CHAPTER 1

STRATEGIC MANAGEMENT

YOU SHOULD BE ABLE TO DO THE FOLLOWING AFTER READING THIS CHAPTER:

1. Describe the key elements in the strategic management process.
2. Discuss the three different perspectives or approaches used in understanding strategy, including the traditional perspective, the resource-based view, and the stakeholder view.
3. Understand strategy formulation at the corporate, business, and functional levels.
4. Explain the difference between strategic thinking and strategic planning.
5. Characterize and explain the key players in the lodging and foodservice industries.

FEATURED STORY

MCDONALD'S PLAN TO WIN

After 50 years of operation, McDonald's is revitalizing its products, and pushing innovation through a variety of initiatives. This foodservice giant with more than 30,000 restaurants in 100 countries provides food to nearly 50 million customers each day, but decades of expansion, sales growth, and profits made the burger giant complacent. By focusing on getting bigger, not better, the company stumbled in 2002, recording its first losing quarter. By 2003, U.S. sales had flattened, as many consumers were turning to healthier options and restaurants with more upscale menu items, a segment sometimes referred to as "fast-casual". Morgan Spurlock's film *Super Size Me*, released in 2004, also seriously diminished the public image of the quick-service chain, as moviegoers watched Spurlock become ill and gain 25 pounds after eating only McDonald's food for one month.

With pressure to get back on track, it was time for McDonald's to rethink the business. The chain devised a recovery strategy that included new menu items, redesigned restaurants, and a focus on the consumer experience. Through a program titled "Plan to Win," McDonald's focused on making a deeper connection with customers through the five business drivers of people, products, place, price, and promotion. Using its own five P's, the company is developing and refining new strategies to deliver value, offering product variety, developing updated and contemporary stores, balancing the delivery of value pricing with more expensive items, and marketing through bold and innovative promotions.

Execution of this strategy has included mystery shoppers and customer surveys, along with grading restaurants to help the company deliver on its people goals. New menu items like the Fruit & Walnut Salad in the United States and deli sandwiches in Australia are part of the commitment to serve high-quality products to satisfy customer demand for choice and variety. Restaurants are staying open longer, accepting credit and debit cards, enabling wireless Internet access, and even providing delivery service in parts of Asia. As part of the program, franchisees and suppliers are asked to provide their opinions and ideas on facility design, while the company benchmarks retail leaders, such as Crate & Barrel, to help produce cleaner and smarter restaurants. The company is testing small handheld devices to use on what it calls "travel paths," a process for checking operational failures such as the temperature inside the refrigerators. Experiments with a new grilling concept from Sweden, which grills burgers vertically instead of horizontally, offers space-saving possibilities for the chain. Product offerings like the McCafé, a concept developed in the Australian market that provides gourmet coffee inside 500 existing restaurants, are proving to be successful.

The trouble experienced in the early part of the millennium has abated, and executives at McDonald's have declared success after several years of progress under the Plan to Win.

Company revenues are up, and the firm plans to remain focused on its core business. One indication of its commitment to fast food was the divestiture of its seven-year ownership stake in Chipotle Mexican Grill, a highly successful fast-casual burrito chain. With the sale of around 5 million shares of Chipotle stock, the burger maker is now refocusing on Brand McDonald's.

Attracting more customers to McDonald's remains its goal for growth. In the U.S. market, the strategy is to leverage menu innovation; in Europe, upgrading the customer experience and enhancing local relevance have driven management efforts; and the Asia/Pacific, Middle East, and Africa markets have focused on building sales through extended hours. The question remains whether focusing on the core business will yield maximum return. At McDonald's, the executives are betting on the core brand and hoping that this strategy will pay off.[1]

DISCUSSION QUESTIONS:

1. Will the decision to focus on Brand McDonald's yield the best returns?
2. Why divest shares in the popular fast-casual Chipotle Mexican Grill concept just as it begins to take off?
3. Can the premium coffee McCafé concept expect to compete seriously with Starbucks? Or will McDonald's, like the market leaders in many other industries in the past, struggle?
4. How many times can McDonald's reinvent itself and continue to grow?

INTRODUCTION

The hospitality business is fiercely competitive. When McDonald's began its rapid expansion in the middle of the 20th century, there were few fast-food alternatives. McDonald's did more than any other company to shape the fast-food market, picking up new rivals at every stage. As domestic growth began to level off, the company increased its investments outside of the United States. However, other American companies followed, and foreign rivals began to develop and expand in their home markets. At the turn of the millennium, the company faced some of its most difficult problems as the domestic U.S. markets neared saturation and consumers' tastes began to change. This giant of the foodservice industry made a remarkable recovery by reinventing itself and returning to the basics of focusing on the customer experience.

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.[2] 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."[3]

This book explores how organizations can grow and prosper through successful execution of the strategic management process. *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.[4] 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.[5] 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).[6] 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.[7] 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.

HOSPITALITY FOCUS

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 firm 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. And to reinforce the message, a concurrent advertising campaign asked, "Who's the best in bed?"[8]

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. Many perspectives on strategic management and the strategic management process have emerged. This book's approach is based predominantly on three of these perspectives: (1) the traditional perspective, (2) the resource-based view of the firm, and (3) the stakeholder approach, which are outlined in Table 1.1.

TABLE 1.1 Three Perspectives on Strategic Management

	Traditional Perspective	Resource-Based View	Stakeholder View
Origin	Economics, other business disciplines, and consulting firms	Economics, distinctive competencies, and general management capability	Business ethics and social responsibility
View of Firm	An economic entity	A collection of resources, skills, and abilities	A network of relationships among the firm and its stakeholders
Approach to Strategy Formulation	Situation analysis of internal and external environments leading to formulation of mission and strategies	Analysis of organizational resources, skills, and abilities Acquisition of superior resources, skills, and abilities	Analysis of the economic power, political influence, rights, and demands of various stakeholders
Source of Competitive Advantage	Best adapting the organization to its environment by taking advantage of strengths and opportunities and overcoming weaknesses and threats	Possession of resources, skills, and abilities that are valuable, rare, and difficult to imitate by competitors	Superior linkages with stakeholders leading to trust, goodwill, reduced uncertainty, improved business dealings, and ultimately higher firm performance

The 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. These topics included 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.[9] 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 model contained in Figure 1.1 provides a framework for understanding the various activities described in this book. However, the traditional approach to strategy development also brought with it some ideas that strategic management scholars have had to reevaluate. 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.[11] The most successful

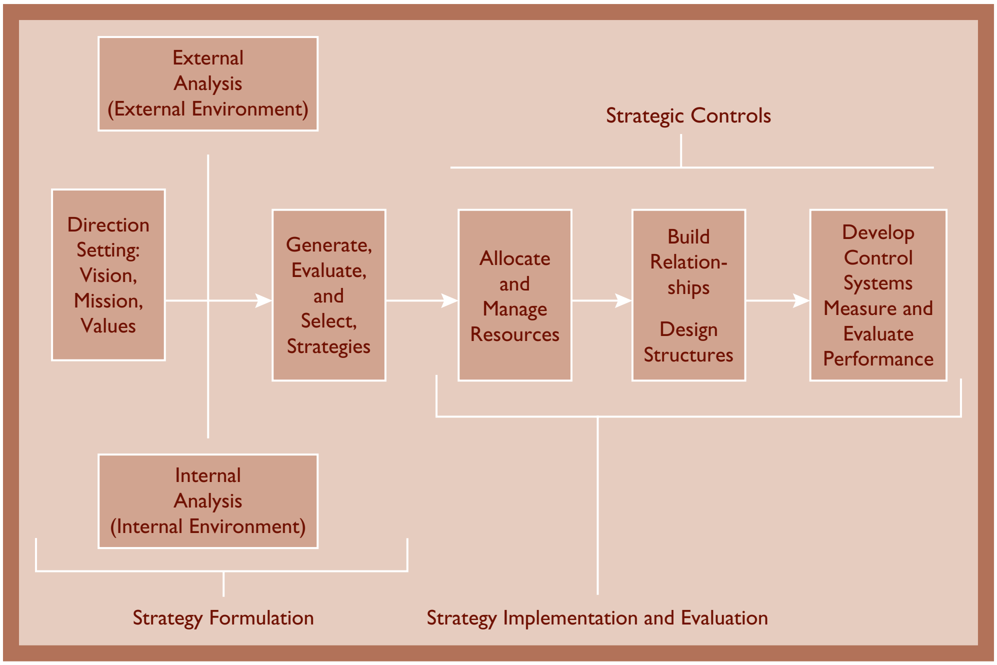

FIGURE 1.1 The strategic management process

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's firm from the competitors.*[13]

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.[15] 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.[18] Despite the strength

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AN EMERGING RETAIL STRATEGY FOR THE HEAVENLY BED

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.[17]

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."[19] 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?" An early answer to that question was that some firms are able to develop distinctive competencies in particular areas.[21] 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 difficult 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.[24] 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**[25]

The organization as a bundle of resources is depicted in Figure 1.2.

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."[26] 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.[27] Marriott is an example of a corporation that has successfully capitalized on its resources to gain a competitive advantage over other hotels. (See the "Hospitality Focus" boxed section on page 12.)

Many strategy scholars believe that acquisition and development of superior organizational resources is the most important reason that some companies are more successful than

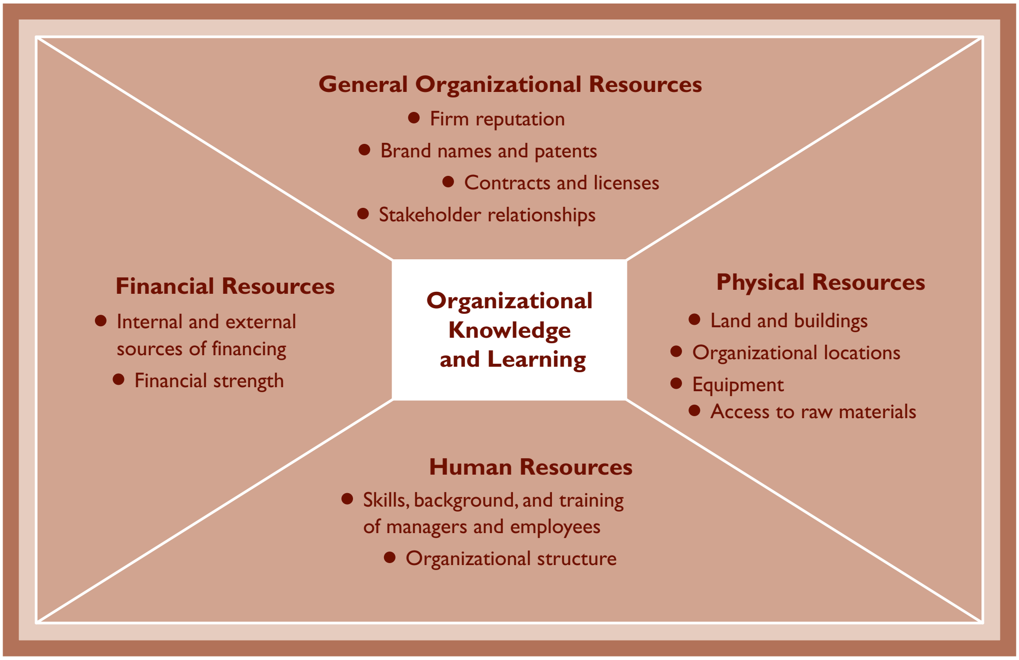

FIGURE 1.2 The organization as a bundle of resources

others.[28] Most of the resources that a firm can acquire or develop are directly linked to its stakeholders. For example, financial resources are closely linked to establishing good working relationships with financial intermediaries. Also, the development of human resources is associated with effective management of organizational stakeholders. Finally, organizational resources reflect the organization's understanding of the expectations of society and the linkages it has established with stakeholders.

The Organization as a Network of Stakeholders

A *Fortune* magazine cover story described modern business in these terms: "Business already is moving to organize itself into virtual corporations: fungible modules built around information networks, flexible workforces, outsourcing, and webs of strategic partnerships."[29] Negotiating and contracting have always been important to business. However, the trend in business is toward more strategic alliances, joint ventures, and subcontracting arrangements with stakeholders. The fact is that some of a firm's most valuable resources may extend beyond the boundaries of a firm.[30] Consequently, business organizations are becoming a tangled web of alliances and contracts.

The hotel business contains many examples of the network approach, such as the variety of strategic alliances and cross-branding partnerships formed by Starwood. Nordstrom, the

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MARRIOTT: A BUNDLE OF RESOURCES

The success of Marriott is largely attributable to advantages created by resources that have been difficult to duplicate by other companies in the hotel industry. The first is financial controls. Marriott can determine and anticipate construction and operating costs with nearly exact precision. Second, Marriott has developed a distinctive competence in customer service, or "becoming the provider of choice." Looking to the future, Marriott is actively engaged in creating a third organizational capability as the "employer of choice." Marriott executives reason that with fewer people entering the labor force in the 18- to 25-year-old age group, good workers will become increasingly difficult to attract. Also, good workers are especially important in a service business such as hotels because they interact directly with customers.[31]

Seattle-based retailer, sells the Westin Heavenly Bed At Home Collection, becoming the first national retail chain to offer the furnishings of a major hotel company.[32] The hotel chain's other partners include American Express, MasterCard, PepsiCo, Amazon.com, BMW, Nestlé, eMusic, Yahoo, and Seattle's Best Coffee. Alliances between major competitors are also a hallmark of the hotel industry. It is not uncommon for a company to own a hotel property that is managed by one of its competitors. Nor is it uncommon to share brand affiliations. For example, Starwood Lodging owns the Princeton Marriott, a 294-room hotel in Plainsboro, New Jersey. A third party to the venture, Princeton University, leases the land upon which the Marriott is built.[33]

THE EMERGENCE OF THE STAKEHOLDER APPROACH

In the mid-1980s, a stakeholder approach to strategic management began to emerge. It was developed as a direct response to the concerns of managers who were being buffeted by increasing levels of complexity and change in the external environment.[34] The existing strategy models were not particularly helpful to managers who were trying to create new opportunities during a period of such radical change. The word *stakeholder* was a deliberate play on the word *stockholder*. Much of the strategy literature at the time was founded, either explicitly or implicitly, on the idea that stockholders were the only important constituency of the modern for-profit corporation. Stakeholder theory contradicted this idea by expanding a company's responsibility to groups or individuals who significantly affect or are significantly affected by the company's activities; including stockholders.[35]

Figure 1.3 contains a typical stakeholder map. A firm has internal stakeholders, such as employees, who are considered a part of the internal organization. In addition, the firm has frequent interactions with stakeholders in what is called the operating (or task) environment. The firm and stakeholders in its operating environment are influenced by other factors, such as society, technology, the economy, and the legal environment. These other factors form the broad environment.

This section has laid a foundation on which the rest of this book will be built. The three perspectives that will be incorporated are the traditional, the resource-based, and the stakeholder views of strategic management and the firm. Now the strategic management process will be introduced in more detail.

FIGURE 1.3 A typical stakeholder map

THE STRATEGIC MANAGEMENT PROCESS

Three perspectives on strategic management have been discussed so far: the traditional model, the resource-based view, and the stakeholder approach. In this book, these three approaches are combined (see Table 1.2). The basic strategic management process is most closely related to the traditional model. However, each of the stages of this process is heavily influenced by each of the three approaches.

The key activities in the strategic management process are shown in Figure 1.4 and begin by providing:

1. A situation analysis of the broad and operating environments of the organization, including internal resources and both internal and external stakeholders
2. The establishment of strategic direction, reflected in mission statements and organizational visions

TABLE 1.2 A Combined Perspective of Strategic Management

Process	Firms conduct external and internal analysis (situation analysis), both of which include analysis of stakeholders. On the basis of information obtained, they create strategic direction, strategies, and tactics for implementing strategies and control systems.
Origin	Traditional, resource-based, and stakeholder perspectives
Adaptation vs. Enactment	Influence the environment when it is economically feasible to do so. Take a proactive stance with regard to managing external stakeholders. Monitor, forecast, and adapt to environmental forces that are difficult or costly to influence.
Deliberate vs. Emergent	Firms should be involved in deliberate strategy-creating processes. However, they should learn from past decisions and be willing to try new things and change strategic course.
Source of Competitive Advantage	Firms can obtain competitive advantage from superior resources, including knowledge-based resources, superior strategies for managing those resources, and/or superior relationships with internal or external stakeholders (which are another type of resource).
Creation of Strategic Alternatives	Firms develop strategies to take advantage of strengths and opportunities or overcome weaknesses or threats. They arise as organizations conduct resource analysis, analyze organizational processes, and analyze and partner with external stakeholders.

3. A formulation of specific strategies
4. Strategy implementation, which includes designing an organizational structure, controlling organizational processes, managing relationships with stakeholders, and managing resources to develop competitive advantage

While these activities may occur in the order specified, especially if a firm is engaging in a formal strategic planning program, they may also be carried out in some other order or even simultaneously. For example, it is not uncommon for a strategic direction to serve as a foundation for the situation analysis.

The feedback loops at the bottom of Figure 1.4 indicate that organizations often cycle back to earlier activities during the strategic management process, as new information is gathered and assumptions change. For instance, a company may attempt to develop strategies

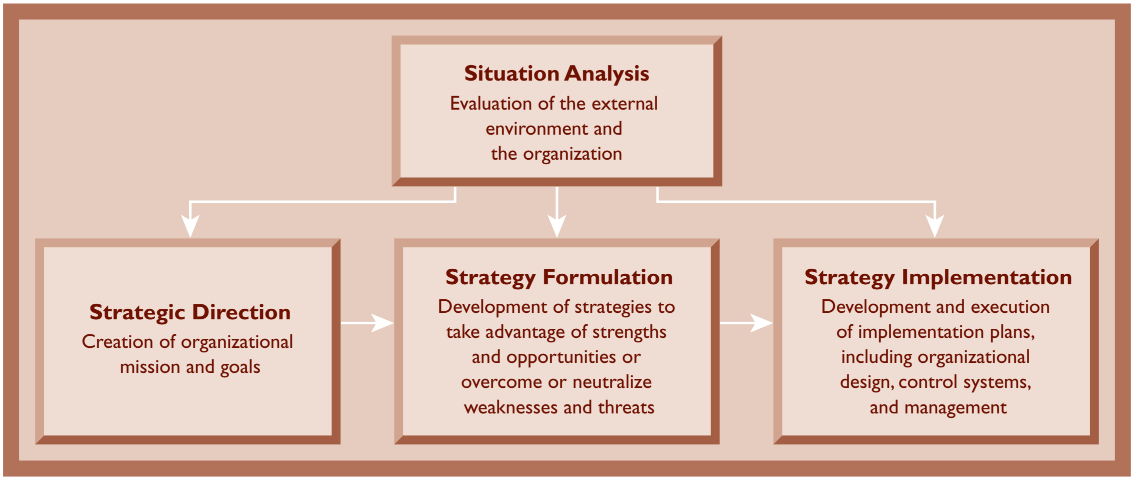

FIGURE 1.4 The strategic management process

consistent with its strategic direction and, after a trial period, discover that the direction was not reasonable. Also, an organization may discover rather quickly (or over a longer period of time) that a proposed strategy cannot be implemented feasibly. As a result, the firm may have to cycle back to the formulation stage to fine-tune its strategic approach. In other words, organizations may learn from their own past actions and from environmental forces, and they may modify their behavior in response.

However, not all organizations engage in all of the processes depicted in Figure 1.4: entrepreneurial start-up firms rarely do. They often begin with an entrepreneur who has an idea for a product or service that he or she believes will lead to market success. Venture capital is raised through a variety of public or private sources, and a new business is born. The entrepreneur may establish an informal sense of direction and a few goals, but the rest of the formal strategy process may be overlooked. If the organization is successful, it will typically expand in both sales and personnel until it reaches a critical point at which the entrepreneur feels a loss of control. At this point, the entrepreneur may attempt to formalize various aspects of strategic planning, by either hiring outside consultants, creating planning positions within the firm, or involving other managers in planning activities. This same process is typical of nonprofit start-ups as well, except that the nature of the cause (i.e., humanitarian or educational) may place tighter constraints on the way the firm is financed and organized.

Consequently, the model in Figure 1.4 is not intended to be a rigid representation of the strategic management process in all organizations as they currently operate. Nevertheless, the progression of activities—from analysis to planning to action and control—provides a logical way to study strategic management. Furthermore, the activities relate equally well to for-profit, nonprofit, manufacturing, and service entities, although some of the differences in the way these organizations approach strategic management will be described throughout the text.

Now that the strategic management process has been introduced, each of its components—situation analysis, strategic direction, strategy formulation, and strategy implementation—will be described in more detail.

Situation Analysis

Many of the stakeholders and forces that have the potential to be most important to companies are presented in Figure 1.3. All of the stakeholders inside and outside of the firm, as well as the major external forces, should be analyzed at both the domestic and international levels. The external environment includes groups, individuals, and forces outside of the traditional boundaries of the organization that are significantly influenced by or have a major impact on the organization.[36] External stakeholders, part of a company's operating environment, include competitors, customers, suppliers, financial intermediaries, local communities, unions, activist groups, and local and national government agencies and administrators. The broad environment forms the context in which the company and its operating environment exist, and includes sociocultural, economic, technological, political, and legal influences, both domestically and abroad. One organization, acting independently, may have very little influence on the forces in the broad environment; however, the forces in this environment can have a tremendous impact on the organization. The internal organization includes all of the stakeholders, resources, knowledge, and processes that exist within the boundaries of the firm.

SWOT ANALYSIS

Analyzing the environment and the company can assist the company in all of the other tasks of strategic management.[37] For example, a firm's managers should formulate strategic direction and specific strategies based on organizational strengths and weaknesses and in the context of the opportunities and threats found in its environment. A *SWOT analysis* is a tool strategists use to evaluate Strengths, Weaknesses, Opportunities, and Threats. Strengths are company resources and capabilities that can lead to a competitive advantage. Weaknesses are resources and capabilities that a company does not possess, to the extent that their absence places the firm at a competitive disadvantage. Opportunities are conditions in the broad and operating environments that allow a firm to take advantage of organizational strengths, overcome organizational weaknesses, and/or neutralize environmental threats. Threats are conditions in the broad and operating environments that may impede organizational competitiveness or the achievement of stakeholder satisfaction.

Strategic Direction

Strategic direction pertains to the longer-term goals and objectives of the organization. At a more fundamental level, *strategic direction* defines the purposes for which a company exists and operates. This direction is often contained in *mission* and *vision statements*. An organization's mission is its current purpose and scope of operation, while its vision is a forward-looking statement of what it wants to be in the future. Unlike shorter-term goals and strategies, mission and vision statements are an enduring part of planning processes within the company. They are often written in terms of what the organization will do for its key stakeholders. For example, the philosophy, vision, mission, and guiding principles of Shangri-La Hotels and Resorts are:

> **Our Philosophy**: Shangri-La hospitality from caring people
>
> **Our Vision:** The first choice for customers, employees, shareholders, and business partners
>
> **Our Mission:** Delighting customers each and every time
>
> **Our Guiding Principles (Core Values):**
>
> We will ensure leadership drives for results.
>
> We will make customer loyalty a key driver of our business.
>
> We will enable decision making at customer contact point.
>
> We will be committed to the financial success of our own unit and of our company.
>
> We will create an environment where our colleagues may achieve their personal and career goals.
>
> We will demonstrate honesty, care, and integrity in all our relationships.
>
> We will ensure our policies and processes are customer and employee friendly.
>
> We will be environmentally conscientious and provide safety and security for our customers and our colleagues.[38]

A well-established strategic direction provides guidance to the stakeholders inside the organization who are largely responsible for carrying it out. A well-defined direction also provides external stakeholders with a greater understanding of the company and its activities. The next logical step in the strategic management process is strategy formulation.

STRATEGY DEFINED

A *strategy* can be thought of in either of two ways: (1) as a pattern that emerges in a sequence of decisions over time, or (2) as an organizational plan of action that is intended to move a company toward the achievement of its shorter-term goals and, ultimately, its fundamental purposes. In some organizations, particularly those in rapidly changing environments and in small businesses, strategies are not planned in the formal sense of the word. Instead, managers seize opportunities as they come up, but within guidelines or boundaries defined by the firm's strategic direction or mission. In those cases, the strategy reflects the insight and intuition of the strategist or business owner, and it becomes clear over time as a pattern in a stream of decisions. Strategies as plans are common in most organizations, as the following business strategy for FelCor Lodging Trust illustrates.

HOSPITALITY FOCUS

STRATEGIC PLANS AT FelCor LODGING TRUST

For FelCor Lodging Trust, one of the largest hotel real estate investment trusts (REITs) in the United States, a strategic planning exercise led the company to rethink its strategy. Calling itself the "New FelCor," the firm has made dramatic steps toward repositioning itself. The firm's business strategy is to dispose of nonstrategic hotels, including all of its Holiday Inn Hotels located in secondary and tertiary markets. After the sale, it will have lower exposure to markets with low barriers to entry.

Other elements of the new business strategy are (1) to acquire hotels in high-barrier-to-entry markets; (2) to improve the competitive positioning of core hotels through aggressive asset management and the judicious application of capital; and (3) to pay down debt through a combination of operational cash flow and the sale of nonstrategic hotels. The company will become a lower-leveraged company with a stronger and fully renovated portfolio of hotels.[39]

Strategy Formulation

Strategy formulation, the process of planning strategies, is often divided into three levels: corporate, business, and functional. One of the most important roles of *corporate-level strategy* is to define a company's domain of activity through selection of business areas in which the company will compete. *Business-level strategy* formulation pertains to domain direction and navigation, or how businesses should compete in the areas they have selected. Sometimes business-level strategies are also referred to as *competitive strategies*. *Functional-level strategies* contain the details of how functional resource areas, such as marketing, operations, and finance, should be used to implement business-level strategies and achieve competitive advantage. Basically, functional-level strategies are for acquiring, developing, and managing organizational resources. These characterizations are oversimplified, but it is sometimes useful to think of corporate-level strategies as "where to compete," business-level strategies as "how to compete in those areas," and functional-level strategies as "the functional details of how resources will be managed so that business-level strategies will be accomplished."

Another way to distinguish among the three levels—perhaps a more accurate one—is to determine the level at which decisions are made (see Figure 1.5), as follows:

- ***Corporate-level decisions*** **are typically made at the highest levels of the organization by the CEO and/or board of directors, although these individuals may receive input from managers at other levels. If an organization is involved in only one area of business, then business-level decisions tend to be made by these same people.**

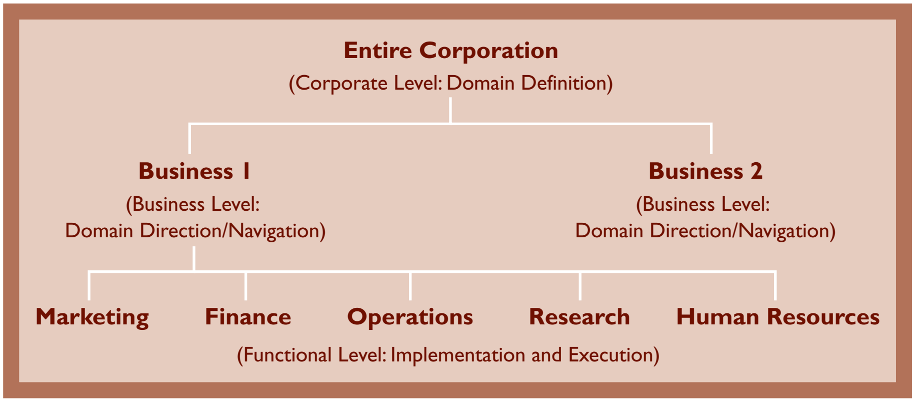

FIGURE 1.5 Strategy formulation in a multibusiness organization

- *Business-level decisions* in organizations that have diversified into multiple areas, which are represented by different operating divisions or lines of business, are made by division heads or business-unit managers.
- *Functional-level decisions* are made by functional managers, who represent organizational areas such as operations, finance, personnel, accounting, research and development, or information systems.

Figure 1.5 shows the levels at which particular strategy decisions are made within a multi-business firm. To illustrate these three levels of decision making, the Tata Group, one of India's largest conglomerates, has more than 96 companies in seven business sectors. One company in the portfolio is the Taj Hotels Resorts and Palaces, which consists of 59 hotels at locations across India and internationally. In this very complex company, corporate-level decisions are made for all 96 businesses, but business strategy decisions are made at the firm level. Hence, business-level decisions that concern the Taj Hotels company are made by senior management of the hotel chain, while functional leaders, such as those who lead human resources, purchasing, and development, guide functional-level decisions.

Strategy Implementation

Strategy formulation results in a plan of action for the company and its various levels, whereas *strategy implementation* represents a pattern of decisions and actions that are intended to carry out the plan. Strategy implementation involves managing stakeholder relationships and organizational resources in a manner that moves the business toward the successful execution of its strategies, consistent with its strategic direction. Implementation activities also involve creating an organizational design and organizational control systems to keep the company on the right course.

Organizational control refers to the processes that lead to adjustments in strategic direction, strategies, or the implementation plan, when necessary. Thus, managers may collect information that leads them to believe that the organizational mission is no longer appropriate or that its strategies are not leading to the desired outcomes. A strategic-control system may conversely tell managers that the mission and strategies are appropriate, but that they have not been well executed. In such cases, adjustments should be made to the implementation process.

In summary, the four basic processes associated with strategic management are:

1. **Situation analysis**
2. **Establishment of strategic direction**
3. **Strategy formulation**
4. **Strategy implementation**

Morrison Restaurants is among many hospitality firms that fully use these processes. The company, with more than $1 billion in revenues, developed and implemented "an integrated strategic plan for each of its divisions and concepts."[40] Based on a strategic analysis, the company developed its strategies on the basis of its strengths, weaknesses, opportunities, and threats (SWOT). Its plan and goals, which are widely used and understood by managers and team members, support its mission of "feeding America for under $10."

GLOBAL COMPETITIVENESS IN THE HOSPITALITY INDUSTRY

Most successful organizations eventually find that their domestic markets are becoming saturated or that foreign markets offer opportunities for growth and profitability that often are not available domestically. Many forces are leading firms into the international arena.[41] For example, global trends are leading to a more favorable environment for foreign business involvement. Trade barriers are falling in Europe (e.g., the European Union) and North America (e.g., the North American Free Trade Agreement). Also, newly industrialized countries, such as South Korea, Taiwan, and Brazil, are leading to increasing global competition and new marketing opportunities. There is a worldwide shift toward market economies, as in China and Vietnam, and financial capital is now readily exchanged in global markets. In addition, communication is easier due to satellites, the Internet, and cellular phones, and English is becoming a universally spoken business language, particularly in Asia, Latin America, and Central Europe. Finally, technical standards have started to become uniform in industrialized countries around the world.

The strategic management implications of increasing globalization are profound. Managers cannot afford to ignore opportunities in foreign markets. However, business methods and customs differ from country to country. These differences make stakeholder analysis and management even more important. Analysis of broad environmental forces, such as society, technology, and political influences, must also be expanded to each of the areas in which an organization conducts business. People also differ greatly from country to country. They cannot be managed in the same way. For example, when China opened its doors to foreign hotel investments in the early 1980s, the Chinese workers had no understanding of career advancement; for these employees, the first job held was believed to be the one the person would do for many years, if not for life.[42] This is still largely the case in Japan. In a study of cultural differences in Chinese and British hotels, the authors reported that expatriate managers in China found that employees were reluctant to take initiative and make decisions or propose suggestions.[43]

Variables Affecting Strategic Management

The tools, techniques, and models found in this book apply well to strategic management in a global environment. The methods and theories are used by top strategic planners in business situations around the globe. However, there are differences between strategic management in a domestic setting versus an international one. Each of the four basic parts of the strategic management process (i.e., situation analysis, strategic direction, strategy formulation, and implementation) is different when applied to an international environment.

1. Analysis of the environment associated with a situation analysis is complicated by the fact that the organization is involved in multiple environments with varying characteristics.
2. Strategic direction must consider stakeholders with a much broader range of needs.
3. The number of alternative strategies is greatly increased as a firm considers options arising from foreign environments.
4. The specific details associated with implementing strategies will be very different from country to country because of differences in laws, customs, resources, and accepted business practices.

The challenges of an increasingly competitive global marketplace can be addressed through a well-devised strategic management process. However, strategic planning does not always lead to the kinds of changes that are necessary to remain competitive over the long term. Ineffective strategic planning is often the result of a missing ingredient—strategic thinking.

STRATEGIC THINKING

What does it take for a company to be on the cutting edge in its industry? Organizational leaders can learn a great deal from studying the strategies of competitors. Clearly, an organization can learn things from competitors that will lead to improvements in performance. However, by the time a firm develops the skills and acquires the resources that are necessary to imitate industry leaders, those leaders probably will have moved on to new ideas and strategies. Consequently, industry leaders break out of traditional mind-sets and defy widely accepted industry practices.

Gary Hamel, a well-known strategic management author and consultant, calls these firms Industry Revolutionaries. He says that revolutionaries do not simply seek incremental improvements to existing business systems to increase efficiency, nor do they focus exclusively on individual products or services. Instead, they invent new business concepts. According to Hamel, "Industry revolutionaries don't tinker at the margins; they blow up old business models and create new ones."[44] For instance, Southwest Airlines decided to reject the hub-and-spoke operating model that is so prevalent in the airline industry in favor of a point-to-point system, which led other airlines such as JetBlue to do the same.

Bill Gates, CEO of Microsoft, has said that his company is "always two years away from failure."[45] At any time, a competing firm may develop a software product that is perceived to be superior to whatever version of Windows® Microsoft is selling, and, within a couple of years, become the market leader. Indeed, Microsoft almost missed a huge opportunity with the Internet and had to play catch-up to Netscape. Strategic thinking does not mean that a firm should randomly try new things until something works. Instead, it allows creative thought to emerge, which should then be accompanied by systematic analysis to determine what should actually be done.

Much will be said in this book about the importance of innovation and how to foster organizational entrepreneurship. An excellent way to start this discussion is with the topic of strategic thinking, since such thinking runs parallel to both innovation and entrepreneurship. It is important to understand from the outset that strategic thinking is not a replacement for the strategic planning process. Certain aspects of the process, such as analysis of the external environment, foster strategic thinking. Also, parts of the strategic planning process should be done systematically, such as the evaluation of alternatives and the development of control systems. However, strategic thinking helps organizations move beyond what is tried and proven. Effective strategic management includes both strategic thinking and strategic planning.

Strategic Planning Can Drive out Strategic Thinking

The term *strategic thinking* is used in so many ways that it is difficult to determine what people mean when they use it. In fact, most people probably do not know exactly what they mean: they may use the word to mean "thinking about strategy" or use it interchangeably with "strategic management" or "strategic planning."[46] According to a well-known strategist, Henry Mintzberg, *strategic planning* is an analytical process aimed at carrying out strategies that have already been identified. Strategic planning results in the creation of a plan. On the other hand, *strategic thinking* involves intuition and creativity. It is a way to synthesize stimuli from the internal and external environments to create "an integrated perspective of the enterprise."[47] According to Mintzberg, strategic planning is so rigid that it tends to drive out creative-thinking processes. The following true story illustrates this point. However, many companies, especially larger ones, have strategic planning processes that mirror the ones described in this example.

HOSPITALITY FOCUS

A SYSTEMATIC APPROACH TO STRATEGIC PLANNING

One of the largest companies in the world, with vast operations around the globe, has a very systematic strategic planning process. The organization is divided into many companies. Each year, all of the companies prepare a two-day presentation for corporate administrators to whom they report. They present highly detailed plans of the objectives the company will reach over the next few years, and the specific strategies that will be pursued in order to reach these goals. Hundreds of PowerPoint–style slides are used. A rigid format is followed, so that the presentations of each company contain the same elements, and corporate executives know what to expect. In preparing for the presentations, company managers are very cautious. They are hesitant to bring up highly innovative ideas that could lead to dramatic changes, because the managers know that once they commit to their performance targets, the managers will be held accountable for reaching them. The managers are afraid to fail because the organization penalizes failure. In general, the organization does not reward unconventional thinking. Consequently, the company has been limping along for several years now, with many performance problems and low shareholder returns.[48]

This kind of approach to strategic planning can be referred to as "strategy as form filling," whereas strategic thinking is "crafting strategic architecture."[49] The next section provides more detail on the essential elements of strategic thinking.

Characteristics of Strategic Thinking

When Arlington Hospitality began the search for a new CEO, it asked candidates to draft "strategic white papers" presenting their opinions on the future direction of the company.[50] Candidates who did not have an intellectual focus or vision for the firm or who presented status quo thinking were eliminated. The company was in search of a strategic thinker, who possesses the six characteristics of strategic thinking:

1. **Intent-focused**
2. **Comprehensive**
3. **Opportunistic**
4. **Long-term oriented**
5. **Built on the past and the present**
6. **Hypothesis-driven**

TABLE 1.3 Elements of Strategic Thinking

Intent Focused	Built on a managerial vision of where the firm is going and what it is trying to become. This is called strategic intent.
Comprehensive	A "systems" perspective. Envisions the firm as a part of a larger system of value creation. Understands the linkages between the firm and the other parts of the system.
Opportunistic	Seizes unanticipated opportunities presented to the firm.
Long-term Oriented	Goes beyond the here and now. Looks several years into the future at what the firm will become, based on its strategic intent.
Built on Past and Present	Does not ignore the past or present. Instead, learns from the past and builds on a foundation of the realities of the present.
Hypothesis Driven	A sequential process in which creative ideas are then critically evaluated. Is willing to take a risk. Learns from mistakes.

Source: This table was strongly influenced by J. M. Liedtka, "Strategy Formulation: The Roles of Conversation and Design," in *The Blackwell Handbook of Strategic Management,* ed. M. A. Hitt, R. E. Freeman, and J. S. Harrison (Oxford: Blackwell Publishers, 2001), 70–93.

A summary of these characteristics is found in Table 1.3.[51]

INTENT-FOCUSED

Strategic thinking is not a random process of trial and error. Instead, it involves *strategic intent*, which is a vision with regard to where an organization is or should be going. Strategic intent

> *implies a particular point of view about the long-term market or competitive position that a firm hopes to build over the coming decade or so. Hence, it conveys a sense of direction. A strategic intent is differentiated; it implies a competitively unique point of view about the future. It holds out to employees the promise of exploring new competitive territory. Hence, it conveys a sense of discovery. Strategic intent has an emotional edge to it; it is a goal that employees perceive as inherently worthwhile. Hence, it implies a sense of destiny. Direction, discovery, and destiny. These are the attributes of strategic intent.*[52]

A recently announced signing of a letter of intent between Trump Entertainment Resorts and Diamondhead Casino Corporation to form a joint venture partnership to develop, build, and operate a destination casino resort is a formal statement of intent. However, behind this statement of intention is the strategic thinking that leads to this proposed venture.

DIAMONDHEAD AND TRUMP: A JOINT VENTURE

HOSPITALITY FOCUS

Deborah A. Vitale, the Chairman, CEO, and President of Diamondhead, makes the case for the venture by stating:

> *We believe a partnership with Trump Entertainment Resorts for this venture adds up to an ideal combination because of their experience, the value of the Trump brand, the location of our site on Interstate 10, and the vitality of the Gulf Coast market. We have the land, the location, and the desire to pursue a master plan for the entire tract that should not only enhance long-term shareholder value, but which should significantly enhance the surrounding economy.*

James B. Perry, President and CEO of Trump Entertainment Resorts, Inc., explains his firm's views on the proposed joint venture as follows:

> *As we renovate and re-brand our Atlantic City properties, we are also focused on our corporate development initiatives and expanding the Trump brand into new markets. We are excited about the prospect of bringing the Trump brand to the Gulf Coast, and we hope to join private and public entities in redeveloping the region. We believe that this is a great opportunity to create value for our company, our shareholders and the citizens of Mississippi.*[53]

COMPREHENSIVE

Strategic thinking is based on a systems perspective that envisions the firm as a part of a complete end-to-end system of value creation. Furthermore, strategic thinking means that decision makers are aware of the interdependencies in the system.[54] This type of thinking fits within the stakeholder view of the organization, which is one of the important perspectives on which our model of strategic management is based. Organizational managers each possess a "mental model," which is a view of "how the world works."[55] Mental models should include an understanding of both the internal and external organization. An industry-based model of the external environment has dominated for many years.[56] However, a more promising model views the company not as a member of a single industry, but as a part of a larger business system that crosses a variety of industries. Companies co-evolve around innovations, and they work both in competition and cooperatively to satisfy the demands of a wide variety of stakeholders, including customers, suppliers, and broader society and its governments, as well as to create or absorb the next round of innovation.[57] Organizations are a part of one or more value chains, to which they can contribute in many ways.

Managers who want to think strategically must also understand and appreciate the internal pieces that make up the whole of their companies. The role of each person within the larger system must be identified, as well as the effect of that role on other people and groups within the organization and on the outcomes of the organization. It is impossible to optimize an organizational system in, for example, satisfying customer needs, without understanding how individuals fit into the system.[58] So the strategic thinker observes and understands the connections between and among the various levels of a business, as well as the linkages between the business and stakeholders in the external environment.

OPPORTUNISTIC

Although strategic thinking is based on strategic intent, there has to be room for what might be called "intelligent opportunism."[59] *Intelligent opportunism* can be defined as the ability of managers at various levels of the organization to take advantage of unanticipated opportunities to further an intended strategy or even redirect a strategy. For example, Marriott saw an opportunity for growth in the lower-priced segment of the lodging industry when Courtyard was introduced. Of course, the company has a long history of bold entrepreneurship, beginning with a root beer stand started in 1927 by John and Alice Marriott. They added hot food, incorporated, and expanded their Hot Shoppes into a regional chain. The next major move was Marriott's first hotel, the Twin Bridges Marriott Motor Hotel, which opened in Arlington, Virginia, in 1957. With the increase in airline travel, Marriott built several hotels at airports during the 1970s. Each of these ventures was in response to an opportunity, and each was a vital part of building the Marriott that exists today. Intelligent opportunism is consistent with the traditional strategic planning model. According to that model, strategies often come from taking advantage of opportunities that arise in the external environment.

LONG-TERM ORIENTED

Managers, especially in America, are often accused of making shortsighted decisions.[60] Perhaps a renovation or expansion plan is canceled because the payoff looks too far away, or employees are laid off when occupancies drop, only to be rehired within a few months. In contrast, strategic thinking is long-term oriented. Actions that a firm must make now should be linked to a vision of what the firm should become, based on the strategic intent of its top managers. This type of thinking is driving many hoteliers into international markets on a much larger scale.

BUILT ON PAST AND PRESENT

Although strategic thinking is long-term oriented, it does not ignore the present or the past. In fact, it might be referred to as "thinking in time":

> *Thinking in time (has) three components. One is recognition that the future has no place to come from but the past, hence the past has predictive value. Another element is recognition that what matters for the future in the present is departures from the past, alterations, changes, which prospectively or actually divert familiar flows from accustomed channels . . . . A third component is continuous comparison, an almost constant oscillation from the present to future to past and back, heedful of prospective change, concerned to expedite, limit, guide, counter, or accept it as the fruits of such comparison suggests.*[61]

Strategic thinkers need to consider the past. The past forms a historical context in which strategic intent is created. Learning from past mistakes helps the firm avoid making them again. Also, analysis of the past behaviors of important stakeholders, such as customers, competitors, unions, or suppliers, can help a firm anticipate how the stakeholders will react to new ideas and strategies.

The present is also important to strategic thinking, because it places constraints on what the organization is able to accomplish. Strategic thinking is a creative process, but it is also a well-reasoned process. Although it may lead firms to consider unconventional ideas, the ideas that are actually pursued are selected based on rational analysis, including consideration of the organization's current resources, knowledge, skills, and abilities.

HYPOTHESIS-DRIVEN

Organizations should test their decisions to see if they are appropriate or likely to be successful. This process is similar to the scientific method, in which hypotheses are developed and tested. *Hypothesis development* is a creative process built on brainstorming, whereas *hypothesis testing* is an analytical process. A typical process begins as managers suggest ideas regarding what the firm might want to do. Those that are considered reasonable are then subjected to rigorous analysis of potential using a well-developed methodology. After analysis, managers determine which of the ideas are worthy of implementation. However, the company may decide not to make a full commitment to each of them at first. Instead, it may allocate enough resources to implement the ideas on a trial basis, so that the company will be able to tell whether the ideas are going to work out. The ideas that are successful are given additional resources. In this description, hypothesis testing occurred twice. The first test was the rigorous analysis conducted by managers in the organization. The second test occurs as the company tries the ideas in the marketplace.

If you combine all six of the elements of strategic thinking, what you have is a long-term thinker who builds a vision for the future on the foundation of the present and the past. It is someone who understands how the organization fits within its external environment, and who has a firm grasp of relationships with external stakeholders. Furthermore, it is someone who is willing to break out of traditional mind-sets and to seize opportunities, but who uses a rational approach to test ideas to prevent the organization from moving indefinitely in an inappropriate direction.

Motivating Managers and Employees to Think Strategically

Organizations can encourage strategic thinking in several ways. First, managers and employees can receive training that describes strategic thinking and how to do it. Second, an organization can encourage and reward employees who generate new ideas (hypotheses). For example, Disney allows some of its employees an opportunity each year to present new ideas to top managers. With a similar philosophy, Virgin, well known for its unconventional airline, created a one-stop bridal-services company because one of its flight attendants was having a difficult time lining up those services for a friend's wedding.[62] Virgin Bride, the name of the venture, is now Britain's largest bridal emporium. Third, a company can actually implement a strategic planning process that incorporates the elements of strategic thinking. Such a process would include a thorough evaluation of the external environment, with a special emphasis on relationships with stakeholders. It would also include the generation of new ideas and facilitate their testing. Finally, to encourage strategic thinking, an organization has to be willing to take risks. It was risky for Kemmons Wilson to develop the first Holiday Inn back in 1952, after returning from a family vacation disheartened at the lack of family and value-oriented lodging, but the strategy worked so well that Holiday Inn developed into a trusted name along the emerging interstate highway system.[63]

STRATEGIC MANAGEMENT IN THE HOSPITALITY INDUSTRY

Hotels and restaurants are among the most competitive businesses in the world. The hospitality industry primarily consists of businesses that provide accommodation, food and beverage, or some combination of these activities. Hospitality businesses provide services, which differ from tangible products because they are immediately consumed and require a people-intensive creation process. They differ from other service establishments by providing for those who are in the process of traveling away from home in contrast to local residence, although restaurants often serve both travelers and local guests. The offering of an experience is also becoming an important component of hospitality. In addition, a wide range of business structures exist in hospitality, such as direct ownership by chains, franchising, asset management, and consortia. Today, the hospitality industry has become more complex and sophisticated, with a movement away from the "mine host" (i.e., a view of hospitality in which the host personally and socially entertains visiting guests) and the cost-control frameworks of the past to a more strategic view of the business, in both investment and operations domains.

"Travel and tourism" is a broad term used to capture a variety of interrelated businesses that provide services to travelers. Tourism is the largest industry worldwide, the second largest services export industry, and the third largest retail sales industry in the United States.[64] It is the first, second, or third largest employer in 30 of the 50 states. Besides the traditional hospitality businesses of hotels and restaurants, the tourism industry includes a broad range of businesses, such as airlines, cruise lines, car rental firms, entertainment firms, travel agents, tour operators, and recreational enterprises. The focus of this textbook will be on those hospitality businesses primarily engaged in providing food and lodging to traveling guests. However, we will also include discussions of other travel-related businesses, such as casinos, airlines, cruise lines, timeshares, travel agents, tour operators, and governmental tourism institutions.

The Foodservice Industry—The Players

The foodservice industry consists of a wide variety of different businesses, including institutional providers and food contractors such as Aramark Corp., Sodexho Alliance, Autogrill SpA's, HMS Host, and Compass Group. Institutional foodservice and military foodservice are small segments of the industry and consist of noncommercial institutions that operate their own foodservice. Contractors operate for-profit services to commercial, industrial, university, school, airline, hospital, nursing home, recreation, and sports centers. Management is provided by the contractor of restaurant services, but the institution may provide the facilities and personnel for these operations.

Contract companies are highly consolidated after aggressive merger and acquisition activities that gave them strong positions in the various on-site segments (e.g., school, corporate, and health care). Compass Group's Americas Division, for example, is the largest contract foodservice company, with $7.5 billion in revenues. Its purchase of Bon Appetit Management Company, a $300 million provider of upscale foodservice for corporations and universities, is one example of its expanded coverage in various key segments.[65] Its parent company, Compass Group PLC, has worldwide revenues of $21 billion, with more than 400,000 associates working in more than 90 countries. Sodexho Alliance is the second-largest provider of foodservice worldwide, with operations in 79 countries employing 324,500 people.[66] In the latest rankings, Aramark is the leading contract chain in U.S. systemwide sales ($5.53 billion) and market share (28.8 percent share of aggregate sales of contract chains in top 100), followed by Canteen Services and Sodexho.[67]

The restaurant industry is the largest private-sector employer in the United States, and consists of commercial dining and drinking establishments, such as restaurants, bars, cafeterias, ice cream parlors, and cafés. It dominates the foodservice industry. Within foodservice, the restaurant industry is by far the largest segment, with 935,000 restaurants in the United States, sales of around $537 billion in 2007, and an annual growth rate of around 8.4 percent.[68]

Common convention is to split the restaurant industry into two main segments: quick-service and full-service. Quick-service, commonly called fast-food or fast-service, restaurants are defined as eat-in or take-out operations with limited menus, low prices, and fast service. This segment of the industry is further broken down into sandwiches (e.g., hamburgers and tacos), pizza, and chicken. Leaders in market share in the sandwich segment are McDonald's, Burger King, Wendy's, Subway, and Taco Bell, while the chicken segment is led by KFC (Kentucky Fried Chicken), Chick-fil-A, and Popeye's Chicken and Biscuits.[69] The pizza segment is led by two strong players: Pizza Hut with 43 percent of the market and Domino's Pizza with a 27 percent market share.[70]

Full-service restaurants offer eat-in service, with more expansive menus, and prices that range from low to high. In providing annual comparisons, *Nation's Restaurant News* divides full-service restaurants into family, grill-buffet, and dinner house segments. Family chains include players like Denny's and IHOP (International House of Pancakes), and grill-buffet segment leaders include Golden Corral, Ryan's Family Steak House, and Ponderosa Steakhouse.[71] Finally, the large dinner house segment is aggressively focusing on value-oriented menu items, advertising, and improved execution in operations, with several major players including Applebee's Neighborhood Grill and Bar, Chili's Grill and Bar, Outback Steakhouse, Olive Garden, Red Lobster, and T.G.I. Friday's.[72]

Other key players in this segment are the multiconcept operators and franchisors like Darden and Brinker. Large companies in the restaurant industry, such as Yum! Brands (which owns many of the aforementioned brands such as Pizza Hut and Taco Bell), are aggressively developing portfolios of restaurants, and international expansion continues to serve as a viable growth strategy for firms like Starbucks. Small operators and independent restaurants compete with the large chains in an industry known for its low barriers to entry and entrepreneurial opportunities.

The Lodging Industry—The Players

Lodging in the United States is a $113.7 billion industry, with more than 47,000 hotels and around 4.4 million guest rooms.[73] Like the foodservice industry, consolidation has been a theme for the last decade, with most of the largest companies being publicly owned. Hyatt

HOSPITALITY FOCUS

FAMILY-OWNED CARLSON COMPANIES

Carlson Companies began as the Gold Bond Stamp Company, providing consumer incentive programs for grocery stores, when founder Curtis L. Carlson started the business in 1938 with a loan of $55. When the trading stamp business reached its peak in the late 1960s, the company entered the hospitality industry, changing its name in the 1970s to reflect its transition into a marketing, travel, and hospitality leader. The company currently employs more than 171,000 people in more than 145 companies, owns 5,300 travel agencies, an incentive travel and marketing company, plus more than 1,700 hotels, resorts, restaurants, and cruise ships. Current brands and services include: Regent International Hotels®; Radisson Hotels & Resorts®; Park Plaza Hotels & Resorts; Country Inns & Suites By Carlson; Park Inn® hotels; Regent Seven Seas Cruises®; T.G.I. Friday's® and Pick Up Stix® restaurants; Carlson Wagonlit Travel; Cruise Holidays; All Aboard Travel; Cruise Specialists; Fly4Less.com; CruiseDeals.com; Results Travel; Carlson Destination Marketing Services; Carlson Leisure Travel Services; SeaMaster Cruises®; SinglesCruise.com®; CW Government Travel; Carlson Marketing®; Peppers & Rogers Group®; and Gold Points Reward Network®, an online/offline consumer loyalty program.[74]

Hotels, owned by the Pritzker family, and Carlson Companies are exceptions to this rule, with Carlson being one of the largest privately held companies in the United States. (See the "Hospitality Focus" boxed section above.)

SEGMENTATION

Providing a bed, bathroom, television, and phone are hotel basics, but additional amenities and services are common. *Segmentation* is a strategy that distinguishes properties on the basis of price, service, function, style, offerings, and type of guest served. Hotel chains have been utilizing segmentation, particularly since the 1980s, to enable growth, expand their customer base, and leverage corporate resources and expertise. A widely used approach to classifying segments of the lodging industry was devised by Smith Travel Research and Bear Stearns and includes five segments: luxury (upper upscale), upscale, midscale with food and beverage services, midscale without food and beverage services, and economy. Extended-stay hotels are also included in many classifications as either upper or lower tier, depending on the range of services they offer. Many of the largest hotel chains have developed brands in a variety of segments, from luxury to economy. Accor Hotels, for example, has the Sofitel brand in the upper upscale segment; Novotel, Mercure, and Suitehotel in the upscale and midscale segments; Ibis in the economy segment; and Etap, Motel 6, and Formula 1 in the budget segment.[75]

OWNERSHIP STRUCTURES

A hotel may be owned by one company, franchised by another, and operated by a third, or any combination of these situations. This complex web of business relationships often makes the question of business identity confusing for those who do not understand the structure of the industry. Companies that choose to own hotels can select from a variety of different forms, including corporations, partnerships, and real estate investment trusts (REITs). A company that owns hotels may also be part of a franchise.

Management companies run the operation of a hotel and may also be franchisors. These companies may actually own the hotels they manage or operate hotels that others own. Table 1.4 lists the companies managing the most hotels worldwide based on a recent *Hotels* survey. As

TABLE 1.4 Large Hotel Players

Company	Hotels Managed	Total Hotels	Company	Hotels Franchised	Total Hotels
Marriott International	947	2,832	Wyndham Hotel Group	6,441	6,473
Extended Stay Hotels	681	681	Choice Hotels International	5,376	5,376
Accor	525	4,065	InterContinental Hotel Group	3,204	3,741
InterContinental Hotel Group	512	3,741	Hilton Hotels Corp.	2,241	2,935
Starwood Hotels & Resorts Worldwide	426	871	Marriott International	1,784	2,832
Tharaldson Enterprises	351	351	Accor	1,121	4,121
Hilton Hotels Corp.	343	2,935	Carlson Hospitality Worldwide	905	945
Societe du Louvre	292	840	Vantage Hospitality Group (Americas Best Value Inn)	699	699
Interstate Hotels	219	223	Global Hyatt Corp	425	749
Global Hyatt Corp.	186	749	Starwood Hotels & Resorts Worldwide	360	871

Source: Hotels' Giants Survey 2007, *Hotels* magazine, a Reed Business Information publication.

the rankings in Table 1.4 suggest, Marriott Accor, InterContinental, and Starwood are also franchisors and owners of hotels. Based on Table 1.4, the top five franchise hotels worldwide are Wyndham Worldwide, Choice Hotels International, InterContinental Hotels Group, Hilton Hotels Corporation, and Marriott International.[76] Overall, the top players based on the number of rooms they hold around the world are, in that order: InterContinental Hotels Group, Wyndham Worldwide (formerly Cendant Hotel Group), Marriott International, Hilton Hotels Corporation, Choice Hotels International, Accor, Best Western International, Starwood Hotels & Resorts Worldwide, Carlson Hospitality Worldwide, and Global Hyatt Corporation. As this list suggests, 80 percent of the largest chains are headquartered in North America, although this percentage drops to half when the list includes the top 50 corporations. Best Western International is the largest chain with independently owned and operated hotels, which explains why it has no managed or franchised hotels. Starwood also has 130 owned hotels and 19 vacation ownership resorts in addition to its managed and franchised hotels.

As firms in the industry have evolved and transitioned into more consolidated international operations, so too has the mind-set of managers moved to a more strategic way of thinking about the business. Many of the assumed differences between hospitality firms and other businesses have disappeared, being replaced with a clear understanding of business practice. Although differences still exist between hospitality firms and firms of other types, in most ways hospitality firms are not that different. From one perspective, hotels and restaurants are a big assembly operation, much like a manufacturing operation. However, they are seldom studied in this manner. Also, all hospitality firms can be studied in terms of their cash flows, just like other types of firms. They also all rely on markets for capital, human resources, customers, and supplies. They are subject to economic, sociocultural, technological, and political influences and trends. They have competitors. In summary, there are more similarities than differences between hospitality firms and firms of other types.

Consequently, the general strategic management process does not require substantial modifications to be applicable to hospitality firms. Similar to the manufacturing industry, the process begins with analysis of the firm and its environment, which forms the foundation for development of strategic direction, strategies, and implementation plans. The outcomes from this process are different for each hospitality firm, because results depend on the specifics of the situation. In addition, certain ideas require modification to understand their use and application in services.

The most unique aspect of this book compared to general strategic management texts is the translation of these ideas into service contexts through the use of hospitality industry examples. These examples should help you as you learn the strategic management process. Also, they will help you become more aware of strategies and strategic issues in the industry. However, the most up-to-date theories and ideas of strategic management are also contained here. Nonhospitality examples will occasionally be used when they better illustrate a point.

One of the most important strategic issues facing the hospitality industry today is the ability to leverage human capital.[77] In particular, managers are concerned about human resource activities, such as attracting, retaining, and developing the workforce. Although human resources are an area of concern in every business, the hospitality business faces particularly great challenges because of relatively low wage rates and a large percentage of routine jobs. Managers are also very interested in effective use of capital, aligning the interests of stakeholders such as employees, customers, and owners, understanding their customers better, and applying information technology. Because of their importance to the industry, these issues will receive special attention in this book.

KEY POINTS SUMMARY

This chapter emphasized the important role of the strategic management process in modern organizations.

- The strategic management process includes (1) analysis of the external environment and the organization, (2) establishment of a strategic direction, (3) formulation of a strategy, and (4) implementation of the strategy and development of a system of controls.
- Organizations seldom begin with a thorough strategic management process. Instead, they usually begin with basic financial planning or forecasting. Over time, they develop methods that are more closely associated with what we refer to as strategic management.
- The traditional approach to strategy development is that firms should adapt to their environments. According to this 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 out that strategy.
- The principle of enactment assumes that organizations need not 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.
- The traditional strategy formulation model supports the view that managers create strategies deliberately; however, a more reasonable approach may be to suggest that, through trial and error, managers can also learn as they go.
- The resource-based view of the firm explains that an organization is a bundle of resources, which means that the most important role of a manager is that of acquiring, developing, managing, and discarding resources. According to this view, firms can gain competitive advantage through possessing superior resources.
- Most of the resources that a firm can acquire or develop are directly linked to an organization's stakeholders, which are groups and individuals who can significantly affect or are significantly affected by an organization's activities. A stakeholder approach depicts the complicated nature of the management task.
- Many trends and forces are leading firms into global markets at increasing rates, which have led to a high level of global economic interconnectedness. While the tools, techniques, and models of strategic management apply well to a global environment, there are differences between managing in domestic and international arenas.
- Industry leadership is often associated with breaking out of traditional mind-sets and defying widely accepted industry practices. Strategic planning results in the creation of a plan. Strategic thinking involves intuition and creativity.

- Strategic thinking is intent-focused, comprehensive, opportunistic, long-term oriented, built on the past and the present, and hypothesis-driven. Organizations can encourage strategic thinking through training, rewards systems, integrating elements of strategic thinking into the strategy-making process, and by encouraging risk taking.

REVIEW QUESTIONS

1. Explain each of the component activities in the definition of the strategic management process. Which of these activities do you think is most important to the success of an organization? Why?
2. Summarize the traditional, resource-based, and stakeholder perspectives of strategic management.
3. What are some of the considerations motivating companies to go global?
4. What is the difference between the strategic planning process and strategic thinking?
5. Which of these is essential to effective strategic management?
6. What are the important characteristics associated with strategic thinking? How can an organization encourage this sort of thinking?
7. Who are the key players in the restaurant industry? Lodging industry? How did you arrive at your lists?

CRITICAL THINKING AND APPLICATION QUESTIONS

1. Identify deliberate and emerging strategies for various hotel companies. You may find the following industry news web sites useful in your search for examples of strategies:

   www.globalhotelnetwork.com

   www.hotelinteractive.com

   www.hotel-online.com

2. Name several hospitality firms that you think outperform others. Why are they higher performers? What would the traditional perspective have to say about these high performers?
3. List an industry revolutionary. What makes this person or company revolutionary?
4. Research McDonald's "Plan to Win" initiative. Will the focus on "Brand McDonald's" yield maximum return? Why or why not? You can start your efforts at www.mcdonalds.com.
5. China has been criticized for its unsafe products recently. There appears to be a backlash in the United States, a movement against buying Chinese products. Consumers are avoiding products made in China and questioning providers about the origin of products. In light of this, should hospitality companies take steps to eliminate Chinese products; should they institute a system to ensure the safety of Chinese products for their guests; or should such external environmental issues be ignored?