Analysis of strategic management at hotel

INTRODUCTION

Why are some companies successful, while so many other businesses fail? Some organizations may just be lucky. They may have the right mix of products and/or services at the right time. But even if luck leads to success, it probably will not last. Most companies that are highly successful over the long term effectively acquire, develop, and manage resources and capabilities that provide competitive advantages. For example, McDonald's enjoys outstanding brand recognition and a world – class operating system. Marriott enjoys these same benefits in the lodging industry.

Successful companies have also learned how to develop and manage relationships with a wide range of organizations, groups, and people that have a stake in their firms. The emergence of a fiercely competitive global economy means that firms have to expand their networks of relationships and cooperate with each other to remain competitive. McDonald's investment in Chipotle was a cooperative venture. As Steve Ells, Founder, Chairman, and CEO of Chipotle noted, " We've enjoyed our relationship with McDonald's since the beginning and appreciate the support they've shown in funding Chipotle's growth over the last seven years. Still, we've always operated independently, and that won't change as McDonald's Continues to reduce its investment in Chipotle and focuses on its core business. "

Strategic management is a process through which organizations analyze and learn from their internal and external environments, establish strategic direction, create strategies that are intended to move the organization in that direction, and implement those strategies, all in an effort to satisfy key stakeholders. Stakeholders are groups or individuals who can significantly affect or are significantly affected by an organization’s activities. An organization defines who its key stakeholders are, but they typically include customers, employees, and shareholders or owners, among others. Although larger companies tend to use the strategic management process, this process is also a vital part of decision making in smaller companies.

Firms practicing strategic planning processes tend to outperform their counterparts that do not. In fact, executives have reported higher levels of satisfaction with strategic management tools and ideas than with most other management tools. Furthermore, 81 percent of companies worldwide reported doing strategic planning. In North America, the figure was even higher (89 percent). Hospitality firms also benefit from strategic planning, as suggested by a recent study of hotels in the United Kingdom, which found that business performance was positively associated with the thoroughness, sophistication, participation, and formality of strategic planning processes. An example of how strategic analysis can help guide business strategy is shown in Starwood Hotels & Resorts efforts to launch a new product.

This book also recognizes that there is a difference between the strategic planning process and strategic thinking, and that both are a part of effective strategic management. The strategic planning process tends to be a rather rigid and unimaginative process in many organizations. Strategic thinking, however, leads to creative solutions and new ideas like Starwood Hotel’s launch of the Heavenly Bed. As illustrated in the Heavenly Bed example, a firm that injects strategic thinking into the strategic planning process has the best of both worlds.

THE ORIGIN OF STRATEGIC MANAGEMENT

The increasing importance of strategic management may be a result of several trends. Increasing competition in most industries has made it difficult for some companies to compete. Modern and cheaper transportation and communication have led to increasing global trade and awareness. Technological development has led to accelerated changes in the global economy. Regardless of the reasons, the past two decades have seen a surge in interest in strategic management.

STRATEGIC THINKING AT STARWOOD

The ” Heavenly Bed, ” first launched by the Westin brand of Starwood Hotels & Resorts, has transformed the bed, a basic feature of any hotel room, into a luxurious object of desire, enhancing the revenues of the chain and leaving many hotel operators to follow suit with copycat linens and custom bedding of their own.

The strategic process at Starwood began with consumer analysis and product testing. First, Westin commissioned a study involving 600 business executives who travel frequently. The results showed that 84 percent said a luxurious bed would make a hotel room more attractive to them. What is more, 63 percent said a good night ‘ s sleep is the most important service a hotel can provide. Half of those surveyed said they sleep worse in hotels than at home. After testing 50 beds from 35 lodging chains, Westin developed its prototype all – white Heavenly Bed with a custom – designed pillow – top mattress, goose down comforters, five pillows, and three crisp sheets ranging in thread count from 180 to 250. Once the product was designed and tested, the fi rm introduced the bed with a carefully planned marketing strategy. USA Today ran a story on the front page of its business section. The same day, 20 pristine white Heavenly Beds lined Wall Street up to the New York Stock Exchange in New York City. Inside the Stock Exchange, Barry Sternlicht, the then Chairman and CEO of Starwood Hotels & Resorts rang the opening bell and threw out hats proclaiming, “ Work like the devil.

Sleep like an angel. ” Meanwhile, at New York ‘ s Grand Central Station, 20 more beds graced one of the rotundas there, and commuters disembarking the trains were invited to try them out. Similar events were staged the same day at 38 locations across the United States, tailored to each city. Savannah’s event featured a bed floating on a barge down the river with a landing skydiver. Seattle’s event took place atop the Space Needle.

STRATEGIC MANAGEMENT

Traditional Perspective

As the field of strategic management began to emerge in the latter part of the 20th century, scholars borrowed heavily from the field of economics. For some time, economists had been actively studying topics associated with the competitiveness of industries.

Industry concentration, diversification, product differentiation, and market power. However, much of the economics research at that time focused on industries as a whole, and some of it even assumed that individual firm differences did not matter. Other fields also influenced early strategic management thought, including marketing, finance, psychology, and management. Academic progress was slow in the beginning, and the large consulting firms began to develop their own models and theories to meet their clients ' needs. Scholars readily adopted many of these models into their own articles and books.

Eventually, a consensus began to build regarding what is included in the strategic management process. The traditional process for developing strategy consists of analyzing the internal and external environments of the company to arrive at organizational strengths, weaknesses, opportunities, and threats (SWOT). The results from this " situation analysis," as this process is sometimes called, are the basis for developing missions, goals, and strategies. In general, a company should select strategies that (1) take advantage of organizational strengths and environmental opportunities or (2) neutralize or overcome organizational weaknesses and environmental threats. 10 After strategies are formulated, plans for implementing them are established and carried out. Figure 1. 1 presents the natural flow of these activities.

The first of these ideas was that the environment is the primary determinant of the best strategy. This is called environmental determinism. According to the deterministic view, good management is associated with determining which strategy will best fit environmental, technical, and human forces at a particular point in time, and then working to carry it out.

The most successful organization best adapts to existing forces. Some evidence suggests that the ability to align the skills and other resources of the organization with the needs and demands of the environment can be a source of competitive advantage. 12 However, after a critical review of environmental determinism, a well – known researcher once argued:

There is a more fundamental conclusion to be drawn from the foregoing analysis: the strategy of a firm cannot be predicted, nor is it predestined; the strategic decisions made by managers cannot be assumed to be the product of deterministic forces in their environments. On the contrary, the very nature of the concept of strategy assumes a human agent who is able to take actions that attempt to distinguish one ‘ firm from the competitors.

Basically, a large firm may decide not to compete in a given environment. Or, as an alternative, the firm may attempt to influence the environment to make it less hostile and more conducive to organizational success. This process is called enactment, which means that a firm can influence its environment.

THE PRINCIPLE OF ENACTMENT

The principle of enactment assumes that organizations do not have to submit to existing forces in the environment; they can, in part, create their environments through strategic alliances with stakeholders, investments in leading technologies, advertising, political lobbying, and a variety of other activities. 14 Of course, smaller organizations are somewhat limited in their ability to influence some components of their environments on their own. For example, a small restaurant firm may have a difficult time influencing national government agencies and administrators.

However, smaller organizations often band together into trade groups, such as the National Restaurant Association, to influence government policy on pressing issues like minimum wage, immigration policy, and health – care costs. Also, they may form alliances with other entities. The Global Hotel Alliance is one example, in which Omni Hotels, Kempinski Hotels & Resorts, Pan Pacific Hotels and Resorts, Rydges Hotels & Resorts, Marco Polo Group, Dusit Hotels & Resorts and Landis Hotels & Resorts have joined forces to compete against the mega chains.

In addition, even a small firm may be able to exert a powerful influence on its local operating environment. The key to enactment is understanding that a firm does not necessarily have to adapt completely to the forces that exist in its operating environment. It can at least partly influence certain aspects of the environment in which it competes.

DELIBERATE STRATEGY VERSUS EMERGENT STRATEGY

The traditional school of thought concerning strategy formulation also supported the view that managers respond to the forces discussed thus far by making decisions that are consistent with a preconceived strategy. In other words, strategy is deliberate. Deliberate strategy implies that managers plan to pursue an intended strategic course. In some cases, however, strategy simply emerges from a stream of decisions. Managers learn as they go. An emergent strategy is one that was not planned or intended. According to this perspective, managers learn what will work through a process of trial and error. 16 Supporters of this view argue that organizations that limit themselves to acting on the basis of what is already known or understood will not be sufficiently innovative to create a sustainable competitive advantage.

In the first week of launching the Westin Heavenly Bed, 32 guests called to ask where they could buy the bed. A light bulb went on. Westin executives put order cards with a toll – free number in every room. Then they started placing catalogs by bedsides and desks and set up a web site. By June of 2004, Westin had sold 20, 000 pillows – $ 75 for the king – sized version – and 3, 500 bed/bedding combos, at $ 2, 965 each, enough to spread the idea throughout Starwood, with the Sheraton, St. Regis, and W lines all turning into retailers. The unanticipated success of the Heavenly Bed has spawned a new business – companies that help hotels run their retail arms. Boxport, a spin – off of San Francisco – based hotel procurer Higgins Purchasing Group, operates web sites and catalogs for several chains that now sell

Bedding of this example of emergent strategy, it is not a good idea to reject deliberate strategy either. One of the strongest advocates of learning and emergent strategy recently confessed, " We shall get nowhere without emergent learning alongside deliberate planning." Both processes are necessary if an organization is to succeed. When Starwood first launched the concept of the Heavenly Bed in 1999, the strategy was a deliberate effort, but the opportunity to provide retail sales was an unintended outcome, and this unforeseen opportunity led to an emergent and highly successful retail strategy, as the above example shows.

EFFECTIVE STRATEGIC PLANNING

In summary, scholars have determined that both adaptation and enactment are important to organizations. They should adapt to environmental forces when the costs of enacting (influencing) the environment exceed the benefits. However, they should be proactive in creating their own opportunities. In addition, organizations should engage in deliberate strategic planning processes, but they should also be willing to make mistakes and learn from them as they chart a strategic course. In other words, strategy should be both deliberate and emergent, and firms should both adapt to and enact their environments, with the situation determining which option to choose. Westin learned these lessons by paying attention to their customers.

The Organization as a Bundle of Resources:

The Resource – Based View

In recent years, another perspective on strategy development has gained wide acceptance. The resource – based view of the firm has its roots in the work of the earliest strategic management theorists. 20 It grew out of the question, “ Why do some firms persistently outperform other firms?

One of the first competencies identified was general management capability. This led to the proposition that firms with high – quality general managers will outperform their rivals. Much research has examined this issue. Clearly, effective leadership is important to organizational performance, but it is diffi cult to specify what makes an effective leader. Also, although leaders are an important source of competence for an organization, they are not the only important resource that makes a difference.

Economic thought also influenced development of the resource – based view. Nearly two centuries ago, an economist named David Ricardo investigated the advantages of possessing superior resources, especially land. 22 One of

Ricardo's central propositions was that the farmer with the most – fertile land had a sustained performance advantage over other farmers. More recently, another economist, Edith Penrose, expanded on Ricardo ' s view by noting that various skills and abilities possessed by firms could lead to superior performance. She viewed firms as an administrative framework that coordinated the activities of numerous groups and individuals, and also as a bundle of productive resources. 23 She studied the effects of various skills and abilities possessed by organizations, concluding that a wide range of skills and resources could influence competitive performance.

A common thread of reasoning in the distinctive competency literature and the arguments of Ricardo and Penrose is that organizational success can be explained in terms of the resources and capabilities possessed by an organization. Many modern scholars have contributed to this perspective of the firm. According to this view, an organization is a bundle of resources, which fall into the general categories of:

1. Financial resources, including all of the monetary resources from which a firm can draw.
2. Physical resources, such as land, buildings, equipment, locations, and access to raw materials.
3. Human resources, which pertains to the skills, background, and training of managers and employees, as well as the way they are organized.
4. Organizational knowledge and learning

5. General organizational resources, including the firm’ s reputation, brand names, patents, contracts, and relationships with external stakeholders.

Envisioning the firm as a bundle of resources has broad implications. For example, the most important role of a manager becomes that of acquiring, developing, managing, and discarding resources. Also, much of the research on the resource – based perspective has demonstrated that firms can gain competitive advantage through possessing “ superior resources”. Superior resources are those that have value in the market, are possessed by only a small number of firms, and are not easy to substitute. If a particular resource is also costly or impossible to imitate, then the competitive advantage may be sustainable. A sustainable competitive advantage may lead to higher – than – average organizational performance over a long period.