



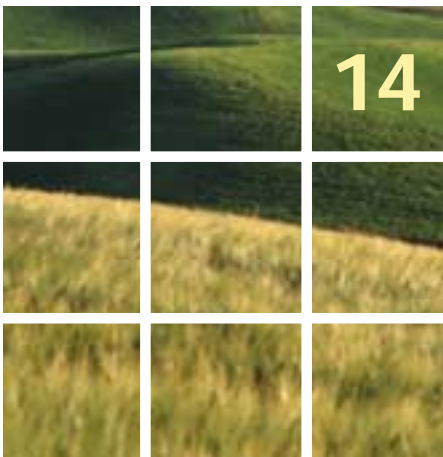
No hotel company operating today can be unaware of the swift pace of global change and its impact on every facet of the hospitality industry. With just five years left in this century, we can expect change to be the only constant. New business practices are evolving virtually as fast as our technologies, while resistance to change has become one of the primary causes of business failure.

In this period of global transition, it behooves hotel organizations to examine the key factors that will not only define success, but the ability to survive in coming years. Many of these issues were spotlighted in a global study undertaken by the Economist Intelligence Unit and co-sponsored by Arthur Andersen. *The Successful Corporation of the Year 2000* surveyed more than 600 senior execu-

The Hotel Organization of the Future

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Capitalizing on change is prelude to success



The specter of constant change raises fundamental questions as to the creation of shareholder wealth in a capital-constrained, highly competitive environment. How will hotel organizations build shareholder wealth, and what key drivers will result in success? What future products and services will be essential in a technology-driven, global environment marked by rising customer expectations? Moreover, what alternative approaches and skills must organizations develop to ensure market success?

The future success of hotel organizations will be driven in large part by the ability to foresee — and capitalize — on change. Beyond this truism, however, there is an urgent need to identify what will be required in the competitive environment of the future with its intense focus on serving customer needs. The hospitality industry — as is the case with business generally — is subject to deep currents of change set in motion as economic and social systems shaped in the industrial era evolve to a knowledge-based era driven by technology advances.

tives around the world. Its mission was to identify the characteristics needed to lead successful businesses in the next century. These executives offer a number of compelling messages regarding the key success factors of the future.

Customers will have the strongest influence on the corporation in the year 2000. Indeed, these executives believe that the customer will be “king” in the new century. Exceptional leadership was by far the attribute most frequently cited by CEOs and senior executives; the consensus appears to be that successful companies in the year 2000 will be led by corporate visionaries. A strategic planning focus is not only essential, but must embody a concept of planning for the future that *anticipates* change, rather than being based exclusively on historical models. In structuring organizations for the future, companies must build management capabilities to deal with one of the most critical challenges — diversity in the marketplace. Employing information technology to drive business success in this information-driven era is not only the path of least resistance, but



vital to virtually every aspect of operations.

The study's top-line results create an excellent backdrop to address key issues confronting the hotel industry, and what factors will lead to membership — rather than rejection — in the elite club of the world's corporate success stories in the year 2000.

From an asset to customer focus

Recognizing that the hotel industry has a somewhat split personality reflecting the inherent conflicts between its real estate and operational aspects, it is important to understand the industry's real estate origins and how they are shaping the challenges ahead.

The origins of the industry's real estate persona are embodied in the classic theory of location — “if we build it, they will come.” As a result of this “building” complex, the industry has tended to have a real estate and asset orientation, rather than a customer focus. From the hotel company perspective — especially that of the brand-oriented “chain” — the varied interests of a diffused property

Our real estate origins:

- Asset rather than customer focused
- Diffused private ownership
- Property rather than corporate financing
- Each hotel distinctively structured
- Elusive economies of scale
- Locational focus, customers to follow

ownership group can be quite different than the singular interest of the chain that operates and markets the properties.

Even when the ownership of geographically dispersed hotel properties is controlled by a single hotel organization, the financial structuring tends to be property-specific. Corporate financial strategies are frequently subjugated to the needs of the last property deal

brought into the company's fold. Each property in a so-called “chain,” is frequently the subject of a unique and distinctive ownership and financial structure. This phenomenon — quite common in the real estate sector, but unusual for business enterprises generally — makes for elusive economies of scale in the structuring and financing of property-driven expansion.

Collectively, these factors have produced low comparative returns in real estate, although criticism leveled at commercial real estate returns is somewhat less germane to the hotel industry, where management and franchise fees can produce high returns for those companies where property ownership is held by third parties. Nevertheless, average returns in the real estate industry in the United States, for example, are just over 10 percent, compared to small company stock returns at almost 20 percent and large company stocks at an average of about 15 percent.

While hotel chains have adopted traditional corporate frameworks, there are a number of predominantly real estate-driven, family-owned businesses in the hotel sector that continue to operate as relatively unstructured organizations. In meeting the future, these businesses will need plans, people and processes in order to establish viable corporate forms that can compete in tomorrow's marketplace and capitalize upon its opportunities.

In today's changed environment, the hotel organization must deal with a number of new realities. Investors in our industry are no longer satisfied with long-term capital appreciation and psychic income that heretofore were often the justification for otherwise seemingly uneconomic investments in hotel property or, indeed, hotel chains. The first reality is that there is a very specific and identifiable relationship between bottom line performance and value. Improvements in business operations raises

values. It is not surprising, therefore, that the new owners attracted to this industry in recent years have new sets of demands. This transformation from an old-guard group of investors and owners to income and return-driven newcomers has meant that the once “quiet enjoyment” of operators in their management of hotels for third parties is being disturbed, interrupted and overturned.

In a changed environment:

- Business improvement raises values
- New owners have new demands
- Disturbing the once “quiet enjoyment”
- Operational needs vie with real estate goals
- Customer focus, locations to follow
- Zero defects supplanted by quality that surprises

These challenges all take place in an environment where capital has become extremely selective in markets that have little stability. A global shortage of capital will not remain a short-term problem, and future hotel organizations must have a stronger alignment to capital providers — a critical “customer” group. Hotel companies will need to compete by offering better returns and performance than in the past. Hotel chains have found their development timetables quashed in recent years, making it difficult to achieve goals of critical mass often required to improve performance. These factors are driving consolidation in the brand “sweepstakes.” Capital markets, therefore, continue to favor well-established companies, a reality that must drive entrepreneurial organizations to meet the future now by planning for an evolving corporate context in which to operate.

Key success factors — the future

Within this broad context, hotel developers, owners and management companies will all need to develop new strategies,



skills and processes that look forward to the competitive demands of the future. These ultimately must address issues related to vision and planning, as well as organizational skill sets and processes to attract and retain customers. To stake a claim in the future, current business practices should be examined in light of what can be expected to be the key success factors in the year 2000.

Embrace a global change orientation.

As the information age produces greater worldwide integration of business activities, a global knowledge base will become invaluable. Success in local and regional hotel markets will be shaped decisively by a global business environment that defines capital movement, customer expectations and applications of new technologies.

Focus on the customer.

If the customer is “king” in the 21st century, hotel organizations will be best served by focusing less on their hotel assets as measures of success, and more on their customers.

This involves a fundamental shift in viewing the real estate asset as the wealth creator — to the customer as the key to building shareholder wealth. A customer focus must imbue business decisions at all levels of developing and

Customers are king:

- Drive corporate need for “change”
- Impact shareholder wealth
- Insure leadership position
 - Meet future needs versus current requirements
- Participate in product development

operating a hotel organization. Pursuing such a course will inevitably impact shareholder wealth. To accomplish this, however, customers need to participate in the product development process.

Fully realizing a customer focus in the industry poses a significant challenge. The hotel industry must confront problems due to conflicts between operational needs and real estate goals. Quite simply, an operator must remain customer-focused, but the short-term strategies to meet these needs may be inconsistent with the long-term objectives of property owners. Balancing those goals will be essential. A customer focus implies a significant shift in what drives



hotel development — placing primary emphasis on the customer with the locations to follow. Nevertheless, a hotel organization with its large investment in fixed assets — the real— the real estate — can never be as nimble as a consumer products company in adjusting products and services to match rapid shifts in the marketplace.

The Japanese taught us that the concept of “zero defects” in products and services can yield tremendous benefits. But today an even more rigorous standard dominates — *quality that surprises*. In practical terms, the hotel industry finds it extremely difficult to meet the standard of zero defects in service. Hotel services are based

primarily on people, not computers or other equipment. Quality that surprises takes the concept of zero defects a step further. Yesterday’s surprising product or service is today’s status quo. Twenty years ago, a business executive did not expect a consistent and predictable level of service wherever he or she traveled in the world. Today that is a standard — not the exception — as is the expectation for sophisticated technology in hotel rooms to support business needs. With customer discrimination so acute, it is not surprising that brand loyalty is a diminishing “commodity” in the hotel industry.

Find the ingredients for visionary leadership.

Today’s hotel organizations need to recognize the need for visionary leadership. The ability to forecast the future — to anticipate change rather than react to it — will be one of the single greatest determinants of market dominance in the years ahead. The old “command and control” model of leadership is giving way to a focus on leadership in ideas, information, inspiration, vision and teamwork. Warren Bennis, an authority on leadership in the U.S., puts it this way — “For the most part, failing organizations tend to be over-managed and under-led. The leader sets the tone for the moral character, the vision, the

Visionary leadership required:

- Anticipate the future
- Link vision to operations
- Tak risks, stretch, change
- Empower key professionals
- Overcome forces of resistance
- Align management competencies

corporate culture and the fiber of the institution.”

While visionary leadership is essential, it must be linked to business operations and foster a risk bias, rather than a procedural bias. This will allow the



organization to stretch and, in turn, change. And it must be shared by empowered professionals and staff throughout the organization, including those who meet the customer. Overcoming the resistance to change can be a daunting task, particularly in large hotel organizations in which diversions from the status quo may threaten established management lines. It suggests that a culture based on conformance may need to be replaced by an emphasis on flexibility, learning and cooperation. Management competencies will need to be aligned in order to achieve the desired result. For many organizations, this may mean a shift from traditional hierarchies typical of companies in an industrial era to a flatter organization with a more transparent interface between leadership, organizational functions and employees.

Create a defensible position through corporate strategy.

For many of the industry's leaders, vision is driven by the strategic planning process, a function which has become critical for success. Strategic planning, however, has at times been a step-child in the hotel industry, and it is often the first to be cut when organizations are downsized. It is clearly in transition. There also has been a tendency to decentralize and simplify this function — both actions of potential benefit. Strategic planning must be led by the top people in the organization — the CEO and COO. On the other hand, it should be close enough to the customer to ensure that planners can “listen” to and be influenced by customer needs.

Empower management.

Beyond the ability to envision the future, core management capabilities will make the difference — they are essential. A clear vision without the management skills to support it cannot be a recipe for success. First and foremost, hotel

management must have strategic development skills and the ability to integrate complex factors affecting success. Market volatility has become the norm, in part caused by the rapidly changing tastes of customers. Customers

Management capabilities critical:

- Strategic development skills
- Ability to integrate wide-ranging efforts
- Entrepreneurship that reacts to market diversity
- Balancing discipline with flexibility
- Marshal talent, leverage resources
- Narrow the employer/employee gap
- Question the conventional wisdom

are increasingly approaching the hotel industry with widely different social, economic and political backgrounds, to say nothing of employees. Being able to deal with these diversities in a positive and constructive fashion that capitalizes on the differences, rather than working to find ways to mitigate them, is the clear path for successful management in the future.

The organization will also need to be imbued with a sense of entrepreneurship that reacts proactively to the market's diversity. Traditional organizations that follow well-documented rules must give way to leaders who can balance a sense of discipline with that of flexibility. Talent and resources must be marshaled and leveraged. In an industry with high fixed costs and labor intensity, the concept of leverage in the hotel business is an all-important one. Improving labor productivity through technology must be a goal for today's forward-looking hotel organization. Management must also be able to narrow the gap between the employer and the employee, forcing a flatter organization in the process. This will put management closer to the customer and speed the two-way communication process up and down the organization.

Be in the information fast lane.

The traditional role of information technology (IT) as a back office support for accounting and bookkeeping has clearly moved front and center stage. IT today influences all aspects of business from corporate strategies to organizational structure — and from the very business processes it is designed to support to performance measurement. In a world where the customer is “king,” IT must also deliver in two critical areas: sales and marketing and customer service.

Technology was once viewed as a way to reduce costs by replacing people. That attitude has been firmly supplanted by one that seeks IT support for the creative work that all organizations must pursue. IT must allow organizations to react more speedily to market needs and, of course,

Drivers for success:

- Embrace a global/change orientation
- Increase customer involvement
- Find the ingredients for visionary leadership
- Build a defensible position through corporate strategy
- Empower management
- Be in the information fast lane

produce the fulfillment of customer demands both quickly and accurately. To do this IT must operate on a decentralized basis. IT delivers, but it has to be the right information to the right people, and it needs to be done on a timely basis.

Measure key success factors.

In the future, new measurement systems will emerge that will supplement the traditional ones. These traditional measures of performance — primarily financial — provide incomplete pictures of how an organization is faring in a more complex world. And what are these new measures? By way of example, they may



include customer satisfaction, market share and positioning and operational efficiency, as well as alternatives such as efficiency of resource use and environmental impact of operations.

A call to action

Given these drivers for success, what are the implications for the successful hotel organization of the future? Getting most organizations into the model described previously is by no means easy. "There" is far from here for many of us. In a customer-focused world, reaching customers is a costly enterprise. Advertising, sales, brand management and

The options:

- Adopt corporate best practices
- Consider culture as part of the plan
- Link strategy to implementation
- Radically reorganize to become:
 - flatter
 - more flexible
 - more customer driven
 - less bureaucratic

information technology are all expensive functions and can easily be overwhelmed by the noise produced by competitors vying for customer attention from all directions.

Hotel organizations need to have the capacity to learn and move quickly in response to changing customer needs. Mature companies may have to become more agile as learning organizations. Standardized business processes also represent a significant challenge. These may be complex to institute in large organizations, particularly those with a global reach. Hotel companies must have the capacity to provide highly individualized customer service, yet employ the economies of standardized systems and processes. Other questions also loom in importance. How does a hotel organization go about delivering world class products and services — economically? And what will be the strategy for capital, given a worldwide shortage?

From the industrial era to a knowledge-based era — implications for hotel organizations of the future

- Hierarchical and matrix structures give way to networks and "virtual organizations."
- Management control is ceded to empowered employees.
- The planning function seeking empirical support focuses on anticipating the future.
- Employees who were previously directed in their work in the future are coached.
- A set of values replaces an organization's strict rules.
- A conforming organization is restructured as a learning organization.
- Organizational culture that was previously rigid becomes flexible.
- Companies with a product orientation look instead to the market for guidance.
- Organizations beset with procedures take more risks.
- A bias towards analysis is balanced in favor of creativity.
- Internal competition is replaced by internal cooperation.
- The classic pyramidal structure gives way to organizations that are organic, able to respond to their environment in a feat of self-preservation.

Fortunately, the options available to hotel companies are as varied as these challenges.

- Adopt corporate best practices — assessing how the best-run companies achieve results and adopting those processes.
- Consider culture as part of the plan — the majority of senior executives surveyed in the Economist study believe that culture is an important strategic issue. While it is difficult to quantify, there was wide agreement

that the role culture plays is not neutral. Culture contributes either positively, or negatively, to job performance. It is more likely to be perceived as a hindrance in larger organizations and a benefit in smaller ones.

- Link strategy to implementation — having developed the vision of the future through effective strategic planning, it is critical to find a way to link this to implementation.
- Radically reorganize to become "flatter," more flexible and customer-driven, and less bureaucratic.

These are all characteristics of organizations aligned to leverage resources and gain benefits in a knowledge-based era typified by a highly interdependent global economy. The opportunity for the hotel industry's successful companies is to be a global player and to create lasting shareholder wealth. Needless to say, this will be a welcome change for some investors who have seen much of their wealth dissipate in the last downturn. Fortunately, there is every reason to be optimistic as we move toward the next millennium — providing, of course, that hotel organizations are sensitive to the changing economic and social environment in which they operate.



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