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The Use of Exit Interviews in the U.S. Lodging Industry

By Cynthia S. Deale, Lawrence D. Stalcup, Samuel Y. Todd and David Earnhardt

This study investigated whether hotel managers systematically collected and analyzed data via employee exit interviews to determine why employees left jobs at their properties. Telephone interviews were conducted to determine whether exit interviews were conducted, what use was made of the interview data, and whether there was a relationship between the use of interviews and the level of turnover. Exit interviews appeared to be more common in larger properties and were used primarily for improving employment conditions, identifying problem areas, and providing closure for the employment relationship. There appeared to be an inverse relationship between the use of exit interviews and the level of turnover.

INTRODUCTION

According to the Bureau of Labor Statistics, aggregate employee turnover in the United States has been rising (2006). In addition, the voluntary unemployment, or "quit rate," has increased, as well (Westcott, 2006). For many years turnover in the hospitality industry has been viewed as a chronic problem (Hogan, 1992; Purdue, Woods, Elsworth, & Ninemeier, 2003; Wasmuth & Davis, 1983), for while the median job tenure of employees aged 16 and over in the United States was 4.0 years in 2006, that tenure was only 2.5 years in the accommodations sector and 1.4 years in food-and-beverage operations (Bureau of Labor Statistics, 2006). Most research has studied turnover in the hospitality industry as a macro problem (Milman & Ricci, 2004; Stalcup & Pearson, 2001; Hogan ,1992; Wasmuth & Davis, 1983); however, some researchers have suggested that identifying the causes of turnover in the hospitality industry at the property level is key to controlling the problem (Stalcup & Pearson, 2001; Wasmuth & Davis, 1983). It seems likely that each property has a different profile of the causes of turnover; therefore, a single approach to addressing turnover problems will have only a limited effect.

Exit interviews have been discussed as a management tool useful for identifying the causes of employee turnover at the property level (Feldman & Klaas, 1999; Purdue, Woods, Elsworth, & Ninemeier, 2003; Stalcup & Cannon, 2001; Woods & Macaulay, 1987). Researchers have described various types of, and methods for, conducting exit interviews (Stalcup & Cannon, 2001; Mok & Luk, 1995). However, little is known about how prevalent exit interviews are, how those exit interviews are being conducted, and how those results are being used. Furthermore, no research has indicated whether there is a statistical relationship between the use of exit interviews and the level of turnover. The purpose of the research being discussed here is to explore these questions.

BACKGROUND

Exit interviews are often formalities that serve a limited purpose and are not used as a strategic management tool (Elbo, 2006; Westcott, 2006). However, if taken seriously, exit interviews can provide businesses and associations data that can help them resolve issues in the workplace, such as improving employee retention, hiring practices, and training (Pounds, 2006; Purdue, Woods, Elsworth, & Ninemeier, 2003; Harris, 2000; Westcott, 2006). Effective exit interviews can provide clues to turnover based on employees' perceptions of the selection process, orientation, first month on the job, compensation programs, the job itself, career options, management styles, and alternative work arrangements (Gordon, 1991). Exit interviews may also provide a means to help with the retention of seasonal employees, an important part of the hospitality workforce (Kleiman, 2005). In addition, interviews may be used to evaluate an organization's ethical climate (Giacalone, Jurkiewicz, & Knouse, 2003), since a departing employee can provide the company with a wealth of impressions accumulated over his or her tenure (Kransdorff, 1995).

The exit interview may also impact how open and honest employees will be about their experiences. For example, researchers found that individuals were more likely to give their reasons for leaving a company accurately when exit questionnaire data were treated confidentially and used in aggregate form (Feldman & Klaas, 1999); the anonymity protected employees from negative evaluations by supervisors. In another study, results of a role-playing scenario concerning exit interviews revealed that more positive feelings toward the interviewer, the company, or both tended to yield greater employee willingness to discuss sensitive issues (Knouse & Giacalone, 1999).

Exit interviews may be conducted in writing, online, or orally (Stalcup & Cannon, 2001). Written interviews have tended to have a lower response rate (Brewster, 1995), while there is the belief that oral interviews may be more meaningful because people often speak better than they write and are willing to share more orally(Kransdorff, 1995). Companies have found that the online format has increased the response rate for exit interviews and may allow employees to feel more comfortable about sharing their true opinions and experiences; this may be due to the relative anonymity that cyberspace seems to provide (Brewster, 2005). For example, Sedgwick Claims Management Services, an insurance claims company, reported that three out of four employees completed the exit interview in an online format, a much higher response rate than is seen with most face-to-face interviews and almost double the response rate of pencil-and-paper surveys (Brewster, 2005).

Studies of the use of exit interviews specifically in the hospitality industry have been limited but have produced some interesting results. In a study of exit interviews in six non-hospitality firms, nine hotel firms, six institutional food-service companies, and six restaurant chains, Woods and Macaulay (1987) found that the hotel chains regularly used exit interviews but the food service companies did not. However, although seven out of nine hotel companies interviewed employees at all levels, usually on their last day of work, they did not use the information in their operations to improve training programs or make changes (Woods & Macaulay, 1987).

In a study of 39 hotels in Hong Kong, 35 performed exit interviews and 69% of those conducting interviews questioned all employees leaving their jobs, whether for voluntary or involuntary reasons. The remaining hotels interviewed only those employees leaving voluntarily (Mok & Luk, 1995). In the study of the use of exit interviews in Hong Kong-based hotels, the researchers found that 80% of the interviews were conducted by the personnel department, and those remaining were conducted by the employee's supervisor. Virtually all of the interviews (97%) lasted no longer than 30 minutes (Mok & Luk, 1995). Data collected through the hotel interviews included information on the reasons for leaving; overall job satisfaction; volume of work performed; quality of supervision; working conditions; and nature and hours of work, salary, and benefits. Ninety-one percent asked employees for their new job titles, 74% asked about the main attractions of their new jobs, and 77% asked for recommendations for improvement, while less than 50% wanted to know whether the departure from the job could have been prevented and whether the employee would return in the future (Mok & Luk, 1995). In the Hong Kong hotel study, 89% of the hotels used a standard format for the exit interviews for staff positions, and 73% used a standard format for managers. Primary uses of the exit interview data included analyzing the perceived reasons for leaving (89%) and identifying organizational problems and formulating solutions (74%). However, the majority of those interviewed indicated that there was little change in hotel operations as a direct result of the information gathered through exit interviews (Mok & Luk, 1995).

In a study of the use of exit interviews in private clubs, Purdue, Woods, Elsworth, and Ninemeier (2003) found that roughly 60% of the clubs conducted exit interviews. In most cases, the interviews were conducted in person by a human resources manager or the general manager. The most frequently mentioned uses of the results were to identify problems, recognize training needs, and adjust operations to meet employee needs. Forty-one percent of the respondents indicated that completing the employee's file was a primary purpose (Purdue, Woods, Elsworth, & Ninemeier, 2003).

The previous discussion described past studies of the use of exit interviews in the hospitality industry, but little is known about the use of exit interviews in the U.S. lodging industry of the twenty-first century. The study discussed here addresses this topic by examining the following research questions (RQs):

RQ 1. How prevalent is the use of exit interviews in hotels?
RQ 2. How are the interviews conducted?
RQ 3. What data are collected?
RQ 4. How are exit interviews used?
RQ 5. Is there a relationship between the use of exit interviews and
- a. turnover rate in hotels?
- b. size, such that larger hotels use exit interviews more often than smaller hotels?
- c. the presence of restaurants, such that hotels with restaurants use exit interviews more than those without?

METHOD

A structured interview was developed to address the five aforementioned research questions. The teletelephone interview was pre-tested on five subject-area experts. Other than some modifications to the wording, no significant changes were made. Five participants were interviewed, and researchers reviewed the results. No modifications were made in the structured interview.

The interview opened with questions about the lodging property's size, type (full- or limited-service), location, and number of employees. Next the participants were asked about the level of turnover in their property. Some managers consider turnover to be a sensitive topic because it may indicate the quality of their property's management (Stalcup & Pearson, 2001); therefore, the level of turnover was asked as a categorical question (high, medium, or low) similarly to the way sensitive variables, such as age and income, are gathered. The levels were self-determined by the participants. This was clearly subjective and therefore less reliable. However, the researchers believed that it was critical to make the question as non-threatening as possible. Even with this precaution, 18 (19.1%) participants either declined to answer or indicated that they did not know the answer. The participant at each lodging operation in the study was then asked whether exit interviews were conducted with employees when they left employment at the property. If the respondent indicated that exit interviews were not conducted at the property, then the teletelephone interview was concluded. If the participant answered in the affirmative, then he or she was asked a series of questions about what data were collected, what the purposes of the interviews were, how the exit interviews were conducted, who conducted the interviews, and who was interviewed. The average teletelephone interview lasted between 15 and 20 minutes.

SAMPLE DESCRIPTION

A non-random sample of hotels was drawn using researchers' contacts and Internet searches. The hotels selected were located in 9 states and 61 different ZIP code areas; the majority was located in the Southeast. Ninety-six properties were contacted by teletelephone. Ninety-four (97.9%) agreed to participate. The interviews were conducted with either a human resources manager or another manager, such as the general manager, who carried out the human resources function.

When respondents were asked to describe their properties, they indicated that their U.S. lodging operations ranged from limited-service chain properties to full-service luxury hotels.

Twenty-eight (30%) of the properties were full-service hotels, 48 (51%) were limited-service operations, and 9 (10%) were all-suite hotels. Forty respondents (42.6%) indicated that there was a restaurant on the property. Locations of the properties varied, with 36% placed along highways, 18% positioned downtown, 10% established near an airport, and 35% situated in other locales.

To conduct the teletelephone interviews more easily, the researchers divided the lodging property characteristics into low, medium, and high categories. In terms of size, 22 respondents identified their hotels as small properties (possessing 0-100 rooms), 42 said that their properties were medium sized (possessing 101-250 rooms), and 17 considered their hotels to be larger properties, with 250 or more rooms. With respect to the number of employees, the lodging properties varied: 59 had between 1 and 100 employees (identified for the purposes of the study as the low category), 17 had between 101 and 250 employees (identified as the medium category), and 9 had 251 or more employees (viewed as the high category). In each case, some participants declined to answer.

As mentioned previously, employee turnover information was collected as a categorical variable, classified into low, medium, and high categories. Thirty-eight respondents (50% of those reporting) indicated that their property's turnover rate was low, 26 (34.2%) noted that their turnover was medium, and 12 (15.8%) reported that their turnover rate was high; eighteen (19.1%) either declined to answer or claimed not to know.

RESULTS

Research Question 1

Data were collected to determine how many hotels conducted exit interviews. Of the 94 survey respondents, 62 (66.0%) indicated that they conducted exit interviews at their properties, while 32 (34.0%) did not use them.

Research Question 2

Data were collected to determine the methods hotels used to conduct exit interviews. Of the 62 properties conducting interviews, 50 respondents (80.6%) specified that they performed structured interviews at their properties, while 12 (19.4%) carried out unstructured interviews. Interestingly, study participants at 49 properties claimed to interview all employees who leave, while 13 respondents said that only selected employees were interviewed at their hotels.

The type of exit interview varied; most commonly they were conducted in person (54; 70.1% of responses). They were also completed online (2; 2.6% of responses), through telephone interviews (7; 9.1% of responses), and by survey (14, 18.2% of responses). (Some used more than one technique.)

The interviews were conducted by the general manager (23; 37.1), a human resources manager (21; 33.9%), the employee's supervisor (11; 17.7%), or another manager (7; 11.3%).

Research Question 3

The respondents were asked an open-ended question about what materials were collected through the exit interviews. The researchers used content analysis to analyze the responses. These results were reviewed by an outside subject-area expert who was not otherwise associated with the project. Themes identified more than once are summarized in Table 1.

Table 1

Responses to the question: "What material is collected during an Exit Interview?"		
Information cited	# of Responses	% *
Reasons for leaving	33	53.0
Suggestions for improvements to the job or property	15	24.2
Employee likes and dislikes of the job (Job satisfaction)	13	21.0
The quality of the supervisor	6	9.7
Quality of training	5	8.1
To determine eligibility for rehire	4	6.5
Review of compensation and benefits	4	6.5
Collection of employee materials	3	4.8

(Answers mentioned more than twice; Multiple answers were permitted)
*based on the % of participants who conduct exit interviews

Research Question 4

Respondents were asked the open-ended question "What are the results of the interviews used for?" Again, the researchers analyzed the responses using content analysis. The results were reviewed by an outside subject-area expert who was not otherwise associated with the project. Themes identified more than once are summarized in Table 2

Table 2

Responses to the question "What are the results of the interviews used for?"		
Information cited	# of Responses	% *
To identify areas for improvement	17	27.4
For record keeping purposes	11	17.7
To determine eligibility for rehire	11	17.7
To adjust wages	8	12.9
To identify issues with supervisors, or within departments	7	11.3
To improve training	6	9.7
To make improvements in recruitment and retention	5	8.1
For tracking turnover	4	6.5

(Answers mentioned more than twice; Multiple answers were permitted)
*based on the % of participants who conduct exit interviews

Research Question 5 a

Data were collected to explore the relationship between the use of exit interviews and the level of turnover in hotels. Data were analyzed with a cross tabulation between turnover rate (categorical) and the dichotomous item of "are exit interviews conducted." Findings suggested that as the turnover rate increased, the frequency with which hotel managers conducted exit interviews decreased ($\chi^2 = 14.6$, $p < .01$). This suggested that conducting exit interviews is associated with a lower turnover rate.

Research Question 5 b

Data were also collected to explore whether employers in larger hotels conducted exit interviews more often than those in smaller properties. A cross tabulation between room size (categorized into high, medium, and low) and the dichotomous item "are exit interviews conducted" was used to analyze this research question. Findings suggested that those in larger hotels conducted exit interviews more often ($\chi^2 = 5.78$, $p < .05$).

Research Question 5 c

Finally, data were collected to explore whether managers in hotels with restaurants conducted exit interviews more often than those in hotels without restaurants. Findings suggested that managers in hotels with restaurants conducted exit interviews more often than those in hotels without restaurants ($\chi^2 = 3.99$, $p < .05$).

DISCUSSION AND CONCLUSION

The findings from this research suggest that exit interviews are a common human resources tool in the hotel industry, particularly in larger, more complex hotels (i.e., those containing restaurants). The majority are structured interviews conducted in person by a human resources specialist or general manager. A somewhat surprising finding is the high number of interviews conducted by the employee's supervisor (17.7%). Presumably the departing employee's supervisor would have a major impact on the employee's working conditions and job satisfaction. Therefore, the supervisor may have a vested interest in the results of the exit interview. It seems likely that this might affect the reliability of the interviews.

The acceptance of exit interviews as a useful tool is far from universal. Several employees contacted did not know what exit interviews were and thought the researchers were referring to interviews for hiring purposes. One respondent at a hotel with a high immigrant employee population conducted exit interviews only if the employee spoke or read English, and several respondents indicated that employees regularly deserted the job without notice, eliminating the possibility of an exit interview.

The interviews appeared to be used for two general purposes. The most common responses focused on improving employment conditions and identifying problem areas. The other common reason for the interviews was to provide closure for the employment relationship by collecting employer materials and completing the employee's personnel file.

There appeared to be an inverse relationship between the use of exit interviews and the level of turnover. This is the first time a relationship has been statistically supported. It is impossible to determine whether this is a casual relationship. An alternative explanation is that employers who use exit interviews are also more attentive to the needs of their employees.

There is little evidence that the data from the exit interviews are being analyzed systematically and longitudinally. When managers at a lodging property are able to gather exit data from a significant number of departing employees over a period of time, they can look at the trends in the data (Pounds, 2006). It seems likely that this step could significantly enhance the usefulness of the exit interview process.

The manner in which the interviews are conducted seems mired in the traditional face-to-face format. Only 2.6% reported using online or computer-based interviews. The next logical step towards effectively analyzing the reasons employees leave would appear to be the development of standardized online interviews. Such interviews would offer several functional and administrative advantages. First, they would promote the feeling of anonymity that appears to be important when soliciting open responses to sensitive subjects. They also would potentially improve the reliability of the interview by eliminating the human element of the interviewer's interpretation of the employee's responses. Online exit interviews would also allow departing employees to complete them at their convenience. Furthermore, structured online interviews would eliminate the need to train managers to conduct exit interviews. This might be particularly helpful for companies with small properties and limited on-site management personnel. Finally, the computer-based responses would be easier to aggregate quickly so that they could be analyzed more completely. However, there are potential drawbacks to the use of online interviews. The most obvious one is that a large portion of the hotel industry workforce is not well educated and may lack the technical ability to complete the interviews. In addition, online responses may be shorter and less detailed than those received via in-person interviews, and therefore not as helpful for providing rich data needed to determine ways to retain employees and prevent turnover.

In the end, there are no panaceas. If hotels are to control the inefficiencies caused by rampant turnover, their management teams will need to collect and analyze reliable data on why employees are leaving. Then, most importantly, they will need to create jobs worth keeping.

LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

There are some limitations to this research. First, as stated above, the sample was not randomly selected from the population. As a result, athough the respondents came from 61 different ZIP code areas, the generalizability of the findings is somewhat limited.. Second, the use of a self-reported, categorical variable for the level of turnover may have affected the internal validity of the results. However, it is also true that managers could have been more inclined to select a category that fit their turnover as opposed to reporting a specific figure, which factor would have injected an unwanted element of social desirability into the study.

A logical next step in the research would be to conduct a controlled experiment by introducing exit interviews in one or several hotels that do not currently use them. While the project would be time consuming, the results could be extremely interesting and useful. Another project would be to develop generic, computer-based, structured interviews that could be adapted and utilized by managers working in properties without the resources to develop their own. Whatever research is undetaken, there is still much to be learned about how exit interviews can be used as effective management tools.

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Relationship of Wine Ratings and Wholesale Pricing, Vintage, Variety, and Region

By D. Christopher Taylor and Nelson A. Barber

Wine reviews, such as those from Wine Spectator and other consumer publications, help drive wine sales. The researchers in this study utilized standardized wholesale "line pricing" from a major wholesale distributor in the Southwest to compare pricing to the ratings published by Wine Spectator and to determine whether there were any correlations among other key attributes of the wine. The study produced interesting results, including that the wholesale price and vintage of a wine are significant in the prediction of the wine's rating.

INTRODUCTION

The literature has considered wine's quality, reputation, and price in marketing and economic research. For example, Landon and Smith (1998) found empirical evidence indicating that a wine's reputation has a greater impact than its quality on the price of the wine. Roberts and Reagans (2007) studied how critical exposure and ratings affect producer pricing strategies. However, few have researched wine in relation to price and ranking by wine critics. Horowitz and Lockshin (2002) used previously developed wine-quality ratings to predict retail pricing. They found no strong correlation between price and wine-quality rating. However, the influence of the other factors--vintage, variety, and region-- influenced the findings significantly.

Hedonic price influences were explored by Combris, Lecocq, and Visser (1997) and Landon and Smith (1998), both of which studies used sensory techniques to attempt to determine the quality of Bordeaux wines. This culminated in their trying to develop a pricing scheme based on these influences. Yet this, too, failed to address the simpler question of whether rating systems currently utilized in popular consumer culture correlate with price.

In economics, an *experience good* is a product or service whose characteristics, such as quality, are difficult to observe prior to consumption (Nelson, 1970). For certain experience goods, research is ineffective. In assessing a product or service, consumers must instead rely on quality determinants, which include evaluations by product experts.

Unlike other products, for which *Consumer Reports* provides quality assessments, wine is rated for quality by the *Wine Spectator*, the *Wine Advocate*, the *Wine Enthusiast* and the *Connoisseur's Guide*. According to research by Roberts and Reagans (2007) on critical exposure and price-quality relationships, when consumers value quality and rely on expert opinion, the price for a product is positively related to its reported quality rating.

In their study of the price-quality relationship in a sample of Bordeaux wines, Landon and Smith (1998) found a positive relationship between the quality scores reported in the *Wine Spectator* and the wines' prices. A similar result was obtained using *Connoisseur's Guide*, by Benjamin and Podolny (1999) in their study of California wines, and by Schamel and Anderson (2003) in their study of wines from Australia and New Zealand using quality ratings from James Halliday and *Winestate*. In 2007, however, Miller, Genc, and Driscoll examined the wide variance in pricing as related to *Wine Spectator* ratings of 2001 California Cabernet Sauvignon but did not systematically compare wholesale pricing with *Wine Spectator* ratings.

Presumably, wines have been evaluated since they were first consumed. Over the past 100 years, these evaluations have developed into formal ranking systems that have impacted how wines have been priced and how consumers have accepted these wines. Despite the multitude of informal wine ratings performed by internet bloggers, cooking magazines, mail-order retailers, and other sources, none has been as influential or controversial as the rating systems developed by wine critic Robert Parker and the *Wine Spectator*.

According to Arrow (1974), the strength of the relationship between a wine's price and its quality rating depends upon the extent to which individuals pay attention to the product and its rating. Recent research found that consumers, particularly at lower retail-price points, do not fully understand how price and ratings can equate to a "quality/value" wine product. This is particularly so given the disparity in ratings from critique to critique and from brand to brand (Barber, Almanza, & Dodd, 2008).Information about higher quality may increase demand and translate into a higher price. For lower-quality products, greater accessibility reveals negative information, which reduces demand and lowers price (Roberts & Reagans, 2007).

The question then becomes whether there are any significant discrepancies between a wine's price and its rating. A wine's retail price can vary from one retailer to another, and from one geographic area to the next. A good rating from a major publication can affect the retail price almost instantly. Conversely, wholesale prices are stable within a large distributor network and are less likely to be affected by wine ratings until the winery increases prices to the distributor on future deliveries.

Restaurants and other hospitality providers typically purchase wines from a wholesale distributor rather than from a retailer. Therefore, it is more relevant to address the wholesale price in this study. Furthermore, as wholesale purchasing from the producer takes place prior to the release and distribution of the wine, ratings on a particular wine are not typically made; nor do they impact pricing at the wholesale level. It is important to understand that wine producers and wholesalers generally have formed an opinion about product quality when they set their list prices, and there is a connection between their own and the critics' assessments of quality (Roberts & Reagans, 2007).

According to Lockshin (1993), when a new vintage is released, its wholesale price is generally determined not by its critical rating, but by its taste and/or a negotiation process between the producer and the wholesaler. However, Roberts and Reagans (2007) found that prior reputation--particularly if critic ratings have been issued--can influence the pricing decisions of a current release.

This viewpoint was confirmed through discussions with several large wholesale distribution houses, where expert tasting and evaluations are part of the numerous services provided to producers. These wholesalers noted that they have a very good idea of a wine's quality before they assist a producer in setting its list price. Following Roberts and Reagans (2007), this concept--that experienced wine tasters tend to reach similar conclusions about quality--was confirmed by examining the quality ratings of a random sample of 50 wines evaluated by both the *Wine Spectator* and the *Wine Advocate* in 2005, each using a 100-point rating system. The results showed that 87% of the wines were within two points of one another.

This leads to the purpose of this research study, which is to use regression to determine the impact that price has on predicting a wine's rating. Other variables used in prior research studies, such as vintage, varietal, and country of origin, were also included in the regression model. This study employed available wholesale prices of wines sold in the state of Texas and the scores that those wines received from the *Wine Spectator*.

METHODOLOGY

The relationship between wholesale price and wine-critique ratings was examined. Wholesale pricing data was obtained using the spring and summer 2007 Texas wholesale catalog from the Domaines and Estates division of Glazer's Wholesale, based in Dallas, Texas. This wholesale catalogue contains hundreds of different wine brands, varieties, and vintages. The names of each of the 853 wines from the catalog were individually entered into the *Wine Spectator* online wine- rating database (www.winespectator.com) in order to search for its published ratings. (This is not a free service; a monthly fee is charged for access to these ratings.) When an exact match of the wine brand, varietal, and vintage was found, the corresponding rating and price were recorded, thereby creating an expanded database of the wine's price, rating, vintage, varietal, and country of origin. For this study, a total of 197 exact matches were found and analyzed.

The data were analyzed using statistical procedures, including descriptive statistics, correlation analysis, and multiple regression (SPSS, release 14.0 and SAS 9.0 TS level 02M0). The descriptive analysis focused on the wine's price, rating, vintage, varietal, and country of origin. Correlations were calculated to measure association between the price, vintage, and rating variables. Finally, multiple regression was used to gain insight into the rating as the dependent variable in relation to price, vintage, varietal, and country of origin in predicting a wine's rating.

The general purpose of multiple regression (Cohen & Cohen, 1983) is to learn more about the relationship between several independent or predictor variables, and a dependent or criterion variable. For the multiple regression, a set of variables, either continuous or categorical, were used as the independent variables. The general regression model for the dependent variable wine rating is written as follows, where Y is the linear combination:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \cdots + \beta_n X_n$$

In this symbolic representation

Y = wine rating

β_0 = a constant that can be interpreted as the value of Ywhen $X_1 = X_2 = \cdots = X_k = 0$

β_1 -β_n = estimates of the parameters

X_1 - X_n = the independent variables of interest.

Multiple regression requires a large number of observations. The number of cases (participants) must substantially exceed the number of predictor variables used in regression. The absolute minimum suggested is five times more cases than predictor variables. A more acceptable ratio is 10:1(Hair, Anderson, Tatham, & Black (1998). Four main assumptions about the relationships between the dependent and independent variables involved in the multiple regression analysis are as follows: *Linearity* (using a bivariate scatterplot), *Equality of variance* or *homoscedasticity* (scatterplot between each independent variable and the dependent variables), and *Independence and Normality* (construction of a normal probability plot).

These assumptions were tested prior to running the regression analysis (Hair et al., 1998). Standard multiple regression can accurately estimate the relationship between dependent and independent variables only if the relationships are linear. Regression assumes that variables have normal distributions. Non-normally-distributed variables (highly skewed or kurtosis variables, or variables with substantial outliers) can distort relationships and significance tests.

Overall, the products in our sample were from producers who never before had received a single review, and from producers who had had several prior critical reviews. This variance allowed a test of whether the producers' different histories of ratings influenced the extent to which their product-quality ratings and their reputations were reflected in the prices charged. This time-rating variable is the number of prior reviews received by the producer up to the year of release, divided by 10, and dates from the first year in which a producer received a review.

Other variables used in this study included the country of origin, the vintage, the varietal, the price per bottle, the producer's age (the current year minus the focal producer's founding year), the exchange rate (percentage change, relative to 1987, of the value of the focal country's currency relative to the U.S. dollar), and the log quantity (the natural log of the total number of cases produced).

The regression model also included a set of indicator variables for each country, for each varietal, and for each year within the sample period. Because the wines sampled were produced in different countries, exchange rate fluctuations may have affected the prices charged in the U.S. In particular, local currency appreciations relative to the U.S. dollar should be associated with higher local production costs (measured in U.S. dollars) and therefore higher U.S. prices. This was controlled for with a variable that accounted for the percentage change (relative to 2000) of the value of each country's currency relative to the U.S. dollar.

This study considered that producers and distributors have a good idea about product quality, which produces a strong relationship between producers and critics' assessments of product quality and suggests whether producers tend to become better over time in predicting the reactions of critics to their wines. We dealt with this issue by controlling for total producer experience. Here, we consulted numerous sources to compile information on the founding dates of wine producers. To determine the extent to which the producer's learning had an impact on the sensitivity of price-to-quality, we included the producer's age variable and its interaction with the quality variables in the model tested in this study.

The age of each wine at release was also controlled for, as wines aged longer tend to command higher prices. For wines produced in different quantities, the price-quantity trade-offs may affect the results (Roberts & Reagans, 2007). The *Wine Spectator* reported quantity data for 47% of the observations in our sample. We used the log of the number of cases produced (divided by 1,000) for the quantity available for sale in the U.S.

RESULTS

Data Analysis

After reviewing and matching the data,we found 197 wines with *Wine Spectator* ratings that matched the spring and summer 2007 Texas wholesale catalog. Of these matched wines, none was removed from the sample because of missing or incomplete data. The descriptive statistics are presented in Table 1. Forty-six percent of the sample was from the United States, followed by Australia and France. Forty-seven percent of the wines had a *Wine Spectator* rating of between 86 and 90. Only 16.3% of the wines were over $50 per bottle, while 26.6% were under $15 per bottle. The majority of the wines (40%) were from the vintages 2003 and 2004, and 33.2% of the wines were "other red styles," mostly from Bordeaux. Forty-six percent of the wines came from the United States.

Table 1

Descriptive Statistics of Sample Data (n=197)

Characteristic	Percentage	Characteristic	Percentage
Country of Origin		Variety	
USA	46.9%	Red Other	33.2%
Australia	17.9%	Syrah	12.4%
France	15.8%	Cabernet Sauvignon	12.4%
Italy	11.7%	Chardonnay	11.2%
South Africa	3.1%	White Other	9.7%
New Zealand	2.6%	Pinot Noir	8.7%
Other	2.0%	Sauvignon Blanc	5.1%
Total	100.0%	Merlot	4.1%
		Zinfandel	3.6%
		Total	100.0%
Price per Bottle		Vintage	
Less than $10	9.2%	2000	5.1%
$10 to $15	17.4%	2001	8.2%
$16 to $20	13.3%	2002	9.7%
$21 to $25	14.8%	2003	25.5%
$26 to $35	12.8%	2004	23.5%
$36 to $49	16.3%	2005	25.5%
$50 to $100	12.2%	2006	2.6%
Over $100	4.1%	Total	100.0%
Total	100.0%		
Rating			
Less than 80	7.1%		
80 to 85	18.9%		
86 to 90	47.5%		
91 to 95	22.9%		
Greater than 95	3.6%		
Total	100.0%		

Correlation Data

As indicated, correlation coefficients were calculated using Pearson's correlation measure of association. The strongest and most significant correlation among the variables was between rating and price (α=.428, p = <0.0001). This was expected, as price is generally associated with wine ratings. The relationship between vintage and price was significant, α = -.412, p = <0.0001, which was also expected: As a wine ages, its price tends to increase.

Several factors affect both a wine's ability to age and the length of time required for proper aging. The grapes used, the region of origin, the age of the vines, and the yields are all to be taken into consideration when assessing how long a wine can cellar. When considering the characteristics of grape varietal, there were interesting correlations among the variables of price, vintage, and rating. For example, as shown in Table 2, there was a strong and significant correlation between price and vintage (r = .783).

Table 2

Correlation Matrix Between Variables

Variable	Price	Vintage	Rating
Cabernet Sauvignon (n=25)			
Price	-	.783***	.301
Vintage	.783***	-	-.220
Rating	.301	-.220	-
Pinot Noir (n=20)			
Price	--	.352	-.130
Vintage	.352	-	.654
Rating	-.130	.654**	-
Sauvignon Blanc (n=21)			
Price	-	-.836**	.097
Vintage	-.836**	-	.210
Rating	.097	.210	-
Chardonnay (n=23)			
Price	-	-.238	.443***
Vintage	-.238	-	-.063
Rating	.443***	-.063	-

*=significant at p<0.0001. ** = significant at p<.01. *** = significant at p<.05.

Vintage is the year in which a wine is made. A vintage's quality is essentially tied to the weather during the grape-growing season. When a vintage is considered "great," its price can be high; when it is considered "poor," its price can be low. The Cabernet Sauvignon varietal is considered by many to be the "prominent and classic of red grape varietals" (Bowers & Meredith, 1997).

Table 3

Correlation Matrix Between Variables (n=181)

Variable	Price	Vintage	Rating
USA (n=92)			
Price	-	-.656**	.135
Vintage	-.656**	-	.105
Rating	.135	.105	-
France (n=31)			
Price	-	.031	.567**
Vintage	.031	-	.250
Rating	.567**	.250	-
Australia (n=35)			
Price	-	-.538**	.398*
Vintage	-.538**	-	-.109
Rating	.398*	-.109	-
Italy (n=23)			
Price	-	-.688**	.667**
Vintage	-.688**		-.737**
Rating	.667**	-.737**	-

** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

Region of origin and, particularly, appellation can also be important to price. Only a few results are presented on Table 3. For wines from the United States, Australia, and Italy, there was a negative correlation between vintage and price. This was not the case for French wines, which showed a correlation only between price and rating. The same was true of Australian and Italian wines, but not U.S. wines. Lastly, Italian wines were unique in that they reflected a negative relationship between vintage and rating.

Regression

Multiple regression is another tool that helps explain ratings and the relationship between price, country of origin, vintage, and varietal. As previously indicated, the analyses focused on the wine's rating as the dependent variable, and the price, vintage, origin, and varietal as the independent variables. Before proceeding to the multiple regression analysis, we screened the date for missing values, outliers, normality, linearity, and multicollinearity. To determine which observations were outliers, we utilized the Mahalanobis distance (D^2) procedure (Hair et al., 1998; Tabachnick & Fidell, 2001). Accordingly, except for two outliers, which were determined to have a detrimental impact on the results, the data was clean, and the final *n* was set at 195 cases. No outliers were detected in this study.

The other assessment deals with skewness and kurtosis. There are ranges of acceptability to skewness and kurtosis. According to Hildebrand (1986) and West, Finch, and Curran (1995), the observed skewness should be between -2 to +2; and according to Hildebrand (1986) the observed kurtosis should be -1 to +, and West et al. (1996) -7 to +7, to be considered acceptable. For this study the results did not deviate from these ranges. Most of the variables were within the range of (-1 to +1) for both skewness and kurtosis.

Using the enter method, a significant model emerged (F4.190=8.257, p < 0.0001). Adjusted R square = .130, with significant variables, is shown below in Table 4.

Table 4

Regression Coefficients with Rating as Dependent Variable (n=195)

	Standardized Beta Coefficient Estimates
Origin	.138*
Vintage	.097
Varietal	.084
Price	.408***
Log Quintiles	-.120***
Producer Age	-.004**
Exchange Rate	.058**
Time-Rating	.064*

*p<.05. **p<.01. ***p<.001.

Results of the regression indicate significant relationships between the dependent variable (rating) and price and origin. Given the amount of time and effort put into creating "premium" quality wine--from the selection of grapes based upon *terroir* to the production methods used to make the wine--it makes sense that a wine's rating would have a stronger relationship to price and country of origin than any other variable. The same can be said for the relationship to vintage.

When the right weather conditions combine with vineyard management controls for appropriate yields and sugar quality, there is a greater likelihood that the wine produced will be exceptional. Although highly significant despite a very low coefficient, the producer's age

(length of time a winery has been in existence) has a predicable effect on the rating. It makes sense that a wine's rating would be impacted by the length of time a winery has been producing wine, particularly if that winery has a strong reputation in the industry for producing consistently good quality wines.

CONCLUSIONS

When determining which wines to purchase, and when to purchase them, hospitality and restaurant managers would be greatly assisted by knowing which wines have received high ratings, particulary as their prices rise at the wholesale level. Further, this research adds credence to those who espouse publicized ratings as a means for predicting a wine's monetary cost.

While prices fluctuate depending on the market, individual retailers, and consumer demand, wholesale pricing tends to be more constant; it is not as readily affected by ratings. This makes wholesale pricing a more stable basis for judgement.

These results measure how the characteristics of grapes can affect wine wholesale prices. Additionally, demand for wine determines demand for grapes. Therefore, it can be expected that a price premium for a certain wine variety or appellation could be translated into a price premium for the corresponding grape variety and location (Bombrun & Sumner, 2003).

These results confirm the dual role of a wine critic. First, the quality information a critic generates can be an important determinant of price. Second, ratings can over time focus the attention of the market on certain producers. In terms of quality ratings and prices, this study highlights a fundamental difference between the information included in a quality indicator and the methods by which it impacts pricing. In this light, it is tempting to view the critic's rating as a quality indicator in and of itself. Risk-averse wholesalers should prefer products made by producers with track records of legitimate quality ratings.

Further studies need to be conducted to determine whether the same results can be obtained when comparing pricing of other wholesalers to rating systems. Further, in order to continue to build on the question of whether a rating is a predictor of wholesale price, is it necessary to compare the *Wine Spectator*'s ratings to those of other popular rating systems, such as that of Robert Parker. A longitudinal study could also look at the effects that the *Wine Spectator*'s or Robert Parker's ratings have on the future wholesale price of a wine.

MARKET IMPLICATIONS

The future of the wine industry in any country or region depends upon global competitiveness performance,--that is, the ability to keep selling wine. There is always an element of risk in buying wine; however, the risk is less for inexpensive, low-quality wines that are generally rated low. Yet, perceived risk increases as the rating and price go up. For wine producers, this research provides important information for longer-term investment and purchase decisions. These results measure how vintage and price affect a wine's rating in the market. Moreover, to a great extent market demand for wine determines demand for grapes. There was a strong correlation between price and vintage when considering wines from the United States and Italy. Therefore, it would be expected that a price premium for a certain wine from a certain vintage would translate into a price premium for the corresponding wine based upon location. If a wine's price replicates the market, then this price reflects on average the overall information on the market and the measure of volatility associated with that wine, and should allow a determination of wines. This suggests that wine investors should follow a portfolio approach to investing, such that holding wines from different countries and from different vintages could allow for overall investment protection.

A comparison of results with a follow-up study that relates the price of a wine after the rating has been reported, along with other attributes, such as suggested in Lee and Sumner (2001), would allow wholesalers to determine the quantity of wine to pre-purchase and the extent of price negotiations at release.

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Manager's Perspectives on the Provision of Healthy Meals in Resort Hotels

By Joseph S. Chen, Willy Legrand and Philip Sloan

This research aimed to understand hotel managers' attitudes toward the provision of healthy meals. The study deployed a mailing survey to assess the managers' perceptions. A closed-ended questionnaire was developed evaluating the role of healthy-food choices in Mediterranean resort hotels. The findings showed that (1) atmosphere in the restaurant, (2) appealing display of food, and (3) eating habits and lifestyle were more important than personal health when selecting a meal. In addition, this study suggested that the managers were not ready to promote healthy eating because their customers would have been critical of this new service concept.

INTRODUCTION

Practically every aspect of restaurant operations depends on the menu. It is generally considered to be the most important restaurant business document (Schaetzing, 1994; Waller, 1999; Ninemeier, 2000; Davis, Lockwood, & Stone, 2001; Dittmer, 2003; Miller, Hayes, & Dopson, 2005). Restaurant design, food procurement, production, cost, and labor management are all based on the menu. The menu is also a prime sales tool, but little research has discussed the considerations in developing menus that adapt to changing market expectations (e.g., healthy meals).

Indeed, healthy food has emerged as a fast-developing market sector (Hollingsworth, 2000; Willer & Yussefi, 2004). This emerging demand concerning healthy eating seems to be influenced by consumers' awareness of health issues such as obesity, which has become a major health concern worldwide. For example, in the 20 years prior to this research, the number of obese people in Europe tripled. In 2006, the World Health Organization (WHO) calculated that 130 million people were obese; approximately 10%-20% of men and 15%-25% of women. In addition, 400 million Europeans were overweight (World Health Organization [WHO], 2006). Obesity affects not only adults but also children and adolescents; it is the most common health disorder among young Europeans. In 2006, about 20% of children in Europe were overweight, and a third of these were obese. According to the WHO, there will be about 150 million obese adults and 15 million obese children and adolescents in Europe in 2010.

The per capita cost of European obesity differs from country to country, but a clear pattern has emerged. In Spain, for example, the total cost attributable to obesity was estimated to be €2.5 billion per year (WHO, 2006). In Sweden, the direct cost of obesity was estimated to be € 28 per capita per year, with much higher indirect costs of € 115 per capita per year pertaining to lost working hours, premature loss of life, lowered productivity, and lost income. Calculations of direct costs in other countries showed similar annual per capita figures of up to € 22 in Germany, and € 14 in the Netherlands. The direct annual cost of obesity per capita in the United Kingdom rose from an estimated €6 per capita per year in 1998 to € 14-19 in 2002. Both Germany and the Netherlands had indirect costs in line with the example of Spain. While additional intangible costs, such as underachievement in school, discrimination at work, psycho-social problems, and poorer quality of life were more difficult to quantify in financial terms, they must also be considered (WHO, 2006).

Facing the health challenge of obesity, the back-to-earth movement, which originated in the 1970's, was first to criticize mass food consumption. At the turn of the 21st century, many in the Western world came to desire a healthy diet, so the food industry began to take this trend seriously ("Family Chains," 2006). However, hospitality industry professionals wishing to please existing customers and attract new markets found that creating and promoting menus offering healthy options requires careful planning and often specialized knowledge (Schaetzing, 1994;

Waller, 1999; Ninemeier, 2000; Davis, Lockwood, & Stone, 2001; Dittmer, 2003; Miller, Hayes, & Dopson, 2005).

To a great extent the restaurant industry bears some responsibility for bulging waistlines because in the last twenty years of the 20th century the public had steadily increased its visits to restaurants (Brackman, 2006). Between 1984 and 1993 the number of fast food restaurants in Great Britain roughly doubled; likewise the obesity rate among adults. In 2005 the British were found to eat more fast food than any other nationality in Western Europe; they also had the highest obesity rate ("Yum! Brands," 2005). In Germany, the country of origin of hamburgers, McDonald's was considered to be one of the most profitable overseas markets, with more than a thousand restaurants. Schlosser (2002) found that the Golden Arches had become so commonplace in Germany that they seemed almost invisible.

However, there has appeared a movement toward healthier food offerings by both the hotel and restaurant industries. Large international hotel brands have taken active steps in redesigning processes and procedures leading to menu improvements, which are, arguably, more than a marketing ploy. In 2006, Marriot International announced its plan to ban trans-fat, considered unhealthy, from its menus across the U.S., Canada, and Europe (Yu, 2007). InterContinental Hotels stated that some of its hotel brands had already replaced trans-fat oils in the cooking process (Yu, 2007). There is an increasing consumer perception that sandwiches are healthier than pizzas, which, in turn, are seen as healthier than fries (Brackman, 2007). Brackman also stated that US-style submarine sandwich chains grew noticeably in Europe and North America in 2006, with the Subway brand leading the way with more than 20,000 units and annual sales in excess of € 4.4b.

Guests arriving at food service operations have a variety of expectations and beliefs in all aspects of the dining experience they are about to enjoy. Many of their views on taste, comfort, and standards of service are clear in their minds and are based often on the accumulation of other restaurant experiences stretching back over the years. This is not often the case for the guest in pursuit of a healthy meal (Raine, 2005). When devising the menu, the manager needs to understand guest motivations for wishing to eat a balanced meal. Past research has examined whether the guest wishes to lose weight or become fitter, and whether his or her motivations are more altruistic, such as concern for ecology or animal welfare (Legrand & Sloan, 2006).

Many people feel that they should have a healthier diet but do not know where to start. They also feel their healthy meal experience would be enhanced by restaurants' providing nutritional information (Legrand & Sloan, 2006). The knowledge that hotel managers have in the field of nutrition is of paramount importance in the continuing effort to persuade consumers to change their eating habits and to seek out healthy food items when eating out. Visiting a restaurant where healthy food pleases the customers' palate and where the restaurant staff is able to encourage healthy choices not only adds to the restaurant experience but also leaves customers with a lasting reminder of good eating. A study by Rouslin and Vieria (1998) showed that healthful food will be accepted by customers only if the food appeals to the senses, looks exciting, and tastes good.

In research carried out in 1998, Reicher and Dalton found that factors of time, taste, and training still sometimes pose barriers to chefs wishing to prepare healthy food. Further, in their study, more than 50% of the chefs surveyed agreed or strongly agreed that recipe modification was time consuming. Many chefs (61%) were not convinced that food would taste good if current dietary guidelines were followed. The report recommended that nutritionists and chefs work more closely together as most chefs acknowledge having responsibility for the nutrient content of the dishes prepared and for providing nutrition information to customers. Research has shown that nutritional knowledge is a very important motivator for restaurant goers who wish to eat healthily (Legrand & Sloan, 2006). In 1998, Rouslin and Vieira found that restaurant managers and chefs were becoming more nutritionally aware and responsive to customers' demands for healthful menu items. However, their research did not indicate whether restauranteurs regarded having healthy choices as a way to attract new customers. In research carried out by the British Soil Association (2006), the ten biggest chain restaurants in the U.K. failed to offer healthy choices. The report concluded that chain restaurant meals were high in salt, sugar, and fat, and offered little fresh fruit or vegetables.

The messages consumers give about healthy food preferences can be misleading. Believing that their health will benefit, supermarket customers often prefer purchasing margarine instead of butter, or wholemeal flour instead of white flour. Often the same customers relish dining on rich, creamy sauces and ice cream in a restaurant (Levine, 1999). Fitzpatrick, Chapman, and Barr (1997) researched customer preferences for fats in restaurants with some similarly surprising results. When questioned, customers gave a clear preference for low-fat menu items. However, the majority of restaurateurs reported that although customers say they want healthier menu items, they do not consistently select such items on restaurant menus (Jones, 1999). Taste remains an important issue when ordering food. Although an increasing number of restaurant patrons display an interest in health and nutrition, they still do not consistently translate this interest into selecting healthy menu options or asking for them when they are not presented on the menu (Johnson, Raab, Champaner, & Leontos, 2002).

Consequently, the choices customers make in restaurants depend on various factors, one being their origin, according to a cross-cultural survey on perceptions of food, body, and health by the French National Dairy Council (Centre Interprofessionnel de Documentation et d'Information Laitières [CIDIL], 2002). Italians and French generally focus on the pleasure of sharing mealtimes, whereas Americans suffer from acute nutritional anxiety (CIDIL, 2002). The research found that when it comes to rating the health benefits of foods, all nations tend to agree: Fruit and vegetables head the list, followed by fish. The exceptions are in France, where fish is replaced by traditional French cheeses, and Switzerland, where it shares third place with cereals. The British and Americans are suspicious of unpasteurized dairy products; conversely, Americans tend to see vitamin A and D boosts to milk as beneficial. Despite recent food-safety scares, the French, like the Germans and the Swiss, also rate meat highly as a healthy food. Although the demand for healthy meals has escalated, and some research on consumer perceptions and motivations has been undertaken, current hospitality literature has not adequately addressed the issue from a managerial point of view. Therefore, in an attempt to address the shortcomings of current literature, this research looks at the issues from the service providers' point of view in order to see how industry is reacting to changing market conditions.

METHOD

This study used a mailing survey to assess hotel managers' attitudes toward providing healthy meals. A closed-ended questionnaire evaluating the role of healthy food choices in Mediterranean resort hotels was developed by revising and expanding the study on consumer perceptions of healthy meals by Chen, Legrand, and Sloan (2006). The questionnaire administered in this study contained 10 questions. The first part of the questionnaire asked about the type of establishment in which the managers currently worked, its location, and the type of clientele the hotel attracted. The second part of the questionnaire measured the managers' attitudes toward the inclusion of healthy food items on restaurants' menus, the importance of information on healthy food given to customers, and the managers' desire to learn more about nutrition and developing nutritionally balanced menus. The questionnaire was reviewed by a panel consisting of practitioners from Bonn, Germany, and university professors, before being distributed to 46 resorts in the REWE hotel group, located in European and North African Mediterranean cities. Thirty-seven useful questionnaires were finally completed after follow-up letters and phone calls.

FINDINGS

Regarding the profile of respondents, the majority of the mail survey was answered by general managers of resort hotels (67.6%), followed by food and beverage managers (21.5%), and executive chefs of hotel restaurants (10.8%). Regarding the guest profile of resort hotels, 72.2% of the guests were Germans, 22.2% came from other European countries, and 5.6% came from other parts of the world. This study found that choice preferences concerning (1) atmosphere in the restaurant, (2) appealing display of food, and (3) eating habits and lifestyle were more important than concern for personal health. The desire to be slim was the least important preference for food choice in resort hotels (See Tables 1 and 2). This indicated that providing healthy meals might not be the main attractor boosting customer demand from hotel managers' perspectives. Furthermore, the majority of respondents thought less than half of their patrons had considered their health when making a menu choice. To further analyze the distribution of responses, four choice preferences, including atmosphere, display of food, general health, and impressing other guests, drew the largest number of "very important" responses, while the other five references found their mode in "important" categories.

Table 1

The Means and Importance Ranking of Meal Preferences

Preferences	Mean	Ranking
Atmosphere	1.43	1
Display of food	1.44	2
Eating habits and lifestyle	1.62	3
General health	1.65	4
Something different	1.94	5
Price	1.94	5
Impressing other guests	2.06	7
Interesting menu	2.14	8
Desire to be slim	2.83	9

Note: the variables are based on a five-point scale (1=very important, 5=not very important)

Table 2

The Distribution (%) of Frequency of Meal Preferences

Preferences	Very Important	Important	Neutral	Not Important	Not very Important
Atmosphere	59.5	37.8	2.7	0.0	0.0
Display of food	61.1	33.3	5.6	0.0	0.0
Eating habits and lifestyle	43.2	51.4	5.4	0.0	0.0
General health	51.4	35.1	10.8	2.7	0.0
Something different	30.6	47.2	19.4	2.8	0.0
Price	31.4	57.1	2.9	2.9	5.7
Impressing other guests	39.4	30.3	15.2	15.2	0.0
Interesting menu	21.6	51.4	18.9	8.1	0.0
Desire to be slim	8.6	34.3	28.6	22.9	5.7

An ANOVA process was deployed to see whether there was any difference in relative importance among hotel mangers (e.g., general managers, food and beverage managers, and executive chefs) concerning customers' food-choice preferences. The results found that there was a difference in general health ($p<.05$). It appeared that executive chefs (mean = 1.25) had a stronger feeling about health issues than general managers (mean=1.68) and food and beverage managers (mean = 1.75). One specific question with an ordinal scale asked how many of the customers thought about their personal health when making restaurant menu choices. The majority of hotel managers (=54.1%) thought less than half of their customers cared about health issues when selecting meals. However, the opinion seemed divided among the managers. The Chi-square test ($p <. 04$) found that there was a significant difference among the managers concerning their review of customer's consciousness of health when making a menu selection. It appeared that from the chefs' perspective, more customers had aspired to a healthy eating style.

A variable with a five-point Likert scale (1=very important, 5=not very important) was developed to measure managers' attitudes in providing healthy meals. From the mean analysis, this study found that the managers were inclined to agree (mean =1.81) that it was important to make healthy meals available. In addition, one research question asked "Is information available to your customers on healthy meal offerings in your restaurant?" The result showed that only 46% of respondents provided such information. A correlation analysis was consequently conducted to see whether there was any connection between the importance of offering healthy meals and the availability of relevant literature to customers. The study found that there was no significant relationship. It implied that the managers were not ready to encourage healthy eating because they thought their customers would be critical. Perhaps the hotel managers hesitated to serve healthy meals (despite good market potential) because they were afraid the meals might turn some customers away; resort guests do not care about eating unhealthy meals as long as they taste good. Finally, the study survey asked the managers whether they would be interested in gaining more knowledge. The research found that most managers (=97%) intended to obtain information on healthy eating. This seemed to suggest that the managers were in some degree vigilant on the market potential of offering healthy meals.

LIMITATIONS AND FUTURE RESEARCH SUGGESTIONS

It is important to discuss some limitations of the study. This study covers a small sample size that may lead to misinterpretations of resultant data. Future studies may increase their sample size to cross-validate the results of the study. While the findings from this study are generally in line with the bulk of research in the area of health food perceptions in restaurants, the managers' perceptions may not be the same as the customers' perceptions. Further research could examine potential conflicts between the perceptions of customers and managers. A further limiting factor of the study results in the fact that managers' perceptions are founded on observing customers' behavior in out-of-the-ordinary situations. While on holiday, customers may simply adopt a behavior that is not reflected at home; this may particularly be the case in regard to healthy food choices (on holidays, some customers may want to indulge, while others may want to follow strict diets). Further, the English language, although the working language within the chain of hotels, is a second language to most managers. Some questions within the survey may have been misinterpreted or misunderstood. Lastly, it is suggested that the scale measuring choice preferences could be further purified by drawing a larger sample.

From the above findings, this study concludes that hotel managers do not think personal health will be the most important criterion for meal choice. Specifically, from the point of view of managers, the atmosphere in the restaurant, appealing displays of food, and customers' eating habits and lifestyles are meal determinants more important than personal health. However, managers with different operational experience tend to consider consumer demand of healthy meals in a different manner. Moreso than hotel managers, executive chefs believe more customers aspire towards healthy eating style . Interestingly, although managers thought the market could be susceptible to change, they are not ready to promote healthy eating styles. The study findings seem largely to reflect German travellers' meal consumption patterns from hotel managers' perspectives. It is suggested that further investigation be made into the behavior of travellers from other wealthy European countries, such as the U.K.and France, to see whether the demand for healthy meals differs.

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Think Like an Owner:
Identifying the Characteristics that are Important for Ownership-like Thought in the Hospitality Industry

By Jeffery D Elsworth, Jeffrey A. Beck and Ronald F. Cichy

Companies want recruits who "think like an owner"; that is, managers who demonstrate entrepreneurial aptitude and skills, think on their feet, and possess good problem-solving abilities. This exploratory study sought to identify the characteristics important for ownership-like thought in the hospitality industry. A questionnaire based on a review of entrepreneurship literature drew responses from 182 hotel and restaurant industry operators, executives, and owners. Results suggested six factors or characteristics that lead to ownership-like thought or behavior.

INTRODUCTION

Companies want recruits who "think like an owner"; that is, managers who demonstrate entrepreneurial aptitude and skills, think on their feet, and possess good problem-solving abilities. Many companies offer compensation packages based on manager partnerships emphasizing the idea of ownership (Perlik, 2003; Van Houten, 1997; Cooper & Dunkelburg, 1986). Large corporations have encouraged managers to embrace internal entrepreneurship, usually referred to as *intrapreneurship* (Altinay, 2005; Hisrich, 1986, p. 77).

The characteristics of successful entrepreneurs have been well documented anecdotally (Glick-Smith,1999); what has been less clear is how entrepreneurs are developed. One possibility is that individuals can learn these characteristics. Once the personal characteristics of successful entrepreneurs are identified, they can be taught to managers, enabling those managers to develop both intrapreneurial and entrepreneurial attitudes.

In their model of individual entrepreneurial success, Markman and Baron (2003) identified five elements of person-entrepreneurship fit. They are self-efficacy, opportunity recognition, social skills, personal perseverance, and human capital. Of the five elements, only perseverance is assumed to be inherent in the personal makeup of the individual. The other four elements can be developed through education--intrapreneurial and entrepreneurial learning.

The purpose of this exploratory study was to identify those entrepreneurial characteristics that are important for ownership-like thought in the hospitality industry so that those characteristics can be used in developing and identifying successful managers.

LITERATURE REVIEW

Entrepreneurship

What must a hospitality business professional do to think like an owner? To help answer this question, we reviewed the common traits, behaviors and motivations behind entrepreneurial activity and compared entrepreneurial and non-entrepreneurial thought and action of both business and hospitality entrepreneurs.

Defining Entrepreneurship by Characteristics

Prior research suggested that entrepreneurs tend to have certain unique characteristics and follow certain paths as they become business owners (Cooper & Dunkelberg, 1986). There has been much discussion in the literature of the specific valuable, distinguishing traits of entrepreneurs and non-entrepreneurs. As early as the 1950s, researchers began looking for personality factors that determine who is or is not likely to become an entrepreneur (Byers, Kist, & Sutton, 1997). Figure 1, based on a review of entrepreneurship literature, presents a comprehensive list of the most common entrepreneurial characteristics.

Figure 1

Characteristics That Many Entrepreneurs Possess

Intuition	Schumpeter (1934)
Creativity	Schumpeter (1934); Timmons (1994)
Power to overcome skepticism and hostility	Schumpeter (1934)
Autonomy	Collins & Moore (1970); Roberts & Wainer (1971); Watkins (1971); Stanworth & Curran (1973); Storey (1982); O'Connor (1983); Lumpkin & Dess (1996); Carter, Gartner, Shaver, & Gatewood (2003)
Innovativeness	Schumpeter (1934); Lumpkin & Dess (1996); Stewart, Watson, Carland, & Carland (1999); Carter, Gartner, Shaver, & Gatewood (2003)
Risk taking / bearing of risk	McClelland (1961); Palmer (1971); Timmons (1978); Hull, Bosley, & Udell (1980); Welsch & White (1983); Brockhaus & Horwitz (1986); Timmons (1994); Lumpkin & Dess (1996); Stewart, Watson, Carland, & Carland (1999)
Proactiveness	Lumpkin & Dess (1996)
Competitive aggressiveness	Lumpkin & Dess (1996)
Achievement	McClelland, Atkinson, Clark, &Lowell (1953); McClelland (1961); Hornady & Aboud (1971); Cross (1981); Storey (1982); Begley & Boyd (1986); Stewart, Watson, Carland & Carland (1999); Rauch & Frese (2000)
Financial success	Watkins (1971) Carter, Gartner, Shaver, & Gatewood (2003)
Desire to exploit a market opportunity	Schumpter (1934); Knight (1942); Gibb & Ritchie (1981); Storey (1982); Murray (1983); Cooper & Dunkelberg (1986); Ronstadt (1988); Timmons (1994); Kirzner (1997); Busenitz (1999); Shane & Venkataraman (2000) Ardichvili, Cardozo & Ray (2003); Casson (2003)
Internal locus of control	Rotter (1966)
High self-efficacy	Chen, Green, & Crick (1998); Markman, Balkin & Baron (2002)
High personal perseverance	Timmons (1994); Stoltz (2000); Markman & Baron (2003)
Leadership	Timmons (1994)

Entrepreneurs and Risk

Throughout the literature, one of the characteristics most commonly attributed to entrepreneurs is the propensity to take risks. The major difference between entrepreneurs and managers is this very characteristic. In their study of differences between entrepreneurs and managers of large organizations, Busenitz and Barney (1997) found that entrepreneurs are more susceptible than managers to decision-making biases under conditions of environmental uncertainty and complexity. This bias is referred to as *representativeness*, defined as the tendency to over-generalize or make decisions based on a very small number of observations or little data. Specifically, entrepreneurs exhibit less representativeness and tend to generalize from limited experience and information in order to make quicker decisions. Managers, on the other hand, look for higher representativeness (larger samples) of inputs before they draw conclusions. This seems to indicate that there are differences in the way that entrepreneurs and managers perceive business risk and act on it (Busenitz & Barney, 1997). In a study comparing entrepreneurs and bankers, Sarasvathy, Simon, and Lave (1998) found that entrepreneurs act differently in their perception and management of business risk. Entrepreneurs treat risk as a given and act to maximize outcomes as targets; they tend to control and lower risk as they try to achieve targets.

In some of the earliest writings related to entrepreneurship, John Stuart Mill (1848) stated that the key factor distinguishing a manager from an entrepreneur was the bearing of risk. Schumpeter (1934), however, countered that bearing risk was inherent in ownership and that entrepreneurs, because they were not necessarily owners, should not assume the risk-bearing propensity as a trait indicative of entrepreneurship. Most researchers have posited that risk bearing is a prime factor in the entrepreneurial character and function.

Comparing Entrepreneurs and Managers

Carter, Gartner, Shaver, and Gatewood (2003) suggested that entrepreneurs tend to value self-respect, freedom, a sense of accomplishment, and an exciting life more than non-entrepreneurs do. While their research concluded that entrepreneurs have different characteristics than non-entrepreneurs, they also concluded that nascent (early or beginning stage) entrepreneurs and non-entrepreneurs rated independence, financial success, and self-realization as more important than recognition, innovation, or roles.

The underlying motivation that nascent entrepreneurs have with regard to starting a business may be shared with non-entrepreneurs who choose a career path within an established organization (Carter, Gartner, Shaver, & Gatewood, 2003). The kind of individual who shares entrepreneural motivations yet goes to work every day in a corporate environment can be referred to an an *intrapreneur*.

Intrapreneurs

The *intrapreneur* can be defined as someone who works for a large corporation and exhibits innovative and entrepreneurial characteristics (Altinay, 2005; Hisrich, 1986, p. 77). Senior managers within many established corporations have taken steps to encourage internal entrepreneurship, termed *intrapreneurship*. What is so attractive about entrepreneurs that would make established corporations encourage entrepreneurial or ownership-like thought and behavior? According to Crossan and Dutta (2005), only those firms able to maintain a proactive approach to learning that is contextual and non-redundant will demonstrate a leading edge in innovation and intrapreneurship. Honing (2001) asserted that despite corporations' attempts to encourage intrapreneurship, it is difficult to do; intrapreneurs are different from entrepreneurs.

Intrapreneurs are more likely to utilize internal rather than external networks in formulating their learning strategy (Honing, 2001). Their knowledge of the organization's systems, rules, and rituals means that their intrapreneurial activities are more likely to be codified and systematized. Working for a large, established corporation requires a different thought process, system of authority, and decision-making ability. It requires employees, whether intrapreneurial or not, to respond to and work within a structure they did not create. Intrapreneurs utilize learning strategies focusing on organizational consensus, while entrepreneurs utilize flexible and adaptive,strategies less suitable to comparatively static environments. Therefore, intrapreneurs rely on strategies that focus on developing organizational consensus, while entrepreneurs utilize approaches that maximize flexible learning. The discussion surrounding creating entrepreneurial or ownership-like thought, even in large corporations, has led to research rooted in understanding how entrepreneurs learn.

Entrepreneurial Learning

In reporting on how entrepreneurs learn, the literature suggested that entrepreneurs are action-oriented; much of their learning is experientially based (Rae & Carswell, 2000, 2001). Entrepreneurs learn primarily through trial and error, explicit problem solving, and discovery. Entrepreneurial learning is continuously evolving, and builds on past experience (Politis, 2005).

This past experience may come from prior start-up or management experience. The management experience provides many skills needed in starting a new venture, including selling, negotiating, leading, planning, decision making, problem solving, organizing, and communicating. Politis (2005) described entrepreneurial learning as consisting of three main components: career experiences, the transformation process, and effectiveness in recognizing opportunity and in coping with discovery.

Through this research on entrepreneurial learning, Politis (2005) concluded that developing entrepreneurial knowledge is a slow, incremental evolution. Attempts to stimulate entrepreneurial activities through formal training and education are not likely to have any strong and direct impact on the development of entrepreneurial knowledge. Politis suggested that educational efforts aimed at stimulating entrepreneurial activities should primarily focus on developing creativity, critical thinking, motivation, and the ability to gain entrepreneurial knowledge throughout one's professional life.

Defining Entrepreneurship by Behaviors

Much of the research surrounding entrepreneurship has been based on finding the characteristics and motivations underlying entrepreneurial action. While research demonstrates consistency in the factors characterizing business founders, these factors have not proven to be strong predictors of who will start a business (Gartner, 1988). Indeed, this should not be surprising, as personality traits are not known to be good predictors of behavior. Bygrave and Hofer (1991) posited that the aim of research should be to decipher the entrepreneurial process. They defined the *entrepreneurial process* as the functions, activities, and actions associated with perceiving opportunities and then creating organizations to pursue them.

Entrepreneurship research has moved from defining entrepreneurs by personality characteristics to defining entrepreneurs by behaviors. Further study into the behaviors of hospitality entrepreneurs may help to distinguish entrepreneurial thought and learning behavior, and help to find effective teaching methods for developing aspiring entrepreneurs.

Defining Entrepreneurship from the Hospitality Professionals' Perspective

Entrepreneurs are motivated because they enjoy the overall feelings of controlling chaos, putting out fires, never resting, wanting to do their own things, seeing a niche, and running what is like a small government. Another motivation for being an entrepreneur may be the thrill of taking a risk. One of the marks of a true entrepreneur is the ability to see opportunity where competitors see nothing--or worse, failure. Whatever entrepreneurship is, finding opportunities today involves not just a keen eye, but considerable courage, as well. The underlying characteristics of risk taking, the ability to find a niche, controlling one's environment, and self motivation are traits common to hospitality and general business entrepreneurs, as outlined in the earlier discussion (Malone, Klara, & Bryant, 2004).

Hospitality CEO Perspectives on Entrepreneurship – Intrapreneurs in Hospitality

A telephone survey of the top 150 U.S. chain-restaurant company executives was conducted by Muller and Crist (1996). The purpose of the survey was to reveal what a restaurant firm's chief executive officer (CEO) does, as well as to determine the characteristics, behaviors, and attitudes of a CEO by describing the types of people who work in that position. Many of the CEOs described themselves as entrepreneurial in their outlook.

Their descriptions included: (1) a reliance on a reasonably short-term planning horizon; (2) an entrepreneurial, rather than a rational or hierarchical, management style; and (3) an operations or field-management-based perspective of critical skills necessary for success. They also described themselves as active, democratic, take-charge types who delegate responsibility and roll up their sleeves to tackle problems whenever the need for hands-on management arises. Many of these characteristics appear to be entrepreneurial in spirit with the exception of the reliance on short-term planning. This short-term versus long-term focus may be seen as a factor that distinguishes corporate CEOs from small business owners. Corporate CEOs may have others (board of directors, knowledgeable senior management staff) help them craft a long-term vision, while a small business owner must be self reliant (Muller & Crist, 1996).

When asked to describe their ultimate goal in acting as a CEO, survey respondents replied that a marker of success is whether the company reaches its full growth potential. Success in the chain restaurant industry hinges on an understanding of and commitment to financial management skills, operations and field-management experience, and marketing. These goals do not seem very entrepreneurial, but appear to be focused on the firm rather than personal success. This may indicate that CEOs achieve success by managing in an entrepreneurial manner and by finding self worth and personal pride in achieving the firm's goals (Muller & Crist, 1996).

Motivations behind Hospitality Entrepreneurs

Getz and Peterson (2005) identified hospitality entrepreneurs' primary motivations for starting their own business. Their study investigated whether the potential profitability or the lifestyle associated with owning a business motivated two groups--growth and profit-oriented hospitality entrepreneurs--to think like owners. Their analysis confirmed that lifestyle was the dominant motivation factor in both samples. Although money matters emerged as a distinct factor in both samples, it was not very important to the majority of respondents. Profit and growth-oriented entrepreneurs could be clearly differentiated in terms of goals and attitudes; they were attracted to specific business types. The majority of entrepreneurs were lifestyle- and autonomy-oriented, while the growth entrepreneurs existed as a minority among owners of family businesses in the tourism and hospitality industries.

Corporate Hospitality Entrepreneurial Orientation

A study of 164 hotels in mainland China, Hong Kong, Malaysia, and Singapore was undertaken to determine whether successful hotels emphasized an entrepreneurial orientation, while less-successful counterparts held to a conservative strategic orientation (Jogaratnam & Tse, 2004). The study defined an entrepreneurial orientation as innovative, proactive, and risk-taking. The results suggested that Asian entrepreneurial hotel operators were more likely to be high performers, to describe their operations as proactive, to seek new market opportunities, and to be the first to introduce new products. These companies were actively involved in shaping their own destinies rather than reacting to events in their ever-changing environments.

The Jogaratnam and Tse study compared an entrepreneurial organization and an entrepreneurial individual. The characteristics of an entrepreneurial organization seem to match the characteristics of an entrepreneurial individual. The difference between the two was attributable to characteristics unrelated to the organization: self-motivation, goal achievement, and personal sacrifice. The commonalities of the two definitions were in risk taking and innovation. The study suggested that organizations should focus on hiring entrepreneurial staff members and creating an environment that encourages entrepreneurial action.

METHODOLOGY

The current study surveyed hotel- and restaurant-industry operators, executives, and owners in an effort to identify characteristics important for ownership-like thought, decision-making, and success in the hospitality industry. A questionnaire was developed, based on a review of the entrepreneurship literature and discussions with entrepreneurs in the food service and lodging industry. The questionnaire asked respondents to rate the level of importance of 56 items with respect to successful entrepreneurship in the service and hospitality industries. The questionnaire included an open-ended section where respondents were asked to share their thoughts on the most important characteristics required of an entrepreneur, as well as recommendations for hospitality students interested in becoming entrepreneurs. The last section requested information about the respondents' industry affiliation and personal demographics.

To ensure validity, entrepreneurs from various hospitality organizations were asked to review the questionnaire as a check for face and content validity. Based on their comments, definitions of some characteristics were changed to avoid misunderstanding. The final questionnaire was mailed to hospitality industry executives, owners, and leaders.

A list of names and contact information was acquired from the American Hotel and Lodging Association member directory and from a list acquired from the Foodservice Operators Guide of Chain Restaurants and High Volume Independent Restaurants. The questionnaire was sent to 1,020 hotel and restaurant operators, executives, and owners in the United States. Twenty-one questionnaires were returned as undeliverable.

Several analyses were performed. First, descriptive analyses were used to provide a profile of the respondents and their industry affiliations. Next, an exploratory factor analysis of the importance items was carried out to identify the factors necessary for successful entrepreneurship. Finally, a content analysis of the open-ended questions was conducted to add depth and breadth to this study.

RESULTS

Sample Description

Some 182 operators, owners, and executives responded to the survey, for an 18.2% response rate. Of the 182 respondents, 51.1% were representatives from the foodservice industry, and 48.9% represented the hotel, lodging, and travel industry. Of the respondents, 8.8 % were female. The average age of the respondents was 52.8 years. The average number of years' experience in the hotel/lodging/travel industry, compared to the years' experience in the foodservice industry, was nearly identical: 26.7 years for the former, and 27.1 years for the latter. One respondent had over 50 years' experience. On average, the number of managerial employees was 269, and the number of non-managerial employees was 3,673.

Table 1

Descriptive Statistics of the Respondents

	%	Mean	Median
Foodservice respondents	51.1		
Hotel, lodging & travel respondents	48.9		
Male respondents	91.2		
Female respondents	8.8		
Years of experience in the hospitality industry		26.7	27
Years of experience in the service industry		27.1	28
Age of respondents (years)		52.8	53
Number of managerial employees		269	70
Number of non-managerial employees		3,673	900

N = 182

Evaluating the Sample with Factor Analysis

Exploratory factor analyses were conducted to identify the nature of entrepreneurial inclination of the sample and the important characteristics of entrepreneurs. The response data were examined to ensure that the sample size was sufficient, that variables were not interrelated, and that variables were grouped appropriately (Stewart, 1981). Based on guidelines developed by Zikmund (1982), it was determined that the size of the response, 182, was appropriate. To test for inter-correlation, the Bartlett's test for sphericity (using a Chi Square test) was applied. Next, to make sure that the variables were properly grouped, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was utilized. For data to be appropriate for factor analysis, the result of the Bartlett's test should be significant, and the KMO value should be at least .50. For this data set, the chi-square (2877.13) was significant at $p<.000$, and the KMO statistic was adequate at .786, indicating the data were suitable for factor analysis. The factor analytic technique permitted the identification of underlying patterns of relationships embedded in the dataset. Initial factors were extracted, and then rotated to become terminal factors using the Kaiser's varimax rotation method. This method of orthogonal rotation centers on simplifying the factor matrix by maximizing variance and producing conceptually pure factors, thereby making the rotated solution easier to interpret and understand.

Entrepreneurial Thought and Behavior

The respondents were asked to rate the characteristics of a successful entrepreneur in the hospitality industry. This was accomplished through a Likert-type scale, with 1 being unimportant and 7 being important. With these results, the varimax factor analytic technique was applied to the 56 items that had been included in the original survey. A scree test applied to the results (Hair, Anderson, Tatham, & Black, 1998) suggested a six-factor solution. A value of 1.0 on the scree plot is the generally accepted level for retention of a factor. As shown in table 2, 26 items were included in the final six-factor solution.

Cronbach's alpha was used as a measure of precision or reliability of a scale. A scale reliability test utilizing Cronbach's alpha was performed on the six factors and the overall scale. The elimination of items from the original survey explained the lower reliability scores on the fourth through sixth factors. The overall scale reliability, as measured by Cronbach's alpha, was above the .70 threshold ($\alpha = .842$). The purpose of the study was to explore the factors relevant to entrepreneurial thought and behavior. Given the exploratory nature of this study, along with the method by which the questions were asked in the questionnaire, reliability estimates lower than the standard .70 were appropriate (DeVellis, 2003; Hair, Anderson, Tatham, & Black, 1998).

Table 2

Results of Factor Analysis with Varimax Rotation for Entrepreneurial Characteristics

Item Statement	Factor Loading					
	F1	F2	F3	F4	F5	F6
Interpersonal Communications (F1)						
Motivational Ability	.791					
Managing for Quality Improvement	.647					
Outgoing	.645					
Communicate Effectively	.634					
Proactiveness	.612					
Public Speaking Skills	.584					
Empire Builder (F2)						
Fatalistic		.741				
Wealth		.700				
Authoritarian		.690				
Seniority		.600				
Arrogance		.574				
Materialistic		.533				
Agility (F3)						
Independent			.680			
Comfort Making Decisions			.591			
Autonomy			.542			
Adaptability			.542			
Resourcefulness			.535			
Creative Savviness (F4)						
Intuition				.704		
Creativity				.696		
Inventiveness				.677		
Politically Savvy				.583		
Problem Solving Pragmatist (F5)						
Pragmatic					.680	
Knowledge of Financial Numbers					.676	
Objectivity					.639	
Problem Solver					.477	
Intrapersonal Communications (F6)						
Patience						.771
Honesty						.666
Listening Skills						.584
Technical Skill						.435
Eigenvalue	3.19	3.15	2.48	2.33	2.26	2.16
Variance (%)	10.99	10.84	8.56	8.04	7.8	7.44
Cumulative (%)		21.84	30.39	38.43	46.23	53.66
Cronbach's alpha	.775	.746	.608	.675	.642	.672
Number of Items	6	6	5	4	4	4

Overall Cronbach's alpha = .842

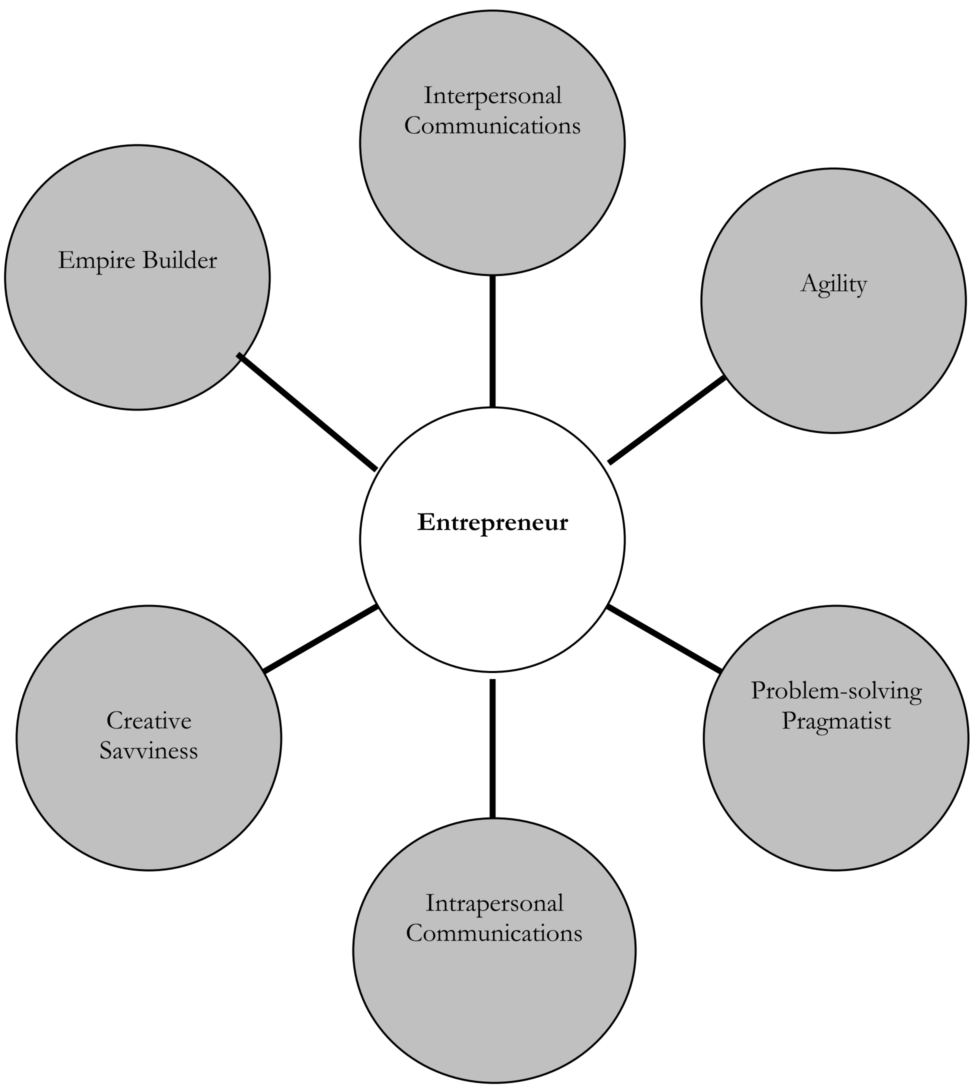
DISCUSSION

The factor analysis revealed a six-factor solution. Based on the questionnaire responses, open-ended comments supplied by the respondents, and the literature review, the six-factor results were grouped by their themes and identified as follows:

- Interpersonal communications
- Empire builder
- Agility
- Creative savviness
- Problem-solving pragmatist
- Intrapersonal communications

Figure 2

Six Factors of Entrepreneurial Thought and Behavior



Interpersonal Communication

The Interpersonal Communication factor includes communicating effectively, managing for quality improvement, having motivational ability, demonstrating an outgoing nature, being proactive, and possessing public speaking skills. Interpersonal communication is focused on communicating with others.

Communicating effectively begins with a clear vision of what one wants to create/accomplish. The vision must be communicated effectively to others so that they can help achieve the vision. Communicating effectively is necessarily focused on listening to others, as listening is the most important communication capability.

Managing for quality improvement affects the value created and delivered to internal and external customers. Perhaps one of the best ways to achieve continuous improvement is to stay in constant contact with customers' ever-changing requirements.

Motivational ability takes into account that owners understand that all motivation comes from within the individual, and is based on the individual's values, vision, and mission. Owners who serve as mentors to others help guide and coach others to motivate themselves.

Being outgoing starts with being honest with oneself and always striving to articulate the best interests of internal and external customers. Outgoing owners love working with their customers.

Proactiveness includes anticipating requirements. Anticipatory service is created and delivered before customers have to ask for it. By being proactive and following through on commitments, owners are seen by others as being dependable and reliable. This builds customer loyalty.

Public speaking skills help owners communicate to their customers what they stand for and to reassure those customers that the company stands behind its products and services. Owners also use public speaking skills to communicate the organization's values, vision, and mission so others can understand where they can align and contribute.

Empire Builder

The Empire Builder factor includes owner characteristics such as arrogance, authoritarianism, fatalism, materialism, seniority, and wealth.

While some owners may act in arrogant, know-it-all ways, many respondents advise against arrogance. It takes a great deal of energy and commitment to be an entrepreneur; sometimes others perceive this as arrogance.

Authoritarian owners often have a "my way or the highway" view of leadership. Perhaps this authoritarian approach stems from the fact that often the owner has all of his or her personal savings, as well as leveraged funds borrowed from others, riding on the outcome of the venture.

Fatalistic owners believe that they must be ready to fail. However, they learn from their failures and regroup. Fatalistic owners may also believe that being an entrepreneur requires a commitment to long hours and the ability to handle large amounts of stress.

Materialistic owners understand that being an entrepreneur requires a lifestyle commitment. There must be acceptable material rewards for doing so.

Seniority relates to experience level and the time it takes to build the necessary competencies to be an owner. Many respondent owners advise those who are thinking about ownership to first work for someone else in the industry for a minimum of five years before deciding to open one's own enterprise.

Wealth is both the owner's financial gain as well as the gratification felt when products, services, and experiences are created and delivered in ways that satisfy customers.

Agility

The Agility factor covers adaptability, autonomy, comfort in making decisions, independence, and resourcefulness.

Adaptability includes being flexible and learning something new each day. Adaptability is a blend of initial commitment and the ability to change. Owners who have a well-thought-out game plan, and a commitment to staying focused on the ultimate goal, know that mid-game adjustments, due to unanticipated changes, will be required. Autonomy is a part of agility. A part of autonomy for an owner is making sure he or she is well capitalized, since actual expenses sometimes are higher than projected.

Comfort in making decisions relates to dedication, commitment, and passion. Dedicated owners follow their dreams and never give up. In making decisions, owners with a passion for their business see the possibilities rather than the problems, the potential rather than the pitfalls.

Independent owners are determined, focused, and patient. They work hard and take risks. Independent owners work more for themselves than they do for someone else, and accept long hours, evenings, and weekends.

Resourcefulness relates to having the initiative to get started. Resourceful owners leverage what they have to build value for the business. In short, they find a way to make it happen.

Creative Savviness

The Creative Savviness factor contains creativity, intuition, inventiveness, and political savviness. All of these characteristics add to opportunities to present something new and fresh.

Creativity is the hallmark of staying one step ahead of the competition. Creativity can simply be going out of one's way to please loyal customers – both internal and external – in unique ways.

Intuition stems from a feeling inside based on knowing the customers and looking for ways to improve products, services, and experiences continuously. Intuition, coupled with facts, helps owners anticipate changes in customers' requirements and markets.

Inventiveness occurs when an owner looks for hidden opportunities, particularly in areas where others are not filling a need. Once the need is identified, the owner must possess the vision to capitalize on these opportunities, facilitate the changes necessary to move the business, and stay out in front of the competition.

Being politically savvy is important for owners who operate in an increasingly complex arena of government regulations. Part of this political savviness comes from an intimate understanding of the industry in which the business is positioned. Sometimes external forces (e.g., government regulations about food safety, building codes) impact what is possible; however, politically savvy owners find a way to create their products, services, and experiences despite what initially appears to be a set of overwhelming roadblocks or obstacles.

Problem-Solving Pragmatist

A Problem-Solving Pragmatist is objective and has knowledge of financial numbers. Knowledge of financial numbers begins with creating a realistic business and financial plan for the organization, and then following it. Owners need sufficient financial capital to start their businesses and sustain them. Knowledge of financial numbers includes a detailed understanding of budgets, balance sheets, profit-and-loss statements, cash flow, and return on investment (ROI).

Owners must be objective in order to make fact-based decisions. Objective owners study the demographics of the market to determine that external customers are in need of the proposed products, services, and experiences. The objective owner does not simply intuit what external customers want, need and expect; he or she decides these matters with facts in hand.

Pragmatic owners are realistic and practical. The realism includes the ability and necessity to balance work and quality of life. While an owner must manage the business and do what it takes to make it successful, that same owner cannot ignore the personal and family side of the big picture. There must be a balance between the two elements, so that each can support the other and both can support the owner.

Successful owners are problem solvers; this is one of the ways that they differentiate themselves as great operators. They solve problems with the goal of building great products, providing superior services, and creating memorable experiences. The focus on problem solving is their way of continuously improving all three elements of the business. Problem solvers learn from experience, read, benchmark other successful businesses, ask questions, and hold themselves and others accountable for achieving the desired results.

Intrapersonal Communication

Fundamentally, the Intrapersonal Communication factor is about communication with oneself. It includes honesty, listening skills, patience, and technical skills.

Honesty with oneself begins with knowing one's own strengths and weaknesses. Self knowledge includes clearly articulating values, vision, mission, strengths, areas needing improvement, and goals.

Listening skills were already discussed under interpersonal communication. As essential as it is to listen to others, it is equally critical to listen to oneself. By listening to one's own needs, wants, expectations, requirements, dreams, and vision for the future, an aspiring owner is best able to create a business that aligns with these personal aspects.

Patience is often said to be a virtue, but it is also a requirement for business owners. The respondents reported that owners must be patient with themselves, first, and then with others. It takes time to conceive, launch, and build a business; it will not happen overnight.

Owners are required to have technical skills, particularly when they are starting a new venture. These skills come from an understanding, based on practical work experience, of what it takes to succeed. Technical skills include a detailed knowledge of the operations of the business, in part, so others can be trained to deliver the requirements expected by both internal customers and external customers.

IMPLICATIONS

The results of this study suggest characteristics important for developing entrepreneurial thoughts and behaviors. The six factors identified by the analysis include a wide range of characteristics, traits, attributes, and skills. Some of the characteristics can be identified in people through their actions, while others may be identified only through questioning. Some characteristics are inherent, while others require entrepreneurial learning and training.

Educators are interested in the characteristics they can teach students. Employers are likely to be interested in the characteristics that identify entrepreneurial behaviors. Individuals will look for the characteristics favorable to their goals as present and future entrepreneurs.

These results help to surface the capabilities and competencies individuals must develop in order to achieve their goals of individual ownership or partnerships within larger organizations. Besides identifying entrepreneurial characteristics, the findings may guide curriculum development and drive research toward better understanding of the hospitality entrepreneur.

LIMITATIONS AND FUTURE RESEARCH

As with most exploratory research, this study has possible limitations. The sample size and response rate were less than ideal. There was also a disproportionate number of male respondents compared to female respondents in the sample; this is not reflective of the hospitality industry. However, for a non-targeted sample from a large pool of possible respondents, the respondents represented 32 states and a balanced distribution of foodservice versus hotel and travel professionals.

In order to attract a higher response rate, future research might be better targeted to a specific industry segment. Possible differing characteristics of ownership-like thought could be determined for food service professionals and lodging professionals. Research could seek to determine whether there is a difference between professionals in the different industry segments. Future research could also investigate possible differences between small business owners and corporate executives in the hospitality industry. This type of research might provide an understanding of the hospitality entrepreneur and ownership-like thought.

Future research may also be used to target specific areas of entrepreneurship curriculum development. Specifically, future studies could be developed to help educators design pedagogy, such as hospitality-industry-specific case studies and projects, to better prepare today's students for the rigors of ownership thought. Qualitative research could be undertaken to better identify some of the underlying theories guiding ownership-like thought and entrepreneurial learning. Recognizing that few graduating students immediately move into their own businesses, future researchers can help identify the skills, capabilities, and competencies individuals must develop in order to achieve their goal of individual ownership or partnerships within larger organizations.

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Club Ratios:
A Four-Year Trend Analysis

By Agnes DeFranco and Raymond S. Schmidgall

This article is based on research of the United States club industry conducted over the four-year period of 2003-2006. Twenty ratios were reported, covering the five general classes of financial ratios. The ratio results suggested that 2003 was a banner year for the club industry.

INTRODUCTION

Management and owners have long been attuned to looking at numbers and the bottom line, not only of their own clubs, but also of the competition and, of course, the entire industry. This is a hallmark of most successful business people. However, simply reviewing sales levels, profit margins, net income, and various cost levels provides only surface information. A more detailed and thorough examination of these numbers, through ratios, can provide a deeper understanding of a business's hidden effectiveness and weakness. Therefore, increasingly both the academic and business world are providing updates and benchmarking information to assist managers in their decision-making process (DeFranco & Schmidgall, 2007).

The club industry is a unique segment of the hospitality industry. Most clubs enjoy a non-profit status, and their clientele is very stable. Some exclusive clubs have a waiting list, and even the rich and famous have to stand in line to join. A club is a home away from home for its members to hold parties, have weddings, compete in a game of golf with friends, or work out by doing pilates and yoga. Although making a profit is not its main objective (most clubs are non-profit), earning net income to be placed in a reserve account earmarked for future renovation and improvement is always a prudent move. Therefore, any dashboard data—information that is simple to access, understand, and apply—will prove useful to managers in their daily decisions (Schmidgall & DeFranco, 2004b, 2005a,).

NEED FOR AND PURPOSE OF THE STUDY

Company financial information can be found in many publications. Industry comparison, though, is done through the Standard Industrial Classification, or SIC code. The SIC code is a four-digit code set by the U.S. government to classify the primary business of each establishment. Using the SIC code to collect, analyze, and disseminate data increases efficiency. Comparisons made by SIC are more meaningful.

The club industry belongs to SIC code 7997, Membership Sports and Recreation Club (www.osha.gov). An array of "clubs" is included in this designation: aviation, baseball (except professional and semiprofessional), beach, boating, bowling leagues or teams (except professional and semiprofessional), bridge, country, golf, gun, handball, and many others. Therefore, to provide more meaningful analyses, we need to single out the country clubs, golf clubs, yacht clubs, and city clubs (DeFranco, Countryman, & Venegas, 2004).

The club industry itself responded in 1996 with The Club Managers Association of America and the National Club Association's biennial publication *Club Operations and Financial Data Report.* In addition, consulting firms such as Pannell Kerr Foster (PKF) and McGladrey & Pullen, LLP, publish annual operating statistics (DeFranco & Schmidgall, 2007). However, all these publications focus on the operations in terms of revenues, expenses, sales, and memberships, thus the bottom line but not the balance sheet (Schmidgall & DeFranco, 2004b). By focusing on balance sheet information, especially items relating to figures on the income and cash flow statements, managers and owners can also answer questions such as how much cash or inventory a club has on hand, whether the club is using its assets effectively, and whether the level of debt is appropriate.

Therefore, the purpose of this study is to provide club owners, managers, and chief financial officers with a four-year, longitudinal study of a set of benchmarking ratios that focuses primarily on balance sheet data unavailable through other published sources. With the proper information, better-informed club executives can make better decisions for their clubs and membership.

LITERATURE REVIEW

Financial ratios can always be calculated. However, if they are not used for comparison to past periods, budgeted numbers, competitors, or the industry as a whole, they are just numbers in a computer. Therefore, clubs would greatly benefit from managers' developing a short list of dashboard information and periodically comparing financial results to benchmarks.

The Role of Benchmarking

Almost twenty years ago, when Camp studied Xerox's benchmarking process (1989), he identified five steps for benchmarking: planning, analyzing, integrating, acting, and maturing. One first needs to plan and decide what to measure, then collect and analyze the proper data. The third step is for the company to integrate the measurements into their own results and make needed enhancements for better performance. Finally, the maturity stage sets in.

In the hospitality industry, Withiam (1991) defined *benchmarking* as a point of reference or standard by which all others can compare themselves and begin to judge their own efforts. It is also important to note that when making comparisons, one needs to study both the product and the business practices of one's competitor (DeFranco, 2005). Just as the hotel industry's *STAR Report* always has a "comp set," it is crucial for the club business to find its proper competitive set.

Therefore, benchmarking is both external and internal. *External benchmarking* is comparing oneself to the industry, to the competition; *internal benchmarking* helps a club stay on the right track, comparing its performance to its budget.

Printed and Electronic Sources

Five major printed sources offer ratios information. *Advertising Ratios and Budgets,* published by Schonfeld & Associates, Inc., specializes in advertising to sales and also to gross margin ratios for almost 6,000 companies. The *Almanac of Business and Industrial Financial Ratios* offers 24 key financial ratios. Dun and Bradstreet publishes the *Industry Norms and Key Business Ratios* and arranges the data in the form of a balance sheet and income statement, with lower-, median-, and upper-quartile benchmarks. Further, it provides 14 key ratios. Robert Morris Associates' (RMA's) *Annual Statement Studies* reports financial data of 370 industries and classified companies in each industry by the size of assets. Finally, *Business Profitability Data* offers a slightly different version of reporting financial ratios that covers 294 types of small businesses. All five publications use the SIC code to help identify the various industries.

In addition to paper publications, there are also two good electronic sources: *MSN Money,* at http://moneycentral.msn.com/investor, and *Useful Business Statistics,* at http://www.BizStats.com. *MSN* has updated information and provides 5-year averages, while *BizStats* divides its reporting into three areas, namely financial ratios, balance sheet, and income statement. In addition, *BizStats* also provides a *BizMiner*, fully equipped with an SIC Drilldown whereby data can be accessed via SIC code.

The spa industry has enjoyed rapid growth in past decades. Many hotels, especially the luxury collection, have increased their spa offerings with tempting spa menus, while new ones have built spas and marketed them, not only to hotel guests but also the local community. Clubs have also expanded spa treatments to their members. To better account for the operating results, the International SPA Association Foundation, together with the International SPA

Association, Hospitality Financial and Technology Professionals, and the Educational Institute of the American Hotel & Lodging Association, published the *Uniform System of Financial Reporting for Spas* (2005). This publication includes a section on ratio analysis and statistics, again, to demonstrate the need for financial ratio analysis in all industries. In addition, PKF Hospitality Research also published its inaugural edition of *Trends in the Hotel Spa Industry*, while the International SPA Association also releases an annual *SPA Industry Study* (2008, Korpi). Again, all such publications are intended to help individual companies organize their financial results.

Trend Analysis

If we have benchmarking, why do we need trend analysis? *Trend analysis* represents calculations and data points over a specified period. The data points are then presented in tables and graphs to visually highlight the trends the company—in this case club--is experiencing (DeFranco & Lattin, 2007). Trend analysis adds the longitudinal dimension of looking at data that a regular periodic ratio analysis lacks. By looking at trends, we can forecast.

Trends are discussed in many financial forums. At the annual American Lodging Investment Summit (ALIS), leaders of the Industry Real Estate Financial Advisory Council discussed the "hot" real estate trends regarding capital availability, especially trends in luxury building (Ricca, 2007).

Investors debating the sustainability and feasibility of building new hotel rooms depend upon hotel supply-and-demand trend analysis. Pricewaterhouse Coopers (PwC), a leader in hospitality consulting, analyzes the trends of such activities. For example, in a 2008 report, PwC's Bjorn Hanson commented that the growth in U.S. hotel construction activity is still below the long-term trend. This observation was partly based on the hotel industry's average daily rate (ADR), noted in October 2007 at $103.70, below the long-term average rate as predicted by PwC. Hanson looked at hotel supply and rates in the last few years, taking into account the 2005 hurricane season and the 2008 surge in gasoline prices, to come up with various trends and forecasts. Thus trend analysis provides insight into how the hotel industry should make its investment decisions.

The club industry is no different. Schmidgall and Singh (2007) did a longitudinal trend analysis of the U.S. hotel industry's operating budget practices from 1986 to 2006 to see how club management has changed its operating budget practices. The authors found that clubs were preparing operating budgets to serve as a standard of comparison, with 48% of the clubs having a tentative financial goal prior to starting the budgeting process, and over 75% of the clubs focusing on the bottom line as a tentative financial goal. Once again, trend analysis does have its usefulness.

Classes of Financial Ratios

Schmidgall and Damitio (2001) classified financial ratios for clubs into five categories. Liquidity and solvency ratios measure the club's ability to pay off debts, with the former looking at short-term obligations and the latter, long-term. Activity ratios indicate the effectiveness of using assets; and profitability ratios measure how effective management is at generating financial returns. Finally, operating ratios give management the results of business operations. Weygandt, Kieso, Kimmel, and DeFranco (2005) also stressed the importance of ratios and appealed to managers to consider both the absolute dollars and the relative measurements and information that ratios can provide. While it is important to look at percentages, it is the real dollars that one deposits in the bank.

Since ratios are just one number divided into another, there are literally hundreds of ratios; however, as mentioned earlier, most hospitality financial analysts divide the ratios into five categories. The first category is *liquidity ratios*. These ratios reveal the ability of a club to meet its short-term obligations. Liquidity ratios include current ratio and average collection period. The next category is *solvency ratios*. These ratios measure the extent to which a club has been financed by debt and is able to meet its long-term obligations. Solvency ratios include *debt-equity ratio* and *times-interest-earned ratio*. The third category is *activity ratios*, which reflect management's ability to use the club's assets. Activity ratios include property and equipment turnover, food inventory turnover, and beverage inventory turnover. The fourth category is *profitability ratios*, which show management's overall effectiveness as measured by returns on sales and investment. Profitability ratios include profit margin, return on assets, and return on equity. Last there are *operating ratios*. They focus on the operating results of a club, including revenues and expenses. Operating ratios include ratios such as food-cost percentage and labor-cost percentage.

The following segment expands the definitions and shares the formulas for the ratios. In the club business, *net income* is also known as "revenue in excess of expenses" or "increase in net assets."

Selected Club Industry Financial Ratios and Classifications	
Ratio	**Formula**
<u>Liquidity Ratios</u>	
1. Current ratio	Current assets/current liabilities
2. Accounts receivable turnover	Revenue/average accounts receivable
3. Average collection period	365/accounts receivable turnover
4. Operating cash flows to current liabilities ratios	Operating cash flows/average current liabilities
<u>Solvency Ratios</u>	
5. Operating cash flows to total liabilities ratio	Operating cash flows/average total liabilities
6. Long-term debt to total capitalization ratio	Long-term debt/long-term debt and net assets
7. Debt-equity ratio	Total liabilities/total net assets
8. Times interest earned ratio	Net income + interest expense/interest expense
9. Fixed charge coverage ratio	Net income + interest expense + lease expense/interest expense + lease expense
<u>Activity Ratios</u>	
10. Food inventory turnover	Cost of food used/average food inventory
11. Beverage inventory turnover	Cost of beverages used/average beverage inventory
12. Golf merchandise inventory turnover	Cost of golf merchandise sold/ average golf merchandise inventory
13. Property & equipment turnover	Total revenue/average net book value of property and equipment
14. Asset turnover	Total revenue/average total assets
<u>Profitability Ratios</u>	
15. Profit margin	Net income/total revenue
16. Return on assets	Net income/average total assets
17. Operating efficiency ratio	Income before fixed charges/total revenue

Operating Ratios	
18. Food cost percentage	Cost of food sold/food sales
19. Beverage cost percentage	Cost of beverages sold/beverage sales
20. Golf merchandise cost percentage	Cost of golf merchandise sold/ golf merchandise sales

Past Research

As mentioned, management and owners have always been attuned to looking at numbers and the bottom line; academicians and industry consultants have increased their interest in this topic. As early as the 1980s, Schmidgall (1988), Schmidgall and Geller (1984), and Temling (1985) conducted research and reported findings in this area. However, they concerned themselves mostly with the lodging industry. In the 1990s, not many academic research projects addressed ratios. One interesting project was Swanson's (1991), a detailed analysis of the liquidity of lodging firms. Singh and Schmidgall (2002) studied the use of financial ratios in the lodging industry and classified the results by hotel ownership. Because of the new ratios used in the lodging segment in the last few years, , e.g., gross operating profits per available room or customer (GOPPAR or GOPPAC) and total revenue per available room (TRevPAR), even trade publications advocated more use of ratios (Dickens, 2006, and Lindt, 2006). Dalbor and Upneja (2002) also extended the research into the restaurant segment by studying the factors affecting the long-term debt decision of restaurant corporations.

METHODOLOGY

For the past four years, club executives were requested to participate in a survey aimed at collecting certain key financial data, focusing primarily on balance sheet numbers. Specific ratios were calculated for managers who had a periodic dashboard of results. From 2003 to 2005, approximately 80 executives provided the numbers from their financial statements each year. In 2008 the survey picked up some momentum, and 102 responses were received. In 2003 and 2004, questionnaires were sent to members of Hospitality Financial and Technology Professionals (HFTP) associated with clubs. In 2005 questionnaires were sent to Club Managers Association of America (CMAA) members. Although more general managers completed the surveys, the total number of participants did not increase significantly. The demographic data regarding the types of clubs, number of members, and geographical locations of the clubs were also quite stable.

The 2006 questionnaire was mailed to HFTP members (financial executives) associated with clubs. The questionnaire requested financial data from two successive annual balance sheets and selected numbers from the club's income and cash-flow statements. Financial data points were used to calculate the ratios. This research uses the medians rather than the means as the data points for calculation. The twenty ratios shown in Table 2 were calculated, and a trend analysis was performed.

FINDINGS

Data collected from 2003 through 2005 were combined with those from 2006 to provide a trend analysis of key financial ratios in the club industry. Demographics of respondents are first discussed. Then the 2006 results of the liquidity, solvency, activity, profitability, and operating ratios are revealed. Finally, an analysis is presented of the trend of these five classifications of ratios from 2003 through 2006.

Profile of the Clubs

As mentioned previously, the 2005 survey was sent to CMAA members. Thus the distribution of the respondents' titles is different from those of the other three years, as shown in

Table 1. Generally, over 85% of the surveys were completed by controllers, as they have ready access to all financial data. Other respondents held titles of CFO, assistant controller, or general manager. It appears that all respondents were knowledgeable regarding their club's finances.

The types of clubs represented by the respondents in the initial survey (2003) were fairly evenly split between country clubs and golf clubs, 38% and 39%, respectively. In the last three years, however, country club respondents made up over 60% (63%, 65%, and 65%), while golf club and city club respondents ranged from 9% to 14%.

In terms of size, the mid-sized clubs had 300-500 members, and those with 501-750 members constituted the majority. The small clubs, with fewer than 300 members, reported at a steady rate of 5-6% each year, while the very large clubs (over 1,500 members) also reported at a steady rate of 8-10%. The 2005 profile, however, was a bit different in that the percentages were more evenly distributed than in the other three years.

Finally, the location of the respondents' clubs in the United States followed the same pattern as for the other three demographic data points. Clubs located in the eastern part of the United States led in all four years, with the 2005 results only one percentage point higher than the results of central region clubs. Respondents from western clubs constituted less than 20% over the four surveys (see Table 1).

Table 1

Demographics of Respondents

	2003	2004	2005	2006
Title of respondents:				
Controllers	85%	87%	51%	86%
CFO's	5	4	4	5
Assistant Controllers	2	4	3	2
General Managers	---	---	35	1
Other	8	5	7	6
Total	100%	100%	100%	100%
Types of clubs:				
Country Clubs	38%	63%	65%	65%
Golf Clubs	39	13	9	14
City Clubs	9	10	11	9
Other Clubs	14	14	15	12
Total	100%	100%	100%	100%
Number of Members:				
< 300	6%	5%	5%	5%
300-500	30	27	17	29
501-750	27	28	29	26
751-1,000	13	14	18	14
1,001-1,500	14	17	12	18
> 1,500	10	9	19	8
Total	100%	100%	100%	100%
Location of Clubs in US:				
East	58%	46%	43%	48%
Central	28	35	42	33
West	14	19	15	19
Total	100%	100%	100%	100%

Ratio Results

The annual ratio results over the four-year period are shown in Table 2. The results are the median response for each ratio.

Liquidity Ratios. The current ratio was the first liquidity ratio analyzed. This ratio compared current assets to current liabilities from a club's balance sheet. A current ratio of one (1) means that a club has the exact amount of current assets to cover and pay off its current debts. The four-year trend was upward, starting with a 1.42 result in 2003 and peaking at 1.53 in 2005. However, the trend slipped slightly to 1.48 in 2006.

The accounts receivable turnover and average collection period are two similar ratios: The accounts receivable turnover measured how many times in a year a club collected its receivables, while the average collection period was determined by dividing 365 (days in year) by the accounts receivable turnover. Therefore, as the turnover ratio increased, the average number of days needed to make the collection decreased. The accounts receivable turnover was 9.01 in 2003. It rose over the three years to 10.14 for 2005, and dropped down to 9.19 in 2006. This drove down the average collection period from 41 days in 2003 to 36 days in 2005. Of course, with a decrease in the accounts receivable turnover in 2006, the collection period rose to 40 days. A downward trend in collection is healthy, but the sooner the club can collect, the sooner it,can pay bills or invest the extra funds. After all, cash is king, even in the club industry.

The last liquidity ratio calculated for the club industry in this continuing research was operating cash flows to current liabilities. It resulted from dividing operating cash flows from the clubs' statements of cash flow by the average current liabilities of the club, as stated on the balance sheet. Some cite this as the best liquidity ratio because cash, rather than current assets, is used to pay a club's debts. During 2003, this ratio was .37, meaning the club had $.37 of cash flows from operations for each $1 of current debt. The results for this ratio increased to .41 for 2004 and settled back to .34 and .35 for 2005 and 2006, respectively.

Solvency Ratios. Solvency ratios are used to determine a club's ability to pay its bills in the long-run. Two very different approaches are used. Of the five ratios presented, the first three are predominantly based on the balance sheet, while the last two focus on the income statement.

The first solvency ratio divided operating cash flow (from the Statement of Cash Flow) by average long-term debt. This ratio was similar to the last liquidity ratio (operating cash flows to current liabilities) that was presented, as operating cash flows was used. In 2003, operating cash flows to long-term debt was only 0.06, meaning there were 6¢ of operating cash flows for each $1 of long-term debt. The situation improved in 2004 and 2005, at 0.13 and 0.18, respectively. For 2006, this ratio dropped to 0.13, the same as for 2004. Thus, the upward trend for this club industry ratio was down slightly in 2006.

Both the long-term-debt (LTD)-to-total-capitalization ratio and the debt-equity ratio considered debt and owners' equity from a club's balance sheet. As seen in Table 2, no clear trend was detected for either ratio; they hovered between 0.21 and 0.18 for the long-term debt-to-total- capitalization ratio, and 0.21 to 0.27 for the debt-equity ratio. The LTD-to-total capitalization of 0.18 to 0.21 means the LTD was between 18% and 21% of the combined LTD and owners' equity. The debt-equity ratio of 0.21 to 0.27 means total debt was 21% to 27% of members' equity from 2003 through 2006.

The two solvency ratios that are based on the income statement are times interest earned (TIE) and fixed charge coverage (FCC). TIE shows the number of times the club can pay its interest obligations based on its earnings before interest and taxes, while FCC includes lease expense in the calculation. The year 2004 was particularly good for clubs in that they were able to cover their interest payment 11 times over. In the previous year, the club was able to cover its interest only 2.59 times, and in 2005, even worse, at 1.52 times. For 2006, the industry showed some strength, and this ratio rebounded back to the 3.99 level. The same trend can be said for FCC, which started at 1.89 times in 2003 and increased to 9.36, in 2004. It fell to 1.43 in 2005 and bounced back to 2.80 in 2006.

Most clubs in the industry are organized as not-for-profits and though most will generate more revenue than expenses incurred for a year, their major focus is on service to their members. Thus, the bottom line on their income statement, when compared to either total revenue or total assets, is generally considerably less than in other segments of the hospitality industry, such as restaurants and hotels, which are profit focused. Therefore, though these two ratios (TIE and FCC) may appear to be low when compared to ratios in other hospitality segments, they are likely impacted by the difference in focus of clubs in comparison to lodging and restaurant firms.

Activity Ratios. Five activity ratios were calculated to assess managements' use of club resources. The three inventory turnover ratios were also converted to holding periods (in days), which provided a more practical view of how long clubs were holding food, beverage, and golf merchandise inventories. The last two, property and equipment turnover, and total asset turnover, measured how much revenue was generated with these amounts of resources.

The food inventory turnover was 19.83 times in 2003. This meant that the average club had 18 days of food inventory on hand at the end of 2003. In 2004 the food inventory turnover was 21.57 times, with 17 days of food inventory on hand. In 2005 the food inventory turnover was 19.39 times, with 19 days of food inventory on hand. In 2006 the food inventory turnover was 19.13 times, with 19 days of food inventory on hand., The results for the beverage inventory were quite different from the results for food: It appears that the club industry is holding on to its inventory longer. The beverage inventory turnover was 4.19 times in 2003 and trended downward to 3.51 times in 2006. The average club held beverage inventory in 2003 for 87 days, and over two weeks longer, or 104 days, by the end of 2006. This relatively long holding period most likely resulted from holding multiple brands to satisfy members and holding wines for several years, allowing them to appreciate in value.

The golf merchandise inventory turnover and holding days was first computed in 2004. This turnover, as expected, had by far the lowest turnover; thus golf merchandise inventory was held the longest of the three types of inventory. The golf merchandise inventory turnover was 2.21 times in 2004, 2.01 in 2005, and 2.32 in 2006, making the holding periods 165 days in 2004, 182 days (one-half a year) in 2005, and 157 days in 2006.

In their study at the end of 2006, Schmidgall and Borchgrevink reported $38,155 as the average amount of club beverage inventory (2008). Further, wines constituted 52% of the average club's beverage inventory. In addition, the authors revealed that nearly one in six clubs intentionally buys wines for long-term purposes to realize financial appreciation and to benefit their members.

Like hotel companies that own the real estate they operate, the average club considers property and equipment a major portion of its assets. Further, the total assets of the average club are high compared to their total revenues. The next two ratios consider revenues and these club assets.

The property and equipment turnover slipped from 0.80 in 2003 to 0.79 in 2004, and increased to 0.84 in 2005. A slight upward trend was noted. However, this ratio result dipped in 2006 to 0.67. Of course, the trend for total asset turnover was similar, with a calculated ratio of 0.63 in 2003, 0.55 in 2004, 0.61 in 2005, and 0.53 in 2006. Thus, no real trend was noticed for this turnover ratio after four years of ratio results. It will be interesting to track these two ratios into the future to see whether a trend develops.

Profitability Ratios. The three profitability ratios presented in this research are profit margin, return on assets, and operating efficiency. The profit margin ratio was only 1.7% for 2003. It increased to 7.3% in 2004, declined to 1.8% in 2005, and took a nice upturn to 4.9% in 2006. Though not very high, it was still profitable. Most clubs are not-for-profit;, therefore, these percentages, though relatively low, are not really alarming. Thus, one can expect that return on assets (ROA) would also be very low. ROA was 0.3% and 0.1% for 2003 and 2005, respectively. The exceptions were 4.6% during 2004, and 3% for 2006. The operating efficiency ratios computed for the four-year period followed a similar pattern: This ratio started at 22.9% in 2003, reached 27.7% in 2004, and achieved 23% in 2006. The only exception was 17.9% in 2005. Clearly, these three profitability ratios suggested 2004 was the standout year for club profitability over this limited four-year period. Although profits saw a marked decrease in 2005, they rebounded in 2006.

Operating Ratios. The final category of ratios in this research was operating ratios. As a number of very reputable consulting firms do provide operating ratios, this research was limited to three categories: food cost, beverage cost, and golf merchandise cost percentages. When this research started in 2003, operating ratios were not included. However, response from the readership and club industry practitioners asked for these benchmarks. Therefore, beginning in 2004, these three ratios were included.

The food-cost percentage stayed the same, at 40% for both 2004 and 2005, and dropped slightly to 39.5% in 2006. On the beverage side, however, the percentage was the opposite, starting at the low level of 30% and then increasing and staying constant at 31.1% in 2005 and 2006. As for golf merchandise, the cost percentage showed considerable improvement from 58% in 2004 to 48.4% in 2005. However, this good news did not stay long, as it went up to 65.4% in 2006. By comparison, PKF, in its 2007 *North American Edition Clubs in Town & Country,* reported average food and beverage cost percentages for country clubs for the year of 2006 at 38% and 32%, respectively (2007).

Table 2

Club Financial Ratio Results For the Years of 2003-2006

	2003	2004	2005	2006
Liquidity Ratios				
Current ratio	1.42	1.57	1.53	1.48
Accounts receivable turnover	9.01	9.66	10.14	9.19
Average collection period	41 days	38 days	36 days	40 days
Operating cash flows to current liabilities	0.37	0.41	0.34	0.35
Solvency Ratios				
Operating cash flows to long-term debt	0.06	0.13	0.18	0.13
Long term debt to total capitalization	0.21	0.18	0.21	0.18
Debt-equity ratio	0.27	0.21	0.27	0.22
Times interest earned	2.59	11.0	1.52	3.99
Fixed charge coverage	1.89	9.36	1.43	2.80
Activity Ratios				
Food inventory turnover				
a. times	19.83	21.57	19.39	19.13
b. days	18 days	17 days	19 days	19 days
Beverage inventory turnover				
a. times	4.19	4.07	3.91	3.51
b. days	87 days	90 days	93 days	104 days
Golf merchandise inventory turnover				
a. times	NS	2.21	2.01	2.32
b. days	NS	165 days	182 days	157 days
Property & Equipment turnover	0.80	0.79	0.84	0.67
Total asset turnover	0.63	0.55	0.61	0.54
Profitability Ratios				
Profit margin	0.017	0.073	0.018	0.049
Return on assets	0.003	0.046	0.001	0.030
Operating efficiency	0.229	0.277	0.179	0.230
Operating Ratios				
Food cost percentage	NS	40.0%	40.0%	39.5%
Beverage cost percentage	NS	30.0%	31.1%	31.1%
Golf merchandise cost percentage	NS	58.0%	48.4%	65.4%

NS = Not surveyed in 2003

SUMMARY/CONCLUSION

This study has two sets of implications: one is practical for club industry professionals;the other is theoretical for academics. Oftentimes, academics are so involved in creating new knowledge and theories that they forget that they must also educate future hospitality managers. While structural equations and sophisticated modelings are essential elements of academe, there is also the need to serve the industry.

On the practical side, the club industry that hires our students can avail themselves of financial statements, which are great snapshots of the operating results of a business. However, the usefulness of such statements in their existing forms does not provide insights into the strengths and weaknesses of an operation. When the financial statements of a few years are put side by side for comparison, the massive data overload can be overwhelming and can lead to erroneous conclusions. Ratio analysis and trend analysis fill this gap. Ratios are well-tested tools for club management to use in viewing their operations more succinctly. Ratios also help management focus on certain areas, such as liquidity or effective use of assets. They also help management understand the risk they may be undertaking. Trend analysis extends a simple ratio analysis over a period of time. While annual ratio analysis provides a quick and compact report card, adding trend analysis provides club management with a longer-term view of their operation and is therefore more useful in long-term assessment and future planning. Simply put, a four-year longitudinal study provides more solid data points for establishing benchmarks and trends.

As seen in this study, a four-year trend reveals a better picture than a one-year snapshot. It was obvious that of the four years examined here, 2004 was the club industry's banner year. The liquidity and solvency ratios appear to have been the best of this period. In terms of club activity ratios, there has not been much change in food, while golf merchandising management has improved and beverage management has slipped. This is supported by the cost percentage data, also with a fairly stable food cost and an increasing beverage cost. However, though golf merchandising inventory management has improved, its cost percentage has been up and down. Profitability ratios mirrored those of liquidity and solvency ratios, with 2004 being the best, and 2006 bringing in a rebound.

While this data provides information of the industry, clubs should also set up a simple spreadsheet to monitor some of these ratios periodically, whether monthly, quarterly, and/or annually. For example, operating ratios and profitability ratios should be done monthly or as often as a club prepares its statement of income. Other ratios that require balance-sheet data points may be computed when the balance sheet is prepared. A club's financial manager should consider plotting these data points on graphs and share the information with other managers and the board of directors.

After calculating and plotting the ratios, management may want to take the next step of analyzing and taking any needed anticipatory or corrective action. The only way clubs can serve their members better is to be responsible for the resources they are entrusted with daily--the clubs's assets. Providing first-rate member services and exceeding service expectations are pertinent. At the same time, making sure a healthier profit can be realized and reinvesting in the infrastructure of the club and its grounds are also of high importance. Although most clubs are not-for-profit, it is not good news for the members when they have to be assessed for any improvements or when dues have to be increased to cover rising expenses. Keeping an eye on these ratios can just be that ticket!

On the theory and research side, perhaps academics can look into new ratios that may provide the industry we serve with better and more specialized benchmarks. In the age of information overload, what are the top ten financial items that a club executive needs to have in his or her pocket periodically to assist him or her make the best financial decisions? What are the top five yardsticks that a club's director of finance needs to track so that he or she can detect problems months before they hurt a club, or spot new opportunity and reap benefits before other clubs are aware of the golden nuggets? In the 1980s, the hotel industry used average daily rate as a benchmark. While this rate is still being calculated and reported religiously, the measurement of revenue per available room, which takes into account not simply the rate but also the occupancy at the same time, is now the norm. So, what will be the next new measurement of success for the club industry? Future research or theorization must be undertaken in this area.

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Online Pricing Practice for Hotel Room Rates in China: The Case of Shanghai

By Rob Law and Dave Man

Travel websites that enable hotel room reservations have created unprecedented business opportunities. However, they have also overloaded hotel customers with information. This situation is particularly true of China, an emerging country with the largest population in the world and the most promising growth prospect in tourism. This study investigated the room-rate pricing practice of five online distribution channels, measured by the lowest available rates. These online channels priced hotels of different categories in Shanghai, China's largest city. Empirical findings indicated that local websites offered lower room rates than international websites for the selected hotels in different categories. Specifically, Chinatravel consistently offered the lowest room rates for the selected hotels.

INTRODUCTION

The practice of price discrimination in marketing to encourage customers to purchase has long been of interest to industrial practitioners. According to VanHoose (2003), perfect price discrimination refers to charging different customers unequal prices for identical goods or services. When imperfect price discrimination is adopted, varying prices are charged to the same customer depending on whether the customer is part of a group that generally purchases relatively low or high volumes of the organization's products. VanHoose (2003) further stated that customers are always price sensitive, especially in a competitive market. Customers are even more sensitive to prices in the cyber market, where they can do their price comparisons easily. The understanding of pricing practice for online room rates, one of the largest Internet applications, would hence be beneficial to both consumers and industrial practitioners.

Yelkur and DaCosta (2001) stated that hotel products are relatively expensive. They are infrequently purchased, having an intangible value proposition, and high differentiation from competitive products. With the emergence of the Internet, O'Connor and Frew (2002) argued, hotels can sell their rooms online through travel agents, hotels' own websites, and other online intermediaries. In addition, the perishable and intangible nature of hotel products motivates hoteliers to maximize their revenues by using a variety of online distribution channels to manipulate optimum price. Still, hoteliers are unsure of how to apply online pricing practice. Surveying different online distribution channels, O'Connor (2002) found a wide range of values for hotel rooms.. Similarly, customers are overwhelmed and confused by the extensive range of choices for online distribution channels and price offers (O'Connor, 2003).

Ever since its accession to the World Trade Organization (WTO) in 2001, China has been, and will likely be, experiencing rapid growth in various business sectors. Worldwide travelers and business people visit the world's largest country in terms of population for its wealthy cultural background and business opportunities. Among the existing distribution channels, the Internet appears to be one of the channels easiest to use; it has a rich amount of travel-related information.

Among the Chinese cities most frequently visited by international travelers, Shanghai appears to be the best-known destination. Shanghai is popular not only because it is China's largest city, but also because it is an attractive, cosmopolitan city and the cultural, commercial, financial, industrial, and communication center of Asia. A study of hotels in Shanghai would certainly shed some light on the Chinese hotel industry's online room rates. The primary objective of this study, therefore, was to investigate Shanghai hotels' online pricing practices, measured by the lowest available room rates, on international and local web sites. Empirical findings should be of interest to international travelers to China.

LITERATURE REVIEW

The increasing level of Internet applications has extended the traditional boundaries of both suppliers and consumers. In the virtual environment, without any geographical and time constraints, business products and services are more accessible to potential customers. As well, suppliers can remotely promote their products to worldwide consumers. The Internet has shown itself to be a perfect fit for tourism's interactivity, flexibility, accessibility, and service improvement (Sheldon, 1997). It was predicted that more customers would use travel websites to book their hotel rooms and that the monetary amount of online hotel reservations would increase from US$5 billion in 2001 to US$14.8 billion in 2007 (PhoCusWright, 2003). This shows the huge potential of business opportunities for online hotel reservations.

Among other factors, the primary aim of a website is to be a medium for selling the right products to targeted customers at the appropriate time (Briggs, 2001). Hoffman and Novak (1996), as well as Werthner and Klein (2000), have argued that the Internet is revolutionizing tourism marketing by reaching tourists efficiently. For travelers who have not previously visited a destination, the Internet can serve as an easy-to-use medium from which they can get first-hand information, and subsequently purchase online. Similarly, hotels can promote their products and services in an attractive and price-competitive way.

Moreover, distribution channels are increasingly regarded as essential to marketing as they can determine a business's competitiveness and profitability (Christopher, 2000; Stern & El-Ansary, 1992). According to O'Connor and Frew (2002), a distribution channel is basically a mechanism that provides enough useful information to the right audience at the right time, thereby facilitating the decision to purchase. O'Connor and Frew (2002) conducted a study of qualified experts' perspectives of hotel electronic distribution. The study showed the web-delivered channels related to hotel chains that would grow the most.. Moreover, Yelkur and DaCosta (2001) performed a study of differential pricing and segmentation of hotel websites, and suggested that dynamic pricing would benefit hotels. In response to immeasurable business opportunity, various types of travel websites have been set up in order to get a share of this potential market. Despite the popularity of Internet applications in hotels, the existing tourism and hospitality literature has a limited number of prior studies on online hotel-room-rate pricing practices. In other words, neither the customer nor the practitioner has enough knowledge about how different websites promote hotel rooms. More importantly, the literature on online pricing for Chinese hotel rooms is basically non-existent. In view of the rapid growth of the China's tourism industry, it would, therefore, be beneficial to examine the practice of room-rate offerings for Chinese hotels.

METHODOLOGY

This research (1) identified online distribution channels and hotels, (2) collected the lowest room rates published for the selected hotels on the included channels, and (3) compared and analyzed the empirical findings.

Selected Websites

Having considered prior studies on online hotel-room rates (O'Connor, 2002, 2003; Tso & Law, 2005) and consulted with 12 hotel guests and practitioners in a focus-group discussion, we selected five websites as the online distribution channels for room reservations in Shanghai hotels. The selection was based on different scopes of business nature and geographical coverage. These websites were both local (*Chinatravel* and *Ctrip*) and international (*Expedia*, *hotels.com*, *Zuji*). Except *hotels.co,,* which is an online hotel consolidator, all websites are online travel agents. The following presents these websites' backgrounds.

(1) *Ctrip.com* is an online provider of hotel accommodations and air tickets in China. The website acts as an online agent handling all booking transactions. *Ctrip*'s main target customers

are non-group business and leisure travelers to China. Having experienced substantial growth since 1999, *Ctrip* has become China's number one online provider of hotel rooms and air tickets.

(2) *Chinatravel.com*, founded in 1928, is the official website of China Travel Service. A major business of the company is to offer packaged tours to China. The company also provides a reservation service for hotel rooms, air tickets, trains, and ferries, as well as visa processing and travel insurance. The long history of business makes the company a leading travel service provider specializing in China travel.

(3) As one of the major online hotel consolidators, *hotels.com* offers thousands of hotel properties in hundreds of destinations. The website serves as a good starting point for searching worldwide hotel rooms. Different from other third-party travel agents, *hotels.com* directly contracts with lodging properties for bulk purchases, leading to the guaranteed availability of hotel rooms at competitive prices. According to Law and Chan (2004), *hotels.com* is one the world's largest travel websites and is recognized as a key industry player by various news channels, such as *CNN*, the *Wall Street Journal*, and the *New York Times*.

(4) Launched in October 1996, the Microsoft-supported *Expedia.com* is now one of the world's largest online travel websites specializing in various types of travel-related products and services. The website features a large selection of hotel rooms through a wide range of business partners.

(5) Aiming to be a leading travel website in Asia Pacific, *Zuji.com* is a comprehensive regional travel website with a large network of business partners. The website was founded by fifteen Asia Pacific-based airlines, and cooperates with *Travelocity*. In addition to offering online hotel-room bookings, *Zuji* makes available other travel-related services, such as tailor-made packages for individual travelers.

Selected Hotels

Three-star hotels and above were selected for this study, as hotels in lower categories were not popular for online distribution (Tso & Law, 2005). All hotels that could be found on multiple websites were recorded. In case a hotel received different ratings, the mode of these ratings was used, and the rating from international websites was used for other cases. At the end, 63 hotels were included, which comprised 30 three-star hotels, 24 four-star hotels, and nine five-star hotels.

Data Collection

The lowest available room rates for single occupancy were recorded (these rates excluded additional charges). The data collection was performed one month in advance, from late-2005 to mid-2006, during which time 30 room rates were systematically recorded for each hotel on the included websites. Both seasonal and holiday factors were considered during the data-collection period.

RESULTS

Room Rates for All Hotels

The average room rates for the selected hotels ranged from US$109.62 to US$136.27 (Table 1). The local websites, *Ctrip* and *Chinatravel*, offered room rates lower than those of their international counterparts. Specifically, *Chinatravel* and *Zuji* were the websites that offered the lowest and highest room rates, respectively. ANOVA results showed the significant differences among room rates offered by the 63 hotels on the five channels.

Table 1

Average Room Rates for All Hotels (N=63)

	Mean (s.t.d.)	Minimum	Maximum	F	Sig.
Ctrip	119.31 (83.14)	35	471	22.067	0.00*
Chinatravel	109.62 (51.7)	47	273		
hotels.com	128.26 (62.43)	46	381		
Expedia	121.43 (60.43)	40	420		
Zuji	136.27 (71.56)	40	1421		

*Significant at ∝=0.05

Room Rates for Three-star Hotels

For the three-star hotels, *Ctrip* had the lowest room rate, US$79.68, and *Chinatravel* ranked second lowest (Table 2). As for the findings for all hotels, the highest average room rate (US$104.0) was found on *Zuji*. This indicated that local websites were more competitive in terms of room rates. ANOVA results indicated the significant difference among the room rates offered by different hotels on the five selected channels.

Table 2

Average Room Rates for Three-star Hotels (N=30)

	Mean (s.t.d.)	Minimum	Maximum	F	Sig.
Ctrip	79.68 (46.13)	35	287	38.405	0.00*
Chinatravel	93.26 (40.78)	47	201		
hotels.com	103.85 (33.83)	46	221		
Expedia	95.71 (33.97)	40	221		
Zuji	104.0 (33.41)	40	191		

*Significant at ∝=0.05

Room Rates for Four-star Hotels

Table 3 presents the average room rates of the four-star hotels on different online distribution channels. According to Table 3, *Chinatravel* offered the lowest room rate (US$107.86), whereas *Zuji* had the highest average room rate (US$129.70). Unlike the three-star hotels, *Ctrip* closely matched *Zuji* and ranked the second highest in terms of average room rates in four-star hotels. Again, significant differences were found among the room rates for the selected hotels on the five online distribution channels.

Table 3

Average Room Rates for Four-star Hotels (N=24)

	Mean (s.t.d.)	Minimum	Maximum	F	Sig.
Ctrip	129.69 (69.08)	50	420	8.079	0.00*
Chinatravel	107.86 (41.67)	64	208		
hotels.com	120.83 (56.8)	57	353		
Expedia	120.22 (50.65)	56	363		
Zuji	129.7 (52.47)	63	361		

*Significant at $\propto$=0.05

Room Rates for Five-star Hotels

Average room rates for the five-star hotels are shown in Table 4. As with four-star hotels, *Chinatravel* made available the lowest room rates (US$150.79) for the five-star hotels, and *Zuji* consistently performed the worst in terms of room rates (US$ 224.14). Similar average room rates were found on other websites. As for the other hotel categories, ANOVA findings showed significant difference among the room rates offered on the five websites.

Table 4

Average Room Rates for Five-star Hotels (N=9)

	Mean (s.t.d.)	Minimum	Maximum	F	Sig.
Ctrip	210.04 (107.42)	81	471	20.206	0.00*
Chinatravel	150.79 (64.24)	74	273		
hotels.com	214.91 (58.86)	122	381		
Expedia	215.34 (65.77)	105	420		
Zuji	224.14 (98.29)	105	1421		

*Significant at $\propto$=0.05

DISCUSSION

Apparently the selected hotels all used multiple distribution channels. In other words, customers were able to access room rates, together with other related hotel information, on different channels. In addition, international channels, both globally (*Expedia* and *hotels.com*) and regionally (*Zuji*), offered higher room rates for hotels in Shanghai than did their local counterparts (*Ctrip* and *Chinatrave1*). The tradeoff, seemingly, relates to global reach or local intelligence. In this study, international websites are better known and would be more appealing to Western customers. Hence, they are able to offer higher room rates for Shanghai hotels. Interestingly, the Asia Pacific-based *Zuji* consistently had the highest room rates in all hotel categories. Whether these findings are applicable only to the selected hotels, or indicates that *Zuji*'s primary business focus is not on Chinese hotels, deserves further investigation. Although both *Ctrip* and *Chinatrave1* were able to offer lower room rates, these local websites did exhibit unequal pricing practices. Being the largest online travel agent in China, *Ctrip*'s main business target was clearly three-star hotels. Such a pricing practice could be related to market demand or business partnership with hotels. *Chinatravel*, instead, was much more stable in terms of pricing practice in all hotel categories. In short, the online pricing practice for Shanghai hotel room rates relates to the background of distribution channels and hotel categories.

CONCLUSION

The Internet has been applied to different business areas in tourism and hospitality. To remain competitive, these businesses are now using the Internet as a dynamic tool that enables both information research and online reservations. From the consumers' perspective, different websites render price comparisons easily; thus price discrimination cannot be performed as readily in the virtual environment.

The pricing practice as indicated in the findings of this study reveals that local travel websites are more competitive in terms of online room rates for Shanghai hotels. Specifically, *Ctrip* offered the lowest room rates for three-star hotels, and *Chinatravel* dominated the four-star and five-star hotel categories.

Since local websites offer lower room rates, it would be beneficial for *Ctrip* and *Chinatrave1* to increase their exposure to Western consumers. Also, international websites should learn more about the way of doing business in China. The traditional Western style of business operation may not necessarily be applicable in China. In any case, it is important for travel websites of any background and scope to establish clear business strategies for focused targets of business partners and more importantly, their potential consumers.

While the findings of this study are of use to practitioners and hotel consumers, future research should help us better understand how different travel websites price Chinese hotel rooms. A natural extension of this study is, therefore, to increase the number of online distribution channels and to include more cities in China. The large variance in income and development levels in different Chinese cities and the lowest- rate-guaranteed program offered by some hotel chains could generate unexpected yet interesting empirical results.

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