



GHN Perspectives: Jerry Noonan and Bob DeVries **Spencer Stuart**



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Rooms and Boards: Forces Affecting the Hotel Industry and Their Governance Implications

From increased globalization and growing digital possibilities to a changing guest profile and ever-evolving government regulations, the hotel industry is faced with a complex range of issues. Boards of hotel companies can serve as a great asset to their executive teams in navigating the opportunities and risks of today's dynamic environment. As these forces continue to shape the business, hotel company boards have an opportunity to reflect on their overall composition, ensuring that the collective expertise of their members can address shifting strategic and governance priorities. Based on our frequent conversations with hotel executives and board directors as well as in-depth reviews of current board composition and effectiveness, we have identified the trends that have particular significance for the sector, as well as the expertise that can be helpful to have in the boardroom.



Issue: Globalization

Valuable expertise: International marketing, operations and development perspectives

According to the World Tourism Organization at the time of this writing, international tourist arrivals grew by 5 percent in the first half of 2013, equating to 25 million more tourists travelling internationally than in the same time period last year. Many hotels are making large investments to keep up with the increased demand in growth markets around the world — namely China, the Middle East, India, Latin America and Eastern Europe — and changing their businesses to accommodate these guests in established countries. For example, Starwood Hotels & Resorts Worldwide launched a series of initiatives to meet the needs of Indian travelers, including providing the in-room amenities they value (such as slippers and tea kettles), as well as familiar foods and customized wedding services. IHG created an entire brand designed specifically for the Chinese consumer.

International marketing, operations and development expertise on the board can be beneficial to companies undergoing global expansion, especially members who bring an understanding of the guest demands, cultural sensitivities and political obstacles in target markets. At the same time, board members with a global marketing, operations and development perspective can offer insights on how to translate the brand — one of a hotel’s most valuable assets — across local markets without diluting it, while also understanding how to lead local teams composed of different cultures. Directors with global experience have become more in-demand beyond the hotel industry. The 2012 *Spencer Stuart Board Index* found that one-third of all new directors have global experience, and nearly half of respondents to a related survey of board secretaries cited an international business background as a priority for new director experience.

Issue: Growing use of digital for both marketing and operations

Valuable expertise: Digital fluency

Although the hotel industry is making steady progress in its use of mobile, social media, “big data” and e-commerce, companies must continue to adapt to the significant transparency around price, quality and service digital technology creates. Additionally, companies such as Orbitz, Travelocity, TripAdvisor, Gilt Groupe and other online travel businesses are disrupting the competitive landscape for hotels and heavily influencing traveler decision-making.

Beyond marketing, digital and mobile technologies are changing many aspects of the traditional operations in both the front and back of the house, facilitating lower costs through operating



efficiencies, as well as better guest satisfaction. These technologies are also rapidly elevating the need for sophisticated high-speed Internet access across the property.

Board members with digital expertise can help the organization strategically understand how to take advantage of these myriad technologies and also mitigate their risks. To build digital know-how on the board, hotel boards may need to think more broadly about new director profiles, as technology savvy candidates may be younger and less advanced in their careers — for example, they are less likely to have CEO experience than traditional board candidates.

Issue: Changing guest profile

Valuable expertise: Diversity of perspectives

The profile of hotel guests is changing: They are younger, more affluent, more diverse — and more of them are women. Thus, hotel company boards can benefit from having a diversity of perspectives that reflects their evolving customer base. Boards in the industry have already begun the shift: According to the 2012 *Spencer Stuart Hospitality & Leisure Board Index*, female representation on hospitality and leisure boards reached 16 percent, compared with 13 percent the previous year. Continuing to inject the board with fresh perspectives can bring balance to boards, especially in family-owned hotel organizations, which tend to have board members with the longest tenures, with some approaching 50 years of service.

Issue: Government regulations and taxes

Valuable expertise: Government relations, taxation and compliance experience

Hotel companies must operate under a range of national and local regulations, including differing tax structures in each country of operation and undue tax burdens in certain jurisdictions, as well as environmental regulations and labor laws. Hotel companies are also impacted by laws and regulations governing travel, including visas and airport security. In addition, the Affordable Care Act will also greatly impact the hotel industry in the U.S. in terms of both compliance and cost. Balancing compliance costs while maintaining profitability can prove challenging for hotel organizations around the world. A board member with previous government relations, legislative or international tax experience can help hotels maneuver amid growing regulatory complexity and related risks.



Issue: Improvement and expansion of hotel properties

Valuable expertise: Real estate knowledge

Hotel companies must deal with a host of real estate owners and transactions, from REITs and sovereign wealth funds to property acquisitions and financing. As brands grow, understanding the complexities of real estate (both domestically and internationally) can play a vital role in creating shareholder value. Additionally, board members with REIT experience or other sources of capital can help management understand all of its options for funding improvements and enhancements for existing properties.

Conclusion

As forces for change continue to affect hospitality companies, many will want to consider adding specific expertise to their boards to help navigate the opportunities and challenges ahead. However, high-performing boards must invest time in evaluating their specific needs, taking into account strategy, board culture and the future trajectory of the business. Regardless of background experience, strong communication skills and an ability to disagree without alienating other members will remain vital for an effective board. A board with a healthy mix of soft skills and diverse expertise in the issues at work in the industry today can be the key to the organization's success tomorrow.

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