



The Performance of the Israeli Hospitality Industry: An Evaluation of Crisis Periods and of Different Locations

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Managers and Their Crisis Management Practices

Importance and Usage of Hospitality Crisis Management Practices



- The study of hospitality managers' crisis management focused on evaluation of
 - the importance of practices that assist the organization in times of crisis
 - the level of usage which managers report for each of these practices
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Practices – Hospitality Crisis Study



Category	Practice	Title
Human Resources	Firing employees to reduce labor force	Practice 1
	Using unpaid vacation to reduce labor force	Practice 2
	Decreasing number of working days per week	Practice 3
	Freezing pay rates	Practice 4
	Replacing high-tenure employees with new employees	Practice 5
	Increased reliance on outsourcing	Practice 6
Marketing	Marketing to domestic tourists in joint campaigns with local merchants (such as Visa, MasterCard)	Practice 7
	Marketing to domestic tourists with focus on specific attributes of the location	Practice 8
	Price drop on special offers	Practice 9
	Reducing list price	Practice 10
	Marketing to foreign tourists with specific focus on the location's distinctive features and relative safety	Practice 11
	Marketing and promoting new products or services (family events, catering)	Practice 12
	Marketing to new segments (such as ultra orthodox)	Practice 13
Maintenance	Cost cuts by limiting hotel services	Practice 14
	Cost cuts by postponing maintenance of the building (cosmetics)	Practice 15
	Cost cuts by postponing maintenance to the engineering systems	Practice 16
	Extending credit or postponing scheduled payments	Practice 17
Government	Organized protest against the lack of government support	Practice 18
	Industry-wide demand for governmental assistance with current expenses	Practice 19
	Industry-wide demand for a grace period on tax payments	Practice 20
	Industry-wide demand for a grace period on local tax (municipality) payments	Practice 21

Propositions – Hospitality Crisis Study



- There will be a strong positive correlation between the importance one assigns to a certain practice and the level of usage of this practice (a necessary condition for rational and coherent crisis management)
- Both importance and usage practices will follow the constructs of *human resources, marketing, maintenance, and government* (i.e. construct validity)

Research Population – Hospitality Crisis Study



- 328 general managers from all of the hotels in Israel registered with the Ministry of Tourism.
- 116 usable questionnaires (response rate of 35%)

Main Findings – Hospitality Crisis Study

Correlation between Importance and Usage



- Correlation for all practices was significant and positive
- For the four practices with the highest correlation (*freezing pay rates, price drop on special offers, reducing list price and cost cuts by postponing maintenance to the engineering systems*) the average means for **usage** were **higher** than the means for **importance**.
 - One possible explanation is that these four practices have been extensively used in past crises and are almost automatically considered when a new crisis arises.
- In the other practices **importance** was **higher** than **usage** which may suggest that possibly more could be done.

Main Findings – Hospitality Crisis Study

Factors of Practices' Importance and Usage



■ Practices' Importance

- **Factor 1** *reliance on government and marketing*
- **Factor 2** *maintenance cost cuts*
- **Factor 3** *lowering prices through labor cutbacks*
- **Factor 4** *finding neglected segments and tightening employment terms*

■ Practices' Usage

- **Factor 1** *cost cutting practices*
- **Factor 2** *recruiting government support*
- **Factor 3** *massive marketing*
- **Factor 4** *focused marketing and shorter workweek*



Hospitality Management Performance

Management Performance



- Top-down approach – performance is externally defined (by top management or by forces or standards outside the organization) and then used to monitor and evaluate management
- Bottom-up approach – managers perceive performance and define what it is and then act accordingly
- The study investigated the following issues
 - Do managers in the hospitality industry have a clear perception (and definitions) of their organization's performance
 - Do managers understand the service and production dimensions of their performance
 - Do managers perceive one or both dimensions as significant
 - Do managers evaluate themselves as performers on these dimensions.

Management Performance Profile Combinations



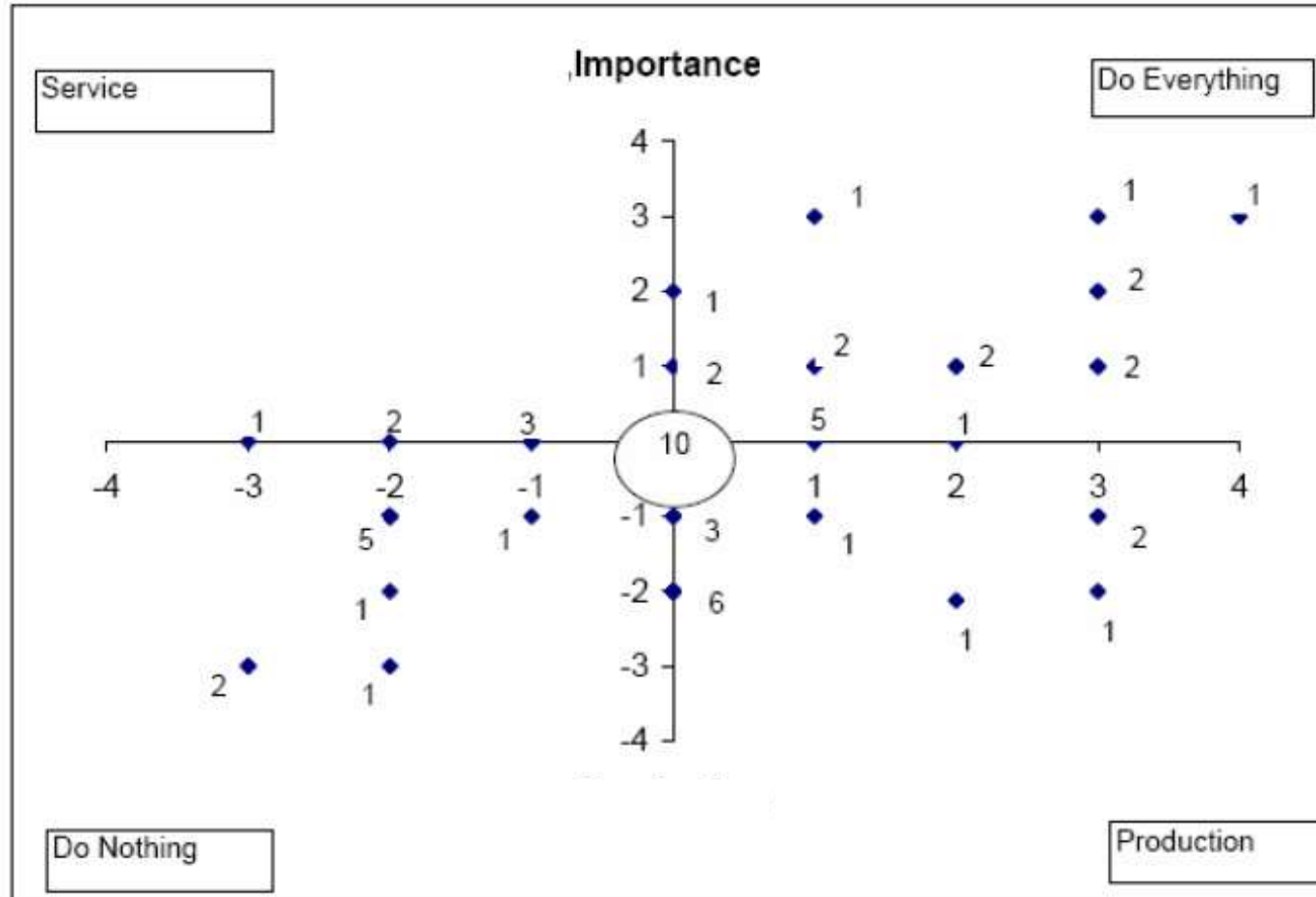
		Production Aspects of Performance	
		Low emphasis	High emphasis
Service aspects of performance	High emphasis	<i>Service</i>	<i>Do everything</i>
	Low emphasis	<i>Do nothing</i>	<i>Production</i>

Research Population – Management Performance

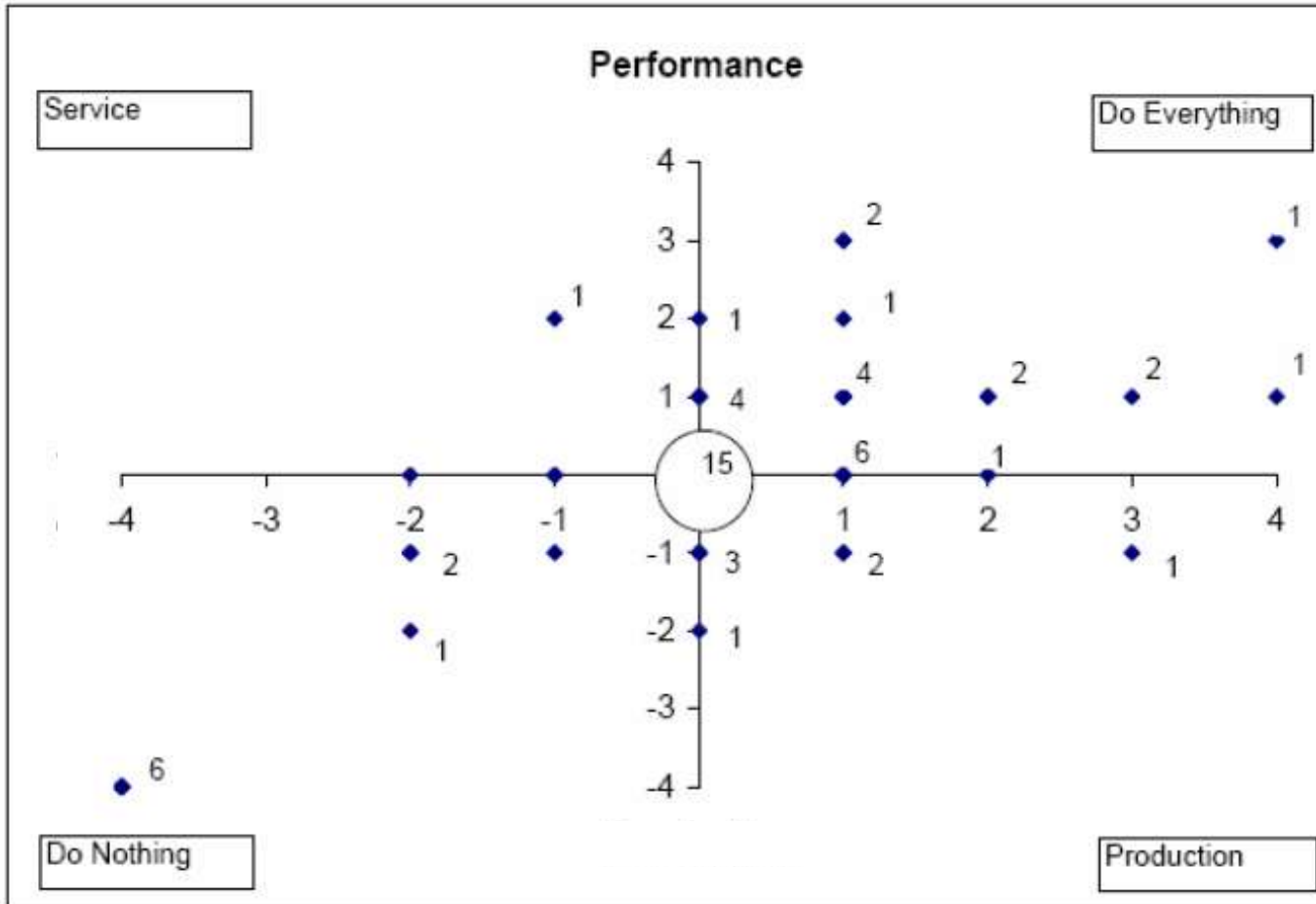
- 328 manager, members of the Israeli Hotel Association
- 60 useable questionnaires were returned (a response rate of 18%)



Main Findings – Management Performance Perception of Performance Measures



Main Findings – Management Performance Action on Performance Measures



Definitions – Effectiveness and Efficiency



- Effectiveness and efficiency are two common terms in management
 - Effectiveness is generally described as “doing the right thing”. This usually includes all the activities that will help the organization reach its goals
 - Efficiency is generally described as “doing things right”. It is defined as getting the most output from the least amount of inputs, and the measurement is generally done using a ratio of inputs to outputs

Data – Effectiveness and Efficiency



	Occupied rooms	Occupied beds	Revenue per room	Revenue per bed	Annual salary per room	Annual salary per bed
1995	23,407	44,900	101,213	47,108	31,467	14,646
1996	23,461	45,849	107,382	49,000	32,917	15,021
1997	22,749	45,321	109,228	49,299	35,555	16,047
1998	23,161	46,703	115,842	51,586	36,899	16,432
1999	25,867	52,177	130,034	56,641	39,393	17,159
2000	27,262	55,350	132,006	56,836	39,157	16,859
2001	20,995	44,833	96,088	39,855	31,406	13,026
2002	20,417	44,518	89,490	36,607	26,669	10,909
2003	20,938	45,275	93,280	37,890	27,046	10,986
2004	23,537	50,738	110,284	44,514	30,382	12,263

Table 7 – Operating data of the Israeli hospitality industry 1995-2004

Source: Central Bureau of Statistics, Government of Israel (www.cbs.gov.il)

Findings – Effectiveness and Efficiency

Are Managers Effective and/or Efficient



	Occupied rooms	Occupied beds	Revenue per room	Revenue per bed	Annual salary per room	Annual salary per bed
1996	Effective	Effective	Effective	Effective		
1997			Effective	Effective		
1998	Effective	Effective	Effective	Effective		
1999	Effective	Effective	Effective	Effective		
2000	Effective	Effective	Effective	Effective	Efficient	Efficient
2001					Efficient	Efficient
2002					Efficient	Efficient
2003	Effective	Effective	Effective	Effective		
2004	Effective	Effective	Effective	Effective		

Table 9 – Determinations of effectiveness and efficiency for operating data of the Israeli hospitality industry 1995-2004

Source: Central Bureau of Statistics, Government of Israel (www.cbs.gov.il)



Industry Performance – Crisis Vs. No-Crisis Periods Different Locations

Crisis Impact on Hospitality

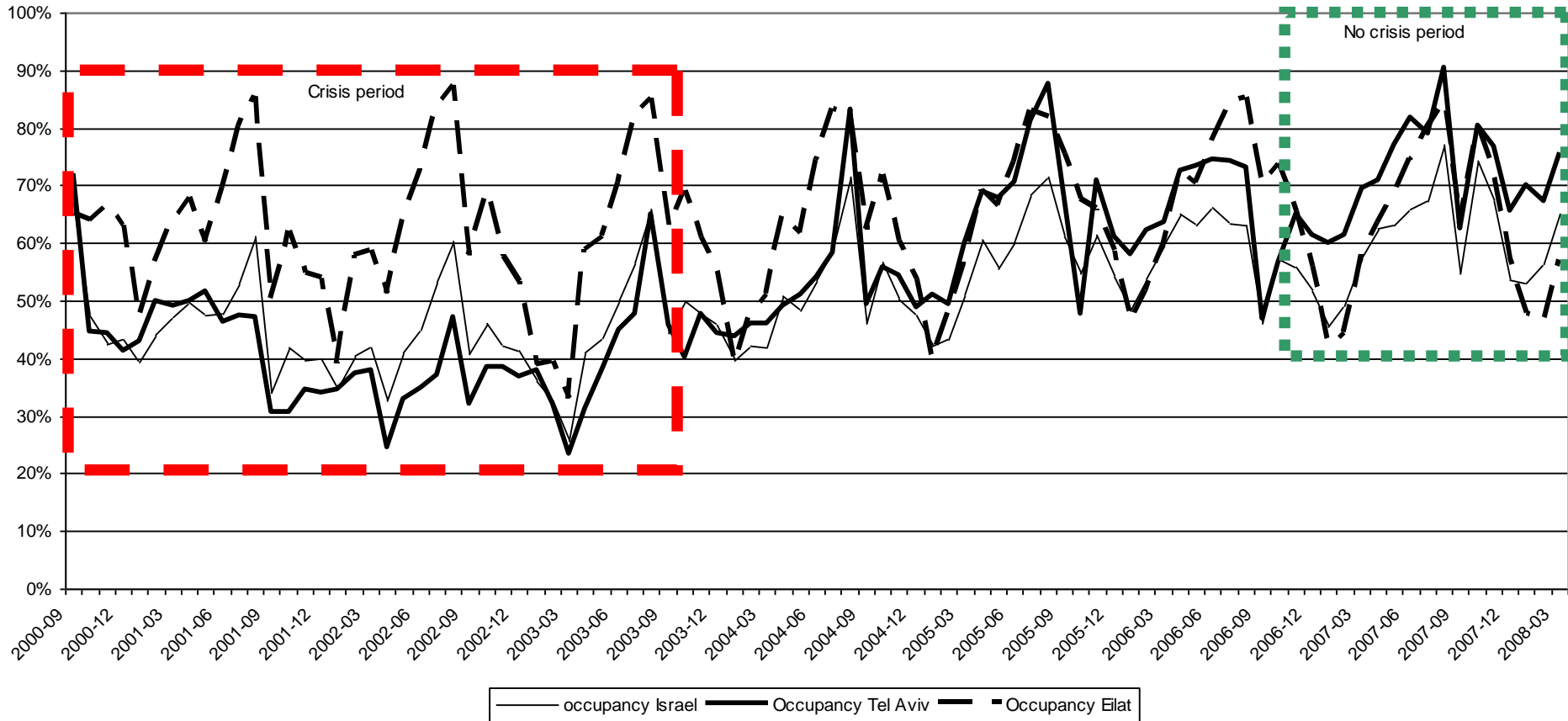
The Effect of Location



- Eilat is a resort and vacation destination in which a large proportion of the hotels has a corporate affiliation; thus corporate intensity is relatively high. Another characteristic of Eilat is that it has a relatively low level of foreign visitors. Tel Aviv is a business center with a relatively average level of corporate intensity, which traditionally had a relatively high proportion of foreign visitors.

Crisis Impact on Hospitality

Comparing Occupancy



Crisis Impact on Hospitality

Comparing Yield

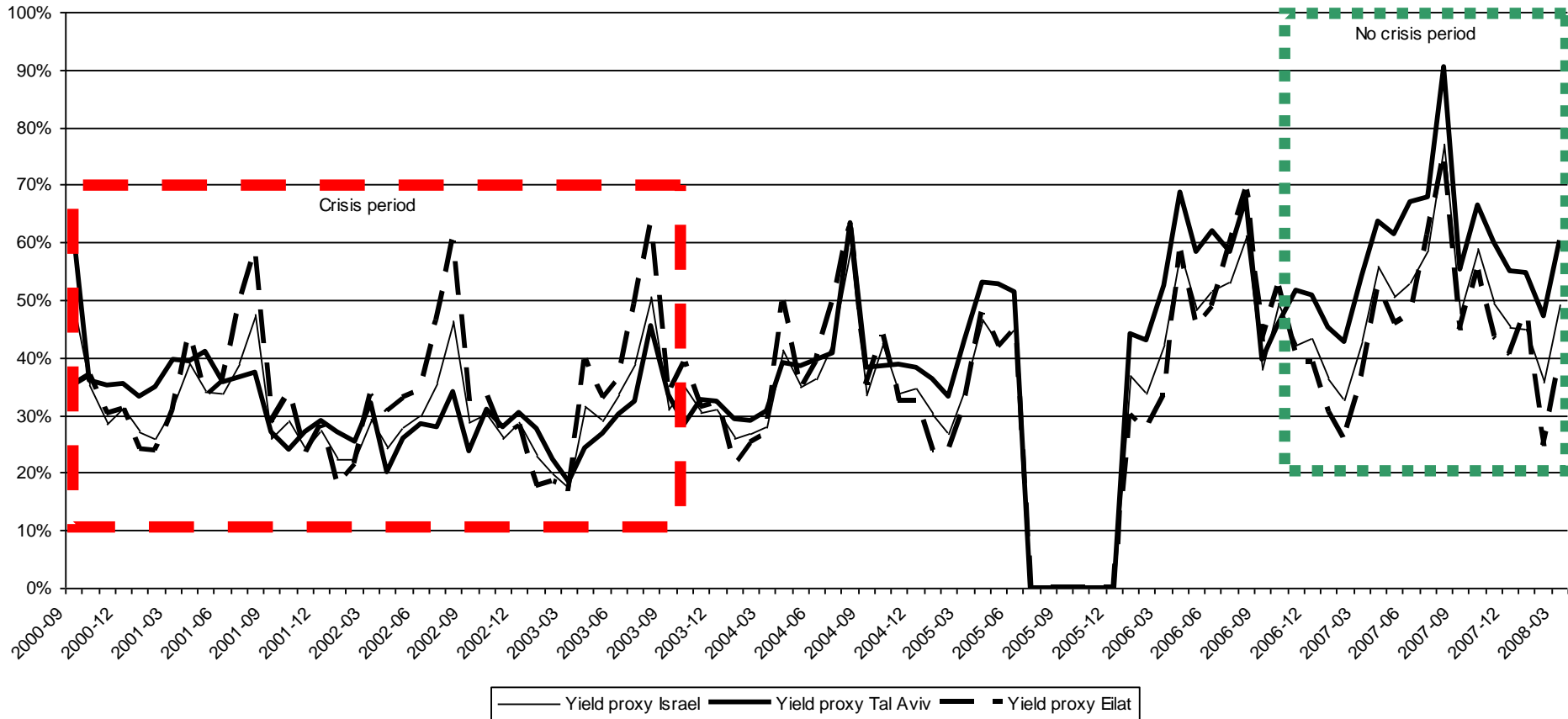


In its basic definition, which was introduced by Orkin (1988), yield is computed by dividing the revenues realized by the revenue potential. More specifically, yield is:

$$\text{Yield} = \left[\frac{\text{Rooms Sold}}{\text{Rooms Available for Sale}} \right] \cdot \left[\frac{\text{Average Rate of Sold Rooms}}{\text{Average Rate Potential}} \right]$$

Crisis Impact on Hospitality

Comparing Yield



Conclusions



- Managers generally know what to do in times of crisis, but fail to perform
 - Managers are unclear about the true meaning of performance in their organizations
 - The outcome is that managers are generally effective but during crisis periods, they turn their attentions to efficiency
 - Crisis have a different impact on the industry. Some areas consistently perform above average in times of crisis and below average under no-crisis conditions.
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