



BUILDING BENCH STRENGTH:

Talent requirements and development strategies
for the fast-growing hospitality industry

SpencerStuart

The hospitality industry is now in a period of profound change. In anticipation of significant global growth over the long term, lodging companies are developing new properties in both established and emerging markets. This is not only creating an enormous demand for new talent at all organization levels, but is also redefining the capabilities and leadership qualities senior leaders must possess.

To capture perspectives on the trends that are driving hospitality companies' talent needs and the strategies they are using to develop leaders for the future, Spencer Stuart's Hospitality & Leisure Practice undertook this study, interviewing CEOs and the emerging market leaders of many of the world's largest and most recognized lodging brands, including: Carlson Companies, Hilton Hotels Corporation, Hyatt Corporation, InterContinental Hotels Group and Starwood Hotels & Resorts Worldwide.

These executives discussed their outlooks for global growth, strategies for addressing the growing global demand for travel, the changing skill-sets required for senior leaders and how they are developing talent for the future.

Looking East: The engine of industry growth

The hospitality industry is looking past the current economic environment to a future of strong growth, fueled by the fast-growing markets of the East and Middle East. While the recent disruption in global financial markets and the economic downturn are slowing demand and moderating the industry's expansion in the short term — as occupancy rates dip and capital for new lodging construction becomes scarcer — the long-term fundamentals of the industry remain overwhelmingly strong. The consistent expectation is that new property development will restart as soon as capital markets free up and that travel demand will steadily rebuild over time as economies around the world improve.

For the long term, industry leaders anticipate solid growth in established markets and burgeoning

demand in markets such as Asia Pacific, specifically China and India, Latin America and in Eastern Europe as these economies grow rapidly. In the Middle East, oil wealth is being reinvested back in the region, driving efforts to build a complementary tourism economy as a completely new destination for expanding eastern world demand.

“We are at a point of profound change in the world, with 3 billion people entering the global economy,” said Frits D. van Paasschen, president and CEO of Starwood Hotels & Resorts Worldwide. The impact on the travel industry will be enormous, as lodging companies race to establish their brands in these emerging markets. “More hotels are under construction in China than exist now. There will be more rooms in Shanghai than in New York City soon. Similar and proportional growth is going on across all of Southeast Asia,” he

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said. In fact, Starwood projects the Asian market will reach the size of the North American and Western European markets in 10 years, and the growth is happening at all service and price segments.

Fueling this rapid growth are third-party developers who are attracted by the industry’s strong long-term growth fundamentals and the opportunity for attractive returns. “These developers are the ones driving the debt/equity investment in the industry, and the pipeline is literally tens of billions of dollars of investments,” said Mark Hoplamazian, CEO of Hyatt Corporation. “As short-term capital constraints ease over time, our challenge will be to make sure these hotels perform so that we maintain the high level of developer interest in the industry we need to continue to attract their capital.”

Even in well-established markets, steady growth is projected for the long term, driven by baby boomers eager to travel in retirement and increases in business travel as companies expand operations globally. At the same time, the Internet is making travel more accessible to the world’s middle class with easy-to-find information about destinations around the world that inspires people to travel. However, growth rates in more mature markets will be less dramatic than in emerging markets and more focused on specific market segments or needs. In the short term, the North American and European markets will be even more susceptible to an industry slowdown, executives said. Yet, all

believe the industry’s fundamental drivers will restore strong demand and growth rates, resulting in opportunities for new property development and strong performance for existing properties.

“The growth opportunity for our business globally is monumental over an extended period of time,” said Christopher Nassetta, president and CEO of Hilton Hotels Corporation. “With the continued globalization of the world economies, the continued growth in the emerging markets, the growth of the middle class and the fact that people are becoming more willing to travel, both inter-country and intra-country, we think the long-term potential for our brands is phenomenal.”

The shift to brand over real estate

The industry also has shifted away from a model based largely on properties and real estate to one focused on brand and guest loyalty, where the network of physical assets is largely owned separately by real estate developers or investment funds. Today, lodging companies strive to “own the guest.”

For fast-growing companies, the critical leadership challenge will be maintaining consistently high service and quality standards — that reinforce the brand and not tarnish it — even as they grow rapidly in markets around the world.

“In the short term, we face challenging conditions in North America and Europe that are weighing down results. In emerging markets, the growth is

rapid and dramatic. We must be the best and most consistent brand to ride out the cycles of growth and the inevitable corrections that will come even in the now-hot emerging markets to make sure we can deliver to our owners, partners, customers and associates over time,” said Hoplamazian. “It’s easy to expand rapidly in the high-growth environments, but a company can do long-term damage to the brand if growth is not managed properly.”

A related challenge for companies in expansion mode is balancing global brand and ethics standards with local nuances, relationships and preferences. At Starwood, executives refer to the approach it takes to balancing these competing priorities as “freedom in a framework,” van Paasschen said. “We need to be pragmatists and be willing to accept trade-offs without violating any of our core standards.”

Hoplamazian explained Hyatt’s approach this way: “We strive for brand consistency of product, service and messaging, but not ‘sameness.’ Embracing local sensitivity, yet keeping consistency is a challenge we wrestle with every day. It requires strong leadership, well-defined values and resources, all of which need to be close to the market to balance out the inherent trade-offs properly.”

To encourage those disciplines within his team, Andrew P. Cosslett, CEO of InterContinental Hotels Group, said his approach is to create boundaries for people to execute, rather than establishing processes that stifle and control. The idea is to “empower with boundaries.” The goal is to promote strategic thinking throughout the corporate functions.

An increase in complexity

Another fundamental change confronting lodging executives today is the dramatic increase in the complexity of the business. With global travel now within the reach of a much broader, more diverse population, lodging companies have to develop more distinctive offerings and more specialized brands to address specific market segments with different service levels and price points. Companies must understand the customer segments and create distinct value propositions for the different offerings. “No longer can we rely on opportunistic growth; lodging executives need to have a strategic approach to developing the portfolio,” said Cosslett. “As we expand our portfolios, lodging companies have to deliver different brand offerings with the same team in each region, creating a more complex business for the organization to manage across all functions.”

Advancements in technology and changes in the profile of travelers add to the complexity. As they become more experienced travelers, customers are becoming more sophisticated and more demanding. Lodging companies now have to be able to master Internet-based marketing and communication channels and run sophisticated guest loyalty programs that improve their ability to “own the guest.”

Compared to 15 years ago, the investments in and complexity of marketing have grown substantially.

Lodging companies also face additional complexity as they expand globally. “In emerging markets, the major difference is the speed of growth. In these markets, you must be able to develop a large number of properties simultaneously,” said Hubert Joly, president and CEO of Carlson Companies. “This requires a different focus and has significant implications on talent and resource management.”

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The changing face of lodging leadership

The dramatic growth of the industry — more than 2,800 new hotels are expected to open in 2009 and another 2,700 are projected to go online in 2010* — and increasing complexity are creating tremendous demand for talent at all levels of the lodging industry, outpacing the historic capability to recruit and develop the necessary talent. These forces also are reshaping the necessary skill-sets for lodging company CEOs and other senior-level leaders. Today’s executives must possess a broader set of skills and be ready to move into leadership positions sooner. From our discussions with lodging company CEOs, several leadership themes emerged.

The complexity of the business requires top leaders with a strategic mindset, strong leadership skills, agility and financial sophistication. Lodging executives must have a broad understanding of both property-development skill-sets such as finance, investment, construction and partner negotiation/management as well as operating skill-sets such as human resources, operations, marketing and sales. Top leaders also need to have a strong perspective on the brand and the company’s strategy. Cosslett views consumer packaged goods companies as a good model for the hospitality industry. “CPG companies are a good place to learn how to develop a brand more strategically and make better decisions in a brand-centered framework. Executive core skills of analytical rigor and strategic thinking are taken for granted in a CPG background, but are relatively new in lodging companies. The ability to

build this new type of organization capability will be a competitive advantage,” he said.

Lodging companies are evolving into truly global organizations and need leaders with global experience and insight. Lodging executives say building a truly global team is a top priority if they are to identify and take advantage of opportunities around the world. At the property development level, the investors and capital flows are operating globally, requiring company executives in one region to deal with investors from other parts of the globe in addition to local investors and developers. At the operating level, somewhat uniquely, hotels also have customers who travel and experience the brand globally or at least in multiple regions, unlike most businesses where the interaction with the brand or product is more localized. As a result, companies are stepping up efforts to recruit and develop strong local leaders with global capabilities, and promoting a global outlook and cultural sensitivity in corporate executives. This should improve the flow of information among regions so that everyone understands the travel patterns of the customer base and the capital flows of hospitality investment funds.

As growth increasingly comes from outside home markets for these companies, “it does require us to think about leadership and attracting talent in a different way than we did five or 10 years ago,” said Nassetta. “At the senior levels, we want people who have incredible leadership skills as well as an ability to manage and motivate people from

diverse backgrounds, but also have a very global perspective.”

Joly agreed: “If you want to build your business in emerging markets, you have to have people who understand how these different regions of the world work and have a very global perspective and cultural sensitivities, as well as a basic knowledge of how business operates in different parts of the world.”

Today’s globally oriented leaders must recognize that traditional approaches may not be effective in new markets and should not view other markets “as an extension of the U.S. market or an adaptation of the U.S. market,” said van Paasschen. “We need people to see the globe as a series of unique places.”

Great communication skills are necessary. The growing complexity of the business and diversity of the global workforce make it essential that leaders be effective communicators, sensitive to the cultural differences that exist across the organization and able to vary their leadership style to be successful in different regions. To do this, they need to master simple, but strong communications able to inspire and shape a diverse workforce. Van Paasschen summarizes the challenge like this: “We have to deliver complex and subtle messages to 160,000 people in 93 countries, working 24/7, so they can effectively act on them.”

Further, senior leaders need to understand the nature of people and how to motivate and inspire them, argues Cosslett. “With people as the core delivery vehicle of the brand promise, it is all about the ability to lead people at all levels and capabilities throughout the organization, including outside property owners and developers,” he said. “We need people who feel as comfortable talking to investors

ranging from Morgan Stanley or the government of Singapore to a third-generation owner of a Holiday Inn in Arkansas — and then be able to walk into a property, greet a guest and work with a front-line associate.”

Talent pipeline: Addressing the leadership gap

In light of the industry’s rapid growth and changes, lodging executives say the old way of grooming top leaders no longer meets their companies’ needs. Today’s approach to developing talent reflects both the need to prepare up-and-coming leaders faster to fill key roles and the desire of this generation of young leaders to advance quickly.

Indeed, Cosslett argues that the traditional route to senior leadership — promotion through the ranks of lodging properties — fails to develop the broad scope of skills necessary for today’s general management roles. “A traditional hotelier has a very different set of skills than someone who runs a region of hotels, who has to understand strategy, analytics, marketing, sales and broad human resource management as well as complex investment decisions. A hotelier tends to be more instinctive and oriented to people management and often does not develop the broader skills.” While some hotel GMs have embraced the new expectation that they apply a more strategic and analytical lens to their roles, Cosslett is introducing more process to decision making at IHG to instill analytical and strategic rigor more broadly.

A cornerstone of many talent development programs is frequent job rotation. To create additional leadership opportunities, Hyatt is establishing regional and division-level management positions. “This is a great proving ground for our next generation of leadership as they have to rise above the

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property level and take on a broader role of managing a portfolio of properties. By expanding the number of areas, we are building more development slots for our long-term senior-leadership talent needs,” said Hoplemazian. “We cannot wait the 15 to 20 years it takes in the traditional hotel GM career path. We need to support them with a more robust development process now.”

Lodging companies also prepare future executives through informal and formal mentoring programs and executive training. Carlson, for example, has a regional business school in Europe through which all the general managers and their staff are trained; corporate leaders from multiple countries participate in the same training program, said Joly. “Together with mentoring, that’s how you instill the standards, values and culture.”

Whatever its talent needs, a strong employer brand and culture improve a company’s ability to attract and retain the best employees. Nassetta said cultivating the right culture is one of his top priorities. “Culture includes the company’s history, its future, having the best-in-class talent and an organization that functions in the right way. Ultimately, building a culture that engenders goodwill from people in the company and desire from people outside the company to be part of it is a very powerful thing. If there is a level of excitement and energy, the recruiting takes care of itself.”

Looking outside the industry for talent

Increasingly, lodging companies are willing to recruit top functional leaders in marketing, sales,

finance, IT, supply chain and human resources from outside the lodging industry. Ideally, these leaders should come from adjacent sectors, characterized by superior customer service and a business model where the brand is delivered by people. It also helps if the executive has experience in a third-party distributed or decentralized environment.

However, just having these types of experiences is not enough. New hires from outside the lodging industry are unlikely to be successful without a global and multicultural mindset; the agility to adapt and learn new things; and a natural orientation toward service. “If they have these areas of experience, it’s easier for them to learn the business quickly,” Hoplemazian said. “However, the bar is high, and they need to be able to learn our business quickly and adapt what they know to deliver the brand through people, regardless of their specific function.”

Given the intense demand for senior leaders, lodging companies will continue to turn outside the industry for talent. In fact, many of the CEOs we interviewed came to their roles from outside the industry. Several of them have, in turn, recruited senior executives from outside the industry for top functional roles.

However, lodging executives said they tap industry insiders for general management roles, particularly those at the property level, because of the complexity of the business. A lodging operation is an “always-open” business, running multiple work

processes simultaneously — front desk, food and beverage, housekeeping and maintenance, retail and other amenities such as fitness facilities, spa, etc. It can be difficult for people from other narrower business models, such as retail or the restau-

rant business, for example, to adjust to the round-the-clock nature of the business and the broader service line. “These are complex jobs and they require a lot of specific experience,” said Nassetta.

Emerging markets: Strategies for growing the next generation of talent

No region is growing faster than Asia Pacific. In China alone, IHG has more than 100 hotels — compared with 40 several years ago — and another 100 more are in the pipeline. Hilton has 50 hotels in Asia Pacific and another 70 under construction. Starwood expects to hire between 30,000 and 40,000 people in Asia over the next five years. Development is not contained to luxury brands in destination cities; this rapid growth is due to the building of hotels at all service levels and price points and in both destination cities and local markets.

A looming constraint to these plans for expansion, especially in fast-growing markets, is the availability of talent at all levels. With this as a backdrop, the lodging industry is rethinking its approach to recruiting and grooming talent for the future. While many companies continue to rely on expatriates to fill senior roles, most are striving to quickly build a cadre of local talent at all levels.

With an eye to both short-term and long-term needs, hospitality companies are stepping up on-campus recruiting efforts in the fastest-growing regions. Going even further, IHG, for example, currently works with 24 partner educational institutions across nine provinces in China to provide a cooperative hotel management curriculum. “IHG invests in curriculum development and practice facilities, executives join faculty in the

classroom, and the company provides internships and full-time jobs after graduation. Next year, we will make 4,500 entry-level hires in China from these academies,” said Peter Gowers, CEO of Asia Pacific for IHG. “Building on our positive experience, IHG is embarking on similar partnerships with vocational schools for technical roles like engineering; these provide the dual benefit of creating a hiring pipeline and reinforcing the company’s commitment to the local market.” Other companies have similar relationships with universities in China. In early 2009, Hyatt will open a 500-key hotel on the campus of China University to help train a future generation of lodging leaders. This will be a fully functioning hotel with a conference facility serving the university and surrounding areas. Students will work alongside Hyatt associates and management to run the property.

While historically the hospitality industry has been a less attractive career path than some industries for many of the best-and-brightest graduates, its stature is growing because of its fast growth, global footprint and the opportunities to advance into multifunctional general management roles at an earlier age. Lodging companies are working to overcome negatives, such as the industry’s reputation for long hours, by highlighting its pluses, including the complexity of the business and the career growth opportunities. This is important in emerging markets where talented people expect to advance quickly. “In the hotel business, it no longer takes someone 10 to 20 years to work their way up the ladder. Young people want a faster career pro-

gression than previous generations. They are smart and can learn the business quickly and look for new roles to advance quickly,” said Larry Tchou, managing director of Asia Pacific for Hyatt International.

“We are aggressive campus-level recruiters, but have made the entry roles and career progression much more attractive from a work and lifestyle perspective compared to the traditional industry approach. We need to do so to compete for the best students,” said Miguel Ko, president of Asia Pacific for Starwood Hotels & Resorts Worldwide.

“What we do is modeled after what the blue-chip companies do with their on-campus hires for management training programs. We are accelerating the development time lines so people can move into roles that are challenging for them as quickly as possible to keep them interested. This is resulting in very different general managers, those with stronger business skills, but sometimes weaker on operations and details.”

To support these next-generation leaders as they take on new and demanding roles, companies are providing specialized training and mentors, executives said. “Rapid development like this requires strong mentoring and coaching by senior management. We have a structure that allows for less experienced general managers to receive guidance from those who have more,” said Gowers.

“Mentoring our next generation of leadership is a critical responsibility for my leadership team” agreed Martin Rinck, president of Asia Pacific for Hilton Hotels Corporation. “It is essential that we have effective mentoring relationships to accelerate an individual’s development as well as stimulate their interest in their career path. With more hotels currently under development than in operation, our fast-track career development program for the company’s high-potentials, which we call Hilton Elevator, creates a positive, high-energy culture, which in turn helps to attract future talent.”

Hilton now recruits elite university graduates into a three-year program that rotates them into different roles, said Ian Carter, president of global operations for Hilton Hotels Corporation. This rotation exposes them to all aspects of the business at the property and the regional levels and includes a mentoring component. The individuals who do the best in this program are given management roles and opportunities to advance up the ranks. Hilton also offers broad-based training with more than 5,000 distance e-learning courses taught in 10 languages to supplement on-the-job training. Utilization of this supplementary training is expanding rapidly.

“In a tight talent market, retaining leadership is at least as important as attracting top talent,” Gowers said. “To do this, IHG has a three-pronged approach to talent retention, which involves providing competitive compensation; strong personal skills development and leadership development training; and a rapid and visible career path.”

Meanwhile, Peter Fulton, managing director of Hyatt International South West Asia, explained that “Hyatt addresses retention by identifying the top high-potential executives in every region and creating clear development plans for each person.”

Another important development tool is giving high-potential leaders in local markets the opportunity to get experience in headquarters or in other regions. “This can be a challenge to do both for the company and often the individual and their family, but it is an excellent development experience in developing diverse leadership skills,” Ko said.

Conclusion

Despite the near-term challenges related to the financial markets crisis and economic slowdown, the demographic-driven fundamentals of the hospitality industry remain strong, positioning lodging companies for substantial growth in the longer term. At the same time, significant changes in the business are reshaping the leadership profile for successful executives to emphasize capabilities such as marketing and branding, complex financial and investment management, strong communications skills and a global perspective. The combination of these factors poses a significant challenge for the global lodging industry's ability to find and develop the leadership it needs to fully realize the dramatic growth opportunity ahead.

At the senior executive levels, the industry continues to aggressively develop its own leadership to reflect these new requirements. It is also aggressively recruiting outside of the traditional lodging industry from adjacent business sectors, highlighting the attractiveness of rapid business growth and an exciting global business to get executives to consider a career change — with considerable success from the chief executive officer level down. The companies that most successfully navigate these talent challenges will be the performance winners over the upcoming decade of rapid growth and transformation of the industry.

**Lodging Econometrics Global Mid-2008 Hotel Pipeline Report*

About the author

Building upon 20 years of experience leading consumer companies, Jerry Noonan leads Spencer Stuart's global Hospitality & Leisure Practice. He is also a member of the firm's Board Services and

CEO practices. Jerry leads searches at the board, CEO, general management and senior leadership level across all functions for a wide range of clients, from startups to Fortune 100 companies across the globe. He also manages the firm's Boston office.

Spencer Stuart consultants Robert DeVries, Miami; Kevin Jurd, Sydney; Edward Speed, London; and Malini Vaidya, Singapore, contributed to this study.

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