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BUSINESS AND MANAGEMENT
CASE STUDY: THE IMPERIAL

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INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

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The Imperial

The Imperial is a seaside hotel in Mombasa, Kenya. It was founded in 1906 by Roger Williams, a citizen of the United Kingdom (UK) who had made a large fortune in the primary sector of British East Africa. Identifying a market opportunity and wanting to diversify his investments, Roger founded *The Imperial*. *The Imperial* initially had some financial problems, especially regarding cash flow and liquidity management. Roger operated the hotel as a sole trader. By 1920, *The Imperial* was the most famous seaside hotel in Mombasa: it had a very positive corporate image and a well-deserved reputation for its grandiose architecture, its high-quality service and its elegant décor. It held that reputation for several decades, until the 1950s.

The 1950s were a turbulent time in Kenya. Following the Second World War, independence movements emerged throughout the British Empire. Fearing that the situation would turn violent, in 1959 Roger's son and heir Jeff Williams, decided to sell all the family properties in Kenya, including *The Imperial*. In the decades that followed, *The Imperial* was bought and sold several times: between 1959 and 1989, *The Imperial* had five different owners. Investors were often interested in the hotel, as it was an attractive 200-room property with a private beach and easy access to Mombasa airport. However, because of recurring political unrest in neighbouring countries, the owners feared the situation in Kenya would deteriorate. They often panicked when the political situation seemed to worsen and sold the hotel.

In 1989, *Global Properties* (*GP*), an international investment group, set up a subsidiary private limited company that purchased the hotel. *GP* was a good symbol of the new globalized world: *GP*'s shareholders were from the United States, Japan and South Korea. *GP*'s relationship to the hotel was "hands off": *GP* did not want to be involved in the daily management of the hotel operations, preferring to have a manager on-site. The manager would have to generate profits, most of which would be paid in dividends to *GP*. Once a year, the manager and a representative from *GP* would meet to calculate the break-even quantity for the coming year, set target profits and determine the margin of safety.

In 2009, Martin Kimathi was appointed manager of *The Imperial*. This appointment was a remarkable coincidence of personal history and the history of *The Imperial*. Martin's father, Jomo Kimathi, had been a trusted groundskeeper at *The Imperial* when the Williams family still owned it. When Jeff Williams sold the hotel in 1959, he used his influence to help Jomo obtain a work permit in the UK. Jomo moved to London, where he worked the rest of his career in the hotel industry. Martin was born in London, where he grew up in a multicultural society and sometimes as a schoolboy he was a victim of racist bullying. He went to university and graduated with a degree in Hotel Management. When Jomo retired in 2000, he returned home to Kenya. Martin wanted to connect with his Kenyan heritage and went with his parents. At the time, *The Imperial* was recruiting receptionists. Martin applied and got one of the positions. Five years later, he was promoted to head of reception, and four years after that, though only 30 years old, he was appointed as manager of the entire hotel. *GP* particularly liked the fact that Martin was of African descent but that, at the same time, he was westernized. *GP* thought that this was a perfect combination.

Martin's situation was actually more complicated than *GP* realized. Though Martin spoke some Kikuyu, the language of his parents' tribe, most Kenyan employees in the hotel thought of him as too westernized and not Kenyan enough. Apart from that, however, his life in Kenya and now his appointment as manager seemed to fulfill most of his needs. Though the country experienced some post-election violence in 2008, it was generally safe and stable. Martin had a well-paid professional position, with a salary based on performance-related pay. In Kenya, he met and married Anima, and they had two lovely daughters. He was proud that he was managing the hotel where his father had been a groundskeeper years earlier.

When appointed manager, Martin had to address a long-term problem: the fact that over the years, the competitive position of *The Imperial* as Mombasa's premier seaside hotel had slowly deteriorated. New luxurious hotels were opening in the vicinity; with their spas, themed restaurants and fast WiFi Internet access, they offered better facilities and better services than *The Imperial*. They had a modern, high-tech feel; in comparison, the colonial charm of *The Imperial* looked old-fashioned. Its market share was shrinking. Because *GP*'s interest in *The Imperial* was solely for profits, Martin was only given a limited budget each year for improvements and renovation. The long-term trend for *The Imperial* was worrying: there was a steady decline in room bookings, at a time when ironically tourism in Kenya was doing rather well. The number of tourists travelling to Kenya was increasing annually, and other hotels were experiencing a general trend of increasing, not decreasing, occupancy rates (Appendix 1). Martin read statistics from the Kenya National Bureau of Statistics and other sources of secondary market data. He conducted a marketing audit, constructed a position map and realized that *The Imperial* could attract new types of traveller interested in safaris or in cultural tourism.

Besides his long-term marketing challenges, Martin had found that managing the working capital sometimes proved difficult in the short term, especially because of the seasonality of hotel operations. *The Imperial* occasionally had problems to follow its month-by-month budget. Now that he was manager, and not just Head of Reception, Martin had to design and implement strategies for dealing with those liquidity problems. His accountant recommended that *The Imperial* use separate profit centres for the hotel itself, for the restaurant and for the special events services. Non-revenue producing departments, such as housekeeping, would be established as separate cost centres. Martin also had to organize the preparation of final accounts for *GP* (profit and loss accounts, balance sheets) as he was accountable to *GP* for the financial performance of *The Imperial*. A particular challenge came from the Catering Department overseeing the restaurant. The Head of Catering struggled both to manage the actual stock and to make the appropriate calculations of closing stock values.

Martin also had a problem of human resources: how to improve his working relationship with Susan Chapman, the Head of Housekeeping. Susan's grandfather, Craig Chapman, had travelled to Kenya from Liverpool (UK) in the early 20th century to open and operate an orphanage near Nairobi. Unlike Roger Williams, who was already wealthy before he left England and went to Kenya to make even more money, Craig Chapman had a humanitarian motivation. When Kenya became independent, Craig stayed and continued to work for other non-profit organizations. His whole family lived in Kenya; his grand-daughter only left the country to study Hotel Management in the UK. In 2002, she came back and began working at *The Imperial*. The problem between Susan and Martin began when he was appointed as manager. Susan, too, had applied for the position. When she was not selected, Susan was very angry. Even three years later, she could not get over her feeling that she had been discriminated against.

Martin and Susan had similarities: they were the same age, had similar university educations, and neither fitted perfectly well in Kenyan society. They had, however, an important difference: their leadership style. Susan, though efficient, hard-working and committed, was very task-oriented. She liked bureaucracy, formal accountability, and a clear chain of command. She had a scientific approach to decision-making. Her staff found her cold, official and impersonal. Martin, on the other hand, had a much more laissez-faire style. He believed in empowerment and delegation. Though he felt anxious when he saw there were minor problems that he knew he could fix quickly, he was always careful to let supervisors resolve problems. He was also warm, friendly and outgoing.

Susan liked *The Imperial* very much; however, she still resented the fact that Martin had been appointed manager instead of her. As a result, she wanted others to think that *GP* had made a mistake in selecting Martin instead of her. She focused harder than ever on her job. She demanded more of the employees and was intolerant of even minor mistakes. The hotel, she was determined, should always be absolutely spotless and shining. However, as she became more demanding, the employees perceived her as too autocratic. They began to complain amongst themselves. The networks of informal communication amongst the employees enabled gossip and messages to move quickly through the hotel, such as stories and anecdotes of Susan acting overly autocratic. Fearing that the situation would soon become a major problem, Martin suggested that she should soften her leadership style. However, in every appraisal meeting, she resisted any discussion about how she managed staff. Martin did not want to dismiss her; he highly regarded her as a valuable member of staff, whose role in the Housekeeping Department was essential. A French travel journalist who had recently stayed at *The Imperial* had written an article praising the high quality of its housekeeping: "We reach here the top of the highest international standards", he wrote, "in terms of benchmarking, *The Imperial* is *très magnifique*". Martin fully appreciated the professional importance of Susan. However he believed that, professionally, she needed leadership training.

In November 2013, a particular situation brought these tensions to the surface. One employee in the Housekeeping Department, Guthoni, was frequently calling in sick and did not come to work. Rather than enquiring about the reason, Susan dismissed Guthoni for repeated absenteeism. What Susan did not know is that Guthoni had been diagnosed with a terminal illness and required frequent medical treatment. Upon news of her dismissal, the other employees were outraged. They decided to go on strike in December, one of the busiest months of the year for *The Imperial*. When Martin heard of the planned strike, he was very worried. If it occurred in December, *The Imperial* would not be able to reach its annual target profits. He started negotiations with employee representatives. He realized that the collective action was giving the employees a sense of solidarity that they previously never displayed. He also noticed that many other frustrations were coming out into the open – and he ironically saw the threat of strike action as empowering for the employees. They seemed to be taking responsibility for the operations of the hotel to a far greater degree than before. Martin wanted to channel their frustrations toward constructive ends. He believed that *The Imperial* would emerge stronger from the conflict. He knew that he needed the full commitment and support of all the employees because big changes were on the horizon.

Equally important, he had to address the long-term external issues facing *The Imperial* because of changes in the external environment. Strategic decisions were necessary. He considered three options for *The Imperial*.

Option 1: Make the case to *GP* that *The Imperial* needs to close for a whole year to allow for mass renovations in order to upgrade the hotel and reposition it to its former place as the premier hotel in Mombasa. Martin had recently travelled to Dubai and Muscat to see the most luxurious hotels in these regions. He understood that *The Imperial* had reached the decline phase of its product life cycle and needed rejuvenation. He believed that it was possible, although this would require substantial investment:

- in the physical condition of the hotel almost to rebuild it entirely
- in its marketing in order to relaunch it, maybe even with a new brand name.

The new hotel would attract the same customer types, but the product would be much improved. It would also need an improved workforce to match its new vision. Martin sketched out two possible approaches for a Human Resources Strategic Plan (Appendix 3).

Option 2: Change the nature of the hotel by transforming all the rooms into self-contained apartments with small kitchens. The target market for these apartments would be business travellers staying at least one week. The marketing audit had revealed that:

- there is an increasing demand for such apartments
- very few hotels in Mombasa offer such apartments
- the market is still small
- the market has high growth potential.

The revenue from these apartments would almost match the revenue from the current hotel operations; it would be more stable, with fewer seasonal fluctuations; both fixed costs and variable costs for cleaning and maintenance would be much lower. The apartments would be serviced once a week, rather than daily. According to Martin's workforce planning, this option could reduce the housekeeping staff by 70%.

Option 3: Form a strategic alliance with the famous safari tour company *KenSafar*. Together they would offer a two-week package tour. Customers would arrive in Mombasa, spend three nights at *The Imperial*, go on a seven-day safari tour, and then return to *The Imperial* for four more nights. This would allow tourists to go on a safari, first getting adjusted to the time zone and climate and later rest for four days before returning home. The owner and manager of *KenSafar* was Kamau Onyango, a spontaneous, dynamic and charismatic Kenyan who had many networks and contacts, and intuitively knew market trends, even without market research. Kamau insisted that if the strategic alliance were to go ahead *The Imperial* would have to:

- make some improvements to the appearance of the hotel
- pay *Kensafar* a 20% commission for all hotel guests staying at *The Imperial* and booking through *KenSafar*
- undertake a marketing audit.

Which option was best? Martin was unsure…

Appendix 1: Tourism and hotel accommodation in Kenya (all figures in 000s)

Tourism	**2008**	**2009**	**2010**	**2011**
Foreign tourist arrivals	1203	1490	1609	1823
Admissions to safari parks	1633	2385	2764	2644
Admissions to museums and historic sites	493	763	942	843

Hotel accommodation	**2008**	**2009**	**2010**	**2011**
Rooms available	8143	10 335	10 190	10 552
Rooms occupied	2619	4065	3702	4788

[Source: adapted from Kenya Facts & Figures 2012, Kenya National Bureau of Statistics (2012)]

Appendix 2: Excerpt from The Constitution of Kenya, 2010

Equality and freedom from discrimination.

27.

(1) Every person is equal before the law and has the right to equal protection and equal benefit of the law.

(2) Equality includes the full and equal enjoyment of all rights and fundamental freedoms.

(3) Women and men have the right to equal treatment, including the right to equal opportunities in political, economic, cultural and social spheres.

(4) The State shall not discriminate directly or indirectly against any person on any ground, including race, sex, pregnancy, marital status, health status, ethnic or social origin, colour, age, disability, religion, conscience, belief, culture, dress, language or birth.

(5) A person shall not discriminate directly or indirectly against another person on any of the grounds specified or contemplated in clause (4).

[Source: www.kenyalaw.org (2010)]

Appendix 3: Martin's notes on a Human Resources Strategic Plan for Option 1

Two possible approaches:

Approach 1: "Upskilling" the existing workforce
- emphasis on "internal" recruitment
- strong emphasis on training and development
- no concern about staff retention rate, as most employees would be Kenyan.

Approach 2: Building a new global workforce
- emphasis on "external" recruitment
- little emphasis on training and development
- major concerns about staff retention rate, as most employees would be international.

Features common to both:
- recruitment
- training and development
- retention.

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.