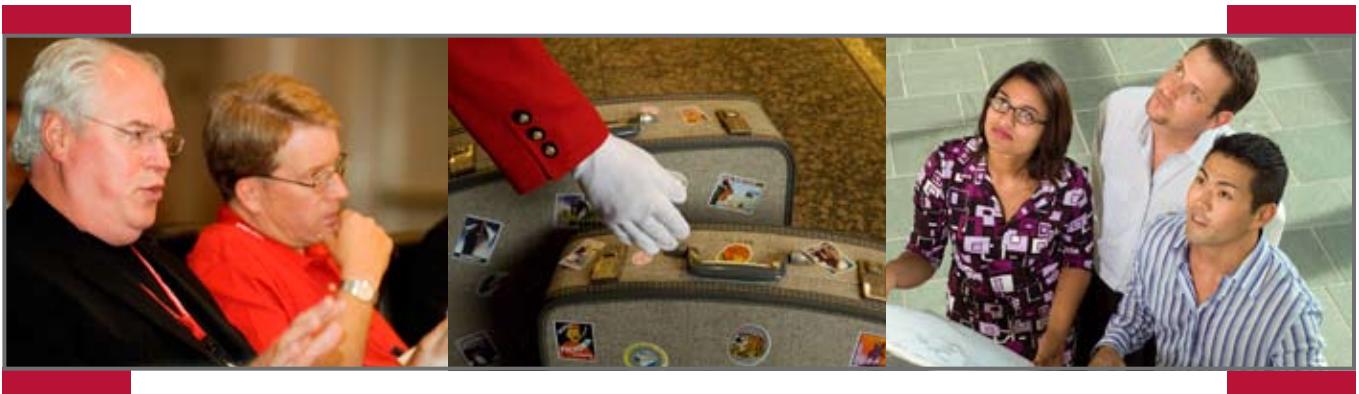


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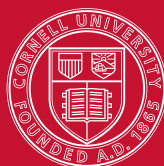


Key Issues of Concern in the Lodging Industry: What Worries Managers

Cornell Hospitality Report

Vol. 9, No. 4, March 2009

by Cathy A. Enz, Ph.D.



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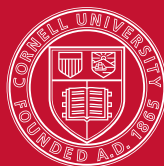
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Key Issues of Concern in the Lodging Industry: What Worries Managers

by Cathy A.ENZ

ABOUT THE AUTHOR

Cathy A.ENZ, Ph.D., is the Lewis G. Schaeneman Jr. Professor of Innovation and Dynamic Management and a full professor in strategy at the Cornell University School of Hotel Administration, where she has served as associate dean for industry research and affairs and as the executive director of the Center for Hospitality Research (cae4@cornell.edu). Author of over eighty journal articles and book chapters, as well as three books in the area of strategic management, her research has been published in numerous academic and hospitality journals, including *Administrative Science Quarterly*, *Academy of Management Journal*, *Journal of Service Research*, and *Cornell Hospitality Quarterly*. She also developed the Hospitality Change Simulation, a learning tool for the introduction of effective change, as well as three other strategy courses, which are available as an online education program of eCornell. A frequent presenter of executive education programs around the world, she consults extensively in North America and serves on the board of directors of two privately owned hotel companies.



EXECUTIVE SUMMARY

Human resources management is the most troubling issue of concern to managers and executives in the lodging industry worldwide, according to a survey of 243 managers taken during 2008. The study identified a common set of shared problems that impede the ability of industry leaders to manage effectively, with human resources issues being at the forefront. Over 60 percent of respondents from six different regions of the world in both general manager and executive positions reported that the human resource issues of attraction, retention, training, and morale were key areas of concern. Other problems include economic and environmental matters, understanding customer needs, rising operating costs, and thinking strategically in a competitive environment. The study provides an update to a similar study conducted in 2001. Certain issues identified in that earlier study, including information technology and branding, have dropped from hotel executives' list of concerns.

Key Issues of Concern in the Lodging Industry:

What Worries Managers

by Cathy A. Enz

Persistent problems are often the source of worry and lost sleep for managers in the highly competitive lodging industry. By identifying and quantifying these problems, both industry and academe can study them in greater detail and begin to formulate tactics and strategies to address them. In a study published in 2001, hotel managers identified a common set of shared problems that impeded the ability of industry leaders to manage effectively.¹ Critical human resources issues topped the list at that time. The list of concerns generated by managers then also included (in order of importance): understanding the customer, effectively using capital, aligning stakeholders' interests, using information technology, and valuing brands. The United States had enjoyed an economic boom in the years just before that 2001 survey was taken, and most people did not notice the dark clouds on the horizon. In 2008, I repeated this survey in what turned out to be similar times, when the hotel industry had enjoyed a long economic boom that was about to end, unbeknownst to most people. In this later study I again identify the most troubling issues or concerns expressed by managers and industry leaders and explore whether the problems identified in the earlier survey of what keeps managers up at night have changed.

¹ Cathy A. Enz, "What Keeps You Up at Night?" *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 42, No. 2 (April 2001), pp. 2-9.

EXHIBIT 1

Respondent profile

Gender

Female	30%
Male	70%

Age and Experience

Average age	40 years
Average years in business	16 years

Positions

General Manager	36%
Regional Manager	6%
Owner-Operator	5%
Middle Manager	28%
Senior Manager or Partner (e.g., President)	20%
Specialist or Technical Expert	3%
Other	2%

Work Location

Corporate headquarters	26%
Property	68%
Regional Office	5%
Other	1%

This paper will summarize what experienced managers told us about the issues they wish they had a better way to handle. To grasp their concerns fully, the report outlines the views of respondents as a whole and then examines the views of managers in different parts of the world and at different levels of responsibility. Managers' 2008 responses are compared to those of managers who responded to the same open-ended survey question eight years ago. In both surveys managers were asked to think about issues, problems, or concerns that worried them or that they wished they had a better way of handling.

A brief survey administered in cooperation with the Center for Hospitality Research at Cornell University asked the managers to identify the problems that keep them up or cause them concern. The open-ended question was, "What one or two problems or concerns are most troubling to you as a manager?" The survey also captured additional information on specific human resource issues, along with demographic information regarding the age, gender, position, country, and location of respondents.² I categorized respondents' answers to the open-ended question regarding their concerns, and then summed the categories to get

² The author wishes to acknowledge the Center for Hospitality Research for its support in conducting this project.

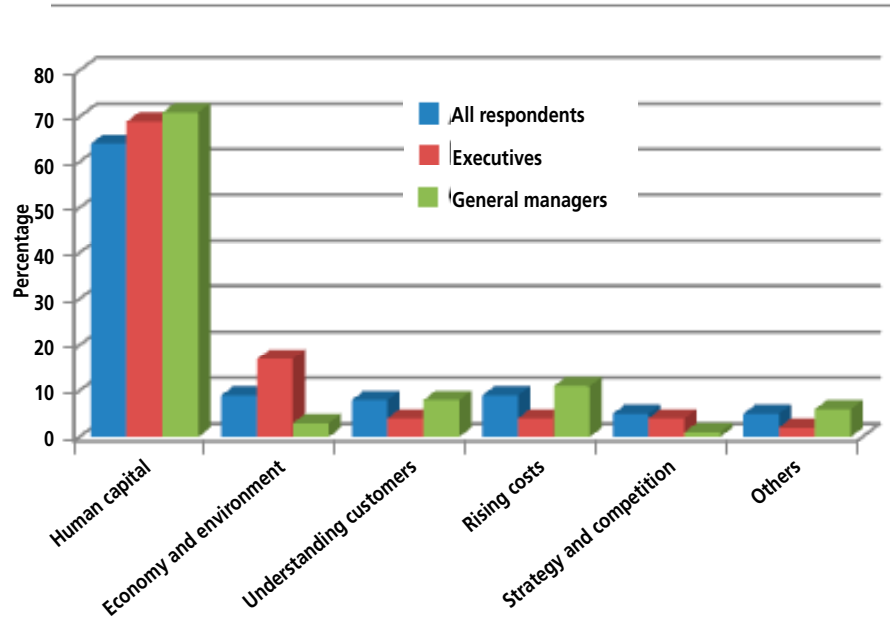
aggregate themes and respondent counts. I also explored the selected nine key human resources issues.

A total of 243 individuals from over sixty countries participated in the web-based survey, for which responses were solicited through a press release, newsletter, and email. Participants in 2008 Cornell executive programs in the United States, Europe, and Asia were also contacted. General managers attending the summer 2008 General Managers Program on the Cornell campus in Ithaca received hard copy versions of the survey, while all other respondents were directed to the online version.

The typical manager who responded was a forty-year-old man in the position of general manager at the hotel property level (see Exhibit 1). Senior managers, such as company presidents or senior vice presidents (20%), and middle managers (28%) also responded in sizable numbers. Respondents from corporate headquarters represented one-quarter (26%) of all managers surveyed. Senior managers were older men (80%, with an average age of 43) and reported an average of 19 years of experience in their business.

Key Concern: Human Resources, Again

The most frequently identified area of concern (64 percent of respondents) is human resources issues, such as attraction,

EXHIBIT 2**Key issues of concern**

retention, training, and development of the industry’s work force, as shown in Exhibit 2. As one respondent noted, “I am based in Asia, and the demand to find, retain, and train talent is the number-one issue for me as a leader. Human resources are key to growth.” This sentiment was expressed by a wide array of managers from all regions of the world, just as it was in the 2001 study. Back then, human resource concerns were also mentioned as the most troubling by 57 percent of respondents.

Other areas of concern mentioned by managers this time around were, in order of frequency: (1) economic uncertainty and environmental concerns, (2) understanding customer needs, (3) rising operating costs, and (4) thinking strategically in a competitive environment. Taken together these four areas were cited by 30 percent of respondents, less than half of the number who cited human resources issues. In contrast to the previous study, economic and environmental concerns emerge as more pressing issues. On the other hand, information technology and branding issues have subsided in recent years, while costs and strategic positioning relative to the competition have risen in importance.

To determine whether respondents’ concerns varied by position, I summarized the key issues separately for executives and general managers. The data reveal few differences between these two groups, and human capital remains the top issue, as shown in Exhibit 2. The economy and the environment were more worrisome issues for executives (17% of executives mentioned this factor); while rising costs were more important for general managers (11% of general

managers mentioned this factor). The difference in focus by position is likely due to GMs being asked to control costs, while corporate leaders are searching for growth strategies.

Dividing the respondents into geographic locations also revealed few differences in the importance they attached to the areas of concern. Looking only at the most frequently identified area of concern, human resources was the essential issue around the world, as identified by 70 percent of North American, 61 percent of European, 63 percent of Asian, 78 percent of Middle Eastern, 47 percent of South American, and 79 percent of African respondents. All other issues combined paled by comparison, but let’s examine those other critical issues before returning to a detailed discussion of the human resource worries.

Economic and Environmental Uncertainty

As I mentioned above, economic and environmental issues, such as the instability of the world economy, global warming, recession, protection of natural resources, taxation, and inflation were second in importance to human-resources issues. With regard to the economy, some of the respondents seemed attuned to possible difficulties to come, though no one could predict how severe any contraction might be. Managers’ concerns are focused primarily on the health of both their local economies and those of their major customers. Rising gasoline and oil prices were noted by many respondents, while others cited slowing economies and natural disasters as taking their toll on profits.

Economic uncertainty in key markets, while impossible to control, evoked expressions of anxiety and frustration. Several respondents mentioned the impact of economic difficulties on leisure travel and the price of oil on airline availability. As one put it, “In Cyprus in particular it is the flight situation and the price of flights.” Another noted, “Rising costs of travel are affecting international arrivals.” The health and profitability of the domestic U.S. airline industry was identified as a crippling factor for lodging demand and access in various locations. An Indian respondent listed corruption and the tax structure as key economic issue in his country, while other participants cited support from local governments for tourism-related services like infrastructure (or lack thereof). Safety and terrorism issues still plague other local environments, according to respondents. For example, one manager pointed to “Travelers being too sensitive to terror issues in our region than others” as his major issue of concern.

Sustainable growth in tourism emerged as an issue cited by those who were alarmed at the development and exploitation of natural resources. One respondent noted, “The climate change issue is the one most troubling right now, as it has become evident that countries around the Mediterranean Sea will soon face the consequences of poor management of natural resources.” The profit focus of owners was another issue thought to result in long-term environmental harm. As one respondent suggested, “Managers and investor-owners need to look beyond short-term profits. What are we able to offer our guests in fifteen years time with hundreds of millions of new tourists each year from China and India alone?” Sustainability issues tended to focus on country and regional specifics, but respondents who voiced environmental issues expressed the general sentiment that harming our natural environment will adversely shape the hospitality industry’s operating environment worldwide.

Understanding Customer Needs and Rising Costs

Tied as the third most important category of concern were the challenges of understanding customer needs and the rising costs of operations. These two issues were often associated with each other as managers spoke of the relationship between delivering guest satisfaction and the rising costs of customer service—as one manager put it: “increase in prices of prime materials needed for hotel operations and the way it affects pricing.” The linkage between competitive pricing to create value for the customer and cost reductions to sustain profitability is the fundamental challenge identified here.

Along that line, customers were thought to hold unreasonable expectations regarding the price they should pay for services. One manager suggested that his problem was “People getting everything for free because they complain.” An-

other noted, “What concerns me the most is how to handle experienced complainers that create situations just to receive compensation by keeping them satisfied and at the same time complying with the budgeting limitations and keeping the company’s good image.” While some felt that guests were unreasonable in their expectations, others focused on how to improve response and recovery time for complaints. Understanding the customer often involved getting a better understanding of the needs of new generations and evolving customer demands. One manager observed, “Customers are always expecting new and innovative hotel products and services.” Efforts to keep products distinctive is one concern that emerges from the challenge of understanding trends in consumer behavior, while another was being up to date on the use of web tools to maximize sales opportunities. Blogs, social networks, and customer comments on the internet all pose new challenges in responding to customer concerns and managing a hotel’s reputation. Ensuring that third-party booking sites understand and properly address guest needs was also cited as a concern.

Rising costs of labor, energy, food sourcing, and health insurance along with other employee benefits were often juxtaposed with price cutting. One respondent summarized these two forces in a succinct statement: “Price cutting at a time of increased incremental and underlying costs.” Other respondents focused on the rising costs of specific factors such as energy or health care as major issues. Overall rising costs and escalating customer demands put pressure on managers to deliver distinctive services and bargain prices in a market that is competitive, leading us to the next issue of concern voiced by survey respondents, thinking strategically in a competitive environment.

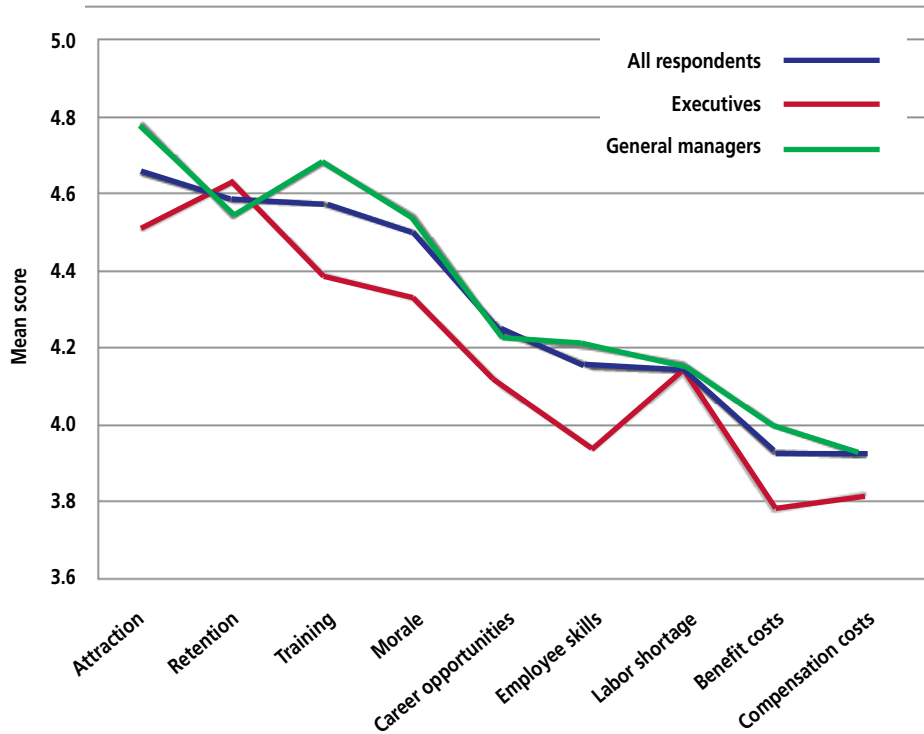
Strategic Thinking

Senior managers responding to this survey were well aware of the need for strategic thinking in the industry, but they struggled to find time for strategic issues. In contrast, middle managers expressed disappointment with senior managers who engage in short-term thinking at the expense of investing in human resources or providing value to customers. Maintaining a competitive edge is more challenging than ever according to all respondents, because the industry continues to add supply in local markets and new brands proliferate. Fundamental strategic challenges such as eroding market share and top line revenues were highlighted. One respondent offered the following lament: “How to improve our market share and increase our average rate. We are falling behind our direct competitors and find ourselves in a downward spiral, leading to poor financial results, and problems fulfilling our financial obligations.”

Several operators expressed frustration over the need to convince owners that management strategies and

EXHIBIT 3

Importance of human resources concerns by position (mean scores)



Concern	All Respondents	Executives	General Managers
Attraction	4.65	4.51	4.78
Retention	4.58	4.63	4.54
Training	4.57	4.39	4.68
Morale	4.50	4.33	4.54
Career Opportunity	4.24	4.10	4.23
Employee Skills	4.15	3.94	4.20
Labor Shortage	4.14	4.14	4.16
Benefit Costs	3.93	3.78	4.00

budget plans for the next decade require more investment. The classic tension between taking profits and deploying resources in support of long-term strategies was the primary concern of many managers working with clogged corporate bureaucracies and quick-fix owners. While managing with available funds is always a strategic challenge according to respondents, necessary changes in corporate structures are slow to evolve. Senior management was often accused of slowing changes due to political and traditional thinking, while others felt that overregulation was an impediment to strategic thinking. As one respondent noted, there is a “neverending ‘cover your arse’ syndrome that is moving to the

U.K. Red tape and overregulation has the potential, very soon, of crippling the hospitality industry.” In summary, managers at all levels cited strategic concerns over having the time and ability to think long-term about the enterprise while competitive pressures to grow revenues and maintain share evoke price wars and quick-fix solutions. Let’s now return to the single most troubling issue facing managers today—human resource management.

The Big Problem Is People!

Managers worry about attracting, retaining, and training talented people above all other human resource concerns.

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One manager put it as follows: “To recruit, train, and retrain is a Herculean task that always makes one feel like you are on a treadmill. All that energy spent, not getting anywhere.” Attraction is especially a challenge in parts of the world where government policies limit access by foreign nationals, as one respondent related: “It is becoming impossible to recruit foreign nationals and equally difficult to find local people to fill those jobs, as hospitality still has a poor reputation and the area is at full employment.”

To explore the question of human resources management, this study asked respondents to indicate the importance of the following nine aspects of HR management discovered in the previous study: attracting talented people, quality and consistency of training, career opportunities for managers, employees’ lack of skills, raising costs of compensation, employee morale, labor shortages, retaining talented people (turnover), and rising costs of benefits.

Attraction and Retention

Exhibit 3 provides mean importance scores on these nine issues, using a scale of 1 = very unimportant concern to 5 = very important concern. As the survey data show, the general managers in the study were more concerned with attracting talent, while executives focused more on retaining people over time. One manager stated, “It is difficult to find people who are willing to work in the hospitality industry in Greece.” Another, from Southeast Asia, explained: “Trained employees are poached left, right, and center. Due to local hardship and family pressure, employees are forced to change jobs at any chance of only a few bucks salary increment. Even the smartest motivation and loyalty program does not really help keeping the employees longer on the payroll.” A corporate human resource director captured the issue as follows: “It is not always a problem to find new talents as there are still many talented employees out there, but to keep those high performers will be the biggest issue of all.”

Training, Morale, and Labor Shortages

Executives and general managers alike agreed on the next two important areas of concern, quality and consistency of training and employee morale. Finding time to train was a

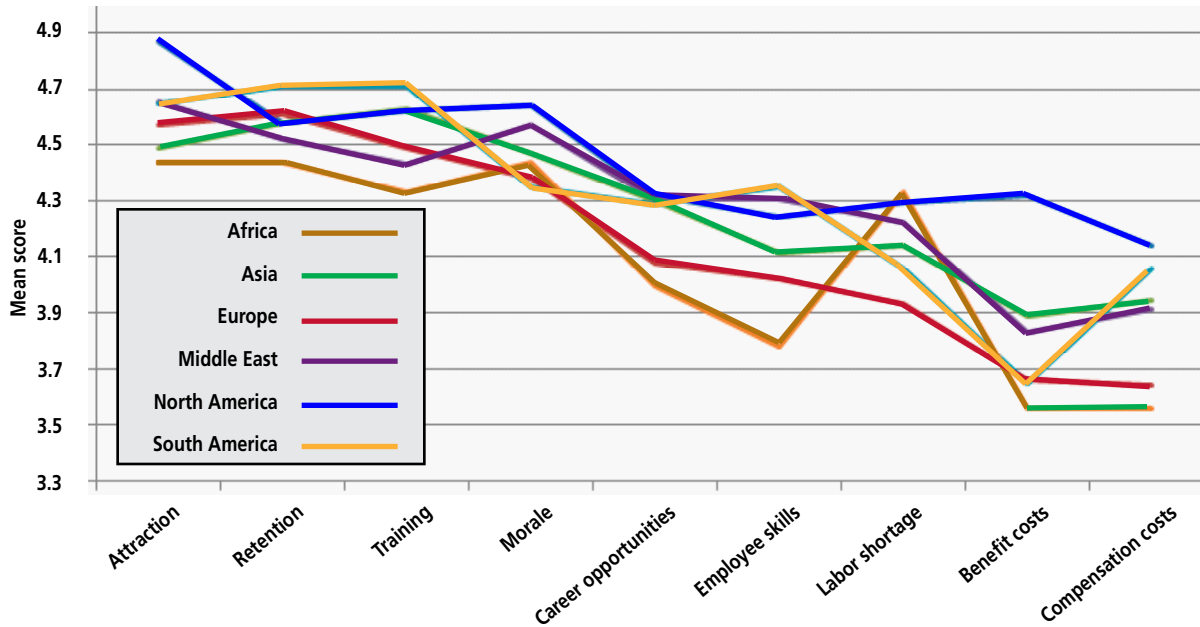
challenge expressed by many hotel managers, while executives noted that finding top talent for general manager positions was becoming more difficult. Competitive pressures were often mentioned as impediments to devoting time and resources to training staff properly. One respondent expressed the concern this way: “I find it hard to implement and maintain a consistent and successful training program with front-line employees when we also struggle with high turnover. It also affects the ability to establish and maintain the desired culture.”

General managers placed greater importance on employee morale and the lack of employee skills than did executives, who worried more about labor shortages. Unmotivated staff and the lack of experience were cited as common hurdles to providing quality service. Balancing skilled and inexperienced employees was viewed as an operational challenge that often created morale problems. In that regard one respondent observed, “It is not easy at all to provide the same quality of service to our customers. Some guests are provided excellent service by professionals, but others [are served] by beginners. It doesn’t make sense for customers paying the exact same amount of money.” The stress of the work was noted by many respondents, who linked that stress with meager rewards as an explanation for low employee morale. Aligning employees’ and company objectives to get staff to go the extra mile was viewed as a challenge, and morale issues were often linked to ongoing turnover problems that affected the ability of staff to deliver effectively on service standards.

Executives expressed concerns about the availability of labor as new hotels come on line. In China, one respondent noted, “We can build beautiful hotels, but can the service be provided to live up to the reputation? China needs a good hotel school; it’s an economy that is booming but hospitality is not seen as a good career option.” A similar concern was expressed by an Indian manager who noted, “Entry of the number of new brands into India will raise the inventory and raise the compensation levels but lower service standards, as there will be fewer trained people available in the area.”

EXHIBIT 4

Importance of human resources concerns by region (mean scores)



Concern	Africa	Asia	Europe	Middle East	North America	South America
Attraction	4.44	4.49	4.57	4.65	4.87	4.65
Retention	4.44	4.58	4.61	4.52	4.58	4.71
Training	4.33	4.63	4.49	4.43	4.62	4.71
Morale	4.44	4.47	4.38	4.57	4.64	4.35
Career Opportunity	4.00	4.30	4.08	4.30	4.32	4.29
Employee Skills	3.78	4.24	4.02	4.30	4.35	3.78
Labor Shortage	4.33	4.29	3.93	4.22	4.06	4.33
Benefit Costs	4.32	3.66	3.89	3.83	3.65	3.56
Compensation Costs	4.14	3.64	3.95	3.91	4.06	3.56

EXHIBIT 5

Most important human resources concerns by region

Concern	Africa	Asia	Europe	Middle East	North America	South America
Attraction	1 (tie)	3	2	1	1	3
Morale	1 (tie)	4	4	2	2	4
Retention	1 (tie)	2	1	3	4	1 (tie)
Training	4	1	3	4	3	1 (tie)

Most important concerns by region and position

Region	Mean Importance	Attraction	Training	Morale	Retention
Africa	GMs	4.00	4.75	4.00	4.00
	Executives	5.00	4.50	4.50	5.00
Asia	GMs	5.00	4.82	4.73	4.91
	Executives	3.92	4.08	4.00	4.17
Europe	GMs	4.57	4.48	4.14	4.57
	Executives	4.73	4.53	4.47	4.80
Middle East	GMs	5.00	4.43	4.71	4.57
	Executives	4.60	4.60	4.60	5.00
North America	GMs	4.92	4.76	4.68	4.45
	Executives	4.73	4.36	4.36	4.64
South America	GMs	4.50	4.83	4.83	4.67
	Executives	4.50	4.50	4.25	4.75
Total	GMs	4.78	4.68	4.54	4.54
	Executives	4.51	4.39	4.33	4.63

Career Opportunities and Rising Costs

Important to both GMs and executives were career opportunities for managers. “In my experience not all highly talented employees want to stay in one company to participate in a special program,” stated one corporate manager, who added: “Many of them experienced that they are even faster climbing within the hierarchies if they are changing companies in between. That makes it hard to set up good development programs.” Another respondent’s comments reveal the stress that comes from having limited resources to develop employees. This manager notes that what keeps him up at night is “Working under the threat that your qualified staff will leave any time to a competitor due to lack of development opportunities or financial reasons when you are hand tied due to company policies or bureaucracy.”

Though the key human resource issues of rising costs of compensation and benefits were noted, they are considered to be of lesser importance. While compensation was not at the top of the list, those who worried about compensation believed the industry was less attractive because of its pay practices. One manager put it this way: “It is not a secret that the hotel industry’s pay is not good compared to other industries.” The complexity of wages was noted by one respondent as follows: “In Western Canada, there are too many jobs to go around, and as such employees can pick and choose where they work. This is good for the employee but bad for the hotels and their guests, as these issues are forcing hotels to raise rates in order to achieve revenues. Adding to this, the higher costs of living are making the increased wages

paid by employers having little impact on their employees’ standard of living.”

Managing Human Capital— A Worldwide Concern

To refine the analysis of the most important HR concerns, Exhibits 4 and 5 show the mean importance scores on the HR issues of concern broken down by six different regions of the world, and the rankings of the top four key issues. As the data show, attraction, retention, training, and morale are the top four issues for managers in every part of the world. Attraction is most important for managers in North America and the Middle East, while retention tops the list for European respondents, and training most worries Asian respondents. Attraction, retention, and morale are tied for most important in Africa, while retention and training are tied for the top rating by respondents from South America.

Comparing mean scores for the nine categories across regions, labor shortages were most worrisome for managers from Africa, career opportunities for those in North America, and employee skills for managers from South America. Benefit and compensation costs were more important to managers in North America and Asia, and least important to those respondents from Africa. Examining respondents’ views by position and region revealed that attraction and retention are clearly the most important concerns, as shown in Exhibit 6, except in South America, where training and morale are of greater concern for GMs. Property level GMs in Africa are also more concerned with training than with attraction or retention.

The time is right for an industry-wide effort to improve human resources, through training, career ladders, and job enrichment.

The final analysis I conducted was to determine whether significant differences exist across regions of the world. Exhibit 7 shows the results of an analysis of variance which tests for significant differences across regions for both GMs and executives. The results show that no significant differences exist on the importance of the HR issues for executives, but a few differences exist for GMs. General managers are not in agreement on the importance of attraction, compensation and benefit costs, or the lack of employee skills. What is worthy of note is that regardless of where these managers work around the world they are universally concerned about retention, training, morale, career opportunities, and labor shortages.

Fixing Worrisome Problems

This study confirms suspicions that a common set of shared problems impede the ability of hospitality leaders to manage effectively in good times and bad. Like the study conducted in 2001, the most critical and puzzling problem continues to be human resources management, with attraction, retention, training, and morale topping the list of specific issues. How to care for and get the most out of employees appears to be a universal concern for managers and executives from every region of the world.

Since the first study was conducted, environmental and economic concerns have emerged as more worrisome, while using information technology and the value of brands have diminished in importance. Certainly, technology is far less of an unknown now than it was in 2001, and managers have made choices about IT systems, even though the question of who owns the customer may still be relevant. In the prior study, managers worried about the value of loyalty programs and the benefits of brands in adding value, but now the value added by brands may be clearer. At minimum, the industry seemed to have evolved toward the adoption of brands. How environmental concerns and economic woes play into competitive positioning does appear to be a more recent and frequently noted concern, as the current study revealed. Operating costs, customer demands for lower prices, and the need to think strategically so as to devise strategies that in the long term will permit operators to develop novel and

EXHIBIT 7

Analysis of variance most important concerns by region for GMs and executives

Concern	F-test for general managers by region	F-test for executives by region
Attraction	2.999*	1.511
Retention	1.383	.441
Training	1.657	.672
Morale	2.778	1.268
Career opportunity	2.027	1.154
Employee skills	3.363**	.454
Labor shortage	.740	.609
Benefit costs	3.368**	1.104
Compensation costs	4.826**	2.284

Notes: Significance * = $p < .05$; ** = $p < .01$; $N = 86$, $df = 5$ for GMs; $N = 48$, $df = 5$ for executives.

profitable operations have moved to the forefront of what keeps managers up at night.

Returning one last time to the major issue of concern in the industry, the endless challenge of attracting, training, and retaining skilled workers should be considered an opportunity to think differently about how to address these problems, rather than an “unchangeable fixture,” as one respondent called it. Innovation in human resource management is needed to gain a sustainable competitive advantage in an increasingly challenging business landscape, but individual hotels or even chains cannot fix this complex and ongoing problem. Perhaps it is now time for the industry to work together to make the jobs more attractive, the career paths clearer, and investments in training more incisive. While these problems are universal, individual efforts to fix them appear to be failing. Perhaps now is the time for an organized, worldwide, cooperative effort by industry and academe to find ways to improve human resources management. ■

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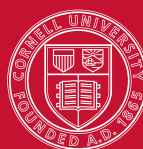
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