# Table of Contents

**Topic 1  Fundamentals of Hospitality and Tourism Business**  
1. Introduction to the Hospitality and Tourism Industry  
1.1 Terminology  
1.1.1 Providers of the Hospitality and Tourism Services  
1.1.2 Types of Travellers  
1.2 Evolution of Tourism  
1.2.1 Beginnings  
1.2.2 Empires: 3200 B.C. to A.D 476  
1.2.3 Decline and Revival: 476 to 1300  
1.2.4 Renaissance: 1300 to 1600  
1.2.5 Early Modern: 1600 to 1800  
1.2.6 The Industrial Era: From 1800  
1.2.7 Health Tourism and Leisure Travel  
1.2.8 Mass Tourism  
1.2.9 International Mass Tourism  
1.2.10 Recent Developments  
1.3 The Hotel Perspectives  
1.3.1 Definition  
1.3.2 Types of Lodging Establishments  
1.3.3 Classification of Lodging Establishment  
1.3.4 Meal Service in Lodging Establishment  
1.3.5 Departments in a Hotel  
1.3.6 Organisation Chart of a Large Hotel  
1.4 The Food and Beverage Perspectives  
1.4.1 Definition  
1.4.2 Characteristics of a Foodservice Operation  
1.4.3 Types of Foodservice Establishments  
1.5 The Travel and Tourism Perspectives  
1.5.1 Definition  
1.5.2 Actors of the Segment  
1.5.3 Travel Agent  
1.5.4 Tour Operator  
1.5.5 Specialty Channels  
1.5.6 Tourism Attractions  
1.6 Factors Affecting the Hospitality and Tourism Industry  
1.6.1 Changes in Destination  
1.6.2 Customer Types  
1.6.3 Length of Stay  
1.6.4 Variety of Things to Do  
1.6.5 Political Aspects  


<table>
<thead>
<tr>
<th>1.6.6</th>
<th>Technological Change</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary</td>
<td></td>
<td>20</td>
</tr>
</tbody>
</table>

**Topic 2**  
**Hospitality and Tourism Management**  
2.1 Introduction to Management and Organisations  
2.1.1 Managers  
2.1.2 Management  
2.1.3 Functions of Managers  
2.1.4 Changing Job Scope of Managers  
2.1.5 Concept of Organisations  
2.1.6 Importance of Management  
2.2 Historical Background and Current Trends of Management  
2.2.1 Scientific Management  
2.2.2 General Administrative Theory  
2.2.3 Quantitative Approach to Management  
2.2.4 Organisational Behaviour  
2.2.5 The Systems Approach  
2.2.6 The Contingency Approach  
2.2.7 Current Trends and Issues  
2.2.8 Managing in an E-Business World  
2.2.9 Knowledge Management  
2.2.10 Learning Organisations  
2.2.11 Quality Management  
2.3 Organisational Culture and the Environment  
2.3.1 Introduction  
2.3.2 Omnipotent and Symbolic Manager  
2.3.3 The Organisation’s Culture  
2.3.4 Strong versus Weak Cultures  
2.3.5 Culture and Managers  
2.3.6 The Environment  
2.3.7 Environment and Managers  
2.4 Going Global in Management  
2.4.1 Global Perspective  
2.4.2 Understanding the Global Environment  
2.4.3 Doing Business Globally  
2.4.4 Managing in a Global Environment  
2.4.5 Global Management Today  
2.5 Social Responsibility and Management Ethics  
2.5.1 Social Responsibility  
2.5.2 Views of Social Responsibility  
2.5.3 Social Responsibility and Economic Performance  
2.5.4 The Greening of Management  
2.5.5 Values-based Management  
2.5.6 Managerial Ethics  

21
Topics covered in the document include:

### Topic 3 Hospitality and Tourism Marketing Management

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Introduction to Sales and Marketing</td>
<td>45</td>
</tr>
<tr>
<td>3.1.1</td>
<td>Definition of Marketing</td>
<td>45</td>
</tr>
<tr>
<td>3.1.2</td>
<td>Importance of Marketing</td>
<td>46</td>
</tr>
<tr>
<td>3.1.3</td>
<td>Definition of Marketing Concept</td>
<td>47</td>
</tr>
<tr>
<td>3.1.4</td>
<td>The Elements of Core Marketing Concept</td>
<td>47</td>
</tr>
<tr>
<td>3.1.5</td>
<td>Evolution of Marketing</td>
<td>49</td>
</tr>
<tr>
<td>3.1.6</td>
<td>Definition of Marketing Mix</td>
<td>51</td>
</tr>
<tr>
<td>3.1.7</td>
<td>Conclusion</td>
<td>52</td>
</tr>
<tr>
<td>3.2</td>
<td>Service Characteristics</td>
<td>52</td>
</tr>
<tr>
<td>3.2.1</td>
<td>The Service Culture</td>
<td>52</td>
</tr>
<tr>
<td>3.2.2</td>
<td>Characteristics of Services</td>
<td>53</td>
</tr>
<tr>
<td>3.2.3</td>
<td>Conclusion</td>
<td>55</td>
</tr>
<tr>
<td>3.3</td>
<td>Introduction to Marketing Planning</td>
<td>55</td>
</tr>
<tr>
<td>3.3.1</td>
<td>Definition</td>
<td>55</td>
</tr>
<tr>
<td>3.3.2</td>
<td>Strategic Marketing Planning Activities</td>
<td>56</td>
</tr>
<tr>
<td>3.3.3</td>
<td>Defining Company’s Mission</td>
<td>56</td>
</tr>
<tr>
<td>3.3.4</td>
<td>Setting Objectives and Goals</td>
<td>57</td>
</tr>
<tr>
<td>3.3.5</td>
<td>Design Business Portfolios</td>
<td>58</td>
</tr>
<tr>
<td>3.3.6</td>
<td>Developing Growth Opportunities Strategies</td>
<td>59</td>
</tr>
<tr>
<td>3.3.7</td>
<td>SWOT Analysis</td>
<td>60</td>
</tr>
<tr>
<td>3.3.8</td>
<td>Conclusion</td>
<td>60</td>
</tr>
<tr>
<td>3.4</td>
<td>The Marketing Environment</td>
<td>61</td>
</tr>
<tr>
<td>3.4.1</td>
<td>Definition</td>
<td>61</td>
</tr>
<tr>
<td>3.4.2</td>
<td>The Company’s Microenvironment</td>
<td>61</td>
</tr>
<tr>
<td>3.4.3</td>
<td>The Company’s Macro environment</td>
<td>63</td>
</tr>
<tr>
<td>3.4.4</td>
<td>Conclusion</td>
<td>64</td>
</tr>
<tr>
<td>3.5</td>
<td>Introduction to Marketing Information System (MIS)</td>
<td>64</td>
</tr>
<tr>
<td>3.5.1</td>
<td>Marketing Information System (MIS)</td>
<td>65</td>
</tr>
<tr>
<td>3.5.2</td>
<td>Conclusion</td>
<td>66</td>
</tr>
<tr>
<td>3.6</td>
<td>Consumer and Organisational Buying Behaviour</td>
<td>66</td>
</tr>
<tr>
<td>3.6.1</td>
<td>Importances of Understanding Customer Behaviour</td>
<td>67</td>
</tr>
<tr>
<td>3.6.2</td>
<td>Consumer Behaviour</td>
<td>67</td>
</tr>
<tr>
<td>3.6.3</td>
<td>Model of Consumer Behaviour</td>
<td>67</td>
</tr>
<tr>
<td>3.6.4</td>
<td>The Factors Affecting Consumer Behaviour</td>
<td>68</td>
</tr>
<tr>
<td>3.6.5</td>
<td>The Consumer Buying Decision Process</td>
<td>70</td>
</tr>
<tr>
<td>3.6.6</td>
<td>Organisational Behaviour</td>
<td>71</td>
</tr>
<tr>
<td>3.6.7</td>
<td>Model of Organisational Behaviour</td>
<td>71</td>
</tr>
<tr>
<td>3.6.8</td>
<td>The Factors Affecting Organisational Behaviour</td>
<td>72</td>
</tr>
<tr>
<td>Section</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>3.6.9</td>
<td>The Organisation Buying Process</td>
<td>73</td>
</tr>
<tr>
<td>3.6.10</td>
<td>Conclusion</td>
<td>75</td>
</tr>
<tr>
<td>3.7</td>
<td>Market Segmentation, Targeting and Positioning</td>
<td>75</td>
</tr>
<tr>
<td>3.7.1</td>
<td>Market Segmentation</td>
<td>75</td>
</tr>
<tr>
<td>3.7.2</td>
<td>Segmentation Variables</td>
<td>75</td>
</tr>
<tr>
<td>3.7.3</td>
<td>Market Targeting</td>
<td>77</td>
</tr>
<tr>
<td>3.7.4</td>
<td>Market Positioning</td>
<td>77</td>
</tr>
<tr>
<td>3.7.5</td>
<td>Positioning Strategies</td>
<td>78</td>
</tr>
<tr>
<td>3.7.6</td>
<td>Market Positioning Process</td>
<td>78</td>
</tr>
<tr>
<td>3.7.7</td>
<td>Conclusion</td>
<td>79</td>
</tr>
<tr>
<td>3.8</td>
<td>Marketing Mix Analysis – Product</td>
<td>79</td>
</tr>
<tr>
<td>3.8.1</td>
<td>Definition</td>
<td>80</td>
</tr>
<tr>
<td>3.8.2</td>
<td>Product Levels</td>
<td>80</td>
</tr>
<tr>
<td>3.8.3</td>
<td>Understanding the Product Life Cycle</td>
<td>81</td>
</tr>
<tr>
<td>3.8.4</td>
<td>New Product Development</td>
<td>84</td>
</tr>
<tr>
<td>3.8.5</td>
<td>Conclusion</td>
<td>86</td>
</tr>
<tr>
<td>3.9</td>
<td>Marketing Mix Analysis – Price</td>
<td>86</td>
</tr>
<tr>
<td>3.9.1</td>
<td>Definition</td>
<td>86</td>
</tr>
<tr>
<td>3.9.2</td>
<td>Importance of Price</td>
<td>86</td>
</tr>
<tr>
<td>3.9.3</td>
<td>Factors to Consider when Setting Prices</td>
<td>87</td>
</tr>
<tr>
<td>3.9.4</td>
<td>Internal Factors that Influence Pricing Decisions</td>
<td>87</td>
</tr>
<tr>
<td>3.9.5</td>
<td>External Factors that Influence Pricing Decisions</td>
<td>88</td>
</tr>
<tr>
<td>3.9.6</td>
<td>General Pricing Approaches</td>
<td>91</td>
</tr>
<tr>
<td>3.9.7</td>
<td>Pricing Strategies</td>
<td>92</td>
</tr>
<tr>
<td>3.9.8</td>
<td>Conclusion</td>
<td>94</td>
</tr>
<tr>
<td>3.10</td>
<td>Marketing Mix Analysis – Distribution</td>
<td>94</td>
</tr>
<tr>
<td>3.10.1</td>
<td>Channel Organisation</td>
<td>94</td>
</tr>
<tr>
<td>3.10.2</td>
<td>Channel Management</td>
<td>96</td>
</tr>
<tr>
<td>3.10.3</td>
<td>Intermediaries</td>
<td>96</td>
</tr>
<tr>
<td>3.10.4</td>
<td>Distribution through the Internet</td>
<td>96</td>
</tr>
<tr>
<td>3.10.5</td>
<td>Conclusion</td>
<td>97</td>
</tr>
<tr>
<td>3.11</td>
<td>Marketing Mix Analysis – Promotion</td>
<td>97</td>
</tr>
<tr>
<td>3.11.1</td>
<td>The Elements of Communication Theory</td>
<td>97</td>
</tr>
<tr>
<td>3.11.2</td>
<td>Developing Effective Communication</td>
<td>99</td>
</tr>
<tr>
<td>3.11.3</td>
<td>Establishing the Total Communications Budget</td>
<td>101</td>
</tr>
<tr>
<td>3.11.4</td>
<td>Definition of Promotion</td>
<td>101</td>
</tr>
<tr>
<td>3.11.5</td>
<td>The Role of Promotion</td>
<td>101</td>
</tr>
<tr>
<td>3.11.6</td>
<td>The Promotion Mix</td>
<td>102</td>
</tr>
<tr>
<td>3.11.7</td>
<td>Factors in Setting the Promotion Mix</td>
<td>103</td>
</tr>
<tr>
<td>3.11.8</td>
<td>Conclusion</td>
<td>104</td>
</tr>
<tr>
<td>Summary</td>
<td></td>
<td>104</td>
</tr>
</tbody>
</table>
## Topic 4  Hospitality and Tourism Financial Management  
### 4.1 Understanding Financial Statements  
- **4.1.1 Introduction**  
- **4.1.2 The Principles, Assumptions and Concepts of Accounting**  
- **4.1.3 Elements of Balance Sheet Statement**  
- **4.1.4 Detail Items in the Balance Sheet**  
- **4.1.5 Financial Ratios for Balance Sheet**  
- **4.1.6 Elements of Profit and Loss (Income) Statement**  
- **4.1.7 Profit and Loss Statement in Hospitality**  
- **4.1.8 Financial Ratios for Income Statement**  
- **4.1.9 Limitations of Financial Ratio Analysis for**  
- **4.1.10 Statement of Cash Flows**  

### 4.2 Understanding of Cost Accounting  
- **4.2.1 Cost Classification**  
- **4.2.2 Cost Volume Profit (CVP)**  
- **4.2.3 Important of the CVP**  
- **4.2.4 Assumptions and Limitation of CVP**  
- **4.2.5 Control Concept**  

### 4.3 Budgetary Control  
- **4.3.1 Planning and the Management Process**  
- **4.3.2 Budgeting: A Planning Tool**  
- **4.3.3 Variance Analysis: A Control Tool**  
- **4.3.4 Administrative the Budget System**  
- **4.3.5 Budget: Control and Motivation**  
- **4.3.6 Budgetary Control System**  

### 4.4 Understanding Financial Management  
- **4.4.1 Types of Financing**  
- **4.4.2 Compound Interest vs. Simple Interest**  
- **4.4.3 Financial Decision-making**  
- **4.4.4 Investment Decision-making**  
- **4.4.5 Why Cost of Capital is used in Investment Decision-making?**  

## Topic 5  Accommodation and Food and Beverage Management  
### 5.1 System of Organisation in the Accommodation Department  
### 5.2 Management Responsibilities of the Accommodation Department  
### 5.3 Evaluating Accommodation Operations  
### 5.4 Yield Management in Accommodation Sector
5.5 Overview of Food and Beverage Operations 159
   5.5.1 Food and Beverage Operations Personnel Requirement 160
   5.5.2 Food and Beverage Operations Profitability 160
   5.5.3 Marketing of Food and Beverage Operations 161
5.6 Overview of Room Service Operations 161
5.7 Overview of Banquet Operations 163
   5.7.1 Banquet Room Set-up 165
   5.7.2 Banquet Contracts and Billing Policies 165
Summary 166

<table>
<thead>
<tr>
<th>Topic 6</th>
<th>Tourism Management</th>
<th>167</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1</td>
<td>Introduction</td>
<td>167</td>
</tr>
<tr>
<td></td>
<td>6.1.1 Issues</td>
<td>168</td>
</tr>
<tr>
<td></td>
<td>6.1.2 Domains of Tourism Crisis</td>
<td>169</td>
</tr>
<tr>
<td></td>
<td>6.1.3 External and Internal Threats of Crisis</td>
<td>170</td>
</tr>
<tr>
<td></td>
<td>6.1.4 Vulnerability of the Tourism Industry to Crisis</td>
<td>170</td>
</tr>
<tr>
<td></td>
<td>6.1.5 Managing Tourism Crisis</td>
<td>171</td>
</tr>
<tr>
<td>6.2</td>
<td>Economic Tourism Crisis</td>
<td>172</td>
</tr>
<tr>
<td></td>
<td>6.2.1 Currency Rates and Control</td>
<td>174</td>
</tr>
<tr>
<td></td>
<td>6.2.2 Escalating Costs</td>
<td>174</td>
</tr>
<tr>
<td></td>
<td>6.2.3 Addressing the Problems of Adverse Economic Impacts</td>
<td>174</td>
</tr>
<tr>
<td></td>
<td>6.2.4 Conclusion</td>
<td>176</td>
</tr>
<tr>
<td>6.3</td>
<td>Political Tourism Crisis</td>
<td>176</td>
</tr>
<tr>
<td></td>
<td>6.3.1 Responding to Political Tourism Crisis</td>
<td>178</td>
</tr>
<tr>
<td></td>
<td>6.3.2 Conclusion</td>
<td>178</td>
</tr>
<tr>
<td>6.4</td>
<td>Terrorism and Tourism</td>
<td>179</td>
</tr>
<tr>
<td></td>
<td>6.4.1 Prevention Strategies</td>
<td>180</td>
</tr>
<tr>
<td></td>
<td>6.4.2 Conclusion</td>
<td>181</td>
</tr>
<tr>
<td>6.5</td>
<td>Socio-cultural Conflicts and Tourism</td>
<td>181</td>
</tr>
<tr>
<td></td>
<td>6.5.1 Socio-cultural Condition and Tourism Crisis</td>
<td>181</td>
</tr>
<tr>
<td></td>
<td>6.5.2 Crime and Tourism</td>
<td>182</td>
</tr>
<tr>
<td></td>
<td>6.5.3 Physical Influence Causing Social Stress</td>
<td>182</td>
</tr>
<tr>
<td></td>
<td>6.5.4 Managing Socio-cultural Tourism Crises</td>
<td>183</td>
</tr>
<tr>
<td></td>
<td>6.5.5 Conclusion</td>
<td>183</td>
</tr>
<tr>
<td>6.6</td>
<td>Environmental Tourism Crisis</td>
<td>184</td>
</tr>
<tr>
<td></td>
<td>6.6.1 Environmental Linkage and Resource Use for Tourism</td>
<td>184</td>
</tr>
<tr>
<td></td>
<td>6.6.2 Responding to Environmental Tourism Crisis</td>
<td>185</td>
</tr>
<tr>
<td></td>
<td>6.6.3 Conclusion</td>
<td>186</td>
</tr>
<tr>
<td>6.7</td>
<td>Tourism and Health Crisis</td>
<td>186</td>
</tr>
<tr>
<td></td>
<td>6.7.1 Health Risks at Destinations</td>
<td>186</td>
</tr>
<tr>
<td></td>
<td>6.7.2 Risky Behaviour</td>
<td>187</td>
</tr>
<tr>
<td>Section</td>
<td>Page</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td>6.7.3 Sex and Tourism</td>
<td>187</td>
<td></td>
</tr>
<tr>
<td>6.7.4 Responding to Health Concerns and Crises</td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>6.7.5 Conclusion</td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>6.8 Technological Failure and Tourism</td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>6.8.1 Transport Accident and Tourism</td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>6.8.2 Information Technology Failure</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td>6.8.3 Conclusion</td>
<td>191</td>
<td></td>
</tr>
<tr>
<td>6.9 Commercial Crises</td>
<td>191</td>
<td></td>
</tr>
<tr>
<td>6.9.1 Internationalisation</td>
<td>191</td>
<td></td>
</tr>
<tr>
<td>6.9.2 Competition</td>
<td>192</td>
<td></td>
</tr>
<tr>
<td>6.9.3 Conclusion</td>
<td>192</td>
<td></td>
</tr>
<tr>
<td>Summary</td>
<td>193</td>
<td></td>
</tr>
<tr>
<td>References</td>
<td>194</td>
<td></td>
</tr>
</tbody>
</table>
INTRODUCTION

Fundamentals of Hospitality and Tourism Management is a preparatory course for open entry learners who intend to pursue a postgraduate program in Professional Master in International Tourism and Hospitality Management. This program provides learners with fundamental knowledge in the area of hospitality and tourism management.

LEARNING OUTCOMES

By the end of this course, you should be able to:

1. Understand fundamentals of hospitality and tourism from the management, marketing and financial perspectives;
2. Understand accommodation, food and beverage management and room service operations; and
3. Understand various perspectives of tourism management.

COURSE SYNOPSIS

The synopsis for each topic is as follows:

Topic 1 gives an introduction to the hospitality and tourism industry. It provides an overview on the evolution of tourism and focus on hospitality and tourism from the perspectives of hotel, food and beverage, and travel and tourism. This topic also looks into factors affecting the hospitality and tourism industry.

Topic 2 discusses hospitality and tourism management. It encompasses introduction to management and organisations, historical background and current trends of management and organisational culture and the environment. Following this, the concept of going global in management and also social responsibility and management ethics will be discussed.

Topic 3 describes hospitality and tourism marketing management. It conveys the introduction to sales and marketing and service characteristics. It includes introduction to marketing planning and environment. This topic also illustrates introduction to Marketing Information System (MIS) which consists of consumer and organisational buying behaviour, market segmentation, targeting and positioning. In addition, learners will also learn about marketing mix analysis on product, price, distribution and promotion.
Topic 4 exhibits hospitality and tourism financial management. It displays the understanding of financial statements, cost accounting, budgetary control and financial management.

Topic 5 demonstrates the accommodation and food and beverage management. It incorporates the overview of food and beverage operations, room service operations and banquet operations.

Topic 6 highlights various crises in tourism management and how to manage it. The crises emphasised are economic tourism crisis, political tourism crisis, terrorism and tourism, socio-cultural conflicts and tourism, environmental tourism crisis, tourism and health crisis, technological failure and tourism and commercial crises.

**ASSESSMENT METHOD**

Refer to CAPL website http://capl.oum.edu.my for evaluation method for this program.
A successful experience in tourism combines:

- A degree of novelty with a degree of familiarity.
- Security of old habits with excitement of change.
- A degree of risk with a degree of safety.

As for the competitiveness of a tourism destination, it is influenced by factors such as:
- Cost levels at the destination.
• The quality of service at the destination.
• Culture and history of the destination.
• The physiography/climate of the destination.

According to The World Travel and Tourism Council (WTTC), it is estimated that in 2015 tourism jobs will increase to 269.5 million. The world region that is expected to have the most tourism job growth is the Asia Pacific. Employment in the tourism sector is expected to grow faster than other economic sectors. The world’s hotel inventory, on the other hand, is estimated to increase about 2.5 percent per year.

In the tourism industry, the most widely recognised organisation is the World Tourism Organisation (WTO). It is a non-governmental organisation that accelerates world understanding of the contribution of tourism. It also helps in raising standards of living in less developed areas through tourism development.

With regard to the issue of tourism development, the proposed development should aim at:

• Providing a framework for raising the living standards of the people through the economic benefits of tourism.
• Developing an infrastructure and providing recreational facilities for visitors and residents.
• Ensuring types of development within visitor centres and resorts that are appropriate to the purposes of those areas.

If a developing country wishes to attract mass tourism it must provide facilities based on Western standards while for an undeveloped country considering expansion of tourism, the first step should be to review the likely demand.

When we consider demand in tourism, we mean that people are willing and able to buy at a scheduled price. This demand which is in the form of visitor expenditure ultimately benefits all businesses, professional services and government. Seasonal fluctuations in demand are a problem in most areas. A recommended method of levelling out demand is to increase multiple-use possibilities.

With more adequate tourism research, investors could be attracted to the right kind of tourism supply components, in the right place, in the right quantity, and with the proper design and service.
1.1.1 Terminology

(a) **Hospitality**
A term implies whereby a guest who is away from home is welcomed by a host where basic necessities are provided such as food, beverages and lodging. The term is derived from the Latin word ‘hospitare’, which means ‘to receive a guest’.

(b) **Hospitality Industry**
An industry comprises business entity of food, beverages, lodging or a combination of these businesses to travellers during their stay in a destination.

(c) **Tourism**
As recommended by the World Tourism Organisation and adopted by the United Nations, the term tourism comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business, and other purposes. It is known as an “invisible” export because tourism constitutes non-merchandise transactions.

(d) **Domestic Tourism**
Tourism that includes internal tourism and inbound tourism in a destination.

(e) **National Tourism**
Tourism that includes internal tourism and outbound tourism in a destination.

(f) **International Tourism**
Tourism that includes inbound tourism and outbound tourism in a destination.

(g) **Ecotourism**
It is environmentally friendly travel which acts as a tool for conservation and serves as ecologically responsible tourism.

(h) **Travel and Tourism Industry**
Businesses providing primary services to travellers, including the traditional hospitality businesses and others closely linked to them in such fields as entertainment, recreation, and transportation, plus travel agencies and tour operators.
(i) **Incentive Travel**  
Travel award that is given for achieving some company goal and it is a powerful motivator for increased employee performance.

(j) **Revenue per Available Room (RevPAR)**  
The total guest rooms’ revenue for a given period of time divided by the total number of occupied rooms during the same period.

(k) **Average Daily Room Rate**  
The total guest rooms’ revenue for a given period of time divided by the total number of guests stayed for the same period of time.

### 1.1.2 Providers of Hospitality and Tourism Services

Refer to Figure 1.1 on providers of hospitality and tourism services.

![Figure 1.1: Providers of the hospitality and tourism industry](image)

### 1.1.3 Types of Travellers

(a) **Excursionists**  
They are travellers who spend less than 24 hours during a leisure trip.

(b) **Leisure Travellers**  
They are known to travel for pleasure, where their arrivals are highly seasonal and they are attracted by special festivals, sports or other cultural events. They are generally price sensitive, as their personal income is an important factor in determining their particular needs.
(c) **Business Travellers**

They belong to the group who travel for the purpose of conducting business, which comprises the largest source of demand for accommodation. They arrive all year round, with the exception of public holidays, but can also decrease during the months of holidays. They often require accommodation at short notice, thus, they prefer to establish close ties with a particular hotel so that they can use the accommodation services on a regular basis and not be inconvenienced by lengthy reservation procedures.

### 1.2 EVOLUTION OF TOURISM

The development of tourism is inevitably tied to the economic growth of cities, regions and even nations as well as greatly influenced by the development of transportation. Therefore, it is evident that tourism is most common in nations which have the most well-developed transportation networks and are economically successful at that time.

#### 1.2.1 Beginnings

Human population has existed for hundreds of thousands of years in all parts of the world. For example, Cro-Magnon man was active in Europe and the Middle East about 40,000 B.C. However, there was relatively little travel as we know it today until relatively recently in human history.

(a) **The Sumerians**

The recorded history of tourism began with Sumerians, who inhabited Mesopotamia, near the Persian Gulf, by about 4000 B.C. Much of the area, covering part of the modern state of Iraq, was particularly fertile. Sumerian farmers were eventually able to produce so much grain that they had a surplus available to trade. In addition to growing and trading grains, the Sumerians became skilled at converting it to alcoholic beverages, primarily beers. Local Sumerian taverns served various beers and provided a gathering place for local residents.

(b) **The Middle East**

By 2000 B.C., Middle East people travelled long journeys to trade for exotic goods, catered to in caravanserai (inns), providing food and shelter.
1.2.2 Empires: 3200 B.C. to A.D 476

While several civilisations were thriving in the region around Persian Gulf, others were developing around the Mediterranean Sea between 3200 B.C. and A.D. 476 – a period known to the historians as the Empire Era. During this time, three significant empires flourished around the Mediterranean: the Egyptian, the Greek and the Roman.

Their developments in tourism reached their zenith during the Roman period with the creation of a transportation network that surrounded the Mediterranean and extended to such distant points as England, France and Germany.

(a) **Egypt**

The Egyptians created a political entity by around 3200 B.C., headed by a pharaoh, their term for a king. The famed pyramids were built as tombs for the pharaohs as early as 2700 B.C. and became tourist attractions that people travelled great distances to view.

Besides, people travelled to see other sights, to trade goods, to transact government business, and to attend religious festivals. Thus, ancient Egyptians might have been responsible for beginning the activity we now call tourism.

(b) **Greece**

The Greeks were great travellers. By 356 B.C. they dominated the Mediterranean region. They established colonies that stretched their empire as far west as Spain and even to the north coast of the Black Sea. Besides, many Greeks travelled to great religious centres, particularly Delphi and Olympia, to take part in games and competitions and to consult their oracles.

Their two most important contributions to tourism were their language, which became universally accepted as the language of international trade; and their currencies, which were widely circulated, accepted, and trusted as the medium of exchange for monetary transactions. These made travel and trade comparatively easy and thus played an important role in increasing the volume of both.

(c) **Rome**

By the time Rome conquered most of Western Europe and the Middle East, tourism was well established throughout the empire. Travelling was relatively safe and easy because the traveller needed only one currency – Roman coins – to travel anywhere in the Empire; the excellent roads systems made travel faster and easier; and the traveller needed to know
only Latin or Greek, the language of business and government, to communicate fairly easily in any part of the empire.

1.2.3 Decline and Revival: 476 to 1300

After the fall of the Roman Empire and the decline in international trade, most of the population returned to agriculture. Cities began to crumble and some virtually disappeared. Trade nearly ceased and the middle class disappeared. This period was marked by invasions into areas of Europe that had once been the Roman Empire. The invaders were so-called barbaric tribes of north central Europe.

Travel and tourism virtually ceased. Travel was undertaken primarily for religious reasons. This was the age of feudalism, a system whereby land was given by a ruler in return for loyalty and service. Church monasteries took over the job of feeding and housing travellers.

1.2.4 Renaissance: 1300 to 1600

The term “renaissance” is derived from the French word for rebirth and originally referred to the revival of artistic values, especially in Italy. Later, the term came to mean a distinct historical period characterised by the rise of the individual, scientific inquiry and growth of worldly values.

By about 1350, some degree of safety had returned to roads, and travel and trade increased, creating conditions that led to the rise of the middle class in the economic life of Europe.

The 16th century also saw the beginnings of an activity known as the grand tour. Wealthy English would send their sons to tour Europe to “finish their education” on a tour that might last as long as three years. Paris was a favourite destination, as was the Italian peninsula. Young men would spend an entire year learning about arts and humanities.

1.2.5 Early Modern: 1600 to 1800

The period from 1600 to 1800 was particularly important in the evolution of tourism. One critical element was the beginning development of roads, which facilitated the use of stagecoaches between cities. With regard to this, the famous English tavern was originally built mainly for travellers by stagecoach.
Another important development was the English common law, which forms the basis of Malaysian law and which has special significance for the hospitality industry today.

### 1.2.6 The Industrial Era: From 1800

The Industrial Revolution, which dates from the mid-1700s, started in England with the development of machines to do work that was formerly done by hand. This period was an age of invention.

With steam engines, power could be made available in locations that had no access to water transportation. The greatest period of growth followed the invention of the railroad in 1825. This new form of transportation started a network designed to move raw materials and finished goods from place to place.

### 1.2.7 Health Tourism and Leisure Travel

It was not until the 19th century that cultural tourism developed into leisure and health tourism. Leisure travel was a British invention due to sociological factors. Britain was the first European country to industrialise and the industrial society was the first society to offer time for leisure to a growing number of people. Not initially the working masses, but the owners of the machinery of production, the economic oligarchy, the factory owners, the traders, the new middle class.

The British origin of this new industry is reflected in many place names. At Nice, one of the first and most well established holiday resorts on the French Riviera, the long esplanade along the sea front is known to this day as the Promenade des Anglais; and in many other historic resorts in continental Europe, old well-established palace hotels have names like the Hotel Bristol, Hotel Carlton or Hotel Majestic – reflecting the dominance of English customers to whom these resorts catered in the early years.

### 1.2.8 Mass Tourism

Mass tourism did not really begin to develop until two things occurred.

(a) Improvements in communications allowed the transport of large numbers of people in a short space of time to places of leisure interest, and

(b) Greater numbers of people began to enjoy the benefits of leisure time.
The biggest development of all was the invention of the railways, which brought many seaside towns within easy distance of large urban centres. The main purpose of mass tourism is visiting attractions.

The father of modern mass tourism was Thomas Cook who, on July 5, 1841, organised the first package tour in history, by chartering a train to take a group of teetotallers from Leicester to a rally in Loughborough, some twenty miles away. Cook immediately saw the potential for business development in the sector, and became the world’s first tour operator.

The combination of short holiday periods, travel facilities and distances meant that the first holiday resorts to develop were towns on the seaside, situated as close as possible to the growing industrial conurbations. For a century, domestic tourism was the norm, with foreign travel being reserved, as before, for the rich or the culturally curious.

### 1.2.9 International Mass Tourism

Increasing speed on railways meant that the tourist industry could develop slowly, even internationally. By 1901, the number of people crossing the English Channel from England to France or Belgium had already passed 0.5 million per year. However, it was with cheap air travel in combination with the package tour that international mass tourism developed after 1963.

### 1.2.10 Recent Developments

Mass tourism has been stagnating and declining in recent years. The mass tourist economy has also been hit badly by terrorism, with specific attacks on destinations such as Bali and Kenya.

Receptive tourism is now growing at a very rapid rate in many developing countries, where it is often the most important economic activity in local GDP.

In recent years, second holidays or vacations have become more popular as people have more disposable income. Typical combinations are a package to the typical mass tourist resort, with a winter skiing vacation or weekend break to a city or national park.
1.3 HOTEL PERSPECTIVES

1.3.1 Definition

When a person is temporarily away from home, the establishment that he/she is staying at may be defined as a lodging property. This accommodation is normally regarded as a temporary or permanent home where food and beverages, cleaning services and a whole range of other services are normally provided. In return, the lodger will pay a certain amount of fees for the services offered.

In other words, lodging properties may be defined as establishments that charge fees for providing furnished sleeping accommodations to persons who are temporarily away from home. In considering a “package plan” offered by a hotel, the manager should determine the number of features, price and time period. The optimum price for a hotel room would be one that maximises profits.

1.3.2 Types of Lodging Establishments

(a) Commercial Hotel
   An establishment that provides overnight accommodation, goods and services to the transient public or temporary guests needing accommodation for a few nights. Example: Hilton, Kuala Lumpur.

(b) Residential Hotel
   In contrast to transient hotels, some hotels have traditionally provided accommodation for long-term guests – individuals who consider the hotel as their temporary or permanent home. Example: Ascott, Kuala Lumpur.

(c) Resort Hotel
   Lodging establishments that feature recreational activities for guests. These activities may be strictly for enjoyment, health purposes or both. Example: Pelangi Beach Resort Langkawi, Malaysia.

(d) Airport Hotel
   Hotels located near an airport catering to short stopovers or passengers of cancelled flights, providing limousine with pick-up schedules. Example: Pan Pacific KLIA.

(e) Economy Hotel
   Lodging facilities for cost-conscious travellers. Example: Formule 1, France.
(f) **Casino Hotel**
Transient hotel that house gaming casinos. They also provide lavish entertainment – nationally known artists and professionally staged shows–as added attractions. Example: Genting Hotels.

### 1.3.3 Classification of Lodging Establishment

Hotels in Malaysia can be categorised according to:

(a) Star levels – 1.2.3.4.5 stars
(b) Number of rooms – under 150, 150 to 300, 300 to 600 and over 600 rooms
(c) Location – city, rural
(d) Clientele – business, leisure
(e) Facilities and service – Full service, economy
(f) Price – luxury, upscale, midprice, economy, budget

### 1.3.4 Meal Service in Lodging Establishment

(a) American Plan – Rates including 3 meals daily: breakfast, lunch and dinner.
(b) Modified American Plan – Rates including breakfast and dinner.
(c) Breakfast Plan – Rates with full breakfast.
(d) Continental Breakfast Plan – Rates with light breakfast.
(e) European plan – Rates without meals.

### 1.3.5 Departments in a Hotel

(a) **Front of the House**
Areas in a hotel where guests come into direct contact such as the lobby, front desk, restaurants, and guests’ rooms.

(b) **Back of the House**
Areas in a hotel where guests do not come into contact, such as kitchen, laundry, staff cafeteria.

(c) **Revenue Centre**
A centre that generates incomes, such as rooms division and food and beverage department.
(d) **Cost Centre**
A centre that does not generate income such as maintenance, accounts, marketing and human resources.

### 1.3.6 Organisation Chart of a Large Hotel

Figure 1.2 shows the orientation chart of a large hotel.

![Organisation Chart of a Large Hotel](image)

*Figure 1.2: Organisation chart of a large hotel*
1.4 FOOD AND BEVERAGE PERSPECTIVES

1.4.1 Definition

Food service may be defined as providing fully prepared foods for immediate consumption on or off premises. The word “restaurant” originated from a French word which meant “restorers of energy”. The term was used as early as the mid-1700s to describe public places that offer soup and bread.

1.4.2 Characteristics of a Foodservice Operation

The catering market can be divided into 2 main areas:

(a) **Commercial Catering**
   The provision of food and beverage to the public with the intention of maximising profit.

(b) **Mass Institutional Catering**
   The provision of food and beverage with the intention of breaking even, as part of another business.

1.4.3 Types of Foodservice Establishments

(a) **Commercial Catering**
   
   (i) **Fine Dining Restaurant**
       Foodservice establishments serving high-quality foods expertly prepared and professionally served. Most food is prepared from fresh ingredients, thus typically among the most formal and often among the most expensive. Example: Lafitte, Shangri-La.

   (ii) **Specialty Restaurant**
       Restaurants that specialise in a particular cuisine or theme, for example: Overseas Chinese Restaurant, Shrooms Fusion restaurant.

   (iii) **The Brasserie**
       A small restaurant serving beer and wine as well as food; usually cheap, with limited choice of on or two dishes of the day. The service is fast and efficient. Example, coffee houses in hotels.
(iv) **Cafeteria**
An eating space with usually self-service, offering a wide choice of hot and cold food and drinks, where clients pay at the cashier. Example: Food courts.

(v) **Snack Bar**
It offers snacks any time of the day, sometimes prepared in front of customers, and food can be eaten at the counter. Example: Haagen Dazs, Bintang Walk.

(vi) **Fast Food**
Establishment that serves foods for which there is little or no waiting. Its menu is based on a few products (hamburgers, pizzas, fried chicken) with few variations. Food and drinks are served in disposable tableware, to eat in or take away (drive in). Example: McDonald’s.

(vii) **Transport Restaurants**
Provision of food and beverages to people on the move, such as in trains, flights, cruises. It may be in the form of self-service, a tray-meal, a snack bar or a selling trolley. Example: KTM.

(b) **Institutional Catering**

(i) **Staff Cafeteria**
Canteen belonging to a company with limited menu choices, usually in the form of self-service. The employees usually pay in the form of food vouchers, or the company provides the meals. Example: hotel staff cafeteria.

(ii) **Tray Catering**
Food service essentially conceived for hospitals and old folk’s home. Meals are served on the tray according to different dietary needs of the patients.

### 1.5 THE TRAVEL AND TOURISM PERSPECTIVES

#### 1.5.1 Definition

Tourism is the collective of industries providing necessary and essential services to the travelling public. These services may include: transportation,
accommodation, food and beverage operations, leisure activities and specialist shops. The trend toward time poverty is of concern to all travel suppliers.

### 1.5.2 Actors of the Segment

![Figure 1.3: Actors of the segment](image)

### 1.5.3 Travel Agent

A professional in the business of selling travel services in a travel agency. Travel agents have the expertise in advising clients about travel and in making the necessary arrangements to meet their travel needs.

A travel agent is expected to meet requirements of customers by fulfilling the following travelling needs: air tickets, hotel reservations, transportation, sightseeing, ancillary services.

A travel agent is thus an expert, knowledgeable in schedules, routing, lodging, currency, prices, regulation, destinations and other aspects of travel.

The travel agent is remunerated from the following sources:

- Commission on the sales it makes of its principal services.
- Commission earned from ancillary related services such as travel insurance and charges made for services such as travellers’ cheque.
- Income earned from short-term investment of money received from his customers as deposits and pre-payments.
- Profit from the sale of its own tours if it operates as a tour operator.
As for travel agencies, they provide both counselling as well as selling. They are the most pervasive form of travel distribution. Individual agent in the agencies can be certified just like in other professions. They also function as middlemen.

### 1.5.4 Tour Operator

Tour operator is a wholesaler that specialises in packaging tours and itineraries. Wholesalers can offer vacation packages to the travelling public at prices lower than an individual traveller can arrange because the services are bought in larger quantities at discounted prices.

The tour operator business consists primarily of planning, preparing, and marketing a vacation tour, including making reservations and consolidating transportation and ground services, into a tour assembled for a departure date to a specific destination. Tours are then sold to the public through retail outlets such as travel agents and airline ticketing office.

Typical way a tour operator works:

A tour operator decides to expand the package holidays it offers in its brochure by adding a new destination: Langkawi Island in Malaysia. A representative from the company travelled to Langkawi on a fact-finding mission.

(a) **Accommodation**
   He discusses the room rates with a hotel owner and block books a number of rooms for a specific season for 1 to 2 years.

(b) **Coach**
   He finds a local coach operator and discusses the journey from the airport to the hotel in terms of how long it would take and how much the coach operator would charge.

(c) **Sightseeing**
   He looks around the island searching for possible excursions during the daytime and activities in the evening.

(d) **Transportation**
   He reserves the necessary number of seats on charter flights throughout the following season and agrees on a certain price for the entire package.
1.5.5 Specialty Channels

Specialty intermediaries include such organisations as incentive travel firms, business meeting and convention planners, corporate travel offices, association executives, hotel representatives, travel consultants, and supplier sales offices.

These intermediaries may represent buyers/suppliers and have the power to influence how/where the travel product will be distributed. Such groups can represent either buyers or sellers, receiving either a commission or a salary from their employer.

1.5.6 Tourism Attractions

The earliest known tourist attractions were the sphinx and three great pyramids of Giza. There is no doubt that attractions are the main motivations for travel. However, as important as attractions are in motivating the tourist to travel, the attraction frequently receives the smallest portion of the tourists’ expenditure.

The opportunities for sightseeing, shopping, entertainment, gaming, culture and recreation play an important role in determining the attractiveness of a destination.

Below is an overview of attractions:

<table>
<thead>
<tr>
<th>Cultural</th>
<th>Geographical</th>
<th>Events</th>
<th>Recreation</th>
<th>Entertainment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical Sites</td>
<td>Landscape</td>
<td>Mega event</td>
<td>Sightseeing</td>
<td>Theme parks</td>
</tr>
<tr>
<td>Archaeological Sites</td>
<td>Seascapes</td>
<td>Community</td>
<td>Golf</td>
<td>Amusement</td>
</tr>
<tr>
<td>Parks</td>
<td>Mountains</td>
<td>Festivals</td>
<td>Swimming</td>
<td>Casino</td>
</tr>
<tr>
<td>Flora</td>
<td>Religious</td>
<td>Religious</td>
<td>Tennis</td>
<td>Shopping</td>
</tr>
<tr>
<td>Monuments</td>
<td>Sports</td>
<td>Events</td>
<td>Hiking</td>
<td>Facilities</td>
</tr>
<tr>
<td>Industrial Sites</td>
<td>Trade shows</td>
<td>Corporate</td>
<td>Biking</td>
<td>Arts centre</td>
</tr>
<tr>
<td>Museums</td>
<td></td>
<td></td>
<td></td>
<td>Sports</td>
</tr>
<tr>
<td>Ethnic</td>
<td></td>
<td></td>
<td></td>
<td>complexes</td>
</tr>
<tr>
<td>Concerts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Theatre</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Architecture</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FACTORS AFFECTING THE HOSPITALITY AND TOURISM INDUSTRY

The tourism industry is regarded as an important source of revenue and livelihood both globally and domestically. However, various incidents in human history have led to a fall in tourist arrivals. Incidents such as the foot and mouth disease (FMD) in several parts of the United Kingdom, the infamous terrorist attacks of September 11 in the United States and Severe Acute Respiratory Syndrome (SARS) in 2003 have significantly caused reduction in world tourism arrivals.

In general, the factors that most commonly affect the hospitality and tourism industry are as follows:

- Changes in destination: growth and decline
- Customer types: more market segmentation
- Length of stay: a more flexible industry
- Variety of things to do: adventure, sport, activities, etc.
- Political aspects: “war of terror”, safety and health
- Technological: growth of e-commerce and new transportation

1.6.1 Changes in Destination

The choice of places visited by tourists for holidays or leisure has changed over time. This is due to the fact that some destinations have become unfashionable while others fall into decline as a result of unpopularity and underinvestment. The changes of society have created new destinations through proper planning and support by various parties. For example, the rise of ecologically friendly conscientiousness among tourists has encouraged the development of ecotourism globally.

1.6.2 Customer Types

Tourism marketers adopted a greater use of market segmentation in the industry and this has led to the focus of more varied customer groups. The groups are sub-divided into:

- Leisure travellers
- Business travellers
- Independent travellers
- Age-specific groups
- Package holidaymakers
1.6.3 Length of Stay

The evolution of customer’s demand where flexibility is constantly demanded has caused the tourism industry to become more responsive towards this expectation. Customers are more into choosing shorter breaks especially during the weekends. In fact, there are more and more ‘serial holidaymakers’ who take multiple breaks within a short period of time.

In addition, more firms are adopting flexible working patterns and this has enabled employees to have long holidays in their career breaks.

1.6.4 Variety of Things to Do

Changes in social factors such as demographic changes and trends towards healthier lifestyles have encouraged:

- Extreme and risk sport holidays
- Adventure holidays
- Leisure and activity-related breaks

1.6.5 Political Aspects

(a) War on Terror
Recent rise on terrorism attacks have caused security concerns over travel created serious impact on the tourism industry which has eventually led to:

- Demise of certain destinations
- Increased business failures
- Loss of expected growth in other destinations

(b) Security and Safety
- Airport security seen as priority in order to attract more investment.
- Expense of technological solutions to detect terrorists.

(c) Health
New epidemics have significantly affected travel and tourism industry. Examples of previous well-known epidemics are:

- SARS which had a severe impact on Asia and Australasia.
- Effect of foot and mouth disease on tourism in the United Kingdom.
1.6.6 Technological Change

(a) New Transportation
With the invention of new transportation systems, the development of the tourism and hospitality industry has continued to increase since the turn of the new millennium. Examples of new transportation methods include:

- Super ferries and cruise ships
- New land bridges
- Space tourism

(b) E-commerce
Continue growth of e-commerce with online booking and purchasing. It is estimated that there is a 5 percent of global population online currently.

**SUMMARY**

- This course provides an interdisciplinary introduction to the concepts, methods and practices of leisure, recreation and tourism studies.
- It includes an introduction to the tourism industry, the effects of tourism on society, and current developments in the field.
Organisations need managers regardless of their type, size and location. The concepts of manager, management and organisations are explored in this topic.

2.1.1 Managers

A manager is an organisational member who works with and through other people by coordinating their work activities in order to accomplish
organisational goals. The changing nature of hospitality and tourism related organisations resulted in high level of professionalism among staff at all levels and it has blurred the distinction between managers and non-managerial staff.

In traditionally structured organisations, managers can be classified by their level. First-line managers are often called supervisors and are in the basic level of management. Middle managers comprise of all levels of management between first-line level and top level of management of the organisation. Top level managers are responsible for making organisation wide decisions and establishing the plans and goals that affect the entire organisation.

### 2.1.2 Management

Management is a process, which refers to the functions and ongoing activities of the managers. It is a process of coordinating and integrating work activities so that they are completed efficiently and effectively with and through other people. Managers’ job scope differs from non-managerial staff in coordinating other’s work activities efficiently and effectively.

Efficiency refers to getting the most output from the least amount of inputs, the goal of which is to minimise resource costs.

Effectiveness is completing activities so that organisational goals are attained, often described as ‘doing the right things’.

### 2.1.3 Functions of Managers

Functions of managers can be categorised into five schemes: functions and processes; roles; skills; managing systems; and situational analysis and are discussed below:

(a) **Management Functions and Processes**

According to Henri Fayol (a French Industrialist from the early part of the 1900s), managers plan, organise, command, coordinate and control (POCCC). These are the basic functions around which most of the management topics are discussed.

- Planning involves the process of defining goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities.
- Organising is the process of determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made.

- Leading involves motivating subordinates, influencing individuals or teams as they work, selecting the most effective communication channel, or dealing in any way with employee behaviour issues.

- Coordinating is ensuring that the resources and activities of the organisation work together to achieve the desired goals.

- Controlling is monitoring activities to ensure that they are being accomplished, comparing performance with previously set goals, and correcting any significant deviations.

In general, the management process is the set of ongoing decisions and work activities in which managers indulge when they plan, organise, lead, coordinate and control.

(b) Management Roles
A study conducted by Henry Mintzberg concluded that managers perform ten different, but highly interrelated roles. The different roles can be categorised into four schemes as management role, interpersonal role, informational role, and decision role. Management roles refer to specific categories of managerial behaviour. Interpersonal roles include figurehead, leadership, and liaison activities. Informational roles include monitoring, disseminating, and spokesperson activities. Decisional roles include those of entrepreneur, disturbance handler, resource allocator, and negotiator.

(c) Management Skills
Managers need specific skills to perform the variety of duties and activities associated with being a manager. In the early 1970s, Robert L. Katz found through his research that managers need three essential skills or competencies and are technical skills, human skills and conceptual skills.

Technical skills are skills that include knowledge of and proficiency in a certain specialised field; Human skills include the ability to work well with other people both individually and in a group; and Conceptual skills include the ability to think and to conceptualise abstract and complex situations, to see the organisation as a whole, and to understand the relationships among the various subunits, and to visualise how the organisation fits into its broader environment.
2.1.4 Changing Job Scope of Managers

There are measurable impacts on management due to significant changes both within and beyond the organisation. Events of 9/11, corporate ethics scandals, global economic and political uncertainties, and technological advancements need to be. While most managers will not have to manage under such terrible conditions such as 9/11, the fact is that how managers manage is changing. Changes that appear to be having a significant impact on managers’ jobs are Globalisation, Customer Focus, Technology and Innovation.

2.1.5 Concept of Organisations

Organisations need managers. An organisation is a deliberate arrangement of people to accomplish some specific purpose. The three common characteristics of organisations are distinct purpose, composition of people, and development of deliberate structures to enable people to work. The concept of organisations is evolving even with these common characteristics. Organisations are changing because the world around them has changed and is continuing to change. These societal, economic, global, and technological changes have created an environment in which successful organisations must embrace new ways of getting their work done. Some of the differences between traditional and new organisations include: flexible work arrangements, employee work teams, open communication systems and supplier alliances. Organisations are becoming more open, flexible, and responsive to changes.

2.1.6 Importance of Management

Management is important for organisations. People interact with organisations every day of their lives. Every product in use and every action people take is provided or affected by organisations. These organisations require managers. Organisations that are well managed develop a loyal customer base, grow, and prosper. By studying management, a person will be able to recognise good management and encourage it, as well as to recognise poor management and work to get it corrected.
2.2 HISTORICAL BACKGROUND AND CURRENT TRENDS OF MANAGEMENT

The historical examples of management are the Egyptian pyramids and the Great Wall of China. They are good examples of projects of tremendous scope and magnitude that employed tens of thousands of people. Regardless of what managers were called at the time, someone had to plan what was to be done, organise people and material, lead and direct the workers, and impose controls to ensure that things were done as planned. The Industrial Revolution can be thought of as possibly the most important pre-twentieth-century influence on management. The introduction of machine powers, combined with the division of labour, made large, efficient factories possible. Planning, organising, leading, and controlling became necessary. There are six major approaches (major management theories) to Management and are Scientific Management, General Administrative, Quantitative Approach, Organisational Behaviour, Systems Approach and Contingency Approach.

2.2.1 Scientific Management

Scientific management is defined as the use of the scientific method to define the one best way” for a job to be done.

(a) Frederick W. Taylor
Frederick W. Taylor is known as the “father” of scientific management. Taylor’s work at the Midvale and Bethlehem Steel companies motivated his interest in improving efficiency.

Taylor sought to create a mental revolution among both workers and managers by defining clear guidelines for improving production efficiency. He defined four principles of management and they are:

- Scientifically select and then train, teach and develop the worker.
- Heartily co-operate with workers so as to ensure that all work is done in accordance with the principles of the science that has been developed.
- Divide work and responsibility almost equally between management and workers.
- Management takes over all work for which it is better fitted than the workers.

Using his principles of scientific management, Taylor was able to define the one best way for doing each job. Overall, Taylor achieved consistent improvements in productivity in the range of 200 percent. He affirmed the
role of managers to plan and control and of workers to perform as they were instructed.

(b) **Frank and Lillian Gilbreth**
Frank and Lillian Gilbreth were inspired by Taylor’s work and went on to study and develop their own methods of scientific management. Frank Gilbreth is probably best known for his experiments in reducing the number of motions in bricklaying. The Gilbreths were among the first to use motion picture films to study hand and body motions in order to eliminate the wasteful ones. They also devised a classification scheme to label 17 basic hand motions called therbligs.

The elements of scientific management used widely in management are: The use of time and motion studies; best qualified workers; and design incentive systems based on output.

### 2.2.2 General Administrative Theory

The ‘General Administrative Theory’ is a theory of management that focused on describing what managers do and what constitutes good management practice. This theory is based on the theories of Henri Fayol and Max Weber.

(a) **Henri Fayol**
Henri Fayol wrote during the same time period as Frederick Taylor. Fayol was the managing director of a large French coal-mining firm. His attention was aimed at the activities of all managers. He described the practice of management as distinct from other typical business functions. He stated 14 principles of management (fundamental or universal truths of management that can be taught in schools) and they are Division of Work, Authority, Discipline, Unity of Command, Unity of Direction, Subordination of Individual Interests to the General Interest, Remuneration, Centralisation, Scalar Chain, Order, Equity, Stability of Tenure of Personnel, Initiative, and Esprit de Corps.

(b) **Max Weber**
Max Weber (pronounced VAY-ber) was a German sociologist who wrote in the early part of the 20th century. He developed a theory of authority structures and described organisational activity based on authority relations. He described the ideal form of organisation – the bureaucracy, defined as a form of organisation marked by division of labour, a clearly defined hierarchy, formal selection of employees, detailed rules and regulations, impersonal relationships and career orientation.
2.2.3 Quantitative Approach to Management

The quantitative approach to management involves the use of quantitative techniques to improve decision-making. This approach has been called operations research or management science. It includes applications of statistics, optimisation models, information models, and computer simulations. The quantitative approach evolved out of the development of mathematical and statistical solutions to military problems during World War II. One group of military officers – the Whiz Kids – included Robert McNamara and Charles “Tex” Thornton. This approach has contributed most directly to managerial decision making, particularly in planning and controlling.

2.2.4 Organisational Behaviour

The field of study concerned with the actions (behaviours) of people at work is called organisational behaviour. Organisational behaviour (OB) research has contributed a lot to human resources management and contemporary views of motivation, leadership, trust, teamwork, and conflict management. Four people stand out as early advocates of the OB approach. These include Robert Owen, Hugo Munsterberg, Mary Parker Follett, and Chester Barnard. Their ideas provided foundation for practices such as employee selection procedures, motivation programs, work teams, and organisation-environment management techniques.

The Hawthorne Studies
These studies were, without question, the most important contribution to the developing OB field. These were a series of experiments conducted from 1924 to the early 1930s at Western Electric Company’s Hawthorne Works in Cicero, Illinois joined by Harvard professor Elton Mayo and his associates. The studies were initially devised as a scientific management experiment to assess the impact of changes in various physical environment variables on employee productivity. Other experiments looked at redesigning jobs, making changes in workday and workweek length, introducing rest periods, and introducing individual versus group wage plans. The researchers concluded that social norms or group standards were the key determinants of individual work behaviour. Although not without critics (of procedures, analyses of findings, and the conclusions), the Hawthorne studies did stimulate an interest in human behaviour in organisations.

The behaviour approach aids managers in designing motivating jobs, working with employee teams, and opening up communication channels. The behavioural
approach has provided the foundation for current theories of motivation, leadership, group behaviour and development, and other behavioural topics.

2.2.5 The Systems Approach

During the 1960’s researches began to analyse organisations from a systems perspective based on the physical sciences. A system is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. The two basic types of systems are open and closed. A closed system is one that is not influenced by and does not interact with its environment. An open system is one that dynamically interacts with its environment.

The Systems Approach and Managers Organisation is made up of “interdependent factors, including individuals, groups, attitudes, motives, formal structure, interactions, goals, status and authority. Managers coordinate the work activities of the various parts of the organisation. Decisions and actions taken in one organisational area will affect others and vice versa. Organisations are not self-contained. They rely on their environment.

2.2.6 The Contingency Approach

This is a management approach that says organisations are different, face different situations (contingencies) and require different ways of managing. A contingency approach is intuitively logical because organisations and even units within the same organisation are diverse in size, goals, work activities, and the like.

The contingency approach to management is a view that the organisation recognises and responds to situational variables as they arise. Some popular contingency variables are size of the organisation, routine of task technology, environmental uncertainty, and individual differences.

2.2.7 Current Trends and Issues

(a) Globalisation

Organisational operations no longer stop at geographic borders. Managers in all types and sizes of organisations are faced with the opportunities and challenges of globalisation.
(b) Ethics
Cases of corporate lying, misrepresentations, and financial manipulations are common nowadays. While most managers continue to behave in a highly ethical manner, the abuses suggest a need to “upgrade” ethical standards. Ethics education is being widely emphasised in college curriculum. Organisations are taking a more active role in creating and using codes of ethics, ethics training programs, and hiring ethics officers.

(c) Workforce Diversity
It refers to employees in organisations who are heterogeneous in terms of gender, race, ethnicity, or other characteristics. The challenge for managers is to make their organisations more accommodating to diverse groups of people by addressing different lifestyles, family needs, and work styles. Workforce diversity is a global issue. Challenge for managers is to make organisations more accommodating to diverse groups of people by addressing different lifestyles, family needs, and work styles. Smart managers recognise diversity as an asset in bringing a broad range of viewpoints and problem-solving skills to a company.

(d) Entrepreneurship
It refers to the process whereby an individual or a group of individuals uses organised efforts and means to pursue opportunities to create value and grow by fulfilling wants and needs through innovation and uniqueness. The three important themes stands out in this definition are: the pursuit of opportunities; innovation; and growth. Entrepreneurship will continue to be important to societies around the world.

2.2.8 Managing in an E-business World

E-business (electronic business) is a comprehensive term describing the way an organisation does its work by using electronic (Internet-based) linkages with key constituencies in order to efficiently and effectively achieve its goals. While critics have questioned the viability of Internet-based companies (dot-coms) after the high-tech implosion in 2000 and 2001, e-business is here for the long-run. E-commerce (electronic commerce) is any form of business exchange or transaction in which the parties interact electronically. E-commerce had made a big impact in the hospitality industry in revenue generation.

The following are the categories of e-business involvement:

- E-business enhanced organisation – uses the Internet to enhance (not to replace) their traditional ways of doing business.
• E-business enabled organisation – Internet enables organisational members to carry out work more efficiently and effectively.

• Total e-business organisation – whole existence is made possible by and revolves around the Internet.

2.2.9 Knowledge Management

Knowledge management involves cultivating a learning culture where organisational members systematically gather knowledge and share it with others in the organisation so as to achieve better performance.

2.2.10 Learning Organisations

Change is a constant in the business environment. In order to manage change and be successful, organisations need to be learning organisations. Learning organisations develop the capacity to continuously learn, adapt, and change.

2.2.11 Quality Management

Total quality management (TQM) is a philosophy of management that is driven by customer needs and expectations and focuses on continual improvement in work processes. The objective of TQM is to create an organisation committed to continuous improvement. TQM represents a counterpoint to earlier management theorists who believed that low costs were the only road to increased productivity. TQM was inspired by a small group of quality experts, of whom W. Edwards Deming was one of the chief proponents.

2.3 ORGANISATIONAL CULTURE AND THE ENVIRONMENT

2.3.1 Introduction

Organisational culture and organisational environments are the two dominant elements that will influence both the way an organisation is managed as well as its effectiveness. This topic explores both organisational culture and organisational environment in order to understand the complexities involved with each.
2.3.2 Omnipotent and Symbolic Manager

The two positions on the role that managers play in an organisation’s success or failure are discussed here.

(a) **The Omnipotent View**
This view of management discusses that managers are directly responsible for the success or failure of an organisation. This view of managers as omnipotent is consistent with the stereotypical picture of the take charge executive who can overcome any obstacle in carrying out the organisation’s objectives. When organisations perform poorly, someone must be held accountable. According to this view, the “someone” refers to the management.

(b) **The Symbolic View**
This view of management takes the view that much of an organisation’s success or failure is due to external forces outside managers’ control. Organisational results are influenced by factors outside the control of managers such as economy, market changes, governmental policies, competitors’ actions, the state of the particular industry, the control of proprietary technology, and decisions made by previous manager in the organisation. The manager’s role is seen as creating meaning out of randomness, confusion, and ambiguity. According to the symbolic view, the actual part that management plays in the success or failure of an organisation is minimal.

In general, managers operate within constraints imposed by the organisation’s culture and environment.

2.3.3 The Organisation’s Culture

An organisation’s personality is its culture. Organisational culture is a system of shared meaning and beliefs within an organisation that determines, in large degree, how employees act. This definition implies: Individuals perceive the organisational culture on the basis of what they see, hear, or experience within the organisation. Organisational culture is shared by individuals within the organisation. Organisational culture is a descriptive term. It describes rather than evaluates.

Seven dimensions of an organisation’s culture are given below:

(i) Innovation and risk taking (the degree to which employees are encouraged to be innovative and take risks)
(ii) Attention to detail (the degree to which employees are expected to exhibit precision, analysis, and attention to detail)

(iii) Outcome orientation (the degree to which managers focus on results or outcomes rather than on the techniques and processes used to achieve those outcomes)

(iv) People orientation (the degree to which management decisions take into consideration the effect on people within the organisation)

(v) Team orientation (the degree to which work activities are organised around teams rather than individuals)

(vi) Aggressiveness (the degree to which people are aggressive and competitive rather than easygoing and cooperative)

(vii) Stability (the degree to which organisational activities emphasise maintaining the status quo in contrast to growth)

2.3.4 Strong versus Weak Cultures

Strong cultures are possessed by those organisations in which the key values are intensely held and widely shared. Whether an organisation’s culture is strong, weak, or somewhere in between will depend on organisational factors such as size, age, employee turnover rate, and intensity of original culture. A culture will have increasing impact on what managers do as it becomes stronger. Most organisations have moderate to strong cultures. There’s high agreement on what’s important, what defines “good” employee behaviour, and so forth. Studies of organisational culture have shown various results. One found that employees in firms with strong cultures were more committed to their firm than employees in firms with weak cultures.

Organisations with strong cultures also used their recruitment efforts and socialisation practices to build employee commitment. And an increasing body of research suggests that strong cultures are associated with high organisational performance. The original source of an organisation’s culture is usually a reflection of the vision or mission of the organisation’s founders. It results from the interaction between the founders’ biases and assumptions and what the first employees subsequently learned from their own experiences.

Once a culture is in place, practices help maintain it. Hiring practices reflect the culture in terms of fit. Employees adapt to an organisation’s culture through socialisation where new employees learn the organisation’s way of doing things.
2.3.5 Culture and Managers

Organisational culture establishes constraints on what managers can and cannot do. The link between corporate values and managerial behaviour is fairly straightforward. The culture conveys to managers what is appropriate behaviour. An organisation’s culture, particularly a strong one, constrains a manager’s decision-making options in all managerial functions.

Four current cultural issues managers should consider:

(a) **Creating an Ethical Culture**
Content and strength of an organisation’s culture influence its ethical climate and ethical behaviour of its members. Strong organisational culture will exert more influence on employees than a weak one. An organisational culture most likely to shape high ethical standards is one that’s big in risk tolerance, low to moderate in aggressiveness, and focuses on means as well as outcomes.

(b) **Creating an Innovative Culture**
Swedish researcher Goran Ekvall provides the characteristics of innovative culture as: Challenge and involvement; Freedom; Trust and openness; Idea time; Playfulness/humour; Conflict resolution; Debates; and Risk-taking.

(c) **Creating a Customer-responsive Culture**
Research shows the following six characteristics that are routinely present in customer responsive culture: type of employee; a few rigid rules, procedures, and regulations; widespread use of empowerment; good listening skills; and role clarity employees who are conscientious in desire to please customers.

(d) **Spirituality and Organisational Culture**
Workplace spirituality is the recognition that people have an inner life that nourishes and is nourished by meaningful work that takes place in the context of community. The five cultural characteristics evident in spiritual organisations are: strong sense of purposes; focus on individual development; trust and openness; employee empowerment; and toleration of employee expression.

2.3.6 The Environment

The environment is defined as outside institutions and forces outside the organisation that potentially affect an organisation’s performance. The impact of
the external environment on a manager’s actions and behaviours are tremendous. There are forces in the environment that play a major role in shaping managers’ endeavours.

(a) **The Specific Environment**

It is the part of the environment that includes the constituencies that are directly relevant to the achievement of an organisation’s goals. The specific environment is unique and changes with conditions. It also varies depending on the niche the organisation serves with respect to the range of products or services it offers and the markets it serves. The main constituencies include customers, suppliers, competitors, and pressure groups. Suppliers include firms that provide materials and equipment as well as providers of financial and labour inputs. Managers seek to ensure a steady flow of the needed materials, equipment, financial, and labour inputs at the lowest possible price. Customers are the reasons that organisations exist, as they absorb the outputs. They obviously represent potential uncertainty, particularly if their tastes and desires change. Competitors cannot be ignored. They’re an important environmental force to monitor and respond to. Most organisations have one or more competitors. Pressure groups also cannot be ignored by managers. Changes in social and political movements influence the power that these pressure groups have on organisations.

(b) **The General Environment**

It includes the broad economic, political/legal, socio-cultural, demographic, technological, and global conditions. Economic conditions include interest rates, inflation rates, and changes in disposable income, stock market fluctuations, and the general business cycle, among other things. Political/legal conditions include the general political stability of countries in which an organisation does business and the specific attitudes that elected officials have toward business. Federal, state, and local governments can influence what organisations can and cannot do. Socio-cultural conditions include the changing expectations of society. Societal values, customs, and tastes can change, and managers must be aware of these changes. Demographic conditions, including physical characteristics of a population, such as gender, age, level of education, geographic location, income and family composition, can change, and managers must adapt to these changes. Technological conditions include the changes that are occurring in technology. Global factors include global competitors and global consumer markets.
2.3.7 Environment and Managers

Environments differ in the amount of environmental uncertainty, which is defined as the degree of change and complexity in an organisation’s environment. Degree of change is measured as dynamic or complex. If the components in an organisation’s environment change frequently, it’s a dynamic environment. If change is minimal, the environment is called a stable one. The other dimension of uncertainty relates to the degree of environmental complexity, which is defined as the number of components in an organisation’s environment and the extent of an organisation’s knowledge about its environmental components. If the number of components is minimal and there’s minimal need for sophisticated knowledge, the environment is classified as simple. If there are a number of components, they are not similar, and there is a high need for sophisticated knowledge, the environment is complex. Because uncertainty is a threat to organisational effectiveness, managers try to minimise it.

The more obvious and secure an organisation’s relationships become with external stakeholders, the more influence managers will have over organisational controls. Stakeholders are any constituencies in the organisation’s external environment that are affected by, or have a vested interest in, the organisation’s decisions and actions. Stakeholder relationship management is important for two reasons:

- It can lead to improved predictability of environmental changes, more successful innovation, greater degrees of trust, and greater organisational flexibility to reduce the impact of change.
- Because organisations are dependent on external stakeholders as sources of inputs and outlets for outputs and should be considered when making and implementing decisions.

Stakeholder relationships can be managed using the following four steps:

(i) Identify external stakeholders
(ii) Determine the specific interests of each stakeholder group
(iii) Decide how critical these interests are to the organisation
(iv) Determine what specific approach managers should use to manage each relationship based on criticalness of stakeholder and environmental uncertainty.
2.4 GOING GLOBAL IN MANAGEMENT

This topic explores the opportunities and challenges managers face in managing in a global environment. Managers in all types and sizes of organisations must be prepared to monitor changes in the global environment.

2.4.1 Global Perspective

The three perspectives or attitudes managers should have towards international business are discussed below:

(a) **Ethnocentric Attitude**: It is the parochialistic belief that the best work approaches and practices are those of the home country (the country in which the company’s headquarters are located). Parochialism is defined as a selfish, narrow view of the world and an inability to recognise differences between people.

(b) **Polycentric Attitude**: It is the view that the managers in the host country (the foreign country where the organisation is doing business) know the best work approaches and practices for running their business.

(c) **Geocentric Attitude**: It is a world-oriented view that focuses on using the best approaches and people from around the globe.

To be successful in the global environment, a manager needs to be sensitive to differences in national customs and practices.

2.4.2 Understanding the Global Environment

The two important features of the global environment are regional trading alliances and the different types of global organisations.

(a) **Regional Trading Alliances**: Regional trading alliances are reshaping global competition. It’s no longer country versus country, but region against region. The European Union (EU) is a union of 25 European nations created to eliminate national barriers to travel around Europe, employment, investment, and trade. The primary motivation for the creation of the EU (in February 1992) was to allow these nations to reassert their position against the industrial strength of the United States and Japan. The North American Free Trade Agreement (NAFTA) is an agreement among the Mexican, Canadian, and U.S. governments in which all barriers to free trade will eventually be eliminated. NAFTA went into effect on January 1, 1994. The Association of Southeast Asian Nations (ASEAN) is a trading alliance of 10 Asian nations. In the future, the Asian region promises to be one of
the fastest-growing economic regions of the world. The economic impact could eventually rival that of both NAFTA and the EU.

(b) **Other Trade Alliances**: African Union involving 53 nations came into existence in July 2002. Members plan to achieve greater economic development and unity among Africa’s nations. The World Trade Organisation (WTO) was formed in 1995 evolving from a global organisation dealing with the rules of trade among nations. WTO appears to play an important role even though there are vocal critics.

### 2.4.3 Doing Business Globally

The different types of global organisations are discussed here:

- A multinational corporation (MNC) is a company that maintains significant operations in multiple countries simultaneously but manages them all from one base in a home country. It reflects the ethnocentric attitude.

- A transnational corporation (TNC) is a company that maintains significant operations in more than one country simultaneously, but decentralises management to the local country. It reflects the polycentric attitude.

- Another type of global organisation is the borderless organisation that is a global type of organisation in which artificial geographical barriers are eliminated so that the management structure can be more effectively globalised. It reflects the geocentric attitude.

Organisations evolve into global nature by going through three stages and the stages are:

- Stage 1 is a passive response stage, which involves exporting products to other countries or importing products to sell at home.

- Stage 2 involves managers making more of an investment by committing to sell products in foreign countries or to having them made in foreign factories. However, there is still no physical presence of company employees outside the company’s home country.

- Stage 3 involves establishing global operations either through licensing/franchising, joint ventures, strategic alliances, or foreign subsidiaries.

### 2.4.4 Managing in a Global Environment

The challenges associated with managing organisations in the global environment are highlighted here:
(a) **The Legal-political Environment**

The legal-political environment does not have to be unstable or revolutionary to be a challenge to managers. The fact that a country’s political system is different from the other is important to recognise and it is a principal challenge for managers operating globally.

(b) **The Economic Environment**

The economic environment also presents many challenges to foreign based managers. Obviously, currency rate fluctuations, inflation, and diverse tax policies are economic challenges to managers. Market economy is where resources are primarily owned by the private sector and command economy is where all economic decisions are planned by a central government.

(c) **The Cultural Environment**

The cultural environment involves cultural differences between nations. National culture is the values and attitudes shared by individuals from a specific country that shape their behaviour and their beliefs about what is important. A framework developed by Geert Hofstede has proved to be a valuable framework for understanding differences between national cultures and is briefed below:

(i) One cultural dimension Hofstede looked at was individualism versus collectivism. Individualism refers to a loosely knit social framework in which people are supposed to look after their own interests and those of their immediate family. In collectivism, people in a tighter social framework expect others in groups of which they are a part (such as a family or an organisation) to look after them and protect them when they are in trouble.

(ii) Another cultural dimension is power distance, which describes the extent to which a society accepts the fact that power in institutions and organisations is distributed unequally.

(iii) Uncertainty avoidance describes a cultural measure of the degree to which people tolerate risk and unconventional behaviour.

(iv) Hofstede identified attributes of quantity versus quality of life. Quantity of life refers to the extent to which societal values are characterised by assertiveness and materialism. Quality of life reflects the emphasis placed on relationships and showing sensitivity and concern for the welfare of others.

(v) Long-term and short-term orientation. Hofstede’s final cultural attribute. Long-term orientation cultures are characterised by looking
to the future and valuing thrift and persistence. Short-term orientation values the past and present and respect for tradition.

(vi) Countries have different rankings on Hofstede’s cultural dimensions, and managers should be aware of the cultural differences present in countries in which they do business.

(vii) The GLOBE Framework for Assessing Cultures is an updated assessment on Hofstede’s work.

Global Leadership and Organisational Behaviour Effectiveness began in 1993 and it identified nine dimensions on which national cultures differ. They are Assertiveness, Future orientation, Gender differentiation, Uncertainty avoidance, Power distance, Individualism/collectivism, In-group collectivism, Performance orientation, and humane orientation.

2.4.5 Global Management Today

Uncertainty after 9/11 has had a profound impact on business. Managers face serious challenges arising from globalisation and from significant cultural differences. Intense underlying and fundamental cultural differences create a very complicated environment in which to manage. Successful global managers will have incredible sensitivity and understanding. Need to adjust leadership styles and management approaches to accommodate culturally diverse views.

2.5 SOCIAL RESPONSIBILITY AND ETHICS IN MANAGEMENT

Social responsibility and ethics are responses to a changing environment and are influenced by organisational culture. Further, both are important to managerial decision-making. This topic discusses issues involved with social responsibility and managerial ethics.

2.5.1 Social Responsibility

 Managers regularly face decisions that have a dimension of social responsibility. The more obvious examples include: employee relations, philanthropy, pricing, resource conservation, product quality, and doing business in countries that violate human rights.

Social obligation is the obligation of a business to meet its economic and legal responsibilities. Social responsiveness refers to the capacity of a firm to adapt to
changing societal conditions. Social responsibility is defined as a business’s obligation, beyond that required by law and economics, to pursue long-term goals that are good for society.

2.5.2 Views of Social Responsibility

The classical view: It is the view that management’s only social responsibility is to maximise profits. Milton Friedman is the most outspoken advocate of this view. He argues that managers’ primary responsibility is to operate the business in the best interests of the stockholders, the true owners of the organisation.

The socioeconomic view is the view that management’s social responsibility goes beyond the making of profits to include protecting and improving society’s welfare. The argument behind this view is that corporations are not independent entities responsible only to stockholders. Also, modern organisations are no longer just economic institutions. Society expects businesses to become involved in social, political and legal issues.

2.5.3 Social Responsibility and Economic Performance

The majority of studies found a positive relationship between social involvement and economic performance. Another way of looking at this issue is by evaluating socially conscious mutual stock funds. These mutual funds provide a way for individual investors to support socially responsible companies. These funds typically use social screening – applying social criteria (screens) to investment decisions. Many of these funds have outperformed the market average over the last five years, but they are vulnerable to the market ups and downs. The conclusion is that there is little evidence to say that a company’s socially responsible actions will hurt an organisation’s long-term economic performance.

2.5.4 The Greening of Management

A number of highly visible ecological problems and environmental disasters have brought about a new spirit of environmentalism. Recognising the close link between an organisation’s decisions and activities and its impact on the natural environment is called the greening of management.

(a) Global environmental problems consist of a long list of issues including: natural resource depletion, global warming, pollution, accidents, and toxic wastes.
(b) Organisations go green through several approaches such as legal, market, stakeholder, or activist approach.

2.5.5 Values-based Management

Values-based management is an approach to managing in which managers establish, promote, and practice an organisation’s shared values. Shared Values act as guideposts for managerial decisions and actions. They also serve to shape employee behaviour and to communicate what the organisation expects of its members. The shared corporate values also can influence the organisation’s marketing efforts. Finally, shared values are a way to build team spirit in organisations.

2.5.6 Managerial Ethics

Four views of ethics are discussed below:

- Utilitarian view of ethics says that ethical decisions are made solely on the basis of their outcomes or consequences.
- Rights view of ethics is concerned with respecting and protecting individual liberties and privileges such as the rights to privacy, free speech and due process.
- Theory of justice view of ethics is where managers impose and enforce rules fairly and impartially and do so by following all legal rules and regulations.
- Integrative social contracts theory proposes that ethical decisions be based on existing ethical norms in industries and communities in determining what constitutes right and wrong.

2.5.7 Factors that Affect Employee Ethics

(a) There are three levels of moral development. Each level has two stages

(i) First level is pre-conventional. Person’s choice based on personal consequences involved.
(ii) Conventional level indicates that moral values reside in maintaining expected standards.
(iii) Principled level has individuals make a clear effort to define moral principles apart for the authority of the groups to which individuals belong.
(b) Individual characteristics are another factor that influences ethical behaviour

(i) Our values are our basic convictions about what is right and wrong.

(ii) Ego strength is a personality measure of the strength of a person’s convictions. Individuals high in ego strength are likely to resist impulses to act unethically and instead do what they think is right.

(iii) Finally, locus of control refers to a personality attribute that measures the degree to which people believe they control their own fate. Externals are less likely to take personal responsibility for the consequences of their behaviour and are more likely to rely on external forces.

(c) The third factor that influences managerial ethics is structural variables

The existence of formal rules and regulations, job descriptions, written codes of ethics, performance appraisal systems, and reward systems can strongly influence ethical behaviour.

(d) The organisation’s culture is another factor that influences ethical behaviour

An organisational culture most likely to encourage high ethical standards is one that’s high in risk tolerance, control, and conflict tolerance. In addition, a strong culture will exert more influence on managers than a weak one. However, in organisations with weak cultures, work groups and departmental standards will strongly influence ethical behaviour. Finally, the intensity of an issue can affect ethical decisions.

There are six characteristics that determine issue intensity:

- Greatness of harm;
- Consensus of wrong;
- Probability of harm;
- Immediacy of consequences;
- Proximity to victim; and
- Concentration of effect.

2.5.8 Ethics in an International Context

Social and cultural differences between countries are important environmental factors that determine ethical and unethical behaviour. There are a number of
things organisations can do to cultivate ethical behaviour among members. Eight suggestions will be explored.

- The selection process for bringing new employees into organisations should be viewed as an opportunity to learn about an individual’s level of moral development, personal values, ego strength, and locus of control.

- A code of ethics is a formal statement of an organisation’s primary values and the ethical rules it expects employees to follow. Also, decision rules can be developed to guide managers in handling ethical dilemmas in decision-making.

- Top management’s leadership and commitment to ethical behaviour is extremely important because it’s the top managers who set the cultural tone.

- Employees’ job goals should be tangible and realistic, because when goals are clear and realistic, they reduce ambiguity and motivate rather than punish.

- Job goals are usually a key issue in performance appraisal.

- If an organisation wants it employees to uphold high ethical standards, it must include this dimension in its appraisal process. Performance appraisals should be comprehensive and not just focus on economic outcomes.

- Ethics training should be used to help teach ethical problem solving and to present simulations of ethical situations that might arise. If it does nothing else, ethics training should increase awareness of ethical issues.

- Independent social audits evaluate decisions and management practices in terms of the organisation’s code of ethics and can be used to deter unethical behaviour.

- Finally, organisations can provide formal protective mechanisms so that employees with ethical dilemmas can do something about them without fear of reprisal.

2.5.9 Social Responsibility and Ethics Today

Many instances of questionable corporate principles and practices have been reported. Managers must focus on three issues of Ethical Leadership. The best thing managers can do is to be a good role model, share their values, and use the reward system to hold employees accountable. Managers must assure employees who raise ethical concerns that they will not encounter personal or career risks. These individuals are called whistleblowers.
This guide explored the concepts of organisations, managers, and management as a start.

The six major approaches (major management theories) to Management were discussed in detail followed by the current trends such as Globalisation, Ethics, Workforce, diversity, etc. Then it set out to discuss both the organisational culture and the organisational environment.

The opportunities and challenges managers face in managing in a global environment and issues involved with social responsibility and managerial ethics were discussed in the last two topics.
Topic 3  Hospitality and Tourism Marketing Management

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Recognise the principles of marketing and marketing mix;
2. Analyse the macro and micro market environment;
3. Explain market segmentation and its relation to positioning; and
4. Perform marketing mix analysis.

3.1 INTRODUCTION TO SALES AND MARKETING

In today’s businesses, everybody wants to achieve high profit level. In order to achieve high profit levels, we must firstly need to have customers. Customers bring in sales and through repeat purchase from these customers only we can have long term profits. Marketing basically helps businesses to achieve this. Marketing helps to identify potential customers, creating a product service that will motivate purchase and satisfy customers’ needs.
3.1.1 Definition of Marketing

There is no exact definition for marketing but here are some definitions quoted by marketing experts.

“Marketing is the management process which identifies, anticipates, and supplies customer requirements efficiently and profitably”

**Source:** Chartered Institute of Marketing (CIM)

“Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others”


3.1.2 Importance of Marketing

The hospitality industry is one of the major industries in the Malaysia because it supports the growth of tourism industry. In addition, this industry also provides job opportunities for the people. Due to the availability of more and more hospitality establishments, the competition is getting more intense. This is especially visible with the industry being dominated by international hotel chains. In order to sustain in the marketplace, aggressive marketing skills are needed to win customers.

Marketing is more than just advertising and selling. Marketing consists of a set of marketing mix elements such as product, price, place/distribution and promotion. Marketing also includes planning, research, and information system. All these will assist marketers to make decisions about the overall strategies for the business. If marketers come up with effective marketing strategies, it will result with attractive products and satisfied customers.

Marketing is a philosophy needed by all managers. Marketing is a long-term strategy whereby companies generate new customers and maintain existing customers through its marketing mix (product, price, place, promotion) and at the same time keeping customers satisfied. In short, the following are some importances of marketing:

- Develop new customers
- Maintain existing customers
- Keeping customers satisfied
- Maintain customer loyalty
3.1.3 Definition of Marketing Concept

To understand marketing better, we will look into the concept of marketing. The marketing concept holds that the key to achieving organisational goals consists of determining the needs and wants of target markets and delivering the desired satisfactions more effectively than competitors. It starts with a well-defined market, focuses on customer needs, coordinates all the activities that will affect customers, and produces profits by satisfying customers.

3.1.4 The Elements of Core Marketing Concept

Figure 3.1 shows the elements of core marketing concept.

(a) Needs, Wants and Demands

The most basic concept underlying marketing is human needs. Needs are categorised into basic needs, safety needs, sense of belongingness, and self-esteem.

The second concept to marketing is human wants. Wants are how people communicate their needs and are usually described in terms of objects that will satisfy needs. Wants are shaped by culture and individual personality.
People have unlimited wants but little resources. People choose products that provide the most satisfaction for money. When backed up by buying power, wants become demand.

Every customer has different needs and wants. Understanding customer needs and wants is not always simple. Some customers are even unsure of what they want or they use words that require interpretation. For example, what can you understand when a customer says “I want an inexpensive holiday”? It can mean that the customer wants a budgeted holiday, the customer wants a destination where food and souvenirs are cheap, or the customer wants additional tours incorporated into the holiday package.

When we are able to identify customers’ needs, it will be easier to meet their expectations and achieve customer satisfaction. In marketing, customer retention is more important than customer attraction. Customers have the purchasing power and therefore they are in control of the demand of a product.

(b) **Products**
The products of a company are based on the customer needs, wants and demands. The products can be tangible (goods) or intangible (services). The concept of products is not limited to physical objects. Anything capable of satisfying a need can be considered as a product. In fact, a product can be experiences, persons, places, organisations, information and ideas.

(c) **Value, Costs and Satisfaction**
From customers’ point of view, the value of a product is what customer will gain from a product. It can be the brand of the product, hygiene of the place, comfort and money. The cost of a product is the amount that the customer needs to pay. If a particular company provides better facility and services, customers are willing to pay for a higher cost.

Customers are satisfied when their expectations are met. If actual performance is equal to expectation then there will be customer satisfaction. If actual performance is lower than expectation then there will be customer dissatisfaction.

(d) **Exchange, Transactions and Relationship**
Exchange is the act of obtaining something from a person by offering something in return. It is like the barter system. When a customer pays for a hotel room, they will get the facilities, accommodation and food and beverage in return. Transaction is marketing’s unit of measurement. Transaction is a trade of values between two or more parties. A transaction involves several dimensions whereby both parties agreed upon conditions
and usually a legal system exists to support and enforce compliance on the part of the transactions.

Relationship marketing is to maintain long-term relationships with customers, distributors and suppliers. The ultimate outcome of relationship marketing is the building of marketing network. A marketing network consists of the company and its supporting stakeholders with whom it has built mutually profitable business relationship.

(e) Markets
The concept of transactions leads to the concept of market. Markets are the customers and there are current and potential customers. When customers needs, wants and demand change, the market will also change. When the market changes, companies will need to modify its products to meet the market’s needs. Traditionally, market means the location where buyers and sellers conduct transaction. However, as the industry evolves buyers now are known as the market.

3.1.5 Evolution of Marketing

The essence of marketing is the exchange process; in which two or more parties give something of value to each other to satisfy felt needs. In many exchanges people trade goods, in other exchanges they trade services. In others people might donate time or funds to a non-profit organisation.

Exchange is the origin of marketing activity. Marketing has been described as the process of creating and resolving exchange relationships. When people need to exchange goods, they naturally begin a marketing effort. The following are some concepts that companies can carry out their marketing activities.

(a) Manufacturing/Production Concept
   • The manufacturing or production concept holds that consumers will favour products that are available and highly affordable
   • Management focuses on production and distribution efficiency
   • Management may be so focus on manufacturing system that they forget about customers’ needs and wants

(b) Product Concept
   • The product concept holds that consumers prefer existing products and product forms
• Management concentrates on developing good versions of those products
• Too much focus on the variety of one product might not be the best solution because consumers might not want to have the same product all the time but look for different products that can satisfy their needs and wants

(c) Selling Concept
• The selling concept holds that consumers will not buy enough of the organisation’s products unless the organisation undertakes a large selling and promotion effort
• Management focuses on selling everything and not worrying about satisfaction after sale
• Does not focus on long-term relationship with customers
• Only think about selling the product to customers but does not take into consideration whether the products matches the needs and wants of customers

(d) Marketing Concept
• The marketing concept holds that achieving organisational goals depends on determining the needs and wants to target markets and delivering the desired satisfaction more effectively and efficiently than competitors
• Starts with a well defined market, focusing on consumer needs

(e) Societal Marketing Concept
• This is the newest form of marketing concept
• Societal marketing concept holds that the organisation should determine the needs, wants and interests of target markets and deliver the desired satisfaction more effectively and efficiently than competitors in a way that maintains or improves the consumers’ and society’s well-being
• Ensures that organisation’s actions will benefit consumers and society in the long run
3.1.6 Definition of Marketing Mix

Marketing mix is a set of marketing tools that the company uses to pursue its marketing objectives in the target market. There are 4 marketing mix known as 4P’s (product, price, place, promotion).

(a) **Product**
The product is a combination of goods and services that a company offers to target market. Goods are the tangible product and services are the intangible product. For a hotel, the goods are the different types of rooms and F&B outlets offered and the service is the customer service and additional facilities provided by the agency. The product is the main thing for a company because without products there is nothing to market or sell. When a customer decides to buy a product they will look for certain characteristics. They will want to know how many different packages available, which one provides a more interesting savings and what is included in the package.

(b) **Price**
The price is the amount of money that the customers have to pay to obtain the product. Setting a price for a product is very important. Companies will need to set a price that customers can afford and willing to pay and at the same time will help the company to achieve a desirable level of profits. The price of a product is the addition of cost and mark up. When a customer asks about the price of a product, they are also interested in knowing if there are any discounts or special promotions. Customers will evaluate if the value of the product is worth the amount that they are paying.

(c) **Place/Distribution**
The place/distribution is the company activities that make the product available to target customers. The place can be the location where customers can obtain the product or the distribution channels. Companies will need to find ways to bring the products to customers or to make the product easily accessible to customers. For instance, customers nowadays can make room reservations online and this facility makes it convenient for customers because they save the time of going into travel agencies or the hotel to book it. Companies can have advertisements or signboards showing where the hotel is so that people are aware of the location.

(d) **Promotion**
Promotion is the activities that communicate the merits of the products and persuade target customers to buy or use the products. Companies need to plan promotional activities properly in order to create awareness of potential customers. The types of activities includes advertising, personal
selling, public relations, merchandising, designing posters and sales promotion. All these activities will help target potential customers.

### 3.1.7 Conclusion

Marketing operates within a dynamic global environment. The intensity of competition changes on a daily basis and managers will need to ensure their strategies are up to date and able to meet and satisfy consumer needs. By focusing on marketing principles, businesses can run more effectively and ensure a long-term relationship between customers, suppliers and distributors.

### 3.2 SERVICE CHARACTERISTICS

Most of the time, when we talk about products, people will assume that we are talking about the tangible goods. However, in the hotel industry, products consist of both goods and services. The services itself contributes towards the majority of customer satisfaction and profit level. Therefore, in this topic, we will look into the service culture and the service characteristics.

#### 3.2.1 The Service Culture

The service culture can only be implemented if the entire organisation believes in it. The service culture focuses on serving and satisfying customers. The service culture has to start with top management and flow down. If only the line employees are focusing on service oriented but the top people are not committing themselves to it, it will be difficult to employ a service culture. Given a scenario, when a particular restaurant is not performing well financially because of high food cost, the management will decide to cut cost without thinking about customers. They will either cut down on the number of employees and this will affect the level of service in the restaurant when there is high turnover. If management expects employees’ attitudes to be positive toward the customer, management must also have a positive attitude toward the customer and the employees. The management must support service culture, which is a culture that supports customer service through policies, procedures, reward system and actions.

An organisational culture is the pattern of shared values and beliefs that gives members of an organisation meaning, providing them with the rules for behaviour in the organisation. A strong culture will assist organisations in the following:
• Directs behaviour
• Gives employees a sense of purpose and makes them feel good about their company
• Serves as the glue that holds an organisation

3.2.2 Characteristics of Services

The four service characteristics as suggested by Kotler et al. (2005) are presented in Figure 3.2.

(a) **Intangibility**
Unlike tangible products, services cannot be seen, tasted, felt, heard, or smelled before they are purchased. For example, if you would like to eat in a restaurant, you will not be able to try the service unless you dine in and pay for it. Seldom will you be able to eat and enjoy the service in the restaurant and then don’t pay for it. On the other hand, if you are planning to purchase a shirt for instance, you can at least touch it and try it before you pay for it. In the hospitality and travel industry, many of the products sold are intangible experiences.

To reduce uncertainty caused by service intangibility, buyers look for tangible evidence that will provide information and confidence about the service. Imagine if you are entering a hotel and you see a very large lobby area with elegant design and clean public areas, you will assume that the level of service will somehow be of similar standard to the tangible outlook.

(b) **Inseparability**
In most hospitality services, the service provider and the customer must be present for the transaction to take place. Customer-contact employees are
part of the product. If you are travelling to Singapore with the coach company NICE, which is well known for its good service and spacious seats, you will perceived them to be the best. However, if the bus driver is rude to the passengers, this will degrade the overall travelling experience. You will not be happy and most likely do not want to travel with this coach company anymore.

Service inseparability also means that customers are part of the product. This is because an establishment has many customers and sometimes certain customers may be causing trouble that will affect the satisfaction of other customers. For example, if you are queuing in a travel agency to speak to a consultant and suddenly another customer jumps into the line and the travel consultant did nothing about it. You will obviously feel frustrated and therefore change your opinion about that place.

(c) Variability

Services are highly variable because the quality of service depends on who provides and where and when they are provided. Services are produced and consumed immediately, which limits quality control. The level of service provided during peak season may differ from the service provided during off-peak season if consistency is not being practiced. Variability can also mean lack of consistency if one day you eat in a restaurant the service is very good but the next day it becomes bad. This will affect customers’ expectations, as the level of service differs all the time.

Variability is the major cause of customer disappointment in the hospitality industry. This is also the reason why many establishments’ customers go to the competitors. If you were given the choice, you would also prefer to go to places that provided the same level of service every time you go there. This is because the expectation towards that particular place sticks with you every experience you have with that establishment’s products.

(d) Perishability

Services cannot be stored because there is no inventory to it like tangible goods. If the maximum capacity of a hotel room is 250 you cannot sell more than that. If one day the occupancy is only 80%, you cannot store the remaining 20% and sell it the next day. Once the hotel loses out on selling the remaining 20% for that particular day, they can get it back anymore. This is the reason why nowadays; many hotels are asking their customers to pay a certain amount of deposit when they make reservations. This is to ensure that if the customers did not show up, the hotel will not face total loss.
In order to avoid perishability, management should be able to manage its demand and capacity level. This is to ensure that the sales volume during peak and off-peak season will not be too much difference. You may already observe that in order to increase occupancy during off peak season, some hotels offered their hotel rooms at cheaper rates and provided special promotional package for customers to dine in at their restaurants.

### 3.2.3 Conclusion

Having a service culture within the organisation will encourage everyone within the organisation to be service or customer oriented. This will benefit the management, employees and customers because the management will be happy with the profits generated from satisfied customers and employees will be motivated to work since direction has been clearly identified.

When organisations fully understand the characteristics of services they will be able to amend their marketing strategies according to the changes in the marketplace. They will also be able to plan their marketing activities more effectively and efficiently.

### 3.3 INTRODUCTION TO MARKETING PLANNING

All organisations must look ahead and develop long-term strategies to meet the changing conditions in the marketplace and environment. Each organisation must find the game plan that provides the most sense given its specific situation, opportunities, objectives, and resources. The hard task of selecting an overall company strategy for long run survival and growth is called strategic planning. In this topic, we will firstly look into the benefits of strategic planning and then we will briefly discuss the steps in strategic planning.

#### 3.3.1 Definition

“Strategic planning is the process of developing and maintaining a strategic fit between the organisation’s goals and capabilities and its changing marketing opportunities.”

The benefits of marketing planning are many, however, the common ones are:

(a) **It encourages systematic thinking**
   It brings people the change to organise thoughts in a systematic way so that whatever being presented is logic. The people will become more critical and allow them to know what is good and what is bad.

(b) **It improves interaction**
   It helps in the communication between 3 levels whereby the people at the top will understand the lower level management.

(c) **It sharpens objectives and policies**
   It helps to make all levels understand what the goals are and they are clear of the objectives.

(d) **It leads to better coordination of efforts**
   When we plan, we know exactly what we need to do and from that, straight away we can put our effort in doing it and have better coordination to do it.

(e) **It provides clearer performance measurements**
   We measure performance before, during and after performance. Performance can be measure through sales volume, profit or guest satisfaction.

### 3.3.2 Strategic Marketing Planning Activities

For successful and effective planning, management of companies would need to consider the following planning activities.

### 3.3.3 Defining Company’s Mission

A mission statement is a statement of the establishment’s purpose, it defines what it wants to achieve. A clear mission statement can ensure that all employees, shareholders, investors and other publics can understand the direction of the company. Detailed mission statement defines the company’s goals and values. It also outlines the company’s societal responsibility and ethical conduct.

The corporate mission should describe:

(a) The industry (the industry the company is operating in)
(b) The target market (the current and potential customers)
(c) The basic product and service
(d) The principal technologies to be mastered
(e) The competitive competencies that will be employed
(f) The vertical scope
(g) The geographic scope

The factors that influence the setting up of a mission statement are:
(a) The company’s history, its performance and pattern of ownership
(b) The preferences and values and expectations of managers, owners and those who have power within the company
(c) The environmental factors like government’s legislation, the competitors, the consumers
(d) The resource availability, which can be summarised as raw materials, labour, technologies and capital (money)
(e) The distinctive competencies, which describe the strengths of the company to seize opportunities in the marketplace

3.3.4 Setting Objectives and Goals

The mission statement needs to be turned into detailed supporting objectives for each level of management.

The common guidelines in setting objectives are:
(a) Hierarchical objectives
   The objectives are set according to degree of importance.
(b) Quantitative objectives
   The objectives are set by using quantitative aspects such as to become the market leader by the 5th year, 25% increase in market share, etc.
(c) Realistic objectives
   The objectives are set realistically, for example, to employ potential employees who have knowledge in information technology and the company is already an IT oriented establishment.
(d) Consistent objectives
   The objectives are set consistent with the capabilities of the company and the factors surrounding the business like the economic situations.
3.3.5 Design Business Portfolios and Assigning Resources to each SBU

Guided by the corporate mission and objectives, management must plan its business portfolio. Business portfolio is the collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company’s strength and weaknesses to opportunities in the environment. The company must firstly analyse its current business portfolio and decide which businesses should receive more, less or no investment, and secondly to develop growth strategies for adding new products or businesses to the portfolio.

When management is analysing its business portfolio, they will identify their key strategic business units. A strategic business unit or SBU is a unit of the company that has separate mission and objectives and that can be planned independently from other company businesses. A SBU can be a company division, a product line within a division, or sometimes a single product or brand. Companies can use the Boston Consulting Group Approach or BCG Growth Share Matrix (Figure 3.2) to identify its SBUs.

Besides analysing current business, designing business portfolio also involves finding businesses and products that the company should consider in future. One useful device for evaluating growth opportunities is the product-market expansion grid (Figure 3.3).

![Figure 3.3: BCG growth-share matrix](image)

On vertical axis: **Market growth rate** measures the market attractiveness. On horizontal axis: **Relative market share** measures the company’s strength in the market or the competitive position of the company in the market.
The circles in the matrix represent examples of a company’s current strategic business units (SBUs):

(a) 5 Cash cows
(b) 3 Stars
(c) 4 Question marks
(d) 3 Dogs

There are 4 types of Strategic Business Units (SBUs) namely:

(a) **Cash Cow**
   It is named cash cow because they have a high market share of a slowly growing market, thus there is little need for new investment. The high market share should facilitate economies of scale and low unit costs to give a product a degree of market dominance, so that these products tend to be large generators of cash.

(b) **Star**
   It is the potential ‘cash cows’ but could currently be ‘cash absorbers’ if their competitive position still requires heavy expenditure. Once the market growth rate begins to decline, they will become cash cows, provided that they hold their market share.

(c) **Question Mark**
   It is named question mark because it can create problems or can be prove beneficial. The question is whether further investments of cash would increase their market share up to the ‘star’ category, or whether any further amounts of cash would bring no real benefits, since the costs of acquiring further market share prove too high. The alternative is to withdraw cash support and cause them to slip to the lowest category ‘dogs’ from where they will eventually be divested.

(d) **Dog**
   It produces very little cash or profit probably, and it would be prohibitively expensive to attempt to seek market dominance from this low position. Often these types of products are only retained if they are purchased or used by the same customers, who also buy or use other products offered by the company.

### 3.3.6 Developing Growth Opportunities Strategies

Besides evaluating current strategic business units (SBUs), the management must plan for growth into new businesses and products. Product-market expansion
grid can be used to identify growth opportunities. The grid shows four avenues of growth namely:

(a) **Market Penetration** – Focusing on increasing market share of existing target market. Developing promotional and pricing efforts to increase demand.

(b) **Market Development** – Capturing new potential markets to widen the scope of marketing the company’s product/services.

(c) **Product Development** – Improving or developing new product range to expand the variety of products that target market will want to buy.

(d) **Diversification** – Companies can diversify based on concentric, horizontal or conglomerate diversification strategy. Concentric diversification occurs when companies develop new products that are consistent with its existing product lines. Horizontal diversification is developing new products that may not necessary be the primary business of the company. For instance, hotels offering merchandise and souvenirs are a form of diversification and generate good profit for the company. Conglomerate diversification strategy is a strategy where the company ventures into a different industry such as hotels moving into residential development.

![Figure 3.4: Ansoff product-market expansion grid](image)

### 3.3.7 SWOT Analysis

In addition to understanding the SBU and identifying suitable growth strategies, companies will also need to conduct a SWOT analysis. A SWOT analysis allows the company to identify its internal Strengths and Weaknesses and match its strengths with the available Opportunities in the marketing environment. Moreover, by identifying the strengths, it allows the company to overcome the Threats in the marketing environment. In the next topic, we will have a better understanding on the marketing environmental factors.

### 3.3.8 Conclusion

After understanding the benefits of planning, it is wise that all organisations should have a plan for their business. They will need to have proper planning to
ensure that the running of the organisation will be successful. As the saying goes, “If you fail to plan, you are planning to fail.”

3.4 THE MARKETING ENVIRONMENT

In the previous topic, we had a brief discussion on marketing planning. We understand the importance of planning and how it can contribute to the success of organisations. Proper planning is necessary but organisations also need to be aware of its environment. The environment is constantly changing and an understanding of the environment will assist organisations to identify its strengths, weaknesses, opportunities and threats. In this topic, we will look into the types of marketing environment and how each of those can affect the operation of an organisation.

3.4.1 Definition

Marketing environment consists of the factors and forces outside marketing that affect marketing management ability to develop and maintain successful transactions with the target customers.

Marketing environment comprises:

(a) The microenvironment, which consists of the forces close to the company, that affects its ability to serve its customers. The components are the company, the marketing channel firms, the customer markets, the competitors and the public.

(b) The macroenvironment, which consists of the larger societal factors, that affects the whole microenvironment. The components are:

(i) The demographic factors
(ii) The cultural factors
(iii) The economic factors
(iv) The political factors
(v) The technological factors
(vi) The natural factors

3.4.2 The Company’s Microenvironment

Marketing managers must coordinate with top management and the various company departments. For instance, the finance department is concerned with finding and using the funds required to carry out the marketing plan. Purchasing
worries about getting supplies, whereas accounting has to measure revenues and costs to help marketing know how well it is achieving its objectives. Housekeeping is responsible for delivering clean rooms sold by sales department. Together, all these departments have an impact on the marketing department’s plans and actions.

(a) **Suppliers**
Suppliers are important link in the company’s overall customer value delivery system. They provide the resources needed by the company to produce its goods and services. Supplier problems can seriously affect marketing. Marketing managers must watch supply availability to ensure it will not cost sales in the short run and damage customer satisfaction in the long run. Marketing managers also need to monitor the price trends of suppliers. Rising supply cost may force prices to increase and this can harm the company’s sales volume.

(b) **Marketing Intermediaries**
Marketing intermediaries help the company to promote, sell, and distribute its goods to the final buyer. Intermediaries are business firms that help hospitality companies find customers and make sales. They include travel agents, wholesale tour operators, and hotel representatives.

(c) **Customers**
The company needs to study its customer markets closely. For hospitality and tourism establishments, there are various types of customer markets. They include consumer markets, business markets, government markets and international markets.

(d) **Competitors**
The marketing concept states that to be successful, a company must provide greater customer value and satisfaction than its competitors. Thus, marketers must gain strategic advantage by positioning their offerings strongly against competitors’ offerings in the minds of consumers. No single market competitive marketing strategy is best for all companies. Each firm should consider its own size and industry position in comparison with competitors.

(e) **Publics**
The company’s marketing environment also includes various publics. A public is any group that has an actual or potential interest in or impact on an organisation’s ability to achieve its objectives. The types of publics include financial publics, media publics, government publics, local publics, general publics and internal publics.
3.4.3 The Company’s Macroenvironment

(a) **Demographic**
   - The study of human populations in terms of size, density, location, age, sex, race, occupation
   - Changing age structure
   - Changing family structure
   - Geographical shifts in population
   - Educated population
   - Ethnic and racial diversity

(b) **Cultural**
   - Institutions and other forces that affect society’s basic values, perceptions, preferences and behaviour

(c) **Economic**
   - Factors that affect consumer buying power and spending patterns
   - Major economic variables like income, cost of living, interest rates, savings and borrowing patterns
   - Income distribution of population
   - Changing spending patterns

(d) **Political**
   - Laws, governmental agencies, and pressure groups that influence and limits various organisations and individuals in a given society
   - Legislation
   - Changing government agency enforcement
   - Increased emphasis on ethics and socially responsible actions

(e) **Technological**
   - Forces that create new technologies, creating new products and market opportunities
   - High research and development
   - Increased regulations
   - Concentration on improvements
(f) **Natural**

- Resources that are needed as inputs by marketers that are affected by marketing activities
- Environmental concerns focus on: shortages of raw materials, high cost of energy, increased pollution and government intervention in natural resource management

### 3.4.4 Conclusion

Having proper environmental scanning will be able to help organisations to have better planning. If there are any possible opportunities that you can identify before your competitors, then you can be right ahead of them and become the market leader.

### 3.5 INTRODUCTION TO MARKETING INFORMATION SYSTEM (MIS)

Information is very important for all establishments, as only through information that managers can make analysis, planning and decisions. Basically, information is needed at every point of decision-making. For instance, when companies are deciding on target markets they need information about the buying behaviour of those consumers.

In the past, it was common to have independent and chain hotels that depended on information gained through being around customers, observing them and asking questions. However, with the increase of international chain hotels worldwide, the need for more and better information has increased as well. This is because competition has intensified and buyers’ behaviour is changing very fast.

Although information is important, it will be useless if the information collected is inaccurate or outdated. This can occur when the information collected has not been utilised properly. Another reason is that the information collected is too much and most of them are irrelevant. Managers must be able to manage the information collected in order to benefit from it. Managers need to have precise and timely information. Therefore, in today’s topic, we will discuss the marketing information system and the marketing research process. These two areas will provide an insight into the ways of collecting and analysing information.
3.5.1 Marketing Information System (MIS)

A marketing information system (MIS) consists of people, equipment and procedures to gather, sort, analyse, evaluate and distribute needed, timely and accurate information to marketing decision makers. The following figure illustrates the concept of MIS.

MIS starts and ends with marketing managers but managers of other departments within the establishment should also be involved in the MIS. When marketing managers need to make decisions, they will look into the information they have to support their decisions. Sometimes those information might be sufficient and at times not. Therefore, the first part of the MIS is to assess information needs. Marketing managers will need to communicate with other managers to determine what are their information needs. Next, various data are gathered from the environment in which it operates in order to develop needed information. These data can come from marketing intelligence, marketing research or even internal data. Then the data will be analysed to determine its usefulness for marketing managers. Once determined, the information will be distributed to marketing managers. Marketing managers will then use that information to make necessary marketing decisions in terms of planning, implementation and control.

(a) Assessing Information Needs

The first step in developing an effective and efficient MIS is assessing information needs. A good marketing information system balances the information that users would like to have against what they really need. Whenever managers make decisions to obtain certain information, they
have to assess whether those information is really necessary for the company to use a high cost to obtain that information.

(b) Developing Needed Information
Once managers have decided that it is necessary to obtain certain information, the next step is to develop information. Marketers can obtain information through internal data, marketing intelligence and marketing research. Internal data refers to the collection of information obtained from data sources within the company. Marketing intelligence is the systematic collection and analysis of publicly available information about competitors and developments in the marketing environment. Marketing research refers to the collection, analysis and interpretation of information by the company.

(c) Distributing Information
Once information has been collected and interpreted, it will only be useful if the information is passed on to those who need it. It is of no use if a company spends so much cost to collect information and then do nothing with the information collected.

3.5.2 Conclusion

Information is very important for marketers, especially when the information can help strengthen a company’s competitive position in the marketplace. If companies can manage its information system well, then they will be able to benefit from it. This is because information will only be useful if it is accurate, given to the right people and put to correct use.

3.6 CONSUMER AND ORGANISATIONAL BUYING BEHAVIOUR

Students should know by now that customers are very important to organisations. If any organisations can truly understand the buying behaviour of customers, they can be at the winning stage. In this topic, we will discuss on the importances of understanding customer behaviour and the factors affecting consumer behaviour. We will then look into the types of consumer buying decision process. In addition, we will also focus on understanding organisational buying behaviour.
3.6.1 Importances of Understanding Customer Behaviour

Understanding customer behaviour is important to managers because:

(a) It allows the manager to forecast changes in future trends of the market.
(b) It provides information to managers in area of decision making.
(c) It allows managers that identify the differences of the market and plan for suitability of product/service mix.
(d) It provides information for managers to understand what can influence the decision making of customers.

3.6.2 Consumer Behaviour

Consumer buyer behaviour refers to the buying behaviour of final consumers, individuals and households who buy goods and services for personal consumption. All of these final consumers combine to make up the consumer market.

3.6.3 Model of Consumer Behaviour

![Model of Consumer Behaviour](image)

*Figure 3.6: Model of consumer behaviour*
3.6.4 The Factors Affecting Consumer Behaviour

Consumer purchases are strongly influenced by cultural, social, personal and psychological characteristics. It is difficult for marketers to control such factors but they should take these into account because it does provide marketers with a guideline.

(a) Cultural Factors
Cultural factors exert a broad and deep influence on consumer behaviour. Culture is the set of basic values, perceptions, wants and behaviours learned by a member of society, from family and other institutions. It is also known as the pattern of behaviour and social relations that characterise a society.

(b) Social Factors
A consumer’s behaviour also is affected by social factors such as reference groups, family and social roles and status. Reference groups are groups that serve as direct (face-to-face) or indirect point of reference or comparison in forming a person’s attitude or behaviour. Family is the family members that brought up a person and may influence his/her living and way of life. Role consists of the activities people are expected to perform according to the people around them. Status reflects the general respect given to role by the society. People often choose products that show their status in the society. Apart from that, consumers are also affected by their role they play and the status they hold in the society.

(c) Personal Factors
A consumer is also influenced by the personal characteristics. These factors are divided into:

(i) Age and Life Cycle
The types of goods and services people buy change during their lifetimes. As people grow older and mature, their desires change. The make up of family life cycle also change their behaviour.

(ii) Occupation
A person’s occupation can affect the products and services bought. For instance, blue collar workers would buy more casual clothing whereas executives will prefer to buy more suits.

(iii) Economic Situation
A person’s economic situation will affect product choice. A person with higher purchasing power will be more willing to spend on
expensive restaurants whereby, someone with middle income will choose places, which offers better value.

(iv) **Lifestyle**: A person’s pattern of living as expressed in his or her activities, interests and opinion.

(v) **Personality and Self-concept (Self-image)**: The unique psychological characteristics that lead to consistent and lasting responses or behaviours.

(d) **Psychological Factors**
A person’s buying behaviour is also influenced by four major psychological factors. These factors are divided into:

(i) **Motivation**
Motivation is based on Maslow’s Hierarchy of Needs. According to Maslow, a person tries to satisfy the most important need first, which is known as the survival needs or the psychological needs. When the important need is satisfied, it ceases to act as a motivator and the person will subsequently try to satisfy the next important need, known as safety needs. The process continues until subsequent needs (3 to 5) are satisfied. The Maslow Hierarchy of Needs is illustrated below.

![Figure 3.7: Maslow’s hierarchy of needs](image)

(ii) **Perception**
Perception is the process by which people select, organise and interpret information to form a meaningful picture of the world.
(iii) **Learning**
Learning is the reinforcement process, which an individual gained through the experiences.

(iv) **Belief**
Belief is a descriptive thought that a person has about something.

(v) **Attitude**
Attitude describes a person’s relatively consistent evaluations consistent evaluations, feelings and tendencies toward and object or an idea.

Not only that a consumer is shaped and influenced by his or her own motivation, but he or she is also very much affected by the way he/she sees or perceives a certain thing, for example the tourism industry. What he/she learns from this industry will shape his/her attitude towards the working environment.

### 3.6.5 The Consumer Buying Decision Process

**Complex Buying Decision Process**

In complex buying, the decision process is based on these five stages:

(a) **Need Recognition (Need Awareness)**
In this stage, consumer will recognise his/her need. For example, if the consumer wants to go on holiday, there will be a need to search for a holiday package.

(b) **Information Search (Information Processing)**
Once the need is raised to a conscious level, the next stage will be to retrieve information. This information comes from a variety of sources like reference groups, family members or even from advertising.

(c) **Evaluation of Alternatives (Making Comparisons)**
Once consumers gather a sufficient amount of information, the consumers will go through a cognitive of answering questions to weigh the positive and negative aspects of each alternative. They also examine the attributes of the product-service mix of each holiday destination. Consumers consider the relative importance of each attribute of the product-service mix by asking themselves how important each attribute is.
(d) **Purchase Decision (Selection)**
This is actually the point that customers make their selection based on the evaluation they do in stage (c).

(e) **Post-purchase Behaviour (Outcome)**
This stage involves the result of selecting a particular holiday destination. It will normally reflect the true experience of that customer while visiting a holiday destination or after using a particular product-service mix offered by the destination.

### 3.6.6 Organisational Behaviour

Organisational behaviour or business buyer behaviour refers to the buying behaviour of organisations that buy goods and services for use in the production of other products and services that are sold, rented or supplied to others. In hospitality terms, organisational behaviour also refers to buying behaviour of organisations that buy hospitality products for business purpose such as annual dinners, meetings or business trips.

### 3.6.7 Model of Organisational Behaviour

![Figure 3.8: Model of organisational behaviour](image)

Figure 3.8: Model of organisational behaviour
3.6.8 The Factors Affecting Organisational Behaviour

Business buyers are subject to many influences when they make decisions. Among them are environmental factors, organisational factors, interpersonal factors, and individual factors.

(a) **Environmental Factors**
Organisations need to be aware of its environment in order to make accurate decisions. The environmental factors that must be considered are:
- Economic developments
- Supply conditions
- Technological change
- Political and regulatory developments
- Competitive developments
- Culture and customs

(b) **Organisational Factors**
Organisations have to observe its internal environment as well such as the organisation’s objectives, policies, procedures, organisational structure and systems.

(c) **Interpersonal Factors**
Organisations have to consider the parties involved in decision-making process. There may be someone that holds a dominant influence over what others will decide. For instance, those who have authority, status, understanding and persuasiveness.

(d) **Individual Factors**
Individual factors refer to the individual that has the power of making decisions on buying. Some buyers are influenced by personal factors such as age, income, education, job position, personality and risk attitudes.
3.6.9 The Organisation Buying Process

(a) Problem Recognition
At this stage, there will be someone within the organisation that recognises the need for a certain product or service. For example, the company may need a venue for meetings or conducting trainings. Marketers can stimulate problem recognition by developing ads and calling on prospects.
(b) **General Need Description**  
Once the need of a product is determined, the buyer will go on and put together a general need description. The general need description will state out the requirements of a product by the buyer. For instance, if the organisation needs a meeting venue, the buyer will have general information of what types of venue to look for the organisation.

(c) **Product Specification**  
When the general need has been described, the specific requirements can then be developed. In product specification, buyers will have a detail view of the types of products needed. For example, buyer will request for more complex needs such as availability of audio-visual equipment, ballroom capacity, colour of chair covers and much more.

(d) **Supplier Search**  
At this stage, the buyer will conduct a search on possible suppliers. The sources of information can be gained either through business directories, company search or familiar hotels. Organisations will start to find information of possible hotels as the venue for meetings, events or seminars.

(e) **Proposal Solution**  
Upon scanning through the choices of suppliers, the buyer will then request a written proposal from the various hotels. In the proposal, hotels must provide information such as prices, benefits and distinct features to differentiate themselves from competitors.

(f) **Supplier Selection**  
At this stage, the buyer will review the proposals and choose the most suitable supplier. The organisation will conduct an analysis on the location of the hotel, the facilities, the ability of the hotel to deliver performance, the level of service and professionalism of employees. Before making the final decision, buyers may want to negotiate a better price.

(g) **Order-Routine Specification**  
Once the choice is confirmed, the buyer will provide detail information regarding the event or meeting. The hotel will then have to provide a formal contract with specific dates of the event and confirmation of reservation of the use of the function room. In the contract, important information such as agreed prices, payment period and minimum guarantees for food and beverage should also be included.
(h) **Performance Review**
At this stage, the buyer will evaluate and see if the requirements have been met. It is also at this critical point that buyer will know its satisfaction level and decide if there will be any future transaction with the supplier.

### 3.6.10 Conclusion

The study of consumer and organisational behaviour is based largely on theory. However, this study is very crucial to marketers because it can be used to understand and predict the human behaviour of the consumers. Using the study, marketer can later channel its marketing and promotional strategies effectively and efficiently. In addition to studying the consumer behaviour, understanding how consumers make buying decisions is also an important foundation of sales and marketing.

### 3.7 MARKET SEGMENTATION, TARGETING AND POSITIONING

From previous topics, we already have a clearer picture of the marketing environment and the customer groups. This will allow the managers to conduct segmentation of the market. In this topic, we will discuss the target marketing process. The target marketing process starts of with market segmentation and followed by market targeting and then finally market positioning.

#### 3.7.1 Market Segmentation

Market segmentation is a process of dividing the overall market into distinct groups in which each group has their own characteristics and might require different product/service mix. There is no standard way of dividing the market but companies can adopt the following segmentation variables as bases for dividing the market. These variables can be used on its own or in combination.

#### 3.7.2 Segmentation Variables

(a) **Geographic Segmentation**
Geographic segmentation is used for dividing the market into different geographical units such as nations, states, regions, countries, cities, neighbourhoods, etc.
(b) **Demographic Segmentation**
Demographic segmentation is used for dividing the market into groups based on the demographic factors such as:

(i) Age  
(ii) Sex  
(iii) Family size  
(iv) Family life cycle  
(v) Income level  
(vi) Education level  
(vii) Occupation  
(viii) Religion and race  
(ix) Nationality

(c) **Psychographic Segmentation**
Psychographic segmentation is used for dividing the marketing into groups based on the psychographic factors like:

(i) Lifestyles  
(ii) Personality  
(iii) Social Class  

Psychographic segmentation seeks to describe the human characteristics of consumers towards their responses to products, packaging, advertising and public relations efforts. It is about the quantitative procedures that are indicated when demographic, socio-economic and behavioural analyses are not sufficient to explain and predict consumer behaviour.

(d) **Behavioural Segmentation**
Behavioural segmentation is used for dividing the market into groups based on the behaviour that consumers show in the market place like:

(i) Usage rates of the product  
(ii) Loyalty status of the customers  
(iii) Response to a product: positive, neutral, or negative  
(iv) Benefits sought by the customers  
(v) Buyer readiness state
3.7.3 Market Targeting

After the process of segmentation the next step is for the organisation to decide on who or which segments to serve. This is the market targeting process, which means choosing the target market. A target market consists of a set of buyers who share common needs or characteristics that an organisation decides to serve. There are three targeting options an organisation can adopt and they are undifferentiated marketing, differentiated marketing and concentrated marketing.

(a) Undifferentiated Marketing
Undifferentiated marketing is a market coverage strategy in which companies decide to ignore market segment differences and go after the whole market with one offer. In mass marketing, the seller mass-produces, mass distributes, and mass promotes one product to all buyers. Companies that practices undifferentiated marketing benefit from economies of scale and reduces advertising and marketing research costs because these companies do not need to identify preferences of different segments.

(b) Differentiated Marketing
Differentiated marketing is a market coverage strategy in which a firm decides to target several market segments and designs separate offers for each. Here, the seller produces two or more products that have different features, styles, quality, sizes, etc. This is a common practice in the hospitality industry as hotels try to develop new product-service mix to satisfy leisure guests as well as business travellers. Hence, for each market segments, a different marketing mix will be developed.

(c) Concentrated Marketing
Concentrate Marketing is a strategy that focuses on niche market. The aim of the company is to obtain high market share in a small sized market rather than competing with major hotel chains in getting a small market share in a big sized market. For instance, some hotels focus on the upper income group and develop its products and services according to the needs of this group. These hotels will not target budget of family market because they will not be willing to pay the premium room rates.

3.7.4 Market Positioning

Right after choosing a target market, company can then position itself in the marketplace. Market positioning is a process of arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. A product’s position is the way the product is
defined by consumers on important attributes. In other words, it means the place the product occupies in consumers’ minds relative to competing products. Positioning involves implanting the brand’s unique benefits and differentiation in customers’ minds.

### 3.7.5 Positioning Strategies

In order to position the hotel in customers’ minds, companies can follow the following positioning strategies:

(a) **Positioning Based on Specific Product Attributes**
This strategy is focusing on product benefit for the customers such as low price, good location, spacious rooms or unique architecture. Ritz-Carlton had previously positioned based on the attribute that each hotel room offers butler service.

(b) **Positioning Based on Target Market**
This strategy takes into consideration the users of the product. For instance, Grand Blue Wave Hotel offering ladies floor and targeted at the female market. Some other hotels are business class hotels and cater mostly for meetings, conventions and conferences.

(c) **Positioning Against an Existing Competitor**
This strategy can be implemented when there is a direct competitor that is offering similar product range. For example, Coffee Bean positioned itself as the Asian choice of coffeehouse as compared to Starbucks.

(d) **Positioning Against Another Product Class**
This strategy emphasise on positioning the product as an alternative product to that of another product at different levels. For instance, purpose built convention centres have increasingly positioned themselves as the alternative to hotels where they offer better conference facilities with bigger capacity and have a good selection of food and beverage components.

### 3.7.6 Market Positioning Process

To develop a positioning strategy, the company will firstly need to identify its competitive advantage and then select the right competitive advantage before communicating the positioning strategy to the target market.
(a) **Identifying the Competitive Advantage**

Competitive advantage can be identified through the determining the product differentiation. These product differentiations can be categorised as:

- Physical attributes differentiation
- Service differentiation
- Personnel differentiation
- Location differentiation
- Image differentiation

(b) **Selecting the Right Competitive Advantage**

Companies will need to identify which competitive advantage can provide recognition as the best amongst the competitors. One competitive advantage is usually selected for each target segment. However, in the increasing competitive environment, hotels can focus on several competitive advantages as its positioning strategy. This can enhance its position and widen its target market.

(c) **Communicating the positioning strategy**

When the company has determined its positioning strategy, the message has to be communicated to the target market. This is to ensure that the target market is aware of the focus of the company’s products. This message is usually in the form of a positioning statement such as ‘the hotel that offers the best rate and location in town’.

### 3.7.7 Conclusion

Having an understanding on the market characteristics through segmentation can allow for better targeting process. In the long run, when the company can select the correct target market, it can allow the manager to identify and select the most appropriate positioning strategy.

### 3.8 MARKETING MIX ANALYSIS – PRODUCT

After understanding the concept of planning, targeting and the marketing environment, the next step for the company is to design its marketing mixes to match the needs of the market. In this topic, the product will be discussed. Some of the ideas under product concept that will be discussed are product levels, new product development process, and product life cycle stages.
3.8.1 Definition

Product is defined as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a need or a want. Products are also known as goods and services. In hospitality and tourism, products can refer to a hotel, restaurants, coffeehouse, bar, entertainment outlet, spa centre, attractions or even destinations.

3.8.2 Product Levels

(a) Core Products
The most basic level is the core product. It answers the question of what the buyer is really buying. Every product is a package of problem solving services. Marketers must uncover the core benefit to the consumer of every product and sell these benefits rather than merely selling features. For instance, the core product for a hotel can be providing stress free holiday rather than plain accommodation.

(b) Facilitating Products
Facilitating products are those services or goods that must be present for the guest to use the core product. For example, a hotel cannot survive if there is no check in counters available for customers to communicate with the hotel.
(c) **Supporting Products**
Core products require facilitating products but do not require supporting products. Supporting products are extra products offered to add value to the core product and help to differentiate it from competition. The difference between facilitating products and supporting products can sometimes be unclear because facilitating products for one segment can be the supporting products for another segment. For instance, a concierge counter for a 5 star hotel is common but if it is implemented in a budget hotel it becomes a supporting product.

(d) **Augmented Products**
Augmented product includes accessibility, atmosphere, customer interaction with the service organisation, customer participation, and customers’ interaction with each other. These elements combine with the core, facilitating and supporting products to provide the augmented product. The augmented product is an important concept because hospitality and travel services require customer coproduction of the service. For instance, the design of a hotel that becomes a landmark for a destination is an augmented product.

### 3.8.3 Understanding the Product Life Cycle

The concept of PLC is that, from a product launch on to the market, until it is withdrawn, it passes through a series of stages. There are 5 stages, which form an S-shaped curve described as:

- Product Development Stage
- Introduction Stage
- Growth Stage
- Maturity Stage
- Decline Stage

Each stage has a number of particular features in terms of costs, sales profit and competition.
Figure 3.11: Product life cycle stages (PLC)

(a) **Product Development Stage**
   
   (i) It begins when the company finds and develops a new idea.

   (ii) A lot of money is invested in Research and Development and therefore investment costs increases.

   (iii) Sales will be zero, as the product is not yet introduced to the market.

   (iv) Competition does not occur yet.

(b) **Introduction Stage**

   (i) Costs at this stage are high due to:

   - Research and product development
   - Stock levels to be set
   - Advertising and sales promotion costs for the launching of the new product
   - Managerial time and resources
(ii) Sales are from first-time buyers and will be significantly affected by the success or failure of the promotional campaign.

(iii) Profit is minimal because of the high financial commitment at this stage. Losses are common.

(iv) Competition is also minimal because the new product is at its infancy and many competitors choose to sit back to see the outcome.

(c) **Growth Stage**

(i) Costs are lower as marketing research and the high initial publicity costs are more a feature of the introductory phase of a new product.

(ii) Sales growth is rapid as the market expands, first-timer buyers may become repeat purchasers.

(iii) Profitability can be at its highest due to increased sales and the overall reduction in costs.

(iv) Depending on the success of the product launch, competition may now enter the market, which has the effect of enlarging the total market for the product due to additional advertising and promotion.

(d) **Maturity Stage**

(i) Costs may increase again particularly in terms of promotion as the company seeks to retain its market share.

(ii) Sales gradually level out as competition from products if other companies take a share of the total market and the growth of the organisation slows.

(iii) Profits also stabilise as sales growth stabilises because prices are reduced in order to compete. Promotional costs take away profitability levels and total demand for the product stabilises.

(e) **Decline stage**

(i) Costs become disproportionately high in an attempt to hold the company’s position in the market.

(ii) Sales and profit levels fall as too many products compete for an ever-decreasing percentage of the market and demand falls while supply remains in abundance.
3.8.4 New Product Development

In the competitive world, companies need to develop new products to stay in the competition. New products can be innovative or imitative products. Anything that is offered as a new variety for the customers are considered as a new product. In order to develop new products, managers can adopt the following steps in new product development.

(a) **Idea Generation**

The initial step in new product development process is idea generation. The company will need to identify product ideas in order to determine which idea is suitable to be implemented. Ideas can be obtained through internal records, from customers, suppliers, shareholders or even competitors.
(b) **Idea Screening**  
Once ideas are generated, the managers will have to filter the ideas and shortlist possible ideas to be developed. This will allow the managers to determine if the ideas are suitable for the current market or if the new product is necessary for the company.

(c) **Concept Development and Testing**  
Once the product idea has been selected, the manager will then develop the concept. Concept development involves detail elaboration of the product in terms of its benefits to customers, features of the product, design, packaging or unique selling point. When the product concept has been developed, then a selected group of target market will be identified to conduct the concept testing. This is to determine if the product concept (explained in pictures or words) is acceptable by the target market.

(d) **Marketing Strategy**  
Development of marketing strategies for the launching of the new product will be done if the concept has been tested and provides feasible outcome. In developing the marketing strategies, the positioning, pricing, promotional details as well as launching date and venue will be decided.

(e) **Business Strategy**  
When all strategies are developed, the manager will then analyse the projections of sales, profit and return on investment period. This is to determine if the developed strategies matches with the goals of the organisation.

(f) **Product Development**  
During this stage, the product concept will be transformed into the actual product that will be offered to the customers. For instance, if the restaurant is coming out with a new menu item, then the formation of the new item will be prepared and cooked according to the product concept.

(g) **Market Testing**  
At this stage, the product will be tested on the target market for trial. For example, some new hotels will invite the media and influential people to have a hotel tour before the official launching of the hotel. This allows the company to have feedbacks and comments before launching it to the public.

(h) **Commercialisation/Launching**  
This final stage will relate to the introduction of the product to the market. Whatever marketing strategies that have been developed earlier, will be implemented during the commercialisation stage.
3.8.5 Conclusion

Having an understanding on the company’s product-service mix will provide an excellent advantage because it allows the company to identify the current position of the product in the product life cycle which can generate ideas in new product development. In addition, proper development of the augmented products can highlight competitive opportunities for the company.

3.9 MARKETING MIX ANALYSIS – PRICE

In the previous topic, students have been introduced to products. In this topic, we will be learning on the second marketing mix, price. Price is an important tool in which by setting the correct price, an organisation will be able to generate revenue from it. Price must be coordinated with other marketing mix, in order to create effective marketing.

3.9.1 Definition

“The amount of money charged for a product or service. More broadly, price is the sum of values consumers exchange for the benefits of having or using the product or service.”


3.9.2 Importance of Price

Price has tremendous impact on sales, profits, market share and perceived value. Any price set for a product can influence customers’ willingness to buy a product. If the price is set correctly and customers are willing to buy the product or service, then there will be many benefits for the company such as the following:

(a) Sales level will be increased
(b) Profits can be increased
(c) Market share can be expanded
(d) Customers’ perceived value of the product can be enhanced
3.9.3 Factors to Consider When Setting Prices

<table>
<thead>
<tr>
<th>Internal Factors</th>
<th>External Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Marketing objectives</td>
<td>- Nature of the market and demand</td>
</tr>
<tr>
<td>- Marketing mix strategies</td>
<td>- Customer’s perception</td>
</tr>
<tr>
<td>- Costs</td>
<td>- Competition</td>
</tr>
<tr>
<td>- Organisational considerations</td>
<td>- Other environmental factors</td>
</tr>
</tbody>
</table>

Pricing decisions

Figure 3.13: Pricing considerations

3.9.4 Internal Factors that Influence Pricing Decisions

(a) Marketing and Pricing Objectives
Before a manager determines the price of a product, he/she should consider the following objectives as the pricing goals or targets. The objectives can be any or combinations of these four aspects:

(i) Financial Objectives/Profit Maximisation
These objectives will focus on the level of profitability, rates of return on sales and equity, and also cash flow patterns.

(ii) Volume Objectives/Market Share Leadership
These objectives will focus on maximising sales and building market share.

(iii) Competitive Objectives/Survival
For competitive objectives, the goals set will focus on the relative position with competing firm and are set to maintain survival, eliminating competition and maintaining parity position with competitors.

(iv) Image Objectives/Product-quality Leadership
These objectives will be closely tied to the positioning strategy of the company. For example, the company is more interested in upgrading its image and thus the pricing of most of its product-service mix must reflect that the image of the establishment has been upgraded.

(b) Marketing Mix Strategy
Price is only one of many marketing mix tools that a company uses to achieve its marketing objectives. Price must be coordinated to with product design, distribution and promotion decisions to form a consistent and effective marketing program.
(c) **Costs**
Costs set the floor price for a company to decide on its prices for products or services. A company that wants to charge a price that covers its costs for producing, distributing and promoting the product. In addition, the price has to be high enough to provide a fair rate of return to investors.

(d) **Organisational Considerations**
Management must decide who within the organisation that sets prices. Different companies have different policies. Some companies leave it to the management to set prices while other companies’ prices are set by corporate departments or regional departments.

### 3.9.5 External Factors that Influence Pricing Decisions

(a) **Nature of the Market and Demand**
While costs set the lower limits of prices, market and demand set the upper limit. Demand for companies’ products and services can impact their decisions on prices. If the products and services are highly demanded, then the company can set a higher price.

(b) **Consumer’s Relative Perception of Value Factors**
The fact that every customer brings in his/her own perception of value every time the customer enters a hospitality or tourism establishment has made managers realise that it is important to include this aspect in setting their prices. Effective buyer-oriented pricing involves understanding how much value consumers place on the benefits they receive from the product and then setting a price that fits this value. Such benefits include both actual and perceived value. The consumer’s relative perception of value covers 5 important aspects as follows:

(i) **The Quality of Product Offered**
When the perceived quality of a product increases, customers are willing to pay a higher price to obtain the product. This is because consumers feel that with the increase in quality, there will be increase in value of the product.

(ii) **The Quality of Services Offered**
The customer is willing to pay for a higher price to places that offer increased personal attention and services. For example, companies that offer personalised service usually charge a higher price and customers are still willing to pay the premium because they feel that the company is catering to their individual needs.
(iii) **The Quality of Atmosphere and Environment**
As the level of atmosphere is raised or enhanced, the consumer normally expects a higher price and is willing to pay for the higher price. For example, the ambience and atmosphere in a fine dining restaurant is normally exclusive and formal, thus the customers are aware that the pricing for this kind of restaurant is normally higher than a casual-type restaurant.

(iv) **The Location of the Facility**
As the location of the company is strategically located whereby it has better accessibility, the consumer normally expects slightly higher price and is willing to pay for the higher price. For example, if a restaurant is easily accessible by trains, cars and is located in the middle of everything, the prices of its products tend to be higher than those restaurants in remote areas.

(v) **The Availability of Competitive Facilities**
As the number of different options available for the customers increase, the perceived value of any of the available choices must be higher for it to achieve the desired market share. If customers perceive that they are spending, they will no longer patronise establishments that offer low perceived value.

(c) **Analysing the Price Demand Relationship**
Demand and price are interrelated, the higher the price, the lower the demand.

![Demand Curve](image)

**Figure 3.14:** Price and demand relationship

In this graph, when the price is established at RM10 (P1), the operation will sell 100 units. As the price decrease, the number of units sold will increase.
This shows that the Rule of Demand applies. If the organisation wants to increase demand, then they may want to reduce the prices. When applying this rule, managers must be cautious that image quality of the establishment and product-service mix would not be affected.

(d) **Price Elasticity of Demand**

Marketers and managers also need to know price elasticity of demand, which shows how responsive is demand to the change in price. For example, if demand hardly changes with a small change in price then the demand is said to be inelastic. If demand changes greatly with a small change in price, then the demand is said to be elastic. Organisations will usually lower the price when demand is elastic in order to produce more total revenue.

Inelastic demand occurs when:

(i) An inelastic demand can occur when the product-service mix is unique

(ii) It can also occur when product-service mix is high in quality, prestige and exclusiveness

(iii) The product or service is difficult to be substituted

(iv) The spending on the product-service mix is lower in total expenditures relative to the income earned

(v) In situations where price is elastic, marketers would usually lower the price to obtain volume in sales

\[
\text{Price Elasticity of Demand} = \frac{\% \text{ of change in quantity demanded}}{\% \text{ of change in price}}
\]

(e) **Competitive Factors**

When an organisation is aware of its’ competitors’ price and offers, it can use that information as a starting point to deciding its own pricing.

(f) **Environmental Factors**

The environmental factors cover aspects relating to the business’ surroundings like:

(i) Economical factors, which refers to the trends for future business growth, population changes, spending patterns.

(ii) Social factors, which refer to the effect of social environment on prices for example, the influence of family or referent groups in influencing the behaviours of the customers.
(iii) Political factors, which refer to the effect of government rulings, laws and legislation on the business operations, for example, in Brunei, the government has made strict rulings that liquor and pork are prohibited from being sold to customers.

(iv) Technological factors, which refers to the growth of the role of technology in the operations, for example, in many restaurants, using computers for ordering food is very popular. Thus, many food-catering operations are forced to include these facilities if they wish to compete in the marketplace.

3.9.6 General Pricing Approaches

Different companies have different policies in pricing. Some may give more attention to ensure the costs are covered while other may focus on the acceptance of customers for the pricing. Generally, there are 4 pricing approaches that are being applied. These approaches are cost based pricing, target profit pricing, buyer based pricing and competitor’s based pricing.

(a) **Cost Based Pricing**

This pricing approach is the most common because companies will tend to estimate the selling price based on a certain percentage of mark up in the cost of the product. For instance, if a plate of salads costs RM7 and it is sold for RM14, then there will be a 100% mark up on cost. This approach is used quite frequently in restaurants and pricing of travel packages because it is easy to determine the cost and most competitors are adopting similar approach. This can ensure a more standard pricing in the market.

(b) **Breakeven Analysis and Target Profit Pricing**

It is a price determination at which it will breakeven or makes the target profit the company is seeking. Target profit pricing uses the concept of breakeven chart, which shows the total revenue expected at different sales volume levels.

For example, if a coffeehouse is running at a fixed cost of RM160,000 and a variable cost of RM2 per plate of salad, and selling at RM14 per plate of salad, will need to sell at least 13,333 plates of salad to obtain a breakeven. Therefore, if the coffeehouse would like to obtain a target profit of RM200,000, they will have to sell a minimum of 13,333 plates of salad to achieve that profit level. If the coffeehouse decides to sell the salad at a higher price, then the breakeven unit will be lower.
The breakeven can be calculated using the following formula

\[
\text{Breakeven volume} = \text{Fixed cost divided by (selling price} - \text{variable cost)} \\
= \frac{\text{RM140,000}}{\text{RM14} - \text{RM2}} \\
= 13,333 \text{ units}
\]

(i) **Buyer Based Pricing**  
This approach is also known as perceived value pricing as pricing will be estimated based on the perceive value by customers and not by the cost. Therefore, using this approach can have a better acceptance of pricing by the market the new pricing is implemented.

(ii) **Competitor’s Based Pricing**  
Competitor’s based pricing approach is reflecting the pricing range of competitors in the market. If the company is operating in a competitive environment, then the pricing of products will be structured to adapt to competitor’s pricing.

### 3.9.7 Pricing Strategies

Pricing for different types of products will change over time as it passes through the product life cycle stages. For products that are in the introduction stage there are different pricing strategies compared to products that already exist in the market.

(a) **Pricing Strategies for New Products**

(i) **Prestige Pricing**  
This strategy is usually used by companies that would like to enter the market with a high image positioning and therefore will introduce the product at a high price.

(ii) **Market Skimming Pricing**  
This is a pricing strategy that enters the market using a high initial price for non price sensitive market. In order for this strategy to work, the product has to be either exclusive or there is no substitution for the product.

(iii) **Market Penetration Pricing**  
This strategy is used to enter the market using a low price to penetrate into the market. The purpose of implementing this strategy is to obtain higher sales volume and increase market share.
(b) **Pricing Strategies for Existing Products**

(i) **Product Bundle Pricing**
   This strategy focuses on tying together a few products and prices it as a single package. For example, most travel packages come with accommodation, tours and transportation. The package is priced to include all the travel components.

(ii) **Volume Discounts**
   This strategy is based on offering discounted rates for higher sales volume generated from the same customer. For instance, many hotels offer special corporate rates for companies that can promise a number of room nights. The corporate rates are usually a discounted rate from the usual rack rates.

(iii) **Discounts Based on Time of Purchase**
   In the hotel industry, there are off peak and peak seasons where rooms are priced differently. This strategy of pricing is based on the seasonal discounts. That is the reason why during off peak season, many hotels offer lower rates to attract the needed sales level.

(iv) **Discriminatory Pricing**
   This strategy is pricing based on the different segment of the market. In entertainment outlets, it is very frequent that one or two days in a week are declared as ladies night in which the female gender does not need to pay for any cover charge. However, the male counterpart will have to pay for admission. In other situations, discriminatory pricing is also used to the advantage of price sensitive customers. For instance, customers who would like to have cheap holiday package will make advance purchases during MATTA fair as it offers reasonable cheap packages for travel period that is 6 months later.

(v) **Last Minute Pricing**
   This strategy is used to price products cheaper if it is near to date of expiry or departure. Delifrance practices this pricing strategy in which there will be cheaper prices for pastry items near the time of closing in order to sell off the items that cannot be kept for sale the next day. The same applies for Star Cruises in which nearing the date of departure, if the ship is not full, the company usually offers buy one free one price.

**Psychological Pricing**
This pricing strategy focus on the psychology aspect in which prices are priced according to the influence it has on purchase decisions. For example, research has
been done on the influence of odd and even pricing where odd prices can have a bigger influence on customer’s buying decision. If a cup of cola is priced at RM1.99, it seems to generate better sales than a cola that is sold at RM2. Even though the difference is only 1 cent; it creates a different psychological behaviour.

Promotional Pricing

This strategy is used as a short tem measure to increase sales. Most restaurants come up with special food promotion in which a set menu or buffet price will be implemented. This can offer good deals to the customers.

3.9.8 Conclusion

Pricing is an important tool that marketers can use to influence demand. Companies will need to understand that different products at different stages will be priced differently. In addition, the internal and external factors can have an impact on the pricing decisions of the company.

3.10 MARKETING MIX ANALYSIS – DISTRIBUTION

Distribution is a vital element of the marketing mix. Distribution involves making the product easily accessible to customers either by physical presence in a market or by representation. Distribution role in hospitality marketing is difficult to understand because there is no actual physical transportation of a product. Most of the time, the production and consumption of a product happen simultaneously. For example, a customer who ordered a meal in a restaurant will usually consume the meal before leaving.

3.10.1 Channel Organisation

Channel organisation relates to the relationship between suppliers and sellers. In hotels’ case, it means how hotels work with their intermediaries. In deciding on channel designs, organisations need to look into channel width and channel length. Channel length decision on the other hand is based on the number of intermediaries.

(a) Channel Width

Channel width decision is based on the desired amount of market coverage. This means if the hotel wants higher market coverage, the channel width will be wider. There are 3 strategies of channel width that organisations can adopt:
(i) **Exclusive Distribution**
This is the narrowest channel width because organisations limit the availability of its products or services to a particular place. This strategy is more widely used among independent operators because it is only at one place that consumers can obtain the product.

(ii) **Selective Distribution**
Selective distribution is the middle channel width and is based on organisation using more than one outlet but limiting the availability of products and services to a limited number of places. For example, Hard Rock Café and Planet Hollywood only limit themselves to large cities.

(iii) **Intensive Distribution**
Intensive distribution is the widest channel strategy and is based on organisations attempting to make products and services available through as many outlets as possible. For example, Coffee Bean and Starbucks have many outlets in different parts of the country and majority of the places you go you will be able to find one.

(b) **Channel Length**
The channel length decision is based on the number of intermediaries between the producer and the final consumer. However, in hospitality industry, the channel length is usually shorter because of simultaneous production and consumption. There are two channel length strategies known as direct channels or indirect channels.

(i) **Direct Channel**
Direct channels are the most common for hospitality organisations because the producer sells directly to the consumer. This allows organisations to have close contact with the consumer and able to react quickly to changes in the market.

(ii) **Indirect Channel**
An indirect channel means that there will be at least one intermediary that is responsible for one or more channel functions. There are a few indirect channels in the hospitality industry but they are more related to travel industry. For example, tour operators work directly with hotels and airlines to combines services to market as a tour package to travel agents. Then the travel agents will sell the package to consumers.
3.10.2 Channel Management

When the channel is developed, the organisation will need to manage it. This is to avoid any conflicts between members of the channel and the cooperation between members will contribute to the success of distribution. Most organisations are involved in more than one channel and occupy different position in each channel. For example, a hotel not only acts as the provider of hospitality product but it is also the customer of linen company, kitchen equipment and so on. If any problems exist in one channel, it will affect the other channels.

Conflict may arise between members during negotiations over price, quantity, quality and availability. If there is a mutual understanding between members of the channel, both parties will benefit in future. Approaches to managing channels can be divided into channel power, channel leadership and vertical marketing systems.

3.10.3 Intermediaries

As mentioned earlier, most of the distribution channels in hospitality industry are direct and do not need intermediaries. However, the hospitality industry does have relationship with certain intermediaries that help bring in business for hotels. Intermediaries specialise in certain functions in the service delivery process and they can add value to the service with their knowledge and expertise. This specialisation results in more efficient production and distribution of services and lower prices for consumers. Listed below are some of the intermediaries for hospitality industry:

(a) Travel agents
(b) Tour operators
(c) Meeting planners
(d) Hotel representatives
(e) Travel bureaus
(f) Government tourist associations
(g) Global Distribution Systems

3.10.4 Distribution Through the Internet

Conducting business through the Internet is very common nowadays. By connecting to the Internet, organisations can allow potential customers to have
faster accessibility to the organisations’ products. Here are some of the benefits of using the Internet as a mode of distribution:

(a) Faster transaction
(b) Obtaining customer information and building a database
(c) Providing customer service
(d) Educate and inform potential customers
(e) As a tool for advertising

Although using the Internet is very efficient, but there is a disadvantage in terms of security, especially for any credit card transaction. To tackle this problem, organisations can use a form of authentication, firewall and coding or encryption techniques.

3.10.5 Conclusion

Distribution is hospitality is very important as marketers will want to ensure a smooth flow of accessibility for customers in reaching the hotel’s products and services. A proper distribution network will not only ensure easy accessibility and convenience to the customers but also providing benefits of the economies. Thus, proper channel organisation and management is needed to achieve that objective.

3.11 MARKETING MIX ANALYSIS – PROMOTION

In previous topics, we have been introduced to the first 3 marketing mix, product, price and place. In this topic, another important marketing mix, which is promotion, will be introduced to provide a better understanding of how promoting products are done and the necessary elements that should be taken into consideration. It will be such a waste if a company has already set its products and prices but nobody knows about it. The promotional activities done by companies are vital in communicating the company’s product/services to the market. Before discussing on promotion, we will firstly look into the principles of communication as promotion is a form of communication.

3.11.1 The Elements of Communication Theory

One important element of achieving customer satisfaction is by providing a product or service that will meet or exceed customers’ expectations. In order to understand customers’ wants and needs, communication is very important. The
organisation needs to constantly communicate its products or services to potential and existing customers. The message that the organisation communicates to the customers is very important because every point of the message may strengthen or weaken customers’ view towards a product or service. The model below shows the nine elements in the communication process.

![The communication process model](image)

**Figure 3.15: The communication process model**

The elements of the communication process

(a) Sender: the major party involve in sending a message to another party.

(b) Encoding: it is one of the major communication tools, which can be described as the process of putting thoughts into symbolic forms.

(c) Message: it is one of the two communication tools used which can be explained as the set of symbols the sender transmits or in a simpler term, the actual advertisement that the company created.

(d) Decoding: this is another communication function; it is the process of assigning meanings to the symbols given in the advertisement.

(e) Receiver: is another important party (audience) involved in the communication process; is the person who receives the message. The audience has the role as an initiator, decider, purchaser, influencer and user.

(f) Response: it is another communication function, which tells the reactions of the receiver after being exposed to the advertisement. It can be positive, negative or neutral reactions.

(g) Feedback: is another communication function, which describes the receiver’s response that is communicated back to the sender. For example, the customer who commented or complaint on the advertisement.
(h) Noise: is the unplanned distortion, interruption, or distraction during the communication process that results in the receiver getting a different message.

Example of how the Communication Process Works
If given that a hotel would like to promote its products, the hotelier will become the Sender, the party sending the message. Then the sender will put together a set of symbols that will illustrate the message to be delivered. This process is known as Encoding. The sender needs to ensure that they encode the message in the way that they think the receiver will decode it. The Message is then transmitted through the usage of suitable Media like brochure, advertising and so on. The process then involves the customer Decoding the message. At this stage, the customer translates the message into meanings. This stage is crucial because the customer can decode the message as the sender intended it and the customer could also decode the message wrongly and dismiss the original message.

The decoded message will then reach the Receiver, the party who is receiving the message. The receiver may or may not create Response towards the message conveyed. If the message was communicated successfully, then the receiver will most likely stay at that particular hotel. When the receiver is at the hotel, he/she will provide Feedback to the sender through comments or complaints. There is one element that will disturb the communication process at all stages, known as Noise. Noise is generated everywhere and if at any particular point this element overpowers the other elements, the original message will be distorted. For example, when an advertisement is out on television, the target audience might be sitting at home watching the TV. At the same time, there might be kids running around the house and making a lot of noise. That particular receiver might not be able to decode the message properly when seeing the ad because the environment is too noisy and the receiver cannot get the entire message without any disturbance.

3.11.2 Developing Effective Communication

There are 6 steps in developing effective communication.

(a) **Identify the Target Audience**
First of all, the company will need to find out who are the people that they want to communicate with, whether they are the existing customers or potential customers. The audience can be groups, special publics or the general publics. This step is important because different target audience will respond to different types of communication programmes and companies will need to know what to say, how to say it, where to say it and who will say it.
(b) **Determine the Response Sought**
Once the target market has been clearly defined, the communicator must decide on what response is sought from them. Even though the communicator plans to get the purchase response from the target market, he/she must understand that the final response is the result of a long process of consumer decision-making. Six buyer readiness states of awareness, knowledge, liking, preference, conviction and purchase are the flows of how one response is moved to the final response.

![Figure 3.16: The communication process](image)

(c) **Design the Message**
After determining the communication objectives, the company will need to design the message to be conveyed. In designing an effective message, the ideal model known as the AIDA model is used. According to this model, the message designed should get attention, hold interest, create desire and obtain action.

Companies should also decide on the message content, message structure and message format. In terms of message content, communicators can decide whether the message is based on a rational appeal, emotional appeal or moral appeal. Rational appeal is related to audience self-interest, where the message shows the benefits of the product. Emotional appeal is more towards generating purchase through provoking audience’s emotions. Moral appeal is directed to the audience’s sense of what is right and proper.

Message structure is related to how the communicator wants to say the message. Finally, message format is related to how the communicator can say the message symbolically, such as through visual ad or audio ad.

(d) **Select the Communication Channels**
There are two types of communication channels, namely personal communication and non-personal communication. Personal communication is more towards a one to one communication where non-personal communication is related to print broadcast, display media, and events.
(e) **Selecting the Message Source**
In this step, the communicator must understand that the message’s impact on the target market is also affected by how the target market views the sender. The message must make a credible source and the factors for credibility are expertise, trustworthiness and likeability.

(f) **Collecting Feedback**
The last step is finding out the effectiveness of message on the target market. This can be done by asking the target market their opinions on the message or by checking their behaviours. For instance, finding out how many of them use the products, have visited the place or talked about other companies.

### 3.11.3 Establishing the Total Communications Budget

Companies can follow four ways of setting budget and they are:

(a) Affordable method: A budget is set based on what management thinks that they can afford

(b) Percentage of sales method: Companies set promotion budget at a certain percentage of current and forecasted sales or a percentage of the sales price

(c) Competitive parity method: Companies set their promotion budgets to match or be at the same level as competitors

(d) Objective and task method: Companies set their promotion budgets by defining objectives and then estimate how much is needed to achieve that objective

### 3.11.4 Definition of Promotion

Promotion is defined as the deliberate strategies or activities that an establishment holds to communicate its merits of its product-service mixes in order to gain awareness, acceptance or desired response from its target market. In other words, promotion is the art of persuading your current and potential guests to buy more and more of your products and services.

### 3.11.5 The Role of Promotion

Why is promotion so important? The main role of promotion is to communicate with individuals, groups or organisations. Through promotion, message such as information about products or services can be communicated to existing and potential guests. In addition, it also seeks to directly promote exchanges by
influencing one or more of the audience to accept the company’s products. In simple terms, promotion seeks to create awareness of existing and potential guests towards a product.

Imagine that you are planning to open a hotel and before opening, what would you do to make people know about the location of your hotel and the opening date for your hotel? You will either advertise in the newspapers or distribute flyers and maybe even give discounts to stimulate potential guests to visit your hotel. All these are part of what we call promotion.

3.11.6 The Promotion Mix

Promotional mix is the combination of promotional tools that a company uses to influence demand and to achieve its marketing and communication objectives. Each promotional tool has its own advantages and disadvantages and different organisation will require different promotional tools to achieve its communication objective. The following are some of the promotional tools used by organisations.

(a) Advertising
Advertising is a paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. The types of advertising media include TV, radio, print and direct mail.

(b) Sales Promotion
Sales promotion is giving short-term incentives to encourage the purchase or sales of a product or service. Examples of sales promotional tools are discounts, coupons, contests and sweepstakes.

(c) Public Relations and Publicity
Public relations is a tool used for building good relations with the company’s various publics by obtaining favourable publicity, developing a good corporate image and handling or heading off unfavourable rumours, stories and events. Publicity is unpaid communication by unidentified sponsor through non-personal media. It is also known as free advertising.

(d) Personal Selling
Personal selling is an oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales.

(e) Merchandising
Merchandising refers to in-house promotion of products and services, which is usually accomplished by using table tents, posters, display items or brochures.
(f) **Direct mail**
Direct mail is postal communication by an identified sponsor. Sometimes known as direct response promotion, it is one of the forms of direct selling.

(g) **Sponsorship**
Sponsorship is the material or financial support of some activity, usually sports or arts, with which the sponsor is not associated with in the business.

Although these promotional tools are effective in generating awareness of the company’s products or services, they are only part of the communication between the buyer and seller. This is because communication is more than just the promotional tools but covers the whole range of marketing mix in order to communicate effectively and efficiently with the existing and potential customers, as well as shareholders. Besides being attracted to discounts and such, customers also look into the price, quality and packaging of the products or service.

### 3.11.7 Factors in Setting the Promotion Mix

When setting the promotion mix, communicators need to look into the following factors:

(a) **Type of Product and Market**
The importance of the different promotional tools varies among customers. Furthermore, some products are more suitable to be using sales promotion rather than print advertising. For example, if a hotel is launching a new menu, giving out free samples is much easier to communicate the credibility of the product rather than through explanation on newspaper.

(b) **Push versus Pull Strategy**

Push strategy: The Company directs its marketing activities (personal selling and trade promotions) at channel members to induce them to order and promote the product.

Pull strategy: The Company directs its marketing activities (sales promotion and advertising) toward final consumers to induce them to buy the product.

(c) **Buyer Readiness State**
Different promotional tools will affect buyer readiness at different stages. For instance, sales calls and sales promotion is more effective towards the end of closing a sale.
(d) **Product Life Cycle**

Different stages of the product life cycle will also affect the setting of promotional mix. For example, during introduction stage, advertising is a must and may be with sales promotion in order to create awareness and to induce trial.

### 3.11.8 Conclusion

Promotion is a very useful marketing tool in influencing the perception as well as buying behaviour of the market. If the marketer can design a very effective promotional campaign then it will create the product awareness desired and at the same time generating possible revenue or the company.

**SUMMARY**

- This subject deals with the learning and understanding of the principles of marketing in hospitality and tourism areas.
- Students will be taught on the deeper part of market targeting and marketing planning.
By the end of this topic, you should be able to:
1. Explain the accounting concept;
2. Prepare the financial statements;
3. Calculate the financial ratios and its interpretation;
4. Explain the costing concept;
5. Perform the costing analysis and decision making;
6. Explain budgeting process and perform an variance analysis;
7. Discuss the financial management concept;
8. Explain type of financing available in market;
9. Calculate different type of interest;
10. Able to perform capital budgeting evaluation; and
11. Able to make business decision: financing decision and investment decision.
4.1 UNDERSTANDING FINANCIAL STATEMENTS

4.1.1 Introduction

Financial statements allow the company to assess the past financial performance and current financial condition of a proprietorship, partnership, or corporation. The financial statement is useful data for decision-making.


4.1.2 The Principles, Assumptions and Concepts of Accounting

These principles, assumptions and concepts of accounting provides us the bases when preparing the financial statement and to ensure the statements were prepared free from any manipulation.

- **Accrual Basis**: Under the accrual basis of accounting, revenues are recognised when they are realised and expenses are matched against revenue
- **Realised**: revenue is realised when the earning process is virtually complete and the amount that will be collected is measurable and reasonably assured
- **Recognised**: revenue is recognised by making an entry in the financial records
- **Matching**: insures that expenses are recognised in the same period as the revenue they helped generate
- **Entity Assumption**: regardless of its form (corporation, partnership, proprietorship), a business enterprise exists separate and apart from its owners
- **Monetary Assumption**: only those transactions that can be valued in monetary terms are recorded in the financial records
- **Going Concern Assumption**: in the absence of evidence to the contrary, the business is expected to continue into the future: it will be able to use its investment in assets to generate adequate income and cash to satisfy current and potential liabilities
- **Time Period Assumption**: economic activities can be divided into artificial time periods such as a month, quarter, or year. (The shorter the time period, the more difficult it becomes to accurately measure elements of economic activity)
• **Historical Cost**: amounts in the financial records and statements represent exchange value at the date of acquisition, not current value or replacement cost

• **Conservatism**: when there is doubt concerning which accounting choice is appropriate, conservatism indicates the firm should use the approaches that is least likely to overstate income or assets

• **Consistency**: similar transactions should be treated the same way from year to year so that statements can be compared over time

### 4.1.3 Elements of Balance Sheet Statement

The purpose of the balance sheet is to show what the firm owns (assets) and owes (liabilities owed to outsiders plus the residual interest owed to shareholder/owners).

(a) **Assets**

An asset is something the firm *owns* that has *future economic benefit, in this case, the generation of sales*. An item cannot be recorded as an asset unless the company owns it.

In most financial statements, assets are divided into at least two categories: current and non-current (fixed assets). Current assets comprise those that are expected to be converted into cash or used up within one year or the operating cycle. For instance, cash, debtors and inventory. Non-current assets include property, plant and equipment (PP&E), furniture and fitting, linen, chinaware and intangible assets (like franchise and goodwill). The non-current assets are not acquired with the intent to resell them; rather, they provide the productive capacity to earn revenue more than one year.

(b) **Liabilities**

Liabilities are obligations to pay or convey assets in the future based on past transactions. Liabilities are divided into current and non-current (long-term). Current liabilities are those obligations that will be satisfied within one year or the operating cycle. For example, creditors and short-term loan. The non-current liabilities are debts due after one year like bond and long-term loan. Regardless of their classification as current or non-current, liabilities represent a claim, not an ownership interest.

(c) **Shareholders’ Equity**

Shareholders’ equity is the ownership interest of those who have invested in the company through the purchase of capital stock. Shareholders’ equity account classifications include capital stock, additional paid in capital, and retained earnings. A corporation may have several different classes of stock,
each having slightly different characteristics. The two general classes are preferred stock and common stock. Preferred stock will have a stated dividend rate or amount and will usually have preferences as to payment of dividends or distribution of assets in the event of liquidation. Corporations are under no obligation to declare dividends; however, if dividends are declared, the holders of stock with preferences must receive dividends before dividend payments can be made to the holders of common stock.

The common stockholders can vote and participate in day to day operation of the company. However, the holders of common stock have no guarantees of dividend. They are the risk-takers who will benefit the most if a company is successful but who will lose the most (often their entire investment) if the company fails.

4.1.4 Detail Items in the Balance Sheet

(a) Assets

(i) Current Assets

- **Cash:** cash and cash equivalents including currency, bank deposits, and various marketable securities that can be converted into cash on short notice. Only securities that are purchased within 90 days of their maturity dates may be classified as cash.

- **Marketable Securities:** short-term equity and debt investments that are readily marketable and that the company intends to convert into cash. Generally shown at fair market value, marketable securities represent an investment of idle cash.

- **Accounts Receivable (debtors):** amounts due from customers that have not yet been collected from credit sales.

- **Inventories (stock):** represents items that have been manufactured or purchased for resale to customers.

- **Prepaid Expenses/Other Current Assets:** usually minor elements of the balance sheet, “prepaids” represent payments made in advance, the benefits of which have not yet been used up. Examples include insurance and advertising contracts.

(ii) Non-current Assets (Fixed Assets)

**Property, Plant and Equipment (PP&E):** PP&E generally includes such long-lived elements as land, buildings, machinery, equipment, furniture, automobiles, and trucks. PP&E is recorded at historical cost and shown at that cost less accumulated depreciation. Because, with the exception of land, these long-lived assets are expected to gradually

[continue reading]
lose their economic usefulness over time, a portion of the total cost is allocated to current expense via depreciation. (Depreciation expense “matches” a portion of the asset’s cost to the revenue it helped generate in a given period.) Accumulated depreciation represents all depreciation expense to date for each depreciable asset included in PP&E.

**Intangibles:** are assets with no physical substance but which often have great economic value. Only those intangibles that have been purchased are shown as assets. Patents, copyrights, and trademarks are examples of intangibles. Another important type of intangible asset is goodwill. Goodwill is a label used by accountants to denote the economic value of an acquired firm in excess of its net identifiable assets. In a process similar to depreciation, the cost of intangible assets is spread over multiple operating periods via amortisation.

(b) **Liabilities**

(i) **Current Liabilities**

- **Accounts Payable (creditors):** the amounts the company owes to regular business creditors from whom it has bought goods and services on open account. Often called “trade debt,” accounts payable represents the short-term, unsecured debt that arises in the normal course of trade or business.

- **Notes Payable:** are more “formal” liabilities because they are evidenced by a written promise to pay. A note is a legal document that a court can force a firm to satisfy.

- **Accrued Expenses:** represent liabilities for services received but unpaid at the date of the balance sheet. Accrued expenses shows the total amount the company owes for such items as salaries, rent, utility bills, and other operating expenses.

- **Income Taxes Payable:** includes unpaid taxes due within one year. Many firms use the more general category Taxes Payable and include in the total amounts owed for payroll and other taxes as well.

- **Other Current Liabilities:** might include warranty obligations and unearned revenue. If interest payable is a relatively insignificant amount, it may be included here. A firm will have unearned revenue if it has received cash in advance of providing goods or services. Prepaid sales (Unearned revenue) is a liability because the firm must either provide the goods/services as promised or return the cash received.
(ii) **Long-term Liabilities**

- **Deferred Income Taxes**: are created by using different accounting methods for financial and tax purposes. For example, a company may use accelerated depreciation for tax purposes and straight-line depreciation for financial accounting purposes. The higher (accelerated) depreciation expense results in a lower income tax due. However, because income tax expense for financial accounting purposes reflects the higher amount that would be due if straight-line depreciation were used, the company estimates the difference that will be owed in the future. This estimate is called deferred taxes.

- **Debentures (Bond)**: are a major source of funds for large firms. A bond is written evidence of a long-term loan. It is really a promissory note containing the firm’s promise to (1) pay periodic interest (usually semi-annually) at a specified rate and (2) repay the amount originally borrowed (principal.) Debentures may be secured or unsecured. A mortgage bond is a type of secured debenture. The holders of unsecured bonds rely on the ability of the firm to generate sufficient cash flows to meet principal and interest payments as they come due.

(iii) **Other Long Term Liabilities**: includes any other amounts owed to creditors with a due date beyond one year.

(c) **Shareholders’ Equity**

- **Preferred Stock**: is capital stock with certain preferences as to dividends and distribution of assets in the event of liquidation. All the preferred stocks are cumulative. Its means that if in any year the dividend is not paid, it accumulates and the accumulated amount must be paid to holders of preferred stock before any dividend is paid to the holders of common stock. The holders of preferred stock generally may not vote and therefore have no voice in company affairs (unless the company fails to pay dividends at the promised date.)

- **Common Stock**: is generally voting stock with no specified dividend payment. Thus, holders can control the company. However, companies may have several classes of common stock which may include non-voting common stock.

- **Additional Paid-in Capital**: results from selling preferred or common stock at more than its par value. For example, if 100 shares of $10 par value common stock were sold for $1,500, $1,000 would be shown as common stock and the excess received over par value, $500, would be shown as additional paid in capital. If a stock has no par value, the total
amount received is shown as stock; no portion is assigned to additional paid in capital.

- **Retained Earnings:** is an historical record of earnings retained in the business. Retained earnings increases as the result of earning a profit; this account is decreased by incurring a loss. Declaration of a dividend also results in a decrease in retained earnings because the company is distributing part of its earnings, in the form of cash or other assets, back to its shareholder-owners.

- **Other Items:** Treasury stock is the company’s own stock that has been issued, is fully paid, and has been repurchased by the company. When a company repurchases its own stock with the intention of holding it temporarily (rather than cancelling it) the cost of treasury stock is usually shown as a deduction from stockholders’ equity.

### 4.1.5 Financial Ratios for Balance Sheet

Investors, creditors, and other users of financial statements often analyse relationships between or among balance sheet accounts using ratios. The three types of ratios used most often are liquidity ratios, leverage ratios, and activity ratios. The ratios provide useful info about the financial performance of the company.

The evaluation of the ratios can be divided into two types:

(a) **Time series (trend) analysis:** The comparison of ratios over few years of the company.

(b) **Cross-sectional:** The comparison between company’s ratios and its nearest competitor’s ratios.

(a) **Liquidity Ratios**

Liquidity ratios focus on working capital accounts and provide information about a company’s ability to meet currently maturing liabilities from its current assets. Working capital is current assets minus current liabilities.

- **Current Ratio:** is current assets divided by current liabilities. It tells how many dollars of current assets are available to cover each dollar of current liabilities.

- **Quick Ratio:** is “quick” assets (current assets minus inventories) divided by current liabilities. Also called the acid test ratio, the quick ratio shows how many dollars of assets quickly convertible into cash are available for each dollar of current liabilities.
(b) **Leverage Ratios**
Leverage ratios provide information about the relationship between the financing provided by owners (shareholders’ equity) and that provided by creditors (current and non-current liabilities.) Leverage ratios provide a means of assessing the risk associated with using borrowed funds.

- **Debt to Equity Ratio (Gearing):** is total liabilities divided by total shareholder’s equity. The ratios indicate how much of debt was raised for every RM1 of equity.

- **Debt to Assets Ratio (Debt Ratio):** shows the percentage of total assets financed by creditors. It is computed by dividing total debt by total assets.

(c) **Activity Ratios**
Activity ratios describe a relationship between an income statement and balance sheet element. In other words, the activity ratios measure how efficient the company runs its day to day operation. Examples of activity ratios include inventory turnover, asset turnover, average collection period for accounts receivable and days of cash.

- **Total Asset Turnover:** is sales divided by total assets. It measures asset utilisation: how many dollars of sales are generated by each dollar invested in assets

- **Inventory Turnover:** is cost of goods sold divided by average inventory. It measures the number of times inventory is “turned over” or sold during a year. The ratio can be express in day: is 365 days divided by inventory turnover

- **Account Receivable Turnover (Debtors Turnover):** is sales divided by average debtors. It indicates how many times per year it takes to collect back the payment of credit sales. The ratio can be express in day: is 365 days divided by the debtors turnover

- **Creditors Turnover:** is creditor divided by purchase. The ratio indicates how many times in year the company pays its suppliers. The ratio can be express in day: is 365 days divided by the creditors turnover

4.1.6 **Elements of Profit and Loss (Income) Statement**

Because the income statement shows how much profit a company earned or the size of the loss it incurred, the income statement is often referred to as the profit and loss or P & L statement. The income statement shows the results of operations for the time period specified: it shows revenue earned during the period and the expenses that were incurred to earn that revenue.
(a) **Revenue**
The first item on an income statement is the company’s principal source of revenue. It is net sales (sales less returns and allowances), revenue earned through the sale of goods and services to customers.

(b) **Cost of Goods Sold (COGS)**
For a merchandise firm, COGS is the acquisition cost of the merchandise sold plus the cost of freight-in. For a manufacturer, COGS will include the material, labour, and overhead costs associated with merchandise sold.

(c) **Gross Margin (Gross Profit)**
Gross margin/profit is the excess of net sales over COGS. Gross margin is the amount available to cover operating and financing expenses and provide for a profit.

(d) **Depreciation and Amortisation**
Depreciation and amortisation are expenses which allocate the cost of long-lived assets over the periods they are expected to benefit.

(e) **Selling, General, and Administrative Expenses (SG & A)**
This amount includes all usual and recurring operating expenses with the exception of COGS.

(f) **Operating Income**
This amount is the excess of operating revenues over operating expenses. This is the income after deducting all the expenses like COGS, SG & A and depreciation. However, the income is still not cover the interest and taxes. Sometimes, this income called Earning before interest and taxes (EBIT) or operating profit.

(g) **Income Taxes**
Income taxes are shown as the amount that would be due on income shown for financial accounting purposes.

(h) **Net Income**
This line shows the net after-tax effect once all revenues and all expenses for a period of time are considered.

### 4.1.7 Profit and Loss Statement in Hospitality

In hospitality, there is a special accounting system. The system called uniform system of account, which provides standardised accounting procedures, account title and financial statements format to guide in the preparation and reading of
profit and loss statement. Standardised profit and loss statements are easier to understand and permit comparison within the hospitality industry.

The system requires P & L statements are departmentalised. Each operating department has its P & L statement showing the revenue in the department and direct expenses incurred to generate the revenue. Direct expenses are the controllable by, and are responsibility of the department. Direct expenses include cost of good sold (COGS) and department expenses (department SG & A).

Revenue less direct expenses to arrive departmental profit. Indirect expenses are expenses that are not easily traceable to the specific department and are classified as undistributed expense like taxes, depreciation and interest. Undistributed expenses are normally incurred in support of the overall hotel operation and will appear on summary P & L statement.

Total all the departmental profit to arrive total operating income/profit (EBIT). Total operating income profit less undistributed expenses equal to Gross Operating Profit (GOP). GOP less any tax, interest and depreciation to arrive net profit/income.

### 4.1.8 Financial Ratios for Income Statement

(a) **Gross Profit Margin**
Gross margin percentage expresses gross margin as a percentage of sales.

(b) **Operating Profit Margin**
Operating profit margin is computed by dividing operating profit (EBIT) by sales.

(c) **Net Profit Margin**
Net profit divided by sales is another way to evaluate operating performance.

(d) **Asset Turnover Ratio**
As noted in the discussion of balance sheet analysis, this ratio shows how many dollars in sales were generated by each dollar invested in assets.

(e) **Return on Assets (ROA or ROI)**
Return on assets is calculated by dividing net income by total assets. It indicates the return from assets investment.
(f) **Return on Equity**
Return on equity measures the rate of return on the book value of the shareholders’ total investment in the company. The ratio indicates how much is return provided to owners.

(g) **Times Interest Earned**
This measure indicates the ability of a company to meet its required interest payments on debt. It is computed by operating profit (EBIT) dividing the total by interest expense.

### 4.1.9 Limitations of Financial Ratio Analysis for Financial Statement

(a) Accounting practices differ widely among the firms and can lead to differences in computed ratios. For example, the firms may choose different methods of depreciation their fixed assets.

(b) Financial ratios can be too low or high. For example, a current ratio that exceeds the industry norm may signal the presence of excess liquidity, which results in a lowering of overall profits in the relation to the firm’s investment in assets. On the other hand, a current ratio that falls below the norm indicates the possibility that the firm has inadequate liquidity and may at some future date be unable to pay its bills on time.

(c) Many firms experience seasonality in their operations. Thus, balance sheet entries and their corresponding ratios will vary with the time of the year when the statements are prepared.

(d) It is sometimes difficult to identify the industry category to which a firm belongs when the firm engages in multiple lines of business.

### 4.1.10 Statement of Cash Flows

Although the balance sheet and the income statement provide the investor information about a company’s financial position at a point in time and the results of operations for a period of time, neither statement shows in any detail the result of investing and financing activities. The statement of cash flows was developed to provide detailed information about the impact on cash of the operating activities of a company (summarised in the income statement) as well as its investing and financing activities.

Cash flows are separated by business activity. The three business activities shown on the statement are operating activities, investing activities, and financing activities.
Operating activities are those transactions relating to the production and delivery of goods and services in the normal course of operations.

Investing activities are those transactions related to buy and sell non-current assets (fixed assets).

Financing activities are those transaction related to equity and debt financing. The debt financing can be short-term and long-term in nature.

(a) **Use of the Cash Flow Statement**

(i) **Management Uses**

- To show the flow of the cash from the operating activities is large enough to finance all projected capital needs or not.
- If not, the company can use the statement to determine why such shortages are occurring.
- Moreover, using the statement, the management may also recommend to board of directors a reduction in dividend policy to conserve cash.

(ii) **Investor and Creditor Uses**

- The firm’s ability to meet its obligations
- The firm’s ability to pay dividends
- The firm’s need for external financing
- Reasons for difference between net profit and associated cash receipts and payments

(b) **Methods of Preparing the Cash Flow Statement**

(i) **Direct Method**

This method deducts from the cash sales only those operating expenses that consumed cash basis. In other words, the method converts the profit and loss statement from accrual basis to cash basis. This method is not widely practice in the industry.

(ii) **Indirect Method**

The method started with accrual basis net profit and indirectly adjusts net profit for items affected reported net profit but did not involve cash. This method is the most popular method in preparing the cash flow statement.
However, the effect of these methods is appeared in operating cash flow activities section only. Financing and investing cash flow activities are not affected or remain the same in both methods.

### 4.2 UNDERSTANDING OF COST ACCOUNTING

Managers must understand the behaviour of costs to plan and make decisions. To plan income for a future period, managers must be able to predict costs for that period, which requires estimates of fixed and variable costs for that period. Managers also need good estimates of variable cost so they can compute contribution margin because of important planning and decision-making activity requires knowledge of contribution margin.

In addition, manager needs to understand cost behaviour to manage and control operations. The recent change in the competitive environment, especially the emergence of companies that compete worldwide. The reducing costs and increasing quality have been critical to the success of many modern companies. Cost reduction is one key to increasing competitiveness and profitability.

#### 4.2.1 Cost Classification

(a) **Direct costs**: those cost which can be directly identified with a particular department or product. For instance, direct material, direct labour and direct expenses. The sum of all direct costs will produce the total of Prime Cost.

(b) **Indirect Costs**: Those costs cannot easily be identified with a particular department or cost object. For instance, indirect material, direct labour (labour cost not directly involved in making the end product) and direct expenses (the expenses which cannot be accurate charged to any product). Indirect cost are sometimes referred to as overhead cost.

(c) **Variable costs**: one which varies in proportion to change in volume of activity/revenue. Variable costs are essentially the same as direct cost.

(d) **Fixed costs**: Those costs do not change or vary with volume of activity/revenue. This cost can be changed in long-run not in the immediate term. Because of this, it can be described as indirect or period cost.

(e) **Semi-variable cost**: those cost which are not perfectly variable nor are they entirely fixed in relation to production volume. For instance, electricity, where there is a fixed charge up to given number of units and variable charge after that point.
4.2.2 Cost Volume Profit (CVP) Analysis (Break-even Point Analysis)

The company use CVP analysis to determine what effect changes in their selling prices, costs, and or volume will have on profits in the short-run. The analysis require the knowledge of costs and their fixed or variable behaviour as volume change.

The contribution margin is the amount by which revenue exceeds the variable costs of producing that revenue. It indicates the amount of money remaining after the company covers its variable cost.

The profit equation is:

\[
\text{Net income} = \text{revenue} - \text{total variable costs} - \text{fixed costs}
\]

(a) Finding the Break-even Point (BEP)

The BEP is the level of operations at which a company realises no net income or loss. A company may express a BEP in term of dollars of sales revenue or number of unit produced or sold.

Break-even in Units:

\[
\text{Be}_{\text{units}} = \frac{\text{Fixed costs}}{\text{contribution margin per unit}}
\]

Break-even in Sales Dollar:

\[
\text{Be}_{\text{dollars}} = \frac{\text{Fixed costs}}{\text{contribution margin ratio}}
\]

where,

\[
\begin{align*}
\text{contribution margin per unit} & = \text{selling price per unit} - \text{variable cost per unit} \\
\text{contribution margin ratio} & = \frac{\text{contribution margin per unit}}{\text{selling price per unit}}
\end{align*}
\]

(b) Use BEP for Target Profit

The CVP analysis can be used to find the level of sales in unit and RM to achieve the target profit by the company.

Required Profit in Units:
Required Profit = (fixed cost + target profit)/contribution margin per unit

Required Profit in RM:

Required Profit = (fixed cost + target profit)/contribution margin ratio

(c) Margin of Safety
Margin of Safety is the amount by which sales can decrease before the company incurs a loss. For example, assume Video Company currently sales of $120,000 and its break-even sales are $100,000. The margin of safety is $20,000, computed as follow:

\[
\text{Margin of safety} = \text{current sales} - \text{break-even sales}
\]

Margin of safety can be express as a percentage, called the margin of safety rate. The equation is:

\[
\text{Margin of safety rate} = (\text{Current sales} - \text{break-even sales})/\text{current sales}
\]

4.2.3 Important of the CVP

A company that is continually making loss, no matter how small, has a limited life. On the other hand, if it is making profits, then theoretically, it has an indefinite life. The CVP is therefore important for business decisions as it marks the very lowest level to which activity can drop without putting the life of the company in competitive disadvantage.

By using CVP, a firm can decide on which of the following methods to use in order to increase profit or decrease loss.

- Increase sales volume
- Increase selling price per unit
- Decrease fixed costs
- Decrease variable cost per unit
### 4.2.4 Assumptions and Limitation of CVP

(a) It assume that fixed cost remain the same at different levels of activity.
(b) The total cost line is straight line. In reality, the line is not linear but curved.
(c) The CVP is valid within the relevant range.
(d) CVP assumes all units produced are sold.
(e) In multiproduct firm, each possible product mix will tend to incur different costs so that with any change in the product mix, a new CVP is required.
(f) CVP assumes the monetary values are stable. In order to establish the CVP in real term, it may be necessary to adjust revenue and costs to current purchasing power.

### 4.2.5 Control Concept

Robert J. Mockler’s definition: Control is a systematic effort to set performance standards with planning objectives, to design information feedback systems, to compare actual performance with these predetermined standards, to determine whether there are any deviations and to measure their significant, and to take any action required to assure that all corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives.

(a) **Steps in the Control Process**
   The first step to establish standard and method for measuring performance. The standard must be specified in the meaningful and achievable term and must be accepted by the person involve.

   The second step is to measure the performance. The measurement must ongoing process with the actual frequency dependent on the type of activity being measure.

   The third step is “Does performance matches the standards?” In this process, the comparison between the performance and standard to find out whether the performance matches the standard set by the firm.

   The fourth step is to take correction action if the performance falls short of standard. The correction action can be the involve change in one or more activities of the organisation’s operations or involve a change in the standard.
(b) **Who Should Involve?**

People assume that financial controllers or accountants are largely responsible for control process because of controlling cost of the operations of the firm. In fact, all managers (include accountants and operation managers) need to monitor the control process in the organisation even though the nature of control may be different based on the job duty. For instance, operations managers need to monitor factors like employee turnover and absenteeism. And the sales managers need to monitor the sales force performance and customer satisfaction.

Regardless the nature of control, the common goal of control is to minimise the cost. Thus, maximise the profit. The focus of internal control in hospitality business is prevention of theft. According to Hotel Internal Control Guide, three situations for theft are:

- Need
- Opportunity
- Failure of conscience

According to Neal Geller, hospitality businesses are more vulnerable to theft than other industry due to following characteristics:

(a) They are many cash transactions
(b) The industry provides many jobs requiring relatively low skills
(c) Many hospitality positions are perceive as being of low social status
(d) High value items are commonly used in normal operation
(e) The industry uses many commodities that employees need it and must buy for use in their homes.

Some principles of good internal control

(a) Maintain division of duties
(b) Limit the number of employees with access to assets
(c) Make internal control preventive, not detective
(d) Perform surprise count by independent employees
(e) Require vacations and rotate employees
(f) Schedule a frequent external visits
4.3

BUDGETARY CONTROL

4.3.1 Planning and the Management Process

Planning is activity usually done by the manager or supervisor to determine a set of actions, strategy and policy to achieve the organisation’s goals. Planning process will decide what needs to be done, when and how it needs to be done, and who is to do it.

Effective planning requires:

• Commitment from the all the individuals who are involved in the planning process.

• Feedback is require to compare the actual result with the standard result. In other words, the effective control system is require to ensure the activities are on the right path.

• Flexibility is require if the feedback shows there is a need to change certain course of actions or strategy in order to achieve organisation’s goal. In addition, the flexibility is need when manager spotted the change of environment which will influence the outcome the planning process.

The Four Basic Steps in Planning

(i) Step 1: Establish a goal or set of goals. Planning begins when the organisation decide to achieve specific goals. With the specific goals in mind, the organisation can focus their resources effectively.

(ii) Step 2: Define the present situation. Basically, the scanning the situation of the organisation will provide the picture of current condition of the organisation. This information will be use to drawn up the plan.
(iii) Step 3: Identify the aids and barriers to the goals by answering following questions: What factors in the internal and external environments can help the organisation reach its goals? What factors might create problem?

(iv) Step 4: Develop a plan or set of actions for reaching the goals. The final step in the planning process involves developing various alternative courses of action for reaching the desired goals, evaluating these alternatives and choosing from among them which provide best result.

4.3.2 Budgeting: A Planning Tool

Time and money are scarce resources to all individual and organisation; the efficient and effective use of these resources requires planning. Planning alone, however, is insufficient. Control is also necessary to ensure the plan actually carried out. A budget is a tool that the managers use to plan and control the use of scarce resources. A budget is a plan showing the company’s objectives and how management intends to acquire and use resources to attain those objectives.

Budgeting control is ‘the establishment of budgets relating the responsibilities of the executive to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy or to provide a basis for its revision’ CIMA.

Studies shown that the organisation use the budget effectively does four principal things:

(a) Generate commitment to budget
(b) Connect short-term, mid-term and long-term plans
(c) Adopt detailed, comprehensive procedures to prepare budgets
(d) Analyse budget variances and take corrective action

Master budget consists of a projected income statement (planned operating budget) and a projected balance sheet (financial budget). The budgeting process starts with management’s plans and objectives for next period. The next step is preparing the operating budget and use the information in the projected income statement to project financial budget. The planned operating budget shows the net effect of many interrelated activities, management must prepare several supporting budget (sales, production, and purchase, to name a few) before preparing the planned operating budget. The process begins with the sales budget.
4.3.3 Variance Analysis: A Control Tool

Standard cost is the amount a cost should be under a given set of circumstances. The accounting records also contain information about actual costs. The amount by which actual cost differ from standard cost is called variance. In order to compare the actual cost and standard cost at various level of outputs, a flexible budget is prepared. When actual costs are less than the standard costs, a cost variance is favourable. When the actual cost exceeds the standard cost, a cost variance is unfavourable.

Type of variances:
- Materials variance
- Labour variance
- Overhead variance

(a) **Material Variance**
Actual costs may differ from standard costs for materials because the price paid for the material and/or the quantity of materials used varied from the standard amount management had set. These two factors are accounted by isolating two variances for materials:
- Price variance; and
- Usage variance.
(i) **Materials Price Variance (MPV)**
MPV occurs when a company pay a higher or lower price than the standard price set for materials. The equation is:

\[
MPV = (\text{actual price} - \text{standard price}) \times \text{actual quantity purchased}
\]

(ii) **Materials Usage Variance (MUV)**
It occurs when more or less than the standard amount of materials is used to produce a product or complete a process. The variance shows only the differences from the standard quantity caused by the quantity of materials used: it does not include any effect of variances in price. The equation is:

\[
\text{MUV} = (\text{actual quantity used} \times \text{standard quantity allowed}) \times \text{standard price}
\]

Important: In the equations for all variance regardless material, labour or overhead, positive amount were unfavourable variance and negative amount were favourable variance. Unfavourable variances are recorded in variance account as debit and vice versa.

(b) **Labour Variances**
The standard labour cost of any product is equal to the standard quantity of labour time allowed multiplied by the wage rate that should be paid for this time. Here again, it follows that the actual labour cost may differ from the standard labour cost because of the wage paid for the labour, the quantity of labour used, or both. Thus, two labour variances exist: a rate variance and an efficiency variance.

(i) **Labour Rate Variances (LRV)**
It occurs when the average rate of pay is higher or lower than the standard cost to produce a product or complete a process. The LRV is similar to the materials price variances. The equation is:

\[
\text{LRV} = (\text{actual rate} - \text{standard rate}) \times \text{actual hours worked}
\]

(ii) **Labour Efficiency Variance (LEV)**
It occurs when employees use more or less than the standard amount of direct hours-hours to produce a product or complete a process. The labour efficiency variance is similar to the materials usage variance.
The equation is:

$$LEV = (\text{actual hours worked} - \text{standard hours allowed}) \times \text{standard rate}$$

(c) **Overhead Variance**

In a standard cost system, accountant applies the manufacturing overhead to the goods produced using a standard overhead rate. The standard overhead rate is set prior to the start of the period by dividing the budgeted manufacturing overhead cost by a standard level of output or activity.

The total budgeted overhead cost varies at different levels of standard output, but since some overhead costs are fixed, total budgeted manufacturing overhead does not vary in direct proportion with output.

The total budgeted overhead consisted with variable overhead cost and fixed overhead cost. The variable overhead cost varies with different level of output. But, this is not the case for fixed overhead cost. Because of this and to simplify the calculation of the overhead variance, two approaches will be used: overhead budget variance and overhead volume variance.

(i) **Overhead Budget Variance (OBV)**

OBV shows in one amount how economically overhead services are purchased and how efficiently they are used. The OBV is similar to combined price and usage variance for materials or labour. The equation is:

$$OBV = \text{Actual overhead} - \text{Budgeted overhead at actual production volume level}$$

(ii) **Overhead Volume Variance (OVV)**

The OVV is caused by producing at a level other than that used in setting the standard overhead application rate. The OVV shows whether plant assets produced more or fewer units than expected. Because fixed overhead is not constant on per unit basis, any deviation from planned production causes the overhead application rate to be incorrect. The equation is:

$$OVV = \text{Budgeted overhead} - \text{Applied overhead}$$
4.3.4 Administrative the Budget System

Managers responsible for preparing budgets should ideally be the managers who are responsible for carrying out the budget. For instance, the production managers should draft the direct production cost budget and implement it.

The coordination and administration of budget is usually the responsibility of a budget committee. A budget officer who is usually an accountant assists budget committee. Every part of the organisation should be represented on the committee, so there should be representative from various departments.

Functions of committee include following:
(a) Coordination of the preparation of budget, which includes the issue of the budget manual
(b) Issuing of time tables
(c) Allocation of responsibilities for the preparation of functional budgets
(d) Provision of information
(e) Communication of final budget to respective managers
(f) Comparison and corrective action if there is variance
(g) Continuous assessment of the budgeting and planning process for continuous improvement

4.3.5 Budget: Control and Motivation

An effective budget system can provide sense of control and motivation because a budget should do the following:
(a) Well-organised planning with every parts of organisation involved
(b) It communicate the organisation’s goals and try to achieve it
(c) Provide the frame work for measuring the performance of group/individual act as a means of effective controls

To encourage the motivation among the managers to achieve the budget’s goals by:
(a) Setting a realistic budget
(b) Require they to implement the budget
(c) Provide feedback (control) to them so that they are aware whether they are on the right track to achieve the budget’s goals
However, the budgets, in some cases, can produce negative results like:

(a) The managers are motivated to meet the budget target, but not beyond the target set by the management.

(b) The managers prepare the budget with the great deal of slack so that they will able to meet targets with a minimum effort.

(c) In order to achieve the budget’s goals, some of the managers may take short cut like inclined to misclassify some expenditure or delay recording some costs until the next budget period.

(d) If managers view their budget allowances as strict limit on spending, they may spend either too little or too much.

### 4.3.6 Budgetary Control System

A budget is basically organisations’ plan for a forthcoming period in money terms. However, it is useless if the budget was prepared and there is not implementation due several reasons like lack of commitment, not enough resource to implement it and the budget is prepare independently by each department without any input from other department or division.

Therefore, a budgetary planning and control system is requiring to ensuring communication, co-ordination and control within an organisation. With this, the budget preparation or process will be more effective.

### 4.4 UNDERSTANDING FINANCIAL MANAGEMENT

At the macro level, finance is the study of financial institutions and financial markets and how they operate within the financial system in both the Malaysia and global economies. And at the micro level, finance is the study of financial planning, asset management, and fund raising for businesses and financial institutions (Gitman).

To evaluate the company performance, micro level of finance is needed. Micro level analysis consists of:

- Working capital
- Financial ratios
- Leverage effect
- Financial decision-making
• Investment decision-making
• Capital budgeting

Among the analyses, financial ratios have been discussed in topic 1 as it related to accounting. Thus, there is a relationship between accounting and finance. Accounting is a language for finance. Accounting provides the financial reports like P & L and Balance sheet for finance to make further decision-making.

Accountant is managing the money whereas finance manager is to get the money. Finance manager must know how to interpret the figure in financial statements, how to get money/funding and understand the financial market, government policy and international market.

4.4.1 Types of Financing

Financing is critical for any financial managers as they need to get fund to run and start the operation of businesses. The financing can be dividend into three: Long-term, medium term and short-term.

(a) Long-term Financing (Financing more than 5 years)
Let us look at six types of long-term financing.
• Ordinary Shares (Common stock)
• Preferred Shares
• Debenture (Bond)
• Mortgages
• Sales and leaseback
• Share warrant

(i) Ordinary Share (Common stock)
The characteristics of ordinary shares are:
• Offer to public (local or foreign and must be above 18 years old)
• Ordinary shareholders have the voting right to choose or appoint the management of the firm
• Shareholders is the owner of the firm
• Receive dividend as return and the dividend is not fixed depending the profitability of the firm
• Last priority to receive dividend and repayment of capital if winding up
Table 4.1 shows the advantages and disadvantages of ordinary share to the company.

**Table 4.1: Advantages and Disadvantages of Ordinary Share to the Company**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Wide ownership: less possibility of a take over or controlled by certain individuals or groups</td>
<td>• A constant up dated and keep track of the shareholders’ particulars</td>
</tr>
<tr>
<td>• Cheapest source of finance due to no obligation to pay dividend</td>
<td>• Strict regulation by the government due to public interest</td>
</tr>
<tr>
<td>• Can attract large fund since it offers to public</td>
<td>• The share price can be volatile due to sensitivity of the external factors</td>
</tr>
</tbody>
</table>

(ii) **Preferred Share**

Preferred share has the following characteristics:

- No voting right
- Not the owner of the company
- Receive fixed dividend regardless the profitability of the firm
- Second priority to receive dividend and repayment of capital if winding up
- Sell to certain people like chairman, managers and directors
- Preferred share can be cumulative, participate and redeemable. However, most of preferred share is cumulative

Refer Table 4.2 on the advantages and disadvantages of preferred shares to the company.

**Table 4.2: Advantages and Disadvantages of Preferred Shares to the Company**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Not voting right</td>
<td>• It may not be attractive to investor to purchase it unless a high dividend is offered since there is not voting right</td>
</tr>
<tr>
<td>• Number of share issued is small compared to ordinary share. Hence, less dividend in total amount paid out</td>
<td>• Difficult to transfer to another person unless approval from existing shareholders</td>
</tr>
<tr>
<td></td>
<td>• Fixed obligation to pay the dividend</td>
</tr>
</tbody>
</table>
(iii) **Debentures (Bond)**

The characteristics of debentures are:

- Company is called issuer or borrower and investors is called debenture holders or bondholders or lender
- Fixed interest rate as return for the investors
- Investors can be individual, government, government agency, mutual fund and foreign mutual fund or foreign government
- Bondholders receiving the security of a charge on company assets are called mortgage debenture. Debenture issued without the security is call simple debenture
- First priority to receive interest and repayment of capital if winding up
- Issue to public

Table 4.3 shows the advantages and disadvantages of debentures (bond) to the company.

**Table 4.3: Advantages and Disadvantages of Debentures (Bond) to the Company**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Not voting right</td>
<td>• Fixed interest obligation</td>
</tr>
<tr>
<td>• Easy to issue it compared to ordinary shares</td>
<td>• Default the interest or capital payment may allow the debenture holders to</td>
</tr>
<tr>
<td>• Long repayment period</td>
<td>appoint the receiver to take over the management of the company</td>
</tr>
<tr>
<td>• During the financing period, the company is</td>
<td>• A charge on the assets of the company reduce the ability of the company to</td>
</tr>
<tr>
<td>required to pay fixed interest payment only</td>
<td>use the assets to obtain other financing</td>
</tr>
</tbody>
</table>

(iv) **Mortgages**

The characteristics of mortgages are:

- Financing for property only
- Financing up to 100%
- Lender is commercial bank
- Interest rate is not fixed: Base Lending Rate (BLR) + certain %
- The property under financing is considered the collateral. No additional collateral is needed
(v) **Sales and Leaseback**
The characteristics of sales and leaseback:
- Raise fund through sales of the company’s assets and at the same time negotiate to lease it back so that the company can use the assets even tough the assets are not longer belong to company
- Company has to pay rental for the use of the assets
- Company is called leasee, the user of the assets
- Leasor is the owners of the assets

(vi) **Share warrant**
The characteristics of share warrant are:
- Provide the warrant holders the right to purchase a number of shares at specific price for a period
- The holders has right to exercise or choose not exercise the warrant
- Offer to public

(b) **Medium-term Financing (Financing between 1 to 5 years)**
Three types of medium-term financing are:
- Hire Purchase
- Leasing
- Bank Loan

(i) **Hire Purchase**
The characteristics of hire purchase:
- Loan for fixed assets except land and building
- Interest rate is fixed for the period of financing
- Do not need additional collateral to get this financing as the fixed asset under this financing consider as the collateral
- Financing up to 90% of the fixed assets value depending the creditworthiness of the borrower
- Require monthly instalment to settle the loan
Table 4.4 shows the advantages and disadvantages of hire purchase to the borrower.

**Table 4.4: Advantages and Disadvantages of Hire Purchase to the Borrower**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fixed interest rate: no need to worried the increase of interest rate in the market</td>
<td>• There monthly obligation to pay it regardless whether the borrower has money to pay</td>
</tr>
<tr>
<td>• With the minimal down payment, the borrower can enjoy the fixed assets</td>
<td>• The fixed assets under this financing is not own by the borrower until settle the last instalment payment</td>
</tr>
<tr>
<td>• No additional collateral required</td>
<td></td>
</tr>
</tbody>
</table>

(ii) **Leasing**

The characteristics of leasing are:

- Financing for fixed assets (FA) except land and building
- No interest payment but have to pay rental for the use of the FA
- Leasee is the user of the FA
- Leasor is the owner of the FA
- Terms and conditions of the leasing agreement subject to negotiation between leasee and leasor. For example, who should bear the maintenance cost of the FA and whether leasing can be renew after the expiring of the leasing period

Table 4.5 shows the advantages and disadvantages of leasing for leasee.

**Table 4.5: Advantages and Disadvantages of Leasing for Leasee**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No need to come up large amount of money to buy the FA</td>
<td>• Monthly rental obligation</td>
</tr>
<tr>
<td>• Terms and conditions can be negotiable</td>
<td>• User of the FA and not the owner of the FA</td>
</tr>
</tbody>
</table>

(iii) **Bank Loan**

The characteristics of bank loan:

- Multipurpose loan. Loan can be for education, business expansion, wedding, surgery and etc.
- Interest rate is not fixed: Base Lending Rate (BLR) Plus certain %
• Terms and conditions can be negotiable. For instance, how is the payment, right for lender and borrower, interest rate charge and etc.
• Require monthly instalment to settle the loan
• May require collateral depending the creditworthiness of the borrower

Table 4.6 shows the advantages and disadvantages of bank loan for borrower.

**Table 4.6: Advantages and Disadvantages of Bank Loan for Borrower**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Flexible loan</td>
<td>• Interest rate is not fixed. If under unfavourable market condition like war, recession and tight liquidity in money market, the borrower has to pay high interest.</td>
</tr>
<tr>
<td>– Loan for any purpose as long as the bank approved it</td>
<td>• Monthly obligation</td>
</tr>
<tr>
<td>– Terms and condition can be negotiable</td>
<td>• May require fixed assets (FA) as collateral</td>
</tr>
<tr>
<td>• Terms and conditions can be negotiable</td>
<td></td>
</tr>
</tbody>
</table>

(c) Short-term Financing (Financing Less Than 1 Year)

• Overdraft
• Factoring and Invoice Discounting
• Trade Credit

(i) Overdraft

The characteristics of overdraft:

• A pre-approved loan for various purposes like paying bills, buying materials, paying salaries and etc.
• There is a credit limit/loan limit approved
• Withdraw the money using check/cheque until the credit limit
• Interest rate is not fixed: BLR plus certain % and is calculated daily
• Repayment of loan can be anytime within one year and there is not fixed amount to be paid
• May require cash compensating balance as collateral.
Table 4.7 shows the advantages and disadvantages of overdraft for borrower.

**Table 4.7: Advantages and Disadvantages of Overdraft for Borrower**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A pre-approved loan. The borrower does not need to submit necessary documents for loan application each time he/she need it</td>
<td>• Interest rate is not fixed. If under unfavourable market condition like war, recession and tight liquidity in money market, the borrower has to pay high interest</td>
</tr>
<tr>
<td>• Flexible repayment of loan: anytime within one year and any amount as you want to pay</td>
<td>• Usually, the credit limit is low as compared the need of the borrowers</td>
</tr>
<tr>
<td>• Multipurpose loan</td>
<td>• Require cash compensating balance as collateral</td>
</tr>
</tbody>
</table>

(ii) **Factoring**

The characteristics of factoring:

• Factoring is not a loan. The money/fund raised through sell of company’s invoices to factoring company (factor)

• The money (advancement) can raise up to 85% of the invoice value, which was factored to factor

• The company, who own the invoices, has to pay fixed interest, processing fee and reserve for factoring services

• Interest payment is for the advancement give by the factor

• Processing fee is for charge for processing the invoice factoring

• Reserve is for any unforeseeable expense incur like delay of payment by debtors. When debtors pay, factor will refund any balance in reserve to the company

• Under this financing, factor will bear the risk of default and collection of payment from debtors
Table 4.8 shows the advantages and disadvantages of factoring for company.

**Table 4.8: Advantages and Disadvantages of Factoring for Company**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The company can get instant cash for other purpose without the need to wait the payment from debtors</td>
<td>• Cost of borrowing is high. You have to pay interest and processing fee</td>
</tr>
<tr>
<td>• No need to bear the risk of default payment</td>
<td>• Advancement of money can be low depend on the payment ability of the debtors</td>
</tr>
<tr>
<td>• No need to do collection of payment</td>
<td></td>
</tr>
</tbody>
</table>

(iii) **Invoice Discounting**
The characteristics of invoice discounting:

• Invoice discounting is a loan. To get the loan, the company has to pledge the invoice to factoring company

• The advancement can be up to 90% depending the creditworthiness of company and its debtors

• The company has to pay fixed interest and processing fee only

• Under this financing, the company will bear the risk of default by the debtors and collection of payment from the debtors

Table 4.9 shows the advantages and disadvantages of invoice discounting for company.

**Table 4.9: Advantages and Disadvantages of Invoice Discounting for Company**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High advancement compared to factoring financing</td>
<td>• The company has to bear risk of default by the debtors</td>
</tr>
<tr>
<td>• Low cost of borrowing compared to factoring financing</td>
<td>• The company has to do the collection of payment from debtors</td>
</tr>
</tbody>
</table>

(iv) **Trade Credit**
The characteristics of trade credit:

• Do not charge interest

• Arising from day to day operation

• Mostly, the financing obtained through verbal agreement
• Amount of credit depend on the amount of purchase and creditworthiness of the customer
• Terms and condition can be negotiable

Table 4.10 shows the advantages and disadvantages of invoice discounting for company.

**Table 4.10: Advantages and Disadvantages of Invoice Discounting for Company**

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Obtaining the credit is informal</td>
<td>• The price of the products is more expensive compared to cash purchase</td>
</tr>
<tr>
<td>• It is part of the business operation</td>
<td>• Frequently delay the payment can jeopardize the image of the company</td>
</tr>
<tr>
<td>• The company has more flexibility to extend the payment or renegotiate the term payment</td>
<td></td>
</tr>
<tr>
<td>• No security needed</td>
<td></td>
</tr>
</tbody>
</table>

### 4.4.2 Compound Interest versus Simple Interest

Any type of financing which require to pays interest is compounding interest except hire purchase financing. Hire-purchase financing uses simple interest to calculate the interest payment.

Compound interest formula:

\[ S_n = P (1 + r)^n, \text{ subject to compounding rules} \]

Compounding Rules:

<table>
<thead>
<tr>
<th>Monthly</th>
<th>Quarterly</th>
<th>Weekly</th>
<th>Yearly</th>
<th>Semi-annual</th>
<th>Every two month</th>
</tr>
</thead>
<tbody>
<tr>
<td>( n ) times</td>
<td>12</td>
<td>4</td>
<td>52</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>( r ) divided by</td>
<td>12</td>
<td>4</td>
<td>52</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Simple interest formula:

\[ S_n = P + Pnr \]
4.4.3 Financial Decision-making

Financial decision-making refers to where, how and what sources of financing should be obtained to finance its business. The firm has to decide where to get the money (local or overseas), how to get the money (through intermediate or deal directly) and what sources of finance (bond or equity). We shall focus on what source of finance which the firm can get to fund its operation. The reason is different type of financing will influence the cost of capital of the firm.

(a) What is Cost of Capital?
Cost of capital refers to cost incurred to get fund/money to start the business and/or run the business. Usually, the cost incurred is referring the interest/dividend. For example, if you borrow debt, you have to pay interest expense whereas if you using equity (preferred share or common share) finance, you have to pay dividend.

(b) Why Cost of Capital is Important?
In financial decision-making, you have to make a decision, for instance, whether to use more debt compared to equity (capital) financing, in order to provide the cheapest cost of borrowing to the company. Because of this, the firm will decide how to structure its capital needs to minimise its cost of capital. This process is called optimal capital structure process. The end result of this process is capital structure policy. For example, refer to below Table 1.1, the firm will get 50% of required fund from debt and the rest 50% from equity financing.

<table>
<thead>
<tr>
<th>Financing</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>50%</td>
</tr>
<tr>
<td>Preferred share</td>
<td>20%</td>
</tr>
<tr>
<td>Common share</td>
<td>30%</td>
</tr>
</tbody>
</table>

(c) How to Calculate Cost of Capital?
We can calculate the cost of capital using weighted average cost of capital (WACC) method. The method requires average all the cost is calculated based the percentage contribution of fund to the firm. The formula is:
\[ \text{WACC} = (W_d)(K_d (1 - t)) + (W_{ps})(K_{ps}) + (W_{ce})(K_{ce}) \]

Where:
- \( W_d \) % contribution from debt
- \( W_{ps} \) % contribution from preferred share
- \( W_{ce} \) % contribution from common share
- \( K_d \) Cost of borrowing for debt
- \( K_{ps} \) Cost of borrowing for preferred share
- \( K_{ce} \) Cost of borrowing for common share
- \( t \) Corporate tax rate (26%)

### 4.4.4 Investment Decision-making

Investment decision-making refers to the decision whether to invest a project/investment or not. Any firm will have scarcity of resources like fund./money. Thus, any use of resources should be in the most efficient way or most profitable way to avoid waste of fund. Because of this, we need investment decision-making to invest a project/investment which it will provide the greatest return to the firm.

There are four methods that can assist us to make investment decision-making:

- Payback period (PB)
- Discounted payback period (DPB)
- Net present value (NPV)
- Internal rate of return

(a) **Payback Period**

- Refer to how long it will take to get back the initial investment.
- In the case of a mixed stream, the cash inflows are added until their sum equals the initial investment in the project. In the case of an annuity, the payback is calculated by dividing the initial investment by the annual cash inflow.
- Decision-making: accept the project/investment which it has shortest payback period or within the maximum acceptable payback period.
(b) **Discounted Payback Period**

- How long it will take to get back the initial investment based on present value of its future cash flow.

- The method is more reliable compared to payback period due to the future cash flow is discounted by cost of capital to find out the cash flow in today value. However, payback period’s cash flow is not discounted. In other words, calculation of payback period is based future value rather than today value. Today value is not the same in 1 or 5 year later.

- To discount the future cash flow to present value, use discount factor = \( \frac{1}{(1 + r)^n} \). The discount factor must time the future cash flow for each period. \( r \) = cost of capital and \( n \) = period (year).

- Decision-making: accept the project/investment which it has shortest discounted payback period or within the maximum acceptable payback period.

- The weaknesses of using the payback period or discounted payback period are (1) no explicit consideration of shareholders’ wealth; (2) failure to take fully into account the time factor of money (except discounted payback period); and (3) failure to consider returns beyond the payback period and, hence, overall profitability of projects.

(c) **Net Present Value (NPV)**

- Refer the net value of project/investment in today value.

- Net value is derived from present value of the cash flow minus the initial investment.

- Present value of the cash flow is derived from expected future cash flow discounted by cost of capital (using present value (PV) factor). The other name of present value factor is discount factor (DF).

- Formula of PV factor is \( \frac{1}{(1 + r)^n} \) where \( r \) is cost of capital and \( n \) is period (in year).

- To discount the future cash flow to present value, the discount (PV) factor must time the future cash flow for each period.

- NPV computes the present value of all relevant cash flows associated with a project. For conventional cash flow, NPV takes the present value of all cash inflows over years 1 through \( n \) and subtracts from that the initial investment at time zero.

- Decision-making: accept the project/investment if NPV is positive or the highest positive NPV.
(d) **Internal Rate of Return (IRR)**

- Refer as return (in %) from the investment.
- To find IRR, NPV must equal to zero.
- How to find it? **Use trial and error method.**
- Under this method, few trials and errors must be performed to find NPV at various cost of capital. It is impossible to find NPV = 0 after few attempts. The most important is to find one positive and one negative NPV based on the cost of capital. Then, interpolation must be done to find exact cost of capital which provides zero NPV. This cost of capital is internal rate of return as it provides zero NPV.
- Guideline for this method, you must understand two rules:
  - If you want to reduce NPV becoming zero, PV factor must increase more than the cost of capital.
  - If you want to increase NPV becoming zero, PV factor must decrease more than the cost of capital.
- Decision-making: accept the project/investment if IRR is greater than cost of capital.
- The NPV and IRR always provide consistent accept/reject decisions. These measures, however, may not agree with respect to ranking the projects. The NPV may conflict with the IRR due to different cash flow characteristics of the projects. The greater the difference between timing and magnitude of cash inflows, the more likely it is that rankings will conflict.

### 4.4.5 Why Cost of Capital is use in Investment Decision-making?

As discussed in earlier part, cost of capital is cost incurred to get the fund/money. Assume you borrow RM1 million and you have to pay 8% cost of capital. You invested all the RM1 million in one project. So, what is your expectation? You are expecting a return from the investment and you will not invest the project unless the project provides at least 8% return so that you can cover your cost of capital. As a result, you are expecting a return from investment at least equal to cost of capital.
The Financial Management subject is to provide an overview exposure of Accounting, Costing, Budgeting and Finance.

This topic will provide the basic understanding of accounting knowledge. Thus, the students are able to read and interpret proper financial statements.

The students will be explain on costing knowledge and how to study and analyse cost structure of a company’s products and services.

It will also provide the fundamental knowledge of budgeting and how to perform variance analysis to investigate the cause of variance.

Lastly, students will be exposed to the type of financing available in the market, the calculation of interest and effective financial and investment decision-making.
By the end of this topic, you should be able to:

1. Plan a system of organisation in the accommodation department;
2. Organise management responsibilities of the accommodation department;
3. Evaluate accommodation operations;
4. Explain the concept of yield management in accommodation sector;
5. Plan Food and Beverage operations in a hotel;
6. Organise room service operations in a hotel; and
7. Plan banquet operations in a hotel.
5.1 SYSTEM OF ORGANISATION IN THE ACCOMMODATION DEPARTMENT

In this topic, you will first read an overview of the front office and housekeeping area, and then examine each of the major functional areas within these two departments in greater details.

In a typical 350-room-full-service hotel, the organisation of the front office and housekeeping functions would be similar to that detailed in Figure 5.1.

![System of organisation in the accommodation department](image)

Figure 5.1: System of organisation in the accommodation department

In smaller properties these duties will overlap. In fact, in a small limited-service property, one person may perform all of these tasks and more. Therefore, understanding the functions of each position in Figure 5.1 will help you to understand how each of them interrelates in a properly managed rooms division.
The functions of each position in a typical rooms division is described in Table 5.1.

**Table 5.1: Rooms Division Positions and their Main Functions**

<table>
<thead>
<tr>
<th>Rooms Division Position</th>
<th>Main Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Assistant Manager/ Director of Rooms</td>
<td>Oversees the operating efficiencies of the front office and housekeeping operations</td>
</tr>
<tr>
<td>Front Office Manager</td>
<td>Oversees the smooth operations in guests’ reservation, registration, service and payment</td>
</tr>
<tr>
<td>Revenue Manager</td>
<td>Establishing and the daily monitoring of room rates</td>
</tr>
<tr>
<td>Reservations Manager</td>
<td>Managing the reservation process</td>
</tr>
<tr>
<td>Front Desk Receptionists</td>
<td>Guest registration and checking outs</td>
</tr>
<tr>
<td>Night Audits</td>
<td>Managing the front office-related accounting and data collection process</td>
</tr>
<tr>
<td>Concierge/ Bell staff</td>
<td>Provide guest with detailed information regarding the hotel and its surroundings Assisting guests with related needs</td>
</tr>
<tr>
<td>Executive Housekeeper</td>
<td>Decisions about required number of cleaning employees Frequency of cleaning</td>
</tr>
<tr>
<td>Assistant Housekeeper/ Floor Supervisor</td>
<td>Assess quality of room cleanliness Point out deficiencies to room attendants, get those deficiencies corrected, and report revision of room status to executive housekeeper or front desk</td>
</tr>
<tr>
<td>Room Attendants</td>
<td>Clean and maintain elevators / corridors / stairwells / guest rooms</td>
</tr>
<tr>
<td>Public Area Attendants</td>
<td>Clean and maintain lobby areas / public restrooms / front desk areas / management offices / game rooms / exercise areas / pool and spa areas / employee break rooms and locker rooms / selected meeting and food service areas</td>
</tr>
<tr>
<td>Linen and Laundry Attendants</td>
<td>Operates laundry preparation areas / laundry supply closets / guest linen, terry, and supplies storage areas</td>
</tr>
</tbody>
</table>
5.2 MANAGEMENT RESPONSIBILITIES OF THE ACCOMMODATION DEPARTMENT

Essentially the management responsibilities of the Accommodation Department can be summarised as follows:

(a) Front Office

- PMS and Its Management
- Reservation Management
- Management of Guest Services
- Accounting for Guests
- Data Management
- Rooms Cleaning and Maintenance
- Rooms Status Updates
- Management of Public Areas
- Management of in house and staff laundry
- Inventory Management
- Lost and Found

(b) Housekeeping

(i) PMS and Its Management

The Property Management System (PMS) is the computerised system used by the hotel to manage its room revenue, room rates, reservations and room assignments, guests histories, accounting information, as well as other selected guest service and management information functions.

Essentially, the PMS records who is coming to the hotel, what they spend on when they are there, and their form of payment upon departure. Features commonly available includes: Guests tracker features, reservations features, group features, guest ledger/Folio billing, city ledger/Direct billing, night audit reporting, history reporting.

PMS is therefore crucial to the smooth operation in the entire hotel. The front office department should ensure periodic cleaning of its hardware, as well as the regular maintenance of its software, connected by a modem to the PMS’s software support organisation.

(ii) Reservation Management

FOM can manage guests’ reservations by reservation type or by delivery method:

By reservation type:
- Transient Sales: Rooms and services sold primarily via front office and its staff.
- Group Sales: Rooms and services sold primarily via sales and marketing department and given to the front office for recording and servicing.

By delivery method:
- Global distribution system: Great use by travel agents worldwide
- Franchise toll-free numbers: Significant source of transient room reservations.
- Internet: Accuracy of current information on Web site is important.
- Hotel direct: Effectiveness of the telephone sales effort is important.
- Walk in: “Curb appeal” is important.

The global distribution system can be used in making and confirming reservations:

![Diagram of Global Distribution System](image)

**Figure 5.2: Global Distribution System**

(iii) **Management of Guest Services**

The front office is responsible for a variety of guests’ services. Some of these are:
- Airport transportation
- Parking cars
- Handling luggage
- Providing directions to local attractions
- Making restaurant reservations
• Taking guest messages
• Routing mail
• Newspaper delivery
• Management of safety deposit boxes
• Supplying directions for areas within the hotel
• Setting wake-up calls
• Providing guest security via careful dissemination of guest-related information
• Handling guest concerns and disputes

(iv) Accounting for Guests

• Front office’s accounting-related tasks:
  – Accurately collect and post charges to the guest “folios”
  – Maintain an accurate list, by room number, of guest room occupants
  – Verify accuracy of the room rates charged to guests
  – Confirm the check-out dates

• Billing to folio:
  – The detailed list of a guest’s room charges as well as other charges authorised by the guest or legally imposed by the hotel
  – Appropriate guest charges incurred are posted to the appropriate guest’s folio
  – All independent supporting documentation should be thoroughly reviewed prior to posting

• At front desk check-in:
  – Guests present themselves to begin registration process
  – Special check-in areas may be available, depending on level of service and priority of guests
  – Front desk agent confirms status of selected room prior to room assignment
• **At self check-in, system should allow staff to:**
  - Verify and document identification of guest to whom room is rented
  - Assign guests, whenever possible, to requested room type
  - Assure that assigned room status is “clean and vacant”
  - Confirm rate guest pays, prior to issuing room keys
  - Confirm guest’s departure date, prior to issuing room keys
  - Secure acceptable form of payment from guest

• **Night audit function:**
  - Posting appropriate room tax and tax rates to guest folio
  - Verification of accurate room status (in PMS) of all rooms
  - Posting any necessary adjustments/allowances to guest folios
  - Verification that all legitimate, non-room charges have been posted, throughout the day, to proper guest folio
  - Monitoring guest account balances (e.g., guest’s credit limit)
  - Balancing and reconciling front desk’s cash bank
  - Updating and backing up electronic data maintained by front office
  - Producing, duplicating, and distributing all management-mandated reports (e.g., ADR, occupancy %, business source, and in-house guest lists)

• **Settlement of guest’s bill:**
  - Confirmation of guest’s identity
  - Checking for late faxes/messages not yet delivered to guest
  - Inquiring about and returning guest belongings in hotel’s safety deposit boxes
  - Posting any final charges
  - Producing copy of folio for guest’s inspection
  - Processing guest’s payment
  - Revising room’s status in PMS to designate room as vacant
  - Re-booking of guest for a future stay (selling opportunity)
(v) **Data Management**
Credit card acceptance and processing guidelines:

1. Confirmation that name on card matches that of individual presenting the card for payment
2. Examination of card for any signs of alteration
3. Confirmation that card has not expired
4. Comparison of signature on card with signature by guest paying with that card
5. Documentation (usually initialling) by employee processing the charge
6. Balancing and reconciling credit card charges at conclusion of each front office shift

- **Locking/Security Systems:**

<table>
<thead>
<tr>
<th>Recordable Locking System</th>
<th>Managing a Recordable Lock System</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increasingly utilised to ensure guest safety</td>
<td>• Be trained to issue duplicate keys only to confirmed registered guests</td>
</tr>
<tr>
<td>• Installed cost is about $300 to $500 per guest room</td>
<td>• Maintain an accurate data system that actually identifies registered guests and their assigned room numbers</td>
</tr>
<tr>
<td>• Independent and stand-alone (no wiring back to PMS is necessary)</td>
<td></td>
</tr>
</tbody>
</table>

- **Point of sale (POS):**
  - Any sales recording system not located at front desk (a location, excluding front desk, at which hotel goods and services are purchased)
  - Mostly interfaced with the PMS
  - Restaurants / room service / lounges / laundry / valet / shops / fitness centres / business centres
  - Ensure all legitimate purchases and charged purchases are posted to the correct guest or non-guest folio

- **In Rooms Management:**
  - Movies: Pay-per-view movie system
  - Games: “Video” games on television screen in guest room
- In-Room Minibars: Interfaced with the PMS (automatically posted to guest’s folio)
- Safes: In-room safes for guest use
- Internet Connections: Pay-to-connect basis in guest room

• **Back-office Accounting Systems**
  System used by the controller to prepare hotel’s financial documents such as balance sheet, income statement, etc.

  Back office accounting systems should offer:
  - Good underlying technology
  - Strong company behind the product, including good leadership
  - Compatibility with popular hardware products
  - Sizable customer base
  - Good customisation capabilities
  - Expandability
  - Ease-of-use by non-technological staff
  - Excellent support via telephone
  - Excellent on-line support
  - Potential for PMS interface

(vi) **Rooms Cleaning and Maintenance**
Providing perfectly cleaned room sis one of the top priority for the housekeeping department. They hold the communication role in relaying room status information to front-desk staff and room-maintenance issues to engineering and maintenance department.

(vii) **Rooms Status Updates**
In a hotel, room will be assigned when:

- Properly cleaned by the housekeeping department
- Verified as clean by a second member of housekeeping
- Room’s status has been reported to the front desk

Therefore, rooms’ status terminology is widely used to facilitate status updates in the PMS:
Table 5.3: Rooms Status Terminology

<table>
<thead>
<tr>
<th>Status</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean and Vacant</td>
<td>Room is vacant, has been cleaned and can be assigned to a guest</td>
</tr>
<tr>
<td>Occupied</td>
<td>Room is registered to a current guest</td>
</tr>
<tr>
<td>On-Change</td>
<td>Room is vacant but not yet cleaned</td>
</tr>
<tr>
<td>Do Not Disturb</td>
<td>Room is occupied but not yet cleaned due to guest’s request not to be disturbed</td>
</tr>
<tr>
<td>Sleep-out</td>
<td>Room is reported as occupied, but room was not used and guest may have left</td>
</tr>
<tr>
<td>Stay-over</td>
<td>Guest will stay in room at least one more night</td>
</tr>
<tr>
<td>Due Out</td>
<td>Guest has indicated this is last day he or she will use the room</td>
</tr>
<tr>
<td>Check Out</td>
<td>Guest has departed</td>
</tr>
<tr>
<td>Out of Order</td>
<td>Room is unrentable and thus unassignable at this time</td>
</tr>
<tr>
<td>Lock Out</td>
<td>Guest left personal items in the room but will be denied access until approved to reenter by management</td>
</tr>
<tr>
<td>Late Check Out</td>
<td>Guest has requested and been given an extension of regular check-out time</td>
</tr>
<tr>
<td>Due Out</td>
<td>Guest has indicated this is last day he or she will use the room</td>
</tr>
</tbody>
</table>

(viii) **Management of Public Areas**
The public space in a hotel is among the first seen by the guests. In larger hotel, the following areas are maintained by the housekeeping department:

- Lobby areas
- Public restrooms
- Front desk areas
- Management offices
- Game rooms
- Exercise areas
- Pool and spa areas
- Employee break rooms and locker rooms
- Selected meeting and food service areas

(ix) **Management of In House and Staff Laundry**
Laundry often represents one of the hotel’s largest expenses, managing on-premise laundry (OPL) and its effective operation is therefore another management responsibility under the executive housekeeper.
A hotel’s laundry needs will vary in its size and product offerings. A smaller (<100 rooms) hotel may find that it does less than 500,000 pounds of laundry per year. In this case, the laundry on premise might simply require washers and dryers. For a large hotel that processes more than 1 million pound of laundry a year, their on-premise laundry will include machines to press and fold laundry and linen.

Operating an effective on-premise laundry (OPL) requires the following steps:

**Table 5.4: Laundry Guidelines**

| Collecting                      | • Dirty linen and terry should never be used as guest room cleaning rags.  
|                                | • Bloodstained linen or terry must be placed separately in a biohazard waste bag (pre-sort in guest room). 
|                                | • Biohazard waste bag should be on every housekeeping cart. |
| Sorting                        | • Once in OPL, laundry is sorted both in terms of fabric type and degree of staining. |
| Washing                        | • This is the most complex part of the laundering process.  
|                                | • Monitor  
|                                | – length of washing time, 
|                                | – wash water temperature, 
|                                | – chemicals, and 
|                                | – agitation length and strength. |
| Drying                         | • Drying is simply a process of moving hot air (140–145 degrees F) through fabrics to vaporise and remove moisture.  
|                                | • Fabrics that are dried must go through a cool-down period in the dryer before they are removed from it. |
| Finishing/Folding              | • Space required for finishing laundry must be adequate. |
| Storing                        | • Many fabrics must “rest” after washing and drying.  
|                                | • 24-hour rest time needed for cleaned laundry.  
|                                | • Housekeeping department should maintain laundry par levels of three times normal use. |
| Delivering                     | • Storage areas containing these items should be locked. |
Inventory Management

The following inventories are managed by the housekeeping department:

- Sheets (all sizes)
- Pillowcases
- Bedspreads
- bath towels
- hand towels
- washcloths
- soaps
- shampoos
- conditioners
- sewing kits
- glass cleaners
- furniture polish
- acid-based cleaners
- glassware
- cups
- coffee and coffee filters
- in-room literature
- telephone books
- pens
- paper pads

Values of monthly inventories:

- Check how much of each item is in use, in storage, on order
- Executive housekeeper computes monthly product usage reports

Sample of inventory report:

<table>
<thead>
<tr>
<th>Department: Housekeeping</th>
<th>Item: King-sized sheets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared by:</td>
<td>Date:</td>
</tr>
<tr>
<td>For Period:</td>
<td></td>
</tr>
<tr>
<td>Count on:</td>
<td>January 1</td>
</tr>
<tr>
<td></td>
<td>850 units</td>
</tr>
<tr>
<td>Plus</td>
<td></td>
</tr>
<tr>
<td>Purchased in month</td>
<td>144 units</td>
</tr>
<tr>
<td>Total in service</td>
<td>994 units</td>
</tr>
<tr>
<td>Less</td>
<td></td>
</tr>
<tr>
<td>Count on:</td>
<td>February 1</td>
</tr>
<tr>
<td></td>
<td>877 units</td>
</tr>
<tr>
<td>Total Monthly Usage</td>
<td>117</td>
</tr>
</tbody>
</table>

Figure 5.3: Sample Inventory Card
(xi) **Lost and Found**

Three types of unclaimed property:

1. **Mislaid Property** – Owner has unintentionally left item(s) behind
2. **Lost Property** – Owner has unintentionally left item(s) behind, then forgotten them
3. **Abandoned Property** – Owner has intentionally left item(s) behind

**Law and/or policy requirements:**

1. Hotel must safeguard mislaid property until rightful owner returns
2. Hotel must hold lost property until rightful owner claims it
3. Hotel not required to find abandoned property’s owner
4. Property left behind in room or found in lobby to be treated as mislaid or lost
5. Establish how long any mislaid/lost property to be held before disposing it

**Written Reports must be produced in these two circumstances:**

**Table 5.5: Lost and Found Reports**

<table>
<thead>
<tr>
<th>When item is found:</th>
<th>When returned to rightful owner or disposed of:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Date item was found</td>
<td>• Date item was returned</td>
</tr>
<tr>
<td>• Description of item</td>
<td>• Owner’s name / address / telephone number</td>
</tr>
<tr>
<td>• Location where item was found (room number, if applicable)</td>
<td>• Housekeeping manager returning item</td>
</tr>
<tr>
<td>• Name of finder</td>
<td>• Method of return</td>
</tr>
<tr>
<td>• Supervisor who received item</td>
<td>• Date property was declared to be abandoned</td>
</tr>
<tr>
<td></td>
<td>• Name of hotel employee receiving abandoned property</td>
</tr>
</tbody>
</table>
5.3 EVALUATING ACCOMMODATION OPERATIONS

Revenue managers evaluate accommodation operations using the following indexes:

(a) Occupancy Index
(b) ADR index
(c) RevPar Index

\[
\text{Occupancy Index} = \frac{\text{Occupancy Rate of a selected hotel}}{\text{Occupancy Rate of that hotel’s competitive set}}
\]

Table 5.6: Occupancy Index Evaluation

<table>
<thead>
<tr>
<th>Occupancy Index</th>
<th>Assessment/Recommended Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Far below 100%</td>
<td>Management is ineffective. ADR excessive for the market. Reduce rack rate.</td>
</tr>
<tr>
<td>Below 100%</td>
<td>Management is less than effective. Evaluate weekday/weekend ADR index. Closely examine sales efforts.</td>
</tr>
<tr>
<td>At (Near 100%)</td>
<td>Management is effective. Consider eliminating discounts for most popular room types during high-demand periods to test the hotel’s ability to maintain index.</td>
</tr>
<tr>
<td>Above 100%</td>
<td>Management is less effective. Immediately eliminate discounts for most popular room types during high-demand periods.</td>
</tr>
<tr>
<td>Far above 100%</td>
<td>Management is ineffective. ADR too low. Increase rack rates on all room types at all times.</td>
</tr>
</tbody>
</table>

\[
\text{Occupancy Index} = \frac{\text{ADR of a selected hotel}}{\text{ADR of that hotel’s competitive set}}
\]
Table 5.7: ADR Index Evaluation

<table>
<thead>
<tr>
<th>ADR Index</th>
<th>Assessment/Recommended Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Far below 100%</td>
<td>Management is ineffective. Evaluate appropriateness of the competitive set. Evaluate rack rate structure; increase rack rate.</td>
</tr>
<tr>
<td>Below 100%</td>
<td>Management is less than effective. Evaluate weekday/weekend ADR index. Increase rates for either period if the index for that portion of the week exceeds 100%.</td>
</tr>
<tr>
<td>At (Near 100%)</td>
<td>Management is effective. Monitor the competitor set’s percent change in ADR (from prior month and prior year) for evidence of competitor increases in room rates and maintain rate parity.</td>
</tr>
<tr>
<td>Above 100%</td>
<td>Management is less effective. Evaluate room rates in conjunction with occupancy index. If occupancy index is above 100%, increase rates. If occupancy index is below 100%, consider increasing discounts during slower periods to maximise RevPar.</td>
</tr>
<tr>
<td>Far above 100%</td>
<td>Management is ineffective. Evaluate competitive set for appropriate fit. ADR may be too high if occupancy index is significantly below 100%.</td>
</tr>
</tbody>
</table>

ReVPAR Index = \[
\frac{\text{ReVPAR of a selected hotel}}{\text{ReVPAR of that hotel’s competitive set}}
\]

Table 5.8: ReVPAR Index Evaluation

<table>
<thead>
<tr>
<th>ReVPAR Index</th>
<th>Assessment/Recommended Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Far below 100%</td>
<td>Management is ineffective. Evaluate room rates in conjunction with occupancy index. If occupancy index is above 100%, increase rates. If ADR index is below 100%, consider increasing discounts during slower periods to maximise ReVPAR. If both indices are substantially below 100%, reevaluate competitive set.</td>
</tr>
<tr>
<td>Below 100%</td>
<td>Management is less than effective. Evaluate room rates in conjunction with occupancy index. If occupancy index is above 100%, increase rates. If ADR index is below 100%, consider raising rates or eliminating discounts during high-demand periods.</td>
</tr>
<tr>
<td>At (Near 100%)</td>
<td>Management is effective. Monitor occupancy and ADR indices to maintain no more than a 10-point difference between these two measures.</td>
</tr>
<tr>
<td>Above 100%</td>
<td>Management may be effective. Evaluate room rates in conjunction with occupancy index. If occupancy index is above 100%, consider increasing discounts during slower periods to maximise ReVPAR. If ADR index is below 100%, consider increasing discounts during slower periods to maximise ReVPAR. If more than 10 percentage points separate the two indices, take the corrective actions required to improve the lower index.</td>
</tr>
<tr>
<td>Far above 100%</td>
<td>Management (or ownership) is less effective. Evaluate competitive set for appropriateness of fit; increase rack rates, aggressively seek to increase ADR during high-demand periods; consider building additional room capacity.</td>
</tr>
</tbody>
</table>
5.4 YIELD MANAGEMENT IN ACCOMMODATION SECTOR

Yield management:
Demand forecasting systems designed to maximise revenue by holding rates high during times of high room demand, and by discounting room rates during times of lower guest room demand. These systems may be applied manually or with programs built into a hotel’s PMS.

In short, it is a strategy using demand forecasts to maximise RevPar.

- Demand for rooms > supply, sell at “rack rate”
- Demand for rooms < supply, offer at discounts

Yield management strategy based on room demand:

<table>
<thead>
<tr>
<th>Forecasted room demand</th>
<th>Rate strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>90–100% occupancy</td>
<td>offer no discounts</td>
</tr>
<tr>
<td>70–90% occupancy</td>
<td>offer discounts up to 10%</td>
</tr>
<tr>
<td>150–70% occupancy</td>
<td>offer discounts up to 20%</td>
</tr>
<tr>
<td>less than 50% occupancy</td>
<td>offer discounts up to 30%</td>
</tr>
</tbody>
</table>

The front office is one of the areas that directly affect the amount of revenue earned by the hotel. The front office achieves this through maximising hotel revenue per available room (RevPar), computed as follows:

\[
\text{Occupancy} \% \times \text{Average Daily Rate} = \text{RevPar}
\]

To improve RevPar, the front office manager must:

- Estimate (forecast) guest demand for rooms
- Practice yield management
- Control occupancy
The FOM can control RevPar through forecasting guest demand for room as follows:

- When demand for rooms is high, drive ADR (e.g., college football game: sell-out at a high ADR)
- When demand for rooms is low, drive occupancy (e.g., night before Thanksgiving: offer lower rate)

Therefore, front office should always:

- Keep accurate historical records to understand past demand
- Know of special events or circumstances that impact future room demand

### 5.5 OVERVIEW OF FOOD AND BEVERAGE OPERATIONS

Food and Beverage Operations Cost Control:

<table>
<thead>
<tr>
<th>Steps</th>
<th>Product Control</th>
</tr>
</thead>
</table>
| Step 1: Purchasing | • Develop purchase specification  
• Supplier selection  
• Purchasing correct quantities  
• No collusion between property and supplier  
• Evaluation of purchasing process |
| Step 2: Receiving | • Development of receiving procedures  
• Completion of necessary receiving reports (e.g., addressing financial and security concerns) |
| Step 3: Storing | • Effective use of appropriate inventory systems  
• Control of product quality  
• Securing products from theft  
• Location of products within storage areas |
| Step 4: Issuing | • Product rotation concerns  
• Matching issues (issue and usage)  
• Purchasing as inventory is depleted |
| Step 5: Pre-preparation | • Mise-en-place  
• Minimising food waste/maximising nutrient retention |
5.5.1 Food and Beverage Operations Personnel Requirement

(a) Practice of Empowerment
   - Transferring some decision-making responsibility and power to front-line employees
   - Enhancing service to guests and increasing profits for the organisation

(b) To meet unanticipated guest needs effectively:
   - Staff must be trained in standardised procedures.
   - Managers must provide clear direction to employees.
   - Managers must provide necessary resources

5.5.2 Food and Beverage Operations Profitability

\[
\text{Profitability} = \text{Revenue} - \text{Expenses}
\]

- Profit amounts generated by restaurant F&B is relatively easy to calculate.
- The process of allocating revenues and expenses applicable to F&B services in a hotel is more difficult.
- Costs of F&B sales are generally higher in a restaurant than in a hotel.
- Hotel’s “bottom line” profit from F&B sales is likely to be lower than a restaurant’s.
- Payroll costs (or fixed-labour costs) are higher than in a restaurant.
### 5.5.3 Marketing of Food and Beverage Operations

| Location within the Community | • Restaurants: Locations easily accessible to potential guests  
• Hotels: Locations most accessible to guests desiring lodging accommodations |
|------------------------------|-------------------------------------------------------------------|
| Location within a Hotel      | • Restaurants: Locations easily accessible to potential guests  
• Hotels: Locations most accessible to guests desiring lodging accommodations |
| Menu                         | • For hotels, food and beverage service is viewed as an amenity or secondary objective (sale of guest rooms is primary objective) |

### 5.6 OVERVIEW OF ROOM SERVICE OPERATIONS

**Room Service Operations: Profitability Concerns:**

| Why does it lose money? | • Relatively few properties generate profits from room service  
• Very high labour costs  
• High expenses incurred for capital costs  
• Delivery carts/warming devices |
|-------------------------|-------------------------------------------------------------------|
| Why offered?            | • Service to guests  
• Some guests select hotels based on room service availability  
• Impacts hotel rating |
| How to offset losses?   | • Offer hospitality suite business  
• Provide hosted events |
(b) **Room Service Operations: Menu Planning Factors**

| Quality Concerns                        | • Less likely to oversee room service food quality  
|                                       | • Must offer products that maintain quality during holding and transportation to guest room (e.g., problems with omelettes and french fries) |
| Cross-Selling                         | • Advertising availability of other hotel services  
|                                       | • Dinner menu providing information about Sunday brunch |
| Menu Language                         | • Language barriers for international guests  
|                                       | • Use of pictures and multilingual menu descriptions  
|                                       | • Clearly state ordering requirements  
|                                       | • Minimum order charges/mandatory tipping policies |

(c) **Room Service Operations: Operating Issues:**

- An inaccurate room service order cannot be corrected quickly.
- A minor problem in room service may impact guests’ perceptions about the entire lodging experience.
| Communication                        | • Guest placing order / order taker / room service production-service staff / room service staff  
|                                    | • Abbreviations should be clearly understood by order taker and food production staff |
| Technology                          | • Improving the accuracy of room service orders  
|                                    | • Electronic cash register (ECR) / point-of-sale terminal / remote printer |
| Upselling Technique                 | • Opportunities for upselling are overlooked  
|                                    | • Upselling increases guest check average |
| Training                            | • Explaining procedures for retrieval of room service items  
|                                    | • Asking guests where room service meal should be set up  
|                                    | • Presenting the guest check and securing payment  
|                                    | • Opening wine bottles (if applicable)  
|                                    | • Providing an attitude of genuine hospitality |

### 5.7 OVERVIEW OF BANQUET OPERATIONS

(a) Well-planned Banquets Can Be Profitable:

(i) Banquet menu has higher contribution margin.
   • banquetts frequently celebrate special events

(ii) Forecasting and planning production, service, and labour are relatively easy.
   • formal guarantee is made
   • less likelihood of overproduction of food with subsequent waste

(iii) Beverage sales from hosted or cash bars increase profit.
   • capable of increasing alcoholic beverage sales
Increasing market share of the community’s banquet business result in increasing property’s profitability.

(b) Factors/concerns for planning banquet menus:
- Guest preferences
- Ability to consistently produce items of the desired quality
- Availability of ingredients required to produce the menu
- Production/service staff with appropriate skills
- Equipment, layout, and facility design issues
- Nutritional issues
- Sanitation concerns
- Peak volume production and operating concerns
- Ability to generate required profit levels

(c) Banquet Service Styles:

<table>
<thead>
<tr>
<th>Banquet Service</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butler Service</td>
<td>Appetisers and prepoured champagne can be served by service staff at a reception while guests stand.</td>
</tr>
<tr>
<td>Buffet Service</td>
<td>Quantities of food are prearranged on a self-service line; guests pass along the line and help themselves.</td>
</tr>
<tr>
<td>Family Style (English Style)</td>
<td>Platters and bowls of food are filled in the kitchen and brought to guests’ table.</td>
</tr>
<tr>
<td>French Service</td>
<td>Meals are prepared or finished at tableside by service staff (e.g., tossing Caesar salad/flambéing entrée).</td>
</tr>
<tr>
<td>Platter Service</td>
<td>Production staff plate food in the kitchen; service staff bring it to the table and place individual portions on guests’ plates.</td>
</tr>
<tr>
<td>Plated Service (American Service)</td>
<td>Production staff preportion food on plates in kitchen; service staff serve to guests.</td>
</tr>
</tbody>
</table>
(d) Various Ways to Charge for Beverages:

<table>
<thead>
<tr>
<th>Individual Drink Price</th>
<th>Collecting cash or a ticket when each drink is sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottle Charge</td>
<td>Charging on a by-bottle basis for each bottle consumed and/or opened</td>
</tr>
<tr>
<td>Per-Person Charge</td>
<td>Charging a specific price for beverages based on attendance at the event</td>
</tr>
<tr>
<td>Hourly Charge</td>
<td>Charging the host a specific price for each hour of beverage service</td>
</tr>
<tr>
<td>Specific Per-Event Charge</td>
<td>Using hours of beverage service; charging number of drinks per hour times number of guests</td>
</tr>
</tbody>
</table>

5.7.1 Banquet Room Set-up is Determined by

(a) Size
- Number of expected guests
- Local fire safety codes/ordinances
- Types and sizes of tables, chairs, and other equipment
- Number of seats per table
- Required space for aisles, dance floors, band stands, other entertainment, and head tables.
- Reception/buffet tables

(b) Timing
- The same room to be used same day for different functions
- Large evening event precedes following day’s large breakfast event in same room

5.7.2 Banquet Contracts and Billing Policies

- Last date that banquet space will be held without signed contract
- Time that a guarantee of attendance must be received
- Cancellation policies
- Guarantee reduction policy
• Billing: Amount and schedule for guest payment
• Information about service of alcoholic beverages
• Other information applicable to a specific event

**SUMMARY**

• As a hotelier, you will depend on the performance of an outstanding rooms division and food and beverage department to help you meet your guests service and profitability goals. This is because the Rooms and Food Outlets generate the majority of revenue in hotel’s daily sales.

• In Topic 1 to 4, you will see why a well-supervised front office and housekeeping department helps you do a better job of managing the entire hotel.

• In Topic 5 to 6, you will explore the unique features of food and beverage operations, rooms’ service and banquet operations. This knowledge assists you to manage a full-service hotel, usually accompanied by complex Food and Beverage operations.
I NTRODUCTION

Tourism is a composite phenomenon that incorporates the diversity of variables and relationships found in the tourism travel process. Considering to the characteristics of the industry it is recognised as one of the most vulnerable and sensitive industry. Improper tourism management causes a huge impacts and consequences to the other development sectors.

The opening of the 21st century was marked by a wave of terrorist attacks, outbreaks of disease and devastating natural phenomena. Many of these incidents had local, regional and global repercussions and prompted tourism crisis at corporate, industry and destination levels. Although crisis and disaster
have acquired greater prominence in recent years and the modern world appears to be one of heightened uncertainty and insecurity. Tourism cannot isolate itself from these forces and developments in the external environment have the capacity to participate tourism crisis, as do industry and organisational circumstances.

There is no significantly accepted definition of what constitutes a crisis and different discipline represents their on interpretations. These do however, frequently correspond and it appears that “triggering event causing significant change or having the potential to cause significant change; the perceived inability to cope with this change; and a threat to the existence of the foundation of the organisation (Keown- McMullan, 1997)

A distinction can be drawn between disasters which owe their origins to factors such as extreme weather, yet impinge on industry activity, and crisis which are products of institutional stress (Faulkner, 2001). The later are more amenable to control, but the two have qualities in common and are connected when catastrophes outside an organisation provoke a crisis within it. Emergency is another term sometimes employed interchangeably with crisis, but it refers to be less serious and therefore more easily managed even or threat. An associate concept is that of risk pertaining to latent, rather than actual, individual or sets of conditions which can become crisis realised and of sufficient gravity. Risk assessment is a key stage in planning for crisis, involving he anticipation of what might go wrong and identification of the reasons for divergences from expectations (Van Waldbeek, 2005).

Every crisis is unique, yet characteristics generally cited include unexpectedness, urgency and danger (Hermann, 1972). Tourism crisis generally share these attributes, although certain crisis situations can be predicted and lack immediacy such as those facing destinations suffering from rising sea level due to global warming. They are also not restricted to the corporate arena and he phrase an be extended to describe circumstances in which tourists and members of tourism industry individually or collectively, including destinations, are faced with change, which is potentially destructive for every, or certain, parties.

### 6.1.1 Issues

Causes of many tourism crises can be traced to developments in the economic, political, socio-cultural and environmental domains, which affect demand and supply in generating and destination countries. Economic downturn and recession, fluctuating exchange rates, loss of market confidence and withdrawal
of investment funds can all engender a tourist crisis. Political events such as war, military coups, deteriorating international relation, the imposition of sanctions and terrorism will have a similar outcome. Civil unrest and growing crime and violence may act as triggers and natural disasters of earthquakes, typhoons, volcanic eruptions and flooding will almost inevitably do so. Deterioration of public hygiene and infectious disease also lead to tourism crisis. Crisis generated within the industry too can analysed under the heading of economic, socio-cultural and environmental when tourism has adverse impacts in these fields.

Technology is a fifth domain which crises are initiated when technology in an assortment of manifestations fails to perform as expected and crisis of competition and industrial relations are born of corporate affairs, the sixth domain. Human error is often a compounding factor, or even principal cause, in these and all tourism crisis.

### 6.1.2 Domains of Tourism Crisis
### 6.1.3 External and Internal Threats of Crisis

<table>
<thead>
<tr>
<th>Domain</th>
<th>External</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Recession</td>
<td>Rising costs</td>
</tr>
<tr>
<td></td>
<td>Currency fluctuation</td>
<td>Falling revenues</td>
</tr>
<tr>
<td></td>
<td>Taxation</td>
<td>Unprofitability</td>
</tr>
<tr>
<td>Political</td>
<td>Government policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>International relations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Instability</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recession</td>
<td></td>
</tr>
<tr>
<td>Socio-cultural</td>
<td>Unrest</td>
<td>Staffing</td>
</tr>
<tr>
<td></td>
<td>Crime</td>
<td>Cultural conflicts</td>
</tr>
<tr>
<td>Environmental</td>
<td>Natural phenomena</td>
<td>Overdevelopment</td>
</tr>
<tr>
<td></td>
<td>Natural disasters</td>
<td>Environmental degradation</td>
</tr>
<tr>
<td></td>
<td>Pollution</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Health scares</td>
<td></td>
</tr>
<tr>
<td>Technological</td>
<td>Computer system failure</td>
<td>Transport accidents</td>
</tr>
<tr>
<td></td>
<td>Mechanical failure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Design faults</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fire</td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>Regulation</td>
<td>Competition</td>
</tr>
<tr>
<td></td>
<td>Government intervention</td>
<td>Labour disputes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Management disputes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Human error</td>
</tr>
</tbody>
</table>

The cause and source of crisis will help to decide its consequences and severity can be assessed on a scale from major to minor, measured by items such as number of people implicated and costs incurred. The zone of crisis may be local, national, regional and international with regard to geographical area and corporate, industrial (domestic and overseas) and government (local, national and international) with regard to decision makers.

Crisis are thus rooted in a multidisciplinary of intrinsic and extrinsic and extrinsic causes originating in various domains.

### 6.1.4 Vulnerability of the Tourism Industry to Crisis

Tourism industry has a complex structure and sells experiential products which are the collective work of several suppliers, leading to possible problems of fragmentation and control. Relationship of mutual dependence among
components also means that a crisis for one may spread to another. Such contagion is evident in destination crisis when a precipitating event leads to a sudden fall in arrival which has repercussions for accommodation, attraction and transport providers as well as government agencies and tour operators and travel agents at home and abroad.

There is fierce competition among destination and within sectors, with a trend toward concentration and consolidation. Extremely large and powerful companies have emerged and commercial pressures can result in corporate crisis, often related to financial matters. It must also remember that the industry is not the preserve of large corporations and small business are very active; some of these are particularly vulnerable and may be ill equipped to handle crisis (Cushnahan, 2004).

There are striking contrast between tourist’s products and other consumer goods which elevate the probability of crisis. The industry must move people to the primary place of consumption and accommodate and entertain them on arrival, the journey itself being one aspect of production. These visit could be marred and tourist safety compromised by a host of incidents which may or may not be the fault of those making the practical arrangements. Example includes transport accidents, hotel fires, street riots in which tourist are caught up and their victimisation by criminals. Destinations where there are doubts about safety and security are near to a crisis of a tarnished image, official warning against travel and decline in visitors.

6.1.5 Managing Tourism Crisis

Crisis management is perhaps a self explanatory term and there is, again, no standard definition. Santana (2004) did, however, capture its scope and intentions when he wrote of an “ongoing integrated and comprehensive effort that organisations effectively put into place in an attempt to first and foremost understand and prevent crisis, and to effectively manage those that occur, taking into account in each and every step of their planning and training activities, the interests of their stakeholders.” General theories postulate that crises advance in stages which have been labelled prodromal (warning), acute (at the height of the crisis), chronic (aftermath), and resolution (Fink, 1986). They can be conceived of as circular journeys which begin and end at normality after going through incubation; precipitating event; immediate consequences; rescue, salvage and first stage of adjustment (Turner, 1976). Essentially, these authors depicted three intervals of pr-crisis, crisis and post crisis which are likely to be of varying lengths. There may be no, or very little, time for action prior to crises which arrive without warning and duration will depend on the particular case, as will the speed of recovery. Nevertheless, complete restoration of the status quo may
be impossible because people and organisations are permanently altered by crisis and some time do not survive.

The evolution of crisis can also be viewed as a set of tasks for managers who must detect signals, prepare and try for preventing, containing, limiting damage and pursuing recovery (Pauchant and Mitroff, 1992). These task imply the assumption of either a reactive or proactive stance while interactively permits learning, knowledge gained helping to ensure that organisations are better placed to withstand or avert future crisis (Burling and Hyle, 1997). Practical measures to reduce the chances of a similar crisis recurring or another emerging should also be seen to be taken in order to reassure and restore confidence among the tourists, industry partners and inventors. Managers must anticipate and evaluate the likelihood of crisis, device policies designed to prevent them and formulate strategies for coping when they do happen (Regester and Larkin, 1998). The main aims are therefore to reduce risks, get ready, respond and recover (Heath, 1998).

### 6.2 ECONOMIC TOURISM CRISIS

Characteristics of local, national and international economies and any alterations in them exercise a crucial influence on the tourism industry (Bull, 1998). Depending on the nature of change, it will stimulate or depress demand in source markets and make destination more or less attractive regarding prices and products.

Economic downturn can undermine demand and possibly result in crisis for industries in origin and destination countries if the slump is sufficiently intense or prolonged. The recession of the 1990s on the US mainland contributed to decline Hawaii’s tourism from 1990 to 1993, and Japan’s economic difficulties had adverse consequences for its outbound tourism in the same decade, including travel to Hawaii. Deterioration of the global economy at the end of the twentieth century was considered partially responsible for a slowing down in worldwide tourism. It should be noted that much of the world’s population is debarred from tourism because of poverty, although there may be great disparities in income distribution with the presence of a wealthy elite of international travellers in the poorest countries. A less advanced stage of development does not preclude countries from receiving visitors, but a certain amount of finance is required to permit the tourism development and maintenance of necessary tourism infrastructure. One reason the African continent as a whole has been prevented from reaching its tourism potential is the parlous state of the economy (Christie and Crompton, 2001) and similar barriers apply in parts of Central, South America and Asia. An absence of fund and certain investment climate could lead to a crisis for the tourism industry,
compounded by political and social tensions that frequently accompany economic turbulence.

Tourism is especially vulnerable to economic uncertainty and volatility for a simple reason. Most travel and tourism involves discretionary expense. During tough economic times people conserve their cash to cover the essentials of life, food, shelter and family necessities. However, this does not mean that tourism stops. The trend that we have learned from past crises whether we refer to past economic crises or the global tourism scare resulting from the events of 9/11 is that people continue to travel but they will travel differently from the way they do during times of economic buoyancy. Those tourism and hospitality businesses which will survive and indeed thrive in the months ahead are those which can adapt because there are always winners and losers in any outbreak of economic volatility. In the short to medium term there is almost certain to be a trend of travellers spending less on travel. Those tourism and hospitality businesses which can adapt to service travellers on a tighter budget will do well. The demand for the luxury end of the market is likely to decrease while demand for either low cost or perceived good value products and services is likely to grow. Airlines and hotels especially need to rapidly adapt to this trend. In the currency shakeout which has occurred in recent weeks, destinations with "favourable" exchange rates may benefit. Ironically the surge in value of the US dollar and the Euro may stimulate Americans, Europeans and Japanese to resume travelling overseas. The growth of Chinese and Indian outbound travel may slow but will continue because these economies are still growing. There is likely to be a growth in domestic travel or short haul international travel as people choose to stay closer to home. If governments seek to help bail out industries they could help the global tourism industry by reviewing the plethora of crippling departure and other obscure taxes which have inflated the cost of international air travel.

However, gloomy some have depicted the current economic environment most people worldwide will continue earn income from their jobs. Most will want to take a vacation, and weddings, honeymoons and illicit affairs will still continue. People will want to get away from home, make a religious pilgrimage and travel will remain part of the way people do business. The optimistic growth forecasts of tourism associations such as the WTTC, UNWTO and PASTA will almost certainly require some revision but tourism will survive this challenge as it has overcome a wide range of challenges since this crazy 21st century began. The tourism industry will have a rough ride over the months ahead but those who think and act strategically and have to ability to adapt their business model quickly to the new realities will overcome this challenge.
6.2.1 Currency Rates and Control

Currency rates and their fluctuation are an additional determinant of tourist trends and investment. Substantial alterations are felt by tourists and reflected in the prices charged by operators and agents with consequences for demand. An exceptionally strong currency may deter inbound visitors but encourage outbound travel, as demonstrated by Switzerland, where the hotel industry confronted a crisis due to uncompetitive prices in 1990s. Switzerland became an expensive destination for foreigners while its nationals were lured abroad to take advantage of their enhanced purchasing power there, accommodation occupancy rate levels declining as a result.

6.2.2 Escalating Costs

Certain sectors of the tourism industry are characterised by the intensity of competition which often expressed in terms of price. Minimisation of costs is therefore essential, and significant rises can precipitate crisis, especially if unexpected and beyond the control of management. This is demonstrated by rapidly rising oil prices, which have the capacity to slow down growth in global, domestic and tourism economies. Economic recession damages consumer and investor confidence in general and within the context of tourism, as already noted, while the businesses have to contend with higher fuel bills. Transport companies and especially airlines are likely to be among the worst hit with fuel accounting for between 10% and 20% of the latter’s costs, the second highest after labour.

6.2.3 Addressing the Problems of Adverse Economic Impacts

Tourism can make a positive difference to economies of contrasting size and character, but there are also constraints which destination authorities need to acknowledge. Plus, it may not be the best solution to economic problems or the most suitable vehicle for general development. A heavy reliance on tourism could lead to economic weakness, so an effort must be made to integrate it into a wider economic program which incorporates diversification. These imperatives are more pressing in less-developed countries which are striving to overcome what is often a relationship of dependency on wealthy tourist markets (Harrison, 2001)
Mini Case: 1  
Airlines to lose US$5.2 billion in 2008 – Slowing Demand and High Oil to Blame

The International Air Transport Association (IATA) today announced a revised industry financial forecast that would see the global airline industry post losses of US$5.2 billion in 2008 based on an average crude oil price of US$113 per barrel (US$140 for jet fuel). The situation remains bleak. The toxic combination of high oil prices and falling demand continues to poison the industry’s profitability. We expect losses of US$5.2 billion this year,” said Giovanni Bisignani, IATA’s Director General and CEO. While there has been some relief in the oil price in recent months, the year-to-date average is US$113 per barrel. That’s US$40 per barrel more than the US$73 per barrel average for 2007, pushing the industry fuel bill up by US$50 billion to an expected US$186 billion this year,” said Bisignani. Fuel is expected to rise to 36% of operating costs, up from 13% in 2002. While there has been some relief in the oil price in recent months, the year-to-date average is US$113 per barrel. That’s US$40 per barrel more than the US$73 per barrel average for 2007, pushing the industry fuel bill up by US$50 billion to an expected US$186 billion this year,” said Bisignani. Fuel is expected to rise to 36% of operating costs, up from 13% in 2002. July year-on-year passenger demand fell to 1.9% – the lowest in five years. Capacity increased by double that – 3.8% – indicating that service cuts are not keeping pace with the fall in demand. This pushed the load factor for the month to 79.9%, a drop of more than 1% compared to July 2007. The surprise of July was a 0.5% drop in passenger demand by Asia-Pacific carriers partly attributable to a change in Chinese visa requirements but also showing that economic weakness is spreading to previously robust economies. Cargo demand in July contracted by 1.9% compared to 2007. Asia-Pacific carriers – the largest players in the cargo market – were hit hard with a 6.5% drop in demand. As a result of the weaker economic outlook, IATA significantly revised downward its traffic forecast for domestic and international markets combined. Passenger traffic is now expected to grow on average by 3.2% (was 3.9%) and air freight volumes by just 1.8% (was 3.9%). This is only half the pace of expansion seen in 2007 and is boosted by the stronger growth seen at the start of the year. Strong traffic growth allowed the industry to partly absorb the rise in fuel costs from 2003–2007. This is no longer the case.

Regional Highlights
• North American carriers are expected to post losses of US$5.0 billion in 2008 making them the hardest hit by this industry crisis.
• Asia Pacific is expected to see profits shrink from US$900 million in 2007 to US$300 million this year.
• European profits will tumble seven-fold from US$2.1 billion in 2007 to US$300 million in 2008.
• Middle Eastern profits will drop by US$100 million to US$200 million.
• Latin American and African carriers will see losses deepen to US$300 million and US$700 million respectively.

Source: IATA
6.2.4 Conclusion

Participation in tourism and public and private sector activity is closely related to prevailing economic circumstances in countries which generate and receive visitors. Economic growth stimulates demand and new investment, but its absence may result in crises for outbound industries. Tourism development can itself harm economies, especially those of less-developed nations, and such repercussions may trigger crises. External economic structures and process are beyond the control of tourism industry which can only react to changes which occur, although some can help to minimise economic disruption due to tourism and thereby lessen the intensity of related crises or avoid those which might otherwise evolve.

6.3 POLITICAL TOURISM CRISIS

Political philosophies and practices in destination and generating countries have repercussions for tourism and can engender crisis, especially when instability is generated. A regime can be defined as stable when it is “durable, violence and turmoil are limited and the leaders stay in office for several years. (Wilson, 1996). By contrast, instability implies constant and unpredictable changes and disruption to the established political order, including by external parties which use illegitimate tactics (Poirier, 1997). Media reports and popular consumptions of such instability are key determinants of decisions made by travellers, the industry and investors generally show an aversion to risk. Relatively peaceful locations where there are few perceived threats to personal safety and security and least commercial uncertainty are preferred by all parties.

Political instability has numerous manifestations and six type of “international wars, civil wars, coups, terrorism, riots and political and social unrest and strikes” (Hall and O’Sullivan, 1996). Corruption could perhaps be added to the inventory as proper planning and the conduct of business is made difficult in countries where it is endemic. Issues of the adverse consequences of terrorism have dominated discussions about political security and tourism in recent years due to a series of unprecedented attacks which have severely damaged tourism. Many of these factors can be hazardous for tourists or regarded as such, resulting in the outright rejection or avoidance of areas where they occur by visitors and the tourism industry. Foreign governments may also intervene and publish advisories which recommend against non-essential travel in order to protect their citizens from the dangers associated with political upheaval.
Major political issues in tourism are:

- Terrorist attack involving tourists and victims
- Armed attack events
- Assassinations (Political)
- Bombing
- Change in the government
- Change in the political party governing a country
- Civil war
- Guerrilla warfare
- Hijacking
- Kidnapping
- Peaceful demonstrations
- Peaceful strikes
- Riots
- Successful coup d’état
- Mass arrests
- Political instability in neighbouring countries
- Threat of war with other countries
- Terrorist attack to tourism industry related targets (site seeing, transportation, accommodation)
- War
- Censoring of media
- Imposition of martial law
- Restriction of political rights
- War in a neighbouring country
- Arrests of significant person
- Terrorist attack
- Political illegal executions

Source: Seddighi, H., Nuttall, Joan, C. Henderson
Mini Case: 2
Weak government Support, Tourism in Ostional, Costa Rica

Ostional beach lies within Ostional Wildlife refuge, which is resting place of sea turtles. Relatively low, but steadily increasing, number of tourists interested in wildlife protection visit this site, which therefore seems an ideal location for alternative tourism initiatives with strong community involvement. However, although the 400 local people have a high level of community organisation, they have played little role in tourism development and therefore reaped few of the benefits of tourism in the area. The study reviled that this lack of community participation and management in tourism is due to two factors. First, the community has received no support from the government. Instead the Government’s only interest in tourism in the area has been to collect taxes from accommodation providers and extract entrance from visitors.

Source: Regina Scheyvens, Tourism for Development

6.3.1 Responding to Political Tourism Crisis

Appropriate management strategies depend on the gravity and scale of tourism crisis. The most serious tourism crises linked to instability are potentially devastating for destinations with serious economic and social ramifications locally and nationally. Strong pressure therefore exerted on governments to take action with a view to supporting the industry and leading recovery. Companies and officials from generating countries also have to cope with the aftermath, necessitating the repatriation of tourists already overseas and cancellation of schedules. Other firms have the option of business doing elsewhere, although last minute changes of plan and withdrawal of the destination from programs may be required.

6.3.2 Conclusion

Tourism and politics thus have a close, if somewhat uneasy, relationship in which domestic and international political conditions and developments shape tourism flows and environment in which the industry operates. Tourism also impacts on political structures and processes and it is a policy making area of importance to most governments which seek to fully exploit the economic opportunities, as well as the social and political uses, it affords. However, government actions, ideologies and political events are capable of triggering a range of crises and political instability in a common catalyst.
6.4 TERRORISM AND TOURISM

Terrorism represents a serious threat to low and order and undermines stability and security in political, economic and social arenas. Tourism is not spared from these effects and has been seen to be specially exposed and sensitive to incidents of terrorism, whether directed at visitors specifically or the wider community (Aziz, 1995 et al.). There are several explanations of why tourists and tourism businesses are targeted, one reason being the publicity generated worldwide and especially in the countries of origin of international visitors caught up in events. A fall in tourist arrival and their spending also weakens economies and may cause social tensions, placing governments under threats and contributing to realise the terrorist goal of global destabilisation. It has been argued that tourists may be unpopular in the local community, leading to a condoning of the action by residents who themselves are spared. Enmity toward tourists can be acute in developing countries where tourism symbolises the inequalities between the developed and third world. Finally, the sector is a relatively straightforward target because of its size, diversity and extent. Many tourists are easily recognisable and tend to gather in large numbers at identifiable sites such as famous attraction venues, beaches, hotels and transport termini (Dimanche, 2004; Horner and Swarbrooke, 2004 et al.)

Manifestations of terrorism aimed at tourism include suicide missions, hijacking, bombing and shooting which can take place in an assortment of environments. There is a history of moves against aircraft and airports, illustrated by the crash of a Pn – Am flight in Scotland in 1998 due to bomb on board with the death of 249 people on the plane and 11 on the ground. The Achille Lauro cruise ship was taken over by the Palestinian Liberation front in 1985. Railways were also selected as object of attack in London and Madrid in 2005 with heavy loss of life. And the most recent the 2008 Mumbai attacks were ten coordinated shooting and bombing terrorist attacks across Mumbai, India’s financial capital and its largest city. The attacks, which began on 26 November 2008 and lasted until 29 November, killed at least 173 people and wounded at least 308. The attacks drew widespread condemnation across the world.

Disasters create difficult, often tragic, situations for the afflicted area and its residents. For a tourist destination, this period can represent a tourism crisis, which can threaten the normal operation and conduct of tourism-related businesses; damage a tourist destination’s overall reputation for safety, attractiveness, and comfort by negatively affecting visitors’ perceptions of that destination; and, in turn, cause a downturn in the local travel and tourism economy, and interrupt the continuity of business operations for the local travel and tourism industry, by the reduction in tourist arrivals and expenditures. Tourism crises triggered by terrorism are likely to be different from those caused by natural disasters. Experts indicate that terrorism will continue to victimise
“soft” targets; attacks will become more indiscriminate, terrorism will become institutionalised as a method of armed conflict, it will spread geographically, and the public will witness more terrorism than ever due to the media’s improved ability to cover terrorist incidents.

**Mini Case: 3**

**Mumbai attacks: Terror strikes could hit crucial India tourism sector.**

Gangs of militants mounted assaults on the Taj Mahal and the Oberoi – five-star hotels favored by western business travelers – and were said by witnesses to be demanding to know which guests held British and American passports. Events began when a gunman opened fire at the Leopold Café, a popular venue for young visitors. At least one Briton has been killed in the attacks, with other western tourists likely to have been among the victims. Last year the country boasted a 12.5 per cent annual rise in visitors, estimating that 5 million people – about 750,000 of them Britons – arrived, adding about £7.5billion to the country’s economy. However, only on Tuesday, Ambika Soni, India’s tourism minister, said that the global economic downturn had severely damaged the sector. Her comments came the day after the country’s tourist board revised its planned growth rate for the year from 15 per cent down to just five per cent. The attacks make achieving even this unlikely, with industry figures conceding that the high season could have been ruined just as it was beginning. According to the Indian Association of Tour Operators, the economic slowdown and its impact on the tourism industry but this is a direct attack on our industry as it has targeted hotels and foreigners. This is for the first time terrorists have targeted hotels and foreigners. It is certainly going to further dampen the sentiment of the tourism industry.

*Source: Telegraph.co.uk*

### 6.4.1 Prevention Strategies

Whether the threat of terrorism, either generalised or specific, leads to crisis partly depends on how it is handled with need to strike a balance between action and over-reaction. Photographs of tanks stationed at London’s Heathrow Airport after intelligence reports of a planned missile attack on passenger plane 2003 were deemed a “public relation disaster” of the UK industry. An impression was given that the country was under siege, frightening visitors away (BBC News, 2003). Acceptance of responsibilities and prompt action emerge as essential for minimising the chances of terrorism. Risk management must be practiced and consists of the stages of recognition, evaluation, avoidance and threat reduction (Thackrah, 2004).
6.4.2 Conclusion

The presence and dread of terrorist activity thus represent a severe obstacle to tourism, impacting on both demand and supply. It is a source of crisis of differing degrees of intensity, sometimes of great magnitude, for all stakeholders and seems set to persist. Analysts anticipate that tourists, destinations and transportation modes will be subject to more attacks.

6.5 SOCIO-CULTURAL CONFLICTS AND TOURISM

Tourists and tourism development have ability to induce change in the society and culture of the destinations. These dynamics may create tension between visitors and residents, resulting in an industry crisis. Wider condition can be also a barrier to public and private investment and a threat to tourist safety. Visitors may be caught up in outbreak of civil unrest or become targets of crime and could be inconvenienced by modification to travel itineraries and cancellation by tour operators due to disruption. The imposition of travel advisories by governments in response to uncertainty related to social disturbance is also likely to dampen demand and undermine industry confidence.

6.5.1 Socio-cultural Condition and Tourism Crisis

The nature of certain societies and cultures and events in these arenas can be a catalyst of crisis. Prevailing conditions and norms may frustrate the operation of the tourism industry and the promotion of the favourable destination images upon which tourism depends. This applies especially to locations which display long-term social instability, often rooted in economic and political systems, which are perceived as unattractive by visitors and investors and may be unsafe in reality. Realisation of tourism’s potential will therefore be hindered and the industry’s performance will remain disappointing. Isolated upheavals also damage the tourism industry, although their repercussions will be more confined temporally and spatially.

Examples include parts of Central and South America, Africa and South East Asia. In the last region, Indonesia as a whole (with the exception of Bali) has struggled to secure growth in its visitor arrivals, despite a wealth of natural and cultural resources. This has been due to the chronic instability which has handicapped the nation during the beginning of this decade. (Prideaux et al., 2003). The collapse of the Suharto regime in the late 1990s ushered in a period of political and economic volatility which had social ramifications as
unemployment and poverty level rose. There was unrest in many areas involving looting and ethnic riots in which Chinese communities were targeted.

**6.5.2 Crime and Tourism**

Crime is one manifestation of socio-cultural dislocation connected to economics which has implication for tourism, although research reveals a lack of consensus about the relationship. Some commentators maintain that certain criminal actions are closely associated with tourism and increase alongside visitor members. Others argue that any linkages are more complex and that tourism does not inevitably lead to more crime which may be a consequence of related or unrelated sociological and economic factors (Pelfrey, 1998; Pizam, 1982).

**6.5.3 Physical Influence Causing Social Stress**

The physical influences that the increasing tourism flows, and its consequent developments, have on a destination can cause severe social stress as it impacts the local community. Socio-cultural disadvantages evolve from:

(a) **Resource Use Conflicts**: Such as competition between tourism and local populations for the use of prime resources like water and energy because of scarce supply. Stress to local communities can also result from environmental degradation and increased infrastructure costs for the local community – for example, higher taxes to pay for improvements to the water supply or sanitation facilities.

(b) **Cultural Deterioration**: Cultural deterioration, damage to cultural resources may arise from vandalism, littering, pilferage and illegal removal of cultural heritage items. A common problem at archaeological sites in countries such as Egypt, Colombia, Mexico and Peru is that poorly paid guards supplement their income by selling artifacts to tourists. Furthermore, degradation of cultural sites may occur when historic sites and buildings are unprotected and the traditionally built environment is replaced or virtually or virtually disappeared.

(c) **Conflicts with Traditional Land-uses**: especially in intensely exploited areas such as coastal zones, which are popular for their beaches and islands. Conflicts arise when the choice has to be made between development of the land for tourist facilities or infrastructure and local traditional land-use. The indigenous population of such destinations is frequently the loser in the contest for these resources as the economic value which tourism brings often count for more.
Mini Case: 4  
**Income inequality in Taman Negara national park, Malaysia**

In Western Malaysia, the Taman Negara National Park is a privately owned park and resort which can house 260 visitors at a time. The park employs 270 people and 60% of the staff in the administrative headquarters are locals. In 1999 these local staff earned about US$ 120 a month; for comparison, Malaysians living off the land at that time were earning on average about US$ 40 a month. Despite the positive effects of increased park employment, the difference in income between the two local groups has led to social tension and driven up boat fares and the cost of everyday goods. Little of the tourism money generated by the park stays in Malaysia, and park employees spend almost 90% of their income outside the region or on imported goods. Thus local inhabitants, whose culture has been marketed to attract tourists, benefit only to a very limited extent. Indeed, many have taken to illegal hunting and fishing in the park, contrary to its protective regulation.

*Source: ILO report on human resources development, employment and globalisation in the hotel, catering and tourism sector, 2001*

### 6.5.4 Managing Socio-cultural Tourism Crises

Tourism crises may be therefore be triggered by socio-cultural circumstances, usually at destinations rather than in generating countries, which are the result of tourism itself or the operation of unrelated factors. Internally induced difficulties in this sphere can also be reinforced by external troubles, compounding any crisis. Avoiding or minimising the likelihood of socio-cultural clashes is therefore a key concern of the tourism industry, although this aim is easier to pursue when tourism is the principal cause of any such problems.

One tactic is to stress the positive impacts of tourism for local societies and cultures and work toward their realisation. Program of education can help to promote awareness of benefits and messages to communicate are the tourist interest and money can assist in a revival of local cultures and traditions and a resurgence of skills. It provides a rationale of funding for the conservation of heritage and has a function in the protection and assertion of national and cultural identities. Higher standard of living and improved public services are other gains to be emphasised and strived for.

### 6.5.5 Conclusion

Tourism affects and is affected the social and cultural character of both tourists and destination residents. Its power to induce change is usually stronger among the latter because it is these populations which have to adapt to the influx of visitors and the creation of an infrastructure for hem. The tourism development process may itself trigger crises due socio-cultural conflicts between tourists and locals.
6.6 ENVIRONMENTAL TOURISM CRISIS

The relationship between tourism and the environment is potentially difficult (Hunter and Green, 1994) and there is now perhaps a greater awareness than ever before tourism’s negative environmental consequences (Gossling, 2002). Critics condemn the industry as an exploiter and consumer of nature and have become increasingly vociferous, arguing that the existing scenery of land and water has been obliterated in order to construct tourism amenities and infrastructure. Such restructuring increases the possibilities of erosion, flooding and landslides; in addition it destroys natural habitat. Untreated sewage and improperly disposed wastes pollute soil and ground water. Excessive demand for water for water from tourists and extravagant use in facilities such as golf courses may give rise to shortages. Tourist’s presence and activity upset delicate ecosystems which support a harmonious balance of animal and plant life, endangering biodiversity and native species of flora and fauna. Transport brings noise and visual pollution and general stresses are aggravated by seasonal peaking when destinations and sites may struggle to cope with an invasion of tourists. Coastal and marine locations, alpine areas and deserts are still especially vulnerable (APEC, 1996; GPA, 2005).

6.6.1 Environmental Linkage and Resource Use for Tourism
Tourist volumes, distribution, attitudes and actions help to determine the scale of development, intensity of land use and extent of impacts (Gunn, 1994). A place’s special qualities must also be taken into account and some may suffer irreversible harm even if arrivals are low. This is evident in Polar Regions, which are host to a relatively small number of special interest tourists, but the harsh environment is fragile and slow to recover from disturbance (Hall and Johnson, 1995). The extent and standard of planning are other important influences on the rate of change and its effective management, appropriate control measures being a means of averting an environmental tourism crisis.

Rapid development and absence of planning can lead to conditions of crisis as shown by stretches of the Mediterranean coastline and resort there which have seen a marked deterioration in environmental quality. Resorts combine elements of natural and purpose-built environments, but the former is a key aspect of their attraction.

**Mini Case: 5**

**Tsunami Recovery: A Case Study of Thai Tourism**

Interviews and surveys of tourism officials and travelers to the Andaman Coast of Thailand found a mixed picture nine months after the December 2004 tsunami that killed more than five thousand people and damaged numerous resorts and hotels. To draw tourists, Thailand assembled a cut-rate “fun package” to encourage tourists to return to the area. A survey of 668 travelers to the tsunami-damaged area found that the discount package had little effect on their decision to travel to the Andaman Coast. Instead, these travelers cited the area’s beauty, the residents’ welcoming attitude and service, and value for money as the reasons to visit Phuket and vicinity. Morbid curiosity was not among the motivating factors. In deciding to travel to the area, respondents said that they relied heavily on internet information, backed up by the expertise of travel agents and word of mouth. On the other hand, travelers who were avoiding the area were particularly concerned that another tsunami could overtake them. They also said that the knowledge that so many people had died on those beaches made it hard for them to return. Interviews with Thai hoteliers suggested that the fun package was well meant but badly timed, coming too long after the tsunami to save the tourism season and prevent resort closures and layoffs.

6.6.2 Responding to Environmental Tourism Crises

The capacity of tourism to induce harmful changes in the natural environment means that certain crises are of internal origin and can be overcome by private and public section action. Acceptance of responsibilities and investment in appropriate services, facilities and conservation programs by industry sectors in both generating and host countries may all help in dealing with and recovering from such crises. Effective management strategies, comprising both self-regulation and statutory imperatives, can also help to prevent the evolution of
crises if implemented at a sufficiently early stage in the development of tourism. This applies to urban and rural environments. There are a variety of guidelines, code of conduct and information about best practice now in public and private domain. Assessing the carrying capacity, limit of acceptable change and Environmental Impact Assessment is also practicing strategies for successful tourism development.

6.6.3 Conclusion

A high quality environment is a key component of tourism and certain natural features exercise strong appeal as attractions in themselves or settings for various activities. When these resources begin to deteriorate, sometimes poising a risk to personal health and safety, tourist may look elsewhere and substitute destinations which they perceive to be safer and more pleasant. Deterioration can be very sudden as in the case of natural disaster or more gradual, illustrated by atmospheric pollution weather patterns. Tourism development itself may be a cause and catalyst of environmental decline and crisis due to its many negative impacts. Recovery may be determined by the extent and duration of damage, alongside management responses.

6.7 TOURISM AND HEALTH CRISIS

Health and tourism is connected in many ways and there are several distinct areas of study which include the physical and psychological benefits of vacation travel, the pursuit of improved health being a major motivator for tourism. However there are danger to health arising from participation in tourism and they can result in the emergence of tourism crisis.

A distinction is made between involuntary and voluntary health threats, the later illustrated by sexually transmitted illnesses and adventure tourism. The act of travel poses dangers. There may be accidents due to mechanical failures, human error and adverse weather either etc.

6.7.1 Health Risks at Destinations

Having survived the journey, tourists then face the possibilities of sickness and accidental injury on their arrival at destinations. The most prevalent forms of sickness resulting from tourism are often connected to standards of hygiene at destinations. The most prevalent forms of sickness resulting from tourism are often connected to standards of hygiene at destinations. Poor sanitation and inadequacies of water supply and sewage disposal may cause intestinal infections. Diarrhoea is a particular concern among travellers and one of the most
common of traveller’s complaints (Ericsson et al., 2003). These infections can strike and spread rapidly at venues where tourists gather such as hotels. Malaria, Yellow fever, cholera and Dengue are more serious and can have fatal consequences. There are also bites, stings and skin infections to contend with as well as unaccustomed sun and high or low temperatures (Keystone et al., 2004).

The severity of health hazards and sensitivity to them partly depends on location, activity and tourist’s physical fitness. For example, those travelling off the beaten track in regions such as South East Asia, the South Pacific and Amazon Basin are in danger for endemic ailments (Rudkin and Hall, 1996; Shaw and Leggat, 2003). It seems probable that more tourists will succumb to both common and rarer diseases as peripheral areas of the world become accessible, a trend fuelled by enthusiasm for eco tourism and other manifestations of alternative tourism in which travellers seek to escape the trapping of the mass industry.

### 6.7.2 Risky Behaviour

The above health threats are largely voluntary, although certain measures can be taken to reduce their magnitude and possibly avert a crisis. However, other types of risk can be classified as voluntary and tourists frequently engage in careless behaviour which endangers their health. It has also been noted that individuals perceive risks differently depending on personality and social circumstances (Carter, 1998; Lepp and Gibson, 2003). Irresponsibility finds expression in several ways such as carelessness over food consumption, underestimation of dangers and corresponding absence of preparedness and protection (Casteli, 2004).

### 6.7.3 Sex and Tourism

Some tourists may abandon their personal inhibitions when travelling and ignore norms to which they confirm at home, thereby exposing themselves and those with whom they have contact to harm (Wickens, 2003). Such an attitude applies to sexual adventures with a heightened chance of catching or perhaps communicating a sexually transmitted disease, including HIV/AIDS, unless appropriate precautions are taken.
Mini Case: 6
Bird Flu and Thai Government crisis response

The first avian flu pandemic – the Spanish Flu – took place in 1918 and killed tens of millions of people. Migratory waterfowl are natural reservoir for the bird flu. These birds can become infected hosts transmitting the virus to poultry which is why millions of chickens have been culled and killed in order to contain the spread of the disease. Humans are rarely infected until now because transmission from person to person is inefficient though humans and pigs can serve as mixing vessels. Many re-occurrences have surfaced in Hong Kong and China mostly during Chinese New Year when the main dishes are chickens and ducks and the winter weather is ideal for transmitting the bird flu. Never before has this disease simultaneously affected so many countries and resulted in the loss of so many birds. In Thailand, the first cases of bird flu in fowl were uncovered in November 2003, and the government declared a potential pandemic two weeks later. The first bird flu victim was reported on January 3, 2004, and ever since the Thai government had difficulties in managing the bird flu related foreign relations and news media. The Prime Minister hosted a summit meeting on bird flu in Bangkok in January 2004, and admitted poor handling of the outbreak but denied accusations of a cover-up. He staged a lavish chicken lunch for himself and his cabinet members to reassure both locals and foreigners that Thai chicken is safe. Subsequently, PATA declared that because bird flu was not passed between people, there was little threat to travelers. With the full support from the Thai government, PATA engaged in an on-going reputation-management program to balance the news of bird flu concerns. Yet, many travelers had cancelled their trip during February and March 2004 though the impact was minimal. Most cancellations came from China, Korea, Taiwan, Hong Kong and Singapore. As a lesson learned from SARS, Thai Airways launched the “Most Hygienic In-cabin Environment” program as a new standard exceeding the levels set by the WHO. All reusable items were thoroughly cleaned, disinfected and made-sterile after use, and the interior of each aircraft was sprayed with disinfectant prior to departure. New high-performance air filters inside aircrafts were deployed similar to operating rooms of major hospitals which caught viral particles as small as 0.1 microns or 99.999% of all airborne contaminants. All flight and cabin crews, numbering around 3000, received flu vaccinations annually in December. In October 2005, hotel operators and travel agents called on the government to accurately clarify the bird flu situation to the world community before the upcoming high season. The Thai government responded by developing a National Plan for Avian Influenza Control and Influenza Pandemic Preparedness 2005–2009. As of April 6, 2006 there were a total of 192 confirmed human cases of Avian Influenza which had resulted in 109 deaths globally. Thailand reported the third highest number, 22 cases and 14 deaths, among the nine countries being affected by the Avian Influenza. During the first three months of 2006 there was no new bird flu cases reported in Thailand. However, it was too early to say whether Thai governments bird flu crisis management strategy was agile enough to counter this looming pandemic.
6.7.4 Responding to Health Concerns and Crises

There is thus great diversity in the characteristics and intensity of tourism crises arising from health and many cases of illness and personal accidents are limited in their scope and outcome. Travel is an agent of globalisation which can assist in the dissemination of communicable disease and many destinations are inadequately equipped to meet the ensuring demands on health services. The tourism industry cannot ignore such developments as officials are predicting the recurrence and intensification of epidemic-prone viral and bacterial diseases which do not respect territorial boundaries.

6.7.5 Conclusion

Questions of health therefore represent a potential source of tourism crises, although their severity varies considerably. The magnitude of any crisis will depend partly upon the numbers involved and whether there are any fatalities, dimensions which determine the amount of publicity generated. Media coverage is a critical influence on popular opinion and handling external communications is a core element of crisis management.

6.8 TECHNOLOGICAL FAILURE AND TOURISM

Tourism employees technology in an assortment of forms which has allowed the industry to improve products and their delivery to customers. Modern technology also offers advantages of greater efficiency and cost savings. Sophisticated information technology systems allow the rapid communication of information and the building of strong relationship among the suppliers, distribution and markets. Advances in transport technology have facilitated the development of modern mass tourism, allowing more people to travel further than ever before, and many leisure attractions are technology based. Building technology has also allowed the construction of impressive new amenities to serve tourists and the industry.

6.8.1 Transport Accident and Tourism

Within the more advanced Organisation of Economic Cooperation and Development (OECD) countries, the percentage of accidental deaths linked to transport averaged 24% in 1999. The figure ranged from 13% in Finland and Sweden to 35% in New Zealand and Portugal, 39 percentages in Spain and 50% in Greece. Vehicle traffic accidents accounted for over 90% of death in half of the OECD countries in the 1980’s and 1990’s. Death caused by railway and water transport accidents averaged between 1%, 2% to 4% respectively, rarely
exceeding 5% in any one year. Air transport including Balloons, hang gliders and ultra light planes, was responsible for 2% to 3% of all accident deaths in most countries (ATSB, 2004). Perceptions of the comparative safety of alternative modes do not therefore always correspond with empirical evidence as suggested by the prevalence of anxiety about flying.

6.8.2 Information Technology Failure

The internet and other form of information technology have transformed the way in which the tourism industry does business. They have become vital tools in commercial transactions and the distribution of products, creating new sales and marketing opportunities. Tourist have also gained access to unprecedented amounts of information about destinations around the world and can book a host of services directly and instantly on personal computers in the comfort of their on homes. However, there are some limitations to the modern state of growing dependence on information technology with possibilities of uncertainty and crisis when this goes wrong. For example, air traffic control computer collapses can prevent aircraft from taking off and landing and upset schedules for an extended period even if the computer is out of action for only a short time.

An official report found that there were “fundamental weakness” in safety management and the emergency procedures were too complex and demanding and staff on duty had not been adequately trained to carry them out.” Euro tunnel committed itself to remedy these deficiencies and completed the necessary rebuilding while continuing passenger rail services. Transport through the tunnel was back to normal by mid-May 1997 and the company eventually recovered Pound 180 million in an insurance claim.

Mini Case: 7
Euro tunnel Fire

Euro tunnel is the company in charge of the rail tunnel under the English Channel which connects the UK and France. It also operates the shuttle services which carry freight and private vehicles on separate trains. There are two main rail tunnels and a third tunnel between them which is used for maintenance purposes and serve as escape route. Fire broke out in the main tunnel on a November evening in 1996 and reached temperature of 1,000 degree centigrade. It appeared to start on one of the trucks being transported and a subsequent enquiry concluded that this deliberately set alight. Although there were no deaths or injuries, the blaze caused sufficient damage to close freight operation for six months. There were reports that euro tunnel was losing 1 million pound daily at a time when it was already heavily debt-laden. The fire was also the subject of widespread publicity and placed managers under close scrutiny.
6.8.3 Conclusion

There are many different classes of technology such as those related to transport, building, computers and public utilities which are all relevant to tourism. Overall, technology is of vital importance to the modern tourism industry and it occupies a central role in the creation and delivery of tourism services. It is relied upon by many businesses and has enhanced the tourist experience of transport, accommodation and attractions. However, technology may also be a catalyst of crisis when it breaks down completely or displays serious inadequacies in performance. Resulting crises range in severity from the multiple deaths of customers to the comparatively minor disturbance of malfunctioning of power supply.

6.9 COMMERCIAL CRISES

Crisis is a consequence of change and it has already been demonstrated how tourism is sensitive to alteration and upheaval in a series of domains. The industry itself is constantly changing and this is reflected in product development and a search of untapped markets While having an influence over demand, companies must be alert to new developments and aim to anticipate accommodate emerging trends. Those which fail to do so could face a decline in business; this danger has been evident among large-scale tour operator and travel agency group in the UK, one of the major generators of international tourists, in recent years.

Tour operators have always had to contend with evolving tourist tastes and behaviour, but the phase of these movements seems to be accelerating. The burgeoning of budget airlines and use of the internet for travel booking, associated with more independent and adventurous tourists, have had repercussions across the world. In the UK, more people are making their own arrangements online and this has affected purchases of conventional package tour organised by tour operators and sold through traditional retail agents.

6.9.1 Internationalisation

Another potential cause of crisis among the large tour operator and travel agency groups is that of expansion beyond their country of origin, with the giants having a presence in many states and others aspiring to follow. Enterprises, however, may too large too quickly and pan-continental activity may not be sustainable if a company has insufficient reserves and expertise. Internationalisation, which occurs when companies enlarge their scope and move into markets outside their home base, may thus give difficulties which result in crisis. When companies operate globally, risk for internal and external forces at home increase.
Unfamiliarity with local practices and circumstances and inappropriate policies and decisions could be detrimental, ways of doing business needing to be reviewed in the context of unfamiliar societies.

6.9.2 Competition

Internationalisation can be regarded as a manifestation of competition as companies search for routes to grow and win market share from rivals at home and abroad. Competitive pressure is strong across the tourism industry and they can be interpreted as a sign of its good health, from which customers and other stakeholders or in combination with other agents, and become a catalyst for crisis.

Competition as a source of commercial crisis is illustrated by the historic example of Laker Airways which was set up in 1966 with the intention of providing low-cost air travel for British holidaymakers within Europe. The company then sought a license which would allow it to offer transatlantic services, proposing to undercut existing prices by as much as two-thirds as a result of cost savings. Its submission met opposition from the few airlines already flying across the Atlantic, but a license was awarded in 1977 and flights commenced to New York and Los Angeles. The founder had plans to extend the route network which was turned down by the British authorities, leading to the possibility of an anti-competitive practices legal case coming before European courts.

6.9.3 Conclusion

Crises are by definition unpredictable and the future is unknown, although many causes of crises will undoubtedly persist and type of crises will repeat themselves. Extreme economic vitality, violent social upheaval, disease, political dislocation, terrorist atrocities, tropical storms and environmental pollution are present or constantly threatened in several parts of the world and can precipitate tourism crises. The scantily threatened in several parts of the world and can precipitate tourism crises. The industry will continue to be highly competitive and subject to commercial pressures capable of triggering crises, although it has some control over those crises which are a result of adverse development of its own creation. There may also be new forms of crises as the industry expands its geographical reach, technology of all manifestations advances and tourist volume rise. Such background illuminates the importance of the study of tourism crises in order to improve understanding of their root causes, dynamics and consequences as a basis for better management.
This course is designed to focus on key issues arising in the global tourism industry.

The unit is presented via a number of key industry issues and case studies are provided throughout the topic for a better understanding of the subject.


