was examined in context with a multitude of collected variables. There were no signs of a connection with staff turnover, personnel development activities, staff motivation, turnover or quality standard. There were hints of connections with ownership structure and occupancy rates. Since the relevant data has nominal or ordinal scale level and since the number of hotels in each group were few, the statistical methods to analyze interdependencies are only limitedly accessible. Due to this, mainly descriptive analysis instruments have to be used and significance tests must be left out. Figure 10 shows the distribution of operating margin differentiated by ownership structure.

Excluding the 2 hotels with management contracts it is clearly apparent that among owner-led businesses and those with a lessee contract the share of businesses with low operating margin was significantly higher than for franchise hotels. One possible explanation could simply be economic professionalism. Profit maximization usually is not the aim of the family business – they typically focus on the lasting security of the business and an appropriate income. For lessee contracts, often the fixed costs (especially rents) have an impact on the profitability. Franchise businesses are usually structured for higher operational efficiency.

Higher occupancy rates are often correlated with higher operating margins. That is not surprising because occupancy is mostly regarded and here now evidenced empirically as a key success factor. Figure 11 illustrates this with the two smallest and the biggest operating margin groups.

All businesses with less than 30% occupancy had an operating margin of less than 5%; all businesses between 30 to 40% occupancy had an operating margin of less than 10%. In contrast, 62.5% of the businesses with an occupancy of over 80% had an operating margin of at least 21%. Another explanation is the positive contribution of economies of scale. Initiated by contiguity the following hypothesis is tried: The higher the proportion of turnover spent on personnel, the better the service quality and accordingly the ROS. This hypothesis was analyzed within the quality level subgroups and was revised by chi-square-tests based on cross tables. Neither the empirical spreading of the data nor the chi-square testing results indicated support for this hypothesis. In contrast the obvious argumentation that with decreasing rate of expenses on personnel the ROS increases could be proved. Here the chi-square-test showed a highly significant result for accordingly pooled groups. The reason for this is that profit is a residual figure. When the expenses rates decrease, the residual figure must go up. With a larger profit the relative index of ROS also increases.

Management recognition and evaluation of long-term critical success factors and value drivers

Lastly the long-term perspective was examined. The aim of all business action is to secure the long-term value and
value development of the company. This aim is achieved through changes directed at the fundamental value and the development of operational processes as well as thought and behaviour changes. The value oriented business management evaluates the success of a business from the shareholders’ and investors’ point of view – the so called shareholder value. If in one period the return on investment surpasses the cost of capital, additional value is gained (Rappaport 1995; Dillerup and Stoi, 2011: 147-150).

An important issue in value based management is gaining a deep understanding of the variables that will actually create long term value of the business – the value drivers. A value driver is any variable that affects the value of the company (Copeland et al., 2000: 47-54). Each value driver can stand for a different effect horizon. Usually the performance of a business is regarded in a long term view - value driver; in short term view one talks of business driver.

Most hotel managers did not demonstrate good knowledge of value-based management. Only one in five (20%) identified the accepted definition of the concept in the survey. 12% indicated that they did not know the concept at all. Another 25% incorrectly identified a description of the management of shared values as that of value-based management. However, even those who did not know the concept by its name still understood the business’s critical success factors and the difference between business driver and value driver. In correspondence better results were reached with the closed questions about business driver and value driver. One important insight here was that managers were all able to clearly distinguish between short- term and long-term success factors. Figure 12 shows an overview of the reported relevance of selected factors on the short-term business success and the long-term business value. The factors are sorted based on the absolute difference between business and value drivers to highlight the biggest discrepancies important in short term Schellenberg (2011).

On a scale from 1 (important) to 5 (unimportant) the most important short term success factors identified were: optimized cost structure (1.54), occupancy (1.63), marketing and sales (1.81), customer acquisition (1.88) and quality standard (1.96).

The factors that had the largest rating differences between short term and long term effect were: investment in fixed assets (0.77), quality standards (0.62), employee satisfaction (0.44) and employee qualification (0.42).

The most important long term business success factors were: quality standards (1.34), cost structure (1.54), employee satisfaction (1.61), occupancy (1.62), investment in fixed assets as well as employee qualification (each 1.67). This hints at the fact that implicitly a very refined feeling for the importance of long term value drivers exists. It is particularly interesting that employee satisfaction is thought to be even more important for long run success than investment in fixed assets.

**Resume**

Overall the sample shows a differentiated picture with regard to the perception and management of relevant business topics. Of special interest from the viewpoint of this line of business is that some of the well discussed topics among hoteliers do not have the corresponding empirical evidence. E.g. fluctuation lies above 50% only in singular top cases, regarded over all participants it is below 15%. Also interesting is the fact that in hotels there
is no measurable dependency of fluctuation and e.g. personal development activities, although this is often supposed to be the case.

Also the personnel costs at 33% as an average is in comparison to other lines of business not as extreme as often discussed.

CONCLUSIONS AND RECOMMENDATIONS FOR MANAGERS

The recommendations for the upper management levels concentrate on the 3 relevant main aspects, HRM versus HCM, cost management and long term value based management.

Human resource and human capital management

With regard to the approach in HRM the survey did not offer concrete starting points except that the gathered HRM policies are in conformity with the mainstream. The aims were in accordance with a mostly modern understanding of HRM. Employees, though expensive were not regarded as a cost factor or rather cost cutting is not the main goal in this area – that is positive. A turning towards real HCM though is still a long way (Kobjol, 2009: 700-703). Indices focusing on the value added per employee or return on human capital do not yet play any role.

Since 93% of company management or specialists were responsible for this topic its importance seems adequate. Due to relatively low values in the sample, little spreading and no big differences between the various modes, sizes and so on, no recommendations regarding fluctuation can be derived. Also personnel expenses were the focus of cost cutting only in single businesses but not systematically.

Overall the arising image here seems to only slightly resemble reality. Obviously the sensitivity of the topic personnel is so clear that the interviewees gave the correct answers.

In summary, from the results discussed, there are some successful factors and general recommendations that could be derived.

1. Clarify HRM targets for the employees and devolve responsibility to the top management are two important success factors in HRM.
2. Concentrate on the limited management resources on critical HRM issues like recruitment and development, particularly in small and medium sized hotels; this is critical for success.
3. Furthermore, handle outsourcing of non value added HRM functions more consequently.
4. Complement HRM with a stronger understanding of HCM in the long run.

Cost management and performance

To apply cost management in hotel businesses cost transparency is a prerequisite. A detailed cost breakdown is needed, in which variable costs as well as operating costs are defined as clearly as possible. This is especially true for owners who have not yet engaged in significant performance measurement. With growing hotel bed capacities, especially in cities, the empirical evidence shows that the hotels that will thrive are those that man...
age to rent their rooms to over 70% regulars. For owner-
led businesses a good share of regulars is a success
factor.

Since cost management must be undertaken as an
interdepartmental perspective it is recommended that this
important task is centralized. Most participating hotels
have already taken this step, by locating the cost
management function in the management or controller’s
department. As already discussed, 32% of the hotels
stated that cost management is taken care of in each
department separately. Due to the different costing areas
this is sensible as a supportive function, but not the
obvious thing to do for purposeful cost management.

Employee cost awareness and the willingness to
provide information is important in a high functioning cost
management system. Employee support also helps to
implement measurements and the changes connected to
it successfully.

The following success factors and general recommend-
dations are derived as follows:

1. Balance cost cutting over different departments not just
staff costs in order to secure service quality.
2. Regarding the responsibilities of cost management find
the right mixture of centralized and decentralized cost
management.
3. Pay attention on the cost structure therefore it is indis-
ensible to gain transparency in cost accounting.
4. Raise awareness and understanding among em-
ployees.
5. To increase performance (operating margin) in hotel
business occupancy and standardization are success factors.

General and long term value based management

Chain hotel businesses demonstrated a higher aware-
ness for long term management issues than individual
hotel managers did. In individual hotel business the
challenge is to support long term value oriented thinking.
Hotellers must understand that the success of their hotel
cannot only be measured in short term profits (business
driver). Interesting here is that a lot of family businesses
were praised for the generation spanning view, although
they do not name it shareholder value and not even have
special measures or figures for such a long term mana-
gement. We believe that more owners/managers need to
regard their hotels as sustainable performing businesses
and strive to generate an acceptable risk-adjusted return.
The knowledge of important indices and the working out
of business specific cause/effect-relationships could be a
starting point.

At the end there are some more general recommen-
dations just raising the importance:

1. Completion of the short term performance point of view
towards a more long term value perspective.

3. Consequently implement perceived differences be-
 tween business and value driver into management action.

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