

# Hotel Opening Processes in Greater China: An Analysis of the Problems and Issues<sup>1</sup>

By Gert Noordzy and Richard Whitfield, PhD

Recent months have seen increasing attention in the international press regarding the focus of major global hotel management companies on the importance of China as a growth market. The number of expected hotel openings is unlike anything the industry has experienced before. A key difference between the United States and China is that U.S. growth has been less steep and has taken place over a longer period of time. Moreover, several major hotel management companies have achieved their current U.S. growth through acquisitions, as well as from organic growth. Although there will be growth through acquisitions, the bulk of the openings in China will be achieved through new built projects. These differences require international hotel management companies to completely rethink the way they open new properties in China. In this article, we argue that the well-proven project management approaches, widely used in engineering and construction, are the best ways to improve the efficiency and effectiveness of opening hotels in China going forward; however, this will necessitate a significant organizational cultural change.

## The Outlook for China

### Tourism

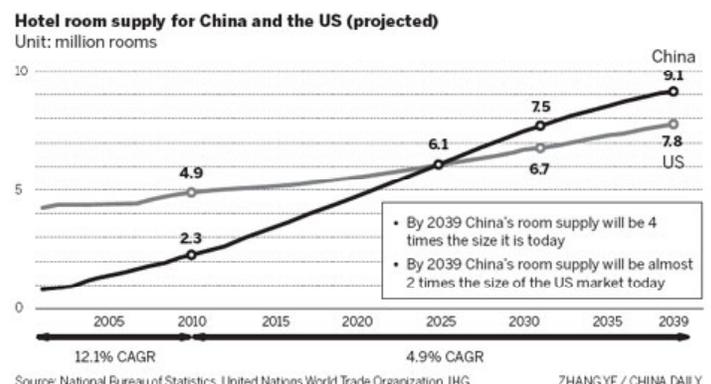
China's tourism and hotel industries are booming. In 2009, the State Council included tourism as a pillar industry in its 12th Five-Year Plan. Tourism is anticipated to contribute 4.5% to China's GDP (gross domestic product) by 2015, with a 12% annual revenue growth. China is projected to surpass Japan as the world's second largest tourist market by 2013, with an 8% share of tourism worldwide, according to a report from the Boston Consulting Group. Similarly, the

2011 China Hotel Market Outlook, produced by Jones Lang Lasalle in conjunction with the China National Tourism Hotel Association, notes that domestic arrivals in 2010 totaled US\$2.1 billion and will reach US\$3.3 billion by 2015.

China is currently the third most visited country in the world. According to the China National Tourist Office, the total number of inbound visitors reached almost 56 million in 2010 (*in 2003, the UNWTO [World Tourism Organization] predicted that China would receive 61.8 million tourists by 2010 and 130 million by 2020*), whereas the number of domestic travelers was 1.6 billion. Also, in a recent study, the China Tourist Academy indicated that the number of domestic travelers had surpassed the two billion mark in the first nine months of 2011.

### Hotels

China's National Bureau of Statistics predicts that by 2025, the number of hotel rooms in China will more than double



<sup>1</sup> This article was first published on [www.4hoteliers.com](http://www.4hoteliers.com) on 13 December 2011.

(to 6.1 million), which will equal the expected U.S. number by that time. By 2039, China is expected to reach 9.1 million hotel rooms, which is four times the current number. A tourist industry expert with the Shanghai Academy of Social Sciences expects China to add more than 1,500 new hotels each year between 2010 and 2015, with a total investment of US\$62.5 billion. According to the September 2011 STR Global Construction Pipeline Report, the Asia-Pacific hotel supply outlook was for 1,309 additional hotels, with a total of over 314,000 rooms. China reported a +13.4% growth rate with the planned addition of more than 172,000 rooms.

### **The Plans of Major Industry Players**

IHG Chief Executive Andy Cosslett announced during an earnings update in February 2011 that China is among the highest priorities for InterContinental Hotels Group PLC, and that the next 20 years will see almost an eightfold increase in IHG's rooms in Greater China. Moreover, in July 2011, IHG China CEO Keith Barr said that the company will recruit 90,000 employees to support the 250 hotels planned for Greater China during the next three to five years; at that time, IHG managed 154 properties in China and had 142 in its development pipeline.

Starwood President and CEO Frits van Paaschen moved his Senior Leadership Team to Shanghai for one month in June 2011. He said: "Eighty percent of our future pipeline is outside of North America, and nowhere is more emblematic of our global growth than China, where we will open one hotel every two weeks this year." China is Starwood's second largest market outside of the United States and is its fastest growing, where it currently has more than 70 hotels and another 90 properties in its pipeline.

Wyndham Worldwide Chairman Steve Holmes said in the company's Q2 2011 Results — Earnings Call: "We are the largest U.S. hotel company in China, with over 50,000 rooms. We expect to double that number in the next five years, and our long-term vision is to have a footprint in China that rivals our presence in the United States." Wyndham currently operates 457 hotels in Asia, of which 401 are in China.

In August 2011, Hilton Worldwide announced the appointment of industry veteran Edmond Ip as Chairman of Greater China to oversee all of the company's operational interests there, including aggregating the growth from numerous hotel openings in the next few years. In September 2011, Hilton announced its plans to quadruple the number of its hotels in China before 2014. Hilton currently has 25 hotels in China.

In October 2011, Accor Asia Pacific Chairman Michael Issenberg mentioned in a telephone interview that 40% of the group's global pipeline of hotels is in the Asia Pacific region and that the group will focus on China, India, and Indonesia. In China, the group plans to add 60 hotels to its current 108.

Marriott International issued a press release announcing the opening of its 100th hotel in China on 15 November 2011. The press release stated that China is one of Marriott's most important markets outside of the United States; the company is committed to long-term growth and robust expansion throughout the region and expects to open one hotel a month in China for at least the next three years. President and Managing Director for the Asia Pacific, Simon Cooper, commented on the growth plans: "... *Asia is a key market for us and China is the driver of Asia: we are totally committed to the country and our operations here.*" Marriott International currently operates 56 hotels in China and 44 confirmed hotel projects in the pipeline.

### **The Problem**

The anticipated phenomenal growth in China begs the question: How can hotel operators open new properties (*under executed management and franchise agreements*) on this scale effectively, efficiently, and in a consistent and predictable manner?

Traditionally, hotel opening efforts have been driven by corporate operations, invariably supported by taskforce teams drawn from existing hotels (i.e., when a new hotel is opened, staff is brought in from existing hotels to form a full-time team to do the opening). This specific approach only works on a small scale and has several limitations. A major drawback of this system is that the timing of taskforce requirements versus taskforce availability frequently doesn't match. Additionally, there are many logistical challenges for the new hotels, whereas increased workload burdens are placed on the existing hotels. Finally, the challenge of individual projects running simultaneously instead of sequentially (which invariably happens) prohibits the concept of "permanent" taskforces.

These and other problems have recently led to some hotel management companies establishing dedicated corporate hotel opening support functions (*some of which are using elements of project management*) to support hotel management teams. However, this approach alone cannot meet the challenges and dynamics of new hotel development on a large scale and will contribute to causing delays in the technical, operational, and commercial readiness of hotel projects. The consequences of delays hurt hotel owners and operators alike: increased pre-opening expenses, delayed cash flow generation, delayed

business ramp up, delayed GOP and ROI, delayed owner and operator incomes, missed business opportunities, and a negative impact on (non-financial) key metrics. A different approach is needed and other options must be considered.

### **Our Recommendation**

First of all, we need to understand that the opening of a hotel is in fact a project. *A Guide to the Project Management Body of Knowledge (PMBOK® Guide)* defines a project as “a temporary endeavor undertaken to create a unique product, service, or result. The temporary nature of projects indicates a definite beginning and end.” Projects are usually undertaken to bring about beneficial change or added value. The temporary nature of projects stands in sharp contrast to operations, which is repetitive, permanent, or semi-permanent functional work to produce products or services. Just as we do not ask a pilot to design an airplane or ask the engineer to fly it, we should not automatically assume that a hotel’s general manager is qualified to manage a hotel opening project.

Standard project management methodology is very well suited to applying to hotel opening projects on a large scale. The processes involved in each hotel opening are virtually identical, which allows for project management plans and schedules to be standardized. Even if the levels of complexity and the length of the critical path increase for larger, higher-tier new hotel projects, the processes involved remain fundamentally the same.

To open new hotels on a large scale effectively, the hotel industry needs to significantly upgrade its understanding of project management, methodology, and techniques. Project Management Institute, one of the world’s leading organizations for the project management profession, notes: “Project management is a strategic competence: the ability to consistently predictably deliver projects for strategic goals.”

Furthermore, PricewaterhouseCoopers states: “The ability to successfully execute these projects is what drives the realization of intended benefits and the achievement of business strategies. Organizations that execute projects successfully employ effective project management practices as a tool to drive change and achieve business objectives. Given the strategic impact that projects have on a business, organizations must follow effective project management processes that measure progress and risks and ensure the right projects can be delivered in alignment with organizational priorities.”

### **Hotel Industry Challenges**

The hotel industry faces several major challenges in adopting project management methodologies for new hotel openings.

First, general senior leadership has limited understanding of project management as a strategic competence. (*Most hospitality executives claiming to be experienced in project management are neither able to provide a reasonable definition of a project, nor map out a project following a life cycle structure*). One senior corporate hospitality executive, when asked about project management, stated: “We don’t do construction management...” But, just as general project management has learned from construction management, the hotel industry can learn to improve the execution of its hotel opening projects without becoming construction managers.

Second, the hotel industry has few “internal” project management champions. Although various hotel management companies employ a specialized hotel opening function or use components of project management, none has embraced and institutionalized project management as a corporate culture. Currently, virtually none of the international hospitality management companies in China employs certified project management professionals, let alone certified project management professionals with a hospitality background. This stands in sharp contrast to companies like IBM, which employs more than 10,000 certified project management professionals worldwide, and Huawei (a major China-based international telecommunications company), which has over 2,000 certified project managers in China.

Not surprisingly, generally, the majority of executive search agencies specializing in hospitality placements do not know about Project Management Institute and very little about project management. By contrast, head hunters specializing in recruitment for engineering, construction, information technology, pharmaceuticals, oil drilling, and so forth are commonly better informed about how project management contributes to the success of projects.

Third, hotel management companies are traditionally conservative; in standard innovation adoption life cycle models they would be considered late majority adopters or even laggards. One can draw this conclusion from the speed at which revenue management and total quality management concepts were taken up by hotels — only well after these had already been embraced in other industries.

A fourth point to note is that most hotel management companies are set up as functional rather than matrix organizations. This often prevents effective project integration management, which is the implementation of processes required to ensure that all project components are coordinated. Consequently, opportunities for synergistic improvements to hotel opening projects are missed, and one functional area is often surprised by delays in other functional

areas because they are unaware of them until a deadline has been missed.

Fifth, there is a general misunderstanding in the industry as to what causes new hotel opening project delays; a recent survey among senior hotel management executives provides some insight. The vast majority of managers seem to be convinced that delays are caused by problems in design and construction, fire life safety (measures taken to prevent fires from happening and to ensure early detection, such as sprinkler systems, smoke detectors, compartmenting, fire-resistant guest room doors, etc.) and licensing issues, delays in pre-opening activities and poor execution, delays in procurement, and non-compliance with brand standards. Based on the data from the study, however, a root-cause analysis was conducted, which strongly suggests that “no project management culture” and “management company modus operandi” are the key causes. These data indicate that unsuccessful projects are more often linked to internal, rather than external, factors.

## Conclusion

The industry seems to not link project delays to the absence of a project management culture and the lack of an all-encompassing project management methodology. The point is, however, that the application of project management could, and would, often bring potential problems to light early enough to change the outcome. Further, the project management emphasis on planning would result in better understanding of the risks associated with the problems cited by the hotel management executives above and allow project managers to deal with these problems before they become acute.

## The Way Forward

Project management is a key tool companies use to achieve strategic objectives and is closely linked to project performance. To be able to effectively and efficiently use project management, hotel management companies will need to make fundamental changes, and following are five building blocks to achieving these:

### Culture

First of all, project management needs to be made part of the company culture and embedded in the corporate DNA; to do so successfully, it will need to be driven from the very top down. It will take significant effort, resources, time, effective change management, and extreme commitment to becoming a basic way of working. Companies, such as IBM, Nokia,

and Cisco did not achieve their current project management excellence overnight either.

In 2008, Project Management Institute presented the results of a three-year, \$US2.5 million study conducted among 60 companies that underlines that project management delivers most value when supported by top leadership (*and is reinforced by continuous training*). It also stresses that only commitment from the top can deliver project management aligned with organizational strategy.

### Organization

Second, hotel management companies must review the structural aspects of project management, which include best practices such as having a project management office, certification of project managers and key personnel, and clearly defined roles and responsibilities.

### Methodology

Third is the implementation of standard project management methodologies. There is no need to reinvent the wheel here, because there are various internationally accredited organizations supporting the project management profession, such as Project Management Institute and the International Project Management Association. These provide practitioners and organizations with standards, credentials that verify knowledge and experience, resources for professional development, networking, and community (*PMI® maintains an ISO 9000 certification in Quality Management Systems, whereas its Project Management Professional (PMP)® credential process received ISO 17024 accreditation in 2006*).

### Processes

Fourth, well-defined project management processes will enable companies to consistently deliver superior project results; these clearly defined Project Management Processes, and competent company staff can successfully implement a project using the processes associated with *Initiating, Planning, Executing, Closing* a project, while *Monitoring & Controlling* it by constantly checking the actions from a current group of processes with those of the preceding or forthcoming processes to make a positive impact on the organization.

### Education

The fifth step is training and continuous development. Hotel management companies must go beyond perceived “solutions,” such as critical paths and project management software, and upgrade the knowledge and skills of the dedicated hotel opening (support) teams. Another step

in the right direction would be to train, to a lesser extent, pre-opening hotel general managers (*eCornell provides an online course on project leadership, for example*). According to a 2007 study by PricewaterhouseCoopers, “*The existence of staff development programs positively impacts performance*” and “*Staff development programs have the greatest impact on project performance when they are used on a regular basis.*”

To take these steps along with others will bring about the ability to consistently and predictably open new hotels to support company growth and expansion goals. The financial rewards of doing it correctly will be huge and the ability to do so will further help accelerate growth.

Statistics from PMI tell us that the annual global turnover for fixed capital projects is \$US12 trillion, which increases to \$US20 trillion annually when including IT and other projects.

In terms of success, the earlier mentioned PricewaterhouseCoopers study reports that 80% of higher-performing projects use a certified project manager, whereas 50% of project failure can be traced to poor or no project management (*bad estimates and deadlines, scope changes, and poor resource planning*).

For these reasons alone it is a *necessity to make project management a strategic competence, indispensable for business results*.

## References

*Insights and Trends: Current Programme and Project Management Practices* —PricewaterhouseCoopers, the second global survey on the current state of project management maturity in organizations across the world. Retrieved from

[www.pwc.com/es\\_CL/cl/publicaciones/assets/insighttrends.pdf](http://www.pwc.com/es_CL/cl/publicaciones/assets/insighttrends.pdf)

Project Management Institute (2008). *A guide to the project management body of knowledge (PMBOK® Guide)* — Fourth Edition. Newtown Square, PA: Author.

*Root Cause Analysis & Causal Chain for Hotel Opening Delays*. © 2009 Gert Noordzy. All rights reserved.

*Survey: How various hotel management companies in Greater China approach hotel opening processes*. © 2009 Gert Noordzy. All rights reserved.

Thomas, J., & Mullaly, M. *Researching the value of project management*. PMI Marketplace, Newtown Square, PA: Project Management Institute.

[www.ecornell.com/assets/PDFs/Enterprise/ProjectLeadership.pdf](http://www.ecornell.com/assets/PDFs/Enterprise/ProjectLeadership.pdf)

[www.ipma.ch](http://www.ipma.ch)

[www.PMI.org](http://www.PMI.org)

## About the Authors

**Gert Noordzy** is a hotelier and MBA student. He is currently finalizing his dissertation at the University of Saint Joseph, Macau. Gert graduated from Hanze College Hotel Management School, Zwolle, The Netherlands.

**Richard Whitfield** is a professor in the School of Intelligent Systems and Technology at the University of Saint Joseph, Macau. Richard’s undergraduate and doctoral degrees are in manufacturing from the University of Melbourne, Australia. One of the MBA classes he teaches is Process & Technology Management.

Gert and Richard first started researching hotel opening processes in 2008.