
The Way to Revitalize *Ryokan* Management

~ Based on Interviews with *Ryokan* Managers~

Abstract

The number of registered ryokan in Japan has declined from 48,966 in 2009 to 38,622 in 2017, and the downward trend continues to this day. One major reason for this decline is the industry's delayed response to market changes. Many ryokans have remained dependent on a traditional, labor-intensive business model with low productivity, failing to adapt. This has led to continued financial losses, increased debt through additional borrowing, and facility deterioration, creating a vicious cycle.

However, amidst the overall downturn in the ryokan industry, there are establishments that have continued to show strong business performance. By understanding their management strategies, it is believed that pathways for revitalizing Japan's ryokan industry may emerge.

Therefore, this study focuses on ryokans that have recently improved their business performance, aiming to identify the success factors of ryokan management by analyzing the management philosophies and mindsets of ryokan managers. As a result, three key success factors were identified: (1) efforts to enhance Employee Satisfaction, (2) acquisition and utilization of information (including ICT and AI), and (3) exceptional leadership by the managers.

Key Words: Ryokan, Management Awareness, Revitalization

Introduction

The current environment surrounding management and individual careers has become what is known as the VUCA era, and this has necessitated adaptation in the management of Japan's unique accommodation industry, namely "*ryokan*" (traditional Japanese inns). In recent years, with the increase in foreign tourists visiting Japan, *ryokans* have gained attention as traditional accommodation options, expected to serve to disperse inbound tourists throughout regions and act as hosts.

However, while the number of registered hotels has been increasing, the number of registered *ryokans* has been decreasing, dropping from 48,966 establishments in 2009 to 38,622 in 2017, and continuing to decline. Various factors contribute to this decline, with high dependence on domestic travel agencies and slow adaptation to changes in tourists' travel behaviors (from group tours to individualized travel) being frequently cited reasons. Other factors include labor shortages and challenges in employee education, financial instability due to excessive debt, and the worsening shortage of successors.

Table1. Ratio of *Ryokans*' dependence on debt (debt divided by total assets)

Region	Ratio of <i>Ryokans</i> ' dependence on debt (%)		
	Total	Short-term debt	Long-term debt
Hokkaido	76.7	12.2	62.5
Tohoku	91.0	6.3	84.8
Kanto	67.2	9.2	58.0
Hokuriku-Shinetsu	80.7	20.4	60.3
Chubu	80.7	6.1	74.6
Kansai	77.3	7.0	70.3
Chukoku	87.8	11.1	76.8
Shikoku	86.5	22.6	63.9
Kyusyu	88.4	10.2	78.2

Source: JRHA, Statistics on Business Conditions 2023

This study also highlights a significant challenge within the mindset of *ryokan* management, in addition to the reasons for the decrease in registered *ryokan* facilities. Companies typically grow through a cycle of investment and returns, using funds from financial markets to cover expenses such as operating costs and payroll, while reinvesting customer payments into further investments or incorporating them into assets, thereby fostering a cycle of investment and growth.

However, when examining Japan's *ryokan* industry, many establishments have remained stagnant or declined over the years, relying heavily on group tours since the period of high economic growth and maintaining their operations by capturing accommodation demand overlooked by other *ryokans* during peak seasons, without actively engaging in marketing efforts.

These *ryokans* often struggle to adapt to market changes, remaining entrenched in outdated business models reliant on labor-intensive operations with low productivity. Consequently, they may fall into a vicious cycle of accumulating losses, excessive borrowing, and facility deterioration. In other words, there is a need for motivated and capable *ryokan* managers to actively pursue productivity improvement and value-added initiatives.

In this study, we attempted to derive the success factors of *ryokan* management by conducting case studies of *ryokans* that have achieved high performance.

Literature Review

The Ryokan Business Law (Law No. 138, 1948) defines the *ryokan* industry as an operation that “accommodates guests in exchange for lodging fees”, specifying one of the three types of accommodations: “*ryokan* operation”, “hotel operation”, and “simple lodging operation and boardinghouse operation”, with “*ryokan* operation” being one of them. Here, “lodging” refers to “utilizing facilities using bedding”, meaning that the *ryokan* industry is a form of accommodation business that provides lodging for a fee using bedding. The term “lodging fee” includes rental fees

for bedding, resting fees, utility expenses, room cleaning fees, and also encompasses cases where guests bring their own bedding. Additionally, *the Ryokan Business Law* stipulates that the responsibility for maintaining hygiene in facilities lies with the owner (operator) of the facility, and that the accommodation facility is not the primary residence of the guest utilizing it (Ikado, 2017).

Under *the Ryokan Business Law*, “hotel operation” refers to an operation that provides facilities primarily consisting of Western-style structures and amenities, and “*ryokan* operation” refers to an operation that provides facilities primarily consisting of Japanese-style structures and amenities. According to the enforcement of *the Ryokan Business Law*, the distinction between a *ryokan* and a hotel is based on the number of guest rooms, where establishments with more than half of their rooms being Japanese-style are called *ryokans*, and those with more than half of their rooms being Western-style are called hotels (Teramae, 2005).

Additionally, under *the International Tourism Hotel Development Law* (Law No. 279, 1949), a hotel is defined as a facility built for the accommodation of foreign guests and having Western-style structures and amenities. However, for *ryokans*, the law defines them as facilities built for the accommodation of foreign guests but distinct from hotels, without explicitly endorsing Japanese-style facilities (Teramae, 2005). In 2018, *the Ryokan Business Law* was revised, integrating the legal categories of *ryokan* operation and hotel operation.

According to Ikado (2017), succession in the *ryokan* industry used to commonly involve passing the business down to family members, but deteriorating business performance has led to difficulties in finding successors. Furthermore, it has been pointed out that scientific management techniques, such as data analysis and statistics, are not sufficiently utilized in the management of Japanese *ryokans*, particularly those operated as family businesses. Instead, management often relies on past experiences and intuition, leading to challenging business conditions (Kitakami, 2019).

As the hospitality industry undergoes significant changes, human resource development and education play a crucial role in ensuring the sustainability of the “hospitality industry” in *ryokan* management. Moreover, the traditional Japanese accommodation industry, represented by *ryokans*, has been declining since 1980, with its role being taken over by hotels. This decline is attributed not only to insufficient sales due to changes in social structure but also to a shortage of successors. While succession in *ryokan* businesses used to commonly involve passing the business down to family members, deteriorating business performance has led to difficulties in finding successors (Ikado, 2017).

Furthermore, Wada & Kohara (2022) highlighted the lack of research on *ryokan* management while addressing the current situation and challenges related to securing human resources in the *ryokan* industry. They emphasized the need for a change in management perception and pointed out the shortage of specialized and systematic curricula for easily understandable human resource development. They also emphasized the urgent need to train personnel with expertise not only in *ryokan* operations but also in managing tourism businesses within the local community.

Methodology

Research Subjects

Three *Ryokan* Managers were interviewed for the survey. A summary of the interviewees and *ryokans* is shown in Table 2.

Table1. summary of the interviewees and *ryokans*

Property	Overview of <i>Ryokan</i>			Manager Attributes		
	area	Number of rooms	Number of employees	sex	age	Years of experience
A	Yamanashi	44	120	M	30s	5
B	Fukushima	69	86	M	40s	10
C	Wakayama	36	35	M	50s	25
D	Fukushima	12	28	M	40s	15

Research Contents

- 1) Management policy: What are the top priority considerations in running a *ryokan*?
- 2) Distinctive efforts: What are the successful efforts based on the management policy?
- 3) Capital investment, etc.: Are they making sustainable upgrades as a service industry?
- 4)Others

Results

The results of the interviews are summarized below.

(1) Employee Satisfaction initiatives

The company places importance on creating a work environment where employees want to work and conduct appropriate personnel evaluations and offers career paths while actively communicating within the company.

(2) Utilization of Information Technology

The company has established a process for communicating information internally and externally and keeps abreast of and responds to industry and government developments.

(3) Management Leadership

The company demonstrates outstanding leadership by actively engaging in exchanges with other companies in the same and different industries, and at the same time, the management disseminates the results of its sustained learning within the company.

Conclusion

This study focuses on a successful *ryokan* in an otherwise declining *ryokan* industry, aiming to explore the key factors behind its business success. The *ryokans* had achieved optimal staff allocation by visualizing work processes and clearly defining staff responsibilities. By introducing and utilizing a shift scheduling system, they have implemented skill assessments (performance evaluations) and set conditions for shift creation, which has contributed to the efficient scheduling of staff and an increase in employee job satisfaction.

Furthermore, the study reveals that the owner continuously pursues improvement through a strong spirit of inquiry, actively engaging in productivity analysis and customer satisfaction evaluations. These efforts have led to initiatives aimed at improving business operations and increasing the added value of services.

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