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**SHARING EXPERIENCES: ILLUSTRATIVE EXAMPLES OF VALUE CHAINS AND
NETWORKS IN THE TOURISM-RELATED INDUSTRIES IN OECD AND NON OECD
ECONOMIES**

**Enhancing the Role of Tourism SMEs in Global Value Chain:
A Preliminary Case Study of Korean Hotel Industries**

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**ENHANCING THE ROLE OF TOURISM SMEs IN GLOBAL VALUE CHAIN:
A CASE STUDY OF KOREAN HOTEL INDUSTRIES**

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ABSTRACT

The study examined how the SMEs hotels could adopt the concept of Global Value Chain (GVC) to achieve better performance in the global hotel market. 16 Korean hotels including 7 large and 9 SME hotels have been surveyed to identify how the underlying dimensions of GVC can vary in the generic management and operational activities with special emphasis on SMEs hotels in Korea. The study also highlighted the opportunities and challenges linked to GVCs for SMEs hotels to enhance their competitive advantages in the market.

INTRODUCTION

Globalization of the current world economy and of large enterprises affects the role of Small and Medium Enterprises (SMEs) as traditional partners, suppliers or distributors for larger firms (Smeral, 1998). The objective of this report is to identify its drivers and to draw conclusions regarding opportunities, challenges, and managerial implications on how Korean Small and Medium-sized(S&M) hotels can enhance their competitive advantages by employing various aspect of GVC in global context of hotel industries. More fundamentally, the driving question is: what can and needs to be done to support S&M hotels in being successful in the world of globalization and modern value-chain management of larger hotels.

The value chain is the sum of all activities that add utility to the customer. Parts of the value chain will be internal to the company, while others will come from suppliers, distributors, and other channel partners. A linkage occurs whenever one activity affects other activities in the chain. To optimize a value chain, the linkages must be well coordinated.

This study is basically a country case study on Korean hotels, which aims to improve understanding on how the employment of GVC is changing the way the S&M hotels establish competitive edge in global competitive environment in the level of hotel industries. The impacts of GVC on the management of S&M hotels with the comparison of their large counterparts will be addressed with both full of conceptual framework and in-depth survey results.

Today's competitive climate, with S&M hotels competing against other S&M hotels or large hotels, demands continuous profitability and the identification of real cost reduction opportunities through sound control of service quality and market development. Competitive pressures to most S&M companies in other industries have led to sourcing and selling on a global scale, resulting in a significant increase in qualified service offerings. Most companies have already identified and implemented the obvious changes needed. What they're often lacking is the more granular information required to make decisions that will continue to improve performance as well as the ability to look outside their own "four walls" in order to

achieve maximum benefits. The volatility of the market environment in hotel industries these days is forcing businesses to run their rooms and F&B division more efficiently in order to keep costs down. One key to doing this successfully lies in the way hotel business likewise other businesses use their demand and supply chain information together with strategic integration of other tourism businesses. With respect to this regard, enhancing both the effectiveness and efficiency through GVC will be important issue to successful competition of S&M hotels. Various facets of GVC include IT and e-commerce application, distribution and reservation channel, alliance and outsourcing strategies, quality standardization and improvement, and co-operative arrangements among SMEs and large enterprises.

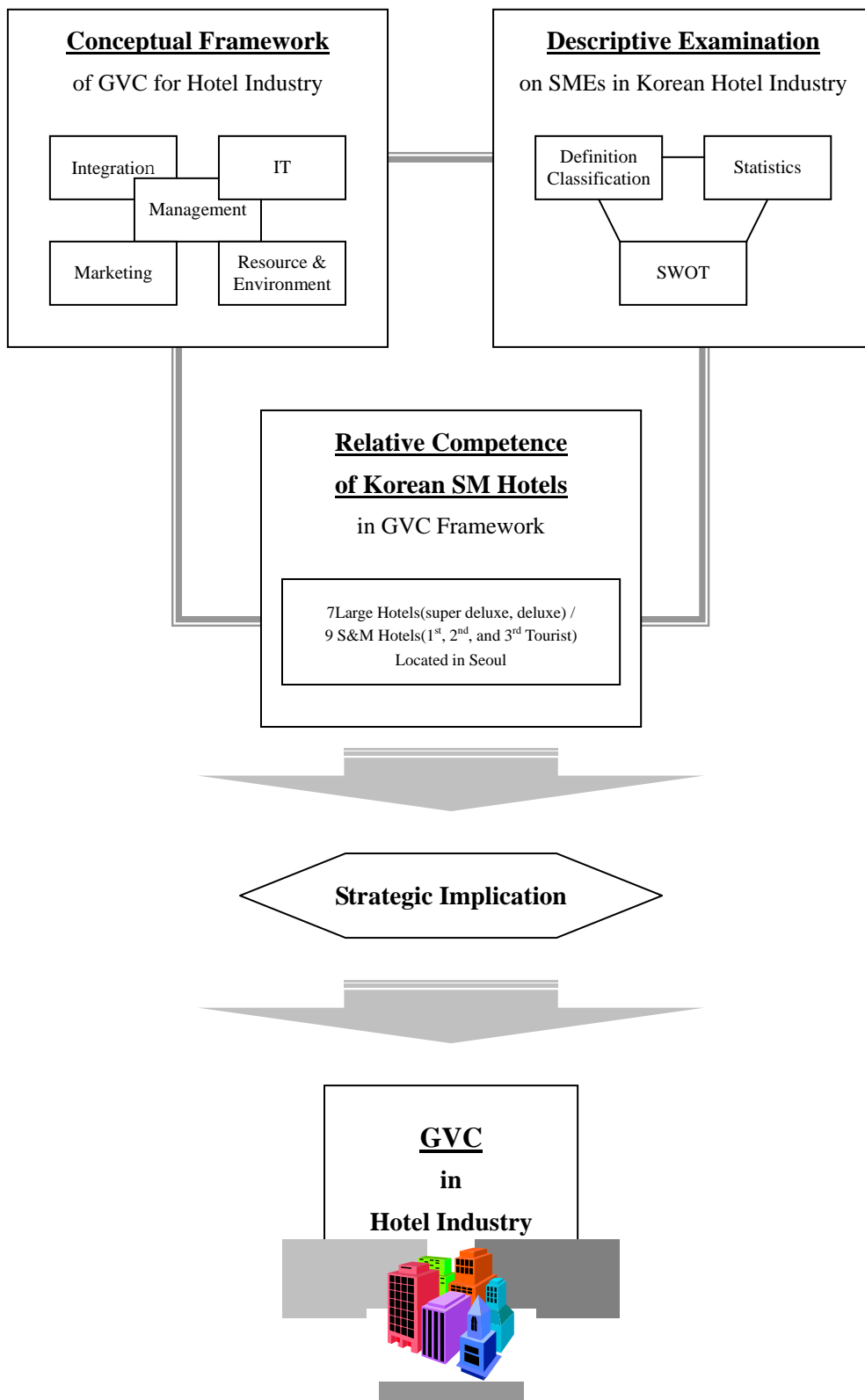
In order to identify the most important determinants that govern the type of cooperative agreements that large firms may have with their non-affiliate distributors and suppliers, and especially with the SMEs that are among them, legally dependent and independent enterprises, this study will deal with hotel industries. Hotel industry has globalized by seeing its major players extending their cooperation to reach S&M local players (franchising, management contracts, global reservation systems, co-branding, etc.)

In hotel industries, the information technologies are another momentum to achieve and capture productivity gains and respond to the pressure of financial markets for increased returns on invested capital. In recent decades, the possibilities of managing and organizing the GVCs beyond the ownership limits of the corporation have been dramatically enhanced by the new management techniques that take full advantage of advances in IT technology, especially the Internet. These capabilities are used in hotel industry to outsource and downsize some of their in-house activities while still managing them as components of the company value chain. This is true for the “supply chain” (the up stream part of the value chain) but is also true for the “distribution chain” (the down stream part of the value chain extending from the company to the final customer). Consequently, supply and distribution chain organization and management play today similar role to what “vertical integration” used to be in a not so distant past. By the same token, the strategic importance of the techniques and responsibilities related to GVC management has grown significantly.

Conceivably, what leads to significant in enhancing the global value for large and deluxe hotels may not result in a same meaning in the viewpoint of their smaller counterparts. This report identifies the basic characteristics and the underlying dimensions that portray a hotel’s GVC with respect to how the different hotel size can affect the relationships between a hotel’s posture on the key dimensions of GVC and corresponding performance results. This report addresses these objectives via an in-depth interview of 16 Korean hotels including 7 large deluxe hotels and 9 S&M hotels.

The rest of the paper is divided into five sections. It first examines prior literature to elucidate a theoretical background of GVC such as what constitutes the GVC and how they act together. In the third section, the general description of Korean hotel industry is reviewed focusing on the differences of large and S&M hotels. Fourth, it suggests a details including survey design to help understand the following works of explaining the results and implications. The results of in-depth interview on hotel’s work and performance in the context of GVC are provided with implications. The final section is composed of future implications which provide explanations of implications for real management context and future directions.

Figure 1. Flow Chart of the Research



CONCEPTUAL FRAMEWORK OF GVC FOR HOTEL INDUSTRY

Usually the concept of Global Value Chain (GVC) is used to describe the set of bits and pieces of value added generated by different actors that complement each other in the process of building a final good or providing a service. However, as the notion appears in many fields where it is loaded with specific meanings, more clarification is required. The conceptual difficulty that the research has to resolve in the very first place is to gain a clear picture of complementarities and differences of the achievements of these different fields of knowledge and expertise.

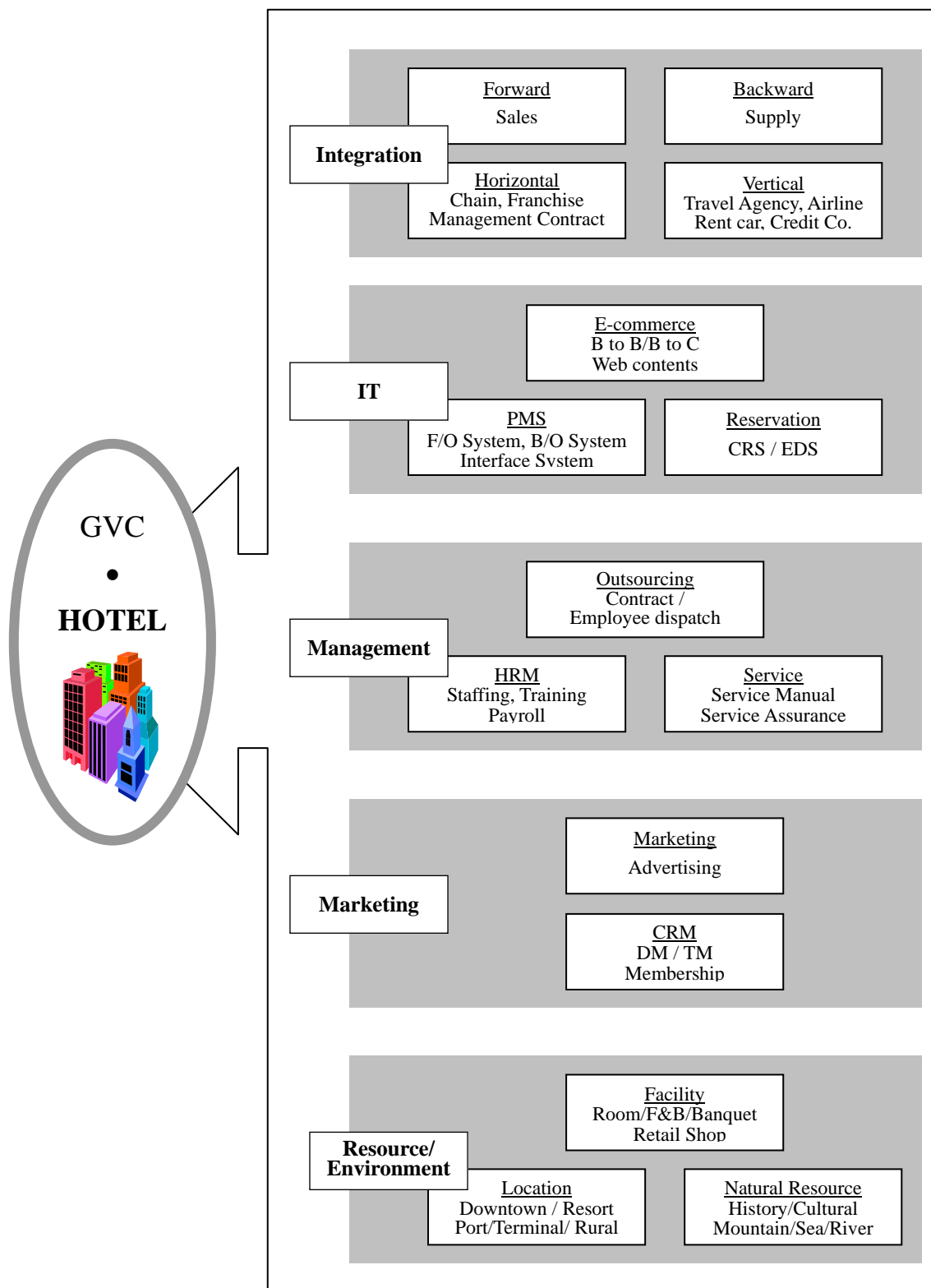
This study defines GVC in hotel industry as a value system which is composed by various factors affecting the enhancement of hotels final value such as customer satisfaction, competitiveness, sales, profit, and share in market. <Figure 2> shows the detailed elements of GVC in hotel industry. The conceptual framework of GVC in hotel industry in this research was fully developed from the scrutiny of various inside and outside factors in hotels' management, operation, resource, competition, and environment. Except of integration including supply chain, most of the GVC components suggested here are factors related with hotel's competitiveness in increasing service quality. The quality is an important factor for the competitive position of a hotel, and it consists of three different components; natural quality (environmental conditions), material quality ('hardware' such as hotel's interior, furniture, and entertainment facilities), immaterial quality ('software' such as service, management, organization, etc.) A high degree of quality in all three components is crucial for the hotels to be able to deliver a competitive experience to the guests.

Although the concept of GVC may be usefully applied at the industry level for analytical purposes, it is primarily used as a management instrument at the firm level in this research. In recent decades, the division of labour along GVCs in many industries has deeply changed both the geographic perspective and with regard to the relationship between SMEs and large enterprises. In consequence the value chain of a product or service branded by a world-class corporation encompasses many SMEs having different legal and economic ties with it. In this respect, globalization in tourism industry has affected the supply and demand side in many ways, which include worldwide acting suppliers, as well as the impact of computerized information and reservation systems. Global-acting airlines, hotel chains and tour operators already have branches throughout the world and cover major parts of international tourism demand with their global distribution systems (GDS). Strategic alliances, cooperation and/or mergers are additional driving forces of the globalization process.

The use of modern information and communication technologies in connection with the various forms of horizontal and vertical integration extends the value chain.

This research employs all of these influencing factors to GVC as one boundary of conceptual framework for the purpose of analyzing their effects in the context of S&M hotels. Although the benefits of developing globalization and the concept of value chain are mainly referred in large hotel chains instead of S&M hotels, a few study argued this subject in SMEs of tourism industry (Smeral, 1998). The analysis indicated that the economic objectives of increased earnings, foreign exchange, investment, job opportunities, production, entrepreneurship, infrastructure, as well as the minimization of adverse social and cultural effects, were not best met through the inward investment and promotion in tourism enterprises. Particularly, small hotels are more likely to market services directly to guests, entry costs are lower, with more local ownership and better local supply connections.

Figure 2. Components of GVC in Hotel Industry



Small hotels are generally known to have their own specificity within the accommodation industry that should be taken into account when analyzing their efficiency. The presumed advantages of small hotels are that they preserve traditions, while offering a personal service in a welcoming atmosphere. Perhaps we could assume that the client is more likely to feel like a guest. The threats faced by the S&M hotels today stem from the intense competition generated by the national and multinational chains of large hotels. Although the adoption of chain system in S&M hotels may offer standardized architecture, rooms and services, it may often result in a sterile, impersonal environment that is not conducive to providing a unique or unforgettable experience.

The key to their success is in concealing functionality behind catering for clients' needs with efficiency and quality of service. The large chain hotels, however, are more likely to be in the most accessible, central locations and aim to attract key market targets (i.e. business travelers and package tourists) by means of discounts, loyalty inducements and the rates negotiated with the carriers and tour operators.

In contrast, the S&M hotels can suffer from their lack of economies of scale and scope that affect the turnover and the profitability, their peripheral location, their reliance on passing trade and local advertising, giving them a sense of isolation from the industry (Glancey & Pettygrew, 1997), an unclear conception of their clientele and a perceived lack of competitive advantage (Harris & Watkins, 1998). Wanhill (2000) refers to certain weaknesses associated with S&M tourism enterprises like: (i) supply dominated by the family business; (ii) a lack of commercial drive and initiative, owing to non-economic motives for operating in the business; and (iii) limited skills of marketing, quality, assurance, pricing policy, cost control and re-adjustment and a shortage of financial resources (Barros & Mascarenhas, 2005).

This research handles with the issue of how the S&M hotels can tackle to enhance their value in the global context by employing various components of GVC such as integration, IT application, management and marketing efforts, and environmental differences.

DESCRIPTIVE EXAMINATION ON SMES IN KOREAN HOTEL INDUSTRY

Descriptive Statistics of Korean Hotel Industry

The Korean lodging industry is consisted of two major businesses, hotel and recreation condominium as Enforcement Decree of the Tourism Promotion Act of Korea stated in 1961. The first one, the hotel business, includes Tourist, Floating, Korea Traditional, and Family hotels. The number of Tourist hotels in Korea is 550 nationwide in the year of 2004, where about 60,000 rooms are available.

Table 1. Summary of the Operations in Tourist Hotels - 2004 -

(Unit: thousand)

Operations Hotels		Total Number of Available Rooms (year)	Total Number of Rooms Sold (year)	Total Number of Guests (year)	Occupancy (%)
Large Hotel	Super Deluxe	6,579	4,205	8,095	63.9
	Deluxe	4,200	2,577	6,046	61.4

S & M Hotel	1 st	5,154	2,631	5,378	51.0
	2 nd	2,052	782	1,640	38.1
	3 rd	1,359	571	1,233	42.0
Total		19,344	10,767	22,392	51.3

Source: Korea Hotel Association (2005). 2004 Tourist Hotel Operation Summary

Large hotels, including super deluxe and deluxe classes, appeared to hold approximately 10,779(thousand) rooms. About 14,140(thousand) guests stayed in large hotels occupied 6,782(thousand) rooms which represented 55.7% occupancy during the year of 2004. Average occupancy for large hotel was over 60%, and 63.2% of travelers to Korea used large hotels. S&M hotels showed 3,984(thousand) rooms sold. They housed 8,251(thousand) guests, and average occupancy was below 51%. Compared to figures of large hotels, those of S&M hotels was half to those of large hotels.

Table 2. Operation Summary of Korean Hotels Nationwide - 2004 -

(Unit: thousand)

Hotels Area	Large Hotels				S & M Hotels					
	Super Deluxe		Deluxe		1 st		2 nd		3 rd	
	Total Number of Guests	Total Number of Rooms Sold	Total Number of Guests	Total Number of Rooms Sold	Total Number of Guests	Total Number of Rooms Sold	Total Number of Guests	Total Number of Rooms Sold	Total Number of Guests	Total Number of Rooms Sold
Seoul	3,481	2,289	2,807	1,224	1,671	911	400	224	144	93
Other Area	4,614	1,916	3,238	1,353	3,708	1,720	1,240	558	1,089	514
Total	8,095	4,205	6,046	2,577	5,378	2,631	1,640	782	1,233	607

Source: Korea Hotel Association (2005). 2004 Tourist Hotel Operation Summary

As shown <Table 2>, the number of guests who stayed in large hotels in Seoul totaled 6,288(thousand) which makes up 44% of tourists to Korea. The S&M hotels, however, accommodates about 6,037(thousand) tourists in other areas of Korea. It makes up 43.4% of tourists staying in the total S&M hotels. Therefore, it concludes that S&M hotels in other area accommodate more guests that those located in Seoul. The room nights sold in large hotels in Seoul indicated 51.8%, whereas that for S&M was 40.7%.

Table 3. Regional Revenue Summary of Korean Hotels - 2004 -

(Unit: thousand US\$)

Location	Division	Room	Other Revenue Area	Total	Occupancy (%)	
					Foreign	Local
Seoul	a	538,091 ^a	459,288	997,379	85.1	71.0
	b	93,903 ^b	530,328	624,231	14.9	
Other area	a	219,459	134,324	353,783	45.7	44.8
	b	261,280	450,774	712,054	54.3	
Total		1,112,733	1,574,714	2,687,447	57.9	

Source: Korea Hotel Association (2005). 2004 Tourist Hotel Operation Summary

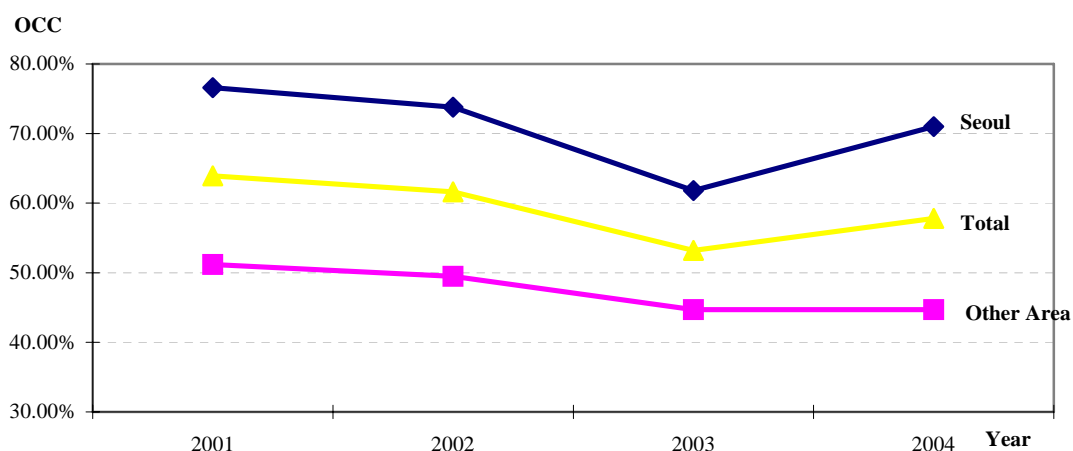
a. Foreign b. Local (Korean)

1. Exchange rate applied at 1,044 W / US dollar (National Statistics Office 2005)

Sales to locals in tourist hotels located in the capital city of Korea, Seoul, presented 37.1%, while that for foreign tourists was 23.2%. It illustrates the sales in Seoul for locals are greater than that for foreign tourists. The revenue for locals in other areas than Seoul marked up 13.2%, and the sales for foreign tourists in other areas reached at 26.5%.

It shows other areas take up more foreign tourists than that of locals. Seoul, the capital city of Korea, collected about \$631,994(thousand) making up 56.8% of total sales while other areas got the remaining of 43.2%. As exhibited in <Table 3>, room sales from foreign tourists in Seoul contributed 85.1% of total room sales in Seoul. Locals in Seoul appeared to spend more on F&B, banquets and other service outlets than rooms. On the contrary, the room sales in other areas are resulted from 45.7% of locals and 54.3% of foreign tourists. The sales from other service outlets such as F&B and banquet created much more by locals than foreign tourists in both Seoul and other areas.

Figure 3. Room Occupancy Summary in Different Region



The high levels of room occupancy were not reached as expected during the 2002 Korea/Japan World Cup mega event. It even got a declining pace after the event in hotels' room occupancies. The room occupancy gained a pace to shallow increase at the year of 2004. As exhibited in <Figure 4>, the number of guests staying in hotels showed a continuous decline except that of super deluxe large hotels, which indicated guest's preference to stay in super deluxe hotels. The 3rd tourist hotels showed a bit increase of guests during 2000 and 2004.

Figure 4. Yearly Hotel Guests Summary

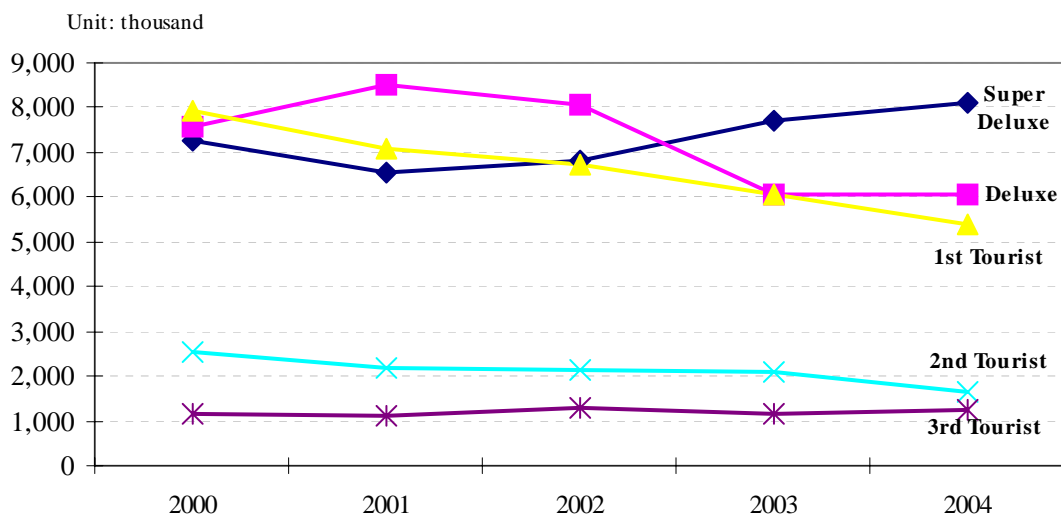


Table 4. Hotel's Revenue from Locals and Foreign Tourists - 2004 -

(Unit: thousand US\$)

Nationality		Foreign Tourists	Locals (Korean)	Total
L	Super Deluxe	995,567(56.8%)	758,032(43.2%)	1,753,599
	Deluxe	212,098(41.1%)	355,414(58.9%)	515,789
S & M	1 st	110,176(37.7%)	182,184(62.3%)	292,360
	2 nd	17,876(32.7%)	36,824(67.3%)	54,704
	3 rd	15,539(31.6%)	33,614(68.4%)	49,153
Total		1,351,258(50%)	1,314,347(50%)	2,65,604

Source: Korea Hotel Association (2005). 2004 Tourist Hotel Operation Summary

The sales of super deluxe and deluxe hotels showed to depend on foreign tourists by 56.8% and 41.1% respectively. Sales of the rest three hotel classes from locals were greater than that from foreign tourists.

SWOT Analysis for Korean S&M Hotels

Figure 5. SWOT Analysis of S&M Hotels in Korea

<ul style="list-style-type: none"> - Low cost, and efficient structure - Flexibility in adjusting changing environment - Easy control of price discount for demand expansion - Appealing to guests with various local festivals and events - Easy application of manager’s decision 	<ul style="list-style-type: none"> - Contraction of consumption by economic depression - Decrease of oversea tourists seeking low cost travel - Environmental threat like SARS, terrorism, storm 				
<table border="1" style="margin: auto;"> <tr> <td style="padding: 5px;">Strength</td> <td style="padding: 5px;">Threat</td> </tr> </table>	Strength	Threat	<table border="1" style="margin: auto;"> <tr> <td style="padding: 5px;">Weakness</td> <td style="padding: 5px;">Opportunity</td> </tr> </table>	Weakness	Opportunity
Strength	Threat				
Weakness	Opportunity				
<ul style="list-style-type: none"> - Lack of management skills and know-how based on professional management techniques required in modern hotel management - Lack of nation-wide and world-wide marketing networks - Insufficient and inefficient information system to support management - Lack of appreciation for HIS from top managements - Rather old facility and equipments - Low levels of service quality and standardization - Weak financial structure from low capitals 	<ul style="list-style-type: none"> - Diversification of travelers’ needs for accommodation - Extension of global brand for S&M hotels - Market niche not easily approached by large/luxury hotels - Shortage of hotel rooms in accommodating foreign visitors at special mega events - Possible diversification through unique theme - Increasing government support (special tax reduction and exemption for S&M hotels) - Opportunity for linking in service, education & marketing support with large or global hotels - Development of standardized management system for S&M hotels - Diversification of revenue structure for various business opportunities - Decreasing barriers for employing foreign labor force 				

RELATIVE COMPETENCE OF KOREAN S&M HOTELS IN GVC FRAMEWORK

Survey Scheme

This study examines how the S&M hotels can adopt the concept of GVC for struggling to achieve better performance in the global hospitality market. The selection of hotels to be surveyed was determined such that 16 hotels in total from each hotel class such as super deluxe, deluxe, 1st, 2nd, and 3rd tourist hotels were selected, based on the upper class hotels of each class in their annual revenue. Large hotels(LT, GH, SW, SA, HI, RY, BW-P) were categorized into super deluxe and deluxe, and considered to be involved the different types of management as independent, chain(local, international), management contract, franchise, and referral groups. Among S&M hotels, the mid-size hotels were defined as 1st tourist hotels in Korea, and 4 hotels(PM II, IB, HG, SV) were selected, whereas 5 small hotels(BW-D, KY, KR, JP, YM), which were defined as 2nd and 3rd tourist hotels, were considered in this research.

Table 5. Sample Hotels Selected for Survey

Hotels \ Type	Large Hotels		S&M Hotels		
	Super Deluxe (Large)	Deluxe (Large)	1 st (Mid-size)	2 nd (Small)	3 rd (Small)
No. of Hotels	3	4	4	4	1
Abbreviation of Responded Hotels	- LT hotel - GH hotel - SW hotel	- SA hotel - HI hotel - RY hotel - BW-P hotel	- PM II hotel - IB hotel - HG Hotel - SV Hotel	- BW-D hotel - KY Hotel - KR Hotel - JP Hotel	- YM Hotel

Table 6. Sampling and Survey Scheme

Target Samples	General Managers and Directors in Related Parts for Surveyed Hotels
Areas and Hotels of Survey	7 Large Hotels(super deluxe, deluxe) / 9 S&M Hotels(1 st , 2 nd , and 3 rd Tourist) Located in Seoul
Survey Method	In-Depth Interview
Survey Period	2 Weeks (July 18 – July 30, 2005)

The survey was conducted through in-depth interview during 2 weeks period from July 18 to July 30, 2005, with general managers and department heads in total 16 hotels which included 7 large hotels and 9 1st ~3rd tourist hotels.

Survey Results

Horizontal Integration

Alliances have been frequently used in Korea because they match local knowledge with greater resources and also help reduce partner risk in a region often beset by political or other situational instability. In recent years, Korean hotels have aligned themselves with international partners (e.g., Hyatt, intercontinental, Hilton, Ritz Carlton, Marriott, Sheraton, Accor, Holiday Inn and Best Western) using global brands for regional expansion or as a transition strategy to increase company performance. This implies Korean hotel industry is a good arena to examine the use of strategic alliances for competitive advantage in industry. This research examined various forms of alliances, especially focusing on the horizontal integration, together with the advantages provided by alliances in the industry, through an in-depth interview with selected hotels in Seoul, Korea.

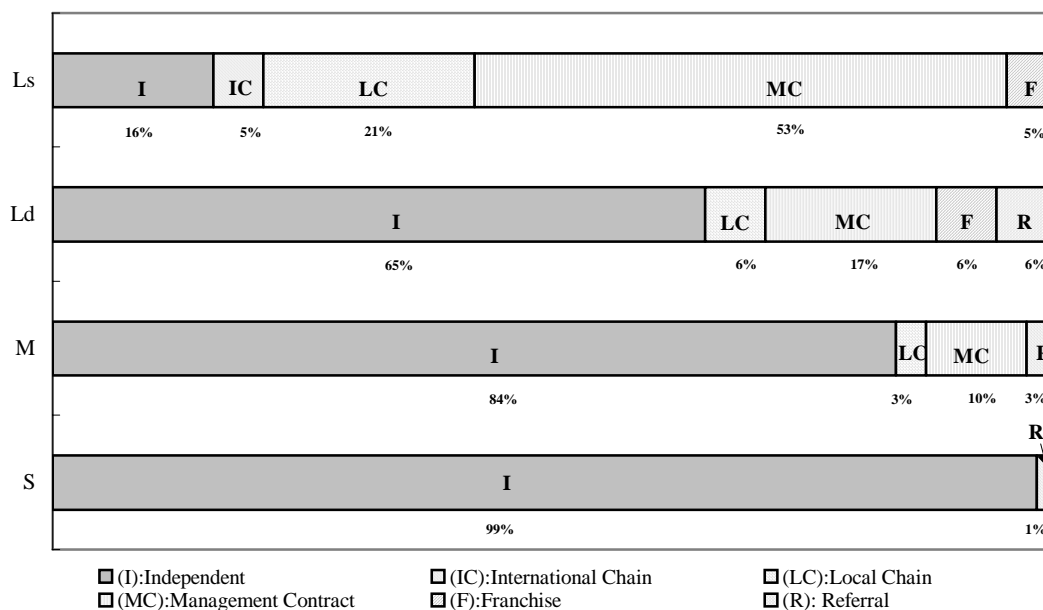
The hotel management in Korea can be categorized by independent, chain, management contract, franchise, and referral groups. Although the Korean hotel industry prevailed to independent hotels except a few chain-branded hotels until 1980s, nowadays the independent hotels have been significantly reduced in the category of large hotels. As the size of hotels increases, the ratio of making a contract with chain (global/local) or franchise is increasing in Korean hotel industry. The global chains or franchises which have been introduced into Korea hotel industry, for instance, are Inter-continental Hotel & Resorts, Global Hyatt, Hilton International Co., Marriott International Inc., Starwood Hotel & Resort World Wide Inc., Accor, Asia Pacific. Co., Best Western International Inc.

According to the reports from Korean Tourist Hotel Association, the large hotels (34) located in Seoul made their total sales as 15 million (US\$) in the year of 2004, among which the sales from management contract or franchise (15) took 8 million (US\$) with 53% in total. In case of mid-size hotels (29), the total sales were 0.9 million (US\$) where the share of management contract or referral took 18%.

In large (super deluxe) hotels located in Seoul, international chain hotel is Grand Hyatt which is invested 100% by Global Hyatt, and local chains are Shilla hotel and Lotte hotel. Sheraton Grand Walkerhill is the only franchise hotel in large (super deluxe) hotels at Seoul, which has made a contact with Starwood Hotel & Resort Worldwide. Most other large (super deluxe) hotels were found to make a management contract with Ritz Carlton, Westin, Hilton, Intercontinental, JW Marriott, Park Hyatt, W, and Renaissance.

In case of Large (deluxe) hotels located in Seoul, two Holiday Inn brands were introduced from Inter-Continental Hotels & Resort as franchise contract, and Sofitel and Novotel made a management contract with Accor. It is noteworthy that Best Western Premier brand has recently introduced in south Seoul, which is the first case of large (deluxe) hotel being involved in the referral group of Best Western. In case of S&M hotels, most hotels were independently owned and managed hotels except such brands as IBIS, Savoy, Best Western, and Prima.

Figure 6. Types of Hotel Management by Difference-Sized Hotels



1. Ls, Ld, M and S refer large (super deluxe), large (deluxe), mid-size, and small hotels respectively.
2. Percentages in the figure are calculated by the number of specific hotel management type in the total number of hotels in each size
3. The percentages in the figure are obtained from all hotels located in Seoul.

As shown in the <Figure 6> for hotels located in Seoul, the ratio of independent hotels in total hotels is increasing as the size becomes small, whereas the management contract or international/local chain hotels are increasing as the size gets large and super deluxe. Large(super deluxe) hotels are found to expect the increase of operational profit through management know-how, world-wide reservation network, and brand reputation, by introducing global brand as global chain, franchise or management contract. Regarding the performance of each type of horizontal integration, management contract hotels like JW Marriott and Grand Inter-Continental were much higher in GOP than other large (super deluxe) hotels of local chain or independent hotels. It is notable to mention IBIS and Savoy, the mid-size hotels in Seoul, herewith because they are so successful in RevPAR, GP and GOP since they have made management contracts with global company (IBIS) or local company (Sejong).

That small hotels were mostly independent hotels except two referral hotels seems to stem from relatively high cost of management contract, chain, and franchise. Referrals have definite advantage of low cost and maintaining right and policies of owner’s management. Usually, the global chains and management contract companies require management fee (a percentage of revenue) and royalty (a percentage of GOP), and most international franchisors also require initial fee and royalty for the contract. And, the owners of small hotels have a tendency to manage their hotels by themselves. These are the main reasons that most owners of small hotels feel reluctant to make alliances with those global companies.

Table 7. Cooperative Efforts of Horizontal Integration by Difference-Sized Hotels

Integration Efforts Types of Management		Providing Operation Manual	Offering Service Manual	Exchanging Training Program	Manpower Exchange	Cooperative Accounting System	Sharing Intranet	Cooperative Advertising	Cooperative Promotion	Integrating Hotel Information System
		Independent		-	-	-	-	-	-	-
Chain	International	Ls	Ls	Ls	Ls	Ls	Ls	Ls	-	Ls
	Local	Ls / M	Ls / M	Ls / M	Ls / M	M	Ls / M	Ls	-	M
Management Contract	with Brand	Ld / M	Ld / M	Ld / M	Ld / M	M	Ld / M	Ld / M	Ld	-
	without Brand	M	M	M	M	M	-	-	-	-
Franchise		Ld	Ls / Ld	Ls / Ld	Ld	Ld	Ls / Ld	Ld	Ld	-
Referral		Ld / S	Ld	Ld	-	-	Ld	Ld	-	-

1. Ls, Ld, M and S refer large (super deluxe), large (deluxe), mid-size, and small hotels respectively.

It was interesting, however, that the general managers in small hotels were quite positive to alliances with global companies, whereas the owners in those small hotels felt some burden in paying fees from the contract and the corresponding rate increase, which in turn might hurt the competitiveness of the hotels. Another factor that affects the small hotel's reluctance to go referrals comes from that although referral brands have reputations in abroad, the locals may not appreciate the same kind of brand reputation when they visit the referrals because it has relatively lower reputation than world-widely known chain or franchise.

Regarding the ownership of the hotels, the smaller the size, the more the hotels were invested by one local owner or a group of local owners. As the size gets large, many hotels were invested by both local owner(s) and international investment companies which usually have had experiences in hospitality industry.

<Table 7> exhibits various cooperative efforts between hotels making horizontal integration. International or local chains in large and mid-sized hotels were provided such services from global companies as operation manual, service manual, training program, manpower exchange, accounting system, sharing intranet, cooperative advertising, HIS. Franchise and management contract hotels were found to receive such services from franchisor as operation manual, service manual, training program, manpower

exchange, accounting system, sharing intranet, and cooperative advertising and promotion. Referrals were usually offered operation manual, service manual, training program, sharing Intranet, and cooperative advertising from the global referral group. In case of small hotels, the referrals were supported by operational manual from the global company.

In the survey of this research, a question on the perceived advantages of introducing global chain brand to S&M hotels is asked to general managers and departmental managers of the surveyed hotels. The questions were asked to respond ranked priority of perceived importance on 11 measures of possible advantages of introducing chain brand. The 11 measures are sales increase, decreasing costs, enhancement of hotel brand image, increasing room occupancy, inducing local guests, accommodating foreign travelers, increasing FIT customers, increasing group travelers, extending reservation network, sales and marketing know-how, and supporting professional employee training system. The respondents were asked to respond only top three priorities in the 11 measures, and the mean ranks responded were summarized in <Table 8>.

The general managers in large hotels mentioned the enhancement of hotel brand images as priority one for the advantage of taking global chain brand, and the next were sales increase, and sales and marketing know-how. Managers from mid-size hotels also perceived the enhancement of image as most important advantage of chain brand introduction, and then the enlargement of reservation network and being supported by sales and marketing know-how. It was noteworthy that, in case of small hotel managers, the increasing room occupancy was rated highest priority, and then the sales increase and accommodating foreign travellers. This result shows that the S&M hotels perceive the more reservation, sales increase, and sales/marketing know-how are important when they consider integrating with global chain brand.

**Table 8. Advantages of Introducing Global Chain Brands into S&M Hotels:
Perceived by Managers in Surveyed Hotels**

Benefits Hotels	Sales Increase	Enhancem ent of Brand Image	Increasing Room Occupanci es	Accommodat ing Foreign Guests	Enlarging Reservati on Network	Sales & Marketin g Know- how
Large hotels	2 ¹⁾	1	-	-	-	3
Mid-size hotels	-	1	-	-	2	3
Small hotels	2	-	1	3	-	-

Notes: 1) Mean rank of the responses which were asked by responding priority 1, 2, and 3 for their perceived Importance

Vertical Integration

Integration is an organizational approach of sharing, exchanging, unifying, and coordinating managerial resources in partnering organizations for their mutual benefits. In this research, vertical integration refers an alliance or cooperation between hotels and other organizations to develop rather long-term relationship for the purpose of achieving special objectives of supporting managerial deficiencies or getting efficient synergy effect. Additionally, it includes a cooperative partnership between hotels and their outside businesses such as restaurants, bakeries, leisure or recreation centers. This kind of vertical alliances recently appears in the partnership between hotels and airline, rent car, credit-card company, travel agency,

and shopping complex. It also includes the cooperative relationship between hotels and F&B outlets or sports and leisure facilities owned by the hotels.

The frequent fliers program for repeat guests having mileage between hotels and airlines has recently employed by many hotels and airlines because it can maximize the effective boundaries of marketing with minimum investment for the market of their counterparts. In recent years, the international tourism in global boundary is very common phenomenon, and the partnership between hotels which provide various benefits to repeat guests equipped with world-wide chain network and airlines that transport international travelers to world-wide area with highly qualified service exhibits not the exclusive mutual alliances between the two organizations but the multilateral partnership among many participants depending on the competitive marketing objectives or target markets. The multiple partnerships may take various benefit system such as bonus mileage or price discount according to its partnering organizations.

The strategic alliances between hotels and credit card companies aim to generate new demands keeping with current customers. They have advantages of decreasing high costs from creating demands and enhancing the level of service quality to existing customers. By similar reason, many hotels in Korea have increasingly being made partnerships with credit card companies. This is a strategy of inducing domestic customers by issuing mileage cards having various benefits on them. It has such an advantage of not only performing marketing strategy coping with specific target market for hotels but also inducing high potential hotel guests for credit card company.

There are other types of partnerships in marketing area such as symbiotic marketing or strategic marketing alliances which connect hotels with various attractions and tourist destinations, shopping facilities, and cultural sites. This type of partnership utilizes its symbiotic marketing strategy for such difficult situations as the fast change of technology and customer demands, automation, the proliferation of multi-facet information, the internationalization of companies, and the highly competitive markets.

<Figure 7> shows the results of in-depth survey of this research into the vertical integration of hotels with the companies of other industries. Large hotels appear to have a partnership with many of different companies like airlines, rent car, credit-card companies except dependent suppliers as sports and leisure facilities.

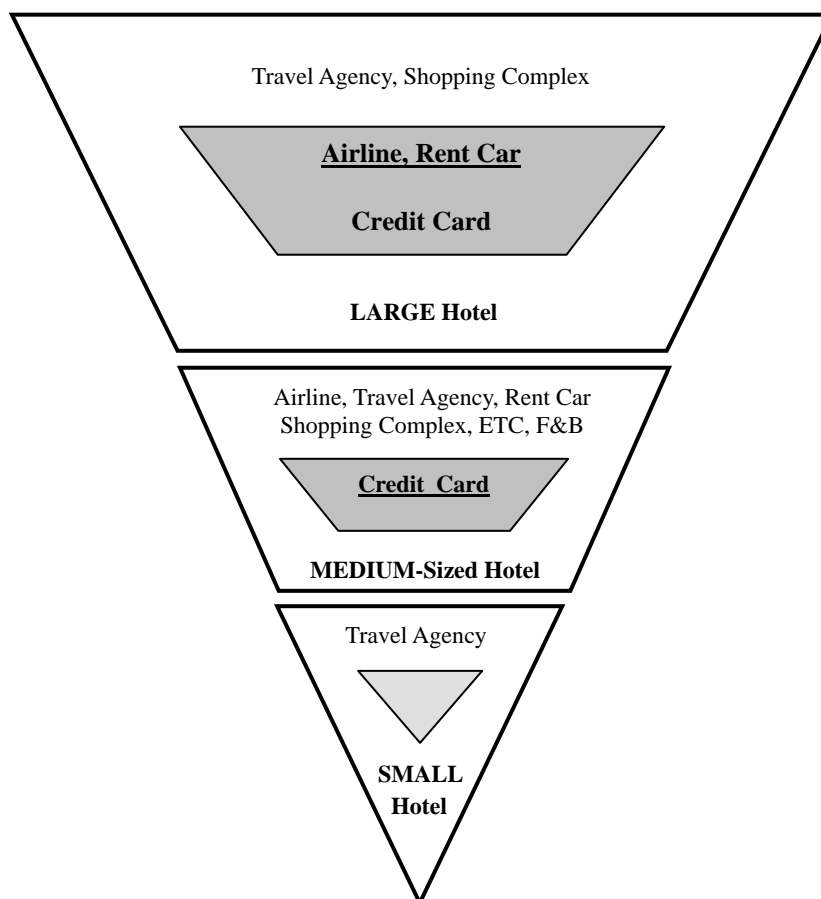
Among the surveyed hotels, it was found that about 50% of the medium-sized hotels appeared to have a partnership with companies of other industries, in which the credit card companies were the most frequently responded counterparts. Small hotels, on the other hand, were found to have a partnering relationship with travel agencies. This implies that the small hotels need a support on the distribution channel of reservation system, which needs sometimes tremendous amount of investment in the eyes of small hotels.

That the large hotels have more partnering companies of other industries for their operation of various job alliances than their smaller counterparts may come from the fact that large hotels show more contract with global chain or franchises than medium-sized and small hotels. Global hotel chains or giant franchise systems usually have multi-level partnerships with various companies in global context, so that the member hotels in chains or franchises can enjoy the existing or already-established membership which provides a lot of benefits among alliance brands.

Many Korean hotels need internally such a decisive re-structuring and business re-engineering to survive with growing momentum in highly competitive global market, and externally an effective strategic alliance with other competitors or other service organizations. Korean hotel industry shows quite obvious trend of trying to enlarge their sales capacity through vertical alliances with airlines, rent car, credit-card company, travel agency, and shopping complex, especially in large hotels. In Korean hotel industry, very

severe competition is expected in near future for more frequent movement and exchange of international travelers and new establishment of luxury hotels. This situational change requires more effective and successful alliances among hotels and other industries with respective of survival in highly competitive hotel markets.

Figure 7. Patterns of Vertical Integration in Hotel Industry



STRATEGIC IMPLICATIONS

ON KOREAN S&M HOTELS' ENHANCING COMPETITIVENESS THROUGH GVC

This study tried to delineate the implications on how the S&M hotels can enhance their competitive positions in GVC of world-wide hotel industry. Based on the literature review for establishing the conceptual framework for empirical survey and the overview examination on Korean hotel industry, this research identified descriptive information on determining factors for GVC in hotel industry and the Korean S&M hotels' problems and opportunities. To collect the S&M hotels operations and performance data, sampled 16 S&M hotels in Seoul were surveyed and analyzed by the measurements from conceptual framework. Meaningful implications are suggested as follows.

First, the study found that S&M hotels in Korea are mostly independent hotels and appeared not to have proficient operation strategies and management know-how required for modern hotels facing global competition. To nurture their business, they are advised to employ an alliance system with management contract, franchise, or chain companies of internationally recognized hotel brands. Doing so, they are able

to increase not only the brand image but also utilize their management know-how and marketing network, so as to attract a broader customer base. It will help them achieve sales increase as well as higher ADRs for higher RevPAR and GOP. A lump sum of management contract fee and marketing cost, however, may be a disadvantage to S&M hotels so that they should carefully consider the trade-offs between taking the global brands or not. Besides it will not be successful unless acquiring hotel brand is well known and has recognition to their local customers. Since local customers, as mentioned earlier, frequently patronize limited-service of S&M hotels, expecting sales will not offset the costs if the brand is not favorably recognized by local customers. Adopting a local large (super deluxe) hotel brand can be considered as an alternative if it has sound reputation to local customers and established marketing competencies. This can be a kind of local chains which refers a large hotel brand has a network of budgetary hotel brands under their established reputation. Among upscale hotels in Korea, there are several internationally well-known hotel brands making their business profitable based on accomplished management techniques and brand quality. With established operation standards and competent human resources, a local five-star hotel will be able to offer a weakening S&M hotel a systematic management know-how and necessary quality improvement skills.

Second, building an extensive and effective information system appropriate to the size and type of hotel operations is needed especially for S&M hotels. It will help S&M hotels build not only an automated and prompt management operations but also a customer loyalty program and an extensive distribution channel to increase sales as well as reduce cost. It will also possible for S&M hotels to enhance their service quality by employing the HIS in managing servers and other operations for serving guests. Its high-priced software that just afford to large hotels, however, seems to have kept S&M management from purchasing the HIS tool, even though information technology has been widespread for a decade in hotel industry. Therefore, an association or cooperative work among S&M hotels pursuing the same goal of establishing rather cost-effective information system suitable for small scale hotel is vital to create an efficient HIS module for one another.

Third, to enhance efficient human resources management, the S&M hotels should closely associate with a capable labor outsourcing company. Considering employees' morale, independent management, and job security, the S&M hotels have not been involved actively with an outsourcing company. As discussed earlier, poor service performance by inexperienced entry-level employees can be reduced by the help of a reliable labor outsourcing company. Not only housekeeping part but also such back-office management activities as purchasing and personnel department are to be possibly outsourced.

Fourth, complementing the marketing practice from large and established hotel brand is strongly advised to S&M hotels. Limited sales and marketing personnel in S&M hotels is not sufficient to reach broader market and focus target market effectively. Quite narrow market area of S&M hotels than their larger counterparts requires a specific and consistent market by solid marketing tools. Targeting customers from neighboring business districts is the key to S&M hotel's success. This research found a successful S&M hotel to fully utilize the viability of its business district and primary traffic routes rather convenient to visitors. Therefore, the S&M hotels should consider any opportunity from their environmental resources and locations to effectively appeal to local customers in the vicinity area.

Finally, the S&M hotels should consider reducing the unnecessary additional services by effectively targeting the customers seeking limited service with low rate. This effort should be carefully accompanied by providing the concentrated offering of amenities suitable to target customers, because rising costs incurred by offering extra amenities can be a cause to increase hotel rates. There are many supplies and equipments provided in hotel rooms and such peripheral services as valet parking, concierge, room service and laundry for day-to-day hotel management, and all these can contribute to add up costs to hotels. One of the very reasons for a customer to choose an S&M hotel to stay in, however, is its competitive price. Therefore, maintaining lower price is a crucial. The S&M hotels should consider to enhance its price

competitiveness and to meet customer needs by substituting the service of room supplies and other add-up services with such alternatives as vending machine to generate all kinds of supplies used in hotels, coin-operated laundry and other self-service devices.

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