Creating Sustainable Competitive Advantage

Presented by: Cathy A. Enz, Ph.D.

To prepare for class discussion, please:

1. Read the timeless HBR article “What is Strategy” available at this website: [https://cb.hbsp.harvard.edu/cbmp/pl/43075862/43075864/cb09117e23994dd5f98b3f6163bec8d7](https://cb.hbsp.harvard.edu/cbmp/pl/43075862/43075864/cb09117e23994dd5f98b3f6163bec8d7)

2. Conduct a competitor analysis using the Hotel Competitor Analysis Tool (H-CAT). Follow the instructions (page 2 of this document) and bring a printed copy of your analysis to class.

3. Read the case study “Holding or Selling the Westward Hotel” (pages 4-13) and reflect on the four questions on the case assignment sheet (page 3).

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1 Internet Explorer 6.0 or higher is required to access this link. Permission granted by HBS Publishing for participant to read, download, and print one copy for his/her own use in this course. Participants may not make copies for others, disseminate the document to unauthorized users, edit or alter it, or otherwise exercise any intellectual property rights, all of which remain with HBSP.

GMP: H-CAT ANALYSIS ASSIGNMENT

Prepare a Competitive Profile Matrix: Follow the instructions below to conduct a competitor analysis of your own hotel using the Hotel Competitor Analysis Tool (H-CAT).

Come to class with a printed copy of your analysis. It will look something like this:

The hotel competitor analysis tool (H-CAT) is a series of Excel® worksheets that helps you make strategic comparisons among competitor hotels on critical success factors. The tool permits you and your team to assess direct competitors and then use the results to inform future planning initiatives to change or enhance organizational performance. The formatted worksheets allow you to compare your hotel to others, but to also examine and make supplemental comparisons of rooms inventory, various food and beverage outlets, or other revenue units of the hotel that would benefit from competitive comparisons.

The spreadsheet is designed to be self-explanatory and easy to use. If you want to watch a video explanation of the tool, go to my website or directly to https://www.youtube.com/watch?t=28&v=1cUXTulM18 (you may need to restart the video)

Instructions:
Download the H-CAT tool at http://www.cathyenz.com/analytical-tools/ (blue button at bottom of page)

Steps:
1. Click on the Parameters tab.
2. Identify the types of analyses you wish to conduct, include an overall analysis and up to five additional sub-groups. (Just do the overall analysis for class).
3. List up to ten competitors for each of the six analyses. (Just do one analysis)
4. Click the gray button “Click to Proceed, after specifying information above”.
5. Click on the 'Overall' tab (this tab will have a different name if you did not include the 'Overall' analysis.
6. Identify critical success factors. (More detail is good here)
7. Weight each critical success factor. (Give each factor a different weight)
8. Rate each hotel on each critical success factor using the scale 0 = very weak to 10 = very strong, with 5 = average.
9. Repeat steps 5-8 for each of the sub-analyses. (For class you don’t need to do sub-analysis, just an overall evaluation of your hotel vs competitors.)
10. Bring a printed copy of your analysis to class.
GMP : Case Assignment

Holding or Selling The Westward Hotel

Instructions: Read the case and reflect on the following questions.

Answer the four questions provided below. Be prepared to defend your position on the sustainability of Hiller’s success, and your own strategy.

1. What is the Westward doing that has contributed to its success?

2. Does the Westward have a sustainable competitive advantage?

3. Would you sell or hold the hotel? Why?

4. If the Westward was sold and the new owner hired you as the general manager what would be your strategy for the hotel? What if anything would you change?
HOLDING OR SELLING THE WESTWARD HOTEL

Sitting in the fashionable Kachina Cafe, an upscale restaurant owned by the company Peter Green worked for, were the company’s owners and a few senior corporate managers. As 2014 was coming to a close the assembled managers turned their attentions to the future and the possible sell of one of the company’s hotels, the Westward. Hiller Hotels, a wholly owned subsidiary of the parent Hiller Enterprises, was headquartered in Phoenix, Arizona, with a portfolio of over a dozen midscale and upscale hotels and three trendy upscale restaurants. Peter Green, the executive vice president of operations, stood to make money on the deal, but he was unsure whether the sell would be a wise decision. The Westward was the only property in the Hiller portfolio he had personally ever run as a general manager. The discussions with a REIT¹ (real estate investment trust) were growing more intense and it was time to decide whether Hiller Hotels should hold or sell the Westward.

The Hiller Hotels subsidiary owned and managed all of its hotels, branding them with a variety of different mid-priced and upper-priced hotel franchisers. The portfolio had grown over a twelve year period to around a dozen properties at any given time. The number wasn’t stable because the corporate strategy was to take advantage of opportunities to buy undervalued, underperforming properties and turn them around. Each hotel was operated as a fully self-sufficient operation. When the opportunity to sell a property at healthy profit presented itself, Hiller’s management team had, in the past, generally taken advantage of the market opportunity. With the exception of a second Phoenix property managed as an independent (unbranded) hotel and acquired in 2012 to be the group’s flagship, no property was supposed to be untouchable. Perhaps coincidentally, since Green had moved into his corporate position back in 2010, only one Hiller property had been sold. The portfolio had remained relatively stable, and its owners or investors had never broached selling the Westward. The investors were reaping healthy benefits from the portfolio.

Green knew that Karen Connor, whose money was behind Hiller Hotels, felt as strongly about the Westward and the people who worked there as he did. Connor owned the largest share of Hiller Hotels as well as a major share of the parent company. Her visibility in the local community as a patron of the arts and civic leader was legendary. While Connor was attached to the Westward, Green also understood that it was impossible for every decision to equally benefit owners, customers, and employees. He knew there were times when decisions would have an obvious ill effect on one group of stakeholders. Was the possible sale of the Westward Hotel one of those decisions? Was he too attached to this particular hotel because he had been its general manager when Hiller bought it out of bankruptcy at the end of 2007?

PETER GREEN

Peter Green grew up in the hospitality industry. Over the course of about twenty years, he gained the experience required to be a hotel general manager (GM). Prior to joining Hiller, Green had over five years of

¹ Real estate investment trusts are corporations that pay no income tax on their earnings (similar to a mutual fund) so long as they pay 95 percent or more of their profits to shareholders. REITs provide the advantages of corporate ownership to shareholders but also offer tax advantages. As a result, REITs have become very attractive to many investors.
When Hiller hired Green in 2007, he was brought on in a consulting role. Specifically, Green did project work for Hiller in the Midwest, solving previously identified business problems.

Project work gave him an opportunity to view an operation from a very different vantage point from when he was a GM. Being removed from the day-to-day operation, Green was able to see aspects of the business that might be less clear to the manager occupied with running the entire operation. The short-term nature of his project assignments and their focus on specific problems with everything else removed from consideration allowed Green the liberty of a broader, big-picture perspective. Green’s project work “taught me that managers devalue others when they overvalue themselves. I discovered the importance of creating a work environment that celebrates, nurtures, and values people. It is important to create a business environment in which every job and every employee is treated with dignity and respect. People want to care.”

Green’s project experience also taught him to truly value the guests’ perspective and experiences. Living for ninety days in a Chicago hotel plagued with quality problems, Green was a guest of sorts himself and he spoke with other guests daily. During this assignment he rediscovered what he knew from childhood about committing to the satisfaction of the guest. “I grew up in the restaurant business, and my parents taught me to be close to the customer. It seems that when you become a manager you start to focus on how to manage versus how to live a commitment to customers.”

Rather than viewing guest concerns as problems, he discovered through interaction with customers that one could trust their experiences and get something valuable and satisfying from responding to their concerns. He also noticed that most customers were present in the hotel at very specific times in the morning and evening and these were the times it was most important for the manager to be available to talk with guests. An everyday commitment to listening to guests was one powerful way of committing to their satisfaction. Green learned a great deal from the project work that occupied his time, and he also knew he needed to make a change. His children and his wife needed him to be more present in their lives and he needed to reduce the extensive travel.

ARRIVING AT THE WESTWARD

The Westward was bought out of bankruptcy when the previous owner was forced to sell the property. For nearly five years the hotel had been operating at a loss, and the property and the people who worked in it were depressed. The physical plant was in bad shape and no capital had been devoted to renovation and upkeep. When Hiller purchased the hotel, Green was given the opportunity to become the Westward’s general manager. Mostly because of his desire to settle in one place for a while, he took the assignment. Green also thought he might take advantage of this opportunity to put his evolving management philosophy into practice.

Green arrived at the Westward with a deep belief that all hotel companies and their managers have a moral obligation to make the work experience a positive one. Throughout his career, he had experienced the dark side of the hotel business in which generations of negative conditioning and abusive behaviors justified managers’ willingness to undervalue the people who clean rooms and sweep floors for a living. The managers in Chicago reminded him by their bad example that he must break down these beliefs. Deep inside, after years of experience in the business he was convinced that caring about employees could be profitable. I didn’t arrive at the Westward with a strategic plan, just a new feeling. My project work taught me to get close to the customer and value the employees. I was determined to start by making a real emotional commitment to the hotel.

THE FACILITIES

The Westward was a thirteen story, full-service hotel built in 1998. The hotel sat on 8.5 acres on a city block at the southeast corner of Camelback Drive and Northern Avenue in Central Phoenix. The hotel contained approximately 151,000 square feet, occupied by three hundred guest rooms, board and conference rooms, executive offices, a fitness center, and the main lobby area. The exterior of the hotel was reflective glass over a structural steel frame. The main lobby area was situated in a single-story, attached building that included the
main entrance to the hotel, reception desk, guest services area, a lobby lounge, and a gift shop.

After several years of Hiller’s ownership, and substantial renovations, the hotel had 13,000 square feet of flexible meeting space, including fourteen salons and three ballrooms. The gift shop was leased month-to-month to a third party. The hotel also included a free-standing 8,000-square-foot restaurant. The interior finish of the lobby area primarily consisted of inlaid terrazzo pavers, a combination of painted drywall and vinyl wall coverings, and recessed and track incandescent lighting. A landscaped courtyard led to the outdoor pool, hot tub, and sun deck. Directly off the lobby was a bright and airy southwestern style atrium finished in rich earth tones.

Each guest room included a full bath, a king or two queen beds, a chaise lounge and ottoman, an armoire, one or two nightstands, and three or four lamps. The standard guest rooms featured free cable channels, coffee/tea maker, alarm clock radio, card key access, free Wi-Fi, and an oversized desk. The top three floors offered a complimentary continental breakfast buffet every morning, hors d’oeuvres every evening, exclusive registration and checkout, business services, and a cocktail honor bar. Morning and evening maid service and nightly turndown service were also provided on these floors.

SETTING A DIRECTION

“What does this hotel want to be?” was a critical question for Green. He felt the previous management tried to make the hotel something it was not. But what was this hotel to become? This was clearly a critical question. By imitating the Ritz Carlton Hotels’ beliefs, the previous management was not focused on how to position this hotel. For Green’s first three or four months, during their meetings the managers talked unendingly about the successful large convention hotel across the street. This hotel had a lounge and a constant flow of leisure and convention customers. The conversations all seemed to be variations of a “Gee, if we were only like them” theme.

Finally, Green had enough. The turning point came in one staff meeting when he told his staff the following:

Let’s not focus on what we are not. Focus on what we are. We don’t have to be that hotel. Let’s stop wishing we were that and start being this. Look, we are a small hotel—we don’t want lots of groups. We should be providing a different product and service to a different customer. Look at all the problems they have. It is a noisy hotel with long lines. Do we want that? No! We can become the number one corporate FIT (frequent individual traveler) hotel in Phoenix. We are a small hotel, we can be warm and friendly, let’s use what we have and make it work. Stop focusing on them. Focus on what we are and what we can become. We are going to take the high-end guest, focus on the FIT through uncompromising superior quality and extraordinary service. We are going to actively listen to guests and employees, anticipate market needs, liberate ourselves from old ways of doing things, and provide a wonderful employee experience.

The job of envisioning a new future for this hotel was made possible by years of capital investments and support from the new owners. Capital was needed to position the hotel above the competition. The repositioning would not have been possible if Hiller’s owners had not been willing to invest in fully renovating the hotel with a clean, modern, and comfortable look. The restaurant was redesigned and reconstructed in 2010, three years after the hotel’s purchase. The renovation was done at a cost of $2,200,000 (including furniture, fixtures, and equipment). It was expanded from its original structure and leased to an independent restaurant group (also owned by Hiller Enterprises) that raised the visibility and prestige of the food and beverage operation. Green believed the restaurant operation was a powerful tool in repositioning the hotel.

The equal value and appreciation of the interests and needs of owners, customers, and employees was the foundation for the vision creation process, according to Green. Uninterrupted owner support, continued affiliation with a well-regarded hotel brand, and management with a commitment to guest, employee, and owner satisfaction were essential.
The vision emerged in discussion with the senior management staff, but was not written down initially. According to Green, it was a change in thinking, first and foremost.

We were going to become the best corporate hotel positioned at the top end, but I approached this vision by doing three things: living my values, constantly talking about our vision, and modeling the vision every day. The plan was shockingly devoid of systems or procedures. I felt it and was deeply into it. The hotel needed an identity in the minds of the employees, and my job was to bring a deep belief in what this hotel could become to these people. Leadership in my opinion is about believing so deeply that people don’t doubt. I was more a Civil War leader than a World War II general. My agenda? Focus and model, focus and model. I just did what seemed right at the time.

Green’s vision of what the Westward aspired to become was the precursor to the formal corporate vision of Hiller Hotels and the foundation for the guiding principles that would follow. It was not until 2013, and well into Green’s tenure as corporate executive vice president of operations, that he formally fashioned the set of guiding principles that explicitly conveyed the essence of Hiller Hotels and the Westward. The principles were taught company-wide. Managers, upon completing their initial training and orientation, were given a daily planner with a twenty-two-page insert titled “Our Daily Compass: Hiller Hotels, Inc. Guide to Leadership and Management.” Among other things, including the corporate vision and mission, the insert included the guiding principles.

1. Dignity—We value everyone equally and highly.
2. Values—We insist that values like honesty, trust, integrity, respect, and fairness determine our decisions.
3. Focus—We establish priorities and concentrate on doing the most important things first.
4. Achievement—We all give our best effort to ensure team success.
5. Balance—We strive to maintain a balance among employees, customers, and owners.

Back in 2008, Green also arrived at the simple statement, the friendliest place to visit. This was a vision that remained with him and came to guide all the hotels in the portfolio. Green explained the meaning of the vision as follows:

In the future, our customers and peers will say that we are the friendliest place to visit. The relationship between our employees and our guests should resemble that of the relationship between two friends; this is the hospitality experience we wish to provide. We will achieve this vision when the customer experiences a total commitment from all of us to the friendliest customer service anywhere.

The mission statement, which followed from the vision, was captured in the phrase “Making people’s lives better through business.” Green noted that:

We will achieve our vision by making our employees’, customers’, and owners’ lives better. Employees’ lives are made better by treating them with dignity, rewarding and recognizing their contributions to our success, and providing a safe, secure, flexible, and fun working environment. Customers’ lives are made better by providing a safe environment, excellent service, friendliness, and that extra thoughtfulness that makes visiting the Westward like visiting a friend. Finally, we make our owners’ lives better by ensuring that the hotel is a leader in return on investment, [a] positive influence on the local community and successful on a long-term basis. We aspire to be a role model for other companies in the service industry: admired for the support we provide to our employees, the friendly experience we provide to our customers, and the exceptional rewards and satisfaction we provide to our owners.

Green was determined that his vision would become more than the GM’s platitudes, neither acted on by subordinates nor lived by the executive in charge. He wanted to live his principles and pass them on to his management team to help guide their actions. It was his desire that all the employees of the Westward share the vision, mission, and principles. He wanted to make being a part of the Westward a different work experience.
For Green, the mutual success of owners and employees depended on the acceptance and practice of the vision. But Green knew that good practice required more than inspiration, it required good strategic thinking.

THE STRATEGIC PLANNING PROCESS

“What’s possible?” is the question Green used to guide the strategic planning process. He insisted that the major issue for strategic thinking was to focus on what could be. “Identifying and removing the barriers between what is and what’s possible” is how he proceeded to develop the plan.

Our strategic plan allowed us to dream, ponder, and wonder what could be. Most planning is from today forward in a process of increases over a five-year period to get to a point. This is “present-forward” thinking. In this approach you rely on “the plan” and history to drive your thinking.

In contrast, Green introduced a future-backward thinking approach in which one creates an almost impossible future position and determines what needs to be done to achieve this target.

Our strategic planning forced us to change our operation by setting objectives that seemed impossible. By thinking about the future and backing into implementation it was quite clear that we couldn’t get to what is possible by doing what we already were. Future-backward thinking forced the staff to rethink what they do. This approach could easily backfire if failure to reach the target resulted in getting the crap kicked out of you. Trust was critical and made possible by having all targets and incentives at levels below the strategic plan.

Green did not confuse strategic planning with making budget. There was no penalty for failure.

Sure there was tension. We wanted to create that. It’s okay if they felt like they failed. It’s not okay if they felt I felt like they failed. The difference is important. We seduced them into a future, but not at their expense.

Green willingly admitted that he had no idea of how to get the hotel to the possible targets. “All I knew is that we could only achieve these targets if we became more skilled and did things differently.”

Reports, forecasts, and analysis were the hallmarks of this strategic thinking system. In housekeeping, for example, daily labor costs were tracked and scheduling of labor was carefully synchronized with forecasts. To produce loyalty and retention, revenue information was assembled on customer segments and product/service offerings were bundled to provide a carefully targeted customer with the products she or he desired.

After setting a vision and defining the target guest, the Westward’s business mix changed with a decrease in group business and wholesale channels and an increase in the business transient segment through the brand.com website. Mini profit and loss statements were created for each department so they could keep track of expenses as each day passed. Green believed that daily accountability versus monthly accountability was a key to enabling the staff to carefully and intelligently manage the business.

CLOSE TO THE CUSTOMER

Even now, many employees remembered Green for his vigilance—standing in the lobby Monday through Friday from 7:00 A.M. to 9:00 A.M. when most customers entered or exited the hotel. During his ten-hour-a-week commitment to being close to the customer he saw and solved problems. Green talked with guests and got a feel for what was and what was not working.

If three or four guests mentioned they didn’t get a wake-up call we could locate and solve that problem quickly. If people needed their bags carried in or employees needed a hand in performing a job I was there to help. My job was to expedite, to help both employees and customers.
Green accomplished two things by hanging out in the lobby. He had the contact with the customer he so valued and believed in, and he modeled the commitment to guest satisfaction. He also showed employees that he would and could do their jobs and that he was there to help them.

*I decided when I arrived at the Westward that I was willing to invest ten hours of my 50–60 hours per week to contact with the guests. The key job of a manager is to lead, to set an example and to focus on real problems and activities.*

Green’s actions were important, but getting others to live the vision required improving business practices too.

*Another strong, powerful part of our management philosophy was that you need to be willing to do what you ask of others. You can’t expect the people to care anymore than you do. People watch what you do. You lose ground if people can’t trust you.*

**INVESTING IN PEOPLE**

Green spent plenty of his time in the employee cafeteria and in the lobby with customers. These were lessons that his project days had brought home, and he put his learning to the test in his own hotel.

Green’s human resource approach was deeply rooted in his belief in the dignity of all employees regardless of position or background. In describing his approach, he said:

*Human dignity was the most important principle for managing. My philosophy was that everyone must be treated with respect and given opportunities to learn and grow. A manager’s highest priority is to treat her or his employees with dignity. Employees, customers, and owners are all linked together and excellent service and exceptional facilities are essential to compete, but something more is required to truly win. That something extra is the realization that keeping the customer is entirely in the hands of the employees. Each job and task and each person in the hotel is important and deserving of respect. I believe in nurturing the entrepreneurial spirit in everyone —whether the general manager, valet attendant, kitchen steward, or front desk. All people in the workplace perform better when treated with dignity.*

Green realized that in the Phoenix market good service and quality facilities were a minimum expectation of customers. Excellent service was taken for granted, and the competition could deliver just as easily as the Westward could. Given this competitive environment, the question was, what could the Westward do to attract and retain customers over time? For Green, the answer was to build a strong system of rewards for the employees. “The opportunity for advancement and bettering oneself must be available to each employee. Satisfied employees create satisfied guests, and satisfied guests return and remain loyal.”

The philosophy behind the design of the wage and benefit system fit with Green’s notion that dignity was important. He said:

*Wages had to be competitive and fair, but based on the position held, not seniority. We surveyed the market to determine what fair and competitive wage rates should be. By doing job analysis we determined the worth of each position and then compensated on the worth of the job. I don’t believe in individual performance–based pay because I can’t figure out how to accurately measure individual performance. I’m better off not trying to reward performance when there is no good way to measure it. That’s why all merit pay was based on the performance of the hotel.*

Fifty percent of employee bonuses were tied to customer comment scores. In a simple and understandable bonus system, managers as well as hourly employees, both part time and full-time, received quarterly bonuses based on customer scores, house profit, and employee turnover. “Performance appraisal was separate from salary review,” Green said. “Discussion of pay and performance together is confusing. Instead we used performance appraisals to discuss future development and acknowledge contributions.”
Green felt that getting the “right” people for the Westward culture was the key to implementing the hotel’s vision, but an intuitive and values-based process.

We didn’t do anything special. We looked for fit versus skill when we hired people. Did they share our values? After several years we began to use a management committee consensus-process approach. Mostly we tried to talk people out of coming to work for us. We were different, and if you couldn’t buy into our values, or you didn’t want to live with these principles, we didn’t want you. Our values were not negotiable. We didn’t have a formal orientation either. You picked up the values from everyone in the hotel. It wasn’t necessary for top management to tell everyone—the people you worked with told you. We . . . saw training as a last resort. Training should be for helping people get over the hump once they’ve exhausted their own resources. If a person needed a skill then they were provided training to handle that need. We were committed to filling the gaps, but we don’t have a formal training program. We supported cross-training to help build employee opportunities.”

Green expressed that “providing information to people is a form of respect. Information not only flows to employees, but from them as well.” All employees met once per quarter at a property-wide meeting to discuss and review quarterly results of the hotel. The meeting included a question and answer period and the distribution of quarterly bonuses. Department meetings were held once a month, and at daily huddles managers and line employees reviewed customer service issues. Surveys were used to obtain feedback from employees as well as guests and owners. Cross-department task forces were assembled and disassembled quickly to respond to special problems. Plus, the company communicated in many one-on-one, personal ways. Key to all the information exchange was management’s emphasis on listening and praise.

In discussing the culture he and his team created at the Westward and were attempting to inculcate throughout Hiller, Green stated:

We had a family environment and were dedicated to one another and to high levels of customer service. I believed that managers should figure out what employees’ value and value that. We started to do a back to school function for employees because we knew how important the family and education was for our workers. We invited the families to the party and distributed school supplies. It made everyone feel good. We did a Christmas party too—focused around the family with gifts to all the kids from Santa Claus. I think our culture is strong because we have a sense of community and a sense of purpose outside of the job.

I think we created a business environment where people could be themselves. They wanted to care. In the typical work environment people must hide their true self. I think we gave people permission to be themselves, to be different. I think our low levels of turnover were critical to our culture. Lots of people like to argue that low turnover is essential because of the costs, but I think high turnover does more damage because it assaults the culture.

We had a high level of trust and also a level of tolerance and forgiving that I think are unique. We had an older woman in the laundry area who was with the hotel from the beginning who took two fifteen-minute naps each day. Can you imagine how most hotels would deal with an employee who sleeps on the job? I think we may have less talent, but we leverage it by being stronger as a whole. It’s like a basketball team that doesn’t have one superstar, but a whole group of average players who together do extraordinary things.

Success helps too. We started to see some dramatic positive results from our efforts at the Westward and that certainly lifted people’s spirits. Good news feeds the emotional psyche. When we got into the Westward it had good people in it, but the culture was dominated by a traditional command and control management that didn’t let the hard working and caring employees contribute the way they could. The culture flourished with our guiding principles and I don’t think management can easily change it. But sure, it could go back to that. You bring in bad management, good people leave, turnover increases, and suddenly the work environment is different. Nothing lasts forever.
BUT DID IT MAKE MONEY?

Living a vision is in the details. “It is a slow and continuous process, and you must stick with it,” reflected Green. But the ability to do so with the performance pressures of owners and the demands of customers is an ongoing battle. The results at Westward were dramatic support for the Peter Green vision. For four years, the Westward performed at or near the top of the Phoenix market, as indicated by its occupancy percentage shown in Exhibit 1. According to the comparative data from Smith Travel Research, the Westward outperformed the Phoenix market in 2014, although demand was gradually slipping in the city. Exhibit 1 shows the Westward’s position among its primary market competitors, the luxury and upper upscale chain markets, the Phoenix market, and the Phoenix Central markets. This performance was due in part to the redirection of the hotel’s marketing efforts away from groups and expensive channels and more toward transient corporate travelers and the brand booking channels. According to recent investor reports, the above-average penetration was caused by the hotel’s chain affiliation and its highly visible location. Westward was a top performer with an increase in profitability of about 273 percent over the 2008-2014 period. The expected average annual asset return on this investment is 12.28% and the expected average annual equity return is 30.23% assuming a loan-to-value ratio of 60%.

A SUCCESSION PLAN?

As one subordinate noted, Green had a clear employee emphasis, he was a caring person, and people felt good working for him. This employee indicated that Green was a master at showing interest in people’s work. He noticed the small things and acknowledged everyone with a friendly greeting. He fostered a work environment that was informal, responsive, and trusting, not intimidating. The guide for behavior was “do the right thing.” His focus was always on the questions “how does it impact our employees, customers, and owners?” and “are all three parties taken care of?” He would be a hard act to follow, and for some at the property the managers who followed Green were simply not up to the task.

Five general managers came and went from the Westward in the four years after Green moved into his corporate position. While the departures of the managers were for a variety of reasons, Green blamed himself for being too controlling as the executive vice president of operations of Hiller Hotels. Even after his promotion to the position of supervising the general managers of several hotels, he was still deeply involved in the life of the Westward. His presence was everywhere in the hotel and remained strong. “I didn’t trust it would continue to work. I was not confident in those that followed me and I was afraid that what we had built would not last.” But last it did, and the results continued to be positive.

HOLD OR SELL?

Bringing his thoughts up to the present, Green thought it might be the right time to sell—Hiller had a good seven-year run at the Westward. However, uncertainty existed about the future. Hotel sales transactions were beginning to drop. New products had come on board in the Phoenix market, and the hotel’s performance might have peaked. Phoenix had experienced explosive growth before the financial crisis of 2008 and supply growth had continued up through 2010. Supply growth had been particularly strong within the upper upscale and luxury segments. Recently demand had begun to slow in the Phoenix market. Much of the new hotel development had been undertaken by REITs and other public lodging companies, which were establishing or expanding their portfolio or brands, according to E & Y Kenneth Leventhal Real Estate Group’s National Lodging Forecast, although more attention was being placed on “select service” or more limited service soft brands. The long-term outlook for Phoenix was still strong with its 300 days of sunshine, good transportation support, natural wonders, and abundance of golf courses.

Hiller Hotels, though, wasn’t exactly desperate for the money. The rest of the portfolio was performing well—with the exception of one recently acquired property, all were profitable—and the parent company, which owned and operated a bank and several other businesses, was profitable. Further, all the Hiller businesses were privately
held, with Karen Connor being the majority shareholder in all. Thus, there was little of the short-term performance pressure to which publicly held companies are subject.

Green knew that during the their next formal meeting scheduled for January of 2015, the seven people in the management/ownership group he was drinking and laughing with now would make a decision that, one way or another, would affect people’s lives at the Westward. Perhaps selling would even affect the way Hiller’s employees at the other properties would feel about the company. On the other hand, because of his equity stake in the hotel, Green stood to benefit handsomely from the sale.

Green thought to himself,

My one regret is that I didn’t prepare people for this possibility. I don’t believe we can protect people; we can only tell them it may not last forever. We should have prepared them. We should have made it clear that this is not forever—it’s an investment and we should try to enjoy it for as long as we can. Everyone benefited from being involved with that property —from being part of a place that was so positive. I just worry that selling will catch people flat-footed. We have created such a high trust level that people didn’t even ask questions when we had investors visit the property. It embarrasses me that I didn’t prepare them.

Green lifted his glass and smiled sadly as he thought of his friends and colleagues at the Westward. He took a long swig of his martini and muttered to himself, “I just don’t know for sure what the right thing to do is.” He was glad to have the holidays to think about his vote and, if he decided to vote to hold, how he would try to convince the others, especially Connor, to hold the property.
## EXHIBIT 1: PHOENIX MARKET PERFORMANCE

### Market Segment Report

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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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Source: Smith Travel Research