THE SUSTAINABILITY OF THE HOTEL ENTERPRISES IN GREECE

By

Ioannis P. Spilanis
Assistant Professor
University of the Aegean, Laboratory of Local and Islands’ Development
Department of Environment
Tel: +30 22510 36229   fax: +30 22510 36290
E-mail: gspi@aegean.gr

Konstantinos P. Tsilimpokos
PhD Candidate,
University of the Aegean, Interdepartmental Program of Postgraduate Studies
“Tourism Planning, Management and Policy”
Tel: +306937041905
E-mail: emt498020@emt.aegean.gr

ABSTRACT

The hospitality sector will always constitute an essential and dynamic component of the world’s largest industry - travel and tourism (UNEP 2002). The contribution of the hotel sector in the sustainability of the tourist product is considered crucial, as it was also reported in the congress of Gran Canaria in Spain in 2000: “Sustainable hotels lead to sustainable destinations which in turn lead to successful hotel businesses” (Marin, Jafari, 2002).

Given its size and scope, the hospitality industry makes a major contribution to gross domestic output. It does so via four major activities: profits earned and distributed to owners, taxes paid on sales, wages and real estate, jobs created and purchases of suppliers and materials (UNEP 2002).

In order for the hotel industry to contribute to the maximum in the above matters the hotel sector itself ought to be as much as possible sustainable.
An important issue that emerges, is: which factors play an important role in the efficiency of the hotel enterprises and which are their impacts on the sustainability of the hotel sector?

In order to define the real position of an enterprise, the efficiency of the various segments, or sometimes that of the whole sector in which the enterprise belongs one method of measuring the output is the configuration of indicators (EGLS 1987).

Through this methodology the paper examines the sustainability of the hotel sector in Greece focusing comprehensively on previous researches that concern this matter. Based on the main characteristics of the hotel sector (category, size, occupancy rates, seasonality, employment at hotel enterprises etc) important economic indicators are presented in order to show which of these characteristics and in what extent influence these indicators.

In particular the paper is divided into three separate and at the same time interrelated thematic components.

The first part refers to the profile of the hotel sector in Greece (characteristics of offer).

The second part deals with the presentation of the economic indicators, which concern the structure and function of the hotel enterprises in Greece. Grounded on the characteristics of the Greek hotel sector as mentioned above, a comparative analysis is being done, to define the factors, which affect the hotel enterprise efficiency.

Finally the third part deals with the crucial conclusions that have been drawn from the analysis and reveals the main factors, which determine the sustainability of the hotel industry and the sustainability of the tourist product.
INTRODUCTION

The new millennium and the coming decades are a crucial time for the relationship between travel and tourism industry and sustainable development. The global hotel industry covers a wide range of accommodation services from full-service luxury hotels to bed and breakfast operations, inns, all suite hotels and limited service and economy properties. The contribution of the hotel sector in a country’s economy is considered important and is achieved mainly via four factors: the profits, the taxes, the wages and the work offer. The hotel industry has also far reaching impacts of a social and environmental nature. This means that sustainable development has become the most important factor for the change in the multinational hospitality industry and will play a crucial role at the industry’s development in the future. (UNEP, 2002)

The present article deals with the factors that influence the sustainability of the hotel sector in Greece by focusing on the big hotel units and, especially, on the two highest categories (Luxury and Class A).

Based on researches having been conducted in the Hellenic territory and having as a basic concern the viability of the hotel sector as well as on the calculation of certain financing indicators (income and expenses) and, finally, on the use of the published balance-sheets of the enterprises, a first effort for approach of certain basic parameters that influence the economic results of enterprises is attempted.

The tourist demand which is more intense during certain times of the year, as an emanation of the way of growth of tourism in Greece, has as a consequence the proportional adaptation of period of operation of the hotel enterprises. Thus, while in the urban regions the hotel units are in full operation throughout the year, in the coastal and islander regions their operation is limited in specific period of the year (mainly from April to October). Considering as a fundamental factor for the efficiency of the hotel enterprises the existence of seasonally operating units in the analysis that follows, the enterprises are discriminated according to the period and the region of operation (city hotels and resort type hotels).

Through the calculation of financing indicators, basic conclusions are drawn on the way with which seasonal tourist demand influences the economic environment of
hotel enterprises and, in the same time, other significant factors come at the surface, which, in turn, influence the efficiency of the hotel sector as a whole. These factors never cease to be unbreakably connected with the sovereign model of tourist growth that exists in our country, the mass organised tourism.

THE HOTEL SECTOR IN GREECE TODAY

1. Units

In the year 2000, 8,031 hotel enterprises operated in the country in total, from which 1% (80 hotels) concerns luxury hotels and 9,69% (778 hotels) hotels that belong to Class A. 18,44% of the total number of the hotel enterprises (1,481 hotels) belong to Class B, while, on the contrary, the percentage of the hotels that belong to the last three classes is significantly higher (70,88% - 5,692 units). It is, thus, shown that all over the country emphasis is given in the creation of new units without however, virtually, taking into consideration the variety and, above all, the quality of services offered.

2. Beds

The situation is differentiated as far as the offer of beds is concerned when their distribution is compared with the corresponding distribution of lodgings. It appears that the beds of Classes Luxury, A and B, are favoured in relation with the disadvantage of beds that belong in the last three Classes of lodgings (C - E). To be more specific, categories C - E reported possess 44,58% of beds (262,949 beds), Class A 25,22% (148,764 beds), followed by the beds that belong to Class B lodgings with 24,30% (143,311 beds) and finally the Luxury Class lodgings possessing the 5,90% of beds (34,800 beds).

3. The size of lodgings

From the above we can easily conclude that the higher the Class of the lodgings, the bigger the size of the units of the specific Class. Having a greater insight into things, the luxurious lodgings correspond with 435 beds per lodging, in Class A lodgings the corresponding quantity is 191,21 beds per lodging. Then Class B lodgings follow with
96.77 beds per lodging and, in the final place are thelodgings of the last three Classes with 46.20 beds per lodging.

Despite the fact that, in Greece, the vast majority of the hotel facilities is todayconstituted by small and intermediate units of low categories having a rather familycharacter, the hotel enterprises of Luxury and A Class, constitute a unique sector of themarket with his own characteristically traits. During the decade 1990 – 1999, theLuxury and A Class units increased at about 60% because of the Development Law framework. This percentage classifies them among the most rapidly developing unitscompared to the hotels of the rest of the Classes.

QUALITIES OF THE RESEARCH

The present research was based on the process of secondary elements and, more specifically, in the balance sheets that were published by the hotel enterprises concerning the economic year 2001. At this point, it should be pointed out that all the balance sheets that were used for the calculation of indicators concern hotel enterprises that are under the status of incorporated companies.

74 balance sheets were totally collected. For the city hotels, 18 balance sheets of hotel enterprises from Athens and 2 balance sheets of hotel enterprises from Thessalonica were used. For the resort type hotels 25 balance sheets from hotel units in Crete, 8 balance sheets from hotel enterprises in Corfu, 4 balance-sheets from hotels in Chalkidiki and 17 balance-sheets of hotel enterprises in Kos and Rhodes were used.

Aiming at the proper economic analysis of hotel Enterprises of Luxury and A Class, four basic indicators of cost, income and efficiency that resulted from the use of balance sheets of units and the number of beds available during 2001 were taken into account. These indicators concern:

- the total income per bed
- the cost of those sold per bed
- the cost of those sold as percentage on the sales
- the efficiency of the turnover
It is an undeniable fact that the use of balance sheets for the investigation of sustainability of hotel enterprises includes hazards, which are mainly founded on the fact that many times the elements of balance sheets do not correspond completely with the real data due to various accountant techniques. However, they do not cease to constitute the only reliable source of information. It is unlikely for the administration to considerably degrade the informative base of accountant system that controls, without having as a result the loss of the initial picture and the control of the unit that they administrate. (Kantzos, 1994).

THE ECONOMIC INDICATORS OF HOTEL ENTERPRISES

1. Indicator of Total Income per Bed

An influential difference exists in the total income per bed between the city hotels and the Resort-type hotels. Particularly in 2001, the city hotels recorded, after the unification of balance sheets, a total income of €24,378 per bed, while the resort-type hotels recorded total income of €12,741 per bed. This sum differs from region to region in the individual tourist regions of country. The lower, on average, total income per bed belonged to the hotel units of Crete (€11,622), followed by Dodecanese (€12,970), while the above income per bed was higher in Corfu (€13,068).

The above difference between the city hotels and the resort-type hotels is legitimate and it is connected directly with the seasonal character of the tourist demand that is observed in the country. In Athens and Thessalonica, the demand remains constant during the year and, consequently, the hotel lodgings are in full operation twelve months a year. On the contrary, in the coastal and islander regions of country, the demand is limited mainly during April to October, having as consequence the operation of units only at the previously mentioned period.
2. Cost Indicator of those Sold per bed

As in the case of income per bed, in the case of cost of those sold per bed, the overnight stays and the seasonal character of the operation of hotel enterprise play an important role.

In the city hotels the cost of those sold per bed reached the sum of €16,351 in 2001. On the contrary, as it is expected in the resort-type hotels, the same indicator is limited in the €9,703. There are also interesting differences among the tourist regions of the country. The bigger expenses per bed were registered in Dodecanese (€10,597), while the less expenses per bed were in the units of Crete (€8,511).

3. Cost of those sold as percentage on the sales

This particular indicator, virtually, constitutes a combination of the two indicators that were reported above. It is an important indicator that shows the relation between the cost of sold products in proportion with the sales and, at the same time, measures the effectiveness of control of sales cost (Kantzos, 1994).
An initial significant conclusion that results after the measurement of this indicator, is that the cost of operation of hotel units and particularly the units that belong in high categories and, at the same time, extend to a great size, is too high. This conclusion, of course, is not an exclusive phenomenon of the Greek hotel sector but has also been confirmed by several similar researches conducted internationally.

However, it is obvious that this particular indicator is higher for the hotel units of resort-type hotels, because the cost of the sold ones reaches, on average, 76% on the total turnover. In the city hotels the same indicator reaches a 67% level.

In the individual tourist areas, the indicator is more unfavourable for the lodgings of Dodecanese, where it reaches upon 81,70%. In Corfu and Crete, the indicator is shaped in 73,14% and 73,23% respectively. And in the case of this indicator, the seasonality of tourist demand, but without being the main responsible, is considered as such, up to a point, for the higher cost that is needed in order for the resort-type hotels to fully operate.

The main problem is focused on the fact that a hotel lodging which does not operate has null output at the period that the lodging is closed while it requires expenses which are essential for its maintenance. At the same time, the income is zero, so, this particular indicator is further more unfavourable for the resort-type units.

<table>
<thead>
<tr>
<th>HOTEL TYPE</th>
<th>COST OF THOSE SOLD AS A % ON SALES</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITY HOTELS</td>
<td>67%</td>
</tr>
<tr>
<td>RESORT – TYPE HOTELS</td>
<td>76%</td>
</tr>
<tr>
<td>• DODECANESE</td>
<td>81,70%</td>
</tr>
<tr>
<td>• CORFU</td>
<td>73,14%</td>
</tr>
<tr>
<td>• CRETE</td>
<td>73,23%</td>
</tr>
</tbody>
</table>

4. Efficiency of the turnover

The efficiency of turnover is the fraction of pre taxes profits to the total income. The higher the indicator, the higher the hotel’s efficiency.

It is obvious that the city hotels present higher efficiency indicator of turnover compared to the hotels of the resort-type. In the twelve-month operation hotels, the
indicator reaches 14.78%, while on the contrary in the hotels that operate seasonally, it does not exceed 8.62%. Very close to this level, the indicator of regions such as Corfu and Dodecanese can be found, while in the units of Crete the corresponding percentage reaches 9.90%.

However, it should be noted that the measurement indicator of turnover efficiency has also a lot of weak points, such as:

- It is solely calculated for one and only economic year, which does not probably depict the real situation
- Great diachronic fluctuations in the sales
- It is based upon the essence of profit that creates problems of exact estimation of its real price
- It does not take into consideration the diachronic difference in the attribution of capital (Papanikos, 2000)

<table>
<thead>
<tr>
<th>HOTEL TYPE</th>
<th>PRE TAXES PROFIT AS % ON THE INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITY HOTELS</td>
<td>14.78%</td>
</tr>
<tr>
<td>RESORT – TYPE HOTELS</td>
<td>8.62%</td>
</tr>
<tr>
<td>• DODECANESE</td>
<td>8.62%</td>
</tr>
<tr>
<td>• CORFU</td>
<td>8.54%</td>
</tr>
<tr>
<td>• CRETE</td>
<td>9.90%</td>
</tr>
</tbody>
</table>

The present study shows a sequence of important differences that exist between the city hotels and the resort-type ones. It is obvious that the total income per bed and, furthermore, the total expenses per bed are influenced directly by the period of operation of the lodging.

However, the phenomenon of the seasonal operation of the resort lodgings has negative effect in their operational expenses. The closed hotel has also null output, and, keeping in mind that some variable cost is necessary for its maintenance and its safe-keeping, its economic outcome is negative. (Papanikos, 2000)

Another important factor that has direct influence in the sustainability of a hotel enterprise is the way of allocation of the rooms to the tourists. The main characteristic of this procedure is that the city hotels allocate their rooms mainly, either directly to
the customer or via travelling agencies. On the contrary, the percentage of units that work with “allotment” or “commitment” contracts is the lowest recorded among all regions. The situation is completely converse in the tourist regions and concerns mainly the resort lodgings. The most usual ways of allocation of rooms are mainly via “allotment” or “commitment” contracts. This implies that these units record a loss of income since the prices of rooms that are offered via the contracts are lower than the “door price”, that the individual customer has to pay. Especially, the commitment contracts influence the room price very negatively and, particularly, in Class A lodgings the discount rate reaches 43% (Papanikos 2000).

<table>
<thead>
<tr>
<th>REGIONS</th>
<th>DIRECT ALLOCATION</th>
<th>ALLOTMENT CONTRACTS</th>
<th>COMMITMENT CONTRACTS</th>
<th>TRAVEL AGENCIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATHENS</td>
<td>95%</td>
<td>36%</td>
<td>9%</td>
<td>64%</td>
</tr>
<tr>
<td>THESSALONICA</td>
<td>100%</td>
<td>18%</td>
<td>0%</td>
<td>27%</td>
</tr>
<tr>
<td>CRETE</td>
<td>52%</td>
<td>56%</td>
<td>36%</td>
<td>18%</td>
</tr>
<tr>
<td>DODECANESE</td>
<td>54%</td>
<td>46%</td>
<td>40%</td>
<td>24%</td>
</tr>
<tr>
<td>IONIAN ISLANDS</td>
<td>70%</td>
<td>48%</td>
<td>44%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: Papanikos, 2001

Finally, another important problem that should be pointed out and is connected immediately with the sustainability of the hotel enterprises concerns the lending obligations of these. According to the up-to-date researches that have been conducted in the hotel units of the country, the percentage of hotel keepers who have bank debts amounts to 30%, while, simultaneously, except for hotels which have no debt to the banks, the total sum that each hotel keeper owes to the banks reaches roughly € 329,000 (1998). The lending obligations, as it was expected, are higher for the large units of high Classes, while as far as the disposal of loans is concerned, it appears that a high percentage of them (68%) was used as floating capital, while the rest concerned expenses for extension or modernisation. (Papanikos, 2000)

The review of the above indicators and the discrimination of the most basic factors that influence the viability of the hotel enterprises prove, in the end, that the structure of the Greek tourist product influences considerably the economic environment of a
hotel enterprise. Nevertheless, a hotel enterprise is a live cell of an organism, which, in this case, is the tourist destination and does not cease to influence and to be influenced by it.

**CONCLUSIONS AND POLICY MEASURES**

The problems that the Greek tourist product faces in total influence, at the same time, influence the sustainability of the hotel sector as a whole. The seasonal character of the tourist demand, as a consequence, limits the operation of lodgings in the coastal and islander regions at only 7 months of a year. Consequently, this leads to the negative output of the enterprises during the period that they remain closed.

The mass way of organisation of tourism has also important repercussions to the income of enterprises. It is characteristic that, in tourist regions, the overnight stays of foreigners are realised mainly via “allotment” or “commitment” contracts. The effect of these contracts, mainly the second type, in the price of room sales is particularly negative as the discount rate reaches 43%.

Finally, an influential part of the income of enterprises concerns the settlement of loans that have been raised. Only 32% of them were finally disposed for the extension and the modernisation of enterprises.

The improvement of the economic situation of an enterprise and, in this case, the one of the hotels, can be achieved in two main directions, either with the increase of income or with the reduction of operational expenses. These expenses can be decreased via a better organisation from the side of the hotel’s management and the increase of income via:

- Increase of number of customers
- Increase of debit price
- Combination of the two above parameters
- Change of sales combination, increasing, that is, the proportion of the category of sales that records higher margins of profits (Sotiriadis 1999).

However, unfortunately, even nowadays, the reduction of cost in a lot of hotel enterprises is connected with the curtailments in the personnel, the reduction of wages
or salaries, the increase of productivity, forcing, one way or another, the employees to work harder.

For other hotel enterprises, the reduction of cost is connected with the success of their economic administration to buy materials that are essential for the enterprise in lower prices from the suppliers. One can legitimately wonder how much lower the market prices of materials can get, provided that each supplier behaves on his own economic way and what the chances are that the materials to be bought in lower price will be of the same quality with those that had been purchased before.

Finally, all the above efforts for reduction of the cost of a hotel enterprise in their overwhelming majority lead to the undermining of the economic sustainability of an enterprise. It has been proved that the enterprises that were limited in such policies downgraded the quality of their services, did not pay the required attention to the education of their employees and, in the long run, abridged not only the long-term continuation of their activity (going concern), but, in the same time, narrowed down the multiplicative result that their operation had in the local society. (Swarbrooke, 1998)

To conclude, any efforts for the improvement of the sustainability of the hotel sector do not exclusively concern the businessmen - hotelkeepers. The collaboration among State and local institutions and businessmen is needed so that the problems that the Greek tourism faces today can be treated successfully. These are the problems that, up to a significant point, limit the income of enterprises so that their sustainability is undermined.
REFERENCES


