

# **STRATEGY FOR SMALL HOTELS CASE STUDY OF A HOTEL LOCATED IN HARKÁNY, HUNGARY**

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**ABSTRACT:** In the South Transdanubian region of Hungary, SMEs active in tourism are a hugely important factor in economic development. This paper aims to find ways in which small enterprises may benefit by using principles of Strategic Management in the development of their business. The theoretical principles will be applied in practice by examining the case of a small hotel, as one typical example of an SME active in this industry. The limited resources available and the modest level of activity make it difficult for the management to employ strategy in the ways used by hotel chains or corporation. However, given their typically short chains of command and their ability both to make and implement decisions rapidly, they have the added advantage of being able to adapt or modify the planned strategy as it emerges. We investigate specific areas of hotel activity and also the region's tourism industry (with special regard to Harkány). From the many forms of Management Strategy practiced, the paper attempts to offer some relevant and realistic recommendations for finding a strategy pattern which is easy to implement for the management of a small hotel.  
**Keywords:** Tourism, Regional, Harkány, Hotel, Strategy

## INTRODUCTION

South Transdanubia comprises three counties (Somogy, Tolna and Baranya), but the region as a whole is peripheral within Hungary (and so within the EU) and is one of Hungary's most backward, with the level of deprivation increasing as one moves south towards the Croatian border. Recent years have seen the disappearance of several major sources of employment in the region. The largest of these (Finland's Elcoteq) employed some 7,500 at its peak, but others such as Nokia and several other companies in the contract assembly field each employed several hundred people. The net loss of jobs has been devastating economically. One of the few favourable developments has been

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in the field of tourism. The wine industry of Villany has been important for many years, but the tourism dimension added by the Siklos-Villany Wine Route looks likely to develop further, although, on the other hand, the stimulus provided by the Pecs 2010 European Capital of Culture year has already died. However, the major contributor to the future in this sector will be Health or Spa Tourism since the region is provided with abundant natural resources – even though its peripheral character is a problem to be faced over the coming years.

The small and medium enterprises, SMEs, especially micro-enterprises, are representing a highly important factor in economic development. The tourism industry in the southern part of this region (Baranya County, lying along the Croatian border) is an essential source of revenue. According to the Hungarian Central Statistics Office (HCSO), in 2011, 40% of the companies active in tourism in Hungary are SMEs, and of these 97% have fewer than 20 employees. This paper deals with finding ways for small enterprises to benefit from using strategic management in seeking to develop their business. We will review which strategic management approach is most suitable and which strategic tools can be applied to small enterprises active in the tourism industry in general and in the spa-town of Harkány in particular. The theoretical findings will be applied in practice by examining in some detail the case of a small hotel, as one specific example of an SME active in tourism and the vacation industry. Their limited resources and the small scale of their activity make it difficult for them to employ strategy as hotel chains or corporations can do. However, given their special characteristics, such as low power distance, and a rapid decision-making process, they have the advantage of being able to modify in the shortest possible time the planned strategy as it emerges. Investigations into hotel activity and research into the regional tourism industry are used for our analysis and to draw conclusions. The data used is from Baranya County's SME survey, which was completed in 2013.

Our principal questions are:

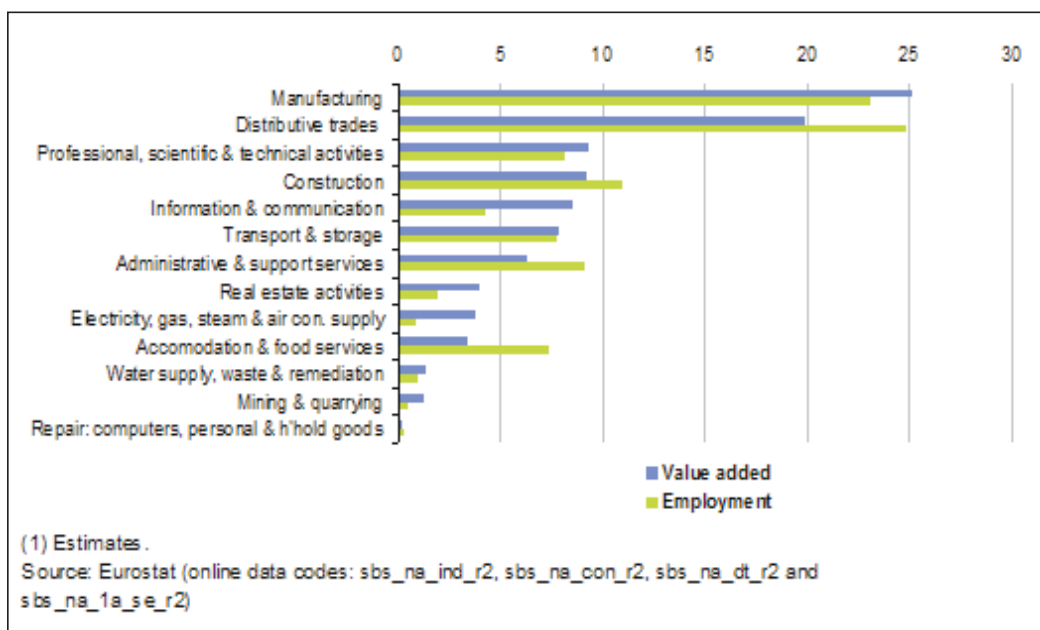
- Which management strategies should a small hotel located in this region adopt?
- Should the hotel focus on one strategy or on several?
- Why is the form of strategy applied in small hotels so important?

As a product of our research we hope to be able to conclude with some degree of confidence which strategic tool and which strategy will best meet the goals of small hotels situated in a not particularly well-known tourist region. To assist us in this we have selected a small hotel located in South Transdanubia in the spa-town of Harkány.

Little or no research is evident on such strategies in relation to the region, and with our research we attempt to fill the gap by determining a strategy pattern which is both suitable and easy to implement.

*The European and Hungarian context of SMEs activate in Tourism*

Tourism is a major economic activity in Europe as a whole – and not least in Hungarian regions and small towns such as Harkány. Further, tourism is a strategic pillar of local and regional development and of preserving the cultural heritage. The great majority of hotels in the tourism sector belong to the Small and Medium Enterprises (SME) category, and, indeed, the sectorial pattern of the EU-27 shows a particularly high number of ‘micro-enterprises’ (with fewer than 10 employees). In total, their workforce accounts for 42.1% of the total number of employees working in the accommodation industry of the EU-27 and their total value added amounts to 36.6% of the EU-27’s total. What we classify as ‘small’ enterprises (those employing from 10 to 49) are also significant in terms of the workforce and added value in the sector, representing more than a quarter of the total. The other types of enterprise – for example, ‘medium’ and ‘large’ enterprises - are relatively less important. Overall, the hotel and restaurant industry is one of the most important sectors in both the European and Hungarian economies. As the figures below show, at EU-27 level the accommodation & food services industry is in 10<sup>th</sup> place among industries in terms of value added and 7<sup>th</sup> in terms of employment.



**Figure 1: Breakdown of non-financial business economy by value added and employment**

*Source: Eurostat*

At European level, the hotel business is categorised in the statistical classification of economic activities in the European Community

(NACE - revision 2) as the “accommodation and food services sector”. According to Eurostat statistics, in the EU-27 in 2010<sup>1</sup>, this industry recorded a total of €195.6 billion as value added and employed 10.1 million people. In Hungary, again in 2010, the value added for the industry is recorded as €728.5 million, with employment reaching 129,900. As for the structure and contribution of SMEs, Hungary shows different figures. Hungarian SMEs contribute some 77% of the total value added, and, within the SME sector, ‘micro’ and ‘small’ enterprises showed lower figures than the EU-27 - 29.1% and 26.3% respectively. A feature of the Hungarian scene is the contribution of ‘large’ enterprises - at 22.3% one of the highest in the EU-27 (Eurostat).

According to the Hungarian Central Statistical Office (HCSO), in 2011, 40% of the companies active in Hungarian tourism are SMEs, and, of these 97% have fewer than 20 employees.

At European regional level (NUTS-2), a region’s capital, major city or unique region employs most of the workforce of the industry, and coastal and mountain regions are among those specialising most in accommodation. No Hungarian region, therefore, features in the first 20 European regions - either in terms of value added or of employment (Eurostat).

### *Features of the tourism industry*

The industry is characterized by highly seasonal demand, with the variation between highs and lows being higher than in most industries. The demand for accommodation is negatively affected by economic downturns or slowdowns, as spending on tourism will be among the first to be cut if potential customers see their income fall. A decrease in demand also affects other, related industries and so the whole economy. One of the measures taken by the European Commission (EC) to counter the downturn was to launch its ‘50,000 tourists’ programme in 2011. The programme is still in its early stages, but the EC’s target is to attract tourists from South America to Europe during the off-seasons and so improve the seasonal factor. In line with this, the Hungarian government encouraged and stimulated spending on Hungarian tourism by implementing the *Széchenyi Leisure Card* programme, which basically reduces taxes for enterprises if a certain amount of employees’ monthly income is paid into a special account. This income can then be used in those hotels, restaurants and events in Hungary and registered in the programme, which has proved to be successful. Hungary’s GDP increased by 1.6% in Q2, 2011, the hotel and restaurant

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<sup>1</sup> See Eurostat’s statistics at [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Accommodation\\_and\\_food\\_service\\_statistics\\_-\\_NACE\\_Rev\\_2](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Accommodation_and_food_service_statistics_-_NACE_Rev_2)

sector contributing with 0.6% (HCSO, 2011). Other special features of the industry, as in other service industries, are related to the pressure of continuous customer service - 24 hours per day - and low wages. The industry is characterised by long and irregular working hours, it being essentially impossible to arrange them precisely. It is often the case that, in small hotels, personnel may be asked to work long hours in the high season and take their holidays only in the low season. Other frequent practices are that a hotel hires personnel only for a season, or on a part-time basis. The low wages prevalent in the industry worsen the situation, which leads to there being in some West European regions a constant shortage of personnel in the hotel industry. This, plus the seasonal factor, makes it very difficult to organise the workforce on a year-round basis.

Labour turnover, and the presence of hard-to-fill positions in the tourism industry in some regions, impact negatively on the operation of sectors of the industry. The EC, national governments and regional tourism organisations - in partnership with industry actors - need to work more closely together to develop plans to address these issues.

#### *South Transdanubia and the spa-town of Harkány*

Thanks to EU and Hungarian government spending on regional development, in recent years in Hungary a significant number of spas and wellness hotels were built - even in such locations where the infrastructure and tourism attractions were inadequate. The most important impact of these developments is that these hotels and spas have been added to the tourism attractions of the region or of the town - generating more investment in local tourism and so in regional development. In terms of tourist nights, of the 7 Hungarian regions, the most important are West Transdanubia and Central Transdanubia. In South Transdanubia the tourist attractions are health and wellness spas, the rich cultural heritage and related events, opportunities for active leisure time, as well as wine tasting and gastronomy. In 2011 the tourism industry in South Transdanubia showed a decline - in fact, of 19% - whilst the country as a whole showed a 3% increase (HCSO 2011). At county level (NUTS-3), in Baranya County, one of the 3 counties forming the South Transdanubia region, the end-January to June period of 2011 showed 18% fewer guests registered in public accommodation than in the same period of the previous year. KSH statistics indicated a strong demand for higher quality, multi-service accommodation, and, of three guests two spent their holiday in a hotel. Overall, of available hotel rooms, only 29% were sold; capacity utilisation was 21% - significantly below the national average of 31%. Indicators relating to health resorts, medicinal baths, spa hotels, and the numbers of



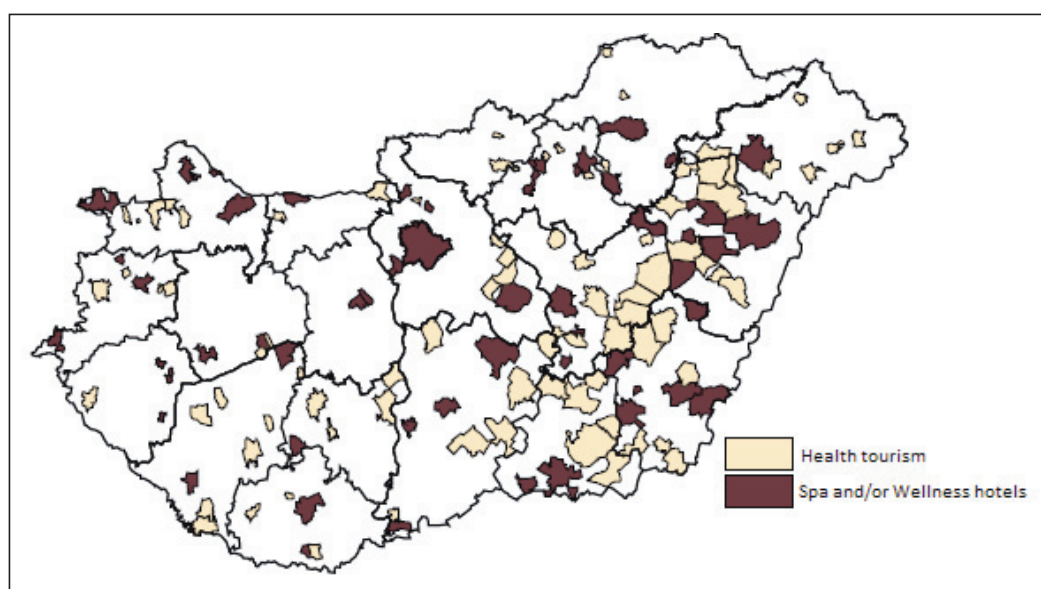
hotels offering wellness services in the region relative to the national level are summarised in the table below (*Table1*).

**Table 1. Number of Health Tourism Establishments, 2014**

Region/Country	Health resorts	Medicinal baths	Spa hotels with medicinal water	Wellness hotels
South Transdanubia	2	12	1	26
Hungary	18	83	30	164

*Source: The authors' own construction*

On the map below (*Figure 2*) we can see, at country level, the distribution of health tourism by those city areas where there are spa hotels with medicinal hotel and/or wellness hotels.



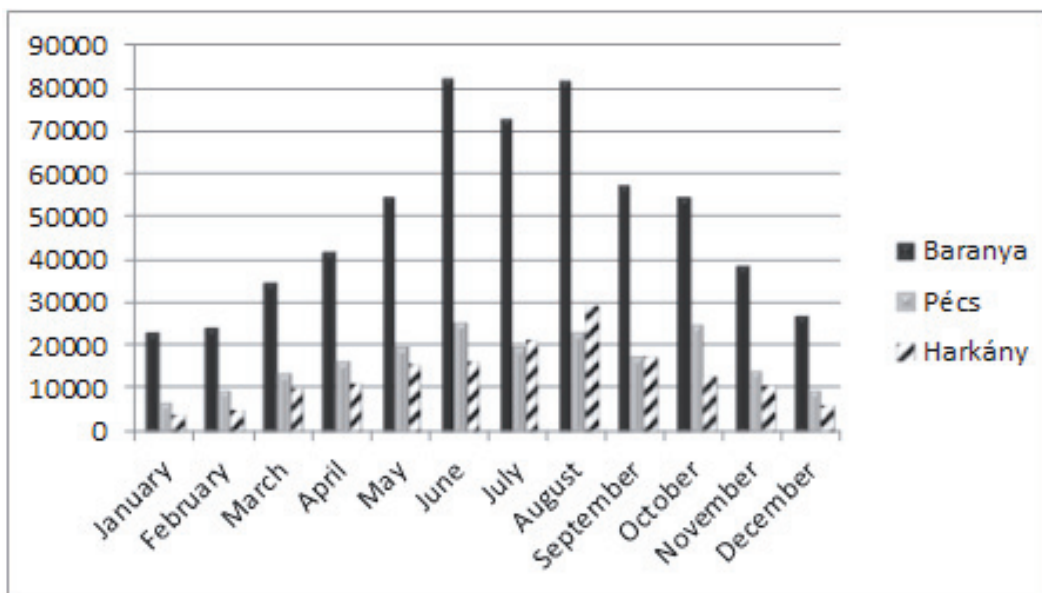
**Figure 2: Territorial distribution of health tourism and spa and/or wellness hotels**

*Source: HCSO - Hungarian Central Statistical Office, 2013*

With respect to the number of tourists, data from South Transdanubia suggest that, after Pécs, the capital of the region, Harkány is the second tourist destination. Whilst Pécs is more attractive for its cultural and historical programmes, Harkány is seen as a spa and health tourism destination due to its thermal bath. The town has only 4,010 inhabitants, which is very low compared with Pécs with 156,049 inhabitants (data from 2011<sup>2</sup>). Clearly, tourism is very important for Harkány's economy and also for regional development. The statisti-

<sup>2</sup> <http://www.bama.hu/baranya/kozelet/harom-evtized-alatt-kozel-otvener-ember-tunt-el-baranyabol-512217>

cal data for hotels located in Harkány shows that most are in the two- and three-star categories, with only two having four stars: the Kager Wellness Hotel and the Dráva Hotel. Unsurprisingly, Harkány has no 5-star category hotels. Regarding their structure, all of them are in the SME category; the largest being the Dráva and the Thermal. *Figure 3* (below) shows the performance of Baranya County, Pécs (county and regional capital) and Harkány in terms of the number of nights spent in hotels - in many ways the most important tourism-related data. From this particular point of view it is clear that the much smaller spa town of Harkány is, due to the activity and turnover of its hotels, a clear and strong competitor to the culturally attractive and much larger regional capital of Pécs, especially in the summer.



**Figure 3: The number of hotel nights in Baranya County, Pécs and Harkány, 2012**

*Source: HCSO (Hungarian Centre of Statistical Office)*

## LITERATURE OVERVIEW

The literature highlights the differences between large companies and SMEs in relation with strategy and management. In fact, Japanese studies found evidence of the enterprises size over the strategy followed by its managers (Lu and Beamish, 2001). Developing methodologies to formalise strategy for managing small and medium enterprises is often met in academic articles. However, there is little about the strategy of small hotels, and even more, little about those SMEs having activity in the Transdanubia region. Articles concerned with strategy

of small enterprises are not in connection with small hotels. The cost leadership strategy, differentiation strategy and focus strategy are the so called “generic” possible competitive strategies, to be adopted by an enterprise (Porter 1980). According to Porter, to acquire the best results possible, an enterprise should follow one of these strategies: cost differentiation or low cost. Despite its classicism in the literature of strategy, there is not enough empirical evidence to back up the success of these strategies in the tourism industry, for which the small hotels’ manager will not find it applicable (Short, 2003). The literature is pointing to the the scarcity of SMEs’ internal and external resources, therefore the SMEs managers are forced to use them at high efficiency in order make them competitive, which strategy adopted is crucial for SME performance (Pihkala et al. 1999). SMEs not only have limited resources but also low managerial capacities along with their financial limitations constitute a barrier in their international development (OECD, 2009). SMEs managerial knowledge is not always aligned with specific knowledge, and in several countries, UK, France, Czech Republic, Greece and Estonia, to mention only a few, there are development programmes in place to help SMEs remove the “managerial” barriers (OECD, 2009). The survival of enterprises, including SMEs, in the dynamic international environment is strongly related to adopting and implementing a competitive strategy. These strategies are the translation of the SMEs’ short and long term vision into measures to increase customer numbers and to respond adequately to their environment stimulus (Porter, 1985).

The weak management capabilities of SMEs make them unable to compete with larger companies on their local or international markets. Their entrepreneurship, creativity, innovation and strategic management may have the power to overturn this disadvantage (Knight, 2000). Miles & Snow (1978), based on research on four industries suggested a typology for strategy made up of four different types: *prospectors, analysers, defenders and reactors*. This typology is widely accepted in analysing SMEs by academics (Aragón-Sánchez & Sánchez-Marín 2005; Pittino & Visintin 2009; Parnell & Wright 1993). This approach, of course, might suggest that a company could be successful by adopting more than one of these strategies, if they do so consistently. In the research conducted by Aragón-Sánchez and Sánchez-Marín in 2005, on 1351 Spanish SMEs, they found that, to achieve a competitive advantage, SMEs concentrate on a few management factors: technology and innovation, organization design and human resources. The authors claimed that the competitiveness of SMEs is built on firm’s internal resources which cannot be replicated and the usage of these internal factors makes the difference in strategy between large firms and SMEs. Parnell and Wright (1993) concluded that those firms adopting



the reactor type of Miles and Snow strategy has a poorer performance than others and the successful firms, to be competitive and achieve a higher Return ON Assets (ROA), do not adopt a single pure strategy as suggested by Porter (1985). However, the authors emphasised that the strategy and performance relation is very much dependent on the industry, and so one conclusion cannot be applied in all industries. Cost-leadership strategy, as proposed by Porter (1985), could lead to good performance in well-established industries. In a study published in 2010 by Leitner and Guldenberg on generic strategies adopted by SMEs in Austria, based on two surveys spanning over ten years, found that adopting a combination of strategies - cost-efficiency and differentiation strategies - results in higher performance for those SMEs than for those with no generic strategy or those with a single strategy, such as differentiation strategy. Indeed, on the world scale, larger corporations such as Wal-Mart, IKEA, the German auto industry, and Tesco have adopted hybrid strategies and are known to adopt both cost-leadership and differentiation strategy (Baroto *et al*, 2012). A study conducted in 2011 by Zhi & Hull of 133 Chinese SMEs - which are among the most dynamic SMEs of recent years - backed up the Austrian findings. Chinese SMEs with hybrid strategy appeared to have better results. The authors clearly indicate that, whilst the Chinese political, economic, social and cultural environment and its stability differ from that in Western countries, where pure strategy was found to be dominant (Ralston *et al.*, 1999), the combination of strategies and their prioritization order and the interrelation between them are crucial for firms' survival.

In respect of firms' environment changes that occurred in the last 24 years there are many similarities between the East European and Chinese contexts which make Zhi and Hull's study findings interesting for our research. The novelty brought by Zhi and Hull (2011), is the prioritization of the strategies and the emphasis on the inter-connections between them. The authors demonstrated that prioritization is recommended for SMEs giving the scarcity of managerial resources rather than balancing the strategies which are more difficult to manage. In an attempt to formalize the combination of multiple strategies, Zhi and Hull proposed a model formed by three strategies: *marketing, innovation and cost reduction*, specifically in this order. They also found that, in their combination the marketing and innovation and marketing with cost-control strategies are empowering each other. In spite of there being apparent conflict between cost reduction and innovation strategies, this model is proved to support best the effectiveness of the firm as an organization and its strategy. In our study we will examine whether these findings could be applied to SMEs active in tourism in our region.

## HOTEL KAGER AND THE STRATEGIES OF SMES ACTIVE IN TOURISM

The following strategies were identified as suitable for Hotel Kager management: marketing, innovations and cost reduction.

### *Marketing strategy*

The management of the Hotel Kager understand marketing, on the one hand, as advertising and direct marketing, and, on the other, as increasing its digital online footprint. Hotel Online Marketing differs from other types of marketing, since customers looking for accommodation have specific behavioural patterns. Knowing these patterns, a hotel could segment the market more effectively and target potential guests more accurately. Online marketing for small businesses uses tools similar to those used in other online campaigns, with the distinction that, for a hotel, the campaign is specifically tailored to the end-customer.

### *Online marketing and direct marketing.*

For the Hotel Kager, marketing activities are internalized and comprise online advertising, leaflets, catalogues, participation in exhibitions and direct marketing. The first of these - online advertising - mainly involves using Google's 'AdSense' but campaigns via Hungarian advertising channels also feature. It is, of course, not always possible for small hotel managers to be familiar with all available marketing opportunities, at the same time finding some distinctive way which will give them an edge over the competition.

To determine which marketing strategy the Hotel Kager should adopt to increase its revenue we examined the strategies adopted by the other SMEs (including hotels) in the region, hoping to be able to discern whether have an impact on their performance. Using the available survey data on SMEs in Baranya County, we focused on marketing methods and profitability in 2012. Our data set contains 798 records of SMEs in Baranya County, with 57 SMEs active in the hotel and restaurants industry.

### *Hypothesis H1*

For the small hotels in Baranya County (South Transdanubia), there is a strong relationship between online marketing and their overall performance.

*Method*

The dependent variable, the retained earnings for the year 2012, positive or negative is discrete (0.1) and not continuous, and this is the reason for our using logistic regression. Using the SPSS program we conducted successive regression runs using a set of multiple independent variables such as banner, chat, link marketing, optimized search engine, guerilla, wiki, web virus campaign and online marketing.

The independent variable chosen was 'online marketing advertisements' which is also discrete (0.1), it takes value of 0 if there is no online marketing activity and 1 if there is. One model was found reliable for the regression:

Model 1: Predicted logit of (Earnings2012) =  $\beta_2$ \*(Online marketing advertisements)

**Table 2**

<b>Model</b>	<b>Model 1</b>
Predictability of the model (%)	68.4
Chi-square/ significance	7.1/0.08
-2 Log likelihood	71.91
Cox & Snell R Square	0.11
Nagelkerke R Square	0.15
Const/significance	-
1 <sup>st</sup> variable/ p-value	1.15/0.01
2 <sup>nd</sup> variable/ p-value	6.05
First variable/Exp(B)	-
Second variable/ Exp(B)	3.16

*Source: The authors' own calculation*

The models predict 68.4% of the responses correctly. For this model, based on the p value ( $p=0.08 < 0.05$ ), the Chi-square value of (7.1) is significant, so we can reject the hypothesis that the model does not exist. The model, therefore, is a good fit for our proposed regression. Cox and Snell's R-Square are pseudo R-Square indicators; they are based on 'likelihood', ranging from 0 to 1. For this model, the Nagelkerke's R square value indicates that 15.7% of the variation in earnings is explained by the logistic model. The Wald statistic and associated probabilities provide an index of the significance of the predictor in the equation. In model 1 the significance of independent variable, which is the p-value, is 0.01, which is less than 0.05 and which means that we can reject the null hypothesis, which is that the online marketing predictor does make a significant contribution. Based on higher levels of Chi-Square, Cox & Snell R Square and Nagelkerke R Square, and

the Wald statistics, and the fact that the significance of the constant in model 1 is higher than accepted value,  $p$  value  $> 0.05$ , it is accepted in terms of overall model fit. In this model, for the variable online marketing, the significance ( $p$ -value) is 0.01, and so the null hypothesis that the coefficient equals 0 would be rejected. In model 1 the 'odds ratio' for the online marketing coefficient is 3.16 (see *Table 1*, exp (B) value) with a 95% confidence interval. This suggests that those hotels which employ online marketing are more than 3 times more likely to achieve positive earnings than those which do not.

### *Results and conclusion*

Using the regression method, we determined that, among other marketing strategies, online marketing has a direct relation with earnings for SMEs and hotels. Other regional hotels' marketing activities such as banner, chat, link marketing, optimized search engine, guerilla, wiki's, web campaign, and virus marketing show no significant correlation with financial results. Indeed, pursuing marketing strategies based on online marketing, small hotels in the region could improve their earnings and, by implication, their overall performance.

These activities have a positive effect on the retained earnings results of SMEs in the regional tourism industry. Online marketing activities are included in this category, but others (e-commerce, banners, chat, social-networks, blogs, optimized search engines, direct marketing) are not exclusively so. Therefore, Hypothesis H1 is verified. The regression results are valid only for the Transdanubia region and should not be expanded to other regions as the results are limited to this specific range. The Hotel Kager management will also adopt blogging, advertising by banners and optimized search engine tools, such as an optimized website, adding user content etc, to increase the customer pool and increase profitability.

### *Increased digital footprint strategy*

Even for small hotels, the most effective business card is its own website, which gives optimal customer access to the hotel in terms of general information, presentation, surroundings, location, prices, rooms, photo-gallery as well as any programmes offered. Modern websites provide daily updated content, such as blogging or news, and an online reservation system is vital for expanding the customer base. To make a reservation or availability inquiry one can or e-mail a hotel - or use a reservation system integrated into the website. Reservations at small hotels in the region could be done with or without a credit card, with or without pre-payment. Most of the small hotels in Harkány and

in Baranya County are also using an external, integration global reservation system such as Booking.com, Hotels.com or even Hungarian entities such as Szallas.hu. These intermediate sites have a worldwide digital footprint and are well known to potential customers. It is, therefore, very convenient for hotels to be recognised abroad, whereas it would be extremely costly if classic marketing tools were employed. Customers who book via these sites are usually foreigners – rarely Hungarian. If hotels wish to target foreign customers, their website should also be available in foreign languages such as English or German etc. The Hotel Kager has now adopted a policy of using multiple online reservations: via its own website, via email, and via online reservation (global or local) platforms. The information on the website can be read in Hungarian, German and partly in English. Online reservation systems also provide integration with Google maps and hotel presentations in multiple languages. The hotel's income is in direct relation with the number of customers accommodated, reinforced by the fact the most customers are aware of a hotel's existence via the Internet, and less from leaflets or catalogues. In conclusion, there is a considerable need to increase the presence of a hotel online, either by way of its own website or through intermediary sites.

### *Hypothesis H2*

The profitability of small hotels in Baranya County directly benefits from owning a foreign language website.

### *Method*

To analyse the importance for hotels of having their own website, the same survey data was used as before. The analysis was computed using SPSS to assess the relationship between retained yearly earnings and owning a website in Hungarian, or owning a website in a foreign language. The dependent variable is the relative turnover figure for 2012, and the variable is discrete (0.1), given that we are interested whether the hotels did or did not record an increase in sales in the last year. Model 1 contains one predictor - owning a foreign language website, which is a discrete variable (0.1). In model 2 a second predictor is added - owning a Hungarian language website, which is also a discrete variable (0.1). Since the dependent variable is not continuous, we carry out a logistic regression.

- Model 1: Predicted logit of (Sales2012) =  $\beta^*(\text{Website foreign language})$
- Model 2: Predicted logit of (Sales2012) =  $\beta_1^*(\text{Website foreign language}) + \beta_2^*(\text{Website Hungarian})$



**Table 3**

<b>Model</b>	<b>Model 1</b>	<b>Model 2</b>
Predictability of the model (%)	68.6	68.6
Chi-square/ significance	7.75/0.00	7.89/0.01
-2 Log likelihood	62.94	62.80
Cox & Snell R Square	0.14	0.14
Nagelkerke R Square	0.18	0.19
Beta of 1 <sup>st</sup> variable/ p-value	0.52/0.01	0.23/0.70
Beta of 2 <sup>nd</sup> variable/ p-value	-	0.45/0.09
First variable//Exp(B)	1.68	1.26
First variable//Exp(B)	-	1.57

*Source: The authors' own calculation*

Both modes have same moderate rate of prediction accuracy, 68.6%, but based on the Wald statistics. In model 2 the “web Hungarian language” predictor has a p value higher than 0.05 which means that the null hypothesis of zero value for the variable constants cannot be rejected. For model 1 Wald statistics are significant, and the p-value of 0.01 allows us to reject the null hypothesis. Therefore, *model 1* was preferred. The Nagelkerke R Square value indicates that 19 % of the total variance of the dependent variable the relative increase in sales of 2012 for the hotel could be explained by the fact of owning a website in a foreign language. In *model 1* the ‘odds ratio’ for the foreign language website’s coefficient is 1.68 (see *Table 2*, the exp (B) value) with a 95% confidence interval. This suggests that those hotels which are employing online marketing are 1.6 times more likely to experience positive (increased) sales than those without a foreign language website.

### *Results and conclusion*

Based on the above, a relation between small hotels’ performance was detected – based on the relative sales in 2012 and ownership of a foreign language website. The Wald criterion demonstrated that only owning a website in a foreign language made a significant contribution to prediction ( $p = 0.015$ ). Having a website in Hungarian was not a significant predictor. Increased sales could be related to a limited extent to owning a foreign language website. The conclusion is that owning a foreign language website has a positive effect, albeit to a relatively limited degree, on the company’s performance.

In fact, hypothesis H2 - owning a website in foreign language is crucial for a hotel’s performance is proved. Besides having a website in Hungarian, the Hotel Kager is now pursuing a good strategy in hav-

ing set up a full German language website and aiming to add other languages such as English, Czech, Italian, French, Polish and Russian.

From the above, indubitable, we can conclude that the marketing strategy is a must have component in the final strategy model of the small hotels, adopting such strategy predicts overall positive performance.

#### *Innovation and continuous improvement strategy*

Data from the survey were analysed and a multiple regression correlation was run, although, in terms of innovation by hotels and their financial performance, no dependence relation was found between them. Of the 56 valid respondents 67.2% indicated that they had no product or service regarded as new or different by at least some of their clientele.

To the question of whether they practise continuous innovation differentiating them from others, 6 believe that they are unique on the market, 8 that few competitors engage in similar activities whilst 18 admit to being different only to a moderate extent. To summarise, this means that 57% pursue an innovation strategy which is, to some degree, greater than their competitors. However, only 8 of the 57 companies introduced some innovative product or service in 2012 - which is surprisingly low. In contrast, the Hotel Kager has a very keen vision of innovation strategy, translated into day-to-day activity. The hotel grew from 12 rooms in 2001 to 17 rooms in 2004 before becoming - in 2007 - a Wellness hotel with 35 rooms. Recognising the trend towards wellness and fitness in the tourism industry, in Hungary, the management took the decision to expand their services to offer their clients wellness, fitness, bar and restaurant services. This was well received by the market, and the Kager was at that time the only hotel in the area offering such services. In 2011, the hotel moved on further, gaining its four-star categorisation from the authorities, which means that its services are in the top bracket in Harkány. In addition to innovating, the hotel is preoccupied with maintain high quality service. Being a small hotel gives the advantage that they are very flexible, and so they are able to offer more personalised hotel services and an overall warmer experience to their guests. Clearly, small hotels should concentrate on offering high quality services and a memorable experience to their clients, ensuring that they return.

#### *Cost reduction strategy*

#### *Hypothesis H3*

For small hotels in Baranya County, among the strategies adopted, only a combination of cost reduction and proactive

strategies has a positive effect on a hotel's economic performance.

### *Method*

The same data set of 57 SMEs active in the hotel and restaurant industry was employed as before. The dependent variable is the relative sales increase, again as before, and the method used was logistic regression with the help of SPSS. The first set of variable consists of the type of market strategy adopted - which are basically diversification, niche and cost reduction strategies. The second set of independent variables consists of active and proactive strategies. Combining these two sets of variable produced 6 models for analysis:

- Model 1:  $\text{Relative\_sales\_increase} = \beta_1 * \text{Cost\_reduction\_strategy} + \beta_2 * \text{Proactive\_strategy}$
- Model 2:  $\text{Relative\_sales\_increase} = \beta_1 * \text{Cost\_reduction\_strategy} + \beta_2 * \text{Reactive\_strategy}$
- Model 3:  $\text{Relative\_sales\_increase} = \beta_1 * \text{Niche\_strategy} + \beta_2 * \text{proactive\_strategy}$
- Model 4:  $\text{Relative\_sales\_increase} = \beta_1 * \text{Niche\_strategy} + \beta_2 * \text{proactive\_strategy}$
- Model 5:  $\text{Relative\_sales\_increase} = \beta_1 * \text{Diversification\_strategy} + \beta_2 * \text{proactive\_strategy}$
- Model 6:  $\text{Relative\_sales\_increase} = \beta_1 * \text{Diversification\_strategy} + \beta_2 * \text{reactive\_strategy}$

**Table 4**

Model	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Predictability of the model (%)	72.2	72.2	72.2	72.2	72.2	72.2
Chi-square/ p-value	13.51/0.00	9.673/0.00	7.97/0.02	5.93/0.00	6.79/0.03	8.13/0.01
-2 Log likelihood	61.34	65.18	67.49	68.87	68.06	66.73
Cox & Snell R Square	0.22	0.16	0.12	0.10	0.11	0.14
Nagelkerke R Square	0.29	0.21	0.17	0.14	0.15	0.18
Beta of 1 <sup>st</sup> variable/p-value	2.11/0.04	1.85/0.09	0.42/0.45	0.19/0.75	-0.02/0.98	0.85/0.15
Beta of 2nd variable/p-value	0.98/0.03	0.66/0.3	0.92/0.03	1.15/0.07	1.02/0.05	1.21/0.03
First variable//Exp(B)	8.31	6.41	1.53	1.21	0.98	2.34
Second variable//Exp(B)	2.43	1.93	2.50	3.17	2.77	3.37

*Source: The authors' own calculation*

Based on the Chi-Square values and p-values, which are lower than 0.05, all models are statistical significant. The coefficient of the first variable is significant in model 1 and 2 with the p values below 0.05, meaning that the cost reduction strategy is significant in *model 1* and 2.

The coefficient of the second variable is significant in model 1, 3, 4, 5 and 6, meaning that, in these models, either the proactive or the reactive strategy has an effect on the output of the model. Based on the p values for the coefficients of the first and second variables,  $p < 0.05$ , we can reject the null hypothesis of zero value coefficients for both variables, only in respect of the first model. The other criterion in choosing the best model is that by only using both independent variables we can reach a higher R square value, as shown in Table.4. The highest values for the Nagelkerke coefficient are reached in *model 1*, and so model 1 was retained. The Nagelkerke R Square value indicates that 29 % of the total variance of the dependent variable, the relative in turnover increase for the hotel in 2012, could be explained by the adoption of a combination of strategies composed of cost reduction and proactive strategies. In *model 1* the ‘odds ratio’ for the cost reduction strategy is 8.31 (see *Table 4*, the exp (B) value) with a 95% confidence interval. This suggests that, if we held the second variable (the proactive strategy) constant, *caeterius paribus*, those SMEs which employ a cost reduction strategy are over 8 times more likely to achieve an increase in sales than those which do not. If we held the first variable constant, having the odds ratio for the proactive strategy equal to 2.43, means that those SMEs adopting a proactive strategy are 2.4 times more likely to achieve an increase in sales than those which do not.

## RESULTS AND CONCLUSIONS

The output of the logistic regression exercise conducted shows that those SMEs active in the hotel and restaurant industry in Baranya County which adopt a combination of price and cost reduction and proactive strategies more likely to increase sales than those which do not. Hypothesis H3 is, therefore, proved.

The management of the Hotel Kager is well aware of these strategies and they adopt both a proactive strategy in surveying the market, adopting plans to handle downturns which may occur and in having invested in new products and services to follow market trends. The hotel’s price and cost reduction strategy is translated into specific easily managed areas:

- A. Yield management: offer room price reductions when there are rooms freely available, offer packages out-of-season or for last-minute bookings. Keep customer updated with news of the hotel by newsletters, anniversary cards and the like.
- B. Strategic alliances with other SMEs in the area. The idea is based on the fact, that small hotels can cooperate in purchasing and negotiate price reductions, “en-gros”, for restaurant or bar. Building

alliances does not necessarily require financial investment, and at the end of the day, it will provide market leverage and synergies. Another objective of such alliances could be the national and international promotion of the Harkány Spa and Hospital.

- C. Continuous pursuit of long-term development projects such as alternative energy, green marketing and cost reduction.
- D. Outsourcing: supporting functions such as accounting, technical support for information technology tools and systems, maintenance of wellness installations, restaurant and bar facilities, massage and beauty services and gardening. In summer, hotels can offer practice opportunities and part-time employment to students of the local university (in this case, Harkány).
- E. Continuous monitoring of hotel performance; it is well known that SMEs display characteristics distinct from those of larger companies, and performance measurement tools are not easy to use on a regular basis. The Kager Hotel uses BSC (Balanced Score Card) “dashboard” practice to have a comprehensive picture of the hotel’s performance. BSC reviews the financial, investment, hotel operation, quality of service, personnel and efficiency-related indicators which are basically deduced from the strategy adopted. Based on these indicators, and on a weekly basis, management can take action in areas which have slipped outside their target limits and can follow these. BSC data is held in a simple Excel file which also allows information to be recorded on budgets, resources and cash-flows.

## CONCLUSION

It is understandable that the owners or managers of SMEs – especially in peripheral regions – should lack confidence, or be somewhat hesitant about handling their businesses by making use of management techniques and tools normally associated with major industry. The word ‘strategy’ may well have a strongly deterrent effect. In our paper, however, we have attempted to show that, as a general reaction, such hesitation is quite unjustified. There may, indeed, be management areas where size matters – e.g., in certain HRM issues – but there are probably more where basic strategy can be profitably applied to the widest range of enterprises from micro- to large.

The area selected was, in geographical terms, the peripheral region of South Transdanubia, and the category of enterprise on which we focused was the SME – and then at no higher than mid-level. The sector selected was that of tourism (most important for the area), and the case study related to a small hotel. In short, we believe that we suc-



ceeded in selecting a very appropriate target for our hypotheses, and, in fact, we offered three:

In the first we considered the *relationship between small hotels in the area and online marketing* - from the standpoint that use of the internet showed clear advantages and improved overall performance. The second developed the theme by examining the likely *effects of investment by the enterprise in its own foreign language website* - again from the standpoint that this would be a well justified, profitable investment. Our third hypothesis contended that such businesses also needed *to apply a rational price- and cost-reduction strategy* in addition to such pro-active strategies if they were to maximise their profitability. To achieve this more securely, we recommended cooperative action by enterprises in the sector and in the region. This may not be a natural feature of Hungarian culture, but we do consider that the advantages are too obvious to ignore.

To examine all of these hypotheses we applied appropriate statistical analysis methods, and we were able to affirm that all three were sound and proved.

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*Submitted: 30th January 2014*

*Final version: 07th March 2014*

*Accepted: 28th March, 2014*

*Refereed anonymously*