Survey of Lodging Accounting/Finance Executives Regarding Capital Expenditure Decisions

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A recently conducted study by the International Society of Hospitality Consultants highlighted a significant issue in the lodging industry. From the late 1980s through the early 1990s, the oversupply of lodging in the United States resulted in a large number of foreclosures of lodging properties. The lenders that took back properties found in many instances that the physical condition of the properties was woefully lacking. In order to sell the property, the lenders had to incur major expenses on the physical assets in order to increase its market value.

This revealed a significant problem in the lodging industry: when the market takes a downturn, lodging owners (due to insufficient cashflow), abandon the needed capital expenditures to maintain the hotel. Lodging owners (and managers) were simply not spending enough to keep the physical assets of the hotel at competitive levels. The "magic number" 3 percent of gross revenue was not enough to maintain the physical plant of a hotel.

This issue led us to ask a related question, which was the focus and purpose of our survey: How do hotels make decisions on capital expenditures? Furthermore, what are the problems (in terms of clarity of criteria) that lodging operators have when making these decisions and what is the magnitude of these problems?

Our first task was to calibrate the survey instrument. This was done by asking 20 industry executives and academics to comment on the structure and content of the questionnaire. With their feedback we made our first revision to the questionnaire. A first mailing was sent to a randomly selected sample of 100 accounting/finance executives from the IAHA directory. This led to a second revision of the questionnaire. As a result of the second mailing, the questionnaire was reduced in size. The final mailing of 500 questionnaires was then sent to another randomly selected sample of accounting and finance executives of lodging companies.

We received 73 completed responses to the first mailing, constituting a response rate of 14.5 percent. The 73 responses were analyzed using the SPSS statistical software. Various statistics including frequencies, summary statistics, and chi-square statistics were generated for analysis and interpretation.