

Leadership and the Global Recession: Lessons from Seven Hotel Company CEOs Interviews by Lorenza Alessie

Face Reality and Implement the Right Measures Incredibly Fast

"The companies which realised that this is a long-term rather than a short-term crisis and implemented the right measures fast are surviving the crisis better"

– Simon Cooper, President & COO Ritz Carlton Hotels

Peres, Fiskers, Vos and Cooper stressed that cost reductions must be made early since as Peres said, *"The worst is to hesitate hoping things will improve. First, you and your top team need to be aligned on what needs to be done and then be fast, steady, firm, fair and prepared for the worst. Some leaders hesitate to make drastic changes soon, after all, letting go of your people is not an easy task for any leader."*

Fiskers added, *"The decision of having to let people go is less difficult than the actual act of having to make the job cuts. However these cost cutting measures need to be done sooner rather than later as otherwise the companies will suffer even more."* Both Fiskers and Vos revealed that they already implemented cost cutting measures in 2008. Both agreed that having done this early in the crisis, they were at an advantage this year compared to other companies. At Scandic, several positions were made redundant in August 08 even though the company had all-time high revenues in September 08.

Fiskers explained, *"We smelt the peak in summer 08 and knew the downturn would come even if there were no real signs of the crisis. I don't think you can implement cost cutting strategies and revenue generating strategies simultaneously and as effectively than if you do the two at different times. There was a lot of hoo-haa when we implemented change since employees didn't see how the American banking crisis affected Scandic, there was also less understanding and acceptance than if we would have implemented these cost cutting measures later in the crisis when it did hit us. The period of dramatic cost reductions must be as short as possible – all our cost reductions were completed by December last year. This meant that during the first quarter of 09, while others were focused on costs, we could focus on the top line which helped us gain market share and increase revenues."*

According to Cooper, especially in today's crisis which is unprecedented since it applies to everyone and will mark the next generation, companies cannot take half way measures as they did during 9/11, asking employees to work a 4 day week or giving extended unpaid leave. *"Leaders need to face reality; the hospitality industry survives on travel and people making deals – and these are just not happening. It will be a slow recovery, the good times will not be back soon and therefore companies need to take long-term measures. Ritz-Carlton cut 750 leaders worldwide. There have never been so many leaders cut back in the past, but these cuts had to be made in response to the new market reality."*

Gonzalez stressed how at times some companies are blinded by the fact that our economies are cyclical. According to him, the companies that took the best action during the crisis were those who anticipated the crisis even earlier than 2008 and started disinvesting their assets, sensing that the prices had reached the peak and that the end of the upward cycle was soon to come. *"Companies such as IHG and Starwood did a fine job selling most of their assets at a good time and only recently accelerated their selling process even further. Hilton also did a great deal selling to Blackstone at the right time. Companies owning less "bricks and mortar" will still need to manage the increasingly challenging owner relationships but at least they will not need to manage the devaluating assets in their balance sheets."*

However, as important as it is to implement cost cutting strategies it is as important as ever not to sacrifice your culture and values in doing so. *“You cannot start treating your stakeholders badly during the crisis, these stakeholders being your suppliers, employees, shareholders and guests. You cannot lose the trade sympathy since if you do you will lose it forever,”* concluded Peres.

Anticipate and Continuously Re-Think the Business Model

“You need to fix the roof when the sun is still shining.”

– Stephen Alden, CEO Maybourne Hotel Group

‘If it’s not broken, why fix it?’ is a common attitude to adopt during the good times – but not the right one. According to Alden, the biggest leadership lesson he has learnt which continues to be reinforced with time is that you need to re-think the business model both during the good times and during the bad times.

“At Maybourne Hotel Group, July 2009 was the strongest month in the history of the company, since we entered the year with strong brands and invested a lot in the development and upkeep of the properties over the last years. We increased the investment in training, in the technology platform and carried out reforms when times were good, but we didn’t take off every penny from the table. We have also been very aggressive on the marketing front, diversified our markets, strengthened our CRM, and saw the opportunity to grow the business out of the Middle East and Asia as well as out of Milan, London and Paris. Through these initiatives, we entered the recession with very strong branding and off a very solid bank resulting in this year’s results being better than last year, even if in part this is linked to the opening of the Connaught Hotel.”

Peres, a passionate sailor, added *“A sailor cannot change the sails in the middle of the storm.”* Change needs to be done before a downturn hits, companies need to be constantly reviewing the processes in order to implement efficiencies.

However as Vos stressed, *“Starwood through Six Sigma and other initiatives has always been efficient during normal times but during a period of crisis some further reductions need to be made, simply because volumes are not there due to market reductions. Some of these efficiencies are driven because customers change and Starwood adapts accordingly. If one day customers are willing to pay again for double butler service and the most expensive wines then we will adapt our services again.”*

Keep the Long-Term Perspective and Do Not Panic

“You need to tell the story like it is to build the trust. Everyone understands that you don’t have a crystal ball to tell the future but you need to build a long-term picture telling your people that in the long-term they are in the right place since we are in a growing industry and they are working for a good company.”

– Roeland Vos, President EMEA Starwood Hotels & Resorts

Leaders need to stay calm, look beyond the negative numbers and despite the near-term pressures plan for the future with a cool head. The CEOs agreed that it is increasingly difficult to predict the future and that you really need to be prepared for the unexpected. However, leaders need to keep the perspective and communicate that a downturn is not a disaster, since markets are cyclical and after a downturn there is always an upturn. Leaders also need to prepare their companies for the return in demand. As Vos rightly pointed out, *“You need to watch how other industries perform, especially the luxury goods industry, since as people start to spend, this will automatically be reflected in the hotel industry.”*

For Fiskers, professionally the most challenging part of his job over the last year has been managing the short-term pressures while keeping the long-term perspective. *“Finding the right balance between accelerating and braking and making sure that no damage is done in the long-term and that core competencies stay within the company has been a key challenge.”*

The Leader Must Communicate and Be Visible

“You need to keep your people motivated, performing and fully informed since your people are the ones who deliver the service.”

– Roeland Vos, President EMEA Starwood Hotels & Resorts

All the CEOs stressed the importance of communication especially with employees, but also with investors and hotel owners. *“You need to keep communicating to your employees since they know what is going on and they want to know how it is going to affect them,”* said Cooper. Peres also added that during the communication process with employees, leaders need to continuously re-emphasise the company’s core values and show how any changes are in line with these core values.

“Since we implemented changes before the crisis directly affected us, there was less understanding and acceptance to change and therefore we needed to communicate even more keenly with the team,” said Fiskers. *“I did a lot of internal communication and organised conference calls with hundreds of managers about why we should be implementing change early. I explained that if the Americans get a cough in August, Europe will get a cold in January and how bank cycles have historically always affected the hospitality industry.”* Fiskers added that leaders should never underestimate their employees, *“If employees are motivated they will understand the changes and if they are informed rapidly and transparently they will help you make the change.”*

CEOs need to be visible and present for their employees. *“A period of crisis is not a period to hide behind your desk. Employees look at the CEO for guidance, everyone wants a piece of you,”* stated Fiskers.

“It is essential for leaders to maintain visibility. People look at you to see whether you are comfortable or worried,” said Peres. Even if your company is performing well, you need to communicate more during a period of crisis. For Alden, *“One of the most challenging parts of my job over the last year has been being there for our people. Everyone gets nervous when they see what is happening around them and therefore we need to communicate our results (in our case) to show that we are more robust than ever.”*

Lawless also stressed the importance of communicating with the local community and working together with them to promote a destination. *“In Dubai, where Jumeirah has most of its hotels, the Tourism Department organises bi-monthly meetings where all businesses get together to see how they can promote Dubai to increase bookings. Both after 9/11 and at the end of 08 when there were reductions in bookings, this strategy was very effective to communicate and work jointly with individual businesses as well as competition to promote Dubai as a destination”*

The CEOs also stressed the importance of communicating with investors and hotel owners. *“In the last year we had to be very close to the stakeholders since the strategy is constantly changing and to be able to implement change fast you need to be able to communicate fast,”* observed Fiskers. For Cooper, one of the most challenging parts of his job over the last year has been managing owner relationships, *“You can’t have a 25% drop in RevPAR and have no direct impact on cash for the owner. In the good times, over 90% of our assets are performing well but this is no longer the case.”* CEOs need to have as transparent and open communication with hotel owners and investors as with their employees.

Surround Yourself with Strong Leaders and Look After Your Revenue Generators

"In a period of crisis you cannot have managers who 'manage by excuse' but need forward thinking managers who are making decisions that are relevant to 2010 and the bounce back"

– Jean Gabriel Peres, CEO Mövenpick Hotels & Resorts

You need to build a strong and committed top team and CEOs must make tough decisions about who has the ability and motivation to make the journey. It is the people in the company that make the company; they are the most valuable asset in leading any change.

"CEOs must make the tough decision about who has the ability and motivation to deliver the vision. It is during the tough times that you really see the quality of leadership and this is why it is essential that you surround yourself with clever people with great leadership skills," noted Peres. "You need to constantly adapt the management team, making sure you have leaders with complimentary skills and traits; I am proud to have leaders that are stronger than me in certain areas. You cannot have managers who 'manage by excuse' and who constantly have their heads in the sand. You need people who constantly think about how to gear the company for when times get better."

Several CEOs also stressed the importance of identifying who their top performers are and making sure they are fully on board regarding any decisions made. *"At Scandic we have identified 54 people that we consider are tomorrow's leaders in the company, a mix of General Managers and young talent. We want to make sure that they are fully on board with our changes in order not to lose this talent,"* said Fiskers.

Peres added, *"It is also important to know your company inside out to know what delivers results and to continue investing in these departments. At Mövenpick Hotels & Resorts we continue investing in our high caliber employees. We have also strengthened our sales team and continue investing in distribution and sales training."* Gonzalez also stressed that the sales force has become more important than ever as well as the purchasing department as a way to decrease costs.

Adapt Your Product to the New Market Reality

"Anyone who felt they could face the storm without changing the sails will not be able to survive it."

– Simon Cooper, President & COO Ritz Carlton Hotels

"It doesn't matter how good your product is, this crisis has had a impact on everyone. We have all lost pricing power, which is something we have never faced and our customer base has very broadly lost wealth. Especially in the US and in the UK we have a very cautious consumer who really watches their spending," noted Cooper. *"Abercrombie & Fitch is an example; when the crisis hit they said that they were not going to discount their product as other retailers did. However a few months later they realised they had to 'change their sails' and had to discount to adapt to the changing market."*

Changing the sail does not necessarily apply only to pricing. Vos stressed how during a period of crisis you not only need to change the product offering to satisfy the changing demand but also have to find different ways of doing business. *"You need to challenge your organisation to find new ways of doing things, companies need to innovate. Starwood has always been looking for ways to innovate as we did for the launch of the W brand or the Heavenly Bed. However during a period of crisis we are looking at a different type of innovation such as combining jobs or finding new ways of getting reservations by using social networks such as Facebook."*

Lawless added to this, *“Companies that perform better during a recession are those who aren’t afraid to innovate despite the crisis. Companies need to look at ways of reducing costs, but they also need to look into new initiatives even if it means taking a short-term hit in revenues. There are opportunities in a recession to come up with new products. Sometimes people feel guilty about enjoying luxury in a downturn. At Jumeirah, to stop guests feeling guilty about enjoying a luxury vacation during the recession, we introduced activities for guests at our Dubai hotels to engage more with the local culture such as Middle Eastern cooking courses and organising visits to the local mosque. With these initiatives guests feel they come back home having also learned about the local traditions instead of just indulging in luxury.”*

Alden and Peres argue that the strength of a brand is really put to test during a crisis. When asked which companies in their opinion have been surviving the crisis best, they highlighted those companies who didn’t compromise their product during the crisis. Peres named Hermés and Audi as two companies who stayed loyal to their values and didn’t change their product in response to the crisis. *“The revenues of Audi and Hermés increased this year thanks to their continuous investment in product quality, attention to detail and their reputation which is second to none. The epitome of brand achievement is when brands don’t need to discount during bad times,”* says Peres.

Alden cited Tod’s Group as a brand that has successfully coasted through the crisis by staying true to its core values. He added, *“Resilience of a brand proves you can also be successful during the bad times.”*

Use Common Sense and Do Not Follow the Herd

“The main lesson I have learnt during this crisis is that instead of doing what everybody else is doing, you should not follow but stop and think if it makes any sense.”

– Raul Gonzalez, CEO EMEA Barcelo Hotels & Resorts

The market is cyclical, every upward cycle follows a downward cycle but it seems that with time companies forget this. If everyone starts purchasing hotel assets, even if these are at a high price, most others follow suit. If all assets are highly leveraged, why should your property have a low debt/equity ratio? It seems that what the neighbour does sometimes blinds companies from basic common sense or elementary economics. History shows that bubbles burst. It only makes sense to buy after the bubble bursts rather than just before, but if you go against the general flow, you can be criticised for having no understanding of the market or vision.

Gonzalez explained: *“The main lesson I have learnt is that you need to use common sense. For a number of years Barcelo saw that hotel prices had increased astronomically, that there was an over demand for hotels to buy, especially in Spain, and every property had very high debt/equity ratios. Barcelo has always been criticised for having low debt levels. Logic always prevails, when there is high demand and high prices you know that it is not the best time to buy since there will be a drop as in every cycle. However everyone seems to copy what the next person is doing. You buy because everybody else is buying and you sell when everyone else is selling. If you don’t, you’ll be criticised for having no strategic vision. You need to have the foresight to use your common sense and basic economics and when needed go against the cycle.”*

“It is ironic that now that it is the time to buy, no bank is lending. It is now when you can realise the best returns since assets aren’t overpriced.” Gonzalez explained that if he took Spain as an example, one could see the bubble bursting since over the past few years hotel supply was increasing faster than hotel demand. Investors were acquiring hotels as a real estate investment rather than as a hotel investment. In the long-term, this was just not sustainable.

In conclusion, as Vos stated, *"It is hard to see which leaders have taken best actions to get out of the crisis since we will only see this when we get out of it."* However, certainly some lessons have been learnt and hopefully leaders will remember these lessons to avoid having to take drastic measures when the next crisis hits. Alden's advice is *"Do not have short-term memory. Some say that we are having 7-year cycles but we seem to have 3-year memories."*

Even if we are starting to see some signs of recovery, the crisis is not over and as Peres added, *"Leaders will still have to manage their companies not really knowing in which direction they are heading and how they will be doing in a few months time."*

So it would seem that leaders need to continue expecting the unexpected as, at the risk of stating the obvious, the only constant is change.

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