



CENTRE FOR ENTREPRENEURSHIP, SMEs AND LOCAL DEVELOPMENT

CENTRE POUR L'ENTREPRENEURIAT, LES PME ET LE DÉVELOPPEMENT LOCAL

ENGLISH only

GLOBALISATION, SMES AND TOURISM DEVELOPMENT

Case study: Enhancing the Role of Korean SMEs in Tourism Global Value Chains

I. Introduction

1. Rationale for the Study

The value proposition, commonly known as the value chain, is a “model that describes a series of activities connecting a company’s supply side (raw materials, inbound logistics, and production processes) with its demand side (outbound logistics, marketing and sales)” (Rayport and Jaworski, 1995). 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

Analysing the value chain enables managers to reformulate their internal and external processes to improve efficiency and effectiveness. In the traditional value chain system, information is treated as a supporting element. Rayport and Jaworski (2002) provide the example that managers often use information that they capture on inventory, production, or logistics to help monitor or control those processes, but they rarely use information itself to create new value for the customer. “Because every activity involves the creation, processing, and communication of information, information technology has a pervasive influence on the value chain” (Porter, 2001).

Today's competitive climate, with SMTEs competing against other SMTEs or large tourism enterprises, demands continuous profitability and the identification of real cost reduction opportunities through sound control of service quality and market development. Competitive pressures to most SMTEs 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.

To this regard, enhancing both the effectiveness and efficiency through the GVC will be important issue to successful competition of SMTEs. 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 SMTEs 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 SMTEs that are among them, legally dependent and independent enterprises,

this study seeks to optimise the role of SMEs in the tourism industry in the framework of globalisation, increase the participation in the supply and distribution chains of SMEs in the tourism industry and look at the role of the government (at national and sub-national levels) in accompanying this change.

2. Objectives of the Study

The objective of this study is to identify its drivers and to draw conclusions regarding opportunities, challenges, and managerial implications on how Korean Small and Medium-sized Tourism Enterprises (SMTEs) can enhance their competitive advantages by employing various aspect of GVC in global context of tourism industries. More fundamentally, the driving question is: what can and needs to be done to support SMTEs in being successful in the world of globalization and modern value-chain management of larger tourism enterprises.

This study is basically a country case study on Korean tourism industry including hotels, travel agencies, and tour operators, which aim to improve understanding on how the GVC is changing the way the SMTEs establish competitive edge in global competitive environment.

First of all, the study explores various types of value chains applied to the Korean SMTEs such as integrated tourism services value chains, product/customer-oriented service value chains (e.g. eco-tourism services; cultural tourism services; health and well-being tourism services; business tourism industry; leisure tourism and flexible lifestyle services), and interconnected sector-based services value chains (e.g. tourism and computer reservation business; tourism and internet information and booking business; tourism and transport business).

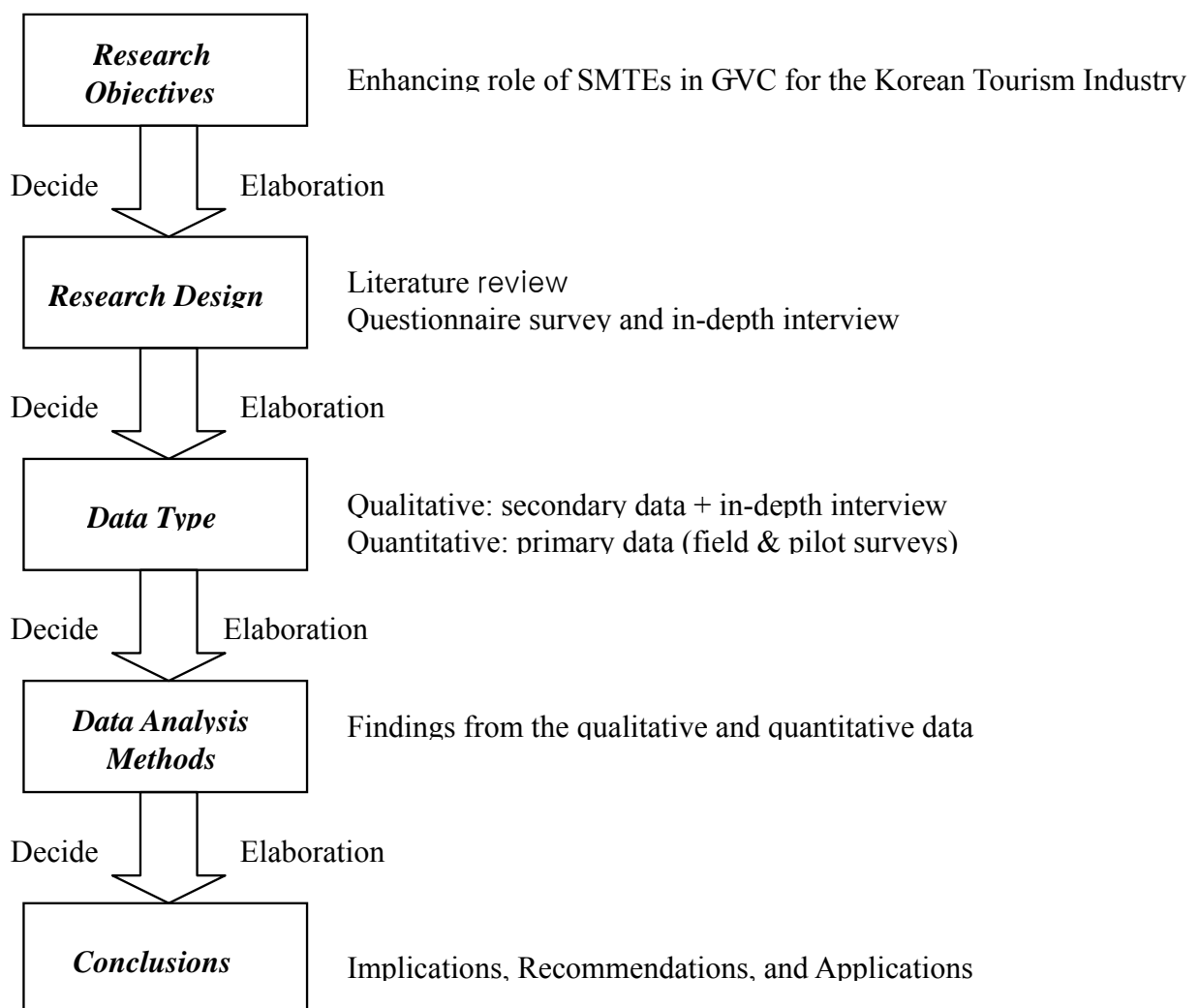
Secondly, the study analyses the Korean hotel industry. According to OECD project guideline, the hotel industry is a global industry in search of a new dynamic to rejuvenate its products, enhance growth and increase profitability. The changes under way in the hotel industry aim, for example, to increase specialisation and focus on core and profitable business or, through e-tourism, to position the industry on the individual market and to better manage capacity issues. Thus, this study examines the strategies and key patterns of the GVCs in the Korean hotel industry: structural changes affecting the hotel industry (e.g. impact of globalisation on GVCs; degree of competition; and the impact of e-business); outsourcing strategies (e.g. impact on quality, flexibility and better service); alliances (e.g. franchises and management contracts); the impact on employment; and the impact on market dynamics and on SMEs.

Thirdly, the study looks at the tour operator and travel agency industry in Korea. As OECD project guideline indicated, after a long period of integration and consolidation, the restructuring

operations in the tour-operating sector have paused, and tour operators mainly look for an increased differentiation in terms of clientele, destination or product. On the other hand, tour operators, air carriers or accommodation suppliers sell their products either directly or through travel agents. The structure of distribution varies from one market to another depending, for example, on the level of use of new information technologies, notably Internet. E-tourism has been at the centre of many strategic movements in the travel agency industry. Thus, this study will examine the strategies and key patterns of the GVCs in the tour operator sector as well as the travel agency sector in Korea and then will provide policy and management implication for both sectors.

3. Methods of the Study

The study will follow the research process as illustrated in this flow chart:



This study 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 study addresses these objectives via an in-depth interview of 16 Korean hotels including 7 large deluxe hotels and 9 Small and Medium sized hotels. For the tour operators and travel agencies, 13 SMTEs were interviewed and surveyed to achieve objectives of the study.

The structured interviews followed five major issues suggested by OCED, UNCTAD and the Swiss Research Team in order to insure a minimal level of homogeneity in the research: Identity Card of the Enterprise; the structure of the GVC(s) to which the SME belongs; awareness and understanding of the GVC and of the related stakeholders; co-operation within the GVC and the internal "division of labor"; dynamics of the co-operation, intellectual property, asset and competencies; and type of support needed to enhance the role of SMEs in the GVC.

In particular, travel intermediary sectors interviewed are classified by this guideline, stating "identity care of interviewed companies; awareness and understanding of the GVC; co-operation within the GVC such as marketing strategies, memberships, etc; dynamics of co-operation; and policy implication and suggestions for promoting the related industry.

II. Cases study of Global Value Chain on Korean Tourism Industry

1. Survey Scheme

This study examines how the SM 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 SM hotels, the mid-size hotels were defined as 1st tourist hotels in Korea, and 4 hotels (PM□, 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 1> Sample Hotels Selected for Survey

Type	Large Hotels	SM hotels
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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□ hotel - IB hotel - HG Hotel - SV Hotel	- BW-D hotel - KY Hotel - KR Hotel - JP Hotel	- YM Hotel

<Table 2> Sampling and Survey Scheme for Hotels

Target Samples	General Managers and Directors in Related Parts for Surveyed Hotels
Areas and Hotels of Survey	7 Large Hotels(super deluxe, deluxe) / 9 SM 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 for hotels 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.

The survey for travel agencies and tour operators was conducted through in-depth interview during 4 month period from December 1, 2005 to March 30, 2006, with managers and CEOs in total 11 travel agencies and tour operators. The survey scheme has been developed based on literature review on value chains and preliminary research: marketing & sales, services, human resource management, IT development, corporate management, and corporate scale and sales.

<Table 3> Sampling and Survey Scheme for Travel Agencies

Target Samples	High ranks of travel agencies and tour operators in terms of inbound and outbound turnover and 2 small companies
Surveyed Travel Intermediaries	13 Small and Medium Travel Agencies and Tour Operators
Survey Method	Structured Interview
Survey Period	4 months (Dec 1,2005 – March 30, 2006)

2. Survey Results

2.1. Awareness and understanding of the GVC

Results of two typed-surveys (including in-depth interviews) explored the level of awareness and understanding of the global value chain in the travel industry. Most Korean travel companies have low level of awareness and understanding of the GVC. However, they try to establish new business paradigm to generate more revenues, innovating and changing their existing business infrastructure, management practices, IT infrastructure, and human resource management. They are becoming aware the importance of the value chain system on both industry and company levels in order to have competitiveness in today's competitive business environment. The following statements have explored IT and its application, based on analyses of the companies interviewed.

Creating the competitive advantages through information technology is the one of the firms' major concerns in today's lodging industry. The hotel industry has increasingly been concerned with the information technology as many hotels use information literacy by the introduction of IT as their strategic arms to strengthen the competitiveness. Small hotels may have limits on their marketing activities because they are small in scale and capital and can not have benefits from the economy of scale. Also, they have little know-how on operating methods and they lack talented and experienced expertise and active marketing activities. However, these weaknesses could be made up by the introduction and effective use of IT. By marketing in internet, products and services can be delivered to customers at reasonable prices, and IT can be used as an effective distribution channel to create new customers whom firms could hardly meet. Though, most SM hotels (under four stars) are operated as an independent hotel, they can find the way to have the competitive advantages by building IT infra-structures and forming networks for such cooperative buying, marketing, and personnel management.

Many of small hotels, however, were found to maintain their management and operation activities without being supported by automation through computerized PMS. Some small hotels employed a restricted PMS version of front office system only, which was mainly developed for the front office work of small-scale hotels. Many small hotels appeared to use the generic software like MS-Excel for their back office work, and the POS systems in F&B and other profit-generating outlets were restricted to do the cash-registering job for managing customer payment.

Among the interface systems, the ELS replaced traditional brass keys and mechanical locks in many hotels with sophisticated guestroom access devices that include various levels of master keys. Most ELS provide several distinct levels of security. One level may be established for

housekeeping personnel, another for hotel security officers, and yet another for property management officials. In our survey, it was found that most large and mid-size hotels use electronic keys, whereas small hotels use both electronic keys and traditional brass keys.

Heating, Lighting, ventilating, and air-conditioning equipment are essential to a hotel's existence. The greater the efficiency of this equipment, the better the hotel serves the needs of guests. Most hotels surveyed in this research were found to be managed by centrally-controlled cooling and heating system, and some large and mid-size hotels provided with in-room controller so that guests may control air-conditioning or heating independently in each room. Although the comfort conditions in guestrooms, meeting, and function rooms, public spaces, administrative offices, and other EMS-monitored areas can be controlled through a centralized system console in EMS, the surveyed hotels are found not to provide rapid access well enough to heat, ventilating, and air-conditioning levels at remote locations and display these readings on the console screen.

2.2. Dynamics of the Co-operation for the GVC

This section explores dynamics of the co-operation for the global value chain, investigating M&A, outsourcing, strategic alliance, partnership (win-win), B2B, support for business partner, relationships between Suppliers (airlines, hotels, land company), and inner-company dimensional reorganization.

1) 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.

It was interesting 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.

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 SM hotels perceive the more reservation, sales increase, and sales/marketing know-how are important when they consider to be integrated with global chain brand.

<Table 4> Advantages of Introducing Global Chain Brands into SM hotels:
Perceived by Managers in Surveyed Hotels

Hotels \ Benefits	Sales Increase	Enhancement of Brand Image	Increasing Room Occupancies	Accommodating Foreign Guests	Enlarging Reservation Network	Sales & Marketing 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

2) Vertical Integration

In this research, 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 companies, 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.

For the travel agencies, the following statement reflects the dynamics of cooperation with relevant stakeholders to have competitiveness. Hanatour has become one of the biggest travel agencies in Korea with the introduction of Hanatour has entered into an agreement with 4,500 out of 8,300 agencies, has nineteen domestic branches, fourteen overse as branches, and eight subsidiaries. The fourteen overseas branches conduct local tours for outbound tourists from Korea to countries where the branches are located. Forty-five hundred agencies sell Hanatour products and provide all services to customers on behalf of Hanatour. It made a GSA agreement with eleven foreign companies including Trek America, Amtrek, Star Cruise, Royal Caribbean Cruise, Eurailpass, JR pass, and Alamo Rent-a-Car. It also entered into strategic partnerships with thirty domestic companies, including BC Card, Samsung Card, Hana Bank, LG Eshop, Hanson CSN and Emart.

It cooperates with other companies through system linkages and joint developments, and notifies certain companies such as Alamo Rent-a-Car before it changes its system or rate schedule. Its website is linked to more than 1,000 sites and some GDS vendors take the initiative in offering partnerships. The company supports the business partner in various ways. The company allows using HANA TOUR brand on their billboards, no support for hanging with billboards, supporting company promotion magazine. The company offers linking service to “dot.com” with no charge. This project will cost billions of dollars if it gets to the business separately: to provide CRM program and to post agents’ telephone numbers on the newspaper ads.

The company has a good relationship with suppliers (airlines, hotels, land company) Payment

system is operated that we pay for them to debit then having a discount. Also, the company has inner-company dimensional reorganization. It changes everyday followed by market trends. Division of IT development and IT Planning Team were made for on-line market newly. And according to the global market needy organizations reorganized or created.

The company makes efforts to develop products. The company always looks for the answer in the market. Before the company handled just group package tour, today the company cover both family units and individual travelers. This can be possible that the company reserve a seat on a plane as a hard block. Although market changes, the company can create any product. Overseas subsidiary members are launching various products like honeymoon in their local sites.

The company has tried cost reduction management by economies of scale and raised the price competitiveness. Human resources are the main part in the service area. So we educate them constantly. Human Capital is the company's core competence. So the company directs their vision for the future clearly. The company shows his employees the blueprints of the company and this is his differentiation strategy.

In the case of Lotte tour, corporate tries to offer a good impression to customers, create a customer loyalty and employee's value by customer satisfaction and improvement service quality. They are doing a sort of a social marketing to have a positive corporate image, such as to have a training on an endowed school, to support farming and fishing villages, to establish the welfare facility for the eldest people in the country side, to hold a charity bazaar, and to provide a tour product for orphans and beautiful store (this is new form of social movement to help poor people) etc.

Dynamics of cooperation with stakeholders are reflected in the cooperation with LG Travel Card, which offers benefit for free of interest and various services in case of buying product over 2 million won, cooperation with paying for internet system (INICIS), cooperation with 'Travel club' a department of Homeplus (famous shopping mall in Korea). Moreover, the company established a strategic cooperation with Korean bank "Woori bank": which runs a tour-information desk of Lotte Tour in the head office of Woori bank. It takes exclusive responsibility on travels. Also the company has a strategic alliance with the casino 'Seven lock' located in Samsung-dong and organized by Korea Tourism Organization and the casino organized by Hilton Hotel. The company has cooperation with various organizations such as National Agricultural Cooperative Federation, Korea Railroad Corporation, etc. They also contract with service agreement of Youth Hostel Union The company has 1577 collect call service to support business partners efficiently.

In 2005, the company introduced ERP (Enterprise Resource Planning) system first in business, established regional branches (Southeast Asia, Europe, America) They have been reorganizing the process of product development/ arrangement / supporting business / reservation department.

After reorganization employees confused because they do not know what they have to do and whom they ask to. The company is still in the process of innovation and change.

In case of Focus Tours Korea, they get the first linked in inbound and outbound tourism in Korea, make a total entertainment business, and take over the transportation corporation like a bus and the Hotel. They cooperate with other travel agencies and make a strategic plan for selling products. Also, they are going to make a big company and get the synergy effect by taking over small and medium travel agencies. They have established the 'Club Focus Golf' and plan the entertainment management business. The company improves Korea wave (Hallyu) markets and promotes supporting films or TV drama. Also, they are going to use sports marketing and develop entertainment business regarding tour products.

In case of Hanjin Tour, they try to make profits, increasing the brand image and making a high quality product. Hanjin set up a partnership with 45-branch office and sell the product by internet. Here is not any support for business partners. However, the branch agency uses the on-line marketing by Internet. They recognize the biggest problems in Korean travel industry such as price dumping, exchanged rate, and political tension between Korea and Japan. To overcome these problems, the company tries to create high quality products, especially, USA and Europe tour packages. The company has plan to create a future business model to take advantage of luxury brand 'Kalpak' and make a different product, improving on-line markets to pursuit the young people.

Other companies have similar types of corporate missions and dynamics of cooperation with related stakeholders to have high level of competitive advantage. In particular, because they don't have brand power to induce customers' loyalty, they have been trying to have strategic alliances with big travel agencies and related sectors such as hotels and airlines. Please see the attached contents of each company interviewed.

Above all, email marketing for the companies is an emerging tool in the value chain system, even though all companies recognize the importance of email marketing. Yet in spite of all the spam, Internet users like receiving their travel related emails. By category, travel email marketing retains a loyal audience, especially if it offers the recipient value, accurate communication, relevance, and familiarity. In the context of explosive growth in Internet distribution and marketing in travel, email marketing is a powerful direct-to-consumer distribution and marketing tool. It allows travel intermediaries to engage customers in strong, personalized and mutually beneficial interactive relationships, increases conversions, and sells more efficiently. Email marketing is an important aspect of today's multi-channel marketing model that requires travel intermediaries to communicate a single brand image across all channels.

3. Global Value Chain Model for the Korean Travel Industry

Major findings from in-depth interviews with stakeholders and analysis of industry trends in the Republic of Korea can be summarized. First of all, small and medium tourism enterprises should have business models with CEO's strong commitment to the future business. It will lead to have a competitive advantage in the competitive environment. Corporate vision and CEO's determination will be critical factor in the travel industry, as identified in the case of Hana Tour Co. Profit Business Model developed by both IT infrastructure and soft power such as marketing and networking cluster. Obviously, CEO and corporate vision affects establishing a profit business model, keeping abreast of information technology trends.

Despite these challenges, SMTEs with well-developed and innovative Web sites can now have "equal Internet access" to international tourism markets (APEC 2002). This implies equal access to telecom infrastructure, as well as to marketing management and education. According to a UN report (2001), "it is not the cost of being there, on the on-line market place, which must be reckoned with, but the cost of not being there." It is certain that embracing digital communication and information technology is no longer an option, but a necessity. Thus, one of the most important characteristics of electronic commerce is the opportunity and promise it holds for SMTEs to extend their capabilities and grow with competitive advantage (APEC 2002). The following diagram is presented as the model of the Global Value Chain for Korean travel industry drawn from in-depth interviews.

Global Value Chain System for Korean Travel Industry

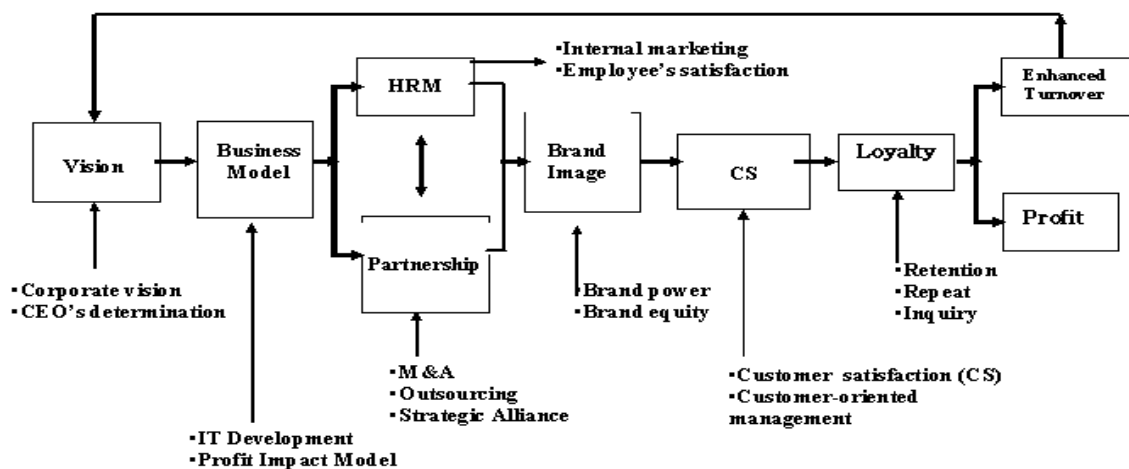


Figure 2. Global Value Chain Model for Travel Intermediary Sector in Korea

4. Identification of Barriers and Problems

This section describes barriers and problems for Korean travel industry to develop the global value chain. This paper suggested the model for global value chain; indicating critical successful factors to generate profits and sustainable competitive advantage. However, most SMTEs have meet challenges, obstacles, and problems that they have perceived. These factors have been identified by in-depth interviews and literature review as indicated in Table 5. The identification of these factors will help improve management capacity of SMTEs and furthermore foster the competitiveness of the travel industry in the Republic of Korea. Even though some companies have no problems in certain factors, it is recognized that most factors are applied to the small and medium travel industry in Korea. Management structure, human resource management, organization culture, and marketing are main barriers and problems that most SMTEs (Small and medium sized tourism enterprises) face to create the global value chain that enable them to create sustainable competitive advantage, generating substantial profits.

<Table 5> Identification of Barriers and Problems in the Travel Industry

Barriers and Problems
1. Problems of Management Structure (Production, Financial, Accounting)
1) Small Capital
2) Financial Weakening due to Business Structure of Travel Agencies
3) Insufficiency of Company Production System (Planning and Production Sectors)
4) Lack of Business Know-how and Lack of Business Ethics
5) Lack of Information Use and Lack of Travel Information System
2. Problems of HRM and Organization Management
1) Lack of Expertise and High Turnover Rate
2) Insufficiency and Bureaucracy of Systematic HRM and Organization Management
3) Insufficiency of Education and Training
3. Problems of Marketing
1) Structural Problem in Sales Distribution Channel
2) Lack of Knowledge and Technical Know-how
3) Insufficiency of Response System for Travel Situational Change
4) Lack of Brand Extension Management and Tourism Marketing Skills
5) Lack of Differentiation in Travel Products
6) Lack of Rational Price Decision-making System
7) Inefficient Use of Advertisement Materials

8) High Level of Dependence on Personal Sales

9) Lack of Endeavors to Solve Inconvenient Tourism Factors
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In addition to the identification of the above-stated barriers and problems in terms of management of the small and medium sized tourism enterprises in the Korean travel industry, there are some structural problems to foster the small and medium travel enterprises. These problems have been also identified through in-depth interviews with various stakeholders. It is obvious that these external or structural problems prevent the small and medium travel enterprises from creating the global value chain system. These problems should be overcome or solved by the effective policy implementation.

III. Policy Implication and Recommendations

3.1. Korean SM hotels

This study tried to delineate the implications on how the Korean SM hotels can enhance their competitive positions in the GVC of hotel industry in the worldwide context. 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 SM hotels' problems and opportunities. To collect the SM hotels operations and performance data, sampled 16 SM hotels in Seoul, Korea, were surveyed and analyzed by the measurements from conceptual framework. Meaningful implications are suggested as follows:

First, the study found that the SM hotels in Korea were mostly independent hotels and appeared not to have proficient operational 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. A lump sum of management contract fee and marketing cost, however, may be a disadvantage to SM 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 SM hotels, the expecting sales by hotels may not offset the costs if local customers do not favorably recognize the brand.

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.

Second, building an extensive and effective information system appropriate to the size and type of hotel operations is needed especially for SM hotels. It will help SM hotels build not only automated and prompt management operations but also a customer loyalty program and an extensive distribution channel to increase sales as well as reducing cost. It will also possible for SM 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 SME 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 SM 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 small scale hotels. It will also help them build a central reservation system sharing customer reservation and a distribution channel, which in turn insure a large database of worldwide customers as their potential guests.

Third, to enhance efficient human resources management, the SM hotels should consider associating closely with a capable labor outsourcing company. Considering employees' morale, independent management, and job security, the SM hotels have not been involved actively with an outsourcing company yet. As discussed earlier, the help of a reliable labor outsourcing company can reduce poor service performance by inexperienced entry-level employees. Not only housekeeping part but also such back-office management activities as purchasing and personnel department are to be possibly outsourced. It should also be considered for SM hotels that a competent outsourcing company can assist SM hotels to acquire necessary goods cheaper and administer favorable tax bracket and labor law.

Finally, the SM 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

Additionally, the role of government support by appropriate policy-making and monitoring will be required to promote the SM hotels and enhance their competitiveness. The true competitiveness of SM hotels comes not only from the reasonable price but also from the qualified service with convenient facilities. This will be possible only when the owners and managements of the SM hotels overcome their lack of innovative mind of management and active involvement for effective administration with the help of government support.

In particular, it is necessary to consider decreasing the tax rate or employing advantageous

tax criteria for SM hotels, which are struggle from deteriorating business. Even the tax exemption can be considered for providing incentive to SM hotels suffering hardships until they have enough strength to survive by themselves. Second, the government can support SM hotels by providing professional management technique, program for educating service management, and operational manual for system support.

3.2. Korean Travel Intermediaries

This project makes recommendations for creating the global value chain model of Korean travel agencies and tour operators.

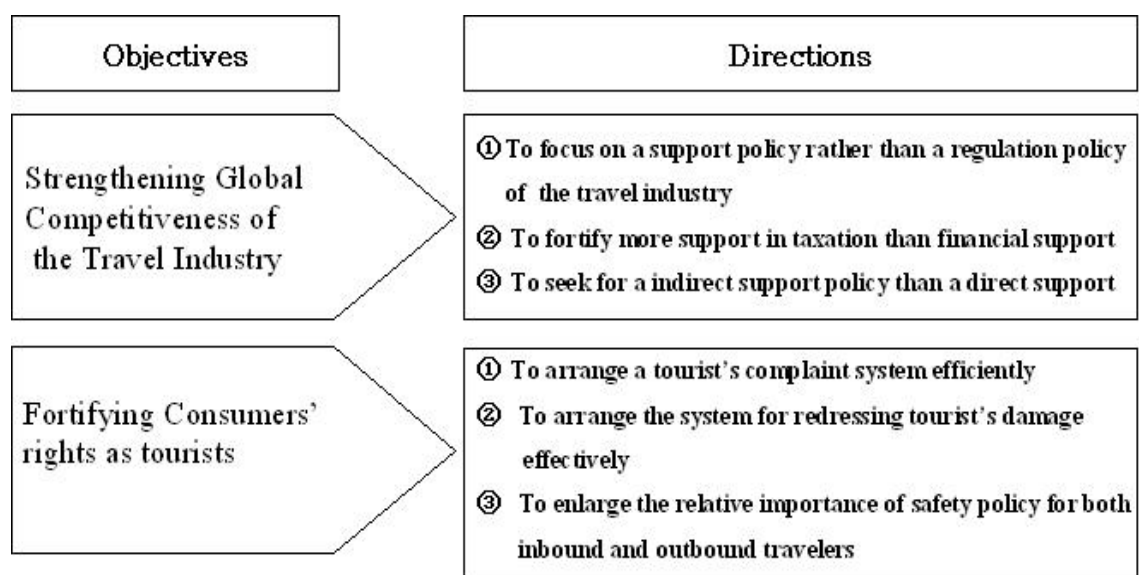
1) Implement value chain strategies to take advantage of interactivity, mass customization, real time, and a database of customers. The process of implementing strategies should focus on; 1) customer acquisition, 2) customer cultivation, and 3) customer retention. Customer acquisition is seeking potential customers. Customer cultivation relates to what they need and how to encourage them to purchase services or products. Customer retention focuses on how to create repeat customers. For these strategies, smaller and medium travel agencies or tour operators should take three generic strategies as M. Porter suggested: differentiation strategy, cost-leadership strategy and niche market strategy. In particular, differentiation strategy will be a key factor for travel agencies or tour operators in the Republic of Korea to have a competitive advantage in an edged business environment. In addition, it is recommended that travel agencies or tour operators should create “blue oceans” as Kim and Mauborgn (2005) suggested. Blue oceans are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. While blue oceans are occasionally created well beyond existing travel industry boundaries, most are created by expanding existing travel industry boundaries. In blue oceans, competition is irrelevant as the rules of the game are waiting to be set. It will always be important to swim successfully in the red ocean by out-competing rivals. Red oceans will always matter and be a fact of business life. But supply exceeding demand in the travel industry, competing for a share of contracting markets, while necessary, will not be sufficient to sustain high performance. Travel agencies need to go beyond this. To create new value and growth opportunities, they need to create blue oceans. Blue ocean strategy can be an effective framework for the global value chain of travel agencies or tour operators in Korea.

2) Manage digital brand: Brand power is more important in the global value chain of travel agencies and tour operators in the Republic of Korea because e-business of travel agencies is a virtual world where consumers are more dependent on recognized brands. Furthermore, brand equity in the travel industry should be developed to differentiate their products and services.

3) Formulate and implement value chain business strategies through partnerships with other travel agencies or other tourism sectors, whether it is small or large. The mode of partnership should focus on areas such as brand management (BM), customer relationship management (CRM), and human resource management (HRM). Combining forces through partnership among travel agencies or tour operators will establish well-designed global value chain of the travel industry. Business partners should be carefully selected and exhibit the principles of relationship building, caring, and providing exceptional value to customers.

4) Develop a national vision, plans and policy guidelines on the global value chain of the travel industry and involve tourism stakeholders in creating value. For this, the government should establish appropriate laws and regulations and service standards to improve the value chain model of the travel industry.

The following suggests objectives and policy directions to foster small and medium travel enterprise in the Republic of Korea. Main policy goals or objectives should be related to strengthening global competitiveness of the travel industry and fortifying consumers; rights as tourists. The policy directions matched to the policy goals or objects will be to focus on a support policy rather than a regulation policy of the travel industry; to fortify more support in taxation than financial support; to seek for an indirect support policy than a direct support policy; to arrange a tourist's complaint system efficiently; to arrange the system for redressing tourist's damage effectively; and to enlarge the relative importance of safety policy for both inbound and outbound travellers.



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