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Q8	Please provide the volume number and issue number in reference: Fok <i>et al.</i> (2004).

# Workforce and destination influence over hospitality industry performance

Hospitality  
industry  
performance

1

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## Abstract

**Purpose** – As part of the recent global financial crisis, Europe has experienced a double crisis (financial crisis and Euro crisis) leading to a double dip recession, meaning that the effects of the crisis have been longer and more severe. Tourism, specifically the hospitality industry, is important for the economy of Southern European countries, where the crisis has been the worst. Spain especially depends on tourism as important source of GDP. Therefore, the purpose of this paper is to identify the contributing factors to better manage the crisis impacts and anticipate future impacts.

**Design/methodology/approach** – The authors examine the performance of a sample of 7,293 Spanish hospitality companies based on data from 2008 to 2011. With the aim of testing the hypotheses, a multivariate regression analysis was performed.

**Findings** – Results show the importance of a direct effect over both internal (workforce as well as hotel characteristics) and external factors (destination-related GDP spending) for growth, with varying influence across factors. Nevertheless, the most influenced are the moderated effects among the workforce and external variables.

**Research limitations/implications** – This study contributes to the literature by providing a firm-level analysis (rather than an industry-level analysis) and offers an almost complete picture of a specific geographical area. Future research should address the performance of other tourism industries in times of crisis, such as restaurants and travel agencies, and the relationships between performances in different tourism industries. Regarding the limitations of the paper, the main limitation is associated with the use of panel data from an official database. These include problems in the design, data collection and data management of panel surveys.

**Practical implications** – These findings help the hospitality industry to understand the relevant drivers and coping strategies associated with the hospitality industry during a financial crisis.

**Originality/value** – This study is focused on the firm-level analysis instead of an industry-level analysis and can thus give advice to the strategic behaviour of companies.

**Keywords** Performance, Spain, Hospitality industry, Financial crisis, Destination influence, Workforce productivity

**Paper type** Research paper



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## Introduction

Current economic trends suggest that the 2007 global economic downturn is now ended (Bronner and de Hooq, 2014). Varum and Rocha (2013), among others, have asserted that economic downturns negatively affect firm growth, both during and immediately following a crisis (Okumus and Karamustafa, 2005). Analyses of previous crises have found that both internal and external factors could be key issues in company performance during a financial crisis. The tourism industry is typically one of the most damaged during a financial crisis for a number of reasons. First, tourism is affected by reduction and changes in traveller spending (Cracolici *et al.*, 2008; Smeral, 2009). Second, reduction in credit access and lower return of actives speed up financial problems (Fahlenbrach *et al.*, 2012). Third, financial crisis recovery may take a long time and can contribute to tourists favouring alternative destinations (de Sausmarez, 2013). Finally, domestic tourism falls sharply (Chen and Yeh, 2012), with consumers concentrating on indispensable consumer products such as food and clothing (Smeral, 2009). Thus, fierce competition will normally occur within a destination and between alternative destinations (Cracolici *et al.*, 2008). As a consequence, in the case of tourism, financial crises could be considered continuous due to the long lag period before the full extent of the damage appears (de Sausmarez, 2013 cited Siomkos, 1992).

For the aforementioned reasons, understanding the performance of tourism companies during a financial crisis is crucial as it provides a predictor of future performance in subsequent crises (Fahlenbrach *et al.*, 2012). On the other hand, tourism is a human-intensive industry, and human resources are key to service quality (Baum, 2007). However, during times of crisis, companies reduce employment to cut expenses, with a result of a likely deterioration in service (Alonso-Almeida and Bremser, 2013) and loss of competitiveness (Cracolici *et al.*, 2008; Ridderstaat *et al.*, 2014). It is therefore important to understand how human factors help hotels face financial crises with the aim of managing crisis impacts properly and preparing for future crises. Nevertheless, limited research involving individual performance and influence factors of companies during this latest crisis has been reported.

To address this, we aim to identify the relevant factors for growth during times of crisis. These two aims will consider internal and external factors. Although people are frequently called the most valuable asset for tourism companies, the role of human resources in tourism companies in times of crisis remains underexplored (Baum, 2015). Thus, delving into workforce cost and productivity influence over company performance during a downturn is relevant to provide help to manage hotels during this difficult period. Previous research has found that external factors such as location could have a direct effect on performance (Pestana, 2010; Clarke *et al.*, 2012), although most of the research on that topic has only addressed the one variable of the number of total arrivals (Pestana, 2010) or urban or vacation location (Shang *et al.*, 2008). Thus, this aspect also has room for improvement. Fahlenbrach *et al.* (2012) asserted that many companies have persistence aspects of their business model that determine their performance sensitivity to a crisis. Therefore, identifying successful factors is critical to enabling modification of business models and strengthening business under complex market environments.

To our knowledge, this report is the first attempt to specifically study human resource performance and growth of hotels during the latest financial crisis. Thus, it includes both internal and external factors and analyses their influence on performance in order to build a more complete picture. In the case of internal factors, human resources and hotel characteristics are included, while external factors consist of a set

of destination variables regarding local economic reliance upon tourism and touristic flows. Moreover, previous research has only analysed direct effects, but here, direct and moderated effects are included. In addition, while previous crises have been short, the current crisis in Europe has felt like a “double crisis” (the financial and euro crisis). For that reason, panel data are used with a total of four years of analysis over the period of the double dip recession (2008-2011) and when the financial crisis was hardest (Ridderstaat *et al.*, 2014). Therefore, the novel approach of this study should help reveal the relevant drivers and success factors for the tourist industry during turbulent times.

To achieve these aims, the next section of this paper discusses the theoretical arguments regarding the model proposed. The following section describes the empirical design of the study. Fourth and fifth sections present a quantitative analysis, continuing with the study findings and discussion. The final section offers several conclusions drawn from the research and observed business practices.

## Literature background

### *Financial crisis and workforce in hospitality: impact on growth performance*

Competitive operational performance has been related to good performance during downturns (Claessens *et al.*, 2012). The authors noted that lower internal costs can provide a competitive advantage during a fall in demand. In line with this reasoning, Kunc and Bhandari (2011) have also asserted that during financial crises, companies seek cost efficiencies. Given that workforce costs used to be the main expense in human-intensive industries such as tourism, to address the impacts of a global economic recession, hotels used to maximize their benefits with limited resources through correct resource allocation and operation strategies. Moreover, Flouris and Walker (2005) observed that operational flexibility was crucial to achieve good performance during financial crises. Thus, companies with operational capabilities could be better able to cope with turbulent times (Lee *et al.*, 2009). Among others, workforces with more distinctive skills and scalability could be key for growth during this period (Nijssen and Paauwe, 2012; Baum, 2015).

Chen and Yeh (2012) found that hotels in Taiwan with higher labour productivity (calculated by the total operation revenue against number of employees) were more likely to survive under financial crisis situations. Hjalager (2010) suggested that innovative tourist companies are able to face turbulent environments, although it could cause an increase of cost in the short term due to an increase in employee costs and revenues by employees. In fact, Komninou *et al.* (2014) asserted that specialization and value added to services produced significant variations in productivity measures. Thus, a more specialized workforce could increase the cost of employees (COSTEMPs) but also improve performance (Baum, 2015). Therefore, the following hypotheses are proposed:

- H1a. Workforce cost is directly and positively related to hotel growth during financial crises.
- H1b. Workforce productivity is directly and positively related to hotel growth during financial crises.

### *Financial crisis and non-financial characteristics in hospitality: impact on growth performance*

In addition to human resources, other company characteristics may be relevant to performance during a financial crisis. The most influential factors emphasized by

previous research on downturns include affiliation, size and age (e.g. Fok *et al.*, 2004; Botti Briec and Cliquet, 2009; Clarke *et al.*, 2012).

Most studies have asserted that firm size is a significant factor in explaining performance during a financial crisis period. Although small firms may have better flexibility in adapting and exploit market niches (Varum and Rocha, 2013), Fok *et al.* (2004) found that bigger hotels are more profitable during crisis periods because they have more resources. Clarke *et al.* (2012) also found that survival of bigger companies is better during a crisis as compared to smaller companies. However, in the case of bank services, smaller banks run better than bigger banks (Fahlenbrach *et al.*, 2012).

In addition, Fok *et al.* (2004) found that age is another relevant characteristic for profitability during a crisis, with older firms being better able to survive. This is likely due to older companies having a larger pool of loyal customers, which is one of the best measures for maintaining income during a turndown (Alonso-Almeida and Bremser, 2013). Nevertheless, later research pointed out that the newest hotels could be more innovative and, as a consequence, grow faster than competitors (Ordanini and Parasuraman, 2011; Alonso-Almeida, 2013).

Finally, in the hospitality industry, previous research has stressed the importance of affiliation in strategic and operational management (Ingram and Baum, 1997; Pine and Phillips, 2005; Botti *et al.*, 2009). Following this line of reasoning, Botti *et al.* (2009) have shown that hotels belonging to chains are more efficient than independent hotels and can better endure a turndown situation. This is principally because affiliated companies have more resources available that can be exchanged internally where needed (Ingram and Baum, 1997). Similar findings were also reported by Chen and Yeh (2012) for the hotel industry in Taiwan. These authors suggested that group affiliation can provide market power and improve market competitiveness. However, other authors did not identify belonging to a business group as having an impact on performance (Gonenc and Aybar, 2010). For example, Shang *et al.* (2008) did not identify operating as a part of a chain as a determinant of a hotel's efficiency during the latest financial crisis.

Therefore, through analysis of previous financial crises, it is possible to assert that research findings are not conclusive. For that reason, the following hypotheses are proposed:

- H2.* Characteristics of hotels (affiliation, age and size) are directly and positively related to hotel growth during financial crises.

#### *Financial crisis and external environment characteristics: impact on hospitality growth*

Performance during financial downturns is also dependent on the environment around the hotel (Gonenc and Aybar, 2010). Therefore, external factors can act as moderators of organizational performance (Kunc and Bhandari, 2011). In fact, Molina-Azorin Pereira-Moliner and Claver-Cortes (2010) called this influence destination effect and found that it is responsible for 25 per cent of the occupancy rate and 18 per cent of the operational profit prior to a financial crisis. Therefore, the weight of tourism on the geographical area and the tourist arrivals could be principal factors for performance during a crisis (Pestana, 2010; Clarke *et al.*, 2012). This idea is confirmed in a later crisis by Ridderstaat *et al.* (2014), who explained that when tourism contribution to the gross domestic product (GDP) is higher, tourism company growth is high (correlated) as well.

Chen and Yeh (2012) studied the impact of environmental factors on tourism and found that institutional environment could contribute to a decline in results.

Their findings suggested that government support could be critical when tourism is a relevant industry for the geographical area. Other studies have also asserted that an effective localization positively impacts company performance. Chiang *et al.* (2005) found that more touristic geographical areas (e.g. Taipei) have a competitive advantage in both cost and geographical position. Shang *et al.* (2008) also indicate that resort hotels in vacation areas achieve better efficiency than those in urban areas, while Pestana (2010) studied every hotel in the Pousadas chain in Portugal and found that hotel performance was linked to location.

International arrivals is another key element for tourism growth (Lean and Tang, 2010; Ridderstaat *et al.*, 2014). International tourism has been under consistent growth for more than 50 years and will continue growing until 2020 (World Tourism Organization, 2011). Nevertheless, if economic default occurs in the source markets, a fall in demand could continue for years after the crisis (de Sausmarez, 2013). For this reason, hotels more focused on crisis-resistant tourists are more likely to withstand a crisis (Bronner and de Hoog, 2014). Therefore, hotels located in geographical areas that attract more foreign tourists are better able to overcome downturn situations (Lean and Tang, 2010).

Q4

On the other hand, domestic tourism also impacts the hospitality industry and can potentially sustain the market hotel industry during periods of reduced international demand (de Sausmarez, 2004). Usually, in a downturn, potential tourists prefer national or close-to-home foreign destinations in order to reduce vacation costs (Smeral, 2009). Thus, foreign and domestic patterns could follow different behaviours. Domestic tourists can travel to other geographic areas within the same country, promoting other types of tourism.

Considering the reliance of an economy on tourism and touristic flows, the following hypotheses are proposed:

H3. External environment factors (tourism contribution to GDP, foreign and national tourist flows) are directly and positively related to hotel growth during financial crises.

A number of authors have found that some factors act as moderators over a certain relation and can foster or decrease the strength of these relationships (e.g. Wang *et al.*, 2012; Chen and Myagmarsuren, 2013; Kim *et al.*, 2013; Kang and Lee, 2014, among others in tourism context). Both internal and external factors can be moderated among different relations, although previous research has mainly analysed internal factors (e.g. Kim *et al.*, 2012; Chan *et al.*, 2013; Kang and Lee, 2014). Nevertheless, research on external factors over internal ones is scarce (Wang *et al.*, 2013), and despite research on the latter being stressed, external factors are important as they stimulate company growth during financial times of crisis (Ridderstaat *et al.*, 2014). This is especially true because tourism companies adjust their resources during these difficult periods and need to take advantage of external stimuli to maintain or increase their performance (Alonso-Almeida and Bremser, 2013).

Q5

Q6

The relationships between workforce, cost and productivity, and company growth during a downturn could be moderated by external factors such as tourism contribution to GDP and foreign and national tourist flows for a number of reasons. First, more tourist locations could help companies achieve a higher growth than their competitors (Ridderstaat *et al.*, 2014). Second, external factors could play a key role in changing the game rules regarding workforce. Thus, external factors could force a change in workforce skills increasing cost and productivity and, as a consequence, company growth (Baum, 2015). Finally, the classic situation of a low salary scheme in

tourism could be transformed towards higher demands produced by external factors (Vanolo, 2014). Therefore, the next hypothesis is as follows:

*H4a.* External environment factors (tourism contribution to GDP, foreign and national tourist flows) moderate the relationship between workforce cost and hotel growth during financial crises.

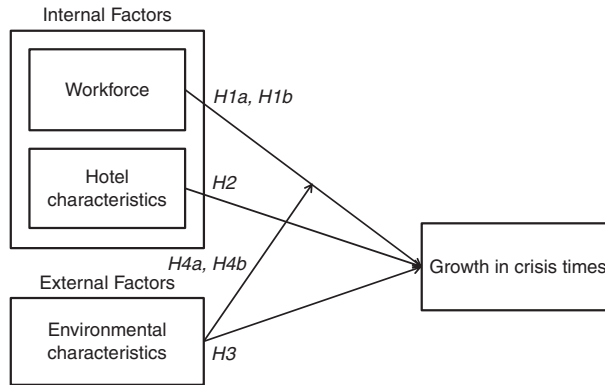
*H4b.* External environment factors (tourism contribution to GDP, foreign and national tourist flows) moderate the relationship between workforce productivity and hotel growth during financial crises (Figure 1).

**Methodology**

*Sample and data collection*

The data used to conduct the study were taken from the Iberian Balance Sheet Analysis System (SABI), which contains financial information on Spanish companies from 1996 onwards. Yearly information was extracted for 2008-2011. To ensure that the financial data used dated back to company inception, only companies that had been running within the 2008-2011 timeframe were included. In total, information on 7,293 hospitality companies was gathered. Table I shows some descriptive data of the sample in 2011. It can be observed that the sample is composed mainly of independent micro (75.1 per cent) and small hotels (62 per cent) with less than 20 years in the business (72.5 per cent).

The hotel industry was selected for two reasons. First, tourism is extremely important for Spain and is the largest industry in the country, accounting for 11.9 per cent of its



**Figure 1.**  
Summarizes the proposed study model

	AGE			SIZE			GROUP	
	<i>n</i>	%		<i>n</i>	%		<i>n</i>	%
0-5 years	563	7.7	1-10 employees	3,471	47.6	No	5,478	75.1
6-10 years	1,755	24.1	11-20 employees	1,050	14.4	Yes	1,815	24.9
11-20 years	2,969	40.7	21-100 employees	1,389	19.05			
21-50 years	1,947	26.7	101-250 employees	194	2.66			
51-100 years	55	0.8	> 250 employees	85	1.17			
> 100 years	4	0.1	na	1,104	15.14			
Total	7,293	100	Total	7,293	100	Total	7,293	100

**Table I.**  
Descriptive statistics of the sample



GDP and employing over two million people, which is about 15 per cent of the total workforce in the country (Exceltur, 2013). Second, Spain is the fourth most popular worldwide destination for foreign travellers (e.g. during 2014, 64.99 million foreign tourists arrived to Spain) and second by tourist income (Frontur, 2015).

### Measures

The dependent variable used to test the hypotheses was company growth. Company growth was the ratio of year-to-year logarithmic variations in the number of employees (GEMPL) (e.g. Claessens *et al.*, 2002; Clarke *et al.*, 2012; Alonso-Almeida, 2013). The rate of variation was defined as:

$$TVX_{i,t} = r(X_{i,t}) - r(X_{i,t-1})$$

where  $X_{i,t}$  denotes company changes at time  $t$ .

In addition, two types of independent variables were used to represent internal and external drivers. For structural internal factors, on the one hand, revenue per employee (REVEMP) and COSTEMP were extracted from the SABI database to analyse workforce productivity and workforce cost, respectively. On the other hand, hotel characteristics were measured in terms of age, size and belonging to a group.

External factors were measured by three key variables: gross domestic product produced by the tourism industry (GDPTUR) in the geographical area where the hotel is located (here referred to as GDPT), which is based on official regional data provided by regional governments to 2012 and Exceltur (2013); NATIONALT, a variable that measures the position of a hotel relative to domestic touristic flows; and FOREIGNT, which measures the position of a hotel relative to foreign touristic flows. Information on these two latter variables was extracted from national statistics on touristic flows (Touristic Studies Institute, 2013). A summary of the variables, their definitions and their literature sources are shown in Table II.

### Results

An initial descriptive analysis was performed, and values from independent variables are shown in Table III.

With the aim of testing the hypotheses, a multivariate regression analysis was performed. Each regression analysis ran five models: Model 1, with internal factors, Model 2, with external factors plus hotel characteristics, Model 3, with internal and external factors, Model 4, with internal and external factors plus interactions and Model 5, with only the significant variables. Table IV presents the results obtained and the main statistics.

Table IV summarizes the results of the multivariate regression analysis. In Model 1, we can observe that only COSTEMP and AGE are significant, but in opposite ways. In Model 2, none of the external variables are significant, and in addition to AGE, SIZE becomes significant with a positive impact.

However, when all the independent variables are introduced at the same time (Model 3), FOREIGNT becomes slightly significant and SIZE is non-significant. In addition, when the interactions are introduced (Model 4), both REVEMP and COSTEMP become highly significant, but none of the hotel characteristics are. Model 5 only contains significant variables. Here, we can confirm that both workforce variables are as significant as the interactions; only AGE has slight significance in the negative sense. This could be explained by the idea that the younger the firm, the higher the

Variable	Measure	Adapted from
<i>Internal variables</i>		
Workforce		
REVEMP	Numerical continuous variable. Mean of operational revenue by employees during the period 2008-2011	Anderson <i>et al.</i> (2000)
COSTEMP	Numerical continuous variable. Mean of cost of employees during the period 2008-2011	Anderson <i>et al.</i> (2000) and Pestana (2010)
Hotel characteristics		
AGE	Numerical continuous variable. Company age in years in 2011	Clarke <i>et al.</i> (2012) and Alonso-Almeida (2013)
SIZE	Numerical continuous variable. Logarithm of company total assets in 2011	Flouris and Walker (2005) and Alonso-Almeida (2013)
GROUP	Dichotomous variable 0 = No; 1 = Yes	Botti <i>et al.</i> (2009) and Chen and Yeh (2012)
<i>External variables</i>		
Environmental characteristics		
GDPTUR	Numerical variable. Tourism contribution to gross domestic product by geographical area in 2011	New in this study based on the use given in Clarke <i>et al.</i> (2012)
NATIONALT	Take values 1-4: 1. Leadership on national tourist's reception destinations 2. Destinations in second quartile by national tourist's reception 3. Destinations in third quartile by national tourist's reception 4. Less visited destinations by national tourists	New in this study based in the use given in Lean and Tang (2010) and Ridderstaat <i>et al.</i> (2014)
FOREINGT	Take values 1-5: 1. Leadership on foreign tourists' reception destinations 2. Islands 3. Sun and sand destinations in country 4. Country capital 5. Remainder of destinations	New in this study based in the use given in Lean and Tang (2010) and Ridderstaat <i>et al.</i> (2014)

**Table II.**  
Independent variable  
descriptions

growth in employee number. However, because the significance of AGE is observed at a  $p$ -value  $< 0.1$ , this should be treated with caution.

With the exception of Model 4, in all cases, the goodness-of-fit of the model is greater than 0.25. Therefore, we can consider that our models have a high explanatory power.

### Discussion of results

The statistical analyses validate most of the model proposed in the previous sections. Individual hypotheses are contrasted here, and the findings are explained. These findings shed light on how hotels can manage internal factors to face financial crisis situations and outline approaches for handling the most relevant external factors.

*H1a* is significant in all models performed and is therefore accepted. This finding confirms a stronger influence from human resources on competitive operational performance and growth during crisis. Thus, it suggested that hotels should deploy a strategy based on adding value to customers. These types of strategies usually involve

Variable	<i>n</i>	Mean/frequency	SD
<i>Workforce</i>			
REVEMP	5,490	89.86	265.82
COSTEMP	5,532	25.58	25.23
<i>Hotel characteristics</i>			
AGE	7,293	16.56	10.61
SIZE (ln assets)	7,293	6.91	1.79
GROUP	7,293	24.9%	na
<i>Environmental characteristics</i>			
GDPTUR	7,293	15.25	11.34
NATIONALT	2,256	1 = 30.9%	na
	1,071	2 = 14.7%	
	1,714	3 = 23.5%	
	2,252	4 = 30.9%	
FOREINGT	1,332	1 = 18.3%	na
	1,294	2 = 17.7%	
	1,490	3 = 20.4%	
	640	4 = 8.8%	
	2,537	5 = 34.8%	

**Table III.**  
Descriptive analysis of the independent variables

	Model 1	Model 2	Model 3	Model 4	Model 5
REVEMP	0.019		0.019	0.113***	0.109***
COSTEMP	0.510***		0.512***	0.343***	0.343***
AGE	-0.032***	-0.037***	-0.027**	-0.020	-0.020*
SIZE	-0.021	0.074***	-0.012	-0.005	
GROUP	0.005	0.010	0.005	0.013	
NATIONALT		0.003	-0.030	-0.015	
GDPTUR		-0.032	0.001	0.033*	
FOREIGNT		-0.032	0.034*	0.027	
REVEMP × NATIONALT				-0.158***	-0.154***
REVEMP × GDPTUR				0.160***	0.156***
REVEMP × FOREIGNT				0.130***	0.127***
COSTEMP × NATIONALT				0.285***	0.282***
COSTEMP × GDPTUR				-0.360***	-0.356***
COSTEMP × FOREIGNT				-0.402***	-0.399***
<i>F</i> (significance)	388.681 (0.000)	5.833 (0.000)	244.109 (0.000)	184.058 (0.000)	285.734 (0.000)
<i>R</i> <sup>2</sup>	0.262	0.006	0.263	0.32	0.32

**Table IV.**  
Multivariate regression model

some investments in training or additional employee expenses to differentiate products or services with an associated employee cost increase (Benur and Bramwell, 2015).

This finding also stressed the idea that the workforce is challenging (Baum, 2015). Thus, higher salaries seem to be associated with higher hotel performance. A possible explanation for this is that more satisfied employees are more compliant with hotel and quality service and, as a consequence, directly influence hotel performance (Alonso-Almeida *et al.*, 2012).

*H1b* is significant, but only when all variables are included in the model (see Models 4 and 5 in Table IV). Thus, although hotels could experience difficulties increasing REVEMP due to customers having reduced holiday time and/or expenses (Smeral, 2009),

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hotels with better productivity can better face financial crisis. Thus, it is clear that better productivity implies a better use of resources. Specifically in the case of the hospitality industry, human resources are critical to growth. These findings reinforce the view that differences in workforce capabilities are responsible for defining performance.

With regard to business characteristics, our findings corroborate partially with *H2*, that growth is associated with the newest hotels in most of the performing models. These hotels maintain or increase employee number during times of crisis. However, size does not have any influence. These findings agree with previous research that has pointed out that newer companies in hospitality grow more because they would be able to differentiate strategies to attain steady revenues and ensure company success (Goedhuys and Sleuwaegen, 2010; Alonso-Almeida, 2013). Thus, newer companies could provide more specialized services and organizational flexibility, allowing them to adapt to the turbulent environment in times of crisis and cause growth (Smeral, 2009). Nevertheless, we found here that contrary to previous research, an affiliation has not been identified as a statistically significant factor. A possible explanation could be that the global effect of this recent financial crisis could have affected the entire company group, thus removing the group advantage effect.

In the case of external factors, the results are mixed. Only GDPTUR is positive and directly significant in Model 4 but not in the final model (see Table IV). Therefore, *H3* was partially accepted. Previous research has suggested (e.g. Molina-Azorin *et al.*, 2010) that the destination effect has some influence on hospitality performance. Nevertheless, this direct effect is very weak. Thus, being located in the most touristic areas could be better for hospitality performance, as it provides for convenient traffic for tourists (Chen and Yeh, 2012). Nevertheless, this situation it is not very relevant, as previous research has pointed out. Additional factors could be more influential on growth in the hospitality industry. This research found that internal factors have stronger direct impacts on growth than external ones.

Finally, the moderate effect of external factors on the relationship between workforce and growth was confirmed, and both *H4a* and *H4b* were accepted. The results indicated moderate effects among external factors and the relationship between workforce costs and hotel growth; although all variables were significant, not all had the same direction. Thus, GDPTUR and FOREINGT had a negative effect, indicating that workforce costs can be lower and result in higher growth in these geographical areas where GDPTUR and FOREINGT are higher. These destination effect results are more relevant than workforce cost. Therefore, it seems crucial for a destination to attract tourism flows, especially international ones, and increase their income by tourism to help companies be more competitive (Cracolici *et al.*, 2008). International tourism used to be more resistant to falls during downturns, and its recovery used to be quicker (Bronner and de Hoog, 2014). In the same regard, it also seems critical to focus on certain segments in order to optimize performance (Gruca and Rego, 2005).

In a financial crisis, a nearest potential foreign travellers-focused approach could be the optimum strategy to maintain or increase performance. In the case of NATIONALT, the moderate effect is positive, and therefore, only the highest workforce cost achieves growth in geographical areas where more national tourists travel. A possible explanation is that hotels in these locations need to differentiate to attract customers and offer higher workforce costs than domestic tourism so that they do not fall quickly and steeply in times of crisis (Smeral, 2009; Chen and Yeh, 2012). As a consequence, an excess of demand is produced, and potential national tourists

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select hotels with more added value services that they are most likely to use and change their travel behaviour with the aim of maximizing travel expenses.

In terms of moderate effect among external factors and the relationship between workforce performance measure by REVEMP and hotel growth, GDPTUR and FOREINGT increase this relationship. Thus, hotels in these geographical areas obtain higher employee revenues and stronger growth. In the case of NATIONALT, the moderate effect is to the contrary. Therefore, these findings stressed the idea that destination effect has a double effect: increasing hotel efficiency by reducing cost and increasing hotel competitiveness by increasing productivity. The addition of these two effects produces better performance in times of crisis and help hotels survive and grow.

## Conclusions

Evidence of a number of pertinent conclusions for academics, managerial practice and policy makers is provided for the hospitality industry during a financial crisis. First, Kunc and Bhandari (2011) asserted that the main characteristics of the most recent financial crisis were reductions and changes to consumer spending, organizations seeking cost efficiencies, increase in unemployment and lower return on investments. Therefore, appropriate balancing of human resource competitiveness and external factors can help hotels face crises under falls in demand. Using this approach, hotels can avoid the difficulties caused by shortcomings in capabilities and a greater dependence on so-called big customers (e.g. tour operators and suppliers).

First, operational efficiency is vital to competitiveness, and it is vital that hotels improve their decision-making effectiveness regarding their production activities and deployment of scarce or costly resources (Pestana, 2010). Therefore, a downturn situation could provide an opportunity for hotels to strengthen capabilities by means of implementing structural changes and reinforcing workforce skills (Smeral, 2009). Operation efficiency is crucial for profitability in both good times and downturns. For this reason, hotels should make the most of optimizing internal resources in good economic times, therefore anticipating and preparing for economic downturns.

Second, our findings suggest that hotel characteristics are important for performance during a financial crisis. We found that newer hotels had better chances of growth and could thus have developed differentiation strategies and built a loyal customer base consisting of guests that would return even in downturn situations. Therefore, time in the market is not as crucial in the hospitality industry because the newer the hotels to the market, the better its chances of growth. We also found that although previous research has noted that larger hotels can be highly beneficiary during periods of financial stability or growth, during downturns, a large size can be damaging because larger hotels need greater financial resources to retain their position in the market. In difficult financial situations, some large hotels might make the decision to drastically reduce prices; however, we found this to be a poor long-term strategy (Alonso-Almeida and Bremser, 2013). This is because it can take a long time to restore prices to pre-crisis levels after economic recovery, which can jeopardize the whole industry (Gruca and Rego, 2005).

In addition, this research found that group affiliation is not always advantageous in a downturn. Although affiliation can provide some additional capabilities and make high technological systems available, being affiliated can also act as a barrier to swift decision making and create difficulties in reduced capacity, among others. Pestana (2010) asserted that one of the factors of inefficiency in a hotel chain is that "substructural rigidities associated with the pattern of ownership may induce the principal-agent relationship". Interestingly, our results also suggest that independent hotels could act as stabilizers

during downturn periods because they typically continue to retain a larger proportion of their workforce than larger hotels (Varum and Rocha, 2013).

Third, Chen and Yeh (2012) have stressed that it “is important for hotels to manage strategies in order to reduce the uncertainty over room demand so as to stabilize their financial statement”. Thus, location can act as a stabilizer in downturn periods by securing sales, employment and profitability (Gruca and Rego, 2005). Therefore, location is a strategic decision that managers should seriously consider because consequences for performance are stronger. In addition, we suggest that hotels seek alternative and novel distribution channels, social media and market segments, rather than simply relying on traditional sources in order to attract more tourists, especially foreigners. Smeral (2009) advised that focusing on less resistant tourists could be a good strategy to mitigate fall in demand during times of crisis, but even in this type of traveller, new market niches can be found.

Thus, these findings provide a useful framework for managerial practice during turbulent financial times and highlight the importance of a dynamic business strategy that accounts for internal and external factors. In the last decade, the hospitality industry has been working in quality service, improving infrastructure and promoting hotel positioning. Although these strategies are necessary, they do not guarantee survival and growth in turbulent times. Therefore, observing and adapting a business to the external environment, pursuing win-win alliances and gaining visibility can be proactive strategies to enable market success.

Finally, from the recommendations by Ridderstaat *et al.* (2014), policy makers should invest more resources in tourism promotion and other tourism-related activities such as communication, infrastructure and tourism entrepreneurship in order to increase national and foreign demand to guarantee long-term potential growth of tourism and the economy. These findings stressed the need to engage resources and promote tourism destinations in origin markets. In addition, policy makers should provide services to tourism companies regarding appropriate technologies for more effective business, trusted information about preferences and necessities from new market segments and incentives to update infrastructures and technological systems.

In addition, researchers could further investigate the influence of external factors, such as changes in tourist behaviours during times of crisis and the impact of opening new markets. In addition, it will be necessary to analyse how social networks impact destination choices and the tourism industries in times of crisis.

In summary, this study contributes to the literature by providing a firm-level analysis (rather than an industry-level analysis) and offers an almost complete picture of a specific geographical area. Future research should address the performance of other tourism industries in times of crisis, such as restaurants and travel agencies, and the relationships between performances in different tourism industries. Regarding the limitations of the paper, the main limitation is associated with the use of panel data from an official database. These include problems in the design, data collection and data management of panel surveys.

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