

## Research Note

# Multifaceted Hotel Diversification in Developing Pacific Island Destinations

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**Abstract:** This research used 25 interviews with hotel operators to explore the strategic practices hotel businesses use to effectively operate in developing Pacific Island destinations. Four islands in the Federated States of Micronesia were used as the research setting, and data were collected and analysed using a grounded theoretical approach. The core conceptual category which emerged to explain and understand the requisite strategic practices for surviving the languid tourism context of these islands is dubbed multifaceted hotel diversification (MHD). The MHD model proposed and discussed is comprised of three conceptual sub-dimensions: guest market diversification, hotel property diversification, and industry diversification. These findings contribute to the extremely scarce body of hotel research in Pacific Island destinations, and as such have implications for entrepreneurs, business development policy and training, and future research in this little understood part of the world.

**Keywords:** Hotel strategy, multifaceted hotel diversification, Pacific Island countries, tourism

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## Introduction

Since gaining political independence in the 1970-80s, most Pacific Island countries (PICs) have embarked on a continuous quest to achieve increased economic self-reliance (Hezel, 2012). Given the attractive natural and sociocultural resources that characterise many tropical islands of the Pacific, tourism is thought to be the most conceivable driving force behind increased economic activity in PICs (Pratt & Harrison, 2015). Nevertheless, some PICs have been unable to develop viable tourism industries (Connell, 2007).

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Despite the challenges posed by the languid state of the broader tourism industry, some hotels in these low-performing PICs have continued to provide private sector employment and produce the platform for guest experiences. The strategic practices required to accomplish this have yet to be studied and delineated. This research leverages insights from hotel operators in the Federated States of Micronesia to illuminate a multidimensional model of diversification used to make hotels work amidst the challenges of the broader tourism context. In addition to contributing to the dearth of hotel research in developing PICs, these findings offer a practical alternative to the standardised business paradigms often advocated for, but which may have limited theoretical and practical relevance to these contexts (Solomona & Davis, 2012).

### **Literature Review**

While doing business in PICs requires unique strategic practices (Saffu, 2003; Solomona & Davis, 2012), information on what exactly these may be is lacking. For hotel businesses in particular, much of the East Asia-Pacific research has focused on major industrial locations like Hong Kong (Yeung & Lau, 2005), China (Lo, 2012), and Korea (Han, 2012). Despite the fact that there are about 25,000 Pacific Islands in the region (Hailey, 1987), there is almost a total absence of research relating to hotels in PICs. This is a particular problem in that tourism and hospitality have been targeted as the most conceivable driving force behind economic development for many PICs (Hezel, 2012).

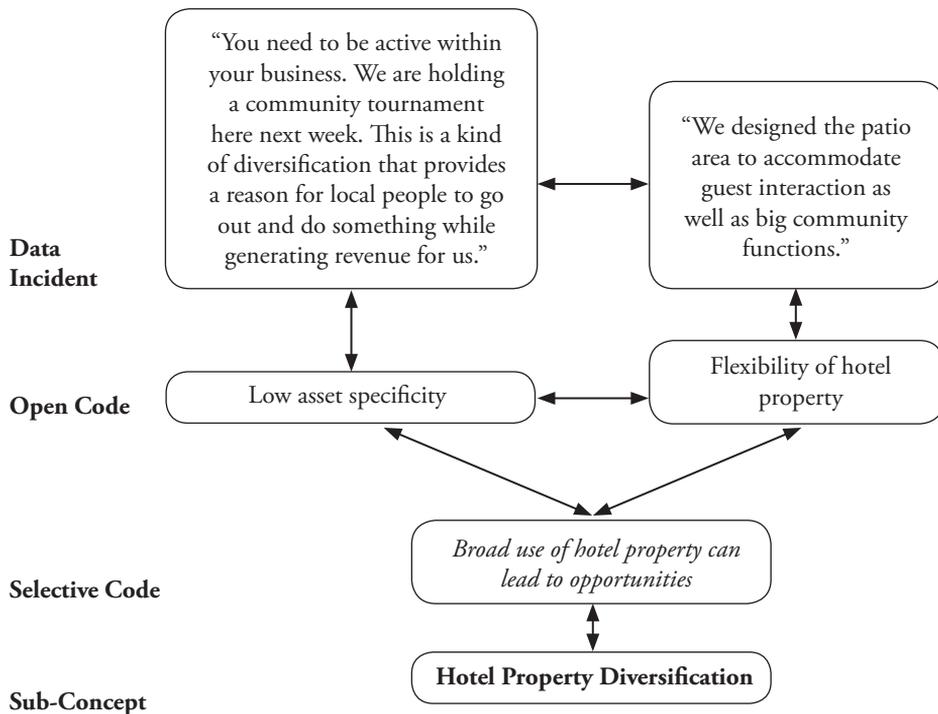
Moreover, existing hotel research in East Asia-Pacific is largely positivist in nature, seeking to empirically test models based on existing theories (Lo, 2012; Yeung & Lau, 2005). However, the factors which contribute to business success in developing countries differ from developed countries on account of distinct contextual elements (Benzing, Chu & Kara, 2009). For instance, Western theories may exhibit some naiveté regarding strategy implantation in the “diverse texture of different business systems” where careful consideration of context is important (Olsen & Roper, 1998, p. 117). Thus, the applicability of mainstream management theories to developing countries has been called into question (Kiggundu, Jorgenson & Hafsi, 1983; Saffu, 2003). In PICs, there remains a need for interpretive hotel business research which accounts for the idiosyncratic environments endemic to these islands.

### **Methodology**

To investigate the strategic practices hotels use to navigate the challenges of the tourism context in low-performing PICs, 25 interviews were conducted with hotel operators across four island states (i.e. Yap, Chuuk, Pohnpei, and Kosrae) in the Federated States of Micronesia (FSM). The range of subjects’ experience ranged from

roughly 1 to 30 years, and the interviews ranged from 32 to 116 minutes. Classic grounded theory method (Glaser, 1978) was used for the data collection and analysis.

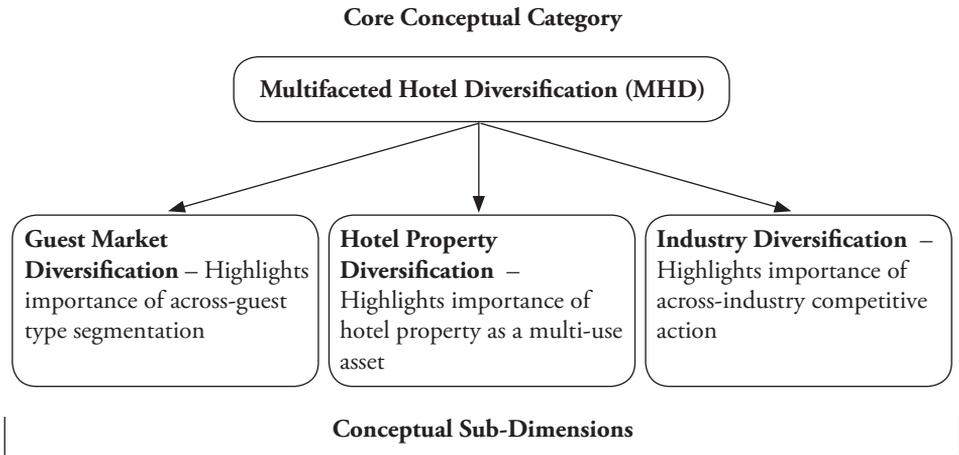
First, open coding was used to develop preliminary understanding of what the data was communicating about the shape and direction of the study, and how data incidents relate to emerging categories (Glaser, 1978). A total of 721 data incidents were examined, which generated 85 open codes. Next, selective coding was used to delimit additional lines of questioning around select groups of open codes deemed increasingly relevant to the emerging theoretical framework, and then consolidate and elevate them to a higher level of conceptual abstraction (Glaser, 1978). This selective coding process was centred around the emergent conceptual importance of diversification. Fostering conceptual elaboration through selective coding elucidated a model of diversification characterised by three conceptual sub-dimensions dubbed Multifaceted Hotel Diversification (MHD). Figure 1 illustrates this analytic process using one of the MHD sub-dimensions as an example, with the double-sided arrows representing the constant comparison of codes (Glaser, 1978). Theoretical coding was then used to integrate the open and selective coding results regarding MHD with the extant literature as part of an organised theoretical framework, which is discussed next.



**Figure 1.** Sample of the coding process using the *Hotel Property Diversification* sub-dimension

### Findings

In PICs like the FSM, the conventional strategic prescriptions for hotels have centred around issues like upgrading quality standards to attract lucrative international markets, cultivating a strong regulatory and foreign investment climate, enhancing marketing campaigns, improving infrastructure and service development, and facilitating access to financing (Duncan, Codippily, Duituturaga & Bulatale, 2014; Federated States of Micronesia Development Partners Forum, 2012). The present research suggests such standardised prescriptions often suffer from a lack of practicality and relevance to hotels in developing PICs. Stated differently, there is a disconnect between such externally-legitimated ideals, and the strategic practices that hotel operators must actually use to survive the realities of the bleak tourism context. One such set of practices is characterised by MHD and its three conceptual sub-dimensions: *guest market diversification*, *hotel property diversification*, and *industry diversification*. Figure 2 presents a conceptual model of MHD and these sub-dimensions, and each are briefly discussed next.



**Figure 2.** MHD and its three conceptual sub-dimensions

#### MHD Conceptual Sub-Dimension 1: Guest Market Diversification

As opposed to previous hotel research in developed East Asia-Pacific destinations (Shen, 2015), the present findings highlight the impracticalities of a focused guest market strategy for hotels in PICs where tourist arrivals are already prohibitively low. Rather, hotels in this context must retain the potential to generate revenue by meeting the requirements and expectations of diverse guest markets.

Hotels in the FSM have typically been advised to segment their market according to high- versus low-spending tourists, eco versus mass tourists, and/or geographical segments (Federated States of Micronesia Economic Summit, 2004). However, the findings suggest that segmenting *across* rather than *within* guest types is the most efficacious. Given the languid state of tourism, hotels conceived using idealistic visions about serving consistent waves of international tourists, and thus strategise only within this segment, will face immense challenges. As one subject stated:

*My idea was to build a cottage-style hotel for tourists. I submitted my loan application and opened the first units two years later. When I opened the hotel, I said "Well, where are the guests?" Nobody knew. And we have been struggling ever since.*

To illustrate, business travellers comprise roughly 50% of the total market for the FSM hotels that have the ability to serve this market in addition to international tourists. Previous studies have shown the hotel attribute preference differences between business travellers and tourists (McCleary, Weaver & Hutchinson, 1993; Yavas & Babakus, 2005). Thus, despite one's idealistic visions about operating a Pacific Island tourist hotel, the ability to accommodate the needs of diverse guest markets must be present in order to survive. In highlighting this need for guest market dexterity, one subject stated:

*I originally wanted to build a bungalow-style hotel for tourists, but realised I had to change my strategy. In the end, the tourism situation is such that the only thing that has kept the business going is the business travellers.*

Thus, as opposed to the standardised prescriptions about segmenting only within the international tourist market, hotels must create multifaceted revenue streams by also operating across segments.

## **MHD Conceptual Sub-Dimension 2: Hotel Property Diversification**

Even for hotels which can effectively serve diverse markets, the reality of the tourism context in low-performing PICs is such that maintaining a consistent stream of guests is not practical. Thus, hotels must also be able to utilise their property in a variety of ways outside of the principle function of accommodating guests. In other words, the hotel must be conceptualised as an asset that can be deployed for multiple uses, an attribute referred to in the literature as "low asset specificity" (Williamson, 1985). As one subject stated:

*Out here you have to view your hotel facility as an asset that needs to be used in as many ways as possible, and you must design the property to facilitate multiple uses.*

For instance, previous research has highlighted the potential tension between Pacific Island hotel operations and sociocultural norms and practices (Binder & Varga, 2015). However, socialisation processes are a constant of Micronesian societies (Hezel, 2013), and hotels are not exempt from these. Accordingly, an innovative operational strategy used by some FSM hotels is to embrace the prevailing socialisation norms while simultaneously drawing in much needed business from the surrounding community through the use of flexible spaces. As one hotel owner stated:

*For the people and communities in the FSM, it's all about socialisation. If you look at the way our hotel here is designed, it's designed to accommodate not only guests but socialisation and functions for people in the community... This did not happen by accident, and the hotel has benefitted from it.*

Thus, embracing and planning for (rather than excluding and ignoring) sociocultural and community considerations as a potential revenue stream by conceptualising the property as a multi-use asset is a viable approach for supplementing the core accommodation function of hotels in low-performing PICs.

### **MHD Conceptual Sub-Dimension 3: Industry Diversification**

Previous East Asia-Pacific research (Yeung & Lau, 2005) uses mainstream management theory to examine the competitive actions of firms *within* the hotel industry. In contrast, the present findings highlight the importance of taking competitive actions across industries to remain viable. For hotels in low-performing PICs, diversification into other industries has distinct advantages. First, potential investors may be reluctant to invest in new enterprises given the challenging institutional context where courts enforce the terms of contractual business arrangements inconsistently (Prasad, 2008). As such, established hotel operators in PICs have an advantage in across-industry diversification through an ability to utilise their experience in navigating the institutional context to partner with potential investors into other industries.

This ability to generate revenue via across-industry diversification can then enable the use of internally-generated capital to improve their existing hotel business, or further diversify into new industries. As one diversified subject explained:

*When you get ahead a little bit, always be looking around where you reinvest without hurting yourself too much. But use some to reinvest and start getting revenue from that and then keep that cycle going. We only started the hotel because we slowly but surely established other businesses and had enough money to look for a new venture to invest in.*

As Croes (2006) pointed out, an island's brand is dependent upon the cumulative actions of its tourism-related businesses. Thus, the cumulative effect of this cyclical process of reinvestment can have broader effects by enhancing the tangible and intangible service dimensions of the hotel, thereby impacting guest satisfaction and positive word of mouth for the destination as a whole.

Some examples of successful across-industry diversification for hotels in the FSM included retail, propane distribution, construction, recycling, bars, cafes, baked goods production, nano-breweries, agriculture, handicraft production, ice sales, shipping services, professional services, and others. While many subjects commented on the advantages of this approach given the languid state of tourism in the FSM, all emphasised the importance of a deliberate approach to across-industry diversification. As one subject stated:

*Out here it is extremely important that you don't get too big and into so many things that your businesses get away from you. It takes incredible attention to make a good business out here, and you have to keep your hand on things. You go too big too fast, and you won't last.*

## **Conclusion**

By gleaning insights from hotel practitioners using a grounded theoretical approach, this research suggests that sound strategic practice for hotels in low-performing PICs entails taking on a broad range of functions and markets. More specifically, these findings regarding MHD highlight the importance of segmenting across rather than within guest types, conceptualising the hotel property as a multi-use asset that can be deployed in a variety of ways, and taking competitive action across industries to survive.

Given the dearth of hotel research in PICs combined with the importance of this industry to the economic future of these islands, these findings represent an actionable conceptual framework for use by current and/or future hotel entrepreneurs. Business development organisations in PICs can also use the findings regarding MHD in their small business training modules or when providing technical advice. Doing so can help bridge the gap between the standardised information often peddled to entrepreneurs/investors, and the strategic practices actually needed to survive when doing business in PICs (Cheshire, 2010).

For research, these findings contribute to the need for endemic knowledge on strategic business practices in PICs (Saffu, 2003; Solomona & Davis, 2012). The MHD framework also highlights issues to be expanded upon in future studies. One opportunity is in-depth investigations into other win-win strategic practices which successfully navigate the intersection of business and society in PICs. Another is how diverse management frameworks which integrate a mix of local and Western knowledge are effectively applied to various operational functions of hotels in PICs (e.g. human resources). Finally, to address the more general need for hotel research in developing countries (Köseoglu, Topaloglu, Parnell, & Lester, 2013), additional studies can examine how the MHD model applies to hotels in other island destinations in East Asia-Pacific and beyond.

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