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Risk Management Strategies for the Hospitality Industry

Abstract

Does your organization integrate the management of risk and opportunity? Have you evaluated non-traditional risk exposures? These are critically important questions as today's increasingly complex business environment exposes hospitality companies to numerous risks.

Risk management strategies for the hospitality industry

by Leonard Queiroz

Does your organization integrate the management of risk and opportunity? Have you evaluated non-traditional risk exposures? These are critically important questions as today's increasingly complex business environment exposes hospitality companies to numerous risks.

Recent world events have business leaders reassessing their risk priorities to an even higher degree. The devastating effects of September 11 have shaken American lives and businesses. Even prior to September 11, the U.S. economy had been slowing, causing many companies to reevaluate their budgets and risk tolerance.

There appears to be a mixed consensus on where the economy is headed. The hospitality industry has had to react to reductions in corporate travel, canceled conventions, employee layoffs, declining consumer confidence, corporate reorganizations, and insurance coverage volatility. Hospitality companies are challenged with

optimizing business risks and strategically managing costs in order to stay competitive in the industry. Meeting these challenges results in increased pressure on business decision makers.

In addition, many new types of risks are facing hospitality companies and other related businesses. During the winter and spring months of 2000 and 2001, both commercial and residential energy consumers throughout the nation were exposed to soaring energy costs. For businesses and communities in California, this cost increase was further complicated by mandatory power blackouts ordered by government officials. For hotel companies, these energy issues affected every point of guest service from check in at the front desk to ascent in an elevator, from the utilization of meeting space to food and beverage operations and safety. Hotel owners and managers had to continuously reevaluate their energy risk management

strategies, including alternative sources, disaster recovery plans, financing, and hedging strategies.

During the last several years, hospitality companies—like many other industries—have increased the utilization of outsourcing arrangements for items such as procurement services, network and other data host sites, and food and beverage. Hotel owners and managers need to measure and monitor the risk to their organizations should these business partners not be in a position to honor their contractual obligations. A well-publicized example of a recent business failure of a service organization within the hospitality industry is h-Supply, a provider of e-procurement services. Another case occurred with Eziaz, which provided broadband telecommunication services. Eziaz, formerly known as SiteLine, Inc., went out of business in April, leaving some customers with service interruptions.

Leaders face challenges

Clearly, leaders in the hospitality industry face these challenges as well as a variety of new challenges in their drive to enhance value. Globalization, e-business, system privacy and security concerns (especially in light of increased Internet bookings), new organizational partnerships, and the increasing speed of business activity are rapidly changing and expanding the risks hospitality organizations face. One significant result is that risk management should now extend well beyond

traditional financial and insurable hazards to encompass a wide variety of strategic, operational, reputation, regulatory, and information risks.

For example, developing a privacy strategy should be at the top of every chief executive's risk agenda. The four major benefits are as follows:

- It is one way for a company to separate itself from the competition.
- A privacy strategy can mitigate risk, be it brand, reputation, customer trust, litigation, or compliance.
- It will help ensure that the privacy processes and practices are cost effective.
- A privacy strategy is desirable, if for no other reason than to protect a company's own intellectual capital and customer lists.

Most important, a successful, well-executed strategy can bring about increased customer comfort and, ultimately, higher revenue.

Risks are taken

Successful organizations take calculated risks to achieve their objectives. They weigh opportunities against threats and act decisively. In other words, risk management can become a strategic competitive advantage to help hospitality organizations shift their focus from crisis response and compliance to evaluating risks in

business strategies proactively.

Some critical success factors that should be included in a risk management program include the following:

- creation of a risk-aware culture throughout the organization
- establishment of risk management objectives that are measurable and establish accountability
- establishment of an infrastructure for risk management
- empowerment of business areas/departments to be responsible for managing risk in accordance with the organization's risk management approach, while rewarding risk optimization initiatives
- communication of the commitment to risk optimization by the board and its committees
- management and staff training in risk identification and avoidance techniques
- identification of gaps in the risk management process and filling them.

Hotel guests demand high-quality goods and services at competitive prices, while investors expect outstanding performance and growth from their stocks. This puts heavy pressure on hotel owners, boards, and management, who can no longer rely on old, established strategies and practices. They must do a better job of taking

and managing risks both at the property and the enterprise levels. Risks can only be managed and optimized if they are identified. Today's business environment demands it.

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