



Article Title

Factors Influencing Business Performance in Hotels and Restaurants

Citation

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Abstract

The objective of this paper is to analyse the factors that influence business performance. Business performance, measured by turnover per employee, can be influenced by internal factors in firms, external economic and demand factors, as well as geographic location and agglomeration. The hypotheses were tested using an econometric model on the basis of micro business data. The results show that business performance in hotels and restaurants is positively related to traditional explanatory variables, such as profits, level of investment of firms, productivity of hotels and restaurants in their regions, and concentration of firms. The paper focuses on two extra factors, i.e. human skills and geographic location. The study found that professional education, e.g. chef, has a positive impact on performance in restaurant businesses. Employees with higher levels of education including university students in hotel businesses also have an impact on performance. The location factor showed that hotels and restaurants situated in city centres perform better than those located elsewhere. The contribution of this paper is that by applying micro business data in hotel and restaurant branches, it allows the analysis of the detailed factors that might influence business performance. In addition, the results also allowed a comparison between hotel businesses and restaurant businesses. The implication of this research is to understand the relationship between business performance and a series of influential factors, which could eventually help tourism businesses to improve their management.

Methods

Hotels and restaurants are often operated by small and medium-sized enterprises (SMEs). The main factor determining whether a business is an SME is the number of employees or turnover. According to the European Commission (2005), most Danish hotels and restaurants are SMEs. Firm size in the database is broken down into seven categories by number of employees as shown in Table 1. In 2010, of 1,480 hotels and similar establishments, including hotels, youth hostels, camping sites and holiday apartments, 81% were micro businesses with less than 10 employees in each business. Small-sized businesses (employees between 10 and 49) accounted for 16%; therefore, in total, micro and small businesses accounted for 97% altogether. There are only two large hotels which have more than 250 employees in Denmark, accounting for only 0.1% of total hotels and similar establishments.

Results

Regression analysis is a statistical process for estimating relationships among variables. This type of analysis estimates the conditional expectation of the dependent variable given the independent variables, that is, the average value of the dependent variable when the independent variables are fixed (Wikipedia). Regression methods are widely applied in tourism research, for example, in tourism demand modelling and forecasting (Peng, Song, Crouch & Witt, 2015; Song, Witt & Li, 2009); in research on hotels' choice of location (Urtasun & Gutiérrez, 2006; Yang et al., 2010); on students' satisfaction related to "tangible" and "intangible" variables (Nadiri, Kandampully & Hussain, 2009); and in economic analysis of tourism flows (Zhang & Jensen, 2007).

Conclusion

Overall, the location variables are significant except in coastal areas. Location in city cores and cities in general has a positive effect on hotel performance relative to a location in rural areas, which is the reference category, while location on an island has a negative effect on performance relative to rural areas. Business age has no effect on business performance as the variable is insignificant. It is interesting to note that size of business has mixed effects on business performance. The micro business performs better, significant at the 5% level. Businesses which employed more students in higher education performed better than those with a smaller share; the same was true for businesses with a larger share of employed minors, youths under the age of 18.

