



leadership in china's hospitality industry begins at the head office

By Emmanuel Hemmerle

To succeed in China, international hoteliers need to ensure they have a world beating team of functional leaders within their China head office.

China's hospitality industry has been expanding at breakneck speed. At the end of 2007, there were no less than 13,378 hotels in China, most of them only built in the last 10 years. While a number are internationally recognized brand names in the four-star and five-star categories, a large proportion are local start-ups vying to capture the budget hotel market. Today, global budget hotel chains such as Ibis, Holiday Inn Express, Traders Inn and Super 8 fight for home turf alongside local players such as Home Inns, 7 Days Inn, City Inn, Dong Fang, Jinjiang Inn and Xinyu Inn. "Several local competitors have even brought innovations to the market which have not been seen elsewhere before. 7 Days Inn for example, even accepts hotel bookings by WAP mobile phone technology," said Mr. Gilles Larrive, Senior Vice President of Ibis Accor Asia.

In spite of press reports of less than expected occupancy rates at some hotels during the 2008 Olympics, all the investment and hotel management groups we spoke to are bullish about the market, particularly to domestic demand. Shaun Rein, managing director for China Market Research Group, told The Wall Street Journal Asia that they "still see everyday Chinese taking vacations and spending their money. They

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All hoteliers, however, concede that competition is severe. According to the Beijing tourism bureau, Beijing's hotel revenue has been growing at about 20 to 25 percent a year. The number of luxury hotels opening in the city however, has increased at an average annual rate of 40 percent.

In such a crowded and competitive market, basic operational competencies are made even more critical in order to succeed in China. These include the ability to source good sites and identify the right local partnerships to co-invest in the properties. It is also important to build an outstanding brand, attract the right talent and develop best in-class staff training and retention programs. It is also advantageous to secure smooth relationships with the relevant authorities. All these require the skills of seasoned professionals who understand the Chinese market and who are able to impart the right type of best practices to their staff.

This is much easier said than done, however, when senior executives with proven skills in Development, Human Resources, Government Affairs, Marketing, Franchising and/or Acquisitions and Construction are in extreme short supply.

For instance, we estimate that there are less than 40 local professionals with proven experience in the Development function within the hotel industry in the whole of China, of which only 10 have over five years experience in the field. And out of the ten, five are currently department heads. If we look at the Government Affairs and Marketing functions, the industry only counts a handful of experienced senior executives. Even in Operations, despite its status as “king” function in hotels, the dearth of senior talent has hampered the sector's growth.

Poaching, both from within and outside the industry, acts as an aggravating factor to the shortage of executive talent. Every year hotels lose their executives in the junior and middle management ranks to other industries like the fashion retail and luxury businesses, making it difficult to build a pipeline of senior executives.

Mr. Rene Schmitt, President at Kempinski Hotels China said, “My one greatest, and constant, challenge of operating over the past 15 years in China has been to attract and retain staff. We are constantly building and rebuilding our leadership across all the cities in which we operate. You train them, and then you lose them to other hotels or airlines. With so many opportunities in China, executives have the pick of the field. Retention issues apply to both local and expatriate staff, but possibly for different reasons. Few second-tier and third-tier cities offer expatriates the lifestyles they are used to back home, and even fewer offer schools for expatriate children that are of international standards. Some expatriate staff find it hard to adapt to local conditions.”

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The senior executive talent bottleneck is directly affecting the growth of many players. As a result, hoteliers urgently need to invest in the build-up of their head office leadership team. One way of doing this is to actively look beyond their industry.

For example, professionals from the Fast Moving Consumer Good (FMCG) sector will adapt well to hotel marketing and franchise development roles, while those who have cut their teeth in the real estate sector would do well in Development, Acquisition and Construction. With their skills in rolling out or managing multiple service-

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oriented sites, executives in the retail industry would have no problem filling the roles of Human Resources (HR), Government Affairs, Development or General Manager. The head of HR at Ibis (Accor) and the head of Government Affairs at Intercontinental Hotel Group were previously from Wal-Mart, while the CEO of Home Inn, one of China's most successful economy hotel chains, was from B&Q.

To secure a pipeline of seasoned local executives to take on leadership roles in the future, international companies must continue to invest in human capital development and retention programs that are tailored for the local market. If possible, they should look into developing local executive talent by giving them senior roles and more responsibility. Mr. Gilles Larrive, who is based in Shanghai, said, "We do our best to demonstrate to potential local leaders that there are no glass ceilings for high performing team players. All our staff, regardless of seniority or nationality, are encouraged to manage by group objectives and to share a common vision."

The build-up of head-office leadership also implies a strong base from which to operate in China. While the Hilton Group was an early mover in China's hospitality industry, having opened its first hotel in Shanghai as early as 1987, it was not until it set up a China head office in mid 2007 that it was viewed as a serious competitor.

Looking ahead, the next challenge on the horizon for international hotels will be to fend off local hospitality players. As they become more business-savvy, the Chinese will begin to lure senior executives away from their international counterparts.

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