A STUDY ON THE GLOBALIZATION STRATEGY OF HOTEL COMPANIES

By

Hyun-Jin Yun

A THESIS

Submitted to
School of Public Policy and Global Management, KDI
In partial fulfillment of the requirements
For the degree of

MASTER OF BUSINESS ADMINISTRATION

Strategy and Global Management

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ABSTRACT

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The Korean hotel industry needs to enhance its global competitiveness beyond its dependency on the world's leading hotel chains and brands. Based on descriptive research and case studies of the international and domestic hotel industry, this thesis suggests appropriate globalization strategies for Korean hotel companies for future growth in the face of global mega-competition.

Korean hotel companies should strengthen their position in both the domestic and global markets on the basis of clear and appropriate visions and strategies.

Korean hotel companies need to build global brands, improve their image, and establish strong worldwide networks while investing in technologies and human resources, and establishing strategic alliances and M&A to acquire the relevant competence from external parties. They should also differentiate their products and services from contemporary global leaders.

The global hotel industry is facing continuous changes in the business environment. Based on a series of self-reinforcing efforts to adapt themselves to such changes and to build and enhance global competitiveness, the Korean hotel industry will be able to position itself as a national strategic industry generating national wealth and ultimately exporting Korean culture and knowledge to the world.

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INTRODUCTION

Although most Korean companies are well aware of the necessity of globalization, they seldom have a clear globalization strategy. In the case of the Korean hotel industry, although its growth has had a substantial contribution to the development of the national tourism industry, it still needs to enhance its global competitiveness beyond its subordinated position to the world's leading hotel chains.

This thesis analyzes the international and domestic hotel industry and how to compete with the international hotel chains in the world market.

Much of the data used here was collected from secondary materials on the subject of globalization strategy, hotel industry, and contemporary business issues. Primary data was also used to avoid any possible dependency on materials detached from reality. This primary data includes interviews with several hotel executives in the fields and internal documents of several hotels, consultants, and institutions.

This thesis is composed of three parts. In Chapter II, "Understanding the Hotel Industry", the characteristics, changes, and growth of the international and domestic hotel industry are analyzed, focusing on the competitiveness of Korean hotel companies. Chapter III, "Changes in the Business Environment", analyzes recent changes in the hotel business environments including technology development and foreign direct investment. Chapter IV, "Globalization Strategy", analyzes the case of Hilton Hotels and suggests recommendations for

Korean hotel companies to enhance their global competitiveness for further growth and globalization.

UNDERSTANDING THE HOTEL INDUSTRY

Hospitality, as a service industry, is one of the fastest growing industries globally. According to the Travel Industry Association of America, in 1997 more than 16.2 million jobs in the U.S. were supported directly or indirectly by the hospitality industry. The hospitality industry, then, includes hotels and restaurants. It also refers to other kinds of institutions that offer shelter or food or both to people away from their homes.

A. HOTEL INDUSTRY DEVELOPMENT

In earlier times of small operations in a slowly changing society, the hotel industry put emphasis on local markets generally based on skilled workers who assumed that knowledge and work were unchanging. However, this no longer holds true.

Over the past two generations, the hotel industry has evolved in a continued boom to accommodate explosive growth and radically changing consumer demand, and has adjusted itself to a substantially different social and economic environment. Consequently, more complicated and varied types of hotels have been brought into existence. Simultaneously, the competition to secure a strong share in the global hotel market has become fierce among hotel chains armed with a wide variety of worldwide networks.

1) Global Competition

Hospitality companies can be grouped as either limited-service organizations or service intensive operations. In the hotel industry, polarization in hotels is being accelerated. The most basic division is between limited-service and full-service properties. Hotels are tailoring themselves to specialized markets, a practice often referred to as target marketing.

One of the major reasons hotels are increasingly targeting specific market segments is that in most markets, there is more than enough hotel capacity to go around. Competition will be even tougher in the years ahead. Hotels offer a highly competitive outlook for all but the luxury sector. The growth in competition makes tightly controlled operations especially important to survival.

Hotel companies are increasingly expanding their businesses into global markets to secure a strong market share by the typical means of mergers and acquisitions ("M&A"), strategic alliances, and others because the world is rapidly being integrated into one market. Competition is getting fierce, and accordingly, decreasing profits impel hotel companies to explore new markets and form alliances and coalitions with other companies in the same industry or in different industries. In order to secure the continual growth of business and market share, international hotel companies are increasingly entering into strategic alliances and tie-up relationships with other companies including, but not limited to, airline companies, travel companies in the form of short-term opportunistic relationships, medium-term tactical relationships, or long-term strategic relationships. It is believed that forming these relationships will ultimately help companies survive fierce competition across borders. Furthermore, M&A, though of smaller magnitude, still defines the global lodging industry.

2) Growth of Hotel Chains

A hotel chain is defined as any group of two or more properties operated under a common name owned by the entity. In modern hotel business practices, hotel chains have grown rapidly, armed with expertise in feasibility study and implementation, economies of scale in purchasing, advertising, central reservations, human resources, and others, advanced management skills, and brand power. Moreover, the hotel's identification with its membership in a hotel chain becomes one of the most important criterions in the selection and evaluation of a hotel by guests in general. A hotel's brand identity is even more important to aliens. Brand recognition of a hotel by the public accounts for its fundamental popularity and growth. Therefore, it becomes necessary for the hotel property owners to license a name that is quite familiar to the public, for the owners want to profit from consigning the management or operation of their properties to a reputable chain company despite the burden of consignment fees payable under management contracts.

Hotel management companies, which are internationally reputable hotel chains in common, provide the property owners with a variety of services under management contracts. Operating the hotel properties in accordance with the terms and conditions of these management contracts, the chain companies may give expert advice for developing, designing, building, equipping, and decorating the hotel properties, and may provide financing services to their clients in addition to the allowance of using the chain name and for professional management of the hotels while they enjoy their own strategic and rapid expansion of business.

When a property owner selects a consigned operator in today's hotel market, that owner must pay special attention to his or her choice, considering the candidate's solid experience and ability in generating revenues, together with primary brand power, and then negotiate a management fee structure that provides a conservative basic fee with the potential for substantial incentive fee revenues for meeting attainable profit-improvement goals.

Franchises, another form of hotel chains, allow a hotel company to remain independent, yet gain many of the advantages of management by a chain company, certainly more than just room referrals. A hotel company adopts the franchiser's name and trademarks, and receives operation supervision services. In addition, the franchisee may make the most of the merits of a chain hotel, such as worldwide advertisement, promotion, purchasing, central reservation, and human resources, etc. for the payment of franchise fees, while the general customers have difficulties distinguishing between direct management by the chain operator and the franchise operation.

Actually, franchises exert enormous influence over the global business landscape as well as our personal lives. One of the most influential organizational forms of our times, franchises are positioned to be a vital economic force well into the future. As chains play an increasingly dominant role in the growth of the global economy, franchises have been invaluable in helping hotel companies develop and refine their global strategies.

Table 1. Hotels' Corporate Ranking

Rank **1998** 1997	**Company** Headquarters	**Rooms** **1998** 1997	**Hotels** **1998** 1997	**Representative Brands**
1 1	**Cendant Corp.** Parsippany, NJ USA	**528,896** 499,056	**5,978** 5,566	Ramada,Days Inn, Howard Johnson
2 2	**Bass Hotels & Resorts** Atlanta, GA USA	**461,434** 465,643	**2,738** 2,621	Inter-Continental, Holiday Inn
3 5	**Marriott International** Washington, D.C. USA	**328,300** 289,357	**1,686** 1,477	Marriott, Renaissance
4 4	**Choice Hotels International** Silver Spring, MD USA	**305,171** 292,289	**3,670** 3,474	Clarion, Sleep Inn, Comfort Inn
5 3	**Best Western International** Phoenix, AZ USA	**301,899** 300,000	**3,814** 3,800	Best Western
6 6	**Accor** Evry, France	**291,770** 288,269	**2,666** 2,577	Sofitel, Novotel, Mercure, Ibis
7	**Starwood Hotels & Resorts** White Plains, NY USA	**225,014** 213,238	**694** 653	Westin, Sheraton, Four Points, W
8 8	**Promus Hotel Corp.*** Memphis, TN USA	**192,043** 178,802	**1,337** 1,119	Doubletree, Embassy Suite
9 10	**Carlson Hospitality Worldwide** Atlanta, GA USA	**106,244** 98,404	**548** 482	Radisson Plaza, Country Inn & Suites
10 12	**Patriot American Hosp. Inc./** **Wyndham Int'l** Dallas, TX USA	**100,989** 57,220	**472** 241	Wyndham, Summerfield
11 9	**Hilton Hotels Corp.** Beverly Hills, CA USA	**85,000** 101,891	**250** 255	Hilton, Conrad Int'l
12 11	**Hyatt Hotels / Hyatt Int'l** Chicago, IL USA	**82,224** 80,311	**186** 179	Park Hyatt, Grand Hyatt
14 13	**Hilton International** Watford Herts, England	**54,117** 54,052	**170** 165	Hilton
249 234	**Hotel Lotte Co. Ltd.** Seoul, Korea	**2,800** 2,800	**4** 4	Lotte

* Hilton Hotels Corp. acquired Promus Hotel Corp. in Nov. 1999 for 3.7 billion US dollars

Source: *Hotels*, July 1999

B. KOREAN HOTEL MARKET

The hotel industry in Korea, as well as other economic sectors, underwent rapid modernization after Korea hosted the Summer Olympic Games in 1988. Before and directly after that, many famous hotel brands were launched in the Korean hotel industry through management contracts, franchises, or joint venture investment. Most of the chain hotels using imported brands in Korea belong to a group of super deluxe hotels, which outrival other non-chain hotels in terms of revenues, occupancy rates, operating profits, etc. Therefore, now, Korea must be a place of fierce competition among such famous hotel brands.

Table 2. Status of Super Deluxe Hotels in Korea (January 1999)

No. of	Seoul	Pusan	Kyongbuk	Cheju	Total
Hotels	12	5	5	5	27
Rooms	7,332	2,130	1,700	1,777	12,939

Source: *Korea Hotel Association*, 1999

1) Dependency upon Imported Super Deluxe Brands

In the case of the Korean hotel industry, although its qualitative and quantitative growth in recent decades and its contribution to the national economy's assured supply of social overhead capital and improvement in balance of payments have been substantial, it still needs to strengthen its global competitiveness beyond its subordinated management structure to world famous hotel chains.

However, according to a plan by the Ministry of Construction and Transportation of Korea to introduce a real estate investment trust system to Korea in May 1999, basic information that affects the return on investment in hotel properties was guided as if joined with a reputable hotel chain and if focused on a specific target customer group.

As a result of the economic downturn beginning in the second half of 1997, and from which Korea is presently undergoing a recovery phase, the hotel industry was inevitably affected. During the economic downturn, more than 100 hotels, mainly provincial small-to-middle scale hotels, out of about 450 hotels nationwide, suffered from financial difficulty and bankruptcy. However, the super deluxe hotel market, comprised of the Seoul Hilton, Westin Chosun, Shilla, Grand Hyatt, Hotel Lotte, Radisson Plaza, Swiss Grand Hotel, Renaissance, Lotte World, Sheraton Walker Hill, Ritz Carlton and Inter-Continental, has remained relatively stable in room supply, with a significantly higher growth rate during the 1990s. And, most of those hotels, with the exception of the Lotte and Shilla, lean towards imported luxury brands.

Consignment management of hotels by the well-known global leading brands is becoming common in high-class hotel operations. Otherwise, under management contracts or other technology importation contracts, Korean hotel companies need the aptitude to meet restrictions on exercising their own management rights. Besides this, the speed of the transfer of technology such as management know-how has been slower than originally expected and it has been hard for Korean clients to acquire any core technologies from chain companies because those chain companies have been reluctant to transfer them. Moreover, the drain of foreign exchange through the remittance of overseas investment returns by those assigned chain companies amounts to an enormous sum.

Table 3. 1998 Korea Super Deluxe Hotels Performance

Hotels	Available Rooms	Occupied	Occupancy Rate	Revenues (KRW '000)
Seoul Hilton	251,164	199,975	80%	78,282,280
Westin Chosun	167,691	123,191	73%	46,674,932
Shilla	190,895	152,225	80%	226,210,697
Grand Hyatt	220,825	171,334	78%	80,881,427
Hotel Lotte	481,070	385,147	80%	107,955,407
Radisson Plaza	175,220	113,828	65%	37,529,556
Swiss Grand	181,087	139,707	77%	33,444,581
Renaissance	180,768	139,153	77%	35,632,218
Lotte World	183,255	144,712	79%	42,357,247
Sheraton Walker Hill	215,843	181,945	84%	97,297,657
Ritz Carlton	146,000	119,824	82%	41,352,403
Inter-Continental	205,855	169,994	83%	78,768,408
Super Deluxe Total	4,588,071	3,217,580	70%	1,181,804,134
All Hotels Total	17,332,746	10,067,191	58%	2,090,646,186

Source: *Korea Hotel Association*. 2000

Table 4. 1998 Korea Hotel Performance by Star Category

	Super Deluxe	Deluxe	First Class	Second Class	Third Class
Occupancy	70.1%	67.8%	52.8%	47.6%	41.8%
ARR (U$)	104	60	42	34	25
Room Yield (U$)	73	41	22	16	11
Room Supply	12,570	9,140	13,680	6,179	2,920
% Change over 1997	1.3%	9.8%	9.6%	-5.0%	-9.6%

Source: Jones Lang LaSalle Hotels. *Information Memorandum*. 1999

2) Investment in the Korean Hotel Market by Foreign Capital

Since the Asian economic crisis began, increased government pressure on non-performing loans and rising room rates have created an environment ripe for M&A in the Asian hotel industry. Otherwise, investor confidence in hotel economic recovery in Asia has grown, and properties have come to be considered a strong potential investment.

Korea experienced a significant rebound in 1999 as the economy expanded again. The hotel industry also performed very well. Seoul's lodging market was clearly the stellar performer in 1999, as occupancy reached 82% and the market achieved a RevPAR (Revenue per Available Rooms) of US$104, up from US$80 in 1998. Solid operating results in Seoul drew attention from developers and hotel companies seeking investment opportunities in Asia.

While it is known that numerous global hotel companies are currently looking to acquire Asia/Pacific regional properties or companies according to a February 2000 report by the PriceWaterhouseCoopers Hospitality & Leisure Practice, continued upward momentum in the Korean hotel market has resulted in great investor interest that has also been brought on by recently introduced reforms to liberate foreign ownership of real estate assets in Korea.

Hyatt Regency Pusan was acquired by one of the top US investment banks, Goldman Sachs, in July 1999, and during 1998, Hyatt International acquired a 50% stake in the Grand Hyatt Seoul, which has been operated and managed by the acquiring company since. In addition, in November 1999, Bass Hotels & Resorts opened a new

654-room Inter-Continental within minutes of the existing Inter-Continental property. Outside of Seoul, significant hotel development activity is also planned for Inchon, home of Korea's new international airport. One of the largest hotel deals in Asia also occurred in Seoul in November 1999. The Seoul Hilton was sold for 228.5 million US dollars to the Hong Leong Group of Singapore, a real estate corporation operating 13 hotels in Asia and 69 others in 12 western countries. The financial crisis that occurred in Korea in late 1997 due to corporate bankruptcies and bad loans on financial institutions caused the financially troubled Daewoo Group to sell the hotel.

3) Foreign Hotel Investment by Korean Companies

Simultaneously with Korean *Chaebols*' launching forth into the hotel industry, they accelerated expansion to overseas markets.

The Daewoo Group, which pursued global management most actively among Korean companies in the 1990's, was the only conglomerate challenged to develop its own brand as a new hotel management company as well as an owner of several luxury properties in emerging global markets. While that conglomerate owned the Seoul Hilton and owns the Kyongju Hilton in the domestic market, and operates the Yanbian Daewoo, Sheraton Guilin, Beijing Kempinski Hotel in China, the Hanoi Daewoo in Vietnam, the Algiers Hilton in Algeria, the Rabat Hilton in Morocco, the Sheraton Sofia in Bulgaria, the Palace Hotel in Sudan, and others internationally, it launched its own brand *Daewoo* in the global markets first, starting with the management of the Yanbian and Hanoi Daewoo Hotels. Starting with a strategic approach to overseas hotel markets that centered on emerging markets to secure its global management, Daewoo stepped up its long-term strategies for implementing gradual direct hotel management and building a globally recognizable hotel chain. However, Daewoo's recent liquidation stalled this momentum.

CHANGES IN THE BUSINESS ENVIRONMENT

In today's intensely competitive hotel industry, a company striving to succeed must not merely meet industry standards. It must participate in driving industry change.

A. TECHNOLOGY DEVELOPMENT

In Korea, reservations for hotel accommodations made through Internet will sharply increase. According to a venture company operating the web site '*www.hotelpage.com*', which provides an Internet hotel reservation service, the number of reservations made during the first quarter of the year 2000 increased 224%, amounting to 2,930, compared to 905 made during the same period of last year. The company also reports that reservations for domestic hotels made on the Internet increased up to 45% this year, compared to approximately 30~40% last year. The hotel industry further forecasts that the ratio of Internet reservations will reach 5% by the end of the first half of this year and 10% by the end of year. Last year, Internet reservations increased only 1% to 3% in Korea.

Now, the hospitality industry must overcome its general reluctance to invest in new ideas and technologies and look for applications that will drive the bottom line. This includes using distribution channels, agents, and intermediaries to develop customer information sources and using technology to provide customers what they want, in real time anywhere in the world.

With the proliferation of digital technology, industrial sector reorganization is being accelerated at a brisk pace. The development of information and telecommunication technology is linking the entire industrial sector into one network and is stimulating the specialization of the value chain. Thus, an era has dawned in which companies or industries that cannot adjust to this change will die out. The deepening and maturing roots of the Internet are about to shake and take hold of businesses and individuals like never before. This phenomenon will even become an issue of survival. For others, it will be an era of unprecedented opportunity and victory.

In the current business transformation trend due to Internet technology, this technology is used within the enterprise to connect suppliers, distributors, customers, and business partners. Chuck Martin asserts in his book "Net Future*: The 7 Cybertrends That will Drive Your Business, Create New Wealth, and Define Your Future",* e-business goes beyond electronic commerce. Electronic commerce involves the buying and selling of products, information, or services over the Net. E-business, in other words, involves the "Netting" of the entire value chain, from product conception and creation, all the way through manufacturing, production, distribution, and ultimately consumption. Companies that understand this and are willing to undergo the close self-scrutiny involved in becoming "Netted" will be the winners in the "Net Future". According to Martin's assertion, we are believed to be on the heels of a revolution the likes of which we have never seen and will never see again.

Approaching is a world that will be linked by fast, cheap communication, where speed will be key, access to the network ubiquitous, and virtually every business and individual will be affected. This linkage, enabled by technology, will determine winners and losers. The opportunities for those who capitalize on this environment will be enormous. Martin also says customers will actually drive the business on behalf of the producing company. The imperative of a customer-driven enterprise will be to successfully carve out a niche in this new frontier.

B. FOREIGN DIRECT INVESTMENT

According to a press release by UNCTAD in February 2000, foreign direct investment ("FDI") in 1999 reached 827 billion US dollars, which was an increase of 25%, compared to 660 billion US dollars in 1998. The continual increase of FDI since 1990 shows the trend of openness and integration of the world economy. Furthermore, the main reason for the increase in FDI is due to an increase in international M&A activities.

In the case of Korea, beyond the sell-off of assets to attract foreign capital, the recovery of the domestic economy since the end of 1998 is another factor that is improving the conditions for foreign capital advancement. Also, the decreased prices of assets such as securities and real estate since the currency crisis have opened ways for foreigners to buy into Korean assets at bargain prices.

With a full-scale inflow of foreign capital from the West into the domestic industries, the approaches are also being diversified from the establishment of regional offices or branches in the past to the acquisition of managerial control, equity participation, and portfolio investment that can influence management.

Even amid the quite recent political controversy over the opposition party's allegation that foreign investment is leading to the depletion of precious national wealth, placing the country on the verge of collapse under an insurmountable debt, Korea's Economy-Finance Minister Hun-jai Lee expressed his strong conviction that foreign capital flows contribute to the Korean economy through the provision of productive financial resources, the creation of value-added job opportunities, and the transfer of technology and management know-how.

GLOBALIZATION STRATEGY

A. CASE STUDY: HILTON HOTELS

Hilton, which is composed of Hilton Hotels Corporation, the US-based company, and Hilton International Co., the owner of the Hilton brand outside of the US, is recognized internationally as a preeminent hospitality company owning, managing, and franchising hotels with several of brand names, including Hilton, Hampton Inn, Doubletree, Embassy Suites, Homewood Suites by Hilton, Conrad International, Red Lion Hotels, and others.

Today's Hilton can be viewed as a major industry competitor, with various product lines, including commercial hotels, airport hotels, convention hotels, mid-priced hotels, suites, resort hotels, and service apartments, as well as leverage brand awareness in a number of areas: owning hotels mainly occupying the best locations in the best markets, managing and franchising hotels as a prominent franchiser of hotels across its entire brand family, and vacation ownership.

Hilton's marketing programs, renovations, and aggressive expansions all underscore a continued commitment to those principles that have made the Hilton name synonymous with first-class hospitality.

1) Business Development

Hilton’s goal is to add 10,000 new hotel rooms per year over the next ten years with a strategy that is to promote aggressive franchising, management contracts, and equity investments, and develop innovative new products and services that will attract both customers and investors.

2) Operation

The goal is to maximize the value of Hilton brand affiliation through the consistent delivery of products and services in every hotel operation. In addition, the strategy is to continually refine standards that anticipate and meet the evolving needs of customers, monitor performance, and lend operational support to all properties via corporate programs, regional support centers, geographic cluster groups, and brand management teams. Accordingly, the role of regional hotel support centers and brand management teams is to:

- Ensure product quality and consistency.
- Determine performance benchmarks and set goals for all Hilton properties, product lines, and individual hotels.
- Establish accountability for individual hotel performance.
- Create customized marketing initiatives that identify and differentiate the special attributes of each Hilton product line while reinforcing the core Hilton brand.
- Find ways to leverage brand power to meet the unique advantages of individual hotel.
- Improve operating results for market penetration, yield, and key customer satisfaction indices.
- Improve profitability through the use of technology.
- Improve customer delivery, guest satisfaction ratings, and brand loyalty through customer-focused staff training.

3) Sales and Marketing

The goal is to build upon the company's greatest strength - its name - by positioning and promoting Hilton as a single brand supporting multiple product lines. The strategy is to use customer research to provide clear core brand and product line attributes, to ensure that hotels maintain those attributes, and to create marketing initiatives that will support the brand and develop business opportunities for all product lines through advertising, public relations, direct and cross marketing, sales leads, and referrals. Hilton defines its brand meaning as the prestige of worldwide brand recognition and systems, experience in hotel management, a strong, secure parent company, a commitment to equality, creative and aggressive marketing programs, a well-trained worldwide sales force, and an international reservation system. The marketing alliance signed by Hilton Hotels Corporation and Hilton International Co. in January 1997 has created a worldwide network of more than 2,000 hotels in 50 countries. Under the terms of the alliance, both companies work together, coordinating and jointly developing marketing programs to further strengthen the Hilton family of brands worldwide.

4) Technology

Hilton also aims to improve communications between Hilton and its customers in order to maximize hotel revenues by connecting all Hilton entities to customers - and to each other - through a sophisticated computerized information system. In 1973, the development of centralized reservation services uniting all Hilton Hotels was another breakthrough in customer service. The debut of the Hilton Internet web site at www.hilton.com in August 1995 made Hilton an industry pioneer on the information superhighway.

5) Quality System

The goal is to make Hilton the preferred lodging choice for guests and the preferred workplace in the hospitality industry by continually refining quality standards through relevant guest and team member feedback, and by achieving those standards by developing team members through innovative training and open communication. Renovations upgrading hotels are ongoing throughout the system in order to maintain excellence in appearance and accommodation. The ongoing training of every Hilton team member is a crucial element of the continued success of the brand. Hilton established a quality service institute at its headquarters in 1992 to provide an intensive series of workshops to educate all Hilton property managers regarding Hilton's corporate programs and service philosophy. Hilton has also undertaken a vigorous franchise review process, eliminating those hotels that do not meet company standards. It is the cornerstone of every hotel's operating philosophy to empower employees, ensure consistency throughout the brand, continually raise the bar for quality and service, and positively impact each hotel's bottom line.

B. GLOBALIZATION STRATEGIES FOR KOREAN HOTEL COMPANIES

As global markets are being integrated into one, causing mega-competition across borders, and the hotel industry has already been defined as a global industry operating a set of markets without regard to national boundaries, Korean hotel companies that got into the business relatively late need to challenge towards global markets and survive such competition because their current performance and future survival are fundamentally affected by their own and their competitors' overall global positions. However, most Korean hotel companies that want to succeed in the global market lack an adequate global strategy, and it is actually quite difficult for backward companies to catch up with advanced companies who reinvest their profits in strengthening their competitiveness and preoccupy any market-ruling principals. In order to win a global reputation, there are many difficulties for Korean independent hotels to overcome currently or in the near future. Furthermore, even after gaining such a reputation, they should also maintain high quality service, secure nice facilities, and survive among competition with the existing companies.

1) Globalization Approach

A successful globalization strategy can be set through these systematic steps: (1) assess the globalization potential of the business, (2) decide in which geographic markets to compete, (3) decide on an

appropriate entry mode and investment posture, (4) decide on an appropriate global configuration and coordination approach, and (5) develop the appropriate organization to support the global strategy. [1)]
Regarding appropriate entry modes, export, contractual agreements such as technology licensing, franchising, management contracts, and turnkey projects, FDI through joint ventures, greenfield investment, and M&A are recommended as the most common alternative modes of foreign market entry. A decision on entry mode selection can be made based on a systematic analysis of investment, risk, control, and profit potential. And, foreign direct investment carrying both the highest profit potential and risk requires at least three preconditions for implementation: (1) the company must have some distinctive, firm-specific advantages to overcome the costs of being foreign, (2) the country must have certain location-specific advantages for the company to invest there, and (3) the company can more effectively leverage its strategic assets through its own subsidiaries than contractual relations with outside parties.

Simply speaking, based on the general understanding of a globalization approach, Korean hotel companies should take three steps in a long-term strategy to expand their business to the global market successfully with appropriate competitiveness.

First, as property owners, they need to enter into a contractual management arrangement with a world famous hotel management

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1) 이승주. *경영전략 실천 매뉴얼*. (서울: Sigma Insight Group, 1999):

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company governing a number of global chain hotels. During the contractual period, they should also acquire more advanced management skills such as know-how as quickly as possible. Then, they can make a choice whether to keep the contractual relationship with the consigned management company, keep the relationship but launch their own brands in the global market as a management company, or terminate the contractual relationship with the management company and launch their own brands in the global market.

In this regard, in the case of Korean hotel companies, how to acquire advanced management skills such as know-how in collaboration with the leading hotel chains, how to build and manage their own brands effectively, and, finally, how to compete with such brilliant brands in the long run are key questions to answer in order to establish and implement their globalization strategies.

2) Leadership and Qualification for CEOs

First of all, new-era CEOs must be able to understand the industry in an international context, and then they should know how to identify internal strengths and weaknesses in a hotel organization. CEOs, throughout the whole industry, also need to suggest and practice creative ideas in advance of others. The key to coming up with creative ideas is to escape from getting too acquainted with one thing. Sensitivity to evolving change is another requirement. CEOs should possess the resolve to take action and think simultaneously to seize opportunities speedily. Now, they should recognize that individual ability such as persuasive presentation skills and the image of the CEO itself is enough to attract investment from investors and that the corporate image is directly linked to corporate value. In order to catch up with new trends and seize business opportunities, it is important for CEOs to construct a human network or incorporate themselves into existing networks, which often leads to strategic alliances with other companies. Sharing the success of a company with business partners and employees is also important.

3) Human Resources Strategy

In order for Korean companies to adapt themselves to the new management environment characterized by uncertainty, diversity, speed, and information technology, companies need to reform the fundamental framework of their human resources system.

Moreover, in order to deal with uncertainty in the future, companies need to reform their organizations into horizontal ones appropriate for drawing out the creativity and innovative spirit of their employees. Actually, with greatly improved communication and computerized financial and operational reporting, the hierarchy of organizations is collapsing and a flatter organizational structure is emerging. A reflective system that sensitively responds to external change should also be established. The linking of business components such as production, sales, service, and employees in an organic way will be necessary. In addition, companies have to deploy aggressive employment strategies to hire talented employees and provide them with ample compensation according to their value in the job market and performance in the company. Especially for the hotel industry, non-pecuniary compensations such as the redesign of jobs and the creation of a friendly working atmosphere through the improvement of the working environment should also be considered. In order to cope with the phenomenon of a more individualized relationship between employee and management, companies also need to prepare new personnel management methods. The collective relationship between labor and management is swiftly changing into a one-on-one relationship. At the same time, efforts should be made to eliminate formality and hierarchical order in the work environment.

4) Differentiation

As competing hotel companies easily expand their amenities and dress up their operations, all operations at a given price level tend to become more like one another. The crucial difference becomes first service - and usually personal service. In the world of today and tomorrow in the hotel industry, service will be the difference between barely surviving and achieving success.

An educated, sophisticated customer base is placing increasing emphasis on the value of goods and services received in relation to the price paid in the market place. With an intensely competitive industry vying to serve them, customers are in a position to demand good value for their money.

Currently, independent hotels, faced with growing industry consolidation and domination by mega-chains, must find new, creative ways to corner market reputation. Challenges confronting independent hotel companies include the lack of marketing ability available to compete with chains in what is now a mass marketing world, and the difficulty of raising capital and attracting investment. Also, independent hotels are uniquely placed to respond to the needs of an increasingly discerning customer. The independent hotels' strengths lie in their flexibility and ability to take risks.

The keys to their success are positioning their hotels differently from ordinary chains and selecting different targets rather than trying to be all things to all people. Independents must focus on cultivating a lifetime relationship with the customer. The economic life value of the regular guest exceeds that of the new guest. Relationship marketing is therefore vital, as is an in-depth analysis of how to gear the business to match guest needs long term. Guests in the future will also be looking for signs of greater management responsibility at independent hotels, especially in the areas of safety and security and the environment.

An increase in innovative strategic alliances with suppliers will be fundamental to an independent hotel's success, as will a proactive response to the restructuring of distribution channels. Independent hotels can anticipate higher performance per unit of labor as they target a higher educated, and therefore more expensive, workforce, better at handling "hi-touch" and able to integrate craft and business skills.

5) Brand Identity

Brand identity is the special blend of positioning and personality that gives a product or service its unique character in the mind of the consumer. It has never been easy to establish and maintain a strong identity, and now, with the fracturing of conventional media, mounting consumer distrust, and an unprecedented proliferation of new brands, it is more difficult than ever.

With the speed of revolutionary information technology, the upper hand in commercial transactions has shifted from sellers to buyers. In this new market condition, companies without brand power can hardly survive. Therefore, the brand itself is often recognized as more important than the quality of the product, and brand recognition itself has great influence in the Korean hotel market, for which foreign imported brands severely compete to penetrate.

Customer loyalty to brand names is a good source of profit for companies. The building of brand equity is definitely rising as one of the core strategies of companies. Therefore, to establish competitiveness by differentiating one's company or brand from other competitors can be the main point of the strategy. Implanting images unique to one brand in the consumers' mind by building brand equity can be a method of approach to this type of strategy.

For deeper, more loyal customer relationships and enhanced profit margins, Korean hotel companies must actually integrate the brands they sell. It is a way of enhancing future competitiveness in the industry and an overall way of doing business. Based on two mutually reinforcing concerns, what customers value and what the company will do in relation to what customers want, integrated branding is a process that allows companies to improve their relationships with their customers and staff. Furthermore, in the noise surrounding the Internet age, understanding their brand promise and then acting on it throughout their companies will allow them to stand out and increase customer satisfaction and market share.

One way to build and keep valuable band equity is to promote a consistent brand image. Brand power can be strengthened when it is promoted with a constant investment in marketing because, without spending enough money on advertising, a company cannot accomplish the targets thereof. While companies produce goods and services, consumers purchase brands. Therefore, it is important to strategically organize a consumer network as a means to keep in touch with target customers. Furthermore, in this new age of cyberspace, promoting on-line marketing on the Internet and creating a cyber-community composed of major consumers are other possible measures.

While brand equity is hard to build, it can collapse inversely fast. Therefore, companies need to strengthen their risk management capability even regarding crises with brand image.

In Korea, Shilla Hotels and Resorts, having two Super Deluxe Hotels of Korean brand, recently announced a plan to launch its new brand focusing on the "Middle Room Rate" hotel market. According to the company, 30 hotels named *Geoville* are going to be established in ten cities in Korea in the next five years, and the first *Geoville* hotel is already being built in the city of Masan, located on the southern part of the Korean Peninsula. The new brand will cater to the mid-market and will operate under a franchise management system with Shilla, which will provide development, management, and marketing expertise in exchange for a royalty on room sales. The *Geoville* hotels will be contemporary, international in style, and medium sized, each with 150 to 200 rooms and three restaurants on the premises. Room rates will range from 100,000 Korean Won to 150,000 Korean Won. The Shilla also ultimately plans to enter into the European and US markets directly after stabilizing its domestic chain hotel business.

6) Strategic Alliance and M&A

Hotel companies can of course expand their business in various ways. For instance, they can concentrate on inside operation activities and benefit from increased profit. However, such processes take too long, freeze capital in facilities investment, and put up roadblocks to adapting themselves swiftly to customers' needs, and, after all, they cause difficulties in coping with outside competition pressure. There is another way, which is acquiring assets of other companies. But, this very popular current means may drive companies into inefficient chaos if any excessively aggressive acquisition is pursued that aims only at an increase in market share.

Korean hotel companies should turn their steps to a capital investment minimizing and market coverage maximizing route to expansion based on the economies of scale. And, any type of strategic alliance which maintains separate management of company entities as well as creates advantages through managing time and money effectively by cooperation among the related parties, is the most desirable route to expansion.

Specifically, opportunistic one-night stand cooperation is appropriate for a relatively short-term period. This is to derive mutual satisfaction from cross-advertising, cross-selling, joint coupon agreement, etc. based on the prior understanding of each partner's expectations. Otherwise, a strategic marriage is best for the establishment of a long-term relationship. This enables the partners to anticipate mutual contribution to profit creation, high yield, and any synergistic effect usually based on cross-investment among the parties.

In the case of the hotel industry, strategic alliance is still being under developed, although it is the most powerful means for Korean hotel companies to catch up with international leading hotel companies in a shorter time.

Here is a typical case: in February of this year in Korea, the Shilla entered into an agreement with Concord Hotels of France, which has 16 reservation centers worldwide where accommodations at the Shilla could be booked, in order to expand the reservation system and sales services. In addition, both the Shilla and Concord Hotels agreed to promote the facilities in their respective markets, Asia and Europe, to increase accommodations and familiarize customers and travel agents with the hotels. Furthermore, the Shilla, as a partner of the Concord Hotels, came to participate in a prestigious frequent flyer program that includes nine airlines - British Airways, Air France, Iberia, ANA, American Airlines, Alitalia, Cathay Pacific, JAL and Asiana Airlines.

The Shilla Hotel Seoul and Inter-Continental Seoul entered into strategic joint marketing as industry-firsts in 1997. The Seoul Hilton and Namdaemun Market, the largest conventional market in Asia, took joint steps through strategic marketing alliances to invite more foreign tourists.

M&A can be understood as the ultimate entrepreneurship. As companies downsize and deconglomerate, they shed companies that are candidates for mergers, acquisitions, leverage buyouts, and strategic alliances. With thousands of companies being put on the market, and with the recent trend towards strategic alliances, to know how to asses the opportunities, how to pinpoint the targets, how to structure the finance, and how to close the deals are primary necessary core competencies for Korean hotel companies that want to go abroad. To know what critical ingredients should be in a post-merger plan is also important, those being how to value intangibles, how to integrate those into the new company, and how to find the keys to success in spin-offs and strategic alliances.

7) Technology Acquisition

Another driving force the hotel industry has wrestled with for some years is the explosion of technology. Technology has already changed the way work is done in operations through automation and computerization. Even more fundamental are the changes in marketing and management made possible by technological advances.

Hotel marketing, already shaped by a global computerized reservation network, is likely to undergo yet another revolution as the Internet expands the interactive communication capacity of operators, their competitors, and guests. Learning information technology, which has large economic and technology spillover effects on the industry economy, and which is important for upgrading international structure and enhancing industrial competitiveness, is strongly required for Korean hotel companies.

8) Value Growth

In the past decade, market share and volume growth were the ultimate goals and guarantors of business success. They created higher profits for all, including market share laggard companies with poor business designs, and companies that were poorly managed. However, this myth of volume growth has been shaken. Industry growth and a company's value growth no longer have a one-to-one correlation.

The number one problem in business today is profitability. Also, the two most valuable ideas in the old economic order, market share and growth, have become the two most dangerous ideas in the new order. Over the past two decades, advances in industrial technology innovation in business design, increases in global competition, and tremendous improvements in information technology have altered the game. In the face of intense competition, companies in many industries have leveraged efficiency gains and competed for market share without well-planned goals and strategies. Simultaneously, information has become more accessible to customers, allowing them to conveniently select the best deals. It creates unprofitability. The devout pursuit of market share may be the single greatest creator of non-profit in the economy.

The vigorous pursuit of market share and the rise in customer power have driven profits from many activities and products, and even from entire industries. Still, many companies continue to pursue a market share and volume growth strategy, trying to get a bigger piece of a pie that is losing all of its value. High growth with a bad business design destroys value rapidly. Growth is attractive, but growth carries high risk, especially when the business design is wrong. High growth is much harder to manage because growth creates a much higher management challenge.

Growth is important, but how growth is achieved is much more important. Over time, because of the competitive nature of business, most business designs are no longer able to make a profit. If a company hopes to create value for their shareholders and wants to continue operating in its profit zone, it must reinvent its business design, adjusting itself to the evolving business environment. Starting from the questions what is most important to the customer, where we can make our profit, and how we can gain market share in the space in the logic of customer-centric and profit-centric growth, companies should redefine themselves and reinvent their business designs with four strategic elements:

(1) Customer selection with key questions: “To which customers do I add real value?”, “Which customers will allow me to profit?”, and

“Which customers do I want to serve?”

(2) Value capture: “How do I capture, as profit, a portion of the value I created for customers?”, and “What is my profit model?”

(3) Differentiation/Strategic control: “Why do my chosen customers buy from me?”, “What makes my value proposition different from other competitors?”, and “What strategic control points can counterbalance customer or competitor power?”

(4) Scope: “What products, services, and solutions do I want to sell?”, “Which activities or functions do I want to perform in-house?”, and “Which ones do I want to subcontract, outsource, or work with a business partner to provide?”

If the business is to succeed, it must be designed in such a way that its key elements are aligned with customers’ most important priorities. It must be designed for profitability. Its elements must be tested for consistency with each other, to ensure that the business design functions as a coherent and mutually reinforcing whole.

To ensure long-term viability, a company’s business design must be reinvented as customers’ needs and priorities change and as value migrates away from the industry’s traditional business design. In this new economic order, characterized not by equilibrium but by fluidity, customers’ and companies’ profit zones always shift. To reinvent its business design and stay a step ahead of these shifts, a company must move beyond product-centric thinking to a customer-centric approach. The ideas behind customer-centric and profit-centric thinking are critical to success in the new world of business.

9) Governmental Policies

The travel and tourism industry, of which the hotel sector is a vital component, is the world's largest industry and a major contributor to the world economy, generating around 10% of global GDP. Furthermore, global operation of high-class hotels help to enhance the image of domestic tourism and convention infrastructures and national image itself, and can contribute to the development of hotel industry and further the national economy. As long as the issue of balance of payment is put at the center of national interests, a strong and sound tourist industry and its attractions can help national revenues.

However, in Korea, the hotel industry is still defined as a palatial and luxurious service business, and it is put on more than fifty restrictions and incidences. The Korean hotel industry also groans under a great burden of distinction conflicts among facilities based on locations and rankings.

Even though such disadvantages exist, in terms of the roles of the government in the field of the hotel industry, it is not true that all the policies or interruptions are negatively affecting the future of the industry. The World Cup in 2002 and the Inchon International Airport on Yongjong Island due to open in 2001, with capacity of 530,000 flight operations and 100 million passengers annually, are expected to bring a surge in international visitors, and the Korea National Tourism Organization, a governmental body responsible for promoting tourism, has planned for several special events in order to attract a significant number of leisure travelers. The performance of hotels in Korea, therefore, is forecast to be aggressively optimistic for a good while.

Thanks to support by the government and timely events, it may be safely said that Korean hotel companies have a good chance to build their own core competencies and reengineer their practical strategies to enter into the global market competitively. At this time, continual and tactical supporting policies to help Korean hotel companies enhance their global competitiveness should be further studied and introduced by the government, accompanied by a recognition switchover to the hotel industry.

SUMMARY AND CONCLUSION

Although global hotel companies aim for worldwide-scale, this momentum cannot be equally applied to the growth of Korean hotel companies. Korean hotel companies should reduce their dependency on the global hotel chains and seek to differentiate their products, services, and target markets.

Korean hotel companies should strengthen their position in the domestic market first. Then, they should be more aggressive to learn and acquire core competencies from global leaders. They also need to break away from dependency on the imported brands while establishing a clear vision and strategies.

Korean hotel companies should concentrate on building their own brands, improve their image, and build strong global networks.

Korean companies should enable them to step into M&A and cooperative ties with global leaders as FDI grows in importance. Sourcing for the appropriate technologies and corporate resources necessary to keep pace with the evolving times and business environment from continual investment in research and development is growing in importance, too.

The global hotel industry is facing continuous changes in the business environment. Based on a series of self-reinforcing efforts to build and enhance global competitiveness, the Korean hotel industry will be able to position itself as a national strategic industry contributing to national competitiveness and ultimately exporting Korean culture and knowledge to the world.

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