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Strategic Directions of Hotel Industry Expectations

Abstract

A factor analysis is presented which indicates that among 20 potential strategic issues reated by hotl industry executives three fundamental strategic directions exist. The author summarizes an empiracle study that queried these individuals' beliefs regarding strategic issues they rated at most important.

Keywords

Hotel, Industry, International, Public Affairs, Strategic Management

Strategic directions of hotel industry expectations

by John W. O'Neill

A factor analysis is presented which indicates that among 20 potential strategic issues rated by hotel industry executives, three fundamental strategic directions exist. The author summarizes an empirical study that queried these individuals' beliefs regarding strategic issues they rated as most important.

Strategy theory indicates that organizational executives should develop their strategic issue perceptions (SIPs) based on direct interactions with and observations of their operating environment, such as through analyzing macro indices of economic, social, political, technological, and competitive information.¹ Such indices would include, for example, the Applied Science and Technology Index, the Index of Corporations and Industries, Index International, the Public Affairs Information Service Bulletin, the Social Sciences Index, and the Strategic Management Society Index.²

However, the development of a hotel organization's strategy requires executives to analyze a large number of environmental factors. Executives are limited in their time to interpret macro indices, and such indices are open to interpretation. Further, executives all have cognitive constraints, or bounded rationality.³ There is evidence that executives, faced with complex information-processing tasks, such as strategy development, will use a variety of heuristics, or mental models, to simplify information processing.⁴

This research, which was conducted for the American Hotel Foundation, the research arm of the American Hotel & Motel Association, aims to provide hotel executives with a deeper level of understanding regarding existing mental models pertaining to strategy. The environment influences executives' mental models regarding SIPs, and these SIPs influence executives' development of strate-

gy. The environment is composed of factors located outside the boundaries of the organization, or perceived as such by organizational executives. Strategic issues are defined as opportunities and threats anticipated by executive management to impact the long-term success of the organization.⁵ Strategy is defined as the formulation and execution of relatively collective and unstructured decisions involving the long-term direction of the organization.⁶

Executives surveyed

The research design for this study involved two slightly different questionnaires that surveyed hotel general managers and hotel owners/executives. The questionnaires were confidential from the standpoint that the results from any one individual hotel property or company were not be divulged to the management or ownership of any other hotel or company. This confidentiality was promised to participants to allow executives to feel secure in providing information, and to maximize participation.

The hotel general manager or the top management person at the operating unit level was the subject of one of two questionnaires. Another slightly different questionnaire was mailed to hotel owners and corporate executives.

Following the administration of a more open-ended survey as a pilot study regarding strategic issues to an initial 378 participants, the pilot results were analyzed for content, and 20 strategic

issues were identified as being listed by a significant number of participants. The two questionnaires listed the 20 strategic issues garnered from the pilot study and requested that respondents rank each strategic issue on a Likert scale of 1 to 5 in terms of importance to them. These questionnaires were distributed to approximately 1,900 hotel owners/corporate executives and hotel general managers representing approximately 1,550 organizations in a variety of geographic locations around the world.

First, an initial mailing, which included a letter explaining the forthcoming questionnaire but not including the questionnaire itself, was mailed to each potential participant. This letter was signed by both the president of the American Hotel and Motel Association and the president of the American Hotel Foundation. Subsequent to the initial letter, the first questionnaire mailing which also included a letter signed by both these presidents, was mailed. Finally, a follow-up questionnaire was mailed to those who did not respond to the first questionnaire to further maximize the response rate. This questionnaire also included a cover letter signed by the presidents of both organizations.

Top manager responded

Although the hotel unit-level results typically rested on the answers expressed by only a single individual representing an entire operation, the unit-level respon-

dent was the general manager, or the highest-level management person at the property level, who is typically the primary person responsible for strategic planning for the unit. Therefore, this person was deemed to be the suitable person to provide the appropriate information. Further, the hotel owners and executives typically represented either the number-one or number-two management individual in the organization.

The hotel general manager sample represented a variety of hotel location types, e.g. downtown, suburban, and resort. This questionnaire was mailed to approximately 1,000 randomly selected hotel general manager members of the American Hotel and Motel Association.

The issue regarding strategy being developed by those to whom the hotel general manager reports was evaluated by the additional questionnaire, similar to the first, which was mailed to approximately 900 owners and executives of American hotel companies. These names and addresses were gathered from databases provided by HVS International (approximately 600 addressees) and the Asian-Amer-

ican Hotel Owners Association (approximately 300 addressees).

A total of 331 responses were received, representing a response rate of approximately 17 percent. Although the response rate may appear to be low, such a response rate is not considered low for such a questionnaire given to hospitality industry executives. For example, a 1999 questionnaire of AAHOA executives, conducted by AAHOA, resulted in a response rate of only nine percent.⁷

All respondents held positions of hotel general manager (or a similar title), or higher. Approximately 71.9 percent of the respondents were men and 22.1 percent were women. Approximately 42.6 percent of the respondents reported having college degrees, and 57.4 percent did not. A summary of demographic variables of the respondents is presented in Table 1.

The questionnaire sent to the hotel general manager was slightly different than the one sent to the hotel owner/corporate executive because general managers were asked to provide certain information regarding their hotel properties. That information is summarized in Tables 2 and 3.

Table 1
Demographics of questionnaire respondents

Variable	Total number	Mean	Standard deviation	Minimum	Maximum
Age	331	46.4	10.9	23	78
Years in this industry	331	19.5	10.4	0	60
Years at this hotel*	189	6.9	8.3	0	41
Years in this position*	189	5.6	6.6	0	41

*question appeared only on the questionnaire of hotel general managers

Table 2
Characteristics of hotel properties

Variable	n	Mean	Standard deviation	Minimum	Maximum
Size (rooms)	188	138	144	14	950
Occupancy % *	174	67.5%	12.9%	25%	96%
Average Rate *	174	\$88.28	\$59.77	\$30	\$395

* numbers represent annual figures for the most recent fiscal year

Significant variance resulted in respondents' ratings of the 20 strategic issues presented in the questionnaire. The 20 strategic issues, and their mean rating on a scale of 1 to 5, are presented in Table 4.

Issues are grouped

A statistical technique known as factor analysis was conducted to break down the approximately 20 strategic issues identified in the pilot study into fewer factors based on questionnaire responses.

Factor analysis is a mathematical process commonly used in such a way to boil down a large number of variables into underlying factors.⁸ In other words, if a sub-group of respondents rates the same variables similarly, say if each member of the sub-group rates certain specific variables as a 5 on a scale of 1 to 5, those variables will be determined to be a single underlying factor through factor analysis. Using all 20 strategic issues, the factor analysis narrowed down the list of 20 variables into a more manageable

Table 3
Frequencies of hotel property variables

Variable	Frequency	Percent	Variable	Frequency	Percent
Style			Ownership		
All suite	13	6.9	Mgt. company	31	16.7
Not all suite	176	93.1	Insurance co.	1	0.5
Total	189	100.0	Other co.	3	1.6
			REIT	6	3.2
Service			Partnership	36	19.4
Full service	103	54.5	Bank/financial	1	0.5
Limited serv.	86	45.5	Single owner	101	54.3
Total	189	100.0	Other owner	7	3.8
			Total	186	100.0
Diamonds *			Location		
0	43	22.9	City	62	32.8
1	5	2.7	Airport	10	5.3
2	36	19.1	Highway	45	23.8
3	82	43.6	Suburban	43	22.8
4	18	9.6	Resort	29	15.3
5	4	2.1	Total	189	100.0
Total	188	100.0			

*as awarded by the American Automobile Association (AAA); 5 diamonds represents highest quality

Table 4
Hotel executive ratings of strategic issues

Strategic Issue Rank	Strategic Issue	Mean Rating
1	Improving guest service	4.57
2	Building customer relationships	4.57
3	Hiring qualified people	4.56
4	Training employees	4.45
5	Motivating employees	4.12
6	Renovating facilities	3.93
7	Over-building of hotels	3.85
8	Implementing technological advances	3.51
9	Protecting the environment	3.25
10	Selling on the Internet	3.23
11	Growth in brand names	3.18
12	Competing with limited-service hotels	3.15
13	Competing with full-service hotels	3.12
14	Financing expansion	3.03
15	Working with franchisors	2.81
16	REITs buying/selling	2.57
17	Out-sourcing staff functions	2.37
18	Merger mania	2.37
19	Branding of food & beverage outlets	2.10
20	International expansion	2.03

set of three underlying factors which allows for simpler description and discussion of the strategic issues of importance to today's hotel executives.⁹ These three underlying factors represent hotel executives' fundamental mental models regarding SIPs.

Based on a subsequent analysis of the 20 strategic issues, 16 clearly loaded on one of the three factors. Factor 1, which includes such strategic issues as improving guest service, building relationships with customers, and training employees, is referred to as "Service Strategic Issues"; this ranked as the overall highest-rated factor by participants. Factor 2, which includes such strategic issues as financing expansion, expanding internationally, and REITs buying/selling hotels, is referred to as "Growth Strategic Issues";

this factor ranked second. Factor 3, which includes such strategic issues as renovation of facilities, implementation of technological advances, and branding of food and beverage outlets, is referred to as "Property/Asset Strategic Issues"; this factor ranked third. Each of these factors was found to be relatively mutually exclusive, i.e., respondents rating high on one factor tended to rate low on the other two factors.

Issues are related

A reliability analysis was conducted for each of the three identified factors. The six strategic issues making up the Service Strategic Issues factor were analyzed for their relationship to one another. A correlation matrix for these six strategic issues indi-

cated strong correlation among the strategic issues. An Analysis of Variance (ANOVA) was conducted to evaluate whether these six strategic issues are interrelated, and this ANOVA was found to be significant ($F=163.81, p<.01$). This analysis resulted in a Reliability Coefficient Alpha of 0.83. Generally, for exploratory studies such as this one, Coefficient Alphas of 0.70 or above are considered to be reliable.

The four strategic issues making up the Growth Strategic Issues factor were analyzed for their relationship to one another. A correlation matrix for these four strategic issues indicated strong correlation among the strategic issues. An ANOVA was conducted to evaluate whether these four strategic issues are interrelated, and this ANOVA was found to be significant ($F=51.88, p<.01$). This analysis resulted in a Coefficient Alpha of 0.75.

The six strategic issues making up the Property/Asset Strategic Issues factor were analyzed for their relationship to one another. A correlation matrix for these six strategic issues indicated strong correlation among the strategic issues.¹⁰

Three directions emerge

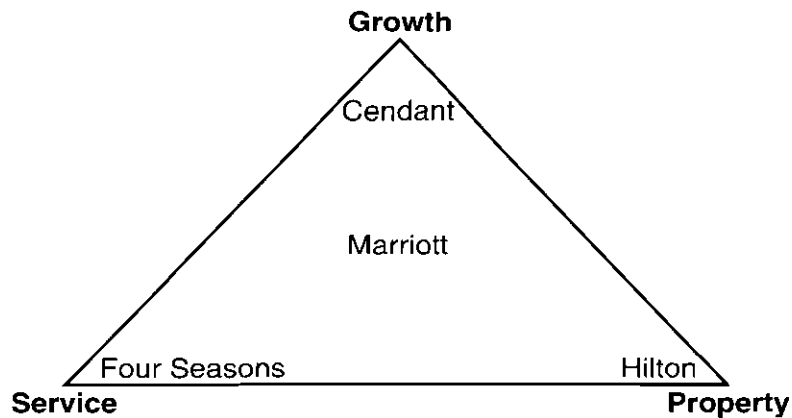
The results indicate the existence of fundamental strategic directions of importance to today's hotel executives. In particular, three fundamental strategic directions, i.e., mental models,

became evident in this research: Service Strategic Issues (where certain managers believe that building relationships with customers through effectively training and motivating employees is of vital strategic importance); Growth Strategic Issues (where certain managers believe that managing growth through acquiring financing and finding new markets in which to expand is of vital strategic importance); and Property/ Asset Strategic Issues (where certain managers believe that maintaining and renovating the lodging physical plant, as well as implementing new technology, is of vital strategic importance).

An example of a hotel organization with service leadership and such a strategic direction might be Four Seasons; one with growth leadership might be Cendant, and one with property leadership might be Hilton, particularly with its addition of Promus in late 1999. While the research indicates that these three strategic directions are relatively mutually exclusive, it may be possible for an organization to possess a more blended approach to these three rather extreme strategic directions, i.e., for the leaders of these firms not to rate any of the three factors highly. Such an organization may be Marriott International, for example. This concept is presented in Exhibit 1.

The purpose of the examples is not to advocate one strategic direction over others; in fact, all four of

Strategic Directions in the Lodging Industry



the organizations given as examples in Exhibit 1 are successful in their own right. However, an issue of greater importance related to Exhibit 1 is the extent to which organizations with such different strategic directions and cultures can meld in a merger, particularly organizations which are located near the three outermost points.

For example, the problems when Promus (Property Strategy) and Doubletree (Growth Strategy) merged in 1998 are indicative of this issue. Public reports immediately following the merger said the following:

- A merger of equals isn't necessarily a good thing when the two firms have growth strategies in direct opposition of each other, as did Promus and Doubletree.
- The old Promus was founded on quality – quality product.

- Doubletree, on the other hand, needed distribution and brand recognition. Its strategy was rapid growth through acquisition and conversion, and “if there’s some quality issues, we’ll go back and clean them up later.” Promus would never compromise quality for quantity.¹¹

Implications of this research for hospitality industry executives could include considering whether a more balanced strategic culture might make mergers and acquisitions function more smoothly (i.e., whether the merger of cultures functions easier for organizations located near the center of Exhibit 1). For example, Marriott, which appears to have a relatively balanced strategic direction, appears to have managed to effectively absorb the Residence Inn, Ritz-Carlton, and Renaissance organizations into its fold.¹²

Other implications for industry executives might include evaluating both determinants and consequences of organizations being managed by executives of the Service versus Growth or Property paradigms. For example, determinants of executives having membership in the different schools of thought might include the causes of culture itself, such as associations, conferences, and professional journals to which the executives belong, attend, or subscribe, which have been previously suggested to influence hotel executive SIPs.¹³

Service tops list

An implication of organizations being managed by executives with certain paradigms might be that different organizations proceed with very similar strategies even though the different organizations are subjected to differences in their operating environment and thus have truly different needs. It has already been stated that the most common strategic direction, i.e., mental model, among executives in the hotel industry is the Service paradigm. Executives should investigate whether such a paradigm is in fact functional in the lodging organizations led by managers subscribing to this paradigm.

Hospitality industry executives should be aware that they might be influenced in their perceptions regarding actions appro-

priate for their own organizations based on their subscription to certain mental models. While these mental models and their consequences may result in strategies that are viable and functional for a given organization, they also may not be appropriate, as the previous recession at the turn of the decade indicated. Prior to the previous recession, great optimism prevailed in the American lodging industry regarding the viability of limited-service, economy-priced hotels, such as the Days Inn concept.¹⁴ Lodging company executives introduced a slew of new economy hotel brands, and eventually many of these organizations filed for Chapter 11 bankruptcy protection; and many of the economy hotels that were constructed during this period of optimism were financial disasters.¹⁵

Similar optimism has overtaken today's hotel industry regarding the viability of all-suite hotels. Throughout the early 1990s, the demand by consumers for all-suite hotel rooms increased at an average rate of approximately 15 percent per year,¹⁶ fueling this optimism. However, in the late 1990s, the demand for all-suite hotel rooms increased less than 5 percent per year, and, concomitantly, this period included one of the sharpest rebounds in the lodging industry's history. This paradoxical relationship is further highlighted by the fact that during 1996, the average daily vacancy of all-suite hotels actu-

ally increased by 17 percent, and yet 14 new all-suite hotel brands were announced during the next year, mostly by existing major hotel chains.¹⁷

The industry culture can be an extremely powerful force that may cloud the thinking of not only the management of a single organization, but of an entire industry. The long-term impact on an industry may be disastrous. Managers should strive to examine environmental trends directly through empirical data, such as studying business indices, without relying, perhaps only semiconsciously, on conventional wisdom.

Further, executives need to strive to be aware of their biases, and aware that biases, which may not appear to be so because they are largely held through the entire industry, are related to many long-term strategic implications regarding organizational survival. It is particularly important for hotel executives to be aware of such biases as hotel organizations become increasingly global because the demands of global hotel development require executives to be aware of the industry's tendency toward a herd instinct, and to be flexible, sophisticated, prudent, and truly innovative.¹⁸

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⁹ Maximum Likelihood was selected as the extraction method due to the exploratory nature of this work. To allow for the easiest possible interpretation of the results, the data were rotated using Equamax Rotation with Kaiser Normalization. Based on an analysis of a Scree Plot, three underlying factors resulted, all of which resulted in Eigenvalues in excess of 1.000 (5.465, 2.450, and 1.284), indicating strong support for three fundamental underlying factors among the 20 strategic issues identified on the questionnaire.

¹⁰ The strategic issue "Selling on the Internet" was found to correlate with the other Property/Asset factors only between 0.13 and 0.34. An ANOVA was conducted to evaluate whether these six strategic issues are interrelated, and this ANOVA was found to be significant ($F=102.79$, $p<.01$). This analysis resulted in a Coefficient Alpha of 0.70. In a subsequent reliability analysis, the strategic issue "Selling on the Internet" was dropped; however, the Coefficient Alpha was reduced to 0.63. Therefore, the strategic issue "Selling on the Internet" was retained in this factor because of its positive impact on reliability as well as the previous factor analysis indicating that it loaded on this factor.

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