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Exploratory Studies on Variables Effecting Strategic Planning and Business Performance of Hotel Enterprises Located in Malopolska Region of Poland

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Abstract

Article presents the results of studies on factors effecting strategic planning and business performance of hotel enterprises in Malopolska region located in southern part of Poland with the capital in Cracow, very popular touristic destination visited yearly by around 5 million tourists. Based on literature analysis and using the educated-guess approach the set of factors potentially important for functioning and competitiveness of hotel enterprises have been selected. Six hypothesis assuming the existence of correlation between variables tested and tendency for development of strategy by their managerial staff were formulated. The hypothesis were tested based on the results of questionnaire studies involving the group of 60 (34 women and 26 man) randomly chosen managerial staff members of hotel enterprises. The group varied also in the type of managerial position and consisted owners (10), presidents (4), directors and managers (25). The group was divided into three subgroups differing in their approach to the strategy development; the group of hotel managers who developed strategy for their enterprises, the group of hotel managers who developed only functional strategy, and the group of hotel managers who have not developed strategy for their hotels. The responders differ in their age, but their population was dominated by the segment in the range 26-45 years; the largest group (52%) was in the age range 26-35 years, followed by the group in the age range 36-45 years (23%). The hotels studied have various types of business - organizational structure. Majority of them were limited liability companies (32) while 15 were private companies, 7 joint-stock companies, 5 partnerships and 1 unlimited company. Data obtained were analyzed using the integrated methods of qualitative and quantitative analysis. The qualitative analysis was based on deductive and inductive reasoning approaches. The quantitative analysis was performed using computer program – Statistica 9. All hypotheses formulated were proven. For all dependencies studied the positive value for Pearson correlation coefficients (r) were obtained. The strongest correlation ($r = 0.92$) between the organization structure of the hotel enterprises and their institutional ties with other entities of that sector and the tendency for development of strategy by their managerial staff was detected. Importantly, it was observed that strategy development has strong, positive effect on the financial performance of hotel enterprises ($r = 0.55$) and on the increase of their shares on the local market ($r = 0.53$). These findings indicate that the managerial staff of hotel enterprises should be encourage to develop the strategy for functioning of their entities as it is beneficial for their position at

the market and for their business performance. Current studies carried out by the author on the approach of managerial staff to the strategy development are expected to provide the inside into the effect of expansion and level of maturity of the hotel business in Malopolska region of Poland. These finding may be of importance for analysis of the development of that sector in other regions undergoing the socio-political changes.

1. Introduction

Political and economical changes occurring in Poland during the last decade of twenty century served as driving forces for dynamic development of hospitality sector. In the period between 1991-2012 the number of hotels increased fourfold (Milewski 2013). Development of hotel infrastructure was accompanied by an increase in competition between various hotel enterprises resulting in the increase in quality of services, higher efficiency and also in the changes of the attitude of the managerial staff. Managers have taken more responsibility for their decisions having both immediate and long-term effects on the functioning, business position and profits of the enterprises. They have to constantly gather, process and analyze information allowing to foresee new opportunities as well as planning and implement of proper actions. Thus, hotel managers are more often forced to formulate the strategy. Formulation of the strategy is a continuous process which is believed to be essential for implementation of innovation and positive changes in company in reaction on the changes in the environment. Although the literature on strategy is quite wide, the number of papers presenting the results of studies on strategy in hotel enterprises is limited. Researchers interested in the issue pointed out the weaknesses in both theoretical background and limited extent of empirical studies (Phillips 1996; Phillips & Moutinho 1999, 2000; Harrington 2005; Okumus et al. 2010). Okumus & Roper in their paper published in 1999 concluded that studies on strategies in hotel sector are insufficient. Until now, the situation has not improved considerably. Excellent analysis was recently provided in the review paper by Phillips & Moutinho 2014. Based on careful literature search, authors have identified only 77 such papers published in the period of time 1995-2013 in the 7 main journals dealing with strategic management in tourism and hospitality sector. That have not changed considerably during the last few years. There are numerous reasons explaining that situation, related to the specificity of the sector and human factors. Hospitality sector requires costly infrastructure demanding large investment. It is also dependant on the natural, cultural and social environment. It was observed that although there are large hotel chains and groups, the sector is still dominated by micro and small businesses in which the management is concentrated on operational issues rather than on the strategic planning (Phillips & Louvieris, 2005). Majority of the

tourism researchers are social scientists rather than economists (Echtner & Jamal, 1997). There is also a gap between strategy planning and implementation. While analyzing the publications, Phillips & Moutinho (2014) stated that: "The academic literature is dominated by the western perspective on strategic planning, and given the increasing influence of eastern culture, researchers need to explore the eastern perspective. This could have significant impact on how organizations extend across national boundaries". They also underlined the need for accumulation of the case studies and other empirical results.

This paper presents studies on the effect of selected variables on the practitioners' decision on strategy formulation and on some results of these on market position and revenue of the hotel enterprises. Hotel enterprises under investigations were located in Malopolska, the region in southern part of Poland, with the capital in Cracow - very popular touristic destination visited yearly by around 5 million tourists.

In the research process author decided to use the situational approach characteristics for management disciplines (Robbins & De Cezano, 2002). Research had the explorative and descriptive nature (Frankfurt-Nachmias & Nachmias 2001; Babbie, 2003).

2. Methods

Empirical data was obtained by carrying out the questionnaire survey on the randomly chosen group of top managerial staff members of hotel enterprises functioning in Malopolska region in the period of time in the period of time 2008-2009. Based on literature analysis and the educated guess approach the set of factors being potentially important for functioning and competitiveness of hotel enterprises have been selected. They were evaluated by the group of responders accounted for 60 people; 34 women and 26 man. The group consisted of three subgroups: 1) hotel managers who developed strategy for their enterprises, 2) hotel managers who developed only functional strategy for their enterprises, 3) hotel managers who have not developed strategy for their enterprises. Responders varied in their age and they belonged to the following age groups: 31 were 26-35 years, 14 were 36-45 years, 10 were 46-55 years (see Table 1). Only 1 represented the youngest group: 18-25 years and 4 the oldest - 56-65 years. The group varied also in the type of managerial position and consisted of 10 owners, 4 presidents, 25 directors and 25 managers. The hotels tested varied in the type of business - organizational structure - 32 of enterprises were limited liability companies, 15 private companies, 7 joint-stock companies, 5 partnerships and 1 unlimited company. For data analysis integrated methods of qualitative and quantitative analysis were applied. The quantitative analysis was performed using computer program – Statistica 9. The qualitative analysis was based on deductive and inductive reasoning approaches.

Table 1. Edge of responders.

Edge of responders	Number of individuals in a group	Percent (%)
18-25	1	2
26-35	31	52
36-45	14	23
46-55	10	17
56-65	4	7

HYPHOTHESES DEVELOPMENT

The following hypotheses were developed and tested:

Hypothesis 1.

There is strong correlation between the size of the hotel enterprises and tendency for development of strategy by their managerial staff.

Hypothesis 2.

There is strong correlation between the organization structure of the hotel enterprises and their institutional ties with other entities of that sector and the tendency for development of strategy by their managerial staff.

Hypothesis 3.

There is strong correlation between the level of revenue of the hotel enterprises and the tendency for development of strategy by their managerial staff.

Hypothesis 4.

There is strong correlation between the business experience, measured by the time for which the enterprise is present on the market and the tendency for development of strategy by their managerial staff.

Hypothesis 5.

There is strong correlation between the tendency for development of strategy by the managerial staff of the hotel enterprises and the increase in the shares holding by these entities in the local market and

Hypothesis 6.

There is strong correlation between the financial performance of hotel enterprises and the tendency for development of strategy by their managerial staff.

3. Results**3.1. The Effect of Size of Hotel Enterprise on the Interest in Strategy Formulation - Hypothesis One**

The tested group was divided into four sets based on their sizes and using the criteria recommended by European Union Recommendation (364/2043/EC) issued on 25 of February 2004. The number of subjects reflected the statistical ratio in general set of hotel enterprises functioning in Malopolska, thus being the representative sample for the region. The set consisted of small enterprises (55%) with 49 employees (55%) and medium size enterprises with 249 employees (30%) which is characteristic for the evolution of hospitality sector in Poland, especially for Malopolska region. There were only 7 microenterprises (~12%) with up to 9 employees and only 2 (~3%) large enterprises with more than 249

employees.

Table 2 presents data on size of hotel enterprise and strategy formulated. The Pearson correlation coefficient was determined to be $r=0,71$, what indicates that there is a strong correlation between these variables.

Table 2. Size of hotel enterprise and type of strategy formulated.

Size of hotel enterprise	Lack of strategy	Functional strategy	Strategy of enterprise	Sum
Microenterprise	3	5	0	7
Small enterprise	15	10	7	33
Medium enterprise	2	5	11	18
Large enterprise	0	0	2	2

While microenterprises were not interested in strategy formulation, the role of strategy became more important with the increase in the enterprise size. The most diverse approach was observed while analyzing the group of small enterprises - 46% had no strategy, 32% had functional strategy, while 22% decided to formulate the strategy. Similar trend was observed earlier by Phillips & Louvieris, 2005. They explained this considering that entrepreneurs of micro and small enterprises are rather searching for novel ideas to consolidate and grow their businesses than think of strategy. That has the adverse effect on successful strategy formulation and implementation. These authors observed such a behavior also in the medium size enterprises. Surprisingly, current studies show that 61% of medium size enterprises studied had their strategy formulated. Large enterprises also implemented strategy. This is in agreement with general observation made for Polish hotels (Bednarczyk, 2006). Aldehayyat (2011) observed similar tendency in the Jordanien hotels.

3.2. The Effect of Organizational Structure on the Interest of Hotel's Managers in Strategy Formulation - Hypothesis Two

About half of studied entities being independent enterprises declared complete independence in organizational and functional dimensions and had no strategy, while family firms had mainly functional strategy. Most of enterprises belonging to hotel chains/groups developed the strategy or at least functional strategy. This is in line with usual practices of the international chain companies. Quite often the strategy is developed for the whole chain and managers are just adopting it to the specific situation of their enterprises. Considering the above, having no strategy by some enterprises belonging to Polish chains/groups is explainable considering that some family hotels associate with hotel chains only to profit from their brand, whilst protecting their substantial functional autonomy. Data presented in Table 3 show strong correlation between the type of organizational structure of hotel enterprise and tendency to develop the strategy. The Pearson correlation coefficient was found to be $r=0,92$. That corroborates with the work by Stokes, 2008 who considered the organizational structure to be one of three main frameworks in tourism strategy.

Table 3. Organizational structure of hotel enterprise and type of strategy formulated.

Type of organizational structure	Lack of strategy	Functional strategy	Strategy	Sum
Independent	14	8	7	29
Family enterprise	4	10	4	18
Polish hotel chain /hotel group	2	2	3	7

3.3. The Effect of Revenue Level on Tendency for Strategy Development by Hotel's Managers - Hypothesis Three

It was important to determine whether there is a correlation between the level of the revenue generated by the enterprises and the tendency to formulate the strategy. The enterprises considered in the studies have been divided into 4 groups based on the level of their revenue adopting the methodology recommended by the EU (364/2043/EC). The largest group of the enterprises (50%) was that in which the revenue was lower than 1 mln Euro, the second largest (27%) was that having the 1-2 mln. Only 7% of the entities had a revenue higher than 2 mln and smaller than 10 mln, and 2% declared revenue between 10-50 mln. Levels of the revenue correlate well with the presented above size and the organizational structure of the enterprises under investigation

and reflect specific situation in Malopolska region hotel industry.

Enterprises having higher revenue are more likely to function based on defined strategy, although only all of these with the revenue higher than 10 ml Euro had the strategy. Data presented in Table 4. indicate the existence of positive relation between functional strategy and revenue of the organization. This is in line with the finding by Mauri & Aurelio (2007) showing that the hotel sector benefits by applying the yield strategy (or revenue management). This strategy allows to optimize the total hotel revenue by allocating hotel rooms among different segments of customers. It was also found that business experience, measured by the period of time at which the enterprise functioned on the market, translates to the managers' interest in strategy development (Table 4). The Pearson correlation coefficient between these variables was found to be $r=0,33$.

Table 4. Level of the revenue and type of strategy formulated.

Revenue of enterprise [mln EURO per year]	Lack of strategy	Functional strategy	Strategy	Total number of enterprises
<1	13	11	6	30
1-2	2	3	3	8
>2-10	5	5	7	17
>10-50	0	0	4	4

3.4. The Effect of Business Experience on the Interest of Managerial Staff in Strategy Development - Hypothesis Four

It was tested whether the business experience, measured by the time the hotel enterprises functioned on the market correlated with the tendency for strategy development. The major differences were observed between the youngest and

the oldest enterprises. While the majority of them belonging to the first mentioned group had no strategy formulated, the majority of these from the second group had developed strategy of their functioning. Statistical analysis of data presented in Table 5 resulted in the Pearson correlation coefficient between these variables, $r = 0,47$ indicating existence of strong positive correlation.

Table 5. Period of time the hotel enterprise is active on the market and type of strategy formulated.

Time of activity	Lack of strategy	Functional strategy	Strategy	Total number of enterprises
up to 5 years	11	6	3	20
6 to 10 years	7	9	5	21
more than 10 years	2	5	12	19

3.5. The effect of Strategy Development on the Increase in size of shares in the Local Market - Hypothesis Five

Results of preliminary studies have indicated also that hotel enterprises which have formulated strategy are more successful. The "level of success" was measured by changes in the share in the local market and changes in the revenue.

Studies in which the change of hotel enterprise in its shares in the local market in the period of time 2006-2008 was analyzed have shown that there is a positive correlation with the strategy development (Table 6). The Pearson correlation coefficient between these variables was found to be $r=0,53$. From 31 entities whose market position increased in that time 12 had strategy (39%), while from 29 of those whose position decreased only 8 (28%) formulated strategy.

Table 6. Effect of development strategy on the change of shares in local market in 2006-2008.

Type of strategy	Decrease in shares in local market	Increase in shares in local market
Lack of strategy	11	9
Functional strategy	10	10
Strategy	8	12
Total	29	31

3.6. The Effect of Strategy Development on Their Financial Performance of Hotel Enterprises - *Hypothesis Six*

As the majority of managerial staff treated information concerning profit as strictly confidential it was decided to use the change in revenue as an indirect measure of profit. In the period of time 2006-2008 it was established that from 20 companies which formulated strategy only 1 declared decrease, while 19 noted no change or increase in the revenue (Table 7). That supports the view on the importance of the strategy, such as involving integration of the customer relationship management and revenue management in success of the hotel enterprises, as observed earlier by Kimes (2011). However, 14 from 20 entities having no strategy noted increase in the revenue. That can be explained considering the fact that the study group was dominated by small, family businesses. These are more flexible in functioning and can easily accommodate to changes even without strategy. The value of Pearson correlation coefficient between these variables was found to be $r=0,55$ which indicates that overall the enterprises which develop strategy have better performance.

Table 7. Effect of development strategy on the change of revenue in a period of time 2006-2008.

Type of strategy	Decrease	No change	Increase
Lack of strategy	3	3	14
Functional strategy	5	9	6
Strategy	1	7	12
Total	9	19	21

4. Conclusions

Analysis of the data obtained in the questionnaire survey with participation of representative group of 60 top managers of Malopolska hotel enterprises resulted in identification of positive correlation between factors such as size of the hotel, organizational structure, level of revenue, business experience and tendency to formulate strategy. All hypotheses were proved to be correct. What is important, the studies indicated that the development of strategy enhances business performance of the hotel enterprise with the exception of small, family businesses.

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