



Affiliation to hotel chains as a development opportunity for Bulgarian hotels

Maya Ivanova^{1, 2}

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¹ Zangador Ltd., Varna, Bulgaria, e-mail: maya.g.ivanova@gmail.com

² International University College, 3 Bulgaria Str., 9300 Dobrich, Bulgaria, e-mail: maya.ivanova@vumk.eu

Supervisors: Prof. Tanya Dabeva, PhD

Institution awarding the Ph. D. Degree: University of Economics – Varna, Bulgaria

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Goal and objectives of the dissertation

Goal

The dissertation aims at revealing the opportunities for the long term development of independent hotels by affiliating to international or domestic hotel chains.

Objectives

1. To critically evaluate the academic literature on hotel chains and identify their specific characteristics and functions.
2. To develop a holistic and comprehensive conceptual model of hotel chains as economic and social organisations.
3. To elaborate the process of affiliation of an independent hotel to a hotel chain, from the viewpoints of the hotel and the chain.
4. To analyse the place and the role of hotel chains for the development of Bulgarian hotel industry.
5. To outline practical recommendations to Bulgarian independent hotels regarding their future relationships with hotel chains and the

opportunities hotels can derive from chains for their long term strategic development.

Methodology

The research targeted 6 respondent groups: 1) international hotel chains with hotels in Bulgaria; 2) international hotel chains without presence in Bulgaria; 3) Bulgarian hotel chains; 4) Bulgarian hotels, belonging to international chains; 5) Bulgarian hotels, which once belonged to a chain; 6) independent hotels. Hotels that belonged to domestic chains were not contacted, because they were fully or partially owned by the domestic chain, which means that the decision to join a chain was not based on market principles but on ownership relationships. Data collection took place in the period June-November 2012. The response rate was about 75% for the domestic chains and the current chain members, and between 2.40-5.31% for the rest of the respondent groups. The final dataset included the

responses of 5 foreign chains present in Bulgaria, 5 foreign chains not present, 9 domestic chains, 36 hotel affiliated to foreign chains in the country, 7 hotels former foreign chain members and 103 independent hotels. Secondary data were also collected from the websites of the hotel chains and their affiliated properties. Differences between the opinions of hotels and hotel chains were identified via t-test. Data were further analysed with descriptive statistics and ANOVA.

Results

Research results show interesting and valuable information, regarding Bulgarian hotel industry and its future development. Bulgaria is highly assessed by foreign hotel chains as a destination, with developed tourism industry and stable political and economic environment. International hotel chains find a great potential for market penetration in the country, but, in contrast to previous research, they consider comparatively limited number of internationalisation factors. Instead, they approach individually to each destination and partner.

In the same time, Bulgarian hotel chains are not ready for international expansion, and plan to expand only domestically. Their main concerns are connected mostly with legal and financial conditions when choosing among entry modes. On the contrary, international hotel chains report marketing risk and available reliable partners as essential when choosing an entry mode. The most popular entry mode among international hotel chains is reported to be management contract.

Results show that Bulgarian independent hotels do not have enough information about hotel chains, because of their scattered answers. Also, they tend to continuously overestimate the advantages chains offer. Centralised marketing system and brand recognition are perceived as the biggest advantages of chain affiliation, while chain hotels rely more on their own managerial capabilities, as well as immediate benefits

from their affiliation, like consultancy and competences.

Bulgarian independent hotels prefer to keep operational control, therefore they would choose full ownership and franchising, instead of managerial contract or other contractual form. They point out financial risk as main reason when choosing type of affiliation, but also term of the contract (over 75% of the hotels say it is very important for them). Yet, 25-35% of independent hotels are not sure for their preferences of type of affiliation, which reconfirms lack of information and orientation.

Theoretical conclusions

The Integrated model of hotel chains developed in the dissertation provides a detailed and holistic framework of hotel chains in the context of "resources-activities-relationships". It also serves as a strong analytical tool with practical application for better description and comparison of several hotel chains. Hotel chains' specific practices in marketing, branding, hotel operations and human resource management are critically evaluated, thus revealing how hotel chains do their business as transnational companies in service industry. An essential contribution of the author is involving the independent hotels as a party in the process of expansion of the international hotel chains. Following the whole process of affiliation from the viewpoints of both the hotel chain and the individual hotel gives a completely new perspective of the topic, quite neglected in the extant literature. Apart from theoretical side, it also enlarges the practical value of the whole research.

Practical application of the dissertation

The dissertation is intended to serve as a manual for independent hotels in their search for appropriate partner-hotel chain. It analyses the whole process from starting an affiliation to signing a contract and provides recommendations towards individual hotels and hotel chains.

On the basis of research results the author outlines the criteria for choosing a partner. Most often independent hotelier estimate

hotel chains by their *strong brand, good image, acceptable contract conditions and reasonable contract fees*. On the other hand, chains' most reported requirements towards potential partner hotels are connected with the *physical attributes of the hotels* – building, rooms, and other premises. The dissertation provides a strong basis for improvement of marketing efforts of both hotel chains and independent hotels in their search for suitable partners.

Content of the dissertation

The structure follows the main steps of the process of affiliation – from the initiation to the signing of the contract. It examines the process from both points of view – of the hotel chain, and of the independent hotel. The first step is identifying the participants of the process, i.e. the independent hotel and the hotel chain. The author pays special attention to the nature of hotel chain, because the hotel chain as an organisation has not been researched profoundly in all its aspects. The second step relates to the initiation of the expansion of the chain or the affiliation of the independent hotel to a chain. During the third step the chain and the hotel should choose an adequate entry mode (type of affiliation), that is most appropriate for them. The final step is finding a proper partner for both the hotel chain and the individual hotel. The result of the affiliation process should be a signed contract, satisfying both sides.

Abstract of chapter one

Chapter One is devoted to the theoretical concept of hotel chains. On the basis of an elaborate literature review, the author outlines the main characteristics in the functional dimensions of hotel chains – marketing and branding, operations, human resource management, and finance. In search of a complete illustration of hotel chains' nature the author proposes three partial models of a hotel chain, later combined into one *Integrated model*. These partial models are:

1) *Resource based view of a hotel chain* – the company is perceived as a bundle of resources and the main competitive

advantages of the hotel chain stem from its tangible and intangible resources.

2) *Value chain model of a hotel chain* – the hotel chain is explored as a bundle of activities according to the theoretical concept of M. Porter. The model considers the specific characteristics of hotel chain's activities as a source of its competitiveness.

3) *Stakeholder model of a hotel chain* – the hotel chain is viewed as a bundle of relationships on several levels. Relationships between stakeholders within and outside the hotel chain define its place as a multinational and multilevel company.

In order to overcome all drawbacks of each partial model, the author combines them into one, *Integrated model of a hotel chain*, gathering in one place all the aforementioned attributes. The Integrated model unifies the resources, activities and relationships, and serves as a powerful tool for theoretical and practical analysis hotel chains. Furthermore, it has strong practical application for independent hoteliers, intending to join a hotel chain, as an instrument for assessment and comparison of potential hotel chain partners.

Abstract of chapter two

Chapter Two elaborates the stages in the process of expansion of the chain (or affiliation to a chain from the view point of the hotel), namely: initiation, entry mode choice and partner selection. The decision of the chain to go global is influenced by many internal and external factors, which are largely discussed, especially in the context of the *Eclectic Theory*. Modal choice (choice of a type of affiliation) is the next serious strategic decision that follows the first intention to internationalise. The main focus here are the entry modes (types of affiliation), classified as equity or non-equity modes, depending on ownership by the chain in capital of the hotel. The author utilises the main concepts of *Transaction Cost Theory* to justify the trade-off between equity and non-equity modes, and further, the Agency theory – in the selection among the non-equity modes. Each entry mode is analysed in the context of 'resources-activities-relationships' framework, in line with the Integrated model of a hotel

chain. Last part of the chapter deals with developing criteria for selecting the appropriate partner for both the independent hotel and the hotel chain.

Abstract of chapter three

Chapter Three comprises an elaborate empirical research of hotel chains in Bulgaria. In the beginning the author gives a brief view of Bulgarian hospitality industry and the place

of hotel chains in it. The analysis reveals the very low penetration of hotel chains (only 2.79% of all hotels in Bulgaria belong to a chain), and the great potential for their development in the country. Bulgarian hotels face numerous problems (low occupancy, high seasonality, human resource management issues, etc.) and affiliation of hotel chains is one way to overcome them.

