

THE CORNELL SCHOOL OF HOTEL ADMINISTRATION

Handbook of Applied Hospitality Strategy

Edited by

Cathy A. Enz



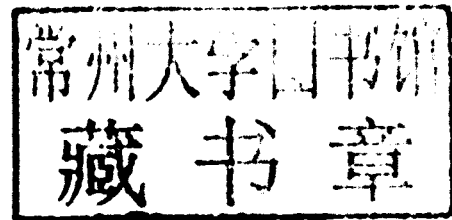
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Cathy A. Enz

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Handbook of Applied Hospitality Strategy

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Preface

*Three Rules of Work: Out of clutter find simplicity; From discord find harmony;
In the middle of difficulty lies opportunity.*

—Albert Einstein

This book was assembled with the goal of providing advanced students and intelligent practitioners with a comprehensive reference work on hospitality strategic management. Like the quote from Albert Einstein suggests, the purpose of assembling a resource book that summarizes and interprets research and suggests application to the hospitality industry is to make what can be complex seem simple and straightforward. The contributions of hospitality scholars and thoughtful practitioners are included in this book in the hopes that their ideas, perspectives, research findings, and points of view will both influence the field of hospitality and stimulate additional inquiry. Disparate points of view and a wide array of perspectives are included here. While these postures and opinions are unlikely to converge harmoniously in the pages that follow, they do offer the reader a cornucopia of frameworks, findings, and ideas. For the student or practitioner who wants to succeed in the fiercely competitive hospitality industry, new ways of seeing and understanding will indeed yield opportunities.

It is the hope of this book that the landscape of strategy is explored in detail. To accomplish this end, the book has 11 parts, almost all beginning with a featured chapter to provide original thought on a key topic. These chapters are followed by important chapters, which were culled from the pages of the *Cornell Hospitality Quarterly* (CQ). Finally, commentaries of the chapters are offered to interpret, integrate, question, or extend our thinking on a given topic. Some chapters include the views of senior level executives to offer a practitioner's perspective of the topic, while others report original research to illustrate a concept or offer a new view. The strength of the handbook is its combination of academic rigor and hospitality application. While many of the contributors are faculty at Cornell University, others come from respected institutions around the world. However, the book does recognize the historic role that Cornell and particularly the CQ has played as one of the oldest and most respected outlets for hospitality scholarship.

Many general strategy books focus on theories and ideas that are applicable in an array of different contexts, while this book focuses on key strategic management ideas as they apply to or affect the management of travel and hospitality firms. The book combines chapters that apply general strategy concepts within the hospitality industry with those that offer unique interpretations or conceptualizations specific to service and hospitality businesses. Much attention is given to exploring how best to obtain long-run performance of hospitality firms within a competitive industry context. The emphasis is on external and competitive analysis, strategy formulation, and implementation of long-term objectives in the industry. Challenges of global firms, such as consolidation (mergers and acquisitions), internationalization, franchising, choice modeling, and competitive positioning are just a few of the important topics covering the external environment. Also addressed in this volume are critical internal issues essential for formulating and executing on strategy. Revenue management (RM), marketing, human resources (HR), organizational culture, and change are featured as key elements of strategy execution. Combining the material on strategic analysis, strategy formulation, and strategy implementation and using diverse conceptual perspectives, the book strives to offer an extensive treatment of the subject of hospitality strategic management.

Acknowledgments

This book would not be possible if it were not for the hospitality academics who offered their insights and analysis in the featured chapters, chapters created from *Cornell Hospitality Quarterly* (CQ) articles, and commentaries of this book. While editing a book is akin to herding cats, I am grateful to my smart and hardworking colleagues who I begged and bothered on a regular basis to extract their diverse and valuable contributions to this book.

I would like to thank Lisa Shaw at SAGE for championing this project to completion and Catherine Rossbach for encouraging me to begin it in the first place. Finally, this book is dedicated to the late Al Bruckner, a kind and gentle man who served as senior acquisitions editor at SAGE before his untimely death. I am thankful to have worked with Al and wish to acknowledge his patient and thoughtful stewarding of this project in its early stages.

Cathy A.ENZ
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Introduction ---

The past two decades have seen a growing need for strategic management. Increasing competition in hospitality firms has made it difficult for some companies to compete. Faster and cheaper transportation and communication has led to increasing global trade and travel. Technology development has altered how we serve guests and brought new intermediaries into the supply chain. While some companies have successfully navigated the changing business landscape, others have failed. McDonald's serves as a vivid example (see Enz, 2010). Few fast-food companies existed when McDonald's began its rapid development back in the middle of the 20th century. By the turn of the millennium—after decades of expansion, sales growth, and profits—the company experienced its first losing quarter. Pressured to get back on track, McDonald's devised a strategy that required them to rethink their core business and divest ownership in other chain concepts. Now, McDonald's is trying to make deeper connections with their customers through the core brand in the hopes that the new strategy will pay off. Utilizing strategic tools, models, and methods, top strategic planners are better able to break out of traditional mind-sets and defy widely accepted industry practices. As the role of strategic decision making grows in importance in hospitality firms, it seems that the time is right to provide a comprehensive reference work that brings together diverse research and current practice on the topic of hospitality strategy.

Time will tell whether McDonald's strategic choices will distinguish them from their competitors, but there is sufficient evidence to suggest that effective strategic management does deliver higher firm performance. Successful companies follow a strategic management process (SMP) that includes learning how to analyze their internal and external environments, establishing strategic direction, devising strategies that move the organization in the intended direction, and executing on the selected strategies to produce high rates of return. In fact, hospitality firms that are skilled in strategic analysis outperform their competitors (Enz, 2010; Harrison, 2003). The importance of the application of strategic ideas to hospitality contexts is a theme of this book and is incorporated into chapters through the use of executive authors, interviews with senior managers, case studies, or detailed examples. Hence, “applied hospitality strategy” in the title of this work, was selected to convey the emphasis on usability of the ideas and research presented.

A total of 69 chapters comprise this reference work. The book is divided into 11 parts that follow the key activities of the SMP. The lead chapter for most parts of the book is a featured chapter that is original and offers cutting-edge discussion on an important facet of hospitality strategy. Each of the 11 parts of the book concludes with a commentary chapter that reflects on all of the chapters included in that section. The commentaries offer summaries, elaborations, and opinions on the selected chapters and in some cases introduce new data to support a viewpoint.

The book begins with a discussion of the importance of strategic direction in Chapter 1. A firm's strategic direction defines its purposes, often including mission and vision statements. Following this chapter, Part I includes two chapters that offer frameworks for the SMP. The reader of this book will recognize that the topical areas of each chapter can be easily fit into the strategic management models presented in Chapters 2 and 3. Applying strategic analysis to destinations and introducing methods of intelligence gathering for analysis is the subject of two other chapters in this first grouping.

Part II deals with the external environment and key stakeholders, with an emphasis on customers. The featured chapter presents a sophisticated toolbox—discrete choice analysis (DCA)—for understanding the drivers of customer choice. Two chapters in this part of the book discuss strategic analysis techniques: one chapter explores a strengths, weaknesses, opportunities, threats (SWOT) analysis for hotels in China, while another introduces qualitative content analysis and advanced linguistics analysis to better understand consumer attitudes in a call center and VIP guest situation. Obesity, sustainable tourism, and environmental sensitivity are all macroenvironmental issues discussed in other chapters of this section of the book. The broad environment forms the context in which hospitality firms operate, and complex strategic decisions are linked to shifts in sociocultural (e.g., dining habits, gaming behavior), political (e.g., the Mafia in Las Vegas), and environmental (e.g., sustainability in Singapore, the greening of Europe) factors.

Determining the boundaries of the industry is the first step in any form of industry analysis. As the featured chapter (Chapter 15) in Part III reveals, the hospitality industry is often difficult to define. To be able to determine whether a firm has a competitive advantage, defined as a long-lasting business advantage compared to rival firms, it is important to first define the competition. In order to do that, markets and submarkets also need to be defined. The featured chapter reveals the limitations of current market definitions and offers alternatives based on an illustrative example within the lodging industry. The remaining chapters in Part III explore the ways in which firms can create an advantage through the development of resources and capabilities, even though building a sustainable advantage is extremely difficult. A resource is called a core competency if it is valuable, unique, hard to imitate, nonsubstitutable, and can be applied to more than one business area. These criteria are put to the test in the chapter that explores Outback Steakhouse in Korea. How to strategically build technology resources to gain competitive advantage is explored using a conceptual framework in another chapter of this grouping. The resource-based view (RBV) of the firm and contingency theory are used in chapters of this grouping to support the discussion of how to build internal capability and fit the internal environment with the external situation.

The secret to successful branding in hospitality begins with the development of a compelling promise to the customer that the competition cannot easily imitate, according to the authors of the featured chapter (Chapter 21) in Part IV. The viewpoints of the presidents of

Hilton Hotels, Starwood Hotels and Resorts, Marriott International, and Fairmont Hotels and Resorts are incorporated in this lead chapter's discussion of strategic experiential branding. The relationships among customer satisfaction, customer loyalty (repeat business), and firm performance are critical for any service firm and are frequently examined in the context of a framework known as the service-profit chain (Heskett, Jones, Loveman, Sasser, & Schlesinger, 2004). These key variables in hospitality contexts are explored in four chapters, three of which summarize research to support their view on the link between taking care of guests and firm performance. One chapter reports on a study that shows only a weak relationship between satisfaction and loyalty, particularly for business travelers, raising questions about the advisability of investments in guest loyalty programs. Another chapter found that at the core of customer loyalty in restaurants is the basic delivery of good food, appropriate costs, a warm welcome, and attentive service. Elaborations on the customer service dimension are provided in two chapters: one that examines strategies for managing customer waits and another that explores how managers can handle employee and guest emotions in the service delivery process.

Managers in various functional areas of a hospitality firm are given the task of translating corporate strategies into specific actions within their particular areas of expertise. Functional level strategies are shorter term and more specific but still require managers to devise value-creating activities to accomplish the broader long-term aspirations of the corporation. In Part V, the area of strategic human resources (HR) is explored. HR management issues are the most troubling for managers and executives alike in the global hotel industry (Enz, 2009). Acknowledging these challenges, the featured chapter (Chapter 27) first summarizes the research on the impact of HR policy and practices on organizational outcomes, such as turnover, productivity, profitability, and market value. The authors urge individuals making strategic HR decisions to become more proficient in the use of HR analytics to guide the decision-making process. This chapter includes commentary by a senior executive in the industry following a point-counterpoint format that reconciles both research and practice. A second featured chapter (Chapter 28) explores the importance of employee selection according to general mental ability (GMA) and personality to assure high levels of performance. The authors buck the traditional view that attitudes (i.e., personality) are better than cognitive ability at predicting employee performance. Their study shows that both mental ability and conscientiousness are important predictors of performance for restaurant employees on the front line and share the implications of these findings for selection, training, and development of staff. The other chapters explore how specific HR practices in retention, training, leadership development, employee empowerment, recognition, and cost management enhance shareholder value.

Part VI reminds us that revenue management (RM) is no longer a tactical activity but has become integral to operating strategies in a diverse array of hospitality settings. The featured chapter (Chapter 34) explores how to successfully use price as a strategic weapon by exploring what prices to charge and which segments should be offered various prices. The chapter includes interviews with senior revenue managers to help explore both customer and competitive reaction to RM pricing. RM concepts are applied to group business in hotels and spa management in subsequent chapters to reveal their usefulness in diverse applications. The future for RM is a movement toward enterprise demand planning, which shifts focus away from the shorter-term focus of the past and signals a more strategic role for this field of study.

Many firms in the hospitality industry focus on mergers and acquisitions (M&As) as their primary growth strategy. Compared to organic growth, M&As are a rapid way to pursue growth or diversification. The popularity of this corporate strategy may be due in part to its ability to facilitate entry into new markets, fill knowledge and skill gaps, acquire new products or services, and even vertically integrate. The popularity of franchising in the industry also makes it an important strategic topic deserving of more detailed investigation. In Part VII, M&A behavior and franchising systems and their management are explored comprehensively. The featured chapters (Chapters 39 and 40) offer excellent reviews of the literature and practical advice on these common forms of growth. One chapter in this section explores international franchising, using restaurants in Poland as a case study, while another chapter examines the factors that make franchising more or less attractive based on an empirical study. One final chapter in this grouping (Chapter 43) shows that acquisitions in the lodging industry have yielded gains for both the acquired and acquiring firm, a finding that is not found in other industries.

Strategy implementation involves the building of an organization that moves the business toward the successful execution of its strategies. Implementation is grounded in the creation of organizational structures and cultures that fit with and help to assure that the firm stays true to its strategic choices. The importance of fit or alignment between organizational structure and strategy is particularly true in mature industries, such as hospitality. Both structure and culture are discussed in the featured chapter (Chapter 46) of Part VIII, which shows how fit of these factors to a firm's competitive behavior is essential for success. The chapter notes that different strategies pose different administrative requirements and elaborates on the elements of structure and culture using examples from the industry. The five chapters that follow this introduction explore specific elements of structure, standards, and culture. The role of service standards in enhancing coworker and supervisor support was found in a comprehensive study of several casual dining restaurants in one of the chapters in this section (Chapter 47). In another study of restaurants, the chapter authors (Chapter 48) found emotional factors to have a considerable effect on driving an entrepreneur's vision, decision making, attitude, disposition, and ultimately performance. Turnover reduces revenue and increases expenses. A chapter focused on hotels (Chapter 49) revealed that the cost of turnover is generally highest for complex jobs in large upscale hotels. This chapter also shows us that positive relationships with managers and designing jobs so that the right person is in each position can contribute to the reduction of employee turnover. Finally, two chapters in this section address tourism cross-cultural issues in Cuba and Jamaica (Chapters 50 and 51), pointing to the importance of cultural sensitivity to enhance business sustainability. While constituting a diverse group of chapters, the works in this section share in common the overarching theme of successful implementation of strategy through standards, appropriate structures, good job design, sensitivity to cultural differences, and positive emotions.

According to the authors of the featured chapter in Part IX (Chapter 53), strategic change is a likely organizational response to increasing competitive pressure and environmental turbulence. Often change efforts fail due to employee resistance and the failure of managers to understand and effectively transition employees who experience emotional crisis. In the featured chapter, the coauthors bring a practitioner's experience in luxury hotels and an academic's understanding of human behavior together to discuss organizational change and employee resistance to change. Using the idea of transitioning, the authors show how to

refocus managerial attention and resources to handle emotional reactions that often doom change initiatives. An important framework for the introduction of change is provided by the second chapter in this section (Chapter 54). The authors use a change initiative in two hotels at Walt Disney World to illustrate how to introduce a logical and comprehensive change using the 5-P (purpose, priorities, people, process, and proof) Model. In contrast to planned change, hospitality firms must increasingly respond to crises that result from unanticipated events, such as terrorism. One chapter in this part of the book (Chapter 55) reviews a typology of crises and examines the crisis response of a hotel to illustrate how to develop recovery strategies. "Value creation is not just a 'program de jour,' it requires a change in the corporate culture" (Huckestein & Duboff, 1999), notes the former president of Hilton Hotels in his chapter (Chapter 56) that shows how the company introduced the balanced score card change initiative and in the process changed their company's culture to achieve the desired strategic results.

The last step in the SMP is to evaluate and then adjust strategic direction, strategies, or the implementation plans based on the collection of meaningful information. Performance information may reveal that the organizational strategies are no longer appropriate or that execution is not leading to the desired outcomes. Adjustments are often necessary once meaningful evaluation systems are put in place. The chapters in Part X explore the performance, productivity, and control metrics common in the hospitality industry. A total of six different chapters discuss performance from the perspectives of investors and managers. Overall, lodging properties commanded respectable returns with low volatility during the period of 1995 to 2000, according to a study reported in Chapter 58. Using historical returns from 1966 to 2006, another chapter (Chapter 59) reports on a study in which hospitality stocks experience substantial market timing with firms issuing equity capital near market highs and retiring capital near market lows. The usefulness of simple rules of thumb and industry level measures are questioned, and a more thoughtful understanding of our traditional operations-based performance metrics are suggested in several chapters (see Chapters 60, 61, and 62).

Part XI wraps up the book with a discussion of globalization and international strategies. The search for new markets, better resources, increased efficiency, and reduced risk are some of the catalysts for global expansion, particularly when domestic markets begin to show slowed growth. Growth opportunities and the reduction of barriers to entry are inducements for more corporations to make investments in foreign markets. Given the importance of travel and tourism to globalization, it is not surprising that many hospitality firms were pioneers in global expansion, hence the inclusion of this important topic. The featured chapter (Chapter 65) examines the challenges and opportunities faced by global hospitality businesses, with a focus on operating in China. Chapters in Part XI explore market entry, the challenges of reforming the entire state-owned sector in China, and the skills necessary for expatriate managers to develop successfully in global settings. While many aspects of strategic management apply to both domestic and international settings alike, increased complexity in issues of ownership, and strategic implementation suggest that some strategic concerns are unique during internationalization and require refinements to our understanding.

In the pages to follow, research findings, comprehensive reviews of the literature, illustrations, examples of ideas in hospitality contexts, and the opinions and experiences of seasoned executives are used to introduce the reader to strategy as applied in the hospitality industry. This brief overview reveals that the strength of this book is its assembling of such

diverse writings on the topic. Throughout the chapters of this book, the authors have strived to offer new ideas, models and frameworks, managerial implications of research findings, and suggestions for future practice. I hope you enjoy both the array of issues addressed in the pages to follow and the efforts of the authors to link theory and practice in the exciting and growth field of hospitality strategy.

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