Managing International Hospitality

by
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The Spring 1992 issue of Hospitality Review *featured Part I of this series on the impetus to internationalization of the hospitality industry, as well as the modes of overseas expansion by American firms. In Part II, the author concludes with a look at the organization of overseas activities in their evolutionary stages and considers, as well, who some of the major international competitors to North American firms are in the international market and in North America. The article concludes with a brief consideration of opportunities for employment overseas.*

The best way to view the development of foreign operations abroad is to see them as passing through four stages. This usually begins with one or a small number of units, run as simply as a "51st state"—that is, an extension of the regular operations—that happen to be in another country. In a second stage, an "international division" is created which responds to particular opportunities overseas but is still essentially an extension of the domestic operation. In a third stage, international development acquires a strategic focus of its own and international markets are seen as separate entities to be developed on their own merits rather than as extensions of the domestic activity. In a fourth stage, a company moves to what one international consultant calls "insiderization"—that is, the development of a company whose overseas subsidiaries act so much like domestic companies that they become literally "insiders" in their host countries.[1]

Figure 1 shows one possible set of organizational arrangements. In stage 1 foreign units report to operations, just as does any other unit. In stage 2, foreign operations report to the same person as other operating districts, but their separate needs are recognized by a special place in the organization. In stage 3, international operations has a separate reporting relationship to top management. In stage 4, fully-developed companies are deployed in each major national market.

Choice International has passed through the first two stages and is moving into the third stage. Frederick Mosser, executive vice president of development, described that process in this way:

> International expansion began in the 1970's fairly typically in Canada and Mexico. Canada was treated, more or less as the 51st state... In 1985-86 we decided to really get serious about

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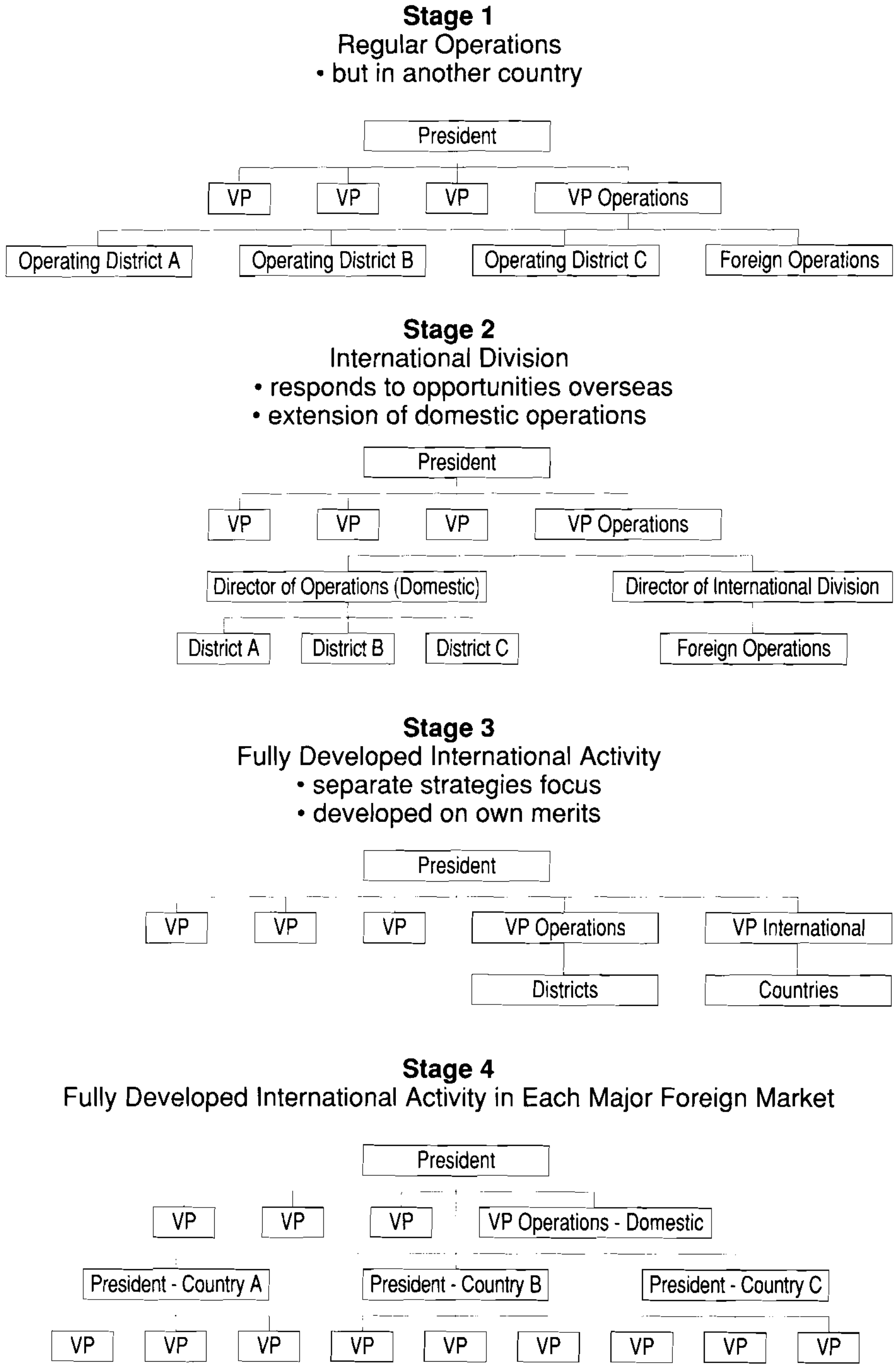
Figure 1
Stages in the Development of International Involvement



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the international expansion. The "global triad" (North America, Western Europe and the Pacific Rim) was our first priority... Organizationally we had a very conventional approach to setting this up. We were essentially a U.S. corporation with an international division.

The results of this organization, however, were recognized as unsatisfactory. As Mosser put it:

> We have come to recognize that to get to where we want to get to in terms of numbers of properties and truly being a global lodging company... we're going to have to undertake a more comprehensive strategic approach.[2]

It is interesting that, in 1991, Mosser moved his office to Germany to better direct Choice's expansion in Europe.

Turning to another company after a slow start internationally, Marriott moved quickly to stage 3. The head of Marriott's International Lodging Division put it this way:

> We were so busy taking advantage of opportunities in the U.S. that we didn't do a lot internationally until about five years ago. (Then) last year (i.e. 1989) we made the decision to become a full fledged international lodging company.[3]

As a result of this decision, an international development group was created, consisting of a group vice president and five development executives backed by teams drawn from project finance, feasibility, tax, design management, and construction management. In spite of this considerable commitment, in 1991, only 17 out of 500 lodging properties were international, with another 23 scheduled for opening or in development. It seems reasonable, using the framework developed earlier, to characterize Marriott as a stage 3 company, even though only a small part of the company's profit comes from international operations.

McDonalds, clearly a stage 4 company, is the leader in fast food in a number of countries, including Japan, and in regions such as Western Europe. McDonalds makes long-term commitments as it has done in the Soviet Union and is able to wait patiently for them to pay off. Because it relies on local partners, the company has excellent contacts in all parts of government and society. It is able to fully play the role of the true insider, providing a good illustration of what "insiderization" means in practice.

Foreign Investment Is High in U.S. Market

The meaning of a national designation has become limited in today's world. Many well-known "American" firms had "foreign" owners in 1991. That list includes the two U.S. pioneers in international hotel-keeping, Intercontinental and Hilton

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International, as well as a number of famous American brand names like Burger King and Holiday Inn. The word "foreign" shows the limitations of language to deal with a rapidly-changing world. It is a convenience to use the word—but it is much less clear what it means today than it did even five or 10 years ago.

Burger King, Baskin Robbins, Dunkin' Donuts, and Holiday Inn are all owned by British firms; Intercontinental by firms in Japan and Sweden; Omni, Hong Kong; Ramada, Hong Kong and U.S.; Restaurant Associates and Westin, Japan.

Most foreign direct investment (FDI) in the U.S. has been spent on acquiring existing companies. In 1988, for instance, $60 billion was spent in the total U.S. economy by foreign companies for acquisition, and only $5 billion to start up new companies.[4] The proportion spent on new enterprises in hospitality is probably even less than for the economy as a whole. Given the level of development of the U.S. hospitality industry relative to that in other countries as well as the size and competitiveness of the market, it takes a very large investment to enter hospitality in the U.S. Companies that can afford to make that size investment quite reasonably conclude that going concerns—purchased with their management expertise and successful, consumer-accepted concept—make the best investment.

The largest investors in the U.S. are the British who control 30 percent of foreign-owned assets; while Japan is a distant second, with 16 percent. Foreign ownership of assets in the U.S. is significantly lower proportionally than foreign ownership in other developed countries, about two thirds the level experienced in Great Britain and Germany, for instance.[5]

Lodging Firms Are the Most Active Abroad

It is interesting to identify some of the most important international companies. Overseas multi-unit firms have been more significantly active in lodging than in food service, though some companies also have large European food service operations.[6]

- **Accor:** One of the largest international hotel operators—the third largest chain in the world—is the French-based company, Accor. An innovator, Accor began offering specialized hotel products aimed at specific market segments in the 1970s and can take credit for being the first segmented lodging company. The company's brands and lodging segments served as follows:[7] Sofitel, luxury market; Mercure, luxury market; Novotel, mid-range market (similar in many ways to Holiday Inns); Compri, limited service hotel developed in North America under license in a joint venture with a subsidiary of Metropolitan Life Insurance Co.; Ibis/Urbis, economy market with Urbis properties located in urban areas, and Ibis in suburbs, smaller cities, and outlying areas, mainly in Europe; Motel 6, a hard-budget motel, presently centered in the United States; Formula 1, a hard-budget motel offered only in Europe; and Hotelia, a chain of residence hotels for the aged offered only in Europe.

Accor is represented in virtually every international hotel market, with nearly 1,600 hotel properties having 180,000 rooms in 55 countries in 1991. In addition to being Europe's largest hotel chain, it is the largest hotel chain in Brazil and a major force in several other national markets. Eighty-five percent of its hotels, however, were in Europe until its acquisition of Motel Six. With that acquisition, the distribution changed to roughly 55 percent in Europe, with Motel 6 and Accor's other U.S. properties accounting for something under 35 percent of its hotels.[8] Accor, unlike most U.S. chains, owns 50 percent of the hotels it operates, and franchises only 20 percent. The remaining 30 percent are operated by Accor under management contracts. This pattern of ownership and limited franchising permits tight control of its operations, an important policy difference between Accor and many North American hotel companies which have a much greater proportion of franchised properties where detailed control of operations is more difficult. Only 50 percent of Accor's revenues come from hotel operations. The balance comes from contract food service and restaurant operations.[9]

- **Wagon-Lits:** This Belgian-headquartered company is in the process of merging with Accor. With a network of almost 300 hotels, including 157 upscale properties under the brand names Pullman, Altea, and PLM Azur, the company operates 79 properties under the Arcade brand in the upper end of the European budget market. Primo, a hard budget brand, is still in test. The hotel division of Wagon-Lits, operating under the name Pullman International Hotels, has a total of 262 hotels in 35 countries, principally in Europe, Africa, and the Middle East. Pullman has two North American operations, one deluxe hotel in New York City, and an economy property in Montreal. The company has regarded the North American market as significantly overbuilt and not an attractive area for expansion.[10]

Wagon-Lits derives only 15 percent of its revenues from hotel operations and 40 percent from restaurants. The balance of its revenues, however, also come from tourism-related industries, including sleeper car rail operations (12 percent), travel agency and car rental operations (18 percent), and travel-related retailing and vending (15 percent).[11] With the completion of the Accor and Wagon Lits merger, it is one of the largest international hospitality companies in the world.[12]

- **Trust House Forte:** Another very large operator in the U.S. whose ownership is based overseas is Trust House Forte (THF). The Forte name is not as well known in the U.S. as is its largest operating group, Travelodge. Originating in the U.S. and still predominately located in North America, Travelodge was purchased some years ago by THF in one of the earliest major trans-national lodging chain acquisitions.

Travelodge makes up somewhat more than 50 percent of THF's rooms, the bulk of which are in the U.S. THF's operations outside

England, with 550 properties comprising 52,600 rooms, significantly outweigh its 274 U.K. properties with 25,000 rooms. In spite of the size of its international operations, however, THF is more limited in its geographic scope of operations than Accor, operating hotels principally in the United Kingdom and the U.S. The company operates two dozen hotels in Europe, seven in the Caribbean region, and three in the Middle East. THF is also implementing development agreements in Mexico.

While its largest group of hotels, Travelodge, is in the upper-level economy market, the company's exclusive group of five-star hotels includes some of the most famous names in international hotel-keeping such as the Plaza Athenee in Paris and New York, the Hyde Park in London, and the George V, also in Paris. At the other end of the scale, the company is developing a hard-budget chain, Thriftlodge, for expansion in Europe, the U.K., and North America. THF derives two thirds of its profits from hotel operations and the balance from its food service division.[13]

• **Club Mediterranee:** Well known to American tourists, this company pioneered the all-inclusive resort offering a package featuring no frills accommodations and a very active sports, entertainment, and activities program. Although headquartered in France, the company operates a subsidiary with headquarters in New York City. Guests at Club Med are known as gentil membres (GMs)—honorable members—while the staff, who mix socially with GMs, are known as gentil organizateurs (GOs). The company's success relies to a large degree on the social interaction between GM and GO. Known principally as a young singles resort to many North Americans, the company actually targets very successfully a large spectrum of markets, including couples, families with children, and the business meeting market.

• **Voluntary chains:** These groups, similar to Best Western in North America, have a large role to play in the international market, particularly as European independents scramble to deal with mounting chain competition in their markets. Reservation referrals, joint marketing programs, and joint purchasing activities are some of the principal values these groups offer their members. The largest voluntary chain internationally is Best Western, with 260,000 rooms in 3,300 properties in 36 countries. Best Western is expanding aggressively in Europe, the Pacific Rim, and South America has a target of representation in 50 countries by 1994.

The next largest voluntary group, Logis et Auberges (4,660 properties), has been in business in France for 40 years and is well known there. The third largest, Flag International (500 properties), headquartered in Australia, operates principally in Australia, New Zealand, and the Asian Pacific region. The somewhat smaller (375 inns) upscale Relais & Chateau has properties in 36 countries and a number of properties in the U.S.[14]

Many foreign air lines operate associated hotel companies. Japan Air Lines' affiliate, Nikko Hotels, operates luxury hotels in major gateway cities in the U.S. Meridian, an affiliate of Air France, and Penta, an affiliate of Lufthansa, also operate hotels in the United States.

• **Canadian companies:** A number of Canadian hospitality brands have moved into the U.S. market, particularly in northern states which share a border with Canada. Swiss Chalet, a barbecue chicken and ribs restaurant operation, has moved across the border from its Ontario base into upstate New York. Journey's End Motels, a Canadian budget chain, operates properties in the northeastern U.S. Delta Hotels seeks to serve its Canadian clientele with operations in Florida, a major tourist destination for Canadians, as well as in border states. Four Seasons, a premier luxury chain, operates in many U.S. cities and in Europe, Japan, and the West Indies, serving an international clientele rather than one that is principally Canadian.

Overseas Employment Draws Mostly Locals

There are reasons to hire North Americans to work in hospitality operations overseas. Some countries do not have a large enough source of trained managers. Moreover, particularly in responsible positions, a good fit with the rest of the firm's executive staff is important—and often easier for an American firm to achieve with someone from North America. The relevant operating experience and background may not be available to people living outside the U.S. and Canada. For all these reasons, there are opportunities abroad for Americans who are adequately prepared. American employees are more expensive to hire for most companies operating abroad, however, than are local nationals. Normally, expatriate benefits to senior managers include cost of living and foreign tax allowances, children's tuition in English language schools, and housing allowances. Companies, not surprisingly, have been making efforts to reduce overseas employment by using shorter term assignments and by reducing overseas benefits, especially for junior employees.[15]

Cost is not the only reason for hiring people from the host country. Local people have an understanding of the culture of the employees in a particular country, to say nothing of fluency in the language. Local managers, moreover, do not arouse the resentment that sometimes is directed at a foreign manager. Thus, there are several reasons for a company to prefer to develop and advance local managers. Foreign-owned firms operating in the U.S. seek U.S. managers and supervisors in their U.S. operations for similar reasons.

While most positions in operations outside the U.S. are filled with people from those countries, many American companies with significant foreign operations do have opportunities for overseas employment. The manager of college relations with ITT Sheraton notes that one of the obstacles to immediate employment overseas is the immigration restrictions of other countries, similar to restrictions which the U.S. enforces. Employment of foreign nationals is usually permitted only if the employer is able to show that the prospective employee has special skills that are not otherwise available in the country. It is not surprising, therefore, that many employees who do receive overseas assignments have been employed by the company for a few years and thus have significant operating experience.[16]

The other problem which most prominently faces Americans who want to work overseas is the lack of language skills. In fact, many hospitality programs are now encouraging students to select the study of at least one language as a part of their curriculum. The ability to adapt to a different culture is also important and probably the only way to get it is to have some experience of living abroad.

Work Abroad Provides Excellent Contacts

Summer or short-term work or study abroad not only gives students experience in living in another culture, but also may offer them an opportunity to build up contacts that will help them in securing employment abroad upon graduation. Opportunities to study abroad are plentiful in summer programs offered by many HRI college and university programs. Some institutions also maintain exchange programs with institutions in foreign countries. The University of Wisconsin at Stout, for instance, holds an annual four-week short course for students from Instituto Tecnologico de Estudios Superiores de Monterrey in Monterrey, Mexico. The language of instruction is English and the subjects covered include front office procedures, developmental tourism awareness, fast food operations, and quantity food production.

The value to Stout students is two-fold. First, a mid-winter visit to the Monterrey campus by Wisconsin students is greatly facilitated by the close working relationship that has emerged between the two institutions. In addition, a special course has been organized in multi-ethnic management at Stout's summer school. Students work with the students from Mexico as a means of preparing themselves to meet the demand of an increasingly international marketplace, as well as the changing composition of North America's workforce.[17]

Graduate study in hospitality management is available in France at the Institut de Management Hotelier International (IMHI), offered jointly by the Cornell Hotel School and France's leading business school, Ecole Superieur Science Economique et Commerciale (ESSEC). Although the language of instruction is English, IMHI students are generally at least bilingual and ESSEC offers a wide and varied language studies program as well as its courses in hospitality administration. Virtually all IMHI students have industry experience and are drawn from all over Europe, Asia, and the Americas.

The number of undergraduate programs offered for North American students in Europe is growing, and there are, in addition, other graduate programs there as well. The most current information is available from the Council on Hotel and Restaurant and Institutional Education.

Obtaining work abroad is more difficult because work permits are required to obtain legal employment in a foreign country; these are not easy to obtain. The Association of International Students in Economics and Commerce (AISEC) operates student work exchanges, but they provide only a very limited number of positions. Some colleges and universities have begun to arrange for exchange programs for summer employment but, unfortunately, many do not yet have such a program.

The hospitality industry, always a competitive one, is becoming more so with an influx of firms from overseas. On the other hand, new opportunities are presented by markets outside the U.S. and many personal opportunities are presented to individuals by the presence of such aggressive and successful firms as Accor and Grand Metropolitan as employers in North America. Though it must still be used from time to time, the word "foreign," it seems, may be on the way out of fashion.[18]

References

[1]These stages follow very loosely those set out by Kenichi Ohmae in *The Borderless World,* (New York: Harper Collins, 1990), p. 91. Note, however, that he is dealing principally with manufacturing companies which are concered with, initially, overseas distribution of goods; hence the treatment of the early stages is somewhat different. In addition, the "country neutral" stage 5 which he cites as that stage of development is not yet apparent in hospitality and, according to Ohmae, rare in any industry.

[2]Remarks of Frederick Mosser during a panel discussion, "U.S. Chains in the International Market," at the 12th Annual International Hospitality Investment Conference, New York City, June 5, 1990.

[3]Remarks by Ronald E. Eastman during a panel discussion, "U.S. Chains in the International Market," at the 12th Annual International Hospitality Investment Conference, New York City, June 5, 1990.

[4]*The Economist,* (December 16, 1989), pp. 63-64.

[5]*Ibid.,* pp. 63-65.

[6]Current developments in international hospitality can be found in the trade journal, *Hotels,* devoted to the international lodging industry. The magazine reports current developments each month and usually features two or three in-depth portraits of international hotel companies. Unfortunately, there is as yet no similar forum devoted to food service.

[7]*Hotels,* (September, 1989), pp. 52-53.

[8]*The Economist,* (January 27, 1990), p. 72; Hotel-Motel Management, (May 27, 1991), p. 3.

[9]*Hotels, op.cit.*

[10]Remarks of Jean Paul Champlain, General Manager, Arcade Hotels, in a panel discussion, "Foreign Hotel Companies' Views of U.S. Operations," at the 12th International Hospitality Industry Investment Conference, New York, June 4, 1990.

[11]1989 Annual Report, *Compagnie Internationale Des Wagons Lits et du Tourisme.*

[12]*Travel Agent,* June 17, 1991, p. 12.

[13]*Hotels,* (February 1989), pp. 36-42.

[14]*Hotels and Restaurants International,* (July 1989), p. 87.

[15]*Wall Street Journal,* (December 11, 1989), p. B-1.

[16]Personal communication, Brett Hutchens, manager of college relations, ITT Sheraton, August 1990.

[17]Personal communication, Donald Dinkelman, University of Wisconsin-Stout, August 1990.

[18]The author is indebted to Jo Marie Powers who coordinates international activities for the School of Hotel and Food Administration at the University of Guelph. Conversations with Patrick Moreo at Penn State University and Donald Dinkelman at the University of Wisconsin-Stout also provided useful insights.

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