The Routledge Handbook of Hotel Chain Management

Edited by
Maya Ivanova, Stanislav Ivanov and
Vincent P. Magnini

ROUTLEDGE

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Understanding the global hotel business is not possible without paying specific attention to hotel chain management and dynamics. Chains are big business: more than 80 per cent of hotels currently being constructed around the globe are chain affiliated and, in 2014, the five largest brands held over one million rooms. The high economic importance of the hotel chains and their global presence justifies the academic research in the field; however, despite this, there is no uniform coverage in the current body of literature.

This Handbook aids in filling the gap by exploring and critically evaluating the debates, issues and controversies of all aspects of hotel chains from their nature, fundamentals of existence and operation, expansion, strategic and operational aspects of their activities and geographical presence. It brings together leading specialists from a range of disciplinary backgrounds and regions to provide state-of-the-art theoretical reflection and empirical research on current issues and future debates. Each of the 5 inter-related sections explores and evaluates issues that are of extreme importance to hotel chain management, focusing on theoretical issues, the expansion of hotel chains, strategic and operational issues, the view point of the individual affiliated hotel and finally the current and future debates in the theory and practice of hotel chain management arising from globalisation, demographic trends, sustainability and new technology development. This content provides an invaluable resource for all those with an interest in hotel management, hospitality, tourism and business, encouraging dialogue across disciplinary boundaries and areas of study.

This Handbook is essential reading for student, researchers and academics of Hospitality as well as those of Tourism, Marketing, Business and Events Management.

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Alfonso Vargas-Sánchez is the promoter and Editor-in-Chief of Enlightening Tourism: A Pathmaking Journal (Et). Dr. Vargas-Sánchez's main research interests are in Strategic Management discipline and in the tourism industry, both in companies and in destinations. At present, he is a full professor at the University of Huelva, where he has been distinguished with the 2002/2003 Teaching Excellence Diploma, and the 2006/2007 Teaching Excellence & Quality Award as a member of an online teaching group. Since 2004 he has headed the Research Group named Innovation and Development Strategies in Tourist Firms (GEIDETUR), included in the Andalusian Government's Plan of R&D&I. Prof. Vargas-Sánchez has carried out academic activities, both in research and teaching, in different Universities and higher education institutions around the world, across five continents. Nowadays, he serves as Visiting Professor in the UK at the York St John Business School and the School of Business and Entrepreneurship of the RAU (where in addition he is a member of its Advisory Board), and in the University of the Algarve (Portugal), where he is an invited researcher and has been a member of its General Council. Additionally, he collaborates with the Agency for Assessment and Accreditation of Higher Education in Portugal, as external expert. He has served in several positions in the University of Huelva, where he is Full Professor; in addition he leads the Spanish-Portuguese Network of Researchers on Tourism (REINTUR) and EATSA (Europe-Asia Tourism Studies Association), as Vice-President for Europe. More details are available at: http://www.uhu.es/alfonso_vargas/

Christian Walter lives and works in Vienna. Being a graduate of the Munich University of Applied Sciences, Christian complemented his education in the hospitality business at the University of Westminster in London. In pursuit of lifelong learning, Christian has also completed an executive education curriculum at Cornell University's School of Hotel Administration in Ithaca, USA. He gathered, amongst others, practical experience at the Brenners Park-Hotel & Spa in Baden-Baden and at the Hotel Vier Jahreszeiten Kempinski in Munich. Since 2005, Christian Walter has been with the PKF hotelexperts team in Vienna, one of the leading international hospitality consulting firms with over 500 partner offices in the PKF International network around the world (www.pkfhotels.com). He is a Managing Director and in charge of operator search and selection. In this capacity, Christian is negotiating hotel lease, management and franchise agreements on an ongoing basis. Besides his distinctive preference for travelling, both for business and leisure, he devotes himself to his activity as a lecturer at the IMC in Krems (Austria) and at the ADI (Akademie der Immobilienwirtschaft) in Hamburg. He is also present as a guest lecturer at the MODUL University in Vienna and at the International University Bad Honnef/Bonn. Currently, Christian serves as Regional Vice President (EMEA Region) of the Cornell Hotel Society.

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Introduction

Maya Ivanova, Stanislav Ivanov and Vincent P. Magnini

The global hotel landscape continually evolves. Ever changing political, economic, cultural and technological forces interplay to influence how hotels should best compete in their respective markets. Understanding the global hotel business is not possible without paying specific attention to hotel chain management and dynamics. Hotel chains are big business: only approximately 19 per cent of new hotels currently being constructed around the world are independent/unaffiliated, which means that more than 80 per cent are chain affiliated (Hood, 2015). In 2014, the five largest brands (Holiday Inn Express, Holiday Inn, Hilton, Best Western, and Marriott) had a combined 1,019,000 rooms; furthermore, there were 14 other brands that each had more than 75,000 rooms (ibid.). The high economic importance of the hotel chains and their global presence determines their economic and social importance and justifies the academic research in the field.

Despite their importance, surprisingly, there is no uniform coverage of hotel chains in our current body of literature. Existing research is largely fragmented and focuses on separate aspects of their activities – e.g. choice of entry mode, partner selection, branding, mergers and acquisitions, factors of internationalisation. Therefore, this Handbook aids in filling the gap in the research literature by providing a comprehensive critical analysis of all aspects of hotel chains – their nature, fundamentals of existence and operation, expansion, strategic and operational aspects of their activities, geographical presence. This Handbook provides a balanced and interdisciplinary approach to hotel chain analysis. It considers simultaneously the view point of the chain and the view point of the individual affiliated hotel. The Handbook's theoretical framework is rooted in the fields of international business, global marketing and branding, and theory of the firm, which makes the Handbook appealing to a wide audience. In summary, this book is an attempt to house key writings in a single book. It is intended to be a major bibliographic resource for all academic researchers, students and practitioners interested in issues dealing with hotel chain management. The research orientation of the Handbook makes it suitable for courses for upper undergraduate, master's and PhD students. Due to the interdisciplinary nature of tourism/hospitality, the Handbook may also be of interest to researchers in non-tourism/hospitality fields like strategic management, international/global marketing and international business. Considering the comprehensiveness of the Handbook it may be very useful to practitioners too – development managers, chief marketing officers and regional area managers of hotel chains. The Handbook uses case studies and examples from various chains and destinations, contributing to its global appeal.

While more detail will be provided in the introductions to each of the sections, a brief synopsis is provided here. The aim of Section I is to lay the foundations of the other sections of the Handbook. It deals with the theoretical issues of hotel chains – their nature, the economic and marketing fundamentals for their existence and development, their strategic environment, economic and socio-cultural impacts on the host communities.

Sections II and III adopt the view point of the hotel chain. Section II focuses on the expansion of the hotel chains and all the decisions that have to be made in relation to their expansion – whether to expand (the decision of expand), where to expand (the choice of a destination), how to expand (the choice of an entry mode) and with whom to affiliate (the choice of a partner hotel). Due to their importance, each type of entry mode is discussed in a separate chapter. Section III deals comprehensively with all strategic and operational issues faced by hotel chains. Their marketing activities receive special interest as marketing is one of the major driving forces behind hotel chain development – branding, pricing, distribution channel management, etc. The section furthermore critically evaluates current debates in all functional areas of chains' operations – human resource management, finances, legal issues, quality management, measuring productivity, etc.

Section IV takes the view point of the individual affiliated hotel. It follows a structure similar to Section II and analyses the affiliation process from the perspective of the hotel. More specifically Section IV discusses issues related with a hotel's affiliation to a chain – whether to affiliate (the decision to be part of a chain or stay independent), how to affiliate (the choice of a type of affiliation), with whom to affiliate (the choice of a chain), the process of affiliation and affiliation evaluation.

The final Section V concentrates on current and future debates in the theory and practice of hotel chain management arising from globalisation, demographic trends, sustainability and new technology development. It also investigates the links between hotel chains and hospitality education.

Sixty-eight prominent researchers from 18 countries on 5 continents have contributed their time and talent to this project. The editors of the Handbook invited to be contributors those researchers and practitioners who have the knowledge and expertise to energise further examination and attention to topics surrounding hotel chain management. The passion of the contributors regarding this subject area shines through in the coming chapters. They infuse their passion into their writings when communicating their expertise regarding their respective topics.

To reiterate, a variety of readers can benefit from this book. The editors hope that you will find this book useful and consider it an initial effort to house key hotel chain management topics in a single resource. Each of the chapters herein perhaps provides more questions than answers which will lead to further development of the literature covering this rich and managerially relevant area of inquiry. Consequently, desired outcomes of this project include increasing our current knowledge-base as well as spawning further inquiry. Consistent with the current trend towards methodological pluralism, the writings in this book can trigger both qualitative and quantitative studies with the impetus of advancing the effective and efficient management of hotel chains.

The contribution of this book to our existing knowledge-base was made possible by the contributors who generously offered their time, talent and knowledge. The editors established only one overarching request for the contributors: the chapter had to provide useful insights related to hotel chain management. Being that English is not the native tongue of many of the contributors, their writings mandated significant effort and polishing. To restate from above, however, their passion and levels of expertise are apparent in their contributions. As a final note, we are grateful for the encouragement and collaboration of Routledge and their professional staff for helping to shape this book into this delivered product. Enjoy!

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Section I
Theoretical issues of hotel chains

The first section of the Handbook deals with theoretical issues of hotel chains. Chapter 1 by Maya Ivanova and Roya Rahimi discusses the nature and provides a definition of hotel chains as multi-unit enterprises, and outlines their distinctive characteristics. The chapter elaborates on the background, role and importance of hotel chains in the hospitality industry by analysing the existing definitions of hotel chains and their specific features. It further identifies gaps in the related literature, discusses the interchangeable terms used by different authors and develops a definition of hotel chains.

Chapter 2 by Stanislav Ivanov discusses the economic and marketing fundamentals that determine the existence and development of hotel chains, namely: brand recognition and the significant role of the brand in choice of hotel by hotel guests, high sunk costs, service standardisation, economies of scale, economies of scope and financial benefits of chain affiliation for the individual hotel surpassing the affiliation related costs. The author points out that brand recognition, economies of scope and financial benefits surpassing the costs of the affiliation are the most important forces that will continue to support the establishment of new and the expansion of existing hotel chains. Technology advancement erodes the importance of economies of scale, sunk costs and service standardisation. Furthermore, the author proves that online travel agencies may be considered as substitutes of hotel chains in delivering one of the core benefits sought by hoteliers when they affiliate their properties to chains – the greater market visibility of the hotel. The OTAs may be considered as substitutes of the hotel chains by the customers, because the OTAs' brands, secure reservation systems, convenient payment and hotel ratings decrease the perceived risk of the customers when they book hotel accommodation.

Chapter 3 by Prakash Chathoth delves into the evolution of such chain organisations with the objective of identifying the historical factors that led to their growth. Specifically, it delineates between macro and micro environmental factors that impacted the growth of hotel chains while emphasising inter- and intra-organisational factors such as competition and organisational learning. The chapter also sets out key founders of hotel chains who influenced the growth of such organisational forms. It further highlights their role in expanding the scale and scope of the business, leading to the evolution of the hotel chain organisation. Today, hotel chains have evolved to focus on branding while addressing the consumer's idiosyncratic needs with specific emphasis on experiential attributes.

Chapter 4 by Ákos Kátay and Tamara Rátz presents the main characteristics of the global geographical distribution of hotel chains in 2013, based on analysis of the number of properties and the number of rooms in different quality categories (luxury-upscale, midscale, economy). The geographical framework of the study is defined using the regional classification of UNWTO, with a slight modification in order to provide an adequately detailed spatial analysis. The analysis includes a detailed investigation of the market presence and the fair share of the top 10 global hotel corporations at regional (Africa, Middle East, Americas, Asia and the Pacific, Europe) and subregional levels. Although the chapter is predominantly descriptive in nature, the trends observed in the geographical analysis of hotel chains' market presence and fair share values seem to suggest an ongoing consolidation process in the industry mainly influenced by direct market factors.

Chapter 5 by Valentina Della Corte deals with the strategic environment of hotel chains. The market environment is characterised by particular dynamics in which the strong competition forces hotel chains to find innovative ways and tools to keep their market shares. Their strategic strength and marketing position, however, are higher than that of many single-unit hotels, often becoming pivotal actors in the tourist destinations where they invest. The chapter describes the hotel chain environment, analysing the characteristics of global and local strategies and the challenge of responding to both of them. Literature provides some useful models that help when studying the external and internal environment of hotel chains, both of which are described in the next paragraph. Finally, the chapter outlines the current scenario in which hotel chains operate, introducing some of the main factors to consider in order to achieve competitive advantage.

In Chapter 6, Maya Ivanova and Stanislav Ivanov analyse the heterogeneous and multifaceted nature of hotel chains by developing three partial models, where the chain is presented as a bundle of resources, activities and relationships, which are combined into one integrated model of a hotel chain. Each of the three partial models deals with a specific side of the hotel chain. The Resource-based view model reveals the internal foundations for creating and sustaining a competitive advantage by acquiring, using, managing and sharing resources, organisational capabilities, knowledge and learning. Porter's value chain perspective is focused on implementing the proper activities in a proper way, thus achieving superior performance. By interacting with its various stakeholders, the hotel chain establishes certain relationships with them, which, if suitably managed, can also become a ground for obtaining a competitive advantage. In order to gain a holistic impression of a hotel chain, all three perspectives were combined in one integrated model. The Integrated model could be used as an analytical tool to identify the specific sources of competitive advantage of a particular hotel chain and investigate the potential threats to the chain's competitiveness.

Chapter 7 by Ige Pirnar elaborates on the economic impacts of hotel chains on the host destination. Due to the rapid global growth of the hotel chains, they become economically vital to the destinations they operate within. In order to maximise the economic gains associated with the hotel chains' operations, it is important for related bodies to clearly identify the associated positive and negative possible impacts. Therefore, this chapter analyses these positive and negative possible economic impacts of the global hotel chains on the host destination. Some of the positive economic impacts include source of foreign exchange earnings, provision of employment opportunities, economic diversification, multiplier effect for the economy, etc. As negative economic impacts the author identifies leakages of national income, price rises and hiring expatriate workers. The chapter concludes with an in-depth discussion and analysis of trends affecting the economic impacts of hotel chains on host destinations, since for successful results the related trends should be taken into account and followed up closely.

The last chapter in the section, Chapter 8 by Bynum Boley and Emily P. Ayscue, deals with the socio-cultural impacts of hotel chains. Hotel chains, by their very nature and size, have a predisposition towards large positive and negative environmental, economic and socio-cultural impacts. While minimising the hospitality industry's environmental impacts has been a core aspect of the rhetoric behind the recent CSR/Sustainability movement, the discussion of socio-cultural impacts has often been left to the tourism literature. This chapter takes a critical perspective of the many positive and negative socio-cultural impacts hotel chains have within communities. Positive impacts covered include the potential for hotel chains' architectural design features to bring pride and civic confidence to the local community, as well as hotel chains possessing the potential to increase the quality of life of employees through enhanced educational opportunities. Negative impacts covered include hotel chains' history of providing marginal employment opportunities, economic leakage of tourism dollars, and homogenisation of culture for the sake of hotel chains' allegiance to brand standards. It is suggested that emphasising the management of these socio-cultural impacts on already present CSR initiatives can serve as a way for individual hotel chains to become more competitive in a saturated market and to enhance financial performance.

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Nature and definition of hotel chain

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Introduction

Hotels, both local and international, are considered to be the backbone of the hospitality industry providing accommodation and other services to guests. A significant share in the contemporary hotel industry has been occupied by numerous group entities, mostly also known as 'hotel chains'. According to the latest statistics, several hotel corporations from the top 10 are expected to reach the race for 1m rooms each (Big Brand Report, 2015). The chain-affiliated number of rooms reached 7.85m, which is over 40 per cent of the world supply as of 1 January 2014, according to MKG Hospitality Group (Panayotis, 2014). As prominent players in the hospitality industry, hotel chains have noteworthy influence over the rest. They are mostly major companies, with substantial financial backing, and have a huge impact on the whole sector, introducing innovative practices and technological advances.

Hotel chains have received considerable attention from academic researchers, but a comprehensive review would contribute to our current understanding. Usually hotel chains are used as exemplary case studies but only in a few publications are they the focal point of the research (Gee, 1994). Such studies deal mainly with single cases, or explore a limited number of hotel chains that could not serve for general conclusions, or provide a broad overview of the chains. Additionally, in most papers, the term 'hotel chain' is commonly used, but without a precise explanation or definition. Considering the different studies, surprisingly, a clear and widely accepted definition of the hotel chains as organisations appears to be absent.

Therefore, the current chapter will focus on the role and importance of hotel chains in the hospitality industry by analysing the specific features of the hotel chains and giving a unique definition for this type of accommodation provider. The exploration of the nature of hotel chains will begin by addressing a number of issues, followed by review and analysis of the existing definitions. Finally, a full definition will be offered, taking into account all previously discussed conceptualisations.

Considerations regarding the definition of the hotel chains

Considerations connected with the elaboration of a comprehensive definition of the hotel chains begin with the *used term/name*. The emergence and initial growth of the hotel chains have taken miscellaneous paths, resulting in companies with very diverse organisational structures, divergent strategies and goals. They are even named differently, e.g. '[international] hotel groups' (Alexander and Lockwood, 1996; Burges et al., 1995; Chen and Dimou, 2005), 'branded hotels' (O'Neill and Carlbäck, 2010), 'international/multinational hotel companies' (Altinay and Altinay, 2003), 'multinational hotel firms/groups' (Zhang et al., 2012), 'hotel brands' (Bernstein, 1999; O'Neill and Mattila, 2010), 'branded hotel operators' (Beals and Denton, 2005), 'hotel franchise systems' (Brown et al., 2003), '[international] hotel operators' (Cervino and Bonache, 2005) and 'hotel chain operators' (DeRoos, 2010), most of them used interchangeably. Although there are different terms, researchers have failed to identify that these terms represent the same phenomenon (Holverson and Revaz, 2006), hence the difficulty for them to be defined properly. In our endeavour to provide a valid definition, the above stated characteristics will be considered and included as diverse attributes of one and the same phenomenon.

Another necessary clarification before analysing the nature of a hotel chain concerns the *scope of hotel chains*. Many of the major hotel chains began their development by launching their own brand, mostly deriving from the owners' surnames (Hilton, Marriott, etc.). Later, additional brands were often added to enrich the brand portfolio of hotel companies and attract clients from other segments. The companies, however, continued to be addressed as 'hotel chains', and the creation of new brands was perceived as a strategic marketing approach called 'brand portfolio' (Keller, 2013). In order to avoid any misunderstanding and biased analysis, for the purpose of current study, hotel chains will be considered as the *companies or sub-divisions of companies that encompass hotel properties under a **single** brand*. This means that, for instance, Novotel, Sofitel, Mercure, Ibis, Jurys Inn, Premier Inn, etc. will be considered as hotel chains, not as Accor Corporation who own all of these brands. In a similar vein, InterContinental, Crown Plaza, Holiday Inn and Holiday Inn Express should be considered as hotel chains although they all belong to InterContinental Hotel Group. All major companies holding more than one brand in their portfolio will be referred to as '*hotel corporations*'. Within the limits of a hotel corporation, each hotel chain with its own brand sets its own goals and follows its own customer strategy, aligning it with the general strategic direction of the parent corporation.

Very often hotel chains are associated with the *hotel management companies*, which offer expertise in the management and operation of hotels. They might provide assistance with pre-opening marketing and sales, selection and training of staff and preparation of the day-to-day operations. In addition, they often establish a portfolio of key performance measures to assess the health and success of their managed properties. In some circumstances hotel chains also offer management contracts through which they can manage properties for owners. But apart from managing the hotel assets, the chains provide additional value from their brand (and for this reason are called 'brand operators', (Beals and Denton, 2005)), and the connected product standards and rules. In this way the integrated hotels are united not only by the common management team, but mainly by the brand and its requisites, and the latter is actively used for the positioning and promotion of the property. The ordinary management companies though, work with branded hotels (i.e. already members of any chain, usually on a franchise contract), but do not assign their brand to the hotel. Therefore, for the aims of this handbook, these management companies are not considered hotel chains.

Analogically, if a group of hotels belongs to the same owner and possibly the same management, this does not make them automatically a hotel chain. Provided the hotels share a common brand, concept and comparable product, then we can name this group a hotel chain. The difficulties in providing an accurate definition prove that hotel chains can be complex and compound as organisations. From a successful business model they have evolved to multilevel entities, which not only operate on a multinational basis (and therefore share multinational enterprise traits), but also perform an internal transfer and sharing of resources, common administration, management and creation of value. Therefore, it is essential to compile the variety of their characteristics into a comprehensive definition that would be endorsed by the scientific community.

Review of hotel chains' existing definitions and specific features

The elaboration of a comprehensive definition begins with an analysis of the existing definitions. In the process of seeking exemplary definitions, it turned out that very few of the researchers dare to create such a definition. 'Hotel chain' is extensively used as a concept, but still needs certain clarification. The term itself consists of two parts – 'hotel', indicating, that the company belongs to the hotel industry, and 'chain', associated with a string of similar rings, unified into one system (Dabeva, 1998). Following this logic, the hotel chain literally means a network of *multiple* units that share a *common feature* and operate in the *hotel industry*. Most of the provided definitions seem to derive from this simple interpretation (see Table 1.1).

All of the extant definitions emphasise the *multiunit nature* of hotel chains. Even some of the authors pinpoint an exact number of properties, set as a minimum, in order to consider a group of hotels as a chain. Jafari (2000) begins with 'more than one unit', whereas Peng (2004) sets the boundary at 'two or more hotel units'. Bhatia (2006) raises the qualification

Table 1.1 Definitions of 'hotel chain'

Author	*Definition*	*Essentials*
Contractor and Kundu (1998a: 327)	A global hotel firm is defined as one that either has an equity stake in a foreign property, or operates the hotel under a management service agreement, or is a franchiser to the foreign hotel property. Thus, a company could be a global firm without any ownership of a foreign property.	• different ways of affiliation; • global coverage; • chain or brand is not mentioned; • focus on geographical coverage; • different ways to expand
Jafari (2000: 76)	Chain hotels are made up of affiliated properties by virtue of the fact that the chain is contracted on a continuing basis to be responsible for putting in place at least one management function in the whole system. A hotel chain is thus an organisation that competes in the tourism industry, either locally, nationally, regionally or internationally, with more than one unit of similar concept or theme.	• multiple properties; • at least one centralized management function; • geographical distribution; • similar concept
Peng (2004: 242, xi)	Organisations which comprise two or more hotel units operating under a system of decision-making permitting coherent policies and a common strategy through one or more decision-making centres and in which the hotel units and corporate functions are linked to add value to each other by ownership or contractual relationships.	• minimum number of hotels; • centralised management; • coherent policy; • added value for both sides; • different ways of affiliation – ownership and contractual

(Continued)

Table 1.1 (Continued)

Author	*Definition*	*Essentials*
Bhatia (2006: 193)	A chain consists of three or more properties owned or managed by the same company and operated under the same brand.	• minimum number of properties mentioned; • common brand for all the properties; • way of comprising the portfolio of hotels – only ownership and management contract pointed out
Brookes (2007: 114–15)	The international hotel firm is defined as a discrete organisational entity with responsibility for developing, operating and supporting single or multiple branded portfolios.	• discrete entity; • managing multiple brand portfolio
Andrews (2009: 19)	A hotel chain is a series of hotels under a common brand name spread both nationally and internationally.	• multiple hotel units; • common brand; • national or international coverage/geographical distribution
Ivanova (2013)	A group of hotels, sharing a common brand aiming for a better market position through a combination of resources, activities and relationships, operating on a national and/or international level.	• multiple hotels; • common brand; • marketing aim; • resources, activities and relationships as building blocks of the organisation; • geographic level of coverage
Smith Travel Research	A nationally recognised brand or chain or a closed hotel. Generally STR will create or designate an affiliation once the company has a minimum of eight properties in its portfolio.	• multiple hotels, with a specified minimum number; • common and nationally recognised brand

to 'three or more properties' to reach the highest limit of a minimum of eight hotels needed to form a chain (STR, n.d.). The absolute number of properties is usually employed in classifications and statistical studies, as well as laws and any other legal documentary. Consequently, the different boundaries could be explained with the particular methodology applied by institutions and agencies on local and national levels. Also, they imply the lack of a unified statistical methodology in the hospitality industry in a worldwide context, despite the numerous efforts to establish such.

The multiunit nature of hotel chains comes as a prerequisite for some special management considerations, concerning both *the internal organisation*, and *the operation on multiple markets* (Jones, 1999). The internal organisation of the chains is affected in terms of *coordination*, *communication and administration of multiunit organisations* (typical for big companies and multinational corporations), as well as *resources*, *information and knowledge sharing* (connected with the experience of difficulties because of the heterogeneous and intangible nature of services) and *maintaining the same level of quality among the properties* (leading to establishment of standards and rules).

Processes, concerning *coordination*, *communication and administration* of such a multiunit entity like the hotel chain, have provoked numerous scientists to discuss and match different concepts to explain them. Resource-Based View (RBV) (Brown et al., 2003; Dev et al., 2002), Transaction Costs Approach (TCA) (Contractor and Kundu, 1998b; Chen and Dimou, 2005), Agency Theory (Alon et al., 2012; Contractor and Kundu, 1998a), Stakeholders and Network concepts (Altinay and Miles, 2006), are among the frequently cited frameworks utilised to develop a detailed picture of the versatile nature of the hotel chains. Each of the theories employs a separate perspective of the firm, using specific terminology and assumptions to illustrate the crossing relationships, information and communication flows, contractual links and evolving problems that enable success, competitiveness, and failures of large multi-unit and multinational companies like hotel chains. In the light of the above theories, hotel chains are presented as complex and compound organisations that need deeper exploration and precise conceptualisation.

The *fluent transfer and exchange of these resources* within the chain is considered a significant part of the internal organisation, as well as a key to protect and maintain the competitive advantage of the chains (Brown et al., 2003; Dev et al., 2007). However, this transfer and exchange is impossible for most of the chain hotels because of the geographical distribution of their properties (Cooper, 2006). Additionally, the intangible product, (i.e. providing accommodation service), restrains the distribution and sharing of tacit knowledge and industry know-how (Erramilli et al., 2002). These problems have been addressed by hotel chains through the establishment of sound internal systems both to facilitate communication and information flows, and to apply efficient *quality management*. The quality control concerns management of tangible and intangible assets, and the service process. In the hotel industry, where services prevail, the main focus is on intangible elements, i.e. service and communication, which are considered crucial for quality perceptions (Crick and Spencer, 2011). The problem with quality control becomes essential for organisations like hotel chains that rely on contractual agreements with hotel members to adhere to the common standards implemented by the chain (Carter and Ragsdale, 2009). Maintaining consistent quality is a balance between the management of human resources (Maxwell et al., 2004; Antony et al., 2004) and setting the proper extent of standardisation (Pullman et al., 2001).

All of the above issues have resulted in building specific attributes that are perceived as the intrinsic features of the hotel chains.

Operating in different markets, hotel chains need to address and adapt to different market characteristics, cultures, legal and other regulations. In addition to their internal complexity, hotel chains have to manage their properties, employees and customers in a multicultural environment. Finding the right balance between preserving their own product features and customisation to the local conditions, implies a shift in the strategic operations management of hotel chains (Jones, 1999). Hence, handling versatile issues within a hotel chain requires multi-competent senior managers (Jones, 1999; Jayawardena, 2000) and a holistic approach towards each of the destinations and properties in the chain.

The *common feature*, as an element, is presented either by the *common brand* (Andrews, 2009; Bhatia, 2006; Brookes, 2007; Ivanova, 2013; STR, n.d.), or as a *concept*, *theme*, or *feature*, that is valid for all properties in the chain (Jafari, 2000; Peng, 2004). The *brand* is the constituent/ingredient that makes one group of hotels a chain, i.e. the unique feature, differentiating the hotel chain from its competitors and providing a distinctive flavour, typical only for this group of hotels. The strong brand by itself is considered the best competitive advantage for hotel chains (Bailey and Ball, 2006). Specifically for the hotel industry as service sector, branding is important for reducing the risk to clients and making them loyal (Cai and Hobson, 2004), and at the same time taking a certain position in their minds, becoming easily recognisable and associated with certain characteristics of the product (O'Neill and Xiao, 2006). Nowadays hotel branding is directed more at ensuring experience for the customers, rather than focusing on commoditisation of the product (Fung So and King, 2010). The newly introduced 'lifestyle hotel brands' (Canopy by Hilton, Moxy by Marriott, Ritz Reserve, etc.) emphasise contemporary design, innovative technologies and the personal touch (Jones et al., 2013). Still, they remain clear franchise players (Skinner et al., 2015), although one of their main appeals claims to differentiate from the 'old-fashioned' brands, moving towards a new generation of customers. The brand and its essential role for the hotel chains are examined in detail in a separate chapter of this handbook (see Chapter 18).

Apart from the brand, *similar product*, *service technology* and *theme* also contribute to building the image of the hotel chain and to creating certain associations in the customer's mind. As service industry firms, hotel chains cannot provide a fully identical product in all of their hotels – the nature of services does not allow for perfect duplication and reproduction (Erramilli et al., 2002). The hotel industry is a service industry with a high human component, influencing the final perception of the product. In order to ensure uniform quality in a multi-unit hotel company like the hotel chain, a system of common rules and regulations should be adopted to predict and control output activities (Sandoff, 2005), i.e. standardisation of services. Hotel chains have introduced the concept of standardisation and have become symbols of its application. Elaboration of uniform standards helps to enable the hotel chains to maintain a consistent level of service (Whitla et al., 2007), thus facilitating both the employees and customers. On the one hand, employees are more easily trained and know how to react in certain situations, whereas on the other, the customers are prepared in their expectations. Although standardisation has its negatives – it is perceived as an emanation of mass tourism used for low-budget products, disregarding the personal characteristics of the customer (Thayer, 1994). The utilised standards and operation manuals serve both as know-how and as a tool for differentiation from the rest of the accommodation establishments. Still, the newest trends show the efforts of the chains to provide a more customised and personalised product – lifestyle, boutique and soft branded hotels, as discussed above.

Another constant element in most of the definitions is the *geographical distribution*. Although hotel chains are addressed as a phenomenon with international/global character, only Brookes (2007) and Contractor and Kundu (1998a) sustain this perception. Many researchers (Jafari, 2000; Andrews, 2009; Ivanova, 2013) recognise that hotel chains are organisations with either domestic/national or international presence. Actually, most of the hotel chains have begun their growth within some national boundaries, and only a few of them could be considered 'born global'. The domestic chains, though, deserve the same attention because they are organisations of the same type, only the scales of operation are within one country. Consequently, the processes, problems and issues, concerning the international hotel chains might be comparable with the ones of the national/domestic chains.

A less frequently discussed feature of the hotel chains appears to be the *centralised management* or certain activities, performed by the headquarters of the chain on a central level. The implementation of such collectively valid actions contributes to the stronger relationships among the properties of the network and their arrangements with the headquarters. Otherwise, only the common brand/feature seems insufficient to unite any group of properties and allows them to be perceived as one entity. The centralised function reflects the common goals shared by all involved hotels. In her definition, Brookes (2007) even specifies on the tasks of the central management: 'developing, operating and supporting' the portfolio of properties. Peng (2004), on the other hand, describes the leading role of the headquarters, naming it 'a system of decision-making', but he also emphasises the 'coherent policies and common strategy' as the crucial link among hotel units. An interesting addition of Peng (2004) appears to be the possibility of more than one decision-making centre within one hotel chain, which could be interpreted in the light of the regional governance, adopted by many of the large hotel chains. The regionalism in a hospitality context facilitates both the operational management of multiple properties and also the product adaptation to local conditions.

Hotel chain expansion and the means by which they increase their hotel portfolio have been a focal point in several studies (Cunill, 2006; Dev et al., 2007; Holverson and Revaz, 2006), dealing with the *different types of affiliation* employed.[1] The array of relationships and engagements between companies spreads over numerous types of affiliations (Anderson and Gatignon, 1986). However, hotel chains usually use only a limited number of them, broadly discussed in the literature (Contractor and Kundu, 1998a; Cunnill, 2006; Chen and Dimou, 2005, etc.). According to the capital involvement of the hotel chain, the entry modes are classified as equity, including full and partial ownership (discussed in Chapter 11 of this Handbook), and non-equity or contractual modes, covering management contract, franchise, leasing and consortium agreement (each of them explored in detail in Chapters 12, 13, 14 and 15). Each of the affiliation types produces different relations and links between the hotel chain headquarters and the members, leading to the identification of different chain types, e.g. 'soft' and 'hard' (Holverson and Revaz, 2006), or corporate and voluntary chains (Dahlstrom et al., 2009). Finding the most appropriate governance mechanism has resulted in delving into the debates on the evaluation of the hotel chain expansion strategies and entry modes used, that predetermine the complex nexus of relationships and contracts existing within each hotel chain.

In the context of existing definitions, Contractor and Kundu (1998a) point out a range of entry modes (franchise, management contract, equity stake/ownership), concluding that all of them may be used by a single chain. Bhatia (2006) mentions only ownership and management contract, while Peng (2004) summarises the possible connection to 'ownership or contractual relationships'. In our search for a definition, we will take a slightly different viewpoint and will place the hotel chain as the main subject, deciding itself what kind of expansion to undertake, depending on its resources, activities and relationships (Ivanova, 2013).

To summarise the above discussion, the typical features, inherent in the hotel chains that make them unique entities, include:

- providing intangible products – service, influencing the whole process of production, marketing and expansion;
- multiunit operation, from which derive a number of issues to be addressed – management of internal information and communication flows, resources and knowledge transfer, operation in multicultural markets;
- common feature – brand, product, concept – serving as a prerequisite for standardisation and differentiation;
- geographical distribution on different levels;
- centralised management, implying elaboration of a common strategy and goals;
- different kinds of expansion, with the non-equity modes dominating.

Finally, we could try to create a working definition of a hotel chain that comprises all of the above discussed ingredients and specific features:

> A hotel chain is a group of hotels, or any accommodation establishments, sharing a common brand and similar concept, implementing at least one centralised function, in order to reach a better market position and improve the performance of all properties. The hotel chains utilise equity and/or non-equity modes for their growth and operate on local, regional, national and/or international level.

If we consider most of the hotel groups as potential chains, then more simplified criteria can be used to identify whether a group of hotels is a chain or not.

A hotel chain is a group of hotels that has:

- a recognizable brand, with a specific message to create a certain association in the customer's mind, in combination with at least one centralised function in the company;
- an analogical product or other common feature (location, event, category – valid especially for the marketing consortia) as a reason for uniting under one brand.

In the light of the above definition a group of hotels is NOT a chain, if:

- hotels are managed by the same company, but are not promoted with its brand;
- hotels belong to the same owner, but are different in terms of product, positioning and target clients and are not operated or marketed under the same brand.

Concluding remarks

The current chapter focused on the role and importance of hotel chains in the hospitality industry. The chapter reviewed previous terms used for these types of accommodations and their scope in internal and multiple markets. Considering the gap in the related literature and interchangeable terms used by different authors and researchers, the chapter proposed a unique definition for this type of accommodation. In this definition, the authors reverse many of the previous viewpoints and place the hotel chain as the focal entity, comprising different elements and controlling resources, activities and relationships within its boundary. The elaborated definition can serve as a basis for future research in this area.

Note

1 For the purpose of this book the term 'way of affiliation' and 'entry mode' will be used as synonyms, interchangeably. The only distinction will be the viewpoint – 'entry mode' implies the position of the hotel chain, whereas 'way of affiliation' is connected with the viewpoint of the individual hotel, incorporated within the hotel chain.

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2

Economic and marketing fundamentals of hotel chains

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Introduction

Hotel chains are major players in the global hotel market. From both business practice and theoretical perspectives, hotel chains exist as enterprises only if they are more competitive than independent hotels and contribute to increased financial performance of the individual properties that constitute them. If hotels chains are less competitive than individual hotels in attracting guests and generating revenues, and membership in a chain does not lead to improved financial performance of its members, then it does not make economic sense for any independent hotel to be affiliated to a hotel chain. In this regard, this chapter builds on the discussion from Chapter 1 and elaborates the economic and marketing fundamentals that determine the existence and development of hotel chains (Ivanov and Zhechev, 2011), namely:

- brand recognition and significant role of the brand in choice of hotel by guests;
- high sunk costs;
- service standardisation;
- economies of scale;
- economies of scope;
- financial benefits of chain affiliation for the individual hotel surpass the affiliation-related costs

Figure 2.1 depicts the six economic and marketing fundamentals (in italic) and their impact on chains' and individual hotels' revenues, costs and financial performance. The financial performance of the chain and the member hotels depends on the difference between their revenue and costs. The *brand recognition* of the chain leads to decreased perceived risk for the affiliated hotel's customers and its greater market visibility which increase the number of guests, overnights and prices, ultimately resulting in higher revenues for the hotel. The chain incurs expenses to develop and promote its brand, which take the form of *sunk costs* and are one of the barriers to entry into the industry. The individual hotel incurs expenses to be part of the chain, some of which are considered revenues for the chain – franchise/management/

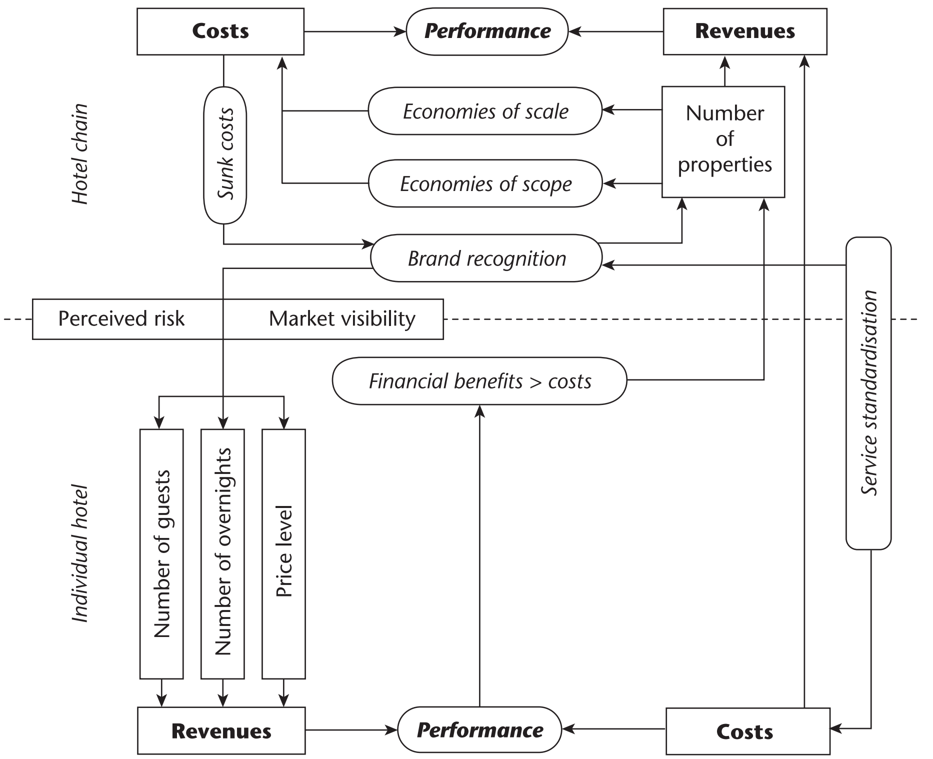

Figure 2.1 Impact of economic and marketing fundamentals on individual hotels' and chains' revenues, costs and financial performance.

membership fees. When *financial benefits from the chain affiliation are greater than the costs associated with it*, the hotel becomes/remains affiliated. When the number of hotels in the chain's network increases, the chain experiences *economies of scale* and *economies of scope* that contribute to cost savings for the chain. Ultimately, the *service standardisation* influences the expenses of the individual member hotel and brand recognition of the chain. Each of these economic and marketing fundamentals is elaborated in detail in the next section of this chapter.

Economic and marketing fundamentals of hotel chains

Brand recognition and significant role of the brand in choice of hotel by guests

The common brand is one of the determining characteristics of hotel chains – hotels in the chain share a common brand which is recognisable by the potential guests (see Chapter 1). Business practice and prior research (Yesawich, 1996) reveal that the brand of the hotel and its popularity play a significant role in customers' choice of a hotel. The chain brand effect on a hotel's financial performance may be evaluated in several directions:

1. *Decreased perceived risk of the choice of a hotel*. Brand familiarity decreases their perceived risk in the decision-making process (Keller, 2013: 436; Lin, 2013), thus when travelling to a new destination many tourists show preferences for the secure choice of chain hotels.

2. *Greater market visibility of the hotel.* The hotel is included in the reservation system of the chain and, through the chain's centralised contracts, in global distribution systems (GDSs) (Amadeus, Sabre, Travelport), online travel agencies (OTAs) (e.g. Booking.com, Travelocity, Expedia), tour operators and travel agents. The hotel is also included in regular marketing communication campaigns of the chain directed towards distributors (push strategy) and direct customers (pull strategy), and in the loyalty programme of the chain. In all cases, these actions lead to greater chances that the hotel is booked by the customers or the distributors.

3. *Increased average daily rate (ADR).* Affiliation to a chain results in a 'brand premium' in the price level of the hotel. Ivanov (2014), in his research about the factors influencing the prices of hotels in Sofia (the capital of Bulgaria), finds that while chain affiliation does not influence weekday prices of the hotels, it has a positive and statistically significant impact on weekend price, i.e. the 'brand premium' has a more tangible effect during periods of low demand.

4. *Increased number of guests.* The chain's brand net impact on the number of guests depends on the balance between the decreased perceived risk and increased market visibility from one side, and the higher price level, from the other. The decreased perceived risk of the guests and increased market visibility of the chain-affiliated hotel improve a hotel's competitiveness and it attracts more guests, while the higher price level makes the hotel less price competitive and dissuades some guests from making a booking at the hotel. Considering that the brand development usually generates more inelastic customer response to price increases and more elastic response to price decreases (Kotler and Keller, 2006: 277), we may say that there is a high probability when a hotel is affiliated to a hotel chain that the effect of the decreased perceived risk and increased market visibility on the number of guests is greater than the effect of the increased price level, and the net impact is increased (although probably only slightly) number of guests.

5. *Increased number of overnights.* This is a result of the larger number of guests staying at the hotel.

The combined effect of the increased number of guests, overnights and price level is the higher level of revenues and improved performance metrics of the chain-affiliated hotel. In recent research, for instance, Enz, Canina and van der Rest (2015) found that chain-affiliated hotels gained higher levels of occupancy and lower RevPAR losses than independent hotels when pricing below competitors. Furthermore, independent hotels were not able to yield as substantial RevPAR gains from pricing at higher levels than their competitors when compared to chain-affiliated hotels. Therefore, affiliation to a chain improves the performance of the hotel compared to its competitors. However, the brand will contribute positively to the financial performance of the hotel if it has a strong, recognisable and positive image among customers and distributors. Therefore, hoteliers have stimuli to affiliate their properties to chains with popular brands and positive image considering their target market segments. When more hotels join the chain, its revenues coming from franchise/management/membership fees increase and the financial performance of the chain improves. As a consequence chains invest heavily in the recognition, image and identity of their brands, which leads us to the second fundamental concept behind hotel chain development – sunk costs.

High sunk costs

Sunk costs are already incurred costs of the firm that are irrecoverable (Carmichael and MacLeod, 2003). Usually they are associated with the marketing and research and development costs (Sutton, 1995: 11). In the field of hotel chains, investments in the development and the improvement of the chain's reservation system and in the brand image are the two most important sunk costs. The image and, less so, the reservation system are unique selling propositions of the chain to its potential members (independent hotels would save costs for designing trustworthy own websites with reliable booking engines and developing a strong image, because the chains have already done so). The more expenses the chains make to strengthen their own image and improve their reservation systems, the higher the financial threshold a new chain needs to overcome to develop a recognisable brand. Therefore, sunk costs may be considered as an entry barrier to the industry because they decrease the potential profits of new entrants (Schmalensee, 2004).

The rise of the OTAs in last two decades partially offsets the importance of the sunk costs for the hotel industry. Until the end of the 1990s, hotel chains were one of the most important pathways to increased market visibility of hotels, alongside GDSs and tour operators, due to their popular brands and online reservation systems. With the exponential growth of the OTAs in recent years, it became easy for the independent hotels to improve their market visibility without the need to join hotel chains. Selling through OTAs also eliminates the necessity for the hotels to adhere to strict chain requirements and service standards that decrease the operational flexibility and independence of the hoteliers. Actually, one might speculate that OTAs serve as substitutes of hotel chains in delivering one of the core benefits sought by hoteliers when they affiliate their properties to chains – the greater market visibility of the hotel. Furthermore, the OTAs' brands, secure reservation systems, convenient payment choices (credit card, PayPal, on-the-spot payment directly to the hotel) and hotel ratings based on customer evaluations, decrease the perceived risk for the customers as well. Therefore, the OTAs may be considered as substitutes of the hotel chains for the customers as well as regarding their decreased perceived risk. However, the OTAs, unlike the hotel chains, do not impose or control the service quality standards of hotels included in their reservation systems, and thus they cannot provide guarantees to their customers regarding the service experience and satisfaction they would receive when staying at the hotels booked via them. On the contrary, some hotel chains, like Hampton Inn, even provide 100 per cent satisfaction guarantees to their guests (http://hamptoninn3.hilton.com/en/about/satisfaction.html) who receive a full refund if not satisfied with the service, which is possible only if the chain has control over the service operations and quality standards applied in the hotel.

Service standardisation

Customers expect to receive the same product quality, regardless of which hotel of the chain they stay at. This is possible only if the chain properties apply the same or similar service procedures, use the same or similar room amenities, etc., i.e. when the hotel service is standardised to a certain degree. Service standardisation means that the chain develops a service operations manual, which stipulates the service delivery procedures to be applied in every member of the chain. Of course, as discussed in Chapter 1, the standardisation aims to provide consistent service among the chain members, but specific service elements and hotel product design might be to a large degree adapted to the local conditions.

In practice, we observe different levels of standardisation – from full description of all service procedures to more general service guidelines depending on the type of affiliation used by the chain. Franchising (Chapter 12), for example, is usually associated with a very high degree of standardisation not only of service delivery process, but the building design as well. At the other extreme, marketing consortia (Chapter 14) are more lax and set mostly general service guidelines which member hotels need to fulfil. The more standardised the service operations, the easier to control the hotel product quality and train new employees, but the more difficult it is to take managerial decisions in situations not elaborated in it. The opposite is also true – less detailed service manuals provide hotel employees with the opportunity to take creative decisions in atypical situations but hinder the training of new employees and service quality control. Therefore, service standardisation should look for an optimal balance between the chain managers' desire for greater control of hotels' operations and service quality and the necessity for flexible managerial decisions by hoteliers depending on the situation. Furthermore, the level of standardisation would depend on the specific market conditions. Hotel chains that operate in one national market could standardise their product and service procedures to a greater extent, compared to chains that operate in markets with diverse economic, social and cultural conditions that need to apply 'glocalisation' strategies and adapt some of their procedures to local situations.

The development of technology has made it possible to standardise and automate the service delivery process to a very high degree. This is especially true for budget hotel chains with limited services. For example, Formula1 hotel chain has standard modular rooms which facilitate the construction of the hotel building, housekeeping and maintenance. Furthermore, the chain transfers the check-in process to the responsibilities of the guest – entry to the hotel room is possible by an access code provided through an 'automatic rooms dispenser' machine (the terminology used by the chain). As an extreme example of standardisation of all physical features and the service processes we may mention the capsule hotels in Japan.

Finally, standardisation of the service process and the hotel product influences the management of human resources in hotel chains. The hotel business is notorious for attempting to cut costs by using a large number of low skilled, part-time and seasonal employees and interns, many of whom have limited knowledge, skills and work experience. In this regard, service standardisation and elaborate service operations manuals facilitate the training of new employees, staff rotation and the implementation of service quality control procedures.

Economies of scale

Economies of scale (the decreased costs per unit as production volume grows) are considered one of the major driving forces behind the development of a hotel chain (Contractor and Kundu, 1998; Holloway, Humphreys and Davidson, 2009: 315). In the field of hotel chains they are a self-nurturing process – the more extensive the chain's network, the more the properties among which it distributes its fixed costs for marketing, administrative personnel, development and maintenance of the reservation system, etc. This decreases the fixed costs of the chain per one member hotel, which are calculated either as an absolute amount of money or as a percentage of the expenses (or revenues) of individual properties in the chain's network. Lower fixed costs per member hotel create conditions for a decrease in the chain affiliation fees leading to its competitive advantage over other chains in attracting individual hotels as members in its network, thus further increasing the number of properties affiliated to the chain. In addition, in the case of contracts for centralised supplies (e.g. linen, toiletries, room furniture, etc.), the greater number of hotels in the chain increases its bargaining power with suppliers due to the higher purchase volume, leading to lower prices for the centralised supplies. Therefore, the chain has economic stimuli to affiliate as many properties to its network as possible.

The economies of scale depend to a great extent on the level of standardisation of the hotel chain's product and the service operations procedures among its members. High level of standardisation implies the use of the same supplies, room amenities, kitchen equipment, hotel facilities, etc., which leads to higher purchase volumes by the chain and lower prices. The necessity to adapt the product to local conditions decreases the purchase volume per item and the opportunities for lower prices.

The importance of the economies of scale has been eroded in recent years by several factors. First, new technologies, like 3D printing for example, allow significant cost savings for many products produced even in extremely small quantities (Petrick and Simpson, 2013), i.e. the chain does not need to purchase very large quantities to receive low prices. Second, in the field of services, customers look for coherent service quality (Clarke, 2000: 27), and not for exactly the same physical features (of the hotel product). Therefore, the chain has to adapt the physical features of its product to local market conditions (e.g. kitchen/restaurant/room design), which decreases its opportunities to utilise the economies of scale via large volume purchases of the same items. Third, despite the massive introduction of various technologies in hotels (magnet cards for access control, in-room tablets, etc.) that increase the productivity of the hotels, human resources continue to play the major role in the service process, especially in mid- and upscale hotels, and put limits on productivity growth through economies of scale. Moreover, all these technological innovations are available to both independent and chain-affiliated hotels, thus further offsetting any competitive advantages created by the economies of scale for chain-affiliated hotels.

Economies of scope

Economies of scope are cost advantages that stem from the variety of the products that companies produce (Panzar and Willig, 1981). In the context of hotel chains, the economies of scope are derived from the different macro-, micro- and internal environments every hotel in the chain operates in. This provides the chain with the opportunity to 'learn' and develop its operations and service standards in different economic, social and cultural settings. Moreover, the knowledge gained in one market by one hotel could be transferred, under certain conditions, to other hotels in the chain and improve their efficiency, which is not achievable by the independent properties. The knowledge generated by the hotel managers and employees may take two forms – tacit and codified knowledge (Brown et al., 2003; Cooper, 2006). Tacit knowledge is the knowledge gained by hotel managers and employees through their work experience and is not written. Codified knowledge is written and is expressed in the form of service operations manuals, written procedures, internal memos, reports and other documents within the organisation. The codified knowledge is more easily shared among the member hotels than the tacit knowledge as member hotels receive the service operations manuals and various reports from the chain's (regional) headquarters. Tacit knowledge obtained in one hotel is shared with other chain member hotels through various ways: rotation of the managers and other employees among chain members (in the case of affiliation via management contract, full or partial ownership), training sessions on which trainers and trainees share their experience and decisions taken in various situations, formal and informal conversations between managers of member hotels during annual meetings or other special events organised by the chain, etc. Tacit knowledge may be transformed into codified knowledge by including the best practices developed by some member hotels in the chain's service operations manual and making them part of its standard procedures and compulsory for all other chain members. Therefore, by operating in different environments the chain has greater opportunities to learn and improve its services than independent hotels do.

Financial benefits of chain affiliation for the individual hotel surpass the affiliation-related costs

An independent hotel will join a hotel chain only if the financial benefits from the chain affiliation surpass its affiliation-related costs. As already discussed, chain affiliation increases the revenues of the hotel via the chain brand effect (see Figure 2.1). However, affiliation to a chain entails not only higher revenues but expenses as well. For example, hotels need to pay a royalty fee for the use of the brand, management/franchise/membership fee (depending on the type of affiliation contract), use particular types and brands of supplies, that might be more expensive than unbranded ones, have more employees and pay larger insurance premiums to fulfil their chain's requirements, and prepare monthly/quarterly/annual reports, etc., thus leading to higher initial and operational expenses for the affiliated hotel, compared to the independent one. If the financial benefits for the individual hotel from the membership in the chain are higher than the expenses for maintaining the membership, the individual hotel has incentives to be a chain member. This membership will be maintained as long as it is more profitable for the hotel to be affiliated rather than independent. Nevertheless, it is very difficult to measure the role of the chain affiliation in the increase of a hotel's performance metrics (sales, ADR, RevPAR, GOPPAR): Is the higher performance of the hotel a consequence of its sales staff's increased efforts or a result of the greater market visibility and brand recognition of the hotel due to its chain affiliation? When hotels receive bookings from the chain's proprietary reservation system and the distribution channels associated with the chain (i.e. those channels, in which the hotel appears thanks to the affiliation to the chain), their managers and owners see the *direct* contribution of the chain affiliation to the financial performance of the hotel. However, one cannot be definitely sure whether the guest chose the hotel due to the chain's brand and whether they would have selected it if it were independent (Cho, 2005: 132). This uncertainty in the contribution of chain affiliation to the financial performance of the member hotel makes hotel owners and managers quite sensitive towards the fee they have to pay to the chain. Paying franchise/management/membership fees only for the direct contribution of the chain to the financial performance of the hotels, stimulates the chain to improve the financial performance of its members and tangiblises the benefits chain hotels receive from their affiliation to the chain. The marketing consortium Magnuson hotels (http://magnusonworldwide.com/independents/), for example, ties its fees to the actual reservations produced by the chain.

Concluding thoughts

This chapter analysed the economic and marketing fundamentals behind the emergence and development of the hotel chains as business enterprises. We claim that the hotel chains will exist as enterprises if only they are more competitive than independent hotels and contribute to increased financial performance of the individual properties that are part of their network. Our analysis revealed that from managerial perspective, *brand recognition*, *economies of scope* and *financial benefits surpassing the costs of the affiliation* seem to be the most important forces that will continue to support the establishment of new and the expansion of existing hotel chains. Recent technological developments have eroded the importance of *economies of scale* and the *sunk costs* so that we may witness the successful development of small boutique hotel chains with only a few or tens of hotels and with various levels of *service standardisation*. Such chains may be developed either by newly established companies or as new brands of the existing hotel corporations.

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3

Historical evolution of hotel chains

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Introduction

Chain organisations have been the mainstay of the international hotel industry over the past several decades while being the benchmark of product and service quality as well as growth and development globally (Nykiel, 2005). Such organisations emerged in the mid-twentieth century with the advent of the airline mode of travel, which led to the emergence of the multiunit hotel organisational form (also known as hotel chains) in the late 1950s and 60s (Kim, 2001). This paved the way for the internationalisation of hotels (Strand, 1996) led by firms such as Holiday Inn, Hilton and the like, who were the leaders in globalising the hotel brand in a post-World War II era.

The growth of multiunit hotel organisations in the international hotel industry led to the standardisation of hotel products and services. Contractual modes such as franchising and management contracts were used by hotel chains as vehicles to grow with standardisation as the basis (Strand, 1996; Chathoth and Olsen, 2003). This was also a result of the operator's ability to manage growth while addressing the consumer's need for consistency in product quality. Hotel chains' growth, primarily based on contractual modes of development, led to agreements or alliances between parties to give rise to a multiunit organisational form with units having similar characteristics (Greve and Baum, 2001).

The evolution of multiunit or chain organisational forms is a topic of relevance and importance especially within the hospitality sector that has historically tracked the emergence and growth of such type of firms. This chapter uncovers the evolution of such organisational forms from a historical perspective including their growth while also focusing on key founders of hotel chains who influenced the scope of development.

The chapter is organised as follows: it first delves into the evolution of hotel chains. This is followed by an in-depth analysis of the history and evolution of such firms, including learning mechanisms and their respective roles in the evolution of such organisational forms. The founders of hotel chains are paid tribute to in a section at the end on the role they played in the growth and development of the industry.

Evolution of hotel chains: an industry perspective

The industry identifies Hilton and Holiday Inn as one of the earliest forms of the hotel chains that came into existence in the 1950s. In the case of Hilton Hotels, the founder Conrad Hilton from Texas, USA, 'decided to build hotels abroad' with a belief that 'Western hoteliers were destined to go wherever jets flew their customers: globalization and the rise of emerging nations have led to a decades-long boom' (Economist, 2013). On the other hand, Holiday Inn focused on the interstate auto traveller (Nykiel, 2005), who was on the lookout for a suitable product during his/her travels. The positioning of the hotel was such that it targeted consumers across multiple consumer market segments. The room rates were reasonable and the amenities and facilities in the rooms were standardised to the extent that they complemented the firm's growth strategy, which enabled it to begin franchising operations in 1954 (IHG, n.d.).

Three phases are integral to the evolution of hotels (Economist, 2013) which in turn have had an impact on the growth and development of hotel chains (see Figure 3.1). The *first phase* was during the time period mid-1900s–1960, described as the '*the age of the grand hotel*' (Economist, 2013). During this period, transportation was mainly through railways and ocean liners with affluent travellers being the primary consumers of hotel products. This led to the development of grand hotels that were primarily independent or a component of a small chain with distinct features and characteristics. Examples ranged from the Waldorf Astoria, New York, the Ritz, Madrid (ibid., 2013), to George V, Paris, and the Savoy Hotel, London.

The *second phase* started in the 1960s (ibid., 2013) which saw the growth of hotels as chains. This started with the rise of multiunit hotels through the internationalisation of hotel chains such as Hilton and Holiday Inn. Later on, chains such as Intercontinental, Marriott, Hyatt and others joined the bandwagon to lead the industry into a phase wherein commodification was the buzzword. Standardisation of hotel amenities and facilities led to the expansion of hotel chains, which meant that employees in different units had to match the brand standards irrespective of consumer tastes. To manage the hotel chain in different geographical regions of the world called for quality standards that were implemented through sets of rules and regulations.

The underlying business model used by hotel chains during the second period was such that the strategic elements of the business were separated from the functional/service elements. The growth of Hilton hotels reflects how the firm was able to centralise the strategic elements of growth and development while dealing with the functional/operating elements at the local level (Strand, 1996). Getting the local owner to take care of the day-to-day operations with supervision from corporate managers meant that the chain could focus on growing the brand globally without having to worry about local connectedness, business practices and cultural norms. Franchising, management contracts, as well as spinoffs (e.g., Marriott) were all products of the growth and development of the industry during this time period (Chathoth and Olsen, 2003; Economist, 2013).

The *third phase* was a product of the gaps that remained unplugged during the *second phase*; primarily, the growing level of detachment between the guest and the hotel. The 1980s saw the inception of the boutique hotel concept leading to the growth of hotels that focused on idiosyncratic needs and wants of customers (Economist, 2013; Aggett, 2007). This started gaining ground in the late 1990s and during the first decade of the new millennium. Hotel chains such as Bvlgari (by Marriott) at the luxury level, 'W' (by Starwood) at the premium/upscale level and Joie de Vivre (a California-based hotel chain) at the mid-market level, to

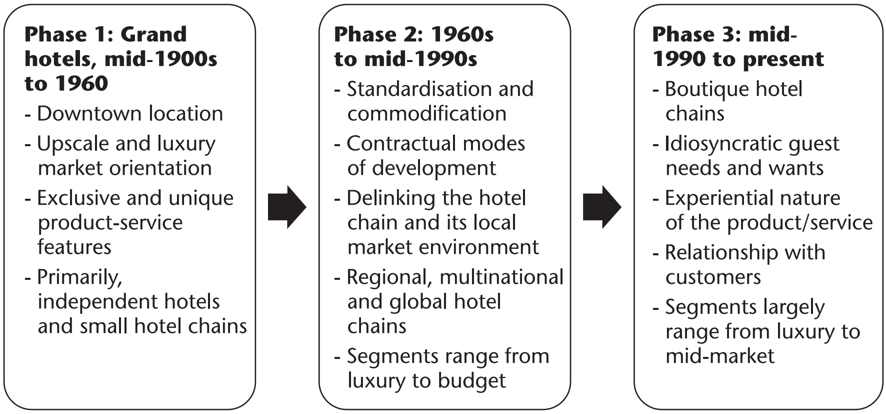

Figure 3.1 Evolution of hotel chain characteristics.

name a few, emerged that revolutionised hotel chains' orientation towards their markets and individual customers.

No longer were standards maintained to suit the needs of the hotel chain; rather, the focus was on the customer to create unique and memorable experiences (Chathoth et al., 2013). This was also a product of changing times with scholars such as Pine and Gilmore's (1998) 'experience economy' calling for businesses to focus on unique experiences while building relationships with customers.

The growth and evolution of hotel chains detailed above could be attributed to Kim's (2001) view that such firms grew due to the prevalent conditions during the industrial and post-industrial era with the advent of technologies related to transportation and communication. Specialisation led to information asymmetry between the buyer and the seller giving rise to the multiunit firm. Specifically, Kim pointed out that multiunit firms were superior as they were 'better able to solve the problem of asymmetric information than the traditional single-unit firms' (p. 306). He identified a specific characteristic of multiunit organisations that is central to their inception, emergence and growth – these organisational forms used their brand names and size as a 'commitment device, which credibly signalled to buyers that the cost of reneging was significant' (ibid.). This in turn gave them the required economies of scale to benefit from reduced advertising costs. Further, the chain organisational forms arose because they were able to create trust in consumers due to their investments in branding and advertising, which were costs that these firms had to incur to sustain the interests of consumers across various geographic locations (ibid.).

Historical growth of hotel chains

Kim's conceptualisation of the growth of multiunit firms could be extended to the hotel industry. The growth of Holiday Inn and Hilton hotels in the 50s, 60s and 70s could be attributed to the advent of airline travel during the post-Second World War era. The fact that Holiday Inn and Hilton grew at an unprecedented rate during this time period is explained by the quality perception of travellers towards hotels both within and outside the United States. The emergence of chains filled this quality gap that independents could not address. This gap was even more evident in the international hotel industry, as seen in the growth that Hilton witnessed during this period. They were able to grow at an exceptional rate using management-based contractual agreements with no equity participation in the alliance, moving into global locations such as Hungary, Russia and Turkey in a short period of time (Strand, 1996). Through this, they were able to grow their brand, essentially replicating their prototype in various locations. As the chain grew from one to several units, a horizontal relationship between units within the chain was established.

It should be noted that the change in the external environment in terms of technological, socio-cultural and economic factors led to a shift in the strategy of hotel chains (Olsen et al., 1998). In the 60s and 70s, some chains such as Holiday Inn continued with their original strategy by aggressively pursuing growth (USA Today, n.d.), instead of offering multiple products while differentiating and targeting different consumer segments. In the 70s, hotel chains such as the Intercontinental and Hilton targeted the higher end of the market while addressing different needs and wants of consumers. Hotels/motel chains emerged at the lower end such as Days Inn, Ramada Inn, Motel Six and Howard Johnson, which targeted the low-cost consumer. A clear demarcation between hotel market segments in the 70s and 80s (Hill and Jones, 1995) influenced firms such as Intercontinental, Hyatt, Radisson and Howard Johnson to target specific market segments. The demarcations across consumer segments later influenced the hotel product and market characteristics while giving rise to brands. Today, firms such as Marriott International offers 16 hotel brands, all of which are hotel chains themselves. Marriott's strategy lies in the following statement: 'From luxurious resorts to urban retreats, bold boutiques to spacious suites, there's a Marriott® hotel brand as unique as the reasons you travel. The choice is all yours . . . the pleasure is all ours' (Marriott Brands, n.d.).

The literature also provides a basis for understanding the historical evolution of chain affiliations. The success of Holiday Inn through its franchising strategy is well documented. The imperative for growth in the 50s and 60s was largely attributed to the corporate objective of attaining unit growth in terms of numbers (Nykiel, 2005). Location was an essential element of this growth imperative, which complemented the franchising strategy. In this regard, Ingram and Baum (1997) delved into the chain affiliation of hotel units or components in the time period 1890–1980. Using a sample of firms from the Manhattan area, they observed that only 3 per cent of US hotel chains during this time period actually had franchise operations. This was explained by the authors using the rationale from Brickley and Dark (1987) as well as Martin (1988), that franchising was less popular as a vehicle of growth within urban areas 'because of lower costs of monitoring and lower economic risk' (p. 71).

Being part of a chain brings benefits to the incumbents such as survival chances under most circumstances. However, firms such as Holiday Inn, Ramada and other firms at the lower end of the market used the franchising mode of development. Note that management contracts, executed between corporate bodies and their hotel components, grew as a form of contractual arrangement from the 1970s and were made popular by firms such as Hyatt, Hilton, Marriott and the like. The growth of alternative vehicles also resulted because of environmental downturns, which forced corporations to make equity investments in the hotel unit as the unit owners were not willing to take more risk than they needed to. In the franchising mode, the degree of risk exposure tilts in favour of the franchiser, thereby exposing the franchisee to a higher level of risk (Chathoth and Olsen, 2003).

External factors that led to the growth and development of the hotel industry, specifically chain organisations, include population trends, travel, transportation, evolution of people's lifestyle in society, a shift in consumer needs, wants and tastes, technological developments as well as globalisation (Nykiel, 2005). These forces led to evolutionary mechanisms that were strategic initiatives on the part of hotel corporations. As a result, management strategies