The Hiring Decision: Who Should Be the Next General Manager?

By Fred B Parker Jr

Introduction

A hotel general manager can have a measureable impact on staff and guest satisfaction, and a subsequent effect on the performance and profitability of the hotel. The decision to retain a general manager or hire a new one should not be taken lightly as the direct costs of hiring a new general manager are significant and the influence it can have on future profits can be substantial. A recent study in Australia indicated the costs of replacing upper hotel management positions can cost around $109,000.00 annually (Appendix) (Asree et al., 2010) i.e. leadership competency and organizational culture, would affect their responsiveness (as a cumulative capability. Although this number represents the total cost of replacing several management hotel positions, the cost of turnover in senior management positions is considerable.

Multiple studies have shown that hotel leadership has influence over hotel performance in a number of ways. Patiar and Mia (2009) reported a relationship exists between the positive performance of the hotel with a general manager's ability to create and share a clear vision with his team via trust, communication, inspiration, intellectual stimulation, and promotion of individuality. The attitude of service exhibited by an effective leader will also create that same quality in frontline employees leading to improved hotel performance (Ling, Lin, & Wu, 2016). It has also been reported that transformational leadership improves employee satisfaction, which in turn improves employee performance (Prabowo, Noermijati,, & Irawanto, 2018) A general manager's leadership competency influences how responsive associates are to guest requests, which in turn positively influences a hotel's profitability (Asree et al., 2010)i.e. leadership competency and organizational culture, would affect their responsiveness (as a cumulative capability. This is illustrated in figure 1 below:

Furthermore, a general manager position requires a multitude of proficiencies. A list of nearly a hundred different competencies that a leader in the lodging industry should have was published in the Cornell Quarterly (Chung-Herrera, Enz, & Lankau, 2003). Those 99 individual competencies were grouped together in broader competencies with the top eight identified as "self-management, strategic positioning, implementation, critical thinking, communication, interpersonal, leadership, and industry knowledge." (Chung-Herrera et al., 2003) While it is unlikely a general manager will be excel in all of these, there is an expectation that he/she will be proficient in many of them.

A general manager needs to have an understanding of all the stakeholder's interest and work in a manner that best balances the needs of all. This concept has become known as the balanced score card approach. A balanced scorecard aligns both long and short term company objectives and creates strategic awareness among employees (Quesado, Aibar, & Lima, 2018). Although each hotel company will have a slight variation on the balanced scorecard model, each will generally have a financial, customer, internal customer and learning, growth, or service focus. J. Willard Marriott declares "Motivate them, train them, care about them [employees], and make winners out of them... they'll treat the customers right. And if customers are treated right, they'll come back". This quote is an example of the balance scorecard approach. Mr. Marriott first mentions employees [internal business], followed by treatment of customers [customer perspective], and finishes with bringing the guest back [financial perspective]. Below is a visual of what a balanced scorecard might look like for the hotel industry.

Among the many decisions a general manager has to make is which constructs in this model will be emphasized and which will be deemphasized. The approach taken will be influenced by many external influences, but ultimately the operating decisions and consequent actions will be the determination of the general manager who is ultimately responsible for those decisions.

Case Details

There is a hotel ownership group that needs to make a decision about the future of their general manager position at their flagship hotel. The hotel in question is a 200 room hotel located in a secondary market in the Rocky Mountain region. The hotel is a select service hotel that is associated with a strong national brand. It is currently seven years old and the general manager has been at the helm since its opening. Prior to joining this hotel, the general manager had been running full service hotels. Due to his experience, he was hired at a salary higher than the market average. His current salary is $103,500.00 while the market salary for general managers in similar positions averages $75,000.00.

The hotel has had a successful past. The first year it achieved an average daily rate of 103.65 with an occupancy of just 48%, but much

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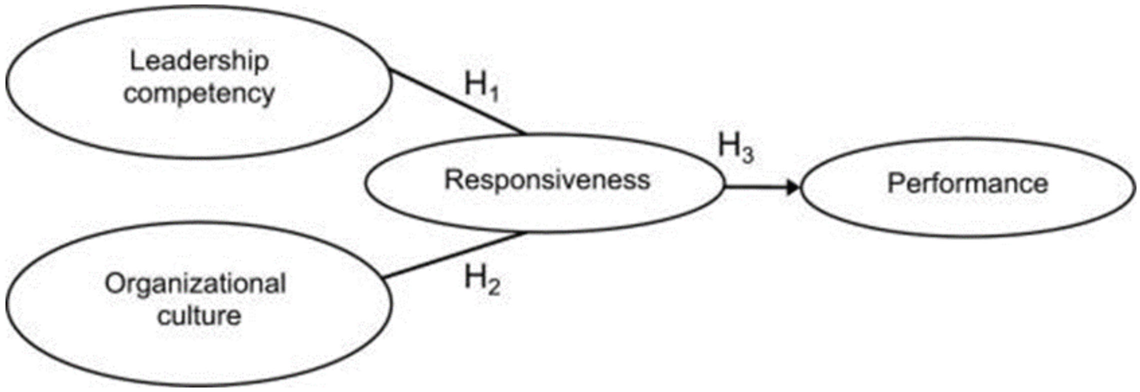
Figure 1



(Asree et al., 2010)

of the low occupancy was due to the fact that it opened mid-year (April). It has grown in revenue each of the last seven years. The most recent year ended with an average occupancy of 71.9% and an average daily rate of $121.73 for total of $6,389,242.51 in room revenue. The breakfast is complimentary, but there is a small meeting room plus an additional board room that generates about $257,000.00 annually. Outside the meeting room revenue and the room's revenue there is an "other" revenue line that consists of market sales (small outlet for snacks), telephone revenue, and anything else that does not have a category. It yielded $117,865.00 in additional revenue, bringing the total hotel revenue for year seven to $6,764,107.51.

The hotel is the market leader in revenue per available room (RevPAR) at $87.52 and has an index of 120.3 indicating that it is currently performing at 120% of its fair share of the marketplace. This is particularly impressive because this hotel's competitive set includes a full service Hilton Hotel, along with select service hotels associated with Marriott, Hilton, Holiday Inn, and Best Western. Although it is currently leading the market in RevPAR index, it has been losing share lately and several months last year finished second or third in its RevPAR performance. The general manager is not confident it will remain number one for long. In terms of financial performance, the hotel was comparable to all other hotels in the management company's portfolio. In fact is was in the middle of the company with its operating income percentage finishing 6th out of 11 hotels.

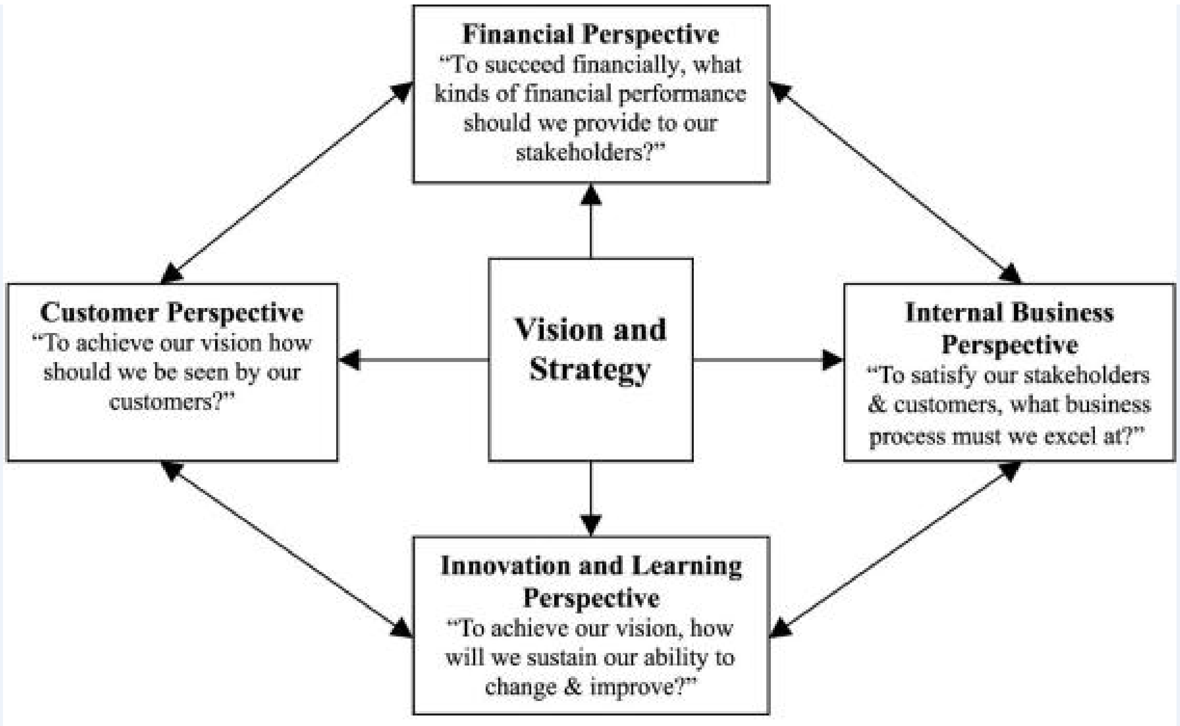
The strength of this hotel has always been its service. Shortly after its opening it was recognized by its brand for service excellence finishing in the top 10 in staff service out of 400 hotels nationwide, retaining this recognition for two years in a row. Recently it had faltered a bit and is currently ranked 44th overall in staff service, 86th in overall satisfaction, and 204th in overall condition. The hotel has finished in the clear zone in both their previous brand quality assurance inspections indicating that it is meeting company expectations. The hotel is due for a renovation.

The staff is stable in terms of hotel measurements. Only two managers have left the company since it opened, both were in sales and both in the past two years. One had been promoted within the company to a regional sales position, and the other left for a higher paying job at a competing hotel. The management team consists of an assistant general manager, a director of housekeeping, a director of sales, and a chief engineer. The supervisory positions included a front office supervisor, and a lead breakfast attendant, which have turned over about every two years. Annual turnover for hourly employees has averaged about 36%.

The general manager prides himself on community involvement and is the chairman of the board for the local convention and visitor's bureau. He also helps out by volunteering as a peer counselor for the local high school and is active in the community wherever he can be most helpful. The owners think he is spending too much time away from the hotel. The general manager himself has become somewhat complacent, but does not feel that it is affecting the performance of the hotel. Of course, he might be too close to the situation to see things clearly. He loves his job, but wishes he was more challenged in his professional life.

The ownership group has started to grumble a bit. They feel like the general manager might be a little too content and is certainly over paid. After all, the savings in salary would go straight to the bottom line and the hotel could use a new set of eyes. The general manager still has the support of the management company, but the management company answers to the ownership group and would certainly be forced to make a change if the owners demand it. The ownership group feels strongly that this hotel needs to be more focused on the bottom line. Both service and financial performance has been trending in the wrong direction.

Unbeknownst to any other stakeholders, the ownership group had begun looking for a replacement and did not have to look too far



Source: Adapted from Kaplan and Norton (1996, p. 76)

because one of their relatives is in the hotel industry and is open to taking over at a much reduced salary of $70,000.00 when compared to the $103,500.00 being paid to the current general manager. After all, the potential new general manager is currently making just $58,000.00 annually. He also is running a smaller property that is similar in quality in a tertiary market just 300 miles away and a larger hotel would be a challenge. It seemed like a match made in heaven. What decision should the owner's make?

Discussion and Activities

Assume the position of the ownership group. It is now up to you to make the decision. Take a look at the following questions and come up with what you think would be the best decision. Each question may be accompanied by a journal article reference that you can look at to help aid your decision. You may choose to use the information learned from the article or you may choose to come up with your own opinion. Either way you will need to make a decision.

- What are the advantages and disadvantages of introducing changes to the organization? (Evans, 2005; Andreia, 2000)
- What is the potential cost associated with new management? What are possible implication/issues that may arise? (Nyberg, Holmberg, Bernin, and Aldering, 2011)
- Other questions to ponder: (No reference article)
    - What are some questions that you would ask the new prospective general manager before hiring them?
    - What would be the positive or negatives of hiring someone related to a member of the ownership group as the general manager?
    - Are the downward trends in service scores and RevPAR index a reflection of the current general manager or are there other possible explanations?
    - Should the current general manager be less focused on community involvement?
    - Is the hotel performing well or poorly and why?
    - Should the goals of the ownership group supersede those of the management company?
    - Are there any other options besides the two presented in this case study?
- Finally, what are your recommendations to the ownership group?

References and Suggested Pre-Readings

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Appendix

Table IV. Cost of replacing executives, managers and supervisors per hotel per annum

Cost	Average cost per responded establishment ($)
Advertising for replacement executives, managers/supervisors	8,931
Management time spent interviewing and selecting employees	14,417
Management time and expenses spent on training new employees	28,841
Agency fees	13,895
Contract staffing[a]	13,400
Uniforms	10,800
Selection tests[a]	4,071
Legal/law[a]	3,357
Relocation expenses	9,141
Medicals	3,056
Total	109,909

Note: [a] Low response rates were identified for these items

Source: (Asree et al., 2010)i.e. leadership competency and organizational culture, would affect their responsiveness (as a cumulative capability