

# Critical analysis of two research papers



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## INTRODUCTION

The central feature of globalization is the growing integration of national economies, evidenced by an increase in cross-border flows of trade, investment and financial capital (Porter, et al., 2006). In other words, not only are people investing more abroad, but also firms are operating across national borders. From a business perspective, globalization is the tendency to conduct business activities on a worldwide scale and to integrate strategies and operations on an international level. International or global companies have existed for many years; therefore, globalization is not a newly-introduced concept. In order to expand globally, a business has to make an adjustment in the definition of the organization. This includes its strategy, objectives, and goals. An example of such company is

Intercontinental Hotels Group PLC (IHG), which is the world's largest hotel operator in respect of the number of rooms totaling over 650, 000.

Additionally, this hotel group is positioned in the top three in the largest markets and continuously developing in the emerging markets. On a global scale, IHG has 4, 400 hotels in 100 countries and mainly operates in the UK, the US, Asia Pacific, Europe, Africa and the Middle East. Moreover, this large hotel operator consists of seven hotel brands including InterContinental, Crowne Plaza, Hotel Indigo, Holiday Inn, Holiday Inn Express, Staybridge Suites and Candlewood Suites (Intercontinental Hotels Group, 2010).

Intercontinental Hotels Group operates its hotels in three different ways- as a franchisor, an owner, and an operator. The biggest part of the business is franchising, where there are currently over 3, 800 hotels under the franchise segment. IHG's focus lies on driving demands for its brands. On a global

scale, the hotel operator's system includes global advertising, marketing campaigns, call centers, and local language websites (Datamonitor, 2009). It also comprises of reservations systems, rewards scheme, and other elements. Essentially, the company utilizes this operating system to drive demands to all of IHG hotels. Its focus on the biggest markets is to ensure that the resources on the opportunities will provide the greatest return. According to Perry (2009, p. 7), " Entire nations do not have particular competitive advantages. Rather, it is specific industries or firms within them that seem able to use their national backgrounds to lever world-class competitive advantages". Despite having a competitive advantage with its strong brand awareness and diversified properties worldwide, IHG needs to constantly monitor its environment and identify both internal and external factors. In this manner, its national and international strategies can remain well suited to the developing environment and capabilities.

## **1. GLOBALIZATION**

A simpler definition of globalization is the process in which the world seems to be converging economically, politically and culturally (Porter, et al., 2006). Even though globalization can present many opportunities for organizations, it can also have repercussions. Some advantages for economic forces are the increase in incomes, world trade, and world competition. Additionally, other features include the rising of the financial service industries, the lowering of transaction costs by developments in communications and transport, and the increasing importance of global economic policy over national sovereignty (Perry, 2009). In the social realm, positive outcomes can include the transference of education and skills and consumerism. However, there are

also negative effects. While industries are trying to maximize profit and minimize costs, the unemployment rate can increase and the wages can be lowered. In other words, since cheaper labor will be exploited, there will be a rise of the newly industrialized nations. Moreover, the world financial system is subject to regular crashes since the world financial markets are naturally unstable. As a result, people of those countries affected will experience suffering. Another issue that could potentially arise is the difficulty for governments to raise the taxes to finance the public spending. This is caused by the mere fact that globalization, workers and businesses become more mobile (Porter, et al., 2006).

## **1. 1 Global Strategy**

A global strategy will normally include a global brand name and products in major markets, productive activities to gain maximum advantage, and integration of strategy and activities throughout the world. Many successful companies discover that the foreign markets offer opportunities for growth and profitability that are not readily available in the domestic markets. However, a business cannot be conducted the same throughout the international arena. Business methods, customs, and even people differ immensely from country to country. Even though the global strategic management is a lot more complicated and profound, it plays a vital role when hospitality enterprises expand their business across national borders. When strategic management is applied to an international environment, some basic components should be considered: 1. Analysis of the environment is complex in multiple environments with varying characteristics; 2. Strategies must take into consideration all the

stakeholders with a more vast range of needs; 3. The number of alternative strategies is increased; 4. Implementation of strategies is adapted according to the laws, customs, resources, and business practices of a specific country (Harrison & Enz, 2005). Essentially, both global business issues and international competition should be examined when formulating global strategies.

## **2. EXTERNAL AND INTERNAL FACTORS**

According to Harrison and Enz (2005, pg. 20), “ Analysis of broad environmental forces such as society, technology, and political influences must be expanded to each of the areas in which an organization conducts business”. The global company should scan the multinational, regional and national environment. This is of central importance when developing and implementing robust global strategies. Of all the existing factors in the broad environment, the hardest to analyze, monitor, predict, and integrate into the strategy formulation is that of the societal differences (Harrison & Enz, 2005). Because society and cultures vary from place to place, a business strategy used in one country would not be successful in another. Some key environmental factors for the hospitality organization are availability of tourism support systems, the openness of a country’s borders, tourism infrastructure, and frequency of airline routes (Harrison & Enz, 2005). These factors can help determine if a hospitality organization will be able to carry out business operations in a certain country. For example, if a country doesn’t provide a support system for tourism, a hotel would not be able to promote its business. This can potentially lead to failure. Environmental scanning is essential so that an organization can avoid crisis management. If

a change in the external environment should occur, an organization's resources and opportunities can be altered. Evaluating external factors involve collecting data, assessing the data obtained, identifying the trends and forecasting.

## **2. 1 Macro (PESTLE) Analysis**

In the book Marketing Strategy and Competitive Positioning, the authors state that the importance of understanding the macro-environment is twofold. First, an organization can recognize the impact of change in the business environment and be in a position to respond. Secondly, it should also be alert to the fact that the nature of the change facing organizations is also changing (Hooley, et al., 2006). With the constant changing of the business environment, this type of analysis can be used in the assistance of the revision and reviewing of the corporate strategies. PESTLE analysis is a framework used for environmental scanning in strategic management and is comprised of political, economical, social, technological, legal, and environmental.

Political and legal factors can affect aspects of the hospitality industry on a global scale. Tax regulations, employment laws, environmental regulations, and industry-specific regulation can be altered depending on the country. For instance, the ongoing elections in different countries play a vital role in the globalization of the hospitality markets. Ultimately, the possible changes of regulations and laws can either benefit or pose a disadvantage for the multinational companies. Another political aspect is visa restrictions. In the UK and the US, for example, immigration has implemented more strict regulations making it harder for outsiders to obtain a tourist visa. Specifically

after the September 11 terrorist attack, the US has become more stringent on the issuance of visas.

Another essential component in the external environment is the economical factor. The effects of recession have severely impacted the overall performance such as hotels' occupancy rates and revenues of the in the wider hotel industry. With the severe downturn in 2009, there was a sharp decline in global industry revenue per available room (RevPAR) and bookings. There has been a slowdown not only in occupancy rates and revenues, but also in hotel investment to cut back on expansion plans. Additionally, with the ongoing recession, the fluctuating currencies make it difficult for consumers worldwide. The global economic crisis also affected the Gross Domestic Product overall; hence, spending in the leisure sector is likely to show a slow recovery as consumers are more cautious in their spending habits. Finally, with the escalating energy costs and the natural disasters in the Gulf States, prices have increased causing a decrease in personal and corporate budgets.

A third component in the PESTLE analysis is the social factor, which is the most challenging to analyze. Cultures across the globe, for example, vary from place to place. Hospitality companies need to decide whether to promote a local or foreign image for their products (Clarke & Chen, 2007). While certain products might be highly desirable in one country, they might not have the same effect in another country. The cultural differences are extremely essential for hospitality companies to evaluate and incorporate into their strategies. From consumers' perspective, varying cultures can be of interest to them. They might use this factor to want to travel to a specific

destination. Additionally, travelers could also use religion as a reason to visit a certain country to practice their faith and beliefs. Last but not least, there has been an increase in the preference for branded hotels amongst consumers.

Another element in the macro-scanning is the technological factor. The rise of the internet has allowed major hotel chains to invest in websites and direct booking systems allowing consumers to book, view, and review hotels. However, the full optimization of these operations requires investment for effective systems and adoption of new technology, which is constantly changing. According to Yu (1999, p. 36), “ Computer-based technology is applied in management information and decision support systems, such as property management, yield management, data-base marketing, and management accounting systems”.

Finally, the environmental factor is also of importance when analyzing the environment. Corporate Social Responsibility has slowly become integrated in many organizations’ business objectives. For a hotel to be socially responsible, it must follow through many policies such as abiding by the Energy Consumption laws, reducing carbon footprint, and engaging with the local community (Keynote, 2009). On the other hand, natural disasters have become more and more frequent. Consequently, many destination spots are heavily affected. Sustainable tourism must be practiced in order to preserve natural habitats and resources.



## **2. 2 Micro (Porter's 5 Forces) Analysis**

The factors in the macro-environment analysis can be used to determine how the firm's industry environment (micro audit) is affected. In a micro environment scanning, competition that a business faces is evaluated. It consists of the industries and markets in which an organization conducts business. On a global scale, microenvironment is concerned with the global industry and market trends. Porter's five forces of competition framework can be used to analyze the intensity of competition and the level of profitability (Grant, 2005). These five forces include competition from entrants, substitutes, power of suppliers, power of buyers, and established rivals. Since the barriers to entry into a global hotel industry are high, the threat of entry involved is low. The barriers included are access to supply and distribution channels, legislation and government action, differentiation, high capital requirements or entry costs, high fixed costs, and resistance from the existing market. Also, global marketing can reduce the threat of entry. Hospitality companies may also intervene and discourage potential competitors by establishing brand loyalty and customer switching cost. The threat of substitutes for Intercontinental Hotels Group is high risk especially when there is an increase in the research and development of global businesses that use innovation as means of competition. In the hotel markets, the availability of substitute products limits on the prices market leaders can charge (Clarke & Chen, 2007). When consumers feel that a product is too high, they easily switch to the substitutes. Furthermore, tourists have a huge selection of holiday destinations and accommodations since transportation has been modernized. The power of suppliers is considered medium-risk for IHG. The supplier that would normally hold an

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immense power in most countries is utility companies such as electricity, water, and telecommunication. On a global scale, the power of suppliers can be easily bargained depending on the options available in a country. Another element of the five forces is the power of buyer, which is high in the case of Intercontinental Hotels Group. The buyers are sensitive to the prices charged by the hotels in the industry. Moreover, they can easily compare not only prices but also quality and ratings via Internet using various websites. As airline capacity grows and affordability improves, buyers have the advantage to control where they choose to go and where to stay. Finally, the rivalry amongst established competitors is of high risk. The major competitors of IHG are Hilton Hotels Corporation, Starwood Hotels and Resorts Worldwide, Hyatt Corporation, and Accor. These large hotel chains offer similar products and services, which means customers are willing to substitute. Common customer needs make it difficult for businesses to differentiate themselves which increases competition.

## **2.3 Internal Factors**

According to Porter, et al., (2006, p. 393), “ Environmental analysis also requires an examination of the organization’s internal environment. Internal analysis is concerned with the resources and capabilities that an organization must seek to understand before it can pursue any form of strategy”. An internal audit includes the organization’s human, financial and other resources which contribute to supporting its strategies.

In order for a strategy to be carried out, human resource is required.

According to Kaplan and Norton, human capital is the availability of skills, talent, and know-how required to support the organization’s strategy (2004).

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Employees are not only critical to achieving sustainable competitive advantage, but also integral in an organization's business plans. One of IHG's key strategic priorities is to use its people to create a more efficient organization with strong core capabilities. Intercontinental Hotel Group's focus lies in developing skills to support its key goals for responsible business, guest experience and financial returns by managing employee engagement. Approximately 335, 000 people are employed globally across IHG's brands including franchised and managed hotels. The business has been balancing cost reduction and restructuring programs while managing engagement for the people and guests during 2009. To achieve Great Hotels Guests Love this organization has developed a clear articulation of its values and the behaviors expected from all employees, as well as creating the right environment for employees so that they can deliver the core purpose (Intercontinental Hotels Group, 2009).

Another type of organizational resource is non-human assets such as technology and reputation. IHG's central reservation system technology includes the operations of the HolidexPlus reservation system. This system electronically receives reservation requests entered on terminals located at most of its reservation centers, as well as from global distribution systems operated by a number of major corporations and travel agents (Datamonitor, 2009). There are currently ten global reservation offices available to take hotel bookings from guests 24 hours a day in 26 different languages. IHG generates room sales globally through their branded websites. Kaplan and Norton state that an excellent reputation for performance along social dimensions not only attracts high quality employees, but also enhances the

image with customers and socially conscious investors (2004). IHG believes that corporate responsibility (CR) is integral to the way it conducts business and also at the core of its strategy. Moreover, it assists in building competitive advantage. Intercontinental Hotel Group's CR strategy is focused in the environment and its communities in order to drive increased value for IHG, owners, employees, and guests.

Finally, management of financial resources is crucial in any business.

According to Harrison and Enz (2005, p. 72), " If financial resources are misused, they will not result in better human resources or superior physical assets and processes. Furthermore, strong financial resources are an even greater importance in the hospitality industry where it is a highly competitive environment and innovations are quickly imitated. According to IHG Annual Report 2009, Intercontinental Hotels Group has an estimated 3% of the total market share in the global hotel market. Unfortunately, because of the challenging global economic environment, the group RevPAR fell to 14. 7% during the year of 2009. Moreover, one measure of the overall IHG group performance is the total gross revenue which includes total room revenue from franchised, managed, owned and leased hotels altogether. This also decreased by 12. 0% from 2008 to 2009.

## **2. 4 SWOT Analysis**

Once an audit of external and internal influences has been conducted, a framework such as SWOT analysis can be used to link an organization's resources and capabilities. Then, the implications of strategies can be identified (Porter, et al., 2006). SWOT represents strengths, weaknesses, opportunities, and threats. It is the most widely used analytical management

technique. Even though Intercontinental Hotels Group's strong market position allows it to have a competitive advantage, increasing competition in the global hospitality industry could possibly affect the company's market share.

### 1. Strengths:

IHG has a wide and diversified geographic presence. The group owns, manages leases or franchises guest rooms in nearly 100 countries worldwide. Consequently, the risk is reduced since IHG is not particularly operating in one region which can be profoundly affected by economic or political conditions. Another strength possessed by the group is a strong brand portfolio. It is one of the largest hotel groups and owns a portfolio of well-known hotel brands. The diverse portfolio offers quality service to their guests and its customer-loyalty program ensures repeat customers.

### 2. Weaknesses:

The company has experienced a decline in the profit margins. Even though the operating margin and net margin were increasing since 2006, there was a sharp decline in 2009. Because of this decrease, the company's profit was impacted causing turbulence amongst the investors.

### 3. Opportunities:

With the significance growth of the global hotel and motel industry for the last few years, IHG can capitalize on this since it has such a strong presence across the globe. Another opportunity presented to the company is the possibility for the company to gain market share in China's hospitality

market. It is already the largest international hotel company in Greater China with about 112 hotels. Finally, there has also been a steady growth in internet reservations for hotel bookings; therefore, the group is likely to benefit from the increase of this trend (Datamonitor, 2009).

#### 4. Threats:

The growth rate of international tourism has been undergoing a significant slowdown which ultimately can negatively affect the hospitality business and put pressures on the company. Additionally, many large hotel chains similar to IHG also with a worldwide presence pose a significant threat.

## **2. 5 Complexities in External Factors Analysis**

According to Harrison and Enz (2005, p. 56), “ Collecting information on the broad environment in an international setting can be a significant challenge. Although most industrialized nations have similar sources of trend data, developing nations will not”. For instance, if a major hotel chain wanted to conduct an external analysis in Europe, the information needed for environmental scanning is readily available. However, it might not be as easy in a country such as Belize which is a third world country. In many cases, international organizations depend on a local firm to provide general environmental insights needed for an effective strategic decision making. In other situations, these organizations may also resort to the World Tourism Organization, which provides statistics and market reports for a wide range of countries and regions of the world. Also, firms like Hospitality Valuation Services offer a variety of articles regarding all aspects of hospitality

including hotel investments, lending, operations, sales and marketing, and public relations.

### **3. EXTERNAL FACTORS' INFLUENCE ON IHG**

In order for an organization to compete within a particular industry, it must gain a competitive advantage over its competitors by establishing a business strategy (Grant, 2005). The main objective of a strategy is to link an organization's internal capabilities and the external environment. An international strategy is formulated from internationalization drivers, market selection, sources of competitive advantage, and mode of entry. According to Kim and Mauborgne (2009, p. 73), "When executives develop a corporate strategy, they nearly always begin by analyzing the industry or environmental conditions in which they operate". IHG not only continuously monitors the environment, but also ensures that the strategy remains aligned with external factors. It continues to analyze key trends and business fundamentals such as RevPAR to ensure the strategy remains well suited to the developing environment. The core focus of Intercontinental Hotels Group is to create Great Hotels Guests Love. In 2009, despite economic hardships, IHG analyzed its operations and capabilities to focus on how to deliver Great Hotels Guests Love. Since there has been an increasing trend towards branded rooms, IHG's goal is to grow by making its brands the first choice for not only guests but also hotel owners. Its strategy is to build the hotel industry's strongest operating system focused on the biggest markets and segments where scale really counts. This operating system is comprised of all the driving demands for its brands including brand portfolio, reservation systems, market coverage, web presence, loyalty program, and other driving

aspects. This major hotel chain's strategy concentrates on two key aspects: where it chooses to compete and how it will win in the competing market. The Group's underlying 'Where' strategy is to grow a portfolio of differentiated brands in select strategic countries and global key cities to maximize its scale advantage. Using its worldwide scale and experience, this company can convert more hotels to its brands. On the other hand, the 'How' aspect of the strategy stems from its core purpose and what makes a difference for the guests. There are five key priorities in support of IHG's overall strategy. Some of these priorities include financial returns, its people, responsible business, and guest experience. Financially, IHG aims to generate excellent returns from its hotels by encouraging guest visits to improve hotel revenue, efficiency and operating processes. In regards to its people, this hotel chain wants to strengthen the organization by not only investing in its employees, but also building strong partnerships with owners across the world (Intercontinental Hotels Group, 2009).

#### **4. MONITORING STRATEGIES AND ACHIEVEMENTS**

Continuous improvement involves the continual improvement and analysis of organizational processes to ensure continued improvement in performance and quality (Perry, 2009). By monitoring the implementation of strategies and goals, organizations will be able to assess achievements and progress. Then, they would compare their performance with their competitors. Porter, et al. (2006, p. 407) states, "Performance can be judged in both quantitative and qualitative terms, perhaps by using quality measures". Most importantly, strategy is a continuous process in which organizations are constantly adapting and adjusting to the changes. New information, after monitoring



and reviewing, is fed back into the reformulation of an organization's strategy.

The progress of IHG strategic priorities is measured to ensure the achievement of Great Hotels Guests Love. It will use a collection of specific Key Performance Indicators (KPI's) aimed at delivering its core purpose to see where it stands in the competitive environment. For the 'Where' component of the strategy, the organization deals signings focused in scale markets and key gateway cities. Up to this day, IHG has successfully managed to open 439 hotels globally and sign 90% of its deals in scale markets and key gateway cities. In 2010, Intercontinental Hotels Group hopes to continue to leverage scale and build improved strategic position during the economic downturn.

In regards to 'How' IHG can win, several factors such as financial returns, people, guest experience, and responsible business take part in this strategy. The hotel group measures the success of each one of these components by using the KPI's. Financially, the total gross revenue is used to determine the financial returns. The figure is obtained from the IHG global operation systems. Even though the organization experienced a decrease in the total gross revenue from 19.8% in 2008 to 16.8 in 2009, it enhanced its technology infrastructure to support owner management and loyalty marketing. IHG plans to increase global sales force effectiveness and adopt a next-generation revenue management IT systems for 2010. One of the strategic priorities is to create a more efficient organization. This is measured using employee engagement scores. There was an increase from 68% in 2008 to 69% in 2009. The increase is an indication that IHG is

efficiently focusing on attracting and retaining talent to infuse Great Hotels Guests Love in hotels. Furthermore, Intercontinental Hotels Group evaluates its guest experience by using both global RevPAR and its growth ahead of the market. Although the global RevPAR had a steep decline of negative 14.7% from 2008 to 2009, IHG's increase in growth compared to its competitors indicate a positive guest experience. For 2010, it aims to continue to improve owner returns without sacrificing guest experience. Finally, in regards to responsible business, the organization implemented new systems to keep track of the consumption of energy and water. Accomplishments in 2009 include the development of the Green Engage sustainability management system. It will continue to roll out this system to 100% of its owned and managed hotels in 2010. Above all, IGH developed Winning Ways, a set of behaviors that defines how IHG interacts with guests, colleagues, and hotel owners (Intercontinental Hotels Group, 2010).

## **5. RECOMMENDATIONS/ CONCLUSION**

Even though Intercontinental Hotels Group continuously scans and analyzes the external environment to restructure its strategies, there is still room to improvise the way it conducts business operations. In order to improve IHG's competitive positioning in a global strategy, it can transfer the technological know-how through joint ventures. Joint ventures may provide opportunities to learn new technologies that can lead to significant cost reductions (Harrison & Enz, 2005). This will also decrease operational costs to create a positive impact on IHG's balance sheet. While the organization is constantly researching on how to differentiate its products, the hotel chain still needs to find higher quality and unique products to enable higher financial returns

and increase guest satisfaction on a global scale. Moreover, the balanced scorecard should be implemented in the monitoring of quality control. Porter, et al. (2006, p. 127) explains, “ A scorecard should have a balance between performance drivers and lag measures, which are divided into four elements of organizational performance: financial management, customer service, internal business process efficiency and learning/personal growth”. In other words, it combines financial measures with operational measures on customer satisfaction, internal processes, and the company’s innovation and improvement activities. Last but not least, Intercontinental Hotels Group should design its own value chain analysis, which is a technique to provide a deep understanding of the way in which resources are optimized to achieve competitive advantage. Each activity of the hotel chain must be examined. Porter devised a mechanism to calculate the value added of a product by individual stages to the activities of an organization as a whole (Porter, et al., 2006).

In conclusion, Intercontinental Hotels Group emphasizes the importance of identifying external factors which will then be implemented into the strategies. This strategic management is an ongoing process associated with various levels and functions within the organization (Reichel, 1983). IHG essentially has become a leading global hotel chain, not only because of the constant environmental scanning, but also because it uses the newly-collected information for the revision of its global strategies.