

## **A Study of Hotels' Financial Performance for Introduction of an Inter-Hotel Comparison Scheme in Yola, Adamawa State Nigeria**

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### **Abstract**

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One way of achieving classification of hotels is by comparative analysis of major operating statistics. Comparative analysis of hotel operating statistics for the purpose of classification is achieved through inter-hotel comparison scheme. Inter-hotel comparison is a system where hotels of comparable standards agree that their performance statistics be collected, analyzed and compared by a center so that each hotel is able to assess its performance in relation to other hotels in the scheme. Hotels in Yola lack this medium. The purpose of this study was to determine the perception and willingness of hotels to participate in a comparative scheme with a view to improving on their service quality delivery and financial activities. Three ratios each of profitability and cost factors were investigated in twelve (12) hotels. Raw figures supplied by the hotels were processed into ratios through the process of common size analysis. It was found out that the hotels have understanding about the importance of inter-hotel comparison and the resources to participate in such scheme. A trial analysis of available ratios showed that some of the hotels were actually doing better than others. This study recommends a functional inter-firm comparison program for hotels in Yola as it will help the hotels evaluate and improve on their financial performance while at the same time providing government an avenue for economic policy formulation.

**Keywords:** *Inter-hotel; Comparison; Financial ratios; Hotel performance*

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## **Background To the Study**

Inter-hotel comparison is a variant of inter-firm comparison scheme which aims to enroll and compare hotel firms on some defined performance ratios. Inter-firm comparisons provide the management of a hotel with a few key figures showing how its operating performance and financial results compare with those of other similar hotels in the same scheme which, like itself, have contributed their figures for the purpose. Since the introduction of Inter-motel comparison scheme in the University of Strathclyde in 1970, many hotels and related properties world-wide have joined in the program as a means of instituting uniformity and quality control. The hospitality and tourism industry in Nigeria cannot be left out in this drive towards globalization. (Ayeni, and Ebohon 2012). Hotels offer such services as accommodation, food and drinks, recreation and event management (Spenceley and Goodwin, 2007). There are many hotel properties in Yola, Adamawa State Nigeria that need to join inter-firm comparisons scheme for the purpose of uniformity and fair competition. A scheme of this type requires a spirit of cooperation, mutual trust and willingness to share relevant data for evaluating performance, efficiency, revenue, costs and profits to bring about operational improvement and to attract investments in the Tourism Industry ([UNWTO]. (2003). An inter-hotel scheme is capable of provoking quality service delivery The quality mark is a model of best practices for the implementation and certification of quality hotel services which leads to increased customer satisfaction and ensures them that they will benefit in any hotel assessed and certified by the center for the hotel comparison scheme (Foris, 2011).

Adamawa State provides a fertile opportunity for investment in the hospitality industry. However, there has been no standardized basis for evaluation of performance and comparison among various hotels. Assessment of hotels' performance in the state and determination of position among equals has always been based on assumption and imagination, thus sacrificing objective assessment.

Hence, this piece attempts to answer the following questions:

1. What is the perception of hotel operators in Yola about inter – hotel comparison scheme?
2. How willing are the hotels in Yola to participate in a uniform comparison scheme?
3. What are some of the common operating ratios maintained by hotels in Yola through which hotel performance can be assessed to establish efficiency?
4. What is the relative advantage of a comparison scheme to hotels in Yola metropolis and other stakeholders?

## **Objectives of the Study**

This research specifically strived to achieve the following objectives:

- i. To sensitize hotels in Yola metropolis on the need for an inter-hotel comparison scheme with a view to setting a stage for competitiveness.
- ii. To examine some of the common operating ratios maintained by hotels in Yola which can provide the basis for performance appraisal
- iii. To review the relative advantages of a comparison scheme to hotels in Yola metropolis and other stakeholders

### **Inter-hotel Comparison Scheme**

Inter-firm comparison offers a hospitality entrepreneur the opportunity to evaluate and assess his performance and determine his worth among other investors in the same industry who also participate in the scheme. The scheme employs uniform accounting and financial ratios for determining the efficiency or inefficiency of participating hotel firms (Simon-oke 2011).

Financial ratios are perhaps the most common tool in financial statement analysis. Such ratios as related to the hospitality industry include profitability ratios, efficiency ratios, activity ratios, liquidity ratios and leverage ratios (Adejoh and Dauda 2015). Ratio analysis helps small business owners to shed light on performance indices such as profitability and liquidity as well as non-financial factors like room occupancy, restaurant seating occupancy and other related operating ratios. They are used for summarizing financial data, analyzing current performance and financial position and comparing performance and financial position across companies and over time (Sutton 1983, Adejoh and Dauda 2015). Investors, lenders, rating agencies and regulators use them to analyze company performance, strategy and risks. Financial ratio analysis is a useful measure that provides a picture of a hotel firm's financial position and its performance relative to competitors in order to pinpoint problem areas for further improvements (De, Bandyopadhyay and Chakraborty, 2010, Banki and Ismail, 2015).

Though Subramanian (2008), argues against inter-hotel comparison for fear of losing top management secrets, absence of a suitable cost accounting system and validity of such utility, Ajao (2012), supports it for it gives an overall view of the industry to members, reveals strengths or weaknesses for possible remedial measures, develops cost consciousness among industry members, boosts quality service delivery and helps government in effecting price regulation and tax administration. According to UNWTO (2007), it is internationally recommended that hospitality companies, especially hotels, should keep records based on international best practices in order to allow for measurement of economic growth and the contribution of the various sectors

### **Methodology**

This study was carried out in Yola town in Adamawa State of Nigeria. Mixed method design, qualitative and quantitative approaches, was adopted. Focus groups and interviews were the techniques employed in the qualitative approach while questionnaire was used to obtain quantitative data. The focus group is made up of twelve popular hotels which were sensitized for the study after obtaining their consent. There was initial reluctance to divulge the required statistics but after assuring that the names of the hotels would be kept confidential there was cooperation. All the hotels chosen for the study are members of the Association of Private Hotel Owners in Yola, Adamawa State. During the interviews, the participants answered questions on their perception and willingness to participate in a comparison scheme. Financial ratios relating to operating costs and profitability from 2013 – 2015 were obtained. Secondary data from the hotels and Chamber of Commerce and Industry were used to cross-check the information supplied. This allows for a more valid analysis suggested by Sekaran and Bougie (2013), where general conclusions are made after a careful observation and findings of a specific phenomenon.

A structured close-ended questionnaire bothering on the subject of the research was administered to accountants, managers and directors of the hotels. Because of the nature of information required, only the principal staffs that have access to official data were considered appropriate for completing the questionnaire. Data collected were subjected to common size analysis where operating factors of each hotel were expressed as percentages of their sales. Textual analysis was incorporated to evaluate and describe the phenomenon.

### **Findings and Discussions**

Based on the objectives of this study, the following were the findings

#### **(a) Level of Perception and Willingness of Hotels to Participate in Inter-hotel Comparison Scheme**

Almost all the hotels in the focus group have a fair knowledge of inter-firm comparison as an avenue for assessing performance of hotels. They admit that such a scheme can provoke competition and efficiency among hotel operators as well as encouraging quality service delivery that stands out. However, no hotel comparison scheme is available to the hotels in Yola. Every hotel assesses its performance and determines its own standard, thereby making it difficult to tell the position of one hotel from another performance wise. Emphasizing the benefits of inter-firm comparison among hotels, Subramanian (2008). opines that if an independent body collects and analyses data on behalf of firms, it is possible to point to member hotels to control many drawbacks such as inefficient production, inefficient selling, insufficient working capital, slow stock turnover, among others.

The hotels agree that if data will be collected and processed without bias, they would be willing to key in to any program that encourages healthy competition. However, they fear that the government may use it as a means to charge them obnoxious taxes. Operating a uniform accounting system affords hotels the opportunity to participate in inter-firm comparison scheme which helps management to take corrective measures for improvement and efficiency. Inter-hotel comparison does not only help operators overcome snags and weakness but also helps government to regulate and provide support services to hotel firms (Brotherton and Wood, 2008)

#### **(b) Comparable Operating Ratios**

Determining whether the hotels have the resources to participate in an inter-firm comparison, data relating to such operating ratios as profits to sales, return on investment, cost of sales, management cost to sales, payroll to sales and total costs to sales for a period of three years were collected. It was found that though not all the hotels maintain standard hotel accounting system, it is possible to compute comparable ratios from the available records

Of all the statistics, profitability was given priority in view of its importance to survival of business. Ratio analysis was performed for gross profit ratio, net profit ratio and return on capital employed to get insight into the efficiency of hotels. This is because if a hotel profit percentage does not equal or compete favourably with those of other hotels in the same category, it indicates inefficiency and drawbacks (Brotherton and Wood, 2008). The results of this analysis reveal that only two hotels maintain reasonable profit ratios suggested by

Andrew, Damiano and Schmidgall (2007) for the period under consideration. The other ten hotels exhibit low profitability ratios, showing gross profit ratio and net profit ratio below 0,4 and 0,1 respectively, keeping a far distance from the other two hotels

The reasons for low gross profit margin in hotel business according to Kumar (2017) could be due to poor portion control, buying commodities at exorbitant prices, pilfering by production and service staff, poor quality commodities, inefficient production process, wastages by production staff, and wastages due to storage and preservation. These challenges could be overcome by strategic food and beverage management where managers must attach high value to operating cycle, beginning from ordering of commodities to selling of final output (American Hotel & Lodging Educational Institute 2014)

On the other hand, a hotel may have a high gross profit percentage but with very low net profit ratio due to high fixed costs that are outside the control of the manager (Adejoh and Dauda 2015). The ability of a hotel company to maintain a favourable net profit depends on how much of the fixed expenses can be surmounted through high volume of trade.

Analysis of cost of sales, management costs, payroll costs and total costs indicates only a fair effort on the side of management. Though when arranged in arrays some of the hotels will occupy upper quartiles above others, the general trend is indicative of poor cost control except in the case of three hotels which maintained cost of sales below 0.25 and < 0.1 for management and payroll costs. While management expenses and costs of sales are high, payroll cost is very low in comparison.

A high total costs ratio means a very low net profit which in turn lowers stability index of a hotel. A higher management cost is often caused by unnecessary meetings ('cow meetings') and travels (Allen., Hemming and Potter, 2013). A very high ratio of cost of sales is induced by general increase in prices of commodities, expensive source of supply, obsolete production method leading to wastages, poor portion control and inferior quality of purchases (Atkinson & Brander Brown, 2001).

### **(c) Relative Advantages of Inter-hotel Comparison Scheme in Yola**

The participants agree that establishing a central unit where statistics submitted by hotels are processed without bias for the purpose of evaluation is a welcome development. That it leads to competition that provokes efficient and effective service delivery, even as it helps government to make policy decisions regarding the hotel industry. However, they maintain that they must be introduced to a uniform accounting system which makes comparison realistic and also be assured that raw data released must be kept confidential

### **Conclusion**

Establishing a comparative scheme among hotels in Yola, Nigeria could yield an interesting relationship. There are very many hotel firms competing for market share in the area and an inter-hotel comparison program can afford them the opportunity to improve upon their services and stay relevant. Hotels that fall within low quartiles of profit ratios have an option to endeavor to look into their cost control system. From the available data, it is clear that all the

participants (hotels) spend only a very meager fraction of their sales on staff salaries, an indication that their workers are given less attention in the payment of compensation and reward compared with management staff. The implication of this position is that the workers may become disillusioned and begin to pay less loyalty which will invariably impact negatively on financial performance.

This study contributes to knowledge because it has set pace for hotels in Nigeria, especially in Adamawa State to imbibe a common forum for assessing and comparing their performance and their relative contribution to the economy. The limitation of this study is the small sample size involved. However, it provides insight into performance ratios of hotels in Yola.

### **Recommendations**

Within the context of the findings of this study, the researchers wish to recommend as follows

1. Hotels in Yola, Adamawa State Nigeria should be encouraged to take part in active inter-hotel comparison scheme so that they can consistently evaluate their performance in the industry because they have some level of awareness and interest in having a common ground for performance evaluation
2. The Chamber of Commerce and Industry in collaboration with the Association of Private Hotels in Adamawa State should initiate a platform where inter-hotel comparison is possible. It should be made a condition for registration and accessing government or agency loans
3. Occasional forum where hotel operators meet and discuss latest happenings in the industry should be established in Adamawa State. This will provide avenue for knowledge sharing and reminder on the advantages of uniform assessment criteria.

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