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GLOBAL LEADERS CHECK-IN

CEOs talk about leadership in a recession

AN INTERVIEW BY CHRIS MUMFORD

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Eighteen months of global recession can feel like a painfully long time when each day's results make for depressing reading and the longed for upturn is still out of reach. Eighteen months of global recession can however fly by when there are new efficiencies to create and implement, restructurings to execute, and fresh strategies to deliver. Eighteen months of global recession can provide challenges and opportunities alike for a hotel chief executive to sink his or her teeth into, as Chris Mumford of HVS Executive Search discovered when he met with five global leaders earlier this year at HVS's HICSA conference in Mumbai, India.

- **Nakul Anand**, Divisional Chief Executive Hotel Division ITC
- **Gamal Aziz**, President and CEO MGM Hospitality
- **Liam Lambert**, President Oberoi Hotels and Resorts
- **Gerald Lawless**, Executive Chairman Jumeirah Group
- **Martin Rinck**, President - Asia Pacific Hilton Worldwide

Clouds with silver linings

The global recession has taken its toll on revenues and profits but companies have been using the time to restructure, become more efficient, and to adapt their offering according to the demands of the particular market. When asked about how the recession has bitten each of our interviewees they revealed the challenges, but also the opportunities they spotted:

Commenting on the domestic market in India, ITC's **Anand** noted that, "*the market de-grew by about 10-12% in revenue and by about 30-35% in terms of profit.*" Oberoi's **Lambert** seconded this pointing out that Oberoi had not only been impacted by economic forces but also by terrorist forces with their flagship hotel, the Oberoi Mumbai, being taken out of action in late 2008. One bright note however for the Indian market highlighted by **Anand** was the reduced development activity which will help offset concerns about a future supply and demand imbalance, "*there was a lot of supply coming in which would have skewed the demand-supply balance in many cities. Some of this supply is not coming in anymore and this is a long-term benefit we've had.*"

Further afield, **Lawless** hit back at the media's claims that Dubai's time has come and gone, *"I think the demise of Dubai has been hugely exaggerated. We did decide last year, contrary to what a lot of people say, that in the luxury business you shouldn't move your rates, and just put up with lower occupancy, otherwise you destroy your brand. I don't totally agree with that and do believe that you have to remain competitive. We did compete effectively with other destinations, we did reduce our rates."*

From an operating standpoint, the end of summer 2009 appears to have been the bottom of the curve when things began to start looking up. **Aziz** noted that MGM *"had an incredibly difficult year but then something happened in September in our operating units and we started seeing tremendous demand. We have seen an improvement in terms of the average rate and RevPAR."*

Hilton had a similar experience according to **Rinck**, *"On a global basis we were relatively optimistic at the beginning of the year (2009) but had to revise our forecasts month on month until we probably hit bottom in August-September."*

Grow, grow, grow

Despite the economic doom and gloom, growth is still at the forefront of our CEOs' minds. Hilton opened *"300 new hotels in 2009 adding to the 327 of the prior year – so that was two record breaking years of growth. . . We see a lot of projects that were on the slow track now being reactivated. Most of the projects are pretty secure and we are very fortunate to have some great strategic partners especially in India, who have helped our growth and have the ability to grow with us on a multiple unit basis" said* **Rinck.**

Lawless noted that Jumeirah's "*pipeline of development enquiries and contracts actually accelerated in the course of 2009. . . We have 19 hotels under construction and 36 management agreements already signed up from Buenos Aires to across the Americas to all the way in China. So we have spent most of last year making sure that we are structured correctly to be able to deliver for our owners and also to make sure that we have the proper expertise in place in terms of design, technical services."*

Aziz and his team at MGM have also been busy, *"On the development side we really had an incredible year as far as the number of deals we have signed, the locations and the people we are working with on the many brands. So despite the economic difficulties we were still able to get some management contracts in many of the cities we wanted to be in. We are almost entirely focused at this time on the Middle East and Asia, particularly China and India."*

At home in India, **Anand** laid out ITC's ambitions, *"We have about 50-55 projects at various stages of construction across our 4 brands in all segments. We currently operate around 7,000 rooms and anticipate that by 2014-2015 this is going to double.*

The economic slowdown however has had some effect on hotel development and hotel operators have had to adjust to a new landscape where financing has been hard to find and owners are cranking up the pressure on management contract terms. **Lawless** commented that *"In the past we would typically see an owner coming to an operator to say that everything is in place – the land, the site, the planning permission, the financing – we will start building, and in 2-3 years you will have your hotel. Now a developer needs to have an operator right from the beginning, even before the financing comes into place. Typically something that would have* *been a 3 years project becomes a 4-5 years project as one now has to organise the financing as well. And this certainly has an effect of slowing down a project."*

At the luxury end of the market the CEOs questioned showed willingness to put equity into deals where and when it made sense. **Lambert** stated that, *"Oberoi has quite a few hotels in the pipeline and we are gradually moving into management contracts. We feel we have critical mass now and we can do management contracts without putting much equity into it. However, if we get the right location in the right city we are willing to put some equity into it as well."*

Lawless expressed Jumeirah's appetite for equity participation in deals, *"It is beneficial for an operator to participate in equity slivers because it at least gives us an opportunity to look for a seat on the board, be more involved with the long-term strategic direction of the hotels, ensure that the hotel has been refurbished to the proper level when we come round to it. So from that perspective Jumeirah will be always willing to talk to owners about participating in the actual project; either in terms of equity investment or in terms of loans we would be willing to give to the owners."*

In rapidly developing markets such as India multinationals like Hilton are entering the market on a management basis with a view to later introducing the franchise model. **Rinck** shared *"We will develop 6 of our 10 brands in India. Hilton Garden Inn and Hampton are definitely brands which we can push more on the franchise side while the luxury brands are on the management side. If you look at the make-up of our portfolio of brands today you can say that right now it is skewed 70% towards management which is something that will change over time with the speed of growth in the mid-market segment."*

The Differentiator – Human Capital

Signing deals for new hotels is only one part of the equation however. The other vital part is operating the hotels once they are up and running. When asked what the biggest challenge is in connection to their stated development plans the CEOs were universal in their verdict that human capital is the most pressing issue. As **Rinck** noted on behalf of Hilton, *"Across Asia Pacific we have today 20,000 employees and we require another 30,000 employees in the next 3-4 years just to fill the projects we have already secured. So one of the key focus areas is most definitely recruiting the best in class human capital into the organisation and then grooming that human capital into our organisation's future leaders to successfully double the size of our portfolio."*

And how are hotel companies tackling the challenge of not only finding enough staff but making sure they hire the right people and remain consistent to their existing culture and value systems? Education is one way. Oberoi for example leans heavily on its own hotel school as **Lambert** pointed out, *"The most noteworthy thing about Oberoi Hotels & Resorts is the people that we train, and one of the most important things I have to do to retain the essence of Oberoi is to retain our people. When we open in Dubai,* *for example, the differentiator will probably be that there will be about 50 graduates from the Oberoi Centre of Learning and Development running that hotel at every level and in every department."*

Lawless also highlighted Jumeirah's academy, *"Within Jumeirah most of our business right now is within Dubai. And therefore we have a very large organisation – about 10,000 people – in Dubai. Retention of top individuals is therefore very, very important; particularly in Dubai where 90-95% of the employees are from overseas and it becomes a very expensive proposition to try and replace these people who leave. We do this in Dubai through our Emirates Academy where we have degrees up to the Masters level and we are very pleased that we have been able to attract students not only from the region but 50% of our students come from outside."*

Aziz reported on not only the benefit of MGM's university but also on the existing employee population in the US properties who have expressed a desire to move internationally, *"One of the pleasant surprises that we have seen as we started to sign deals around the globe, is that a lot of our management and executives are actually asking to move to India and China. These are people who are both from the States wanting to experience Asia as well as employees born and raised in Asia wanting to come back. I think we will be quite successful in bringing our culture which is totally employee-centric not just from our compensation, diversity, but also from a training point of view. You see a lot of companies pay lip service to training, but training becomes part of what we do as far as creating the MGM Grand University where we are able to train thousands of employees on many fronts – service, computer knowledge, second languages, and so on."*

Luxury Brands – has the death knell sounded?

Each of our CEOs represents a luxury hotel brand among their portfolio of brand offerings. In certain markets such as the US, 'luxury' has almost become a dirty word and the AIG effect and notion of 'guilty consumerism' has resulted in corporations and individuals alike steering away from what may be perceived as statements of excess. As a result, many corporate accounts traded down from a luxury to a first class product and guests shied away from some of the better known brand names synonymous with luxury in favour of lesser known, often non-chain affiliated hotels. Our CEOs were asked to comment on what the future looks like for the luxury segment.

Rinck, *"Trading down definitely happens during difficult times and I would agree that the whole issue of luxury is in the process of being redefined. Luxury in its old traditional sense, the opulence, which were old buzz words have become bad words now and its become all about the personal experience."*

Lambert concurred, *"We have had corporations come to us and say that they are discouraging their people from staying in five star deluxe hotels. We used to have wonderful incentives all around the world and that has all dried up. On the luxury side of leisure there is a different demand out there. Rather than going and sitting on a beach and having a nice time, people want* *to have more of an intellectual experience. People want to go to a place, feel its history, feel the culture, and participate in community activity. There is a shift, or a preference towards green and eco friendly hotels."*

The central themes that came up were 'comfort', 'experience' and 'social responsibility'.

As **Anand** put it, *"Luxury is no longer 24-carat gold and 400 count bed linen and champagne and caviar. It has moved in two stages. In the first stage it has very clearly moved from product to experiences. Then came the recession and people now feel uncomfortable, but luxury is meant to make you feel comfortable. So if you are feeling uncomfortable then you have to look at an alternate definition of luxury. Today's luxury consumer is demanding that the luxury product serves not just them but the society as a whole. That's the difference now."*

Lawless backed this up, ***"****It all comes back to corporate social responsibility which is not just a buzz word. In a place like Dubai we have participated with the Sheikh Mohammed Foundation for Cultural Understanding, where we have facilitated our guests to go to a mosque to understand Islam better. People want to enhance their experience and their well being by coming to stay in such a hotel. I still believe that people will gravitate back to the place where they feel comfortable. I agree that you have to allow a strong social conscience to allow people to enjoy luxury without the guilt; and that's up to us as hoteliers to provide."*

At MGM, **Aziz** noted that it's highest end brands were their most successful, *"I think the most remarkable thing as you study the statistics from 2009 is that in our portfolio, the brands that are at the luxury end – Bellagio, Skylofts at MGM – were the most successful and that is because they don't present themselves as generic luxury or high end products. There is a value attached to these experiences. The experience they provide is one where there is less guilt because you are getting an extraordinary experience. I see that as you associate luxury with an experience and value for money you will have sustainability. So I believe that if luxury is associated with a value or a unique offering it will always be sustainable."*

Eighteen months of global recession has done nothing to dampen the spirit or enthusiasm of these five hotel company CEOs. Performance and results may have been down, but they have been busy identifying new business opportunities, busy pushing their growth agenda, busy investing in talent, busy redefining their guest experiences, and busy believing in the future of the industry.

About the Author

Chris Mumford is Managing Director of HVS Executive Search in London and specialises in executive search and compensation consulting for clients in the hospitality industry throughout Europe, the Middle East and Africa. A regular speaker on industry related issues, Chris is a frequent author of articles on executive selection, compensation trends and general Human Resources topics for a number of industry publications. A selection of hospitality clients include Fairmont Hotels & Resorts, Hilton Worldwide, Mandarin Oriental Hotel Group, Marriott International, Maybourne Hotel Group, Nikki Beach Hotels & Resorts, Rezidor Hotel Group, Aareal Bank, Invesco and Starwood Capital.

About HVS Executive Search

HVS Executive Search provides advisory services to leaders of the hotel, restaurant and gaming industries. Practice areas include senior-level executive search, mid-management recruitment, compensation consulting and performance management.

HVS Executive Search is a division of HVS, a fully integrated consulting firm focused on the hospitality industry. HVS is the world's leading specialist in hospitality consultancy. With 30 offices globally, HVS offers unparalleled market expertise.

HVS

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980 by President and CEO Steve Rushmore, MAI, FRICS, CHA, the company offers a comprehensive scope of services and specialized industry expertise to help you enhance the economic returns and value of your hospitality assets.

Steve began his career in the 1970s as a consultant in the hospitality division of a prominent New York City real estate firm. Through that experience, Rushmore noted the limited body of knowledge available to assess the value of hotels and motels, taking into consideration both the business and real estate components. Rushmore's first book, *The Valuation of Hotels and Motels*, quickly became the definitive work on the subject, and soon after, HVS was born. The HVS method of providing an economic study and appraisal for hotels and motels immediately became, and continues to be, the industry standard.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry:

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Hotel Parking Consulting
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Sales & Marketing Services
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Risk Management

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