

STRATEGIC MANAGEMENT OF HOTEL COMPANIES: CASE STUDY OF HOTEL COMPANIES IN VOJVODINA (SERBIA)

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Abstract

Contemporary approaches to the management of the company are focused on achieving long-term success of the company in its complex and changing environment. Company as part of the wider environment, must adapt to the changing environment in order to survive, growing and developing. The task of strategic management is to enable the enterprise in the tourism industry to rationally and promptly react to changes in the environment in which it carries out its business and general activity. The aim of this paper is to determine whether and to what extent the process of the strategic management is being implemented in hotels in Vojvodina (that are changed ownership structure) and what is their response to the competitive pressures and opportunities, and demands and needs of consumers. Strategic positioning in order to achieve sustainable competitive advantage through product differentiation and segmentation of demand is imperative for success of hotel companies in Vojvodina.

Key words: Hotel companies, Strategic management, Strategic positioning, Ownership structure, Vojvodina (Serbia).

JEL Classification: L80, L83

I. INTRODUCTION

The Province of Vojvodina, which is situated in the south part of Pannonian Plain and the north part of the Republic of Serbia, has the population of app. 1,900,000 people (www.rzs.stat.gov.rs) and covers the area of 21,506 km² or 24.3% of the total territory of Serbia. Accommodation base for tourists amounts app. 8,000 beds in categorised basic and complementary accommodation capacities, where hotels are considered as dominant type of accommodation (app. 5,000 beds) (Vukosav and Curcic, 2009). Vojvodina as an autonomous province in northern Serbia has a quality and diverse basis for the development of tourism i.e., various forms of tourist development. This requires a high quality receptive base that should be achieved,

where hotels, as the basic types of accommodation facilities occupy a very important place. In this sense, it is necessary to constantly adjust to changes being dictated by the tourist market. The new, modern trends in tourism are primarily reflected in the emergence of sophisticated tourist demand, political changes, development of new technologies, market segmentation, globalization, vertical, horizontal and diagonal integration, economic integration et al. All this and many other important events have contributed to the complexity of enterprise management in tourism. Therefore, today and in the future, the tasks of strategic management would include much wider area than finding or creating new markets. The big change that occurred in Serbia recently is ownership transformation. Privatization is a key part of the

ownership transformation that is an essential component of the overall transition. It is the "heart" of transformation and involves a change in ownership (form) of state and public property to private. The importance of market and organizational restructuring is particularly emphasized in companies that are changing the ownership structure. All this is an important domain of overall strategic adjustments and efficient management in the tourism industry of Vojvodina. To ensure continuous flow of resources and permanent output stream of services, hotel managers in Vojvodina should adapt to all kinds of changes. Various processes and complexity of the tourist market demand from a contemporary hotel manager steady and continuous effort in finding new strategies, along with innovation and creation of new tourism products, adapting strategies to new trends in order to fully respond to the new demands of tourists, maintaining and improving the position in the market and successfully responding to competitive pressures and challenges. The formulation of planning decisions in response to changes in the operating environment requires a strategic approach. Critical in this regard is the company's ability to build up such norms and values that define its desire for a certain type of strategic behavior (Ansoff, 1981).

Hotel companies that are facing increasingly changing, turbulent and complex environment accept and practice strategic management. Strategic management is the management of changes (Steiner, Miner, Gray, 1986). It includes a system of corporate values and corporate culture, which provide a platform

for the whole process of change management. Strategic management can also be defined as "the process of directing the activities of a company which, based on the anticipation of opportunities and threats, identify the critical factors for business success and, according to previously established vision, determine mission, development goals and directions, methods and tools for their optimum implementation in a dynamic business environment" (Todorović, Đuričin et al., pp. 160, 2000).

II. THE PROCESS OF STRATEGIC MANAGEMENT

The strategic management sets the objectives of an organization, develops methods and plans for achieving those goals, along with the allocation of resources to implement the plans. The highest level is the one of management activity and it presents the line of direction to the entire organization. The company's strategy must be appropriate to the resources, business conditions and corporate goals (Pavlović, 2006).

Strategic management is seen as a continuous interactive process because it consists of several phases (Čerović, 2009):

1. Analysis of the environment;
2. Focus of the organization (mission and goals)
3. Formulation of the strategy;
4. Implementation of the strategy;
5. Strategic control.

This process could be illustrated as in Figure 1 (Certo, Peter, 1991).

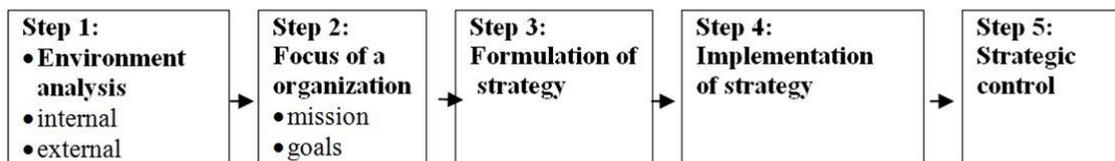


Figure 1. The main steps in the process of strategic management

Hotel companies that want to survive and succeed in the tourist market must be familiar with new trends in tourism and hospitality, as well as those affecting society at large. This would become the key inputs to the strategy formulation process. The rapid changes and tracking trends make it necessary to question and alter strategies and plans in order to maintain compliance with the requirements of the market (Ćurčić, 2010). Thus, the way of allocating resources and the organization of work has been changed.

III. METODOLOGY

Initial research took place in 13 hotels of different categories. The sample was made on the basis of criteria that all hotels that are the subject of this analysis have been or are still in the process of transformation i.e., ownership transformation. This is why in-depth interviews were made with the hotels' general managers. In addition to these, other methods characteristic of research in tourism, economy and overall social sciences were used. Given that the basic methodological principle and social sciences are based on dialectics, it follows that the dialectic, analytic and synthetic method were used as well as statistical, comparative and deductive method. The techniques of observation in natural and artificial environment were also used.

IV. ANALYSIS OF THE STRUCTURAL FEATURES OF THE HOTEL COMPANIES IN VOJVODINA

An essential prerequisite to increase tourist traffic is in improving the quality of service process (Kandampully, 2001). Therefore, improving the quality must be present in all types and categories of accommodation facilities and the differentiation of the accommodation offer should be the result of market research and insights into the needs of modern consumers. This is why the receptive countries are making great efforts in organizing and improving the structure and quality of the tourism offer, its compatibility and marketability, and increasing economic effects of international and domestic tourism (Kotler, 2001).

Table 1. Structure of hotels in Vojvodina by category and number of beds

Category	Number of hotels			Number of beds		
	1999	2007	2012	1999	2007	2012
*****	/	3	6	/	598	863
****	2	7	17	249	510	1636
***	17	20	23	2626	2019	1890
**	11	21	22	999	1552	1576
*	5	5	5	237	460	444
Total	35	56	73	4111	5139	6409

Source: Data from the Ministry of Economy and Regional Development 2008 and own calculations 2013.

Regardless of the current increase in the number of beds in certain types of properties in recent years (Table 1), it is evident that the condition of the accommodation facilities in Vojvodina is unsatisfactory. Specifically, a large number of these facilities were built before 1980, and that is primarily related to hotel facilities in the cities, and there were also little investments in their rehabilitation and reconstruction. These objects are characterized by deterioration and poor equipment and inadequate territorial distribution. However, the privatization processes resulted in that a some of hotels were reconstructed and adapted, and thus nowadays provide a level of service in the rank of categories from the period prior to privatization, and often higher than that. In the period ahead, it is necessity that the investment in the reconstruction of buildings that changed the owner from the society to private one in late 2008 and early 2009, would continue. In this way, a market economy, uncertainty and risk entail the necessity of financial and organizational structure of the company, the higher level of entrepreneurial culture and the key item, the marketing strategy and entrepreneurial behavior of economic entities in this economic sector.

It could be said that the hotel offer in Vojvodina has become increasingly diverse by an increasing number of hotels (Figure 2). The need to achieve a competitive advantage has never been stronger. The hardest task to the management in hotel companies in

Vojvodina would be exactly how to satisfy the choosier tourist demand on one hand and answer successfully to competitive pressures and challenges on the other hand. It would for sure be the most difficult for hotels that have entered the privatization process, where the current situation makes market positioning even more difficult.

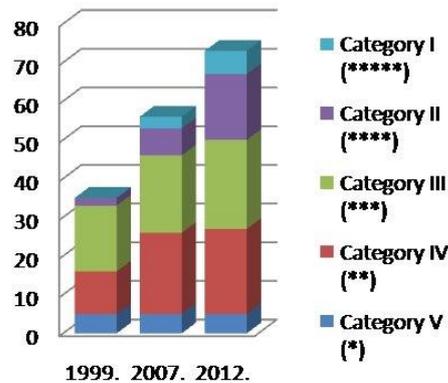


Figure 2. Number of hotels by category in Vojvodina (1999-2012)

The analysis of the participation of certain categories of hotels in the total structure shows where a downward trend could be seen in medium priced hotels (III stars) (Table 2). Although these hotels were most common on the market in the 90's of the last century, these days their share in the overall structure has decreased, as a consequence of "wandering" on the market without clear strategic goal and vision (to whom and what kind of tourist product to offer). The most of these hotels changed ownership structure.

Table 2. Representation of certain categories of hotel in the overall structure (1999-2012)

Category	In %		
	1999	2007	2012
*****	/	5.4	8.2
****	5.7	12.5	23.3
***	48.6	35.7	31.5
**	31.4	37.5	30.1
*	14.3	8.9	6.8
Total	100.0	100.0	100.0

Source: Own calculations

V. THE PROCESS OF STRATEGIC MANAGEMENT IN HOTEL COMPANIES IN VOJVODINA

Environment analysis

A tourist enterprise considers its situation and competitive position and formulates the strategy depending on the events planned. The main problem that arises is how to choose the appropriate strategic alternative i.e., what are the relevant information and forecasts on the basis of which the strategy would be

chosen. SWOT analysis could be used for that as a result of internal and external analysis of the environment, consideration of internal or external orientation to growth in an effort to minimize weaknesses and maximize their strengths. It is a good analytical basis for the selection of strategies for hotel companies and the initial step in the process of strategic management, and it was prepared for the hotel companies of Vojvodina (Table 3). SWOT analysis was done by the authors on the bases of the field research and interviews with the general managers of thirteen hotels in Vojvodina that are subject of analysis.

In the theory and practice of organizational management, the SWOT analysis presents the technique that is often practiced and is used in situational analysis (Jonhson, Scholes, 1988).

Certainly, it is advisable that a SWOT analysis is performed by managers who are familiar with the organization. In addition, it is recommended to cooperate with consulting companies that have specialized knowledge, skills, and an independent view to the very complex environment in which the organization or its parts perform their businesses and wider missions. Therefore, if changes take place rapidly, in order for those changes to become opportunities for the development of enterprises in the tourist industry, a SWOT analysis should be a continuous managerial activity of researching and monitoring.

Directing the organization (vision, mission and goals)

The strategists of the organization, the people who make up the general management i.e., owners, board of directors, general managers, top corporate managers and SBU (strategic business unit) line managers, including professional planners, are responsible for the creation and continuation of strategic vision and mission. The assumption of a successful strategic management of the organization is its well-designed vision and mission. Strategists study strengths and weaknesses of an organization and compare them with the opportunities and threats (SWOT analysis), with the aim to appropriately choose the vision, mission, goals, policies and strategies. The main strategic values at the end of the 20th and at the very beginning of the 21st century are: innovation, quality, speed, flexibility and permanent improvement that requires from the strategic management aggressive, fast and flexible response to the faster and faster changes (Mašić, 2009). In the context of management, a vision assumes a picture of a perfect future for a company or a clear assumption of future events, the long-term desired result within which employees are free to identify and solve problems that stand in the way of its achievement.

Table 3. SWOT – analyses of hotel companies in Vojvodina

Strengths	Weaknesses
<ul style="list-style-type: none"> - good production capacities - raising the quality of services at a higher level - good competitive ability - meeting the needs of different target segments - advantage in price - low labor costs - ability to innovate products (services) - effective staff - friendly staff 	<ul style="list-style-type: none"> - vague strategic directions - lack of vision - outdated equipment in some hotels - lack of managerial competence - lack of skilled staff - lack of key skills, abilities and disciplines - weakness in the strategy implementation - insufficient flexibility of the tourist offer - lack of parking lots at most hotels in the city center - inadequate / old infrastructure, rooms and other facilities - poor marketing skills - inability to finance the necessary changes in strategy - lack of coordination with other carriers of tourist offer
Opportunities	Threats
<ul style="list-style-type: none"> - change of motives for traveling - creation of new markets or segments - opening of new air corridors - diversification of products, i.e., services - stabilization and control of political and legal issues of Serbia - introduction of international hotel standards in the renovation or construction, as well as management and business - incentives for local entrepreneurs and foreign investors - removal of administrative restrictions / impediments to investment (e.g., property ownership, development processes, etc...) 	<ul style="list-style-type: none"> - underdeveloped infrastructure - the global economic crisis - the sales tax of 20% to be paid on the average price of rooms and the cost of transport - overestimated value of the domestic currency - tourism policy measures in the country (abolition of benefits) - relatively poor image of Serbia in Europe and worldwide - changes in needs and tastes of consumers (selective demand) - increased competition among the cities of Southeast Europe in the development of tourism and economy (e.g., Bucharest, Budapest, Sofia and Zagreb).

Source: done by the authors based on made interviews with managers

The mission or purpose marks the basic function or task by which the company differs itself from others. Mission determines the goals in space and time. A well defined mission is the foundation for carrying out the objectives and plans according to the hierarchy

(Cerović, 2003). The mission must define in details what target groups and markets are in question, what are the main products and services of the company that the geographical area covers, the key technologies used, as well as the future growth. The mission does not

reflect the change until the vision reflects a change in the near or distant future (Pavlović 2006). Based on the field research, it could be concluded that the management of the most of hotel companies does not have a clearly defined vision (where they see themselves in the next 5 to 10 years). With dynamic and turbulent changes that occur, hotel companies are trying to “survive” the current situation on the market. As for the mission of hotel enterprises in Vojvodina, it varies from company to company as mentioned above, but a generalized mission statement of hotel companies in Vojvodina that are subject to analysis would read: “To provide a quality hotel and catering services to tourists and other service users“. This mission statement defines the next activity of management and that is to determine the objectives of the company. Each company should have one or more objectives to fulfill. Some authors emphasize the importance of goals arguing that the organization is a means to reach the objective. Goals affect directly or indirectly all aspects of business. Therefore, the manager’s task is to constantly correct the activity of the company and direct it toward achieving the goals (Milisavljević, 1997). A company engaged in any activity, including catering, must have two main goals that are part of other objectives, and they are: to make profit for funding (investment, research and development), and the ability to settle its own obligations (liquidity). Failure to meet these two objectives jeopardizes the survival of a company, and the defining of other goals is superfluous and unnecessary. On the basis of made interviews with managers; hotel companies in Vojvodina are focused on achieving several priority targets that will enable further growth and development of tourism. It is a combination of the following goals:

- Increase market share and capacity utilization;
- Increase profits based on increased tourist spending;
- Development of new tourist markets;
- Revival of declining tourist product through innovation and investment;
- Expansion of the existing facilities through investments;
- Expansion of the target segment;
- Entering of some hotel companies into hotel chains.

Formulation and Implementation of Strategy

Strategy is the decision that directs the company's operations and is critical for the company. The adoption of the strategy is a rational and formalized planning process for defining and attaining goals (Čerović, 2009). Strategic decisions are made within highly uncertainty conditions i.e., when there is lack of knowledge in terms of all relevant facts and relations.

Strategies could be formed by the following methods: planning, entrepreneurship, ideology, umbrella method, using processes method, discrete method, consensus and the method of imposition (Asch, 1995).

Based on previous analysis it is evident that the quality is increasingly common in Vojvodina hotel industry because it was observed that it is one of the important factors for its success and development. Also, one of the most important elements to ensure quality in the hotels in Vojvodina is the recognition of the needs and desires of guests.

These hotel companies apply strategy of growth and development strategy, mainly market penetration strategy, product development and market development. The problems hotel are facing at the moment is a drastic drop in arrivals for about 40% -50% as a result of the global economic crisis. What is currently emerging as the question is: How to alleviate the consequences of the newly emerged situation? In accordance with that, it is necessary to apply the strategy of narrowing, i.e., minimizing the costs at all levels in order to mitigate the effects of the fall in economic activity in the country. As can be seen in Vojvodina hotel structure is dominated by three star hotels (23 hotels) and two stars hotels (22 hotels) it is evident that year after year there is an increase in the number of upscale/luxury hotels (4 and 5 stars).

Therefore, the key element in the development strategy of a hotel is quality of a hotel product that is based on hotel standards. Standards and quality are the key to the success of any hotel, and a survey of hotel standards is a continuing need and benefit. Hotels with the highest stars have the highest standards and offer the highest quality products and services, the widest range with the highest prices. The presence of certain hotel chains in the territory of Vojvodina (Best Western) significantly contributes in raising the current tourist offer to the next level, with the aim of satisfying the needs and demands of tourists. This is particularly important for foreign tourists, because they require a very high standard of hotel products, and they should be aligned with the trends in the international tourist market (Curaković, Šikora et al., 2013, pp. 6-11).

In addition to these strategies, following the analysis of the current state of the hotel industry in the province is necessary to use strategy of focusing on particular market segment and product differentiation strategy. A good example of the application of the product differentiation strategy (differentiation made in terms of quality) are 3 upscale/luxury hotels that Vojvodina did not have until 2004 year (Vukosav, Čurčić, 2009, pp. 111-126, Vukosav, Čurčić et al., 2012, pp. 391-396).

Strategic control

Strategic control in accordance with the concept

of strategic management is a special type of organizational control that focuses on monitoring and evaluating the strategic management process in order to make it functionally safe. In order to effectively perform control, managers should review the SWOT analysis in three months, which assumes a clear understanding of the opportunities and threats in the environment in which the organization conducts its business and social activity, and internal strengths and weaknesses.

The research in the field indicates that very few managers in hotels that are in process of restructuring take seriously the need for this analysis and measuring the success of such concepts. The problems that were noted in the current process of privatization of these hotels could be classified as follows (Privatization Agency, 2008):

1. No sales of hotels and catering companies to foreign partners, and that resulted in very little foreign capital inflow on this basis.
2. The majority of the new owners of hotel and catering companies are not from this area, which may adversely affect the quality of services.
3. There was no managerial privatization, i.e., no conditions were provided to hotel management to redeem a majority-stake through loans. In this way, the hotels that were operating successfully would continue to operate well with all forms of transformation, which is not the case with the large number of hotels that have so far entered the process of privatization.
4. In a part of companies, there was a change of service or parts of the company were sold i.e., their alienation, which is contrary to the positive applicable regulations.
5. A control mechanism failed leading to non-compliance with contracts in areas that relate to obligations towards investment and social programs.

Therefore, there is the lack of control at all levels in hotel companies, but a burning problem is inadequate control of that ownership transformation because the transformation process is complete and makes sense if all of its parts are implemented i.e., managerial, financial, organizational and educational

transformation.

CONCLUSION

The hotel companies in Vojvodina do not use the significant tourist potentials adequately, as an important competitive advantage, so that Vojvodina could become a significant tourist destination in this part of Europe. On the basis of the research conducted by the authors in the field, it could be concluded that in general most of the hotel companies in Vojvodina (which were in ownership transformation) and their management do not have a clear picture and vision of the road that their company should take, very often they are without the strategic opting and the majority of them try to survive in the conditions of the current turbulent changes without taking any important actions to alleviate the changes. Transformation is proper when the assets are entrusted for management to proper people, who are trained to manage themselves and others, and those are managers who are able to provide the most efficient ways of survival, growth and development of hotel companies. For this reason, the current management does not have sufficient knowledge, or experience to clearly define the mission, vision, and to implement the strategic marketing process completely. It could also be concluded that mainly the hotels of upscale/luxury categories (first and second) and certain hotels of the third category are doing their job highly professionally and improve their current business activities i.e., they have clearly stated business goals they want to achieve in the future and ways to implement these goals. Hotel companies should recognize the current trends, predict their development, enable availability of all information, develop communication among the interested entities and improve all elements of strategic management. A good start was made in improving the quality of tourism, using the strategy of product differentiation, as well as certain growth strategies. However, a lot should be done so that the hotel companies significantly improve the tourist traffic and tourist spending, to achieve their goals, as well as their own mission on the market.

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