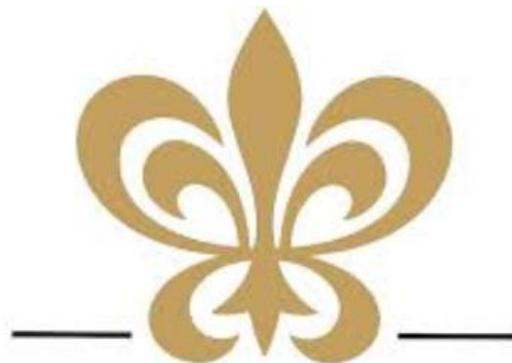


REPORT

# WHAT TO CONSIDER AS A HOTEL WHEN CHOOSING A HOTEL AFFILIATION CHAIN



**DE HISTORISKE**  
hotel & spisesteder



**RELAIS &  
CHATEAUX**



EST-1928

**THE LEADING HOTELS  
OF THE WORLD®**



## Preface

This report is an extraction and rewriting of the master thesis written by Anne Sofie Beck Dinesen and Beate Sætre from Copenhagen Business School within the Master of Science in Economics and Business Administration. The master thesis holds the original title: “What to consider as a hotel when choosing a hotel affiliation chain in a European context by using a case hotel?”

Managing Partner in Menon Economics, Erik W. Jakobsen, have counseled the writers within the process, especially with regards to topic choice and delimitation, problem formulation, research questions, and theoretical perspectives. The original master thesis is confidential and for the purpose of this report participants and their statements have been anonymized in order to publish the findings.

The analysis is based on secondary and primary data. The secondary data is collected from databases and market and industry reports, primarily from MarketLine, and the European Travel Commission. The primary data consists of interviews with member hotels from Leading Hotels of the World, Relais & Châteaux and De Historiske Hotel og Spisesteder, as well as industry experts, and representatives from the affiliation chains themselves.

The authors would like to thank all the interviewees for their participation and valuable information and input.

Menon Economics is a Norwegian economic consultancy firm operating at the interface of economics, politics, and the market. We analyze economic issues and provide advice to companies, organizations, and authorities. We combine economic and commercial expertise in fields such as international trade and economic development, industrial organization and competition and regulation. We use research-based methods and work closely with leading academics in all our fields of expertise.

The authors are responsible for all content in this report.

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# Summary of Key Findings

The report combines qualitative and quantitative methods to explore what to consider as a hotel when choosing a hotel affiliation chain in a European context.

The market for luxury hotels is growing and the analysis indicates that the main value drivers for luxury hotels are quality, service and brand affiliation. This makes it highly relevant for individual hotels to enter hotel affiliation chains. The report looks into the Norwegian affiliation chain: De Historiske Hotel og Spisesteder, and the international ones: Leading Hotels of the World and Relais & Châteaux. Interviewing 14 hotel industry stakeholders indicated several findings of the strategic fit between a hotel and an affiliation chain:

A membership comes with high transaction-specific investments due to the different degrees of opportunism. Opportunistic behavior from the affiliation chain increases when transaction-specific investments to become a member increase.

A membership can either increase revenue or decrease costs for its members through the following nine gains:



The findings indicate that causal ambiguity exists when trying to identify the competitive advantage of being a affiliation member. The causal ambiguity means that the competitive advantage is sustainable and thus protected. The combination of some or all of the gains could make it possible to shift the demand curve outwards and thereby cover the costs and investments of the membership.

A hotel joining an affiliation chain might have the opportunity to shift the demand curve and thus charge higher prices through access to an international segment with a higher purchasing power. Hence, the average daily rate can reach a level that will make the investment profitable. Furthermore, an affiliation chain can grant access to a large network of information and weak ties of non-redundant information that can bring value to its members.

Analytic generalization allows indicating what to consider in general when choosing an affiliation chain in a European context by synthesizing the findings and theoretical framework.

# 1. Introduction

Today, the European hotel industry continues its growth, and forecasts a compounded annual growth rate of 3,29% towards 2020 (MarketLine, 2016). The industry has experienced a consolidation the last decades, and the large hotel groups now dominate the European market. AccorHotels, InterContinental Hotels Group, and Best Western International Inc. are the top three largest groups in Europe based on number of rooms. (Hospitality-on.com, 2016)

Combining the trend of large hotel consolidations with the fact that 57% of all consumers purchase their stays online means that consumers have access to an almost unlimited number of hotels. The technological integration in the industry has increased the market transparency and allowed consumers to evaluate and compare offerings to a higher degree than ever before. Therefore, it is necessary and relevant for independent hotels to differentiate and clearly position themselves in order to capture value in the market. (Statistic Brain, 2017; EY, 2015)

In the competitive market of today, hotels have the opportunity to steer their position in the market to successfully grow (EY, 2015). Pooling resources through affiliation chains could possibly create economies of scale and scope that allow for hotels to position themselves in the market and still remain independent and out of the consolidations. For independent hotels that wish to take advantage of pooling resources through an affiliation chain some questions remain: What to consider when choosing among the numerous options of affiliation chains? Is an affiliation chain worth the investment?

The report is important for research in the area of hotel management. The literature on hotel affiliation chains is sparse. Some academic articles are written about Leading Hotels of the World, but these have been in relation to topics such as the quality of their e-mail responses (Law and Kua, 2009) or how luxury hotels perform in times of recession (The University of San Francisco, 2009; Slattery, Roper and Boer, 1985). Some articles are written about stand-alone "Great Hotels" where an affiliation such as Relais & Châteaux is mentioned (Roulac and Medzigan, 1996). However, the articles only focus on what makes the hotels great and not what to consider when choosing an affiliation. Several studies in the 1990's assessed different types of strategic alliances in the tourism destination marketing context and some focused on strategic alliances for hotels and restaurants. (Weber and Chathoth, 2008)

Hence, a research gap has been identified when it comes to the specific focus on what to consider when choosing a hotel affiliation chain. This report looks into the following problem:

*What to consider as a hotel when choosing a hotel affiliation chain in a European context?*

To be able to fully answer the problem five research questions have been developed:

1. *How is the situation in the hotel industry today, and what are the value drivers in the hotel industry for individual luxury hotels?*

2. *What kind of investments and which costs does it take to be a member of the hotel affiliation chains?*
3. *What kind of gains can potentially be realized as a member of the hotel affiliation chains?*
4. *What is the degree of opportunism in the hotel affiliation chains?*
5. *How do the costs compare to the gains of the hotel affiliation chain memberships?*

### 1.1. Introduction to Hotel Types and Affiliation Chains

Ownership of hotels comes in different forms, which can be seen in Figure 1. Many hotels are owned as either franchise or chain ownership. The focus of this report is delimited to individual hotels that are members of voluntary hotel affiliation chains.

Due to the many consolidations in the industry today, most hotels are owned by a chain or are franchise. This has made it more difficult for the individual hotels to stay competitive. The focus of the report is on the individual hotels that have chosen to meet the competition by joining a hotel affiliation chain. The report is therefore relevant to the independent hotels.

The three affiliations under inspection are Leading Hotels of the World, Relais & Châteaux and De Historiske Hotel og Spisesteder. In short, Leading Hotels of the World is one of the best-known affiliations globally. Relais & Châteaux is well-known for their gourmet dining, and De Historiske Hotel og Spisesteder is a well-known affiliation in Norway. The chains will be thoroughly analyzed later.

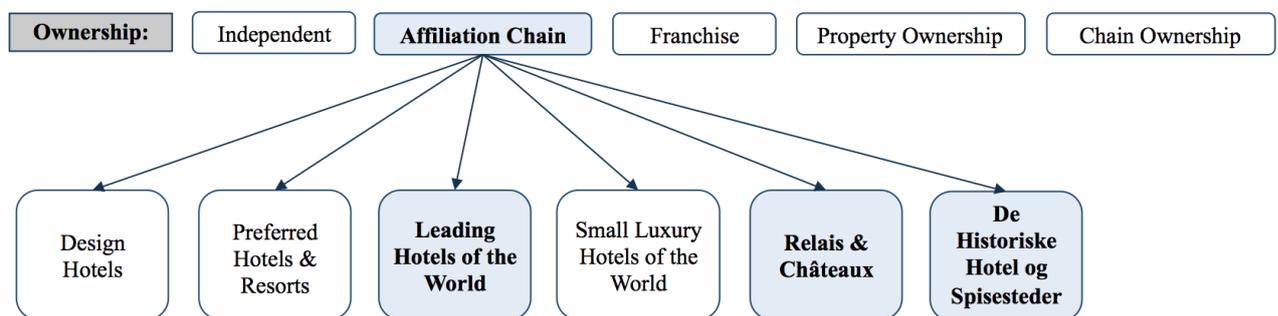


Figure 1: Ownership Types, own making.

The chains have been chosen because they represent three very different cases aiming at reaching maximum diversification. They differ with regards to geographic scope - De Historiske Hotel og Spisesteder is limited to hotels in Norway, Leading Hotels of the World is mainly located in large cities across the world, and Relais & Châteaux is located in more rural areas across the world. Furthermore, they have different price points and differ in size with the global affiliations being significantly larger.

All in all, the affiliations have also been picked due to their relatively broad focus that allow for many hotels to consider them for membership. Several affiliations have a more narrow focus, such as Design Hotels that focus

on design and interior, or Preferred Hotels & Resorts that mainly has resort members. Conclusively, the choice of broader affiliations makes it easier to compare them.

Besides classifying hotels based on ownership form, the most common way to separate hotels is through classification. Naturally, hotels differ greatly in style, price, customers, facilities, and location, due to the heterogeneity among the hotels. (Chan and Mackenzie, 2013)

The most known classification of hotels is the star rating system, where stars are given the hotel. The star rating system will be further elaborated later. However, the system varies from country to country and is not exhaustive, and customers may prefer to choose hotels based on other supplementary characteristics (Schofield, 2003).

Including the star rating system, nine of the most common classification factors according to Chan and Mackenzie (2013) are presented in Figure 2. The classification factors are used as an underlying part of the analysis and discussion to group hotels to explore and reveal patterns across hotels and affiliation chains.



**Figure 2:** Classification Factors (Chan and Mackenzie, 2013).

### 1.2. Delimitation

The delimitation delimits the report to ensure the quality of the findings. The report explores hotels that are member of affiliation chains. Franchise, chain ownership or other equity or non-equity ownership forms are not considered. The geographic scope is delimited to be within Europe. A global perspective would have added even more variables and may possibly have raised more cultural questions than this report aims at answering.

Furthermore, the report is delimited from considering the guest experience, guest satisfaction and how guests perceive the affiliation chains among else.

Industry trends are not exhaustive and are based on what have been explored when interviewing member hotels and stakeholders. When looking into the star rating system, the report will not touch upon the other forms of ratings, such as ratings on sites like tripadvisor.com, booking.com and the like.

The analysis of the affiliations is only external – it is highly based on their offerings to their members and how those perceive them, which is also why the analysis of the affiliations differs in terms of topics being covered. The costs and all other currencies are set to euros due to the European perspective of this study, with the conversion date being 14.04.2017.

The list of possible gains from being in an affiliation chain is not exhaustive, and they are not quantified. Lastly, it is made clear that the gains are explored as gains for the member hotels and not as what the affiliation chains would gain from the membership.

The hypotheses that are derived from the theoretical framework works to connect the theory to the analysis and discussion. The hypotheses are exploratory and are not meant for testing.

### 1.3. Research Design

This research design section builds on Malhotra, Birks, and Wills (2012) framework for conducting a valid research design by going through the following aspects:

- *Specification of the information needed to answer the research questions:*  
Information to be collected aims at answering the overall problem of: *What to consider as a hotel when choosing a hotel affiliation chain in a European context by using a case hotel?*
- *The overall research design that fits the information need:*  
Looking at the information that needs to be obtained, the information consists of a “what” question, which points towards exploratory rather than conclusive research. The objective of the exploratory research is to understand, whereas the conclusive research aims at measuring and is therefore more of quantitative nature. Conclusively, the research design will be crafted in an exploratory manner to allow for the information to be obtained. When the research is more exploratory than conclusive, the research design is either the semi-structured or unstructured interview technique. The in-depth semi-structured design will be used based on its very flexible and less structured nature. (ibid.)
- *The techniques of data understanding and measurement:*  
The challenges of using semi-structured in-depth interviews are lack of experience, personal biases or analysis challenges, which and will be prevented to the highest extent possible in order to conduct and analyze in the most reliable way. (ibid.)

- *Construction of the data collection method:*

The semi-structured open-ended questions allow for probing, which is an important method to obtain the desired information, because the interviewer can ask follow-up questions. The responses from interviewees are hard to predict and the interview can take a turn, and the authors should therefore be prepared to ask follow-up questions that can enlighten the understanding of the specific topic. The structure of all interviews with hotels has been built in the same way:



**Figure 3: Structure of Affiliation Chain and Hotel Member Interview, own making.**

- *Discussion of the sampling process and size:*

The sampling process was based on the relevance and availability of participants. Numerous hotels from the three affiliation chains across Europe have been contacted and ten hotels have agreed to be interviewed. The ten hotels that agreed to participate are geographically well distributed, except for the members of De Historiske Hotel og Spisesteder as the affiliation only has member hotels in Norway.

- *The plan for data analysis:*

Structuring content analysis will be used for the analysis since it sheds the most light on the empirical data. The content analysis is led by predefined categories. The categories are the exploratory hypotheses formulated in the theoretical framework. The analysis reduces the material and focus on what is relevant. (Flick, 2014) The advantage of the method is that there is a great clarity into how it is conducted, which limits the ambiguity. Furthermore, it facilitates easy comparison among the categories, which is beneficial when looking into the differences between the affiliation chains.

## 1.4. Data Collection and Analysis

This section describes the characteristics, advantages and limitations of the secondary and primary data collection of the report.

### 1.4.1. Secondary Data

Secondary data is the data that has already been collected for purposes other than the specific problem at hand. It is used to create a solid research design and develop an understanding of the context of the primary data before collecting it. (Malhotra, Birks, and Wills, 2012)

The secondary data is divided into two categories - internal and external secondary data. The internal secondary data is existing reports from Menon Economics. External data covers databases, market and industry reports and the like. The external secondary data builds the foundation of an understanding of the hotel industry, its

development and future challenges in a European context. The data is primarily build on reports and industry data from MarketLine, the European Travel Commission, and newspaper articles.

### 1.4.2. Primary Data

When the secondary sources have been exhausted, one can move on to collecting the data that could not be found in the secondary data. The secondary data does not provide enough information for the research questions to be answered, which is why the external primary data collection will be conducted as well.

The external primary data collection will consist of interviews with hotels from the selected affiliation chains, industry experts, and representatives from the chains themselves, and are based primarily on a diversity criteria and their willingness to participate. The participants are anonymous and the hotels are presented in a general matter so traceability is limited, since the insights they share are of a sensitive nature.

The hotels are selected based on their membership in either De Historiske Hotel og Spisesteder, Leading Hotels of the World, or Relais & Châteaux. They vary in length of membership and country of residence to ensure maximum diversity and thus enhance the reliability of the study:

De Historiske Hotel og Spisesteder members:

- Interview with the CEO of a hotel in Norway. Interview conducted in 2017. The hotel is of premium standard, located in the outskirts of a large city, close to nature. Member of the affiliation for around a decade. The source will be referred to as “CEO, suburb DHHS hotel, Norway. 2017”.
- Interview with the Hotel Manager of a hotel in Norway. Interview conducted in 2017. The hotel is of premium standard, located in a rural part of Norway in the area of a large town. Member of the affiliation for almost a decade. Previous member of Relais & Châteaux. The source will be referred to as “Hotel Manager, rural DHHS hotel, Norway, 2017”.

Leading Hotels of the World members:

- Interview with the Senior Revenue Coordinator of a golf resort hotel in the United Kingdom. Interview conducted in 2017. The hotel is of premium standard, located in a rural part of Scotland within some hours of a larger city. Member of the affiliation for around two decades. The source will be referred to as “Senior Revenue Coordinator, resort LHW hotel, UK, 2017”.
- Interview with the Hotel Manager of a design hotel in Italy. Interview conducted in 2017. The hotel is of premium standard, located in a rural part of the country with skiing opportunities. Within some hours of a large city. Member of the affiliation for around five years. The source will be referred to as “Hotel Manager, design LHW hotel, Italy, 2017”.

- Interview with the Hotel Manager of a city hotel in the Nordics. Interview conducted in 2017. The hotel is of premium standard, located in a large city. Member since the affiliation's foundation. The source will be referred to as "Hotel Manager, city LHW hotel, Nordics, 2017".
- Interview with the Hotel Manager of a city hotel in the Nordics. Interview conducted in 2017. The hotel is of premium standard, located in a large city. Member since the affiliation's foundation. Due to the characteristic similarities to the other Nordic LHW city hotel, the source will be referred to as "Hotel Manager, older city LHW hotel, Nordics, 2017", due to its older building.
- Interview with the Sales and Marketing Director of a design hotel in Germany. Interview conducted in 2017. The hotel is of premium standard, located in a large city. New affiliation member. The source will be referred to as "Sales and Marketing Manager, design LHW hotel, Germany, 2017".

#### Relais & Châteaux members:

- Interview with the Head of Sales of a hotel in Switzerland. Interview conducted in 2017. The hotel is of premium standard, located in a smaller city. Member of the affiliation for almost two decades. The source will be referred to as "Head of Sales, R&C hotel, Switzerland, 2017".
- Interview with the CEO of a hotel in Northern Europe. Interview conducted in 2017. The hotel is of premium standard, located in a rural part of the country. Member since the first years of the affiliation. The source will be referred to as "CEO, R&C hotel, Northern Europe, 2017".
- Interview with the Managing Director of a hotel in the United Kingdom. Interview conducted in 2017. The hotel is of premium standard, located in a rural part of the country. Member since the first years of the affiliation. The source will be referred to as "Managing Director, R&C hotel, UK. 2017".

In order to shed light on how the affiliation chains perceive themselves, the following representatives have been interviewed:

- Interview with Manager within member performance at the Leading Hotels of the World, head quarters in New York, USA. Interview conducted in 2017. Will be referred to as "Manager, LHW. 2017".
- Interview with a board member of De Historiske Hotel og Spisesteder in Bergen, Norway. Interview conducted in 2017. Will be referred to as "Board member, DHHS. 2017".
- The Relais & Châteaux head quarter in Paris has provided written material, which has delivered the equivalent level of information as the interviews with the representatives from Leading Hotels of the World and De Historiske Hotel og Spisesteder.

Furthermore, industry experts have been chosen based on their relation to the industry and their accessibility:

- Interview with employee at director level at the Association for the hotel, restaurant and tourism industry in Denmark, Frederiksberg, Denmark. Interview conducted in 2017. Will be referred to as “Director, Industry Association, 2017”.
- Interview with General Manager of a franchised Quality Hotel in Norway. Interview conducted in 2017. Will be referred to as “General Manager, Quality Hotel, 2017”.

The source in the association for hotels, restaurants and tourism industry in Denmark is considered an expert on the topic. The source has not worked directly with any of the affiliations, so the knowledge is based on knowledge from the member hotels and not personal experience.

Additionally, the General Manager of the Quality Hotel is representing the view on hotel affiliations from a very different ownership standpoint, which can be seen below in the figure:



Figure 4: Ownership Types 2.0, own making.

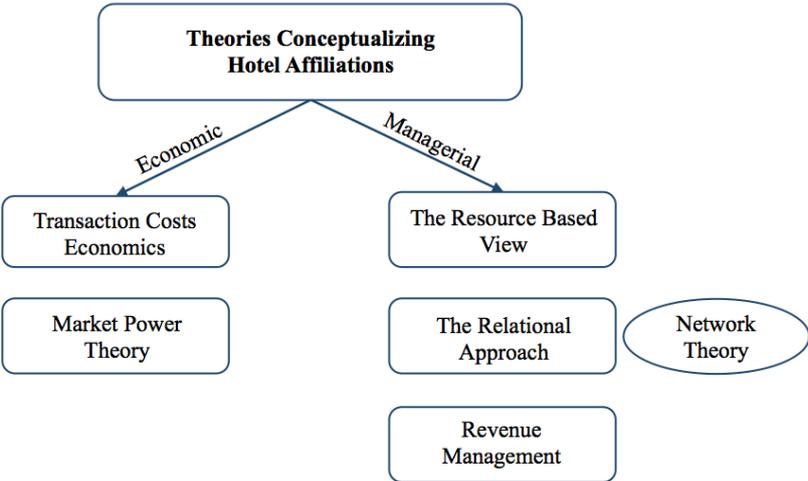
Quality Hotel is part of Nordic Choice Hotels. Nordic Choice Hotels is a franchisee of Choice Hotels International and thereby categorized as franchise ownership (en.wikipedia.org, 2017). By having a different ownership structure than the other interviewed hotels, the General Manager provides a unique understanding of how the affiliation chains are perceived in the industry. The opinions are not based on direct connections or experience with the affiliations, merely on the take on affiliation chains as a franchise hotel manager. (Sørumshagen, 2017)

## 2. Theoretical Framework

Based on relevant theories, general hypotheses will be formulated to guide the following analysis and explore how the theories apply to affiliation chains and the primary data. Furthermore, the hypotheses explicitly link the theory to affiliation chains. The hypotheses are strictly exploratory, which is why they will be analyzed and discussed, but ultimately no final rejection or accept of them will be made.

Hotel affiliations are cooperative strategies, thus academically strategic alliances. (Child and Faulkner, 1998). Strategic alliances in the form of hotel affiliation chains are based on a cooperative agreement between the hotels and the affiliations (Chathoth and Olsen, 2003). Strategic alliances are an important form of resource, because few hotels alone have all the resources necessary to compete effectively and sustain a competitive advantage. Therefore, for a hotel an alliance is a way of accessing the resources that they individually lack. (Ireland, 2002)

Various theories conceptualize the principles of alliances and affiliations as a cooperative strategy. The main theories are divided in the economic theories: Transaction Cost Economics (TCE) and Market Power Theory (MPT) versus the managerial and organizational theories: The Resource-Based View (RBV), the Industry Structure View, and the Relational Approach (Child and Faulkner, 1998; Chathoth and Olsen, 2003). The original view was the Porter-based Industry Structure View, that suggests that sources for competitive advantage are primarily based on the structure of the industry such as can be found in Porter’s Five Forces. RBV argues that competitive advantage is based on firm heterogeneity rather than industry structure. (Dyer and Singh, 1998; Barney, 1991)



**Figure 5: Overview of Conceptualizing Theories within Strategic Alliances, own making based on Chathoth and Olsen, 2003; Dyer and Singh, 1998.**

According to Chathoth and Olsen (2003), the combination of RBV and the remaining economic and managerial theories explain the mechanisms and philosophies of strategic alliances better than the Industry Structure View. The Industry Structure View has less common ground with TCE and MPT compared to RBV. Therefore this theory

section is limited to include the theories that can be seen in the overview for the theoretical framework in Figure 5. The combination of the economic and managerial approaches shed a more complete light on the aspects of strategic alliances.

Besides the economic and managerial theories within strategic alliances, the network theory builds on to the Relational Approach. It will be used to explain the relationship in networks, such as strategic alliances, and give an important perspective on how the actors engage and relate to each other within or across networks. Furthermore, revenue management is included to understand how hotels optimize revenues, and explore factors that affect the room pricing mechanisms. Revenue management is an important concept in hotel management, and is fundamental for a hotel's long-term existence and profitability. The theories will be covered in the same order as in Figure 5, which means starting off by looking at the economic theories of TCE and MPT and then RBV, the Relational Approach, Network Theory and lastly Revenue Management.

## 2.1. Transaction Cost Economics

Transaction Cost Economics seek to explain the market transactions based on the costs of each transaction. Put in other words, TCE weighs the costs of undertaking a certain transaction internally with the cost of obtaining it externally. In this way, TCE determines which transactions and activities the firm handles internally and which ones it outsources based on the balance in costs between handling the activity internally or externally. (Chathoth and Olsen, 2003)

TCE has emerged to be the dominating theory when defining the boundaries of a firm and is built on three concepts: Governance, opportunism and transaction-specific investment. (Barney, 1999)

The concept of governance is the mechanism that manages the economic exchange. Barney (1999) group governance into the following three categories:

- *Market governance* is used when firms interact with an arm's length to other firms. This governance relies on the market itself to determine the price of exchanges.
- *Intermediate governance* is used when firms interact through contracts based on strategic alliances. The contract replaces the arm's-length relation.
- *Hierarchical governance* is used when firms bring exchanges within their boundaries, like when the firm owns and operates a supplier or sales and distribution network.

So when choosing a governance mechanism, the firm weighs the cost of the different governance forms. The non-hierarchical forms are less costly than the hierarchical one, so if minimizing the cost of the governance form was the only goal, the hierarchical form would not be relevant (ibid.). Hotel affiliation chains are an intermediate governance form.

TCE also builds on opportunism and transaction-specific investment. Opportunism takes into account whether the exchange is fair. Fair in terms of not one party taking advantage of the other in the exchange. If a party does not live up to their part of the exchange, it is taking advantage of the other and thereby behaving in an

opportunistic way. The opportunistic behavior is linked to transaction-specific investments. TCE predicts that when one of the exchanging parties has made a large transaction-specific investment, but the other exchanging partner has not, the imbalance in investments causes a stronger incentive for the party without a large transaction-specific investment to behave in a more opportunistic manner. (Child and Faulkner, 1998; Barney, 1999; Chathoth and Olsen, 2003)

The transaction specific investment is valued based on what the same investment would have been worth in another transaction. This means that the specificity of the investment plays a role - if the redeployment is limited and the investment can not easily be transferred to other use, the risk of opportunism increases even more. (Child and Faulkner, 1998; Barney, 1999; Chathoth and Olsen, 2003)

Conclusively, firms can use the governance form to decrease the risk of opportunistic behavior when doing an exchange. The greater the governance level, the closer to the hierarchical governance form, the less risk for opportunism. With hotel affiliation chains being an intermediate governance form, the risk of opportunism can be present to different degrees. This should be considered in combination with the transaction-specific investment. Opportunism can be limited by both parties by increasing their mutual investments in the transaction to create a greater extend of mutual dependence. (Child and Faulkner, 1998; Barney, 1999; Chathoth and Olsen, 2003)

## 2.2. Market Power Theory

The Market Power Theory predicts that competitive success is driven by a competitively strong position (Chathoth and Olsen, 2003). With a focus on cooperative strategy, MPT sees mutual advantages appear when cooperating with other firms. The cooperation is aimed at enhancing both firms' position within their industry. The position can be enhanced by: Decreasing competitor's market share, increasing their production or distribution costs, or creating higher barriers to entry (Child and Faulkner, 1998). The change in position can be made by developing economies of scope by sharing strategic resources, knowledge, capacity and/or risks through economies of scale (Chathoth and Olsen, 2003). Conclusively, the competitive advantage through positioning of the cooperating firms will increase. The greater market power drives the cooperative relationships, but MPT is a static theory that does not take the evolvement of the relationship into account. The focus is on static contextual elements as industrial and organizational constraints that defines the cooperative strategies in a certain point in time. (Child and Faulkner, 1998)

Based on market power theory, an affiliation chain can enhance the position of a hotel through economies of scope and scale, which leads to the formulation of the first hypothesis:

- *H1: By leveraging interfirm complementary resources a hotel can create a competitive advantage through economies of scale.*

## 2.3. The Resource-Based View

The Resource-Based View has emerged as an explanation of persistent firm performance differences within the field of strategic management. The perspective was developed during the 1980s and 1990s, and is today one of

the most known and used perspectives to explain why some companies outperform others. (Barney and Arikan, 2001) The perspective challenges previous theories, such as Porter's Five Forces model, and examines the link between a firm's internal characteristics and performance rather than external environmental factors (Barney, 1991).

The word *resources* is defined by Barney and Arikan (2001) as "*tangible and intangible assets firms use to conceive off and implement their strategies*". Resources can be classified as physical capital resources, human capital resources, and organizational capital resources (Barney, 1991). These kinds of resources can be developed internally or be acquired (Barney and Arikan, 2001). Resources gained through a hotel affiliation membership are acquired by the hotels. Performance is determined by how well organizations are build on resources according to whether they are valuable, rare, inimitable, and lack substitutes. (Barney, 1991)

The performance is based on two main assumptions: It assumes that all firms are profit-maximizing entities and managers are rationally bounded. What differentiate RBV are the assumptions of resource heterogeneity and resource immobility. Heterogeneity refers to the fact that firms possess different bundles of resources, emphasizing that firms are different. Immobility reflects how heterogeneity can be long lasting, and therefore how a firm can create sustained competitive advantages. (Barney, 1991)

The assumptions do not say that all firms will be unique in ways that are strategically relevant. It rather shows how some firms, some of the time, may possess resources that enable them to develop and implement strategies effectively compared to other firms. (Barney and Arikan, 2001) Moreover, sustained competitive advantage cannot be maintained with entry barriers without requiring and assuming that the resources are immobile. (Barney, 1991)

The resources are all assets, capabilities, processes, and attributes. In bundles they can be used to implement strategies that improve efficiency and effectiveness. The sustained competitive advantage can occur when the hotel is implementing a value creating strategy based on some of these resources – which is not being implemented by anyone else at the same time and is impossible to copy. (Barney, 1991). In order to sustain the competitive advantage, the value creating strategy must be inimitable. To better understand the example, one can turn to the underlying assumptions of the inimitability: (Barney, 1991)

- The resource has been obtained through unique historical conditions.
- The link between the resource and the sustained competitive advantage is causally ambiguous.
- The resource is socially complex.

This has been explained very well in an example by Ahlstrand, Mintzberg & Lampel (2009): "Paradoxically, then, an organization's inability to understand and reproduce its own culture [culture is an example of competitive advantage] may be the best guarantee of its strategic advantage – far better than any security system or legal device" (Ahlstrand, Mintzberg & Lampel, 2009). Causal ambiguity is when the link between the resource and the competitive advantage is poorly understood (Barney, 1991). Causal ambiguity protects the sustainable

competitive advantage, because the link to the competitive advantage is not understood by competitors nor the firm itself. (King and Zeithaml, 2000). An assumption to causal ambiguity is that no knowledge imbalance exists.

The balance can be explained through the example of a competing firm hiring knowledgeable managers from the firm with the competitive advantage. If somehow somebody within the firm understands the understanding of causal relationships, it will be hard to keep it from competitors. This will make the competitive advantage unsustainable (King and Zeithaml, 2000). Barney (1991) concludes: *“In other words, if a firm with a competitive advantage understands the link between the resources it controls and its advantages, then other firms can also learn about that link, acquire the necessary resources ... and implement the relevant strategies.”*

Denicolai, Cioccarelli, and Zucchella (2010) use RBV in the tourism industry, and the same arguments can be applied in the hotel industry. They describe how the actors in the industry have to exploit the available resources such as using the landscape around the property, the local history and the accessible social capital such as the ties to the local community. Moreover, the resources have to be matched with the actor’s core competencies. To do this successfully, inter-firm abilities integrate and coordinate the resources in a distinct way. This could give a sustained competitive advantage.

A weakness in RBV is that it solely focuses on internally developed resources, which tends not to fully reflect the needs of market constituents such as customers and competitors. To adjust for this weakness, market-based resources can also be considered. This kind of resource can be the firm’s market orientation, defined as firm activities of offering unique products or services to create customer value based on the customer’s needs and competitors actions. (Yong Kim and Oh, 2004)

## 2.4. The Relational Approach

The unit of analysis in the Relational Approach is the pair or the network of firms. As opposed to RBV, the Relational Approach says that critical resources of a firm can be made through inter-firm linkages and that abnormal returns come from relation-specific investments. (Barney, 1991) RBV is criticized for overlooking the important fact that advantages of an individual firm are often linked to the network of relationships in which the firm is a part of, and the firm’s critical resources are therefore often extended beyond firm boundaries (Dyer and Singh, 1998).

Inter-firm linkages can be obtained through joint ventures, strategic alliances, and trust-based relationships. Hotels often belong to larger networks with relationships to buyers, suppliers and competitors. These firms may realize an advantage over competing firms who are unwilling to cooperate. Inter-firm linkage may therefore be a source of relational rents and competitive advantages when the network or external relations are exploited correctly (Yong Kim and Oh, 2004; Dyer and Singh, 1998). Dyer and Singh (1998) define relational rents as *“a supernormal profit jointly generated in an exchange relationship”*. They argue that firms that collaborate can generate relations rents, and a sustained competitive advantage through relation-specific assets, knowledge sharing routines, complementary resource endowments, and effective governance.

A weakness of the Relational Approach is that it tends to focus on the business-to-business relationship and has less emphasis on the business-to-customer relationship, but with regards to hotels and their relation to hotel affiliations, this is exactly a business-to-business relationship, which is why this is not perceived as an obstacle. (Yong Kim and Oh, 2004)

## 2.5. Network Theory

Research on social networks has increased considerably over the last decade, and the social network analysis is often used in management research to understand turnover, innovation and job performance among numerous topics (Borgatti and Halgin, 2011). In this report, Network Theory sheds a new light on affiliation chains.

In classical network theory, Granovetter's strength of weak ties theory and Burt's structural holes theory is among the most recognized theories. Both theories describe a network to be a set of nodes along with a set of ties. A node is the actor, such as a person or a firm, and ties are the relationship between the actors. The ties therefore connect the nodes, where the pattern on the connected ties yields a certain structure, and the nodes have a position within this structure. (ibid.)

The network boundaries, the structure of the ties, and the positions of the nodes should be defined and described by the researcher. Borgatti and Halgin (2011) emphasizes that the selection and positioning of the nodes should be dictated by the focus of the specific research. You cannot choose nodes incorrectly. Another important concept of a network is that a network does not have any natural boundaries, nor does it have to be connected. A disconnected network is a network where one or more nodes cannot reach any other nodes, meaning that the network is divided into components. However, disconnected networks have the possibility of evolving over time, meaning that the ties between nodes can change, and the components within the network may look different over time. (ibid.)

### 2.5.1. Strength of Weak Ties Theory

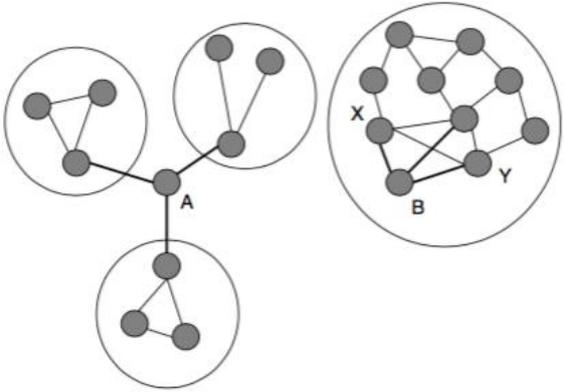
The Strength of Weak Ties Theory by Mark Granovetter (1983) is based on two main premises. The first premise states that the stronger the tie between two people, the more likely it is that their social world will overlap. A strong tie can be a friend or a family member, whereas a weak tie is an acquaintance. Thus, a person with a network consisting of close friends will be a high-density network, whereas a network with only acquaintances will be a low-density network.

In a high-density network it is likely that everyone knows each other. In a low-density network only a few people is likely to know each other. A person's acquaintances are likely to have close friends in their own network. The tie between the person and these acquaintances is not simply trivial acquaintances, but a crucial bridge between two high-density networks via the weak tie. These two networks would not have been connected to each other at all if it was not for the weak tie between the person and his acquaintances. This is Granovetter's (1983) second premise, stating that weak ties are bridging ties that are potential sources of new connections and novel ideas

where the idea is that the person can get access to knowledge that are not already circulating among his close friends (Borgatti and Halgin, 2011).

**2.5.2. Structural Holes Theory of Social Capital**

Burt’s Structural Holes Theory of Social Capital focuses on the nodes surrounding a given node, along with all the ties between them. He argues that the shape of the network compared to a given node is important for the quality of the information. In Figure 6, two people A and B, have the same number of ties and ties of the same strength, but since A has access to three different information pools and B’s connections only connect with each other, A is more likely to get access to more nonredundant information (Borgatti and Halgin, 2011). Person A has what is denoted as more structural holes than B. The structural holes represent the relationship of non-redundancy between two nodes. This can provide A with the opportunity of performing better than B, or let A to be perceived as the source of new novel information. (Burt, 1992)



**Figure 6: Structural Holes Theory (Borgatti and Halgin, 2011).**

The theories by Granovetter and Burt are similar and build on the same premises. However, Granovetter argues that the strength of the ties has an influence on whether or not the ties serve as a bridge, whereas Burt does not include this reflection. Both theories argue for the importance of structure and position in the network for the actors to get access to novel information, and hence perform better.

According to the classical theories, the structure of the network is strategically important to be able to get access to novel information and to perform better. Due to the high applicability of Network Theory to several other areas, it suggests that network theories are applicable when studying hotels and hotel chains. Based on the size difference between the local and global affiliation chains, the following hypotheses aim at exploring the link between network theory and affiliation chains:

- *H2: Global affiliations have more weak ties than local affiliations.*
- *H3: Global affiliations give access to different pools of information to a higher degree than local affiliations.*

**2.6. Revenue Management**

Revenue management, also known as yield management, is a concept well used by hotels and airlines. The practice was adopted by the hotel industry in the early 1980s, and is used by most hotels today. Revenue management is: “The business practice of selling a relatively fixed amount of perishable inventory to the most profitable mix of customers to maximize profits” (Choi and Mattila, 2004). The key behind revenue management

is to sell more and to sell it more profitable. The goal is to figure out which guests to accept and which guests to turn away in cases where demand exceeds supply. Successful revenue management requires the hotel to know its guests, know the guests' expected behavior, and to understand which guest is the most beneficial to the hotel. (Rutherford and O'Fallon, 2007)

To gain from revenue management the hotel has to make the length of the stay or use of the hotel's products more predictable, and at the same time make pricing more variable. The hotel has to identify the differences in the price sensitivity of the customers, and segment the customers based on the price they are willing to pay for each service. Based on this information the hotel can price rooms and services accordingly. Furthermore, the hotel has to forecast the demand in each segment, and adjust the prices when the hotel has periods where demand exceeds supply and vice versa. (Choi and Mattila, 2004)

To manage the differentiated room rates the hotel use rate fences. The fences prevent customers who are willing to pay higher prices from taking advantage of lower discounted rates. Rate fences work based on arrival day of the week, time of reservation, and the length of stay among other factors that determine the price differentiation. The fences help ensure that different customers pay different prices for the same room at the same hotel. (ibid.)

### **2.6.1. Pricing of Hotel Rooms**

Similar to other types of businesses, a hotel's most important criterion for success is profit. For a hotel to be able to obtain additional value, it is important to understand the variables that will create long-term business value. The hotel management literature is clear on the fact that room prices are essential for the hotel's revenue stream and profitability. Hotel pricing techniques have generally included these pricing methods: Cost based, competition driven, and value based. The three techniques all have advantages and shortcomings. (Hung, Shang and Wang, 2010) Many hoteliers use a mix of quantitative and qualitative methods when deciding on pricing strategies and revenue management. The decision is often based on analysis and intuition. The more business-savvy the hotel managers are, the more they gain from their intuition and they will increase their ability to turn the intuition into numbers. In other words, pricing decisions should be driven by the return on investments, and not only gut feelings. (Rutherford and O'Fallon, 2007) Therefore the question is: Which factors drive the room prices and thereby also the value of the hotel?

Kotler and Armstrong (1996) argue that internal and external factors affect room prices simultaneously. Internal factors include marketing goals, the product, costs and the organization. External factors are the market demand and competition. Demand is often seasonal, and might be hard to predict if the hotel has inferior knowledge of the market it operates in. The product offering is relatively inflexible and is something that cannot be changed overnight. (Hung, Shang and Wang, 2010)

Conclusively, the factors driving room prices are many, but studies done by Alias and Tan (2011) and Mattila and O'Neill (2006) reveal how quality, service, brand affiliation, and location are identified to be the main key drivers. The customer's perception of the hotel quality is often led by the room prices. The prices signal the quality level

to the customers. Similarly, the customer's willingness to pay a higher price also reflects customer satisfaction (Hung, Shang and Wang, 2010). According to game theory research, hotels are only able to charge higher prices based on their physical quality and the service quality. Hotels not living up to the standards are not able to exercise the potential price premium a high quality standard gives (Israeli, 2002).

Brand affiliation also stands out as an important driver of room prices. Consumers use the hotel brand as a quality cue. Hence, the brand affects the quality perception, which again gives the hotel an opportunity to charge higher prices. The customers are therefore willing to pay a price premium for a brand that they consider to be of high quality (Mattila and O'Neill, 2006). Mattila and O'Neill (2012) explains how a *"well-established brand create financial value due to its ability to generate cash flow via relatively higher margins."*

A study done by Israeli (2002) looks at the correlation between hotel brand affiliations and room prices. The results show that the hotel brand affiliation affects to some extent the hotels ability to charge a premium price, but the branding factor is less significant than the quality factor. This can be explained to some extend by the fact that some customers perceive independent hotels to be providing superior personal service and a homey atmosphere compared to hotels in a brand affiliation. (ibid.)

The last key driver of hotel room prices is the location factor. It is often difficult to compare city hotels and countryside resort hotels since the purpose of the stay differ. According to Hung, Shang and Wang (2010) location is a factor when setting room prices. They argue that hotels located in a scenic area are perceived to be more expensive. When perceived to be expensive, the hotel can also justify charging higher prices.

Conclusively, to explore whether the connection between the value drivers and hotels in affiliation chain exists, the following hypothesis has been formulated:

- *H4: Quality, service, brand affiliation, and location are the main drivers of room prices and value of hotels in hotel affiliation chains.*

## **2.6.2. Cost Structure and Cost Drivers**

Fixed costs in the hotel industry are defined as costs that have no direct effect on occupancy or sales volume, such as land, wages, and maintenance. Variable costs are affected by the occupancy, such as food, beverages, guest room amenities, and laundry operations. (Kotas, 2002)

The high level of fixed costs is an important aspect of the cost structure in the hotel industry. Management accounting literature agree on the fact that hotels experience a high fixed cost level compared to other industries (Kotas, 2002; Ingold, McMahon-Beattie and Yeoman, 2012). The exact level varies across the industry because the hotels differ to a high degree. A study done by Dobbelstein and Brehm (2012) estimated the sample group's average fixed cost level to be 46%. An interesting insight from the study is the differences between individual hotels and chain hotels. An individual hotel has a 54% fixed cost level, whereas a chain hotel has 37% fixed costs. The study determined the main overall cost drivers to be the food and beverage department, and the high wages driven by quality standards. (ibid.)

### 2.6.3. Important Key Performance Indicators

The hotel industry has several KPIs that are critical to understand in hotel management. A value oriented business manager determines the success of the hotel from the shareholders' and stakeholder's perspective. (Dobbelstein and Brehm, 2012)

A study done by O'Neill and Mattila (2006) on behalf of The Center for Hospitality Research of Cornell University presents the most used KPIs for explaining hotels' revenue and profitability. Executives should look at the bottom-line financial ratio net operating income (NOI), and the top-line ratios: Average daily rate (ADR), occupancy rate and revenue per available room (RevPAR). ADR, occupancy rate and RevPAR are the three most used ratios in the hotel industry and widely accepted by hotel practitioners, the investment community, consultants and property owners (Alias and Tan, 2011).

### 2.7. Combining Economic and Managerial Approaches

This section looks at how the economic and managerial approaches can be combined, as well as shed light on some of the mechanisms of hotel affiliation chains.

One of the challenges in merging and combining the different perspectives are the different focuses on units; which can be seen as transactions in Transaction Cost Economics or resources in the Resource-Based View. (Chathoth and Olsen, 2003)

As mentioned, the assumptions of RBV are resource heterogeneity and immobility, which can be seen in another form, but with the same assumption, in the transaction-specific investments in TCE (Barney, 1991). They share the assumption that investments are specific and thereby limited in their immobility and created based on heterogeneity in resources. (Chathoth and Olsen, 2003) Consequently, by including all relevant transactions and cost of capabilities it is possible to combine their aspects and create common ground.

Turning to the other economic theory; Market Power Theory, it becomes clear that MPT suggests economies of scope will create a stronger position by sharing resources, knowledge, capacity and/or risks. MPT shares the focus on resources with RBV, and they agree that competitive success can be reached through resources rather than transactions. The theories differ from each other by RBV aiming at identifying resources, where MPT rather focus on using them in positioning with the help from combining resources. (ibid.) The Relational Approach shares the focus on forming relationships based on complementary resources found in other parties, and by combining forces and resources the complementary assets is believed to create a stronger value generation and competitive advantage. Furthermore, the theory shares the value given to interfirm knowledge sharing and relation-specific investments. (Chathoth and Olsen, 2003; Dyer and Singh, 1998)

The combination of TCE, RBV, MPT, Network Theory, Relational Approach, and Revenue Management altogether suggests that strategic alliances and cooperation improve profitability and that the contractual agreement between two or more parties is a source of competitive advantage (Chathoth and Olsen, 2003). The combination of theories has allowed for the following hypotheses:

- *H5: It takes transaction-specific investments and costs to become a part of an affiliation chain.*
- *H6: The higher the transaction-specific investments the higher the opportunism will be from the affiliation chain.*
- *H7: The strategic fit between the hotel and hotel affiliation, the gains from economies of scale and threat from opportunism are relevant to consider when choosing a hotel affiliation chain.*

### 3. Analysis

The analysis is divided into four larger sections. The hotel industry will be analyzed by looking at the developments and the trends in the industry. The section will include a brief overview of the hotel industry in Norway, followed by an analysis of the three hotel affiliation chains, their costs and potential gains.

#### 3.1. Hotel Industry Assessment

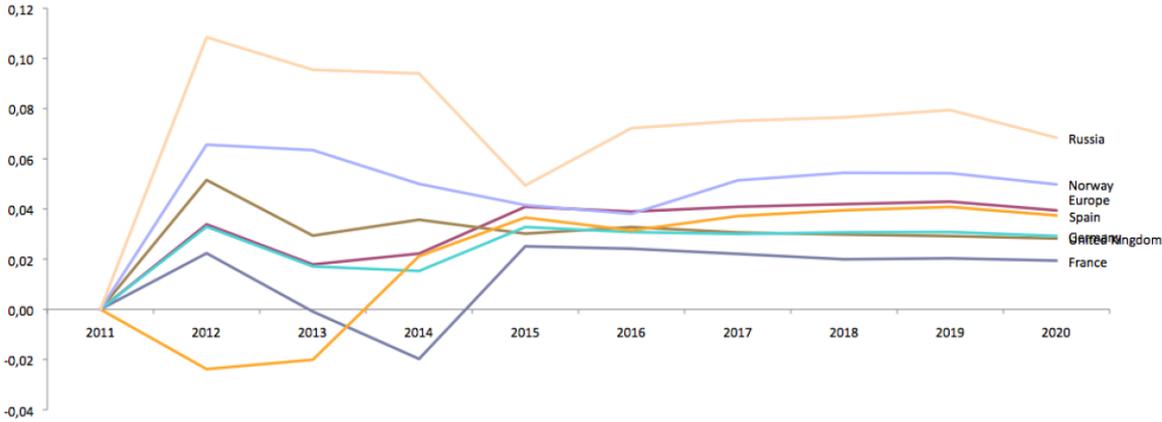
The hotel industry is a part of the larger hospitality industry, which includes all the fields that relate to tourism, such as transportation, theme parks, cruises and lodging. The hotels account for 11,90% of the total hospitality industry. (MarketLine, 2016)

This section will give an introduction to the developments and trends seen in the hotel industry in Europe today. Then it will present the current situation in the hotel industry in Norway. The section will end with a look into how the star rating system works, and the experiences the interviewed hotels have with the system. All figures are from the delimited hotel industry and not the hospitality industry, but when referring to the industry later it will include the entire hospitality industry.

##### 3.1.1. Development in Industry Volume and Value in Europe

The analysis builds on the most recent data, which is from 2015. The development in the total industry value in Europe shows that the value has been growing with a compounded annual growth rate (CAGR) of 2,29% between 2011 and 2016. The CAGR is expected to increase to 3,29% from 2016 to 2020. (MarketLine, 2016)

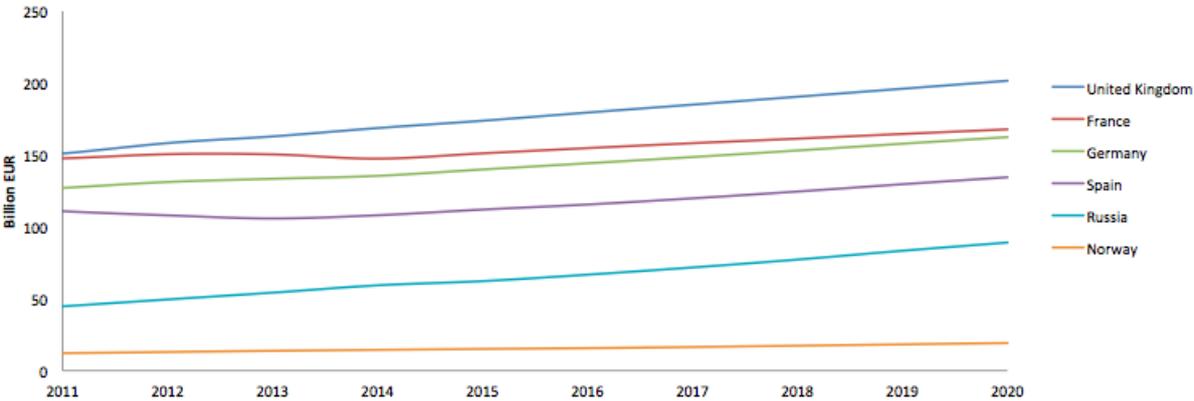
Digging deeper into the components of the total industry growth in Europe, it becomes clear that Russia takes the lead with a CAGR of 6,89%, followed by Norway with 4,38%, United Kingdom with 2,92%, Germany with 1,95%, and lastly France and Spain with 0,52% and 0,25% respectively. The forecasts show that Russia will keep the lead but the growth will slow down slightly towards 2020, whereas France and Spain will see an increase in growth rate. (ibid.)



Graph 1: Value Growth in Hotel Industry for Selected Countries and Europe (MarketLine, 2016).

While Spain experienced negative growth between 2011 and the end of 2013, and France from mid 2013 to the end of 2014, Russia peaked in 2012 with a growth rate of 10,84%. It can be seen from the graph that all countries are expected to have a stable growth after 2015 and towards 2020.

A different situation can be seen for the industry value, where the United Kingdom, France and Germany are the biggest players on the European market, and Russian and Norway are significantly smaller. In 2015, the United Kingdom’s industry was valued to be 174 billion euros. In the same year Norway was valued at 15 billion euros. The total value of the hotel industry in Europe in 2015 is 1097,8 billion euros. (ibid.)



**Graph 2: Value of Hotel Industry for Selected Countries (MarketLine, 2016).**

The development in the Russian market may be due to a fall in the Russian Ruble, which made Russia a more attractive destination in terms of a lower average daily rate when taken in euro terms. From 2013 to 2014 the Ruble fell 18% in euro terms. However, the Russian-Ukrainian crisis kept deterring visitors and reduced the price effect in this period. Decreasing oil prices and a weaker Euro have mostly had a positive effect across Europe in the beginning of 2015. In 2016 the weaker British Pound in the UK as a result of Brexit was a concern for outbound travel, however the inbound travel did benefit from this. (European Travel Commission, 2014, 2015, 2016)

**3.1.2. Trends in the Hotel Industry**

The industry has experienced a growth in the luxury segments. Previously, budget traveling has dominated the industry. The industry was threatened by the competition from low-fare flights to European cities (General Manager, Quality Hotel. 2017; Director, Industry Association. 2017). The threat is still relevant, however today more people are willing to spend money on luxury, as long as it represents quality and value for money.

A hotel should no longer only be plain walls and a bed to sleep in: *“The hotels are focusing more on design and how they can create an independent profile to stand out from the masses”* (Director, Industry Association. 2017). The hotels are also changing the way the guests spend their time at the hotel. Previously, the lobby was an area with a few chairs where guests waited for a taxi. Today, hotels have a social focus with lounge areas, where lobbies are a place where guests can drink a cup of coffee, hang out and spend time. (ibid.)

On average, 25% of the hotels target the business segment (MarketLine, 2016). The industry is particularly changing for this segment. Previously, companies stayed several days at a hotel for a conference, having meetings during the day and experiencing the location in the afternoon. Today priorities have changed and most companies choose a hotel close by to save time. The companies do not spend money on additional activities. (General Manager, Quality Hotel. 2017)

About 75% of the hotels target the leisure segment (MarketLine, 2016). A new trend seen in this segment is that people are looking for more active vacations. *“People’s lifestyle is changing, and people like doing activities on their holiday”* (Hotel Manager, design LHW hotel, Italy. 2017). More people seek a hotel with i.e. skiing opportunities in the wintertime and hiking, kayaking, or biking opportunities during the summer season (Director, Industry Association. 2017).

A widespread internal problem in the industry is recruiting people with the right set of skills. Many hotels require the staff to possess certain skills. In addition, the industry is known for having young staff with high turnover. This combination makes it challenging to find the right people and to keep them. (Hotel Manager, design LHW hotel, Italy. 2017; Hotel Manager, rural DHHS hotel, Norway. 2017; Hotel Manager, city LHW hotel, Nordics. 2017) A general trend is that it is easier for luxury hotels and well-known hotels to attract the right people, because they get more qualified applicants (Director, Industry Association. 2017).

### **3.1.3. The Situation in the Norwegian Hotel Industry**

The hotel industry in Norway between year 2000 and 2012 was characterized by a lower productivity than other industries in Norway. An appreciated currency and a high increase in wages gave the industry a weaker competitive advantage in terms of costs. International tourists viewed Norway to be a highly expensive country to visit, and many hotels experienced a decrease in occupancy. (Menon Economics, 2015) In recent time the Norwegian currency has depreciated as an effect of the drop in the oil price. This has made international tourists look towards Norway again (General Manager, Quality Hotel. 2017).

Norway’s economy is dependent on the development in the oil price. The drop in the oil price has influenced the Norwegian hotel industry. The industry is currently very fragmented. Some geographical regions experience growth and other regions are highly unstable: *“Hotels in cities and central areas are booming, but the districts are unprofitable ... some regions have a 75% decrease in RevPAR, such as in the western part of Norway”* (General Manager, Quality Hotel. 2017). The western part of Norway has been most dependent on the oil price, which explains the unprofitability in the region. At the same time the number of hotels in the area increased, which led to higher competition. It is mainly the national business segment that has been affected, as many companies related to the oil sector do not find it suitable to spend money on luxurious hotels for their meetings any longer. This has been the general picture of the hotel industry the last two to three years, however the General Manager of a Quality Hotel in Norway predicts a more positive picture already in 2017. (ibid.)

Despite the setback in recent years, the industry has seen several positive trends. Hotels with special concepts, such as spa or other activities, experience a growth. The general Norwegian has more money than earlier, and: *“Due to higher uncertainty in the rest of the world connected to the risk of terror, many Norwegians choose to spend their vacation in Norway.”* (ibid.)

#### **3.1.4. The Star Rating System**

Hotels have since the early 20th century been rated based on stars. The rating system differs across the world, but most hotels are rated even though the rating can be optional for smaller hotels. The rating commonly classifies the hotels on a scale from one to five stars, with one being the lowest and five the highest. In Europe, it is common practice for countries to be a part of the voluntary joint star classification system that ensures the same principles are used across Europe. The rating systems have received some critique for being outdated and inconsistent, which is said to have a diminishing effect on the credibility of the ratings. (Hotelstars Union, system description, 2016; The contemporary relevance of the hotel star rating system, 2016)

Several of the interviewed hotels consider themselves as five-star hotels, but they would not receive five stars in the official rating. The R&C hotel in Northern Europe says that they will never fulfill the requirements of a five star hotel, due to the lack of physical standards, such as not having a refrigerator or air condition in every room. The CEO explains that: *“According to the Danish hotel rating system will we only receive three stars, but I would give us five stars based on the standard we offer.”* (CEO, R&C hotel, Northern Europe. 2017) the suburb DHHS hotel and the rural DHHS hotel also argue that they have a higher star rating than what the official rating would give them based on the high quality on their services and the experience that they give their guests (CEO, suburb DHHS hotel, Norway. 2017; Hotel Manager, rural DHHS hotel, Norway. 2017).

The proposed effect of the star rating system is to guide the guests toward their desired quality level. Due to the diminishing effect of the star rating system, social media plays a stronger role in attracting guests by exposing the quality and service through medias such as Facebook and Instagram (The contemporary relevance of the hotel star rating system, 2016).

### **3.2. The Hotel Affiliation Chains**

This section is an analysis of the three affiliation chains. The affiliations will be analyzed starting with Leading Hotels of the World, then Relais & Châteaux, and lastly De Historiske Hotel og Spisesteder.

The analysis of each affiliation is build into three sections. First section is the background, which will cover their brief history, ownership structure, reservation system, property types, guest segments, and if applicable their loyalty program. The following section is the application process, which will cover how to become a member of the affiliation, how the inspections are conducted, the consideration to existing members, and finally how a new member is voted in. Hereafter, the membership requirement section maps out the quality standards for each affiliation and shows examples of standards as well as how the hotel is scored and assessed by the affiliation chains.

### 3.2.1. The Leading Hotels of the World

One of the world's most known hotel affiliation chains for luxury hotels is Leading Hotels of the World. *"Leading Hotels of the World is at the very top of the range. It's simply famous. It's a quality stamp. I perceive it as the most exclusive [affiliation chain]."* (Director, Industry Association. 2017). At the same time as being very well known, they are also secretive and not very transparent about their organization. *"We try to keep our information very quiet, we work on how we kind of keep ourselves private versus public."* (Manager, LHW. 2017) By combining the interview with the LHW Manager, several member hotels, the affiliation's internal documents, and a news articles based on an interview with its CEO Ted Teng, this section sheds light on the highly selective organization.

#### Background

The affiliation was established in 1928 by European hoteliers, and initially had 38 member hotels in Europe, the Middle East and Egypt. In 1971, the affiliation expanded globally to meet the demands of the increased number of international luxury travelers. By the end of the 1980s the affiliation had more than 200 hotels globally, and today its current portfolio consists of 375 hotels across 75 countries (The Leading Hotels of the World, 2017a). The affiliation is a full-service organization, which can offer its members sales, marketing, and financial services (Shankman, 2015a).

The Leading Hotels of the World operates as a subsidiary of the Swiss holding company Hotel Representative AG (Bloomberg, 2017). The affiliation is a membership based hotel chain, meaning that Leading Hotels of the World does not own any of its hotels. However, the affiliation is owned by about 65 of its member hotels. The affiliation considers itself a collaboration, where no decisions are made behind closed doors (Manager, LHW. 2017). This ownership structure is advantageous for its members because the affiliation has no cost of capital, and the shareholders do not require any dividends, meaning that all profits can be reinvested in serving the members. The affiliation is therefore judged on performance and not on profitability (Leaders Magazine, 2014). The affiliation is driven by its shareholders' commitment, and aims to be on the forefront of technology and innovation to remain at the top of the industry.

The affiliation has an executive team consisting of 11 members and it is headquartered in New York City, however this is not the main contact point for guests. Guest are able to contact the affiliation at sales offices in 25 cities around the world, and get reservation assistance by phone to 60 toll free numbers (The Leading Hotels of the World, 2017a).

The CEO of Leading Hotels of the World Ted Teng explains that he associates the member hotels with originality, authenticity, uniqueness, adventure, family, and luxury for individuals. Two tag lines of the affiliation are *"... all kinds of one-of-a-kind"* and *"... seek the remarkably uncommon"*. The affiliation value members that are rooted in their location and that the guests experience authentic architecture and design, and a distinct cultural experience (Leaders magazine, 2014).

Leading Hotels of the World focuses on the member hotels' family ownership. Ted Teng emphasizes that all of the hotels are family owned or family controlled (Gollan, n.d.). According to him, this ownership type secures a different type of service, which makes the guests feel a sense of authentic hospitality (Leaders Magazine, 2014).

Leading Hotels of the World refer to their guests as curious travelers. Their curiosity towards traveling can be seen by the fact that they have more than seven stays at a luxury hotel every year. The definition of a curious traveler is a person who is intellectually curious, meaning that the location, architecture and the history of the property are important. The customers are not interested in a "cookie cutter" hotel, which is a mass-produced hotel without any individual resemblance. The curious travelers are in the age range between 35 and 65, usually travel as couples, and have an executive job title. They do not travel to the same hotel twice - if they do, they return because of the personal service and close relationship they have built with the hotel. The Leading Hotels of the World's customers are global, however a big portion comes from the United States, United Kingdom, Germany and Japan. (Manager, LHW. 2017)

The affiliation has a paid customer loyalty program called Leaders Club. The club has members from 200 countries and number of members grow yearly with 117%. The loyalty program comes at the base level for 141 euros per year or the unlimited level for 1130 euros per year. *"The base level is definitely the most popular one, because it's easier to pay... There is a lot of customers who will to purchase the 150 USD [141 euros] and like it so much that they'll boost up to the 1200 USD [1130 euros] on their next year."* (ibid.) The club members on average do 13 luxury trips every year. (Manager, LHW. 2017). *"Leading travelers are only visiting Leading Hotels of the World hotels and are very loyal to the affiliation."* (Hotel Manager, design LHW hotel, Italy. 2017).

### **Application Process**

The process of becoming a member takes everything from two months up to a year to complete. Around half of the hotels approach Leading Hotels of the World themselves and the other half is approached by the affiliation. They have recently switched to a more reactive approach and reach out to less hotels themselves than previously. (Manager, LHW. 2017)

Before a hotel can apply, they need to be a five star luxury hotel in a location where Leading Hotels of the World is not already represented or where the location is not fully saturated. *"It's important for us not to dilute our business so much that other hotels leave us. It is important to us to maintain memberships and keep the member hotels happy."* (ibid.)

The first step of the process is to complete a membership inquiry form. Then the Membership Development Team considers the hotel's suitability. In short, the inquiry form consists of three parts regarding hotel information, management and ownership:

Part I is hotel information such as number of rooms, average room size, hotel type, food, occupancy rates, and ADR. Part II is key selling features, demand generators, current booking systems, closest airports, and description

of the current competition. Part III is about the hotel's revenue, number of reservations, and rate plan descriptions for the last twelve months.

The second step in the process is a hotel inspection with a representative from the Membership Development Team. The inspection has a focus on the hotel quality and assessment of fit between the hotel and the affiliation based on the specific region the hotel is located in. *"We look at what makes sense to add to the existing portfolio"* (Manager, LHW. 2017). There are one announced and one unannounced inspection. The inspector is assessing the hotel on more than 850 standards to determine the level of quality and service. Moreover, the assessment is also on how the property will meet Leading Hotels of the World's needs. The hotel will be re-inspected every two or third year to ensure it remains at the affiliation's standards (Logan, 2015).

The third step of the process is consulting other members of Leading Hotels of the World in the area to determine if they will benefit or suffer from having a new member hotel. Additionally, the affiliation speaks to all relevant regional offices: *"We assess whether the regional offices know their business [the applying hotel] well, and their rationale behind why they think the interest in this location will be high. And we aim to understand the situation from our own regional director located in our sales office and consult current members in the area to see whether they will be supportive."* (Manager, LHW. 2017)

The executive committee will make the final decision by voting on whether or not the hotel will become a member. The affiliation is very sensitive to its current portfolio and current members: *"If we don't listen to the members that will be affected by a potential new member, we will be hurting our current portfolio and how we operate"*. (ibid.)

### **Membership Requirements**

Leading Hotels of the World has more than 850 specific requirements for new members. The list of requirements is detailed and includes every aspect of the hotel: Reservation experience, arrival experience, hotel facilities, room facilities, food, drinks, personalized service, and quality. The 850+ standards are established through Leading Quality Assurance, a joint venture that handles anonymous inspections of hotels in the luxury hotel sector (Leading Hotels of the World, 2017b).

The assessment can be divided into the following performance classifications: Product, service, and emotional intelligence. Product standards stand for app. 20% of the total assessment. The emotional intelligence is how the staff interacts with the guests. (Manager, LHW. 2017)

Examples of the requirements in the LQA Product Standards: Was the flooring of high quality (i.e. high grade wood, marble, stone, granite, elegant area rugs or high density carpet) and was it clean and in good repair? where other requirements are even more detailed, such as: Was a flat screen television present and was the screen a minimum of 42 inches?

Standards classified as emotional intelligence is about the staff's appearance, such as: Was the employee's speech clear and use of English adequate to be fully understood? or about personalization: Did the employee

use the guest's name naturally and discreetly without overusing it? and an example of a service standard is: Was a waiter service provided/available at the outdoor pool and/or beach? (ibid.)

Hotels are assessed on either: Meets expectations, below expectations or not applicable. In the end, the hotel gets a score. A score of at least 85% is needed to meet the membership requirements (Shankman, 2015a). Assessing the fit between the hotel and affiliation is a crucial point in the process, and meeting the specific requirements are not necessarily enough for a hotel to become a member (Manager, LHW. 2017).

### 3.2.2. Relais & Châteaux

The other internationally recognized hotel affiliation chain is Relais & Châteaux. *“Relais & Châteaux is internationally known to a certain extent. It’s the place to be, and you know it’s the crème de la crème.”* (Director, Industry Association. 2017). Compared to the secrecy of Leading Hotels of the World, Relais & Châteaux has a very different approach to transparency and sharing information. By combining the interviews with hotel managers from member hotels with internal documents received partly from Relais & Châteaux’s public website and sent to the authors by their development department in Paris, and news articles based on interviews with the their CEO Jean-François Ferret among other sources, this section explores the affiliation.

#### Background

For more than 60 years, Relais & Châteaux has united their members based on what they define as hospitality excellence and fine dining. Today, they are an affiliation of 549 properties with independent owners across 64 countries. The affiliation is structured as a fellowship between the members. Their history dates back to 1954. The couple Marcel and Nelly Tilloy owned La Cardinale, which was a hotel with a restaurant located in Paris. The couple came up with the idea of advertising with eight other properties under the slogan ‘La Route du Bonheur’ [translation: The road to happiness]. *“This is the most prestige marketing consortium today and was very exclusive back in 1954.”* (Managing Director, R&C hotel, UK. 2017). The brand Relais & Châteaux of today was established later in 1974.

The selection of the original eight properties built the foundation of the values that still affect Relais & Châteaux today. The original properties were different, authentic, with their own personality and located on the countryside between Paris and Nice in Côte d’Azur. The common traits among them were their quality, focus on fine dining and ideas about the Art of Living. (Relais & Châteaux Press Kit, 2015) *“Calm and character are ambiguous concepts. But it has something to do with the property. That it carries you away. Courtesy is something that captivates all the employees at a Relais & Châteaux property. The atmosphere is important, and the diversity among the member hotels are enormous. There are properties that are enormously charming, but don’t have a pool or trouser press.”* (CEO, R&C hotel, Northern Europe. 2017).

The affiliation is distinguished by strict culinary admission standards, which sets them apart from similar affiliations. All hotels must have a restaurant, but restaurants can be members without being connected to a hotel. (Relais & Châteaux Press Kit, 2015; Shankman, 2015b) *“Cuisine is really our specialty and there is no competition around this. We have 328 Michelin Stars in our family, which is really unmatched,”* CEO at Relais &

Châteaux Jean-François Ferret explains in an interview with the Global travel industry intelligence magazine Skift (Shankman, 2015b).

The main office is in Paris, and they have 14 offices across the world that provide local support in collaboration with the central team to promote and assist its members. They invite members to attend professional trade fairs and aim at promoting its properties by marketing them jointly under the brand name. The members share common traits by having an average of app. 30 rooms, and 85% leisure travelers. (Relais & Châteaux Press Kit, 2015; Shankman, 2015b) They use a shared booking portal to keep track of the booking flow: *"We get a monthly report from Synxis - so we know how many bookings we get via the R&C call center."* (Managing Director, R&C hotel, UK. 2017)

The average guest is 47 years old. Guests visit other Relais & Châteaux properties more than 60% of the time. To their most loyal guests, Relais & Châteaux has a loyalty program called Club 5C. To become a member of the club, the guests have to stay or dine at a Relais & Châteaux property at least 15 nights a year. The club currently has 11.000 members, who on average stay or dine between 15 and 20 nights a year, with an average length of four nights per visit. Half of the members are holders of an American Express Centurion card. The card requires an annual income of more than 1,2 million euros (Relais & Châteaux Press Kit, 2015). *"If you're a 5C Club member, then we give you something - that could be a suite upgrade or champagne. And then we have a database, where it shows what the specific guests like or if they have certain demands. It can say that a guest does not like stairs or does not like female staff."* (CEO, R&C hotel, Northern Europe. 2017).

### **Application Process**

Relais & Châteaux has ten inspectors checking new applicants around the world. Applicants are assessed against a list divided into 20 commitments. Each commitment has criteria linked to it. In total the commitments have more than 300 criteria. In contrast to Leading Hotels of the World, Relais & Châteaux show secrecy when it comes to revealing more in depth what the quality criteria are:

*"... just like Michelin, it is very, very hard to figure out what the criteria are to become a member. They come, they check the hotel, and then it might happen. It is very ambiguous, so we made our own manual where we went through everything from beginning to end. Everything from the rooms, check-in, correspondence, the entire service. When through everything, asking what do we believe it takes? And then we rethought - what more could they be looking at? How do we think it should be? Then we implemented it and got accepted."* (CEO, R&C hotel, Northern Europe. 2017)

Next step is having existing members check the applicant followed by an in-depth interview with the Network Commission. Hereafter, there will be one or more anonymous and official quality audits of the property. Then if successful, the report will be validated by the quality department in Paris and followed by an interview with the president of Relais & Châteaux. The president explores whether the applicants have the right commitment and fits the values of the affiliation as well as if the property has the right soul. Lastly, the board of directors votes

upon the application. The length of the process is not predefined but based on a proper assessment in terms of quality in combination with a certain spirit, value and experience (Shankman, 2015b; Relais & Châteaux, 2016).

### **Membership Requirements**

For joining Relais & Châteaux a property must deliver on five experiences: The taste of the land, the soul of the innkeeper, the family spirit, the celebration of the senses, and the awakening to the artist within (Shankman, 2015b). The CEO of the R&C hotel in Northern Europe captures very well some of the five experiences in the following: *“All the interior we see now is still the original interior from back in 1971. The only thing that has been done is some reupholstering of some furniture. The best quality furniture has been bought. This is what creates this soul and charm. Everything has total patina. Exactly this cannot be bought for money.”* (CEO, R&C hotel, Northern Europe. 2017)

Besides that, Relais & Châteaux has some other criteria for the hotels and restaurants applying for membership (Relais & Châteaux, 2016):

- The property must have been in operation for at least one year under the same owner or management company, and have had the same general manager in charge of the property within the period.
- The applicant must comply with the Quality Charter by accepting to live up to the founding values and the quality criteria.
- Applicants cannot belong to any competing marketing organization or hotel chain, and must sever any links to these memberships once the property has been admitted as a member.

Each property must be deeply rooted in its region and pay attention to its specific culture and context, meaning the property should breathe the spirit of the region - also referred to as “taste of the land”. Combined with what they call the “soul of the innkeeper”, the properties should feel homey, where one can learn about the culture of the area. (Shankman, 2015b)

### **3.2.3. De Historiske Hotel og Spisesteder**

The last affiliation chain is less recognized on an international scale compared to Leading Hotels of the World and Relais & Châteaux. When consulting the Director of the Industry Association in Denmark the Director on De Historiske Hotel og Spisesteder, her response was the following: *“I am not familiar with De Historiske Hotel og Spisesteder... I have been doing some research on their website. It’s a mixture between cities and sort of... There’s a lot of variation. Their identity is hard to completely understand. This is not Leading Hotels of the World, where we are looking at 5+ starred hotels. This is the middle class and the common guest.”* (Director, Industry Association. 2017).

De Historiske Hotel og Spisesteder has more information available on their website compared to Leading Hotels of the World, yet they do not have as comprehensive material as the Relais & Châteaux site. By combining the interviews with hotel managers from member hotels with public information from the affiliation's website, news

articles based on interviews with the board members at DHHS and an interview with the board member at DHHS by the authors, the affiliation unfolds.

## Background

De Historiske Hotel og Spisesteder is a Norwegian hotel affiliation chain. The affiliation's members are hotels with a focus on service, food experiences, a visible host, and a historical aspect. The affiliation was established in 1993 when three hotels on the west coast of Norway decided to promote themselves together (samvirke.org, 2017). Today, the affiliation has 55 hotels, 19 restaurants and one ship as members across Norway. The member hotels are all unique with their own distinctive character, however, common features such as a warm welcome, good service, a friendly atmosphere and quality is expected from each member hotel. These features are in line with the affiliation's three core values: Hospitable, personal, and quality conscious (dehistoriske.com, 2017). The affiliation is governed by its members. Each member has one vote, independent of their size. The board of directors are elected at the annual meeting. (samvirke.org, 2017).

The affiliation works mainly as a professional network for its members, but also provides several services. All the member hotels use the mandatory booking system Synxis. The system is tailored for selling hotel packages in the leisure market. Besides their booking system, De Historiske Hotel og Spisesteder also negotiates booking agreements with online travel agencies with the aim of reducing commissions to external travel agents and business providers. The affiliation has seen a growth in the number of direct bookings through its own booking system linked to a recent enhancement of their booking site. (Board member, DHHS. 2017)

Sharing knowledge and developing competencies happen through courses and education in areas such as sales, marketing, kitchen staff development, hospitality and guest service development, and purchasing. *"De Historiske Hotel og Spisesteder arranges private courses for us in online marketing, where we learn how to market ourselves on our sites. The courses are held at one of our own properties."* (Hotel Manager, rural DHHS hotel, Norway. 2017) Additionally, the affiliation cooperates with NORES Innkjøpspartner, which is one of the strongest purchasing organizations in Norway. Through the cooperation it offers favorable purchasing agreements on food, room equipment, laundry and etc. (Board member, DHHS. 2017)

The affiliation focuses on capturing the leisure market by helping its members with online marketing and putting together packages. De Historiske Hotel og Spisesteder targets both the leisure market and the business market, with more than half of the business coming from the leisure market. In the business market, the affiliation partners with the largest Norwegian companies. *"The suburb DHHS hotel is a part of the package that is targeted towards the American market. It's a collaboration with Norwegian [airline company]."* (CEO, suburb DHHS hotel, Norway. 2017) Together with Norwegian, they offer travel packages including hotels and flights. Besides that, the affiliation is represented at national conferences for business segments. (Board member, DHHS. 2017) *"The hotels that want to be a part of the offerings on conference and meeting facilities go together to pay a sales representative, who works with negotiating deals with the Norwegian business segment"* (Hotel Manager, rural DHHS hotel, Norway. 2017).

De Historiske Hotel og Spisesteder describes its customers as focused on service and with a desire to learn more about the destination they are visiting. Typical customers are couples above 30 with an interest in good food. The customers often buy room upgrades or additional packages. They often visit the hotel because of its history and historical location. Particularly international guests seek to experience the Norwegian culture and food. Several customers travel to destinations and hotels because of activities such as hiking, biking, kayaking, skiing or glacier tours.

The Norwegian market is their largest consumer group. However, as previously mentioned, they cooperate with Norwegian, but also Emirates and other relevant stakeholders to make Norway a more attractive destination internationally. Its current geographical focus outside of Norway is USA, Germany, and Asia, and all markets are growing, particularly the latter with China as the main driver of growth. (Board member, DHHS. 2017)

The typical guests in the business segment are Norwegian companies having meetings for management teams and board of directors, and big conferences. What unites the segment is that they want something else in addition to meeting facilities; they are looking for a different setting. *“We have so many customers who are pretty tired of being at Gardermoen [Oslo Airport]. They need a new environment for their meetings.”* (ibid.)

### **Application Process**

When a hotel applies for a membership with De Historiske Hotel og Spisesteder, the affiliation chain starts off by sending a mystery guest to the property. The mystery guest inspects the hotel to assess whether it fulfills the requirements of the membership. The detailed report from the mystery guest is given to the applicant after the visit. A hotel, that does not pass the first assessment, can apply again. Hereafter, the board of directors reviews the application and the report from the mystery guest. The current members are asked to speak up if someone is against the new member, and if someone opposes the applicant, the board will reconsider the applicant. However, the board has the final say on whether or not the applicant will be accepted. Many hotels are in the application process for two to four years to make sure they can fulfill the quality requirements. (Board member, DHHS. 2017)

### **Membership Requirements**

The affiliation has high quality standards, the members are assessed according to more than 600 specific requirements regarding quality and service level, where the applicants has to fulfill at least 75% to be accepted. The most important factor is the guest experience, such as the personal service level the guest receives, and the food experience. The food is measured on to what degree they serve local food, as well as the quality of the food. (Board member, DHHS. 2017)

*“Some chains care a lot about whether there are lights in the ceiling, four clothing hooks on the wall and so on. We take those things as a given. We measure of course... But the most important aspect for us is the guests’ experience and our standards of service are very important. And then we are very clear on the food experience, so restaurant, service and food is a local experience.”* (ibid.) Hence, 80% of the standards are based on factors

affecting guest experience. In 2016, 38 hotels and restaurants applied for a membership, however only five were accepted. (ibid.)

The affiliation requires that its members have a continuous high level of quality and service, and the mystery guest visits the members every year. If a member does not fulfill the requirements two years in a row the membership will be withdrawn. During the last two years, six hotels have been excluded from the affiliation due to too low quality standards. (ibid.)

A part of the affiliation's unique identity is the historical aspect. This means that each member has to have a unique story to tell, either current or from the past. The member hotel should be a beacon for the destination, and a place to ask questions when a guest wants to experience the destination. Thus, the collection of hotels and restaurants is a story about Norway, and the members promote the destination and Norway nationally and internationally. The members are therefore required to have a story, and to know the story of the destination to a large extent. Hence the hotel should fit the affiliation's slogan: "The Norwegian Storyteller". (ibid.)

In conclusion, the three affiliations have a comprehensive application process and membership requirements. All three affiliations represent some of the most exclusive individual hotels in the world and in Norway. However, to compare the three affiliations towards each other, the authors' overall impression is that Leading Hotels of the World represents the highest degree of quality and luxury, then followed by Relais & Châteaux and lastly De Historiske Hotel og Spisesteder. The Director, Head of Research and Business Development at the Association for the hotel, restaurant and tourism industry in Denmark support this view. This does not mean that De Historiske Hotel og Spisesteder has low quality, and the affiliation has some of Norway's best hotels in its portfolio, but on a global scale the affiliation is perceived lower quality than the others.

### **3.3. Membership Costs**

The section will dig into the cost structure used by each of the three affiliation chains. The analysis will start off with Leading Hotels of the World, then Relais & Châteaux and De Historiske Hotel og Spisesteder.

#### **3.3.1. Leading Hotels of the World**

Membership costs of Leading Hotels of the World are based on a performance model. *"We work with a performance based model, so it will be like a risk sharing model in any other market, but where we produce more the fees go up, when we produce less the fees go down."* (Manager, LHW. 2017) Basically, that means that the more the affiliation is doing for the hotel the more the hotel has to pay in fees. The yearly membership fee is 1-2% of gross room revenue.

There is no application fee, however an implementation fee is charged to get the hotel's information into Leading Hotels of the World's systems. Additional fees come when a member participates in events. The member hotels might also expect some additional costs in regard to the loyalty program, Leaders Club. As part of this loyalty program the guests get every 4th or 5th night for free and the opportunity to upgrade their rooms, free airport transfer among others.

All members sign on to a five-year contract to ensure a long-term relationship. *“We work on a five-year contract term which tends to be ... you know, essentially a longer held asset. To have that five-year relationship, we see so much in hospitality that it’s such a relationship and people focused industry, that we don’t have that long-term relationship if it’s just in and out in just two-three years. I don’t think we produce as well and I don’t think we engage as well with the hotel, because we just feel like it’s a short-term asset.”* (ibid.) The average membership duration is 16 years, and seven members have been members from the beginning in 1928 (ibid.).

### 3.3.2. Relais & Châteaux

The membership cost structure at Relais & Châteaux is highly transparent. The fee structure is public information and can be found online. The following table presents the cost structure:

Category	Amount in EUR before taxes
<b>Financial contribution to initial quality audit</b>	2.322,50 for hotels
<b>Admission Fee</b>	10.838,80 for hotels
<b>Guarantee Fund Contribution</b>	2.012,92
<b>Global Annual Membership Fee</b>	8.361,36 base fee + 363,87 per room + 518,71 per suite/apartment
<b>Annual Delegation Fee</b>	10% of the annual membership fee
<b>Rendez-Vous Participation Fee</b>	1.625,82

**Table 1: Cost Structure of Relais & Châteaux (Relais & Châteaux, 2016).**

The Annual Delegation Fee and Rendez-Vous participation fee are the annual general meetings where every member pays a fee to attend. *“It costs a lot to participate at the annual congress. It is well looked upon to participate, but they know it’s a big expense. We have attended many of them, it’s very exciting and there is new knowledge about IT systems, recruitment, challenges and so on.”* (CEO, R&C hotel, Northern Europe. 2017)

The fees are set yearly by the board of directors, and can change from year to year. (Relais & Châteaux, 2016) In addition to the cost structure presented above, the hotels cover the guest’s expenses from the loyalty program 5C Club. This can be a suite upgrade or champagne. (ibid.)

Relais & Châteaux does also charge a reservation fee for the different distribution channels. As presented in Table 2, the reservation fees for booking via a Relais & Châteaux reservation system is lower than the commissions for booking via travel agencies or Relais & Châteaux business partners. The commissions the members have to pay to the OTA’s are lower than what a hotel usually pays. The general level of commission for individual hotels is 15% and above, whereas Relais & Châteaux members only pay 10% commission fee. (Hotel Manager, city LHW hotel, Nordics. 2017)

Distribution Channel	Reservation Fee	Commissions (Travel agents and/or Business Provider)
Voice/Call Center	7%	10%/8% if package
GDS/IDS	12,20 per booking	10%/8% if package
Relais & Châteaux Website/App	5%	10%/8% if package
Guest Connect/Flex Shared/Property Website	Free	N/A
Direct Connect/Channel Connect	4€ per booking	Commission stated in the specific contract between the OTA and the member.

**Table 2:** Fees and Commissions of Central Reservation Systems (Relais & Châteaux, 2016).

### 3.3.3. De Historiske Hotel og Spisesteder

The affiliation is financed through membership costs and provisions from the booking system. The yearly cost of the membership is based on the size of the hotel based on the number of rooms. The costs can be seen in Table 3 below. The share of the affiliation fee and the mystery guest are one-time fees. The affiliation will cover the mystery guest when the applicant becomes a member. (Board member, DHHS. 2017).

Category	Amount in EUR before taxes
<b>Annual Membership Fee based on number of rooms:</b>	
0 – 15 rooms	5.626
16 – 30 rooms	8.507
31 – 99 rooms	4.253
100 + rooms	18.433
<b>Share of the Affiliation:</b>	
0 – 30 rooms	1.647
31 – 99 rooms	3.294
100 + rooms	4.941
<b>Mystery guest</b>	988

**Table 3:** Cost Structure at De Historiske Hotel og Spisesteder, own making based on Board member, DHHS. 2017.

Other additional costs are connected to bookings. The provision level is 4% per online booking for revenue less than 109.790 euros. After revenue of 109.790 euros the provision is 2%. (ibid)

### 3.3.4. Transaction-Specific Investments and Membership Criteria

Having analyzed what it takes to become a member of the different affiliation chains, one can turn to the hypothesis that was formulated in the *Theoretical Framework: H5: It takes transaction-specific investments and costs to become a part of an affiliation chain.*

When exploring the hypothesis, one must consider if it takes transaction-specific investments to enter an affiliation. Transaction-specific investments are the specific investments the hotels have to do in order to fulfill the membership requirements of the specific affiliation and their quality criteria, and what it takes to go through the application process.

Whether the investment is transaction-specific is based on the degree of specificity, redeployment and transferability. Hotels must often do investments specifically tailored to enter their respective affiliation chains. Especially, when looking at the more than 850 product criteria to enter Leading Hotels of the World, it becomes clear that the investments are highly specific. *“The hotels are responsible for the overall design, but of course when it comes to the quality criteria - Leading has criteria for everything from bedding, pillows, towels and number of chairs in the room.”* (Hotel Manager, city LHW hotel, Nordics. 2017)

This is less clear when looking at Relais & Châteaux, where the standards are less explicit. Turning to De Historiske Hotel og Spisesteder, the specificity degree is present, but the hotels only have to fulfill 70% of the criteria compared to 85% at Leading Hotels of the World. Even though their criteria differ, they all have several of them that affect the nature of investments. Conclusively, the investments live up to the specificity criterion.

The more limited the transferability of the investment is, the more the investment is locked to the specific transaction. When enhancing the quality and service of a hotel to reach certain specified levels laid out by the affiliations, the end results of the enhanced hotel could be used for other purposes such as selling the property, converting the ownership structure etc., which would indicate possibilities of transferability.

Yet, whether the investment is transaction-specific is also determined on whether the worth of the investment changes if the transaction changes. Put in other words; if the worth of the investment changes if the aim is no longer to enter an affiliation chain. This question is hard to fully explore, because there is no data collected on hotels that invested to get membership of an affiliation chain and then chose not to follow through with it, which would shed light on the topic.

The findings indicate that the investments it takes to become an affiliation member are transaction-specific.

### **3.4. Membership Gains**

The interviewed hotels are all in the luxury segment. All of the interviewed hotels have a five star rating according to themselves and operate in the upper price segment. However, the hotels differ highly on other aspects, such as location, hotel size, design, and function of the hotels.

The analysis indicated that nine overall gains exist. The nine gains are what a hotel can benefit from by being in an affiliation chain. The list is not exhaustive but the most significant ones have been prioritized. It should be noted that some gains can intersect, but it has been necessary to categorize them somehow. Moreover, gains should be interpreted as both revenue enhancing activities and cost reducing activities. Figure 7 below gives an overview of the gains and the order in which they will be presented, progressing from more intangible gains to tangible ones:



Figure 7: Overview of Gains, own making.

Due to the heterogeneity among the analyzed hotels, which is an assumption when using the Resource-Based View, one cannot assume that all types of gains are relevant to the same extent for all types of hotels. It is therefore interesting to assess which factors that make each gain relevant for different hotels.

According to RBV, hotels differ because they possess different bundles of resources, which is resource heterogeneity. This is also why different hotels benefit from different gains: Two hotels can have access to the same gain but the level of sustained competitive advantage the gain gives each hotel depends on the total resource bundle and the immobility of the gain for the specific hotel. Hence, the hotel with the most suitable resource bundle and immobility will perform better compared to the other hotel.

### 3.4.1. Knowledge Sharing



Figure 8: Knowledge Sharing Gain, own making.

Memberships give access to a network where the hotels can share their knowledge and experiences with each other. Many of the interviewed hotels explain how they use the network of hotels. The Sales and Marketing Manager from the design LHW hotel in Germany explains how the hotels in Germany and Austria from Leading Hotels of the World get together twice a year. It is usually hotels in the same region that connect with each other, i.e. all the German speaking hotels or the Nordic hotels: *“We cooperate closely with the other LHW hotels in the Nordics. It is a Nordic ‘thing’. We are still very small hotels compared to the big hotels in Europe,”* adds the Hotel Manager from the city LHW hotel. (Hotel Manager, city LHW hotel, Nordics. 2017)

The CEO from the R&C hotel in Northern Europe agrees that it is easy to get in touch with other hotels to share information. The staff of Relais & Châteaux member hotels can visit other Relais & Châteaux hotels and get a discount on the stay outside of peak seasons. *“In this way you can experience and see many Relais & Châteaux places, and there are enormous benefits in seeing the other hotels”* (CEO, R&C hotel, Northern Europe. 2017).

The suburb DHHS hotel and the rural DHHS hotel explain how the member hotels in De Historiske Hotel og Spisesteder get together regularly to discuss any challenges they have in common. Hotel Manager from the suburb DHHS hotel said that he talked to another member hotel about its experiences with removing all TV’s from the rooms (CEO, suburb DHHS hotel, Norway. 2017).

Members of De Historiske Hotel og Spisesteder cooperate more closely than in the other two affiliations. However, some parts of Relais & Châteaux cooperate more closely as well. The chefs have a strong network: *“The chef has just been in California with other Relais & Châteaux chefs. They [the chefs] exchange a lot of information, and meet up regularly ... the delegations meet and travel around to visit each other.”* (CEO, R&C hotel, Northern Europe. 2017)

Another important area of knowledge sharing is through trainings and courses. All three affiliations offer this. The Hotel Manager explains how: *“Leading Hotels of the World has trainings and courses to both the sales team, the management team, and the revenue management team.”* (Hotel Manager, city LHW hotel, Nordics. 2017) Relais & Châteaux arranges meetings and a yearly congress. The congress is a big event lasting for three days where new knowledge within IT systems, recruiting, trends and challenges in the industry are presented and discussed. Many meetings for the European delegation are held in Paris and other big cities in Europe. (CEO, R&C hotel, Northern Europe. 2017). De Historiske Hotel og Spisesteder also offers courses in different areas, and Hotel Manager explains how the rural DHHS hotel has used the affiliation to learn more about online marketing.

How often the hotels use these offerings differ, but all of the interviewed hotels explain that it is fairly easy to participate if they want to. The main reason for not participating is the high expenses associated with the events. The CEO estimated the cost of the yearly congress at Relais & Châteaux to be around 8.000 euros.

Knowledge sharing can also be about the customers. Both Leading Hotels of the World and Relais & Châteaux have a customer database. The Hotel Manager explains that: *“It’s a database of the Leading Hotels of the World guests, so we know what wine he likes and what he wants to eat before he arrives at the hotel.... It makes the guest feel immediately like home because we know what he likes.”* (Hotel Manager, design LHW hotel, Italy. 2017) Relais & Châteaux has a similar database with all specific requirements the guests might have. The database is updated by the hotels, and is a way to make sure that the affiliation as a whole satisfies the customers. (CEO, R&C hotel, Northern Europe. 2017)

Having analyzed the gain of knowledge sharing one can turn to explore the hypothesis developed in the theory section: *H2: Global affiliations have more weak ties than local affiliations.* Weak ties mean that the member hotels do not connect often enough to get irrelevant and redundant information. The less often the hotels connect, the more important will the shared information between them be, according to the Strength of Weak Ties Theory from the theoretical framework.

As analyzed above, the members of Leading Hotels of the World and Relais & Châteaux communicate less frequently than members of De Historiske Hotel og Spisesteder. Moreover, the two global affiliations share strategic information, whereas in De Historiske Hotel og Spisesteder knowledge is shared on an operational level, where they discuss the daily management of the hotels. (CEO, suburb DHHS hotel, Norway. 2017). The findings suggest that the information is, in fact, more non-redundant in the two global affiliations compared to De Historiske Hotel og Spisesteder.

Turning to explore H3: *Global affiliations give access to different pools of information to a higher degree than local affiliations*, it becomes clear that Leading Hotels of the World and Relais & Châteaux are two big, global affiliations with hundreds of member hotels all over the world. This opens up for a high number of different information pools, compared to De Historiske Hotel og Spisesteder which only operates on a national scale with 55 members in total.

However, the data also shows that the hotels in Leading Hotels of the World mainly cooperate with hotels in the same regions, such as in the Nordics or in German-speaking countries. This makes the ties less weak and decreases the number of different information pools the members actually use. These findings show that global affiliation chains do not necessarily give access to different information pools to a higher degree than national affiliation chains.

The gain *Knowledge Sharing* seems mostly relevant for hotels with the possibility of cooperating with other hotels in the same location, such as the Nordics or all German-speaking countries.

**3.4.2. Access to New Segments**



**Figure 9: Access to New Segments Gain, own making.**

Having conducted interviews with several hotels, it becomes clear that almost all of the hotels are using affiliation chains to gain access to new segments in some way. Especially Leading Hotels of the World allows cities like ours to get on the map: *“How can we ensure we reach the international market, considering that no one knows about our city?”* (Sales and Marketing Manager, design LHW hotel, Germany. 2017). For the Sales and Marketing Manager, turning to Leading Hotels of the World was the only mean for reaching international guests for their soon-to-be build hotel in Germany.

The Hotel Manager, who is managing the design LHW hotel in Italy, adds that they also joined Leading Hotels of the World in order to reach clients all over the world: *“We got the opportunity of good marketing in Asia and other new geographical areas... After becoming a LHW member we get more international clients.”* (Hotel Manager, design LHW hotel, Italy. 2017).

On the other hand, for hotels located in capital cities, Leading Hotels of the World targets their desired segment and the member hotels leverage the powerful international marketing effects to do so. *“The membership is strategically important... Leading is a marketing cooperation that gives us access to exclusive high-level guest segments internationally, which we could not have reached otherwise.”* (Hotel Manager, city LHW hotel, Nordics. 2017)

An interesting case is the resort LHW hotel in the UK. They have just terminated their membership with Leading Hotels of the World after 20 years. Senior Revenue Coordinator describes why they initially joined the affiliation: *“It provided us with a bigger presence on the global stage and thus a wider audience, which appealed to us at the time and as a marketing partner could reach possible international clients and promote us to them. It provides us representation on a global scale which would otherwise be difficult to achieve on our own.”* (Senior Revenue Coordinator, resort LHW hotel, UK. 2017) The resort hotel is a golf destination, and had hoped Leading Hotels of the World would have added guests to their business and golfing segment.

But this has not happened, and the Senior Revenue Coordinator elaborates on their view of the affiliation: *“In reality, it is largely transient activity that comes through LHW. We will be transitioning to a different luxury provider this year. We were seeking a company to provide us with more support and an increase in group business. While we kept LHW in mind, the final decision was taken to move to a competitor. We believe that this move will help us break into a new global luxury market and that the company will provide us greater support in our endeavors. We also feel that our new provider is more in tune with the direction that we as a resort are currently moving in.”* (ibid.)

Even though the resort LHW hotel was dissatisfied with Leading Hotels of the World’s capabilities to attract their desired target segment of business and golfers to their hotel, the remaining member hotels indicate how Leading Hotels of the World does give them access to numerous new markets depending on the target segment of the hotel.

Turning to the member hotels of the other affiliations, it becomes clear that the R&C hotel in Northern Europe had the same purpose as many of the Leading Hotels of the World members: *“We applied to Relais & Châteaux in order to attract international guests. We don’t have a Michelin star yet, so it’s very important to be a Relais & Châteaux member. The effect of the membership diminishes throughout time, but when it comes to international guests the membership is very important to us. We have guests from Germany, USA, Brazil, England, Italy and so on.”* (CEO, R&C hotel, Northern Europe. 2017). So even though they have been a member of the affiliation since 1975, they still treasure the membership when it comes to attracting international guests. The R&C hotel in Northern Europe is located two hours from a large city and the location itself is not known as being worth traveling for.

Also the Head of Sales, Head of Sales at the R&C hotel in Switzerland supports the same mission. The R&C hotel in Switzerland is located in a town, which is not internationally known compared to other more famous Swiss cities like Lausanne, Bern or Zürich, which is why they leverage the membership to expand their international reach (Head of Sales, R&C hotel, Switzerland. 2017).

The Managing Director of the R&C hotel in the UK brings even further support to the tendency: *“To give a small 17 bed hotel international exposure from a luxury platform. Reaching worldwide under a well-known brand.”* (Managing Director, R&C hotel, UK. 2017) the R&C hotel in the UK is located one and a half hour outside of London and the small manor uses Relais & Châteaux to get access to international segments as well.

Also when looking at Relais & Châteaux an interesting case arises. The rural DHHS hotel in Norway has previously been a Relais & Châteaux member, but is now a member of De Historiske Hotel og Spisesteder. The Hotel Manager revealed that: *“We didn’t get any international guests. That is one of the reasons we are no longer a member. The main reason for switching to De Historiske Hotel og Spisesteder was to gain access to the national segment.”* (Hotel Manager, rural DHHS hotel, Norway. 2017)

The gain *Access to New Segments* has proven to be most effective for those hotels that are not internationally known already. There is a strong relation between less internationally known locations and the desire to target international segments, where the only exception to the rule is the rural DHHS hotel that targets national guests. For hotels in more famous locations or capital cities, it becomes clear that the affiliation gives them access to the superior tier segment they desire to reach.

**3.4.3. New Positioning**



**Figure 10: New Positioning Gain, own making.**

In order to reach the new segments described in the previous section, it is essential for the hotels to leverage the effect of their membership to reposition themselves. The LHW Manager elaborates on how a hotel can activate their brand and use it to position the hotel in the luxury segment:

*“From my perspective it’s a collaborative business opportunity, so it’s a wonderful opportunity if that’s what you want to do and you want to work kind of for the elite, it’s not something we can just turn on and activate - it’s much more focused on engagement and how we work with the hotel, how we cultivate the stories around the property in order to speak to our end-customers and to sell the product. So it’s the high engagement role, but I think in terms of having that luxury feel as well as being able to be among some of the best hotels in the world; It’s an easy decision.”* (Manager, LHW. 2017)

Even though there might be several hotels in the same city, which is the case with Rome in Italy, the LHW Manager explains that they focus on their differences in order to position them and attract different guests: *“... you could say that each of the hotels in Rome have a slightly different experience, because they’re all so independent, so individualistic. They all speak to different aspects of the luxury customer.”* (ibid.)

Hotel Manager of the city LHW hotel emphasizes how Leading Hotels of the World gives access to exclusive, high-level segments that could not be reached without the positioning they get through their membership. This is linked to the previous analysis in *Access to New Segments* of them aiming for the top tier guest. *“They send their top executives here. We will be milking the top tier all the way. We are not for the masses, we are for the*

*individual, the wealthy travelers, who wants a little bit extra and is willing to pay for it.” (Hotel Manager, city LHW hotel, Nordics. 2017)*

Relais & Châteaux helps position the R&C hotel in Northern Europe as a property, which is more than simply a hotel and restaurant. By being a member of the affiliation, the R&C hotel in Northern Europe positions themselves as delivering the top tier experience and feeling that comes with the Relais & Châteaux affiliation. *“Relais & Châteaux is known for the food and the total experience coming with it.” (CEO, R&C hotel, Northern Europe. 2017).* This is highly important for the R&C hotel in Northern Europe as long as they do not have a Michelin star.

Also for the interesting case of the rural DHHS hotel, the membership of De Historiske Hotel og Spisesteder has allowed them to reposition themselves. *“We have laid off some employees and some of the things that the waiters do. All the little details from Relais & Châteaux were unnecessary. An example is that the guests pour their own wine now or put their napkin in their lap themselves. That were things that Norwegians did not appreciate being done for them before. This has reduced the number of employees and “the quality” of their job. Not everybody needs to be educated sommelier, we only have one today.” (Hotel Manager, rural DHHS hotel, Norway. 2017)*

Compared to a more standard hotel, hotels that can either play on a high distinctiveness degree through their property or hotel concept, or have certain unique functions or services have the advantage to leverage these in combination with the position of the affiliation chain.

It becomes clear that the hotels all extend the perceived position of the affiliation they are a member of to their own hotel. So by being a member of an affiliation that has a position the hotel desires, the hotel can reposition themselves in the direction towards the affiliation and leverage it as a type of brand extension. Like the R&C hotel in Northern Europe that positions themselves as a gourmet restaurant through their membership. Hereby, this shows how to leverage the interfirm complementary resources through positioning, which shows there could be a competitive advantage through the positioning the hotel can gain by the membership.

Comparing this to the hypothesis *H1: By leveraging interfirm complementary resources a hotel can create a competitive advantage through economies of scale*, it becomes clear that the hotels use the complementary resources of their chosen affiliation chain such as marketing budgets, position and extended capabilities through economies of scale. Especially for smaller hotels they benefit from the heavy exposure and positioning that they most likely could not afford on their own.

### 3.4.4. Quality Stamp



Figure 11: Quality Stamp Gain, own making.

The previous sections made it clear that the hotels are trying to reach new segments through measures like repositioning via their membership. Besides a new position in the mind of the guests, the membership of an affiliation chain also provides a quality stamp in general.

*“Relais & Châteaux automatically gives you a stamp saying: Okay, they know how to do this, because it’s a requirement at a Relais & Châteaux property that you are skilled and have a certain service level. To be a part of Relais & Châteaux gives a feeling of pride for the employees and a drive everyday - we must and we are bound to sustain the quality and the standards, so it’s a drive just like Michelin stars are.”* (CEO, R&C hotel, Northern Europe. 2017) It becomes clear that at the R&C hotel in Northern Europe the Relais & Châteaux membership adds a lot of intangible value that can be channeled into the feeling of superior quality.

For the R&C hotel in Northern Europe the value of the membership cannot be measured in how much business it drives directly: *“There’s no doubt that you can find a chain that drives more business, but that it is not something we will vouch for. We want to identify ourselves with Relais & Châteaux.”* (ibid.) One also has to take into account that the R&C hotel in Northern Europe has been a member of the affiliation since 1975, which affect how the CEO perceives the value of the membership and might help explain why she ties it up so closely to their identity.

At the same time, the Director of the Industry Association says that Leading Hotels of the World is a quality stamp and above the quality stamp of Relais & Châteaux. This perspective is supported by the Sales and Marketing Manager from the design LHW hotel in Germany who adds: *“If you want to spend money you should spend it on something where you fit in or where you have the most recognition ... Leading Hotels of the World has the most well-know name and you want to spend your money on the leading chain.”* (Sales and Marketing Manager, design LHW hotel, Germany. 2017)

Looking at how quality is perceived at De Historiske Hotel og Spisesteder, it becomes clear that the quality standards of the affiliation are perceived differently. Hotel Manager at the suburb DHHS hotel, Norway says: *“The quality standards we have via De Historiske Hotel og Spisesteder do that we are at the very top.”* (CEO, suburb DHHS hotel, Norway. 2017) On the other hand Hotel Manager at the rural DHHS hotel adds: *“It is not all properties that are good enough, and that’s because it’s too easy to get into the affiliation chain. There are too many members.”* (Hotel Manager, rural DHHS hotel, Norway. 2017)

Therefore it is hard to conclude whether De Historiske Hotel og Spisesteder is accepting its members on a basis that hurts its quality stamp. The board member at DHHS replies to the critique: *“We have become very critical*

towards who can become a member. So it's very challenging to become a member now. There are strict criteria for quality and historical quality, and it's only a selected few of the best qualifying that shall be accepted." (Board member, DHHS. 2017)

Conclusively, exploring how the member hotels all perceive the value of a quality stamp in different ways help shed light on H1: *By leveraging interfirm complementary resources a hotel can create a competitive advantage through economies of scale.* At the R&C hotel in Northern Europe the quality stamp is a part of their identity, at the design LHW hotel in Germany the quality stamp is tied to the external recognition and lastly at the suburb DHHS hotel it leads the quality and ensures the hotel is top performing. All in all, they use the quality stamp in different ways to enhance their competitive advantage.

### 3.4.5. Increased Awareness and Public Relations



Figure 12: Increased Awareness and PR Gain, own making.

The gain of awareness is closely related to the gain of *Access to New Segments* as awareness and increased PR at hotels in unknown locations open up for a new audience. PR distinguishes itself from the marketing initiatives by being earned media rather than paid media.

As mentioned in part *Access to New Segments*, the design LHW hotel in Germany gets placed on the map by being a part of Leading Hotels of the World. The Sales and Marketing Manager explains how their city is an unknown city seen from a global perspective, and that only Germans have heard about it as a travel destination. Even though the hotel is not open yet, the membership at Leading Hotels of the World has already created awareness around the hotel. This is a benefit that has not led to additional expenses for the design hotel besides the membership cost. (Sales and Marketing Manager, design LHW hotel, Germany. 2017)

Many of the members get additional PR after joining an affiliation and therefore increase the number of guests. *"When we were a part of Relais & Châteaux we got a lot of attention in the media,"* says Hotel Manager from the rural DHHS hotel (Hotel Manager, rural DHHS hotel, Norway. 2017). The CEO at the R&C hotel in Northern Europe explains that it is hard to know exactly how many bookings Relais & Châteaux is generating, however, the hotel gets many inquiries from travel magazines all over the world that only writes about the hotel because it is a member of Relais & Châteaux. *"They would never do that if we were not a member of the affiliation. So in that way the membership has an effect on getting more guests."* (CEO, R&C hotel, Northern Europe. 2017)

The affiliations can also increase PR via cooperations with other agents in the hospitality industry. The suburb DHHS hotel explains that the hotel is a part of a package deal via De Historiske Hotel og Spisesteder directed toward the American market: *"It is a cooperation with Norwegian [airline company]. The package makes you*

more visible in the media. But it is a balance between how much more you sell and how much that is just media coverage.” (CEO, suburb DHHS hotel, Norway. 2017)

The gain *Increased Awareness and Public Relations* is effective for those hotels that are not already known or are located in an unknown area. The design of the hotel might also be a factor that helps increase the awareness of the hotel, such as the design LHW hotel in Germany that has a unique architecture. The distinctiveness of the property, meaning hotels that stand out, will also increase the awareness and the public relations around a property.

**3.4.6. New Sales Channels and Marketing Initiatives**



**Figure 13: New Sales and Marketing Initiatives Gain, own making.**

When the LHW Manager asks applicants why they join Leading Hotels of the World, the usual conversation unfolds like this: *“We ask what are you looking for and why are you joining Leading? Sometimes they join for brand awareness, improved ADR, optimized revenue, access to luxury markets. Because we tend to work with the highest value luxury markets globally, so we focus on that as a marketing and sales strategy. Depending on the property itself, we tend to get the property to work with American Express and other sources with high revenue coming through and we really focus on marketing across channels.”* (Manager, LHW. 2017)

Leading Hotels of the World gives the members access to extended marketing budgets that allow for increased marketing initiatives and access to new sales channels. One of the sales channels are the loyalty programs. Leaders Club is Leading Hotels of the World’s club, which the LHW Manager describes the following way: *“It works well, it’s a good programme, guests pay to get into it, which is why we’ll question who it is that wants to pay and why do they want to pay? Because of that they are a very dedicated base of people that travel around the world. So for new hotels we tend to do very well, because we know how to sell it and all the Leaders Club members are very excited about the opportunity to try out a new hotel.”* (ibid.)

Leading Hotels of the World collaborates with American Express through their Fine Hotels and Resorts booking platform, which is only for American Express holders and displays luxury hotels. The Senior Revenue Coordinator explains the effect for the resort LHW hotel in the UK: *“It made us the hotel of choice for American Express/Fine Hotels and Resorts guests visiting the area.”* (Senior Revenue Coordinator, resort LHW hotel, UK. 2017)

But even though the resort LHW hotel has become the preferred destination for American Express holders, this is not enough to keep the hotel as a member of the affiliation as previously mentioned. They believe that Leading Hotels of the World has failed them with sales channel for the conference segment: *“In regards to group/business segments; we have provided a great deal of data and information regarding our conference abilities to LHW...”*

*While we have had a very small number of enquiries coming from Leading Hotels for conference space/dining, I recall only one turning definite over the past two years and even then with a great deal of difficulty. In this regard, we do feel let down by LHW.” (ibid.)*

Hotel Manager of the city LHW hotel adds that the financial aspect must be included when assessing the initiatives: *“Leading works with the big credit card companies like American Express, Mastercard, VIP priority customer lists: they cost money. Do you want to join a road show in the US? Lots of trips, lots of tours, a lot of international programs. We are small and we have relatively tight budgets and a small sales and marketing department.” (Hotel Manager, city LHW hotel, Nordics. 2017)*

Also with Relais & Châteaux there is the extended sales channel through their loyalty program called Club 5C. The membership is free for the guest and the member hotels cover the extra expenses for upgrades etc. *“Club 5C also costs a little bit, but usually guests spend a lot of money.” (CEO, R&C hotel, Northern Europe. 2017)* the Head of Sales at the R&C hotel in Switzerland adds that they leverage the sales channels and marketing initiatives of Relais & Châteaux: *“The chain allows for international exposure, trade fairs, marketing initiatives. The brand helps position the hotel in the mind of the consumers and the trade fairs. The marketing effort creates an easily recognizable brand.” (Head of Sales, R&C hotel, Switzerland. 2017)*

According to Hotel Manager at the suburb DHHS hotel, Norwegian takes on a big part of promoting the packages, many of those are especially targeting the American market. *“De Historiske Hotel og Spisesteder is responsible for creating the package trip and promote it, but the biggest help with this comes from Norwegian.” (CEO, suburb DHHS hotel, Norway. 2017)* But the support to the package trips is not complete, with Hotel Manager adding his perspective to the marketing initiative: *“De Historiske Hotel og Spisesteder has a focus on offering trips around the country, which our hotel doesn’t want to be a part of. We believe that it’s a little too expensive compared to what you get in return.” (ibid.)*

Furthermore, De Historiske Hotel og Spisesteder also appear at fairs. The board member at DHHS explained how they have a sales representative. Hotel Manager of the rural DHHS hotel elaborates on the concept: *“The hotels that want to be a part of the conference team share the costs of a sales representative who works with negotiating deals with Norwegian businesses.” (Hotel Manager, rural DHHS hotel, Norway. 2017)* The Hotel Manager adds that the focus when negotiating the deals is a lot on prices rather than quality. *“We have the biggest expectations to the chain with regards to the business segment... We are not pleased with the strategy. It’s price focused. Most member hotels cannot compete based on price. They have to sell the properties and the experiences, not so much sell it on price.” (ibid.)*

These findings show that the affiliations give access to information pools via fairs, delegations and the like. It becomes clear that De Historiske Hotel og Spisesteder has one sales representative that mainly works nationally compared to Relais & Châteaux that has delegations that travel across the world and market the affiliation, and lastly Leading Hotels of the World do road shows, fairs and collaborate with the major credit card companies.

The pattern is that the more international the affiliation chain is the more extensive is the participation in international marketing.

The gain *New Sales Channels and Marketing Initiatives* is effective for all hotel types. It depends more on how intensely the hotels want to be promoted and how large marketing budgets they have.

The analysis sheds light on *H2: Global affiliations have more weak ties than local affiliations*, and *H3: Global affiliations give access to different pools of information to a higher degree than local affiliations*. De Historiske Hotel og Spisesteder will nevertheless have access to less information pools through their one sales representative than the international affiliations that have delegations working internationally. Furthermore, by spreading representatives out on a global scale, the ties between representatives are assumed to be weaker, because it can be assumed that they encounter each other on a less frequent scale. This indicates that their information will be less redundant.

This insight also helps explore *H1: By leveraging interfirm complementary resources a hotel can create a competitive advantage through economies of scale*. Based on access to the network of sales representatives and delegations, gains are created through economies of scale via new sales channels that a single hotel would not get access to without the affiliation chains.

### 3.4.7. Increased Negotiation Power



Figure 14: Increased Negotiation Power Gain, own making.

When it comes to negotiation power and making deals, De Historiske Hotel og Spisesteder has a very strong position in the Norwegian market. Both the suburb DHHS hotel and the rural DHHS hotel agree that the savings on logistics alone make the membership worth it. This was one of the factors that contributed to making the rural DHHS hotel switch from Relais & Châteaux to De Historiske Hotel og Spisesteder, and Hotel Manager of the rural DHHS hotel explains:

*“Relais & Châteaux did not provide us with a national network and no purchasing agreements, which made it hard for us to stand on our own... The main reason for switching to De Historiske Hotel og Spisesteder was getting access to the national market and shared booking systems. On top of that we have become part of a purchasing agreement, and get very good deals... The purchasing agreements are a very big gain, and now we are part of a big Norwegian network.”* (Hotel Manager, rural DHHS hotel, Norway. 2017)

At the same time, the affiliation chain is discussing how to handle the OTAs such as booking.com. Booking.com is a topic that is present when interviewing all the hotels regardless of affiliation. The Hotel Manager from the

rural DHHS hotel reflects on what De Historiske Hotel og Spisesteder can do with regards to booking.com: “If more hotels go together and agree on leaving booking.com, then we’ll do it too.” (ibid.) At the R&C hotel in Northern Europe, the CEO perceives Relais & Châteaux as a relatively small affiliation chain that cannot affect the OTAs. At least not without all the members agreeing on leaving the online booking sites. She estimates their negotiation powers as limited in this situation.

Turning to Leading Hotels of the World, the Hotel Manager at the city LHW hotel shares her frustration and reveals what happened when the Nordic hotels stood up against Expedia: “Leading Hotels of the World has no power. They cannot make a decision and set very strong guidelines on what is mandatory, because they are just individual hotels... and they admit it themselves e.g. during negotiations. The Nordic hotels stood up against Expedia some years ago - terminated the contracts. But Leading has to make a decision for either everybody or nobody. And internationally, this [Expedia] was not an issue. We have negotiated a lot, but a lot of member hotels do not want the same thing... They have to say: We are terminating the contracts for all our hotels if we cannot negotiate a better agreement. And that is not something a lot of hotels are willing to do.” (Hotel Manager, city LHW hotel, Nordics. 2017)

The gain *Increased Negotiation Power* is mostly relevant for hotels that need negotiation power on a local scale, since none of the affiliations handle the global problem of OTAs anyway. The findings shed light on the following hypotheses: *H1: By leveraging interfirm complementary resources a hotel can create a competitive advantage through economies of scale* and *H2: Global affiliations have more weak ties than local affiliations*. It shows that the negotiation power is stronger in a local affiliation chain than in a global affiliation chain, because it is harder to convince the members of the international affiliation chains to find common ground than in a local affiliation chain.

This shows that the global affiliations have weaker ties within the affiliation and thereby has less control over their ties. Furthermore, the strong negotiation power that De Historiske Hotel og Spisesteder exercise is based on the strength of economies of scale. By coupling together their purchases they have the ability to negotiate better deals than individual hotels.

**3.4.8. Easier to Recruit and Exchange Staff**



Figure 15: Easier to Recruit and Exchange Staff Gain, own making.

The research makes it evident that a gain from being a member of an affiliation chain is increased ability to recruit and exchange staff between the members. For most hotels operating in the luxury segment, the staff is crucial. All the interviewed hotels admit how important the staff is to be able to deliver quality service at this level. “We have chosen to have a high quality level, which also requires high quality on the people working here. It is an

*education process connected to this. We need people with long and solid experience.”* (Hotel Manager, rural DHHS hotel, Norway. 2017)

Many of the hotels admit that it is hard to find the right people when the requirements are high: *“It is quite hard to find the right people staff. You have to invest a lot of time to teach the new staff the standards”* says the Hotel Manager (Hotel Manager, design LHW hotel, Italy. 2017). The Hotel Manager explains that it is hard to attract the right people. *“We feel that it is big difference of what a 5-star hotel means in our country compared to internationally, especially when considering staffing. Leading requires that there’s always a person at the door to open it for you... We cannot meet this requirement ... it’s hard to find staffing for it and very expensive in the Nordics.”* (Hotel Manager, city LHW hotel, Nordics. 2017)

Due to all the challenges connected to recruiting, the hotels have focused on how the affiliation chains have helped them meet these challenges. The city LHW hotel is viewed as one of Nordic’s best hotels and the Hotel Manager explains that they get many applications: *“Being a member of Leading confirms that it is good. We have a stream of international applicants. I think we receive about five to ten applications every day.”* (ibid.)

The R&C hotel in Northern Europe also experience better recruiting opportunities due to the Relais & Châteaux brand, and recruiting was one of the reasons for why the hotel applied to a membership with the affiliation. The CEO explains that the staff uses the Relais & Châteaux name on their resumes later on. (CEO, R&C hotel, Northern Europe. 2017) The Hotel Manager of the rural DHHS hotel says that *“... many people wish to come to a Relais & Châteaux hotel to be a chef. This is something we don’t get at De Historiske Hotel og Spisesteder.”* (Hotel Manager, rural DHHS hotel, Norway. 2017) He continues explaining that Relais & Châteaux was better at attracting good staff all over, however the effect was greatest for the chefs, because the waiters have to speak Norwegian. (Hotel Manager, rural DHHS hotel, Norway. 2017)

It is important to note that the interviewed hotels feel that it is easier to attract people because of the value of the affiliations’ brand. None of the three affiliations do anything actively to help their members with recruiting. *“Leading Hotels of the World has an ‘open position’ place on its website. But the affiliation is not building a world wide HR platform.”* (Sales and Marketing Manager, design LHW hotel, Germany. 2017) the Hotel Manager explains that he wish Leading Hotels of the World could do something more within recruiting: *“A lot of young people switch job every one or two years. It would be nice if we could offer these people a job somewhere around the world at a Leading hotel.”* (Hotel Manager, design LHW hotel, Italy. 2017) Relais & Châteaux has a career page: [Careerpage.multiposting.fr](http://Careerpage.multiposting.fr), 2017. De Historiske Hotel og Spisesteder does not have a recruiting platform.

Since the affiliation chains do not actively help the hotels with recruiting, the network between the members is often used instead, which digs into H3: *Global affiliations give access to different pools of information to a higher degree than local affiliations*, where the internal information flow allows for recruiting purposes. In Leading Hotels of the Word the members exchange staff. *“We do exchange staff, but to a smaller degree. It is usually between the Scandinavian hotels.”* (Hotel Manager, city LHW hotel, Nordics. 2017) It seems to be more used in

Relais & Châteaux, particularly to help each other in the peak seasons: *“Many exchange staff, so when we have a low season we exchange our staff with hotels with a peak season.”* (CEO, R&C hotel, Northern Europe. 2017)

It seems that the greatest effect of recruiting and exchanging staff is with Leading Hotels of the World and Relais & Châteaux. The Director from the Industry Association further emphasizes the results above: *“You know that this is a luxury hotel and people will come here. Then staff wants to work her as well. Then it is easier for this hotel to recruit. A hotel by the highway versus a five star hotel - what do you think is the most fun? The better the hotel, the better are the applicants.”* (Director, Industry Association. 2017)

The gain *Easier to Recruit and Exchange Staff* will have the highest effect for hotels that are located in a rural area where it is hard to attract people in the first place. When looking at hotels with different ratings, it can be argued that hotels with a high rating that targets the luxury segment will already be better at attracting new employees than other hotels, and the gain is less relevant.

**3.4.9. Allow to Charge Higher Prices**



**Figure 16: Allow to Charge Higher Prices Gain, own making.**

One important benefit is allowing the hotels to charge higher prices. Some of the interviewed hotels say that they were able to increase prices as a direct effect of the membership. *“The Relais & Châteaux brand gave an expectation and we could set higher prices... We could charge pretty neat prices.”* (Hotel Manager, rural DHHS hotel, Norway. 2017)

However, most of the increase in price is a result of other factors. First, the hotels explained that the membership increased the hotel’s service and quality level, which made it easier to ask for higher prices. *“An important part of being a Leading Hotels of the World member was that the standards are very high, and to see how we did compared to other hotels. This is important for our price philosophy. Now we can have higher price standards, which we didn’t have before”* says the Hotel Manager and underlines that they for sure changed their rates after joining Leading Hotels of the World (Hotel Manager, design LHW hotel, Italy. 2017). The Hotel Manager continues by explaining that he does not know by how much they increased the price, but: *“The most important part is to have a balance between the price and the quality of the stay”* (ibid.). Also Hotel Manager from the suburb DHHS hotel in Norway confirms that the service and quality focus the hotels has made them able to charge higher prices. However, he also emphasizes that it is not necessarily De Historiske Hotel og Spisesteder that allows for this ability.

The second factor that makes it possible to charge higher prices is the new segments. As explained in *Access to New Segments*, the hotels reach a new audience. *“We need the international travelers to be able to charge high*

prices” the Sales and Marketing Manager from the design LHW hotel in Germany explains (Sales and Marketing Manager, design LHW hotel, Germany. 2017). She adds that the design LHW hotel in Germany will be priced as one of the 10 most expensive hotels in Germany, something that would not be possible without the new segments the hotel reach via Leading Hotels of the World.

The Hotel Manager at the city LHW in the Nordics also argue that Leading Hotels of the World helps the hotel increase the prices. *“It is a challenge in our city. The hotel room prices in the Nordics are way too low. The price level has been constant - actually it has been negative growth the last 10 years. This is hard for us because the costs keep increasing ... But because we have so much international traffic, our prices don’t scare people away. Internationally, our prices are good”*. (Hotel Manager, city LHW hotel, Nordics. 2017) The three affiliation chains differ in their effect on prices. It seems like Leading Hotels of the World and Relais & Châteaux have a higher ability to increase prices due to the fact that the global brands are more prestigious and attract customer segments, which include people with a higher purchasing power as presented in *Access to New Segments*.

A secondary source supports that particularly Leading Hotels of the World helps drive prices: *“Hotels with a membership of Leading Hotels of the World in countries all over the world earned more Revenue per Available Room (RevPAR) compared to other luxury hotels. This was the case especially for properties within the countries of France, the United Kingdom, the United States, China and India.”* (MosPitality.com, 2015) Hotel Manager from the rural DHHS hotel also states that: *“We were more expensive when the rural DHHS hotel was a part of Relais & Châteaux than now [with De Historiske Hotel og Spisesteder]”* (Hotel Manager, rural DHHS hotel, Norway. 2017), which implies that the hotel is not able to charge as high prices with De Historiske Hotel og Spisesteder.

The gain *Allow to Charge Higher Prices* is connected to the increase in quality and service that the hotel must make in order to be a member of an affiliation. Conclusively, the member hotels of the international affiliations have had the ability to increase prices due to the increase in standard, but De Historiske Hotel og Spisesteder has not given its member hotels the same ability.

When looking into how affiliation chains allow hotels to increase prices, it helps understand the proposed relationship of *H4: Quality, service, brand affiliation, and location are the main drivers of room prices and value of hotels in hotel affiliation chains*. It indicates that hotels with high quality and good service can increase prices and drive more value to the hotel. This is an effect from being connected to the brands. Hence, the findings suggest that quality, service and brand affiliation are three main drivers of room prices and value. Location is not a reason that any of the interviewed hotels have mentioned. The Senior Revenue Coordinator at resort LHW hotel in the UK explicitly says that: *“Location was certainly not a factor.”* (Senior Revenue Coordinator, resort LHW hotel, UK. 2017)

### **3.5. The Degree of Opportunism**

As proposed in the theoretical framework the hypotheses of *H6: The higher the transaction-specific investments the higher the opportunism will be from the affiliation chain* proposes that the affiliations will act in an opportunistic manner to different degrees. When analyzing opportunism, one must bear in mind that the costs

and transaction-specific investments affect the degree of opportunism. As can be seen in the section *Membership Costs*, the costs are lowest for De Historiske Hotel og Spisesteder and highest for Relais & Châteaux. The costs for Leading Hotels of the World are not known, but it has been made explicitly clear from all their member hotels that the membership is highly expensive. The theory predicts the opportunism to be the highest in the most expensive affiliations and vice versa.

Starting off by exploring Leading Hotels of the World, it becomes clear that it is a two way street: *“It’s not like we’ll do everything for you. We are not the perfect solution, I will admit for certain hotels, that want no control over their property, I think we’re the great solution for those hotels that want to really control the property and own how it’s communicated and we work with them to perfect the communication. But it’s important to realize that Leading is very wonderful if you’re willing to work with us and see the power of the brand. It doesn’t work well for hoteliers that have the expectation that we will do everything for them.”* (Manager, LHW. 2017)

At the same time the Hotel Manager explains that Leading Hotels of the World plans the overall strategy and that they do not interfere with the issues of the individual hotels. *“We are very individual, and we wish for them to prioritize us more... We know it’s the best hotels who gets prioritized... We wish to be seen more [by Leading Hotels of the World].”* (Hotel Manager, city LHW hotel, Nordics. 2017)

According to the Sales and Marketing Manager at the design LHW hotel in Germany it is very dependent on the member hotel’s own effort how much they get in return on their membership. She emphasizes that the affiliation chain does not take any initiative and the members must be highly proactive. Also the Hotel Manager at the design LHW hotel in Italy supports the claim that members need to be highly proactive in order to get attention from the affiliation and that there are areas, such as recruiting, where the hotels are left very much on their own even though they very much desire guidance.

Combining the findings with the fact that the membership requires a 5-year binding contract, it suggests that Leading Hotels of the World works in a highly opportunistic manner. As previously mentioned, this exact behavior also influenced the resort LHW hotel in the UK to terminate their membership. The termination was based on the fact that the affiliation did not act on hotel’s attempts to drive more business, conference or golf guests to their hotel.

Looking at Relais & Châteaux, the R&C hotel in Northern Europe and the R&C hotel in Switzerland argue that they feel like a part of a smaller affiliation: *“Relais & Châteaux is relatively small compared to other affiliation chains.”* (CEO, R&C hotel, Northern Europe. 2017) And Head of Sales the Head of Sales from the R&C hotel in Switzerland adds: *“The chain pays very close attention to its members.”* (Head of Sales, R&C hotel, Switzerland. 2017) Their viewpoints then differ a bit due to their differences in location, where the CEO from the R&C hotel in Northern Europe argues that the focus is not in Northern Europe and that the bureaucracy makes the communication with the affiliation highly complicated: *“It’s still a very French organization and some of the things are very complicated. It’s in the communication from them, it’s annoying, difficult and bureaucratic.”* (CEO, R&C hotel, Northern Europe. 2017)

The Hotel Manager of the rural DHHS hotel contributes to the degree of opportunism at Relais & Châteaux: *“There is a big sense of freedom. You have to pay your bill and you get tested, and there’s a short way out if you don’t keep the quality level.”* (Hotel Manager, rural DHHS hotel, Norway. 2017) It seems as if opportunism does exist at Relais & Châteaux, which can be seen through their communication style. It is rigid and not member focused. Furthermore, there is a short way out, which also adds to the opportunism. But at the same time the affiliation chain makes the CEO and the Head of Sales feel like they are part of a small affiliation in a positive way, which argues against opportunism.

As mentioned before, De Historiske Hotel og Spisesteder has a network built on fewer, stronger ties, which also can be seen in the degree to which the affiliation chain exercises opportunism. The board member at DHHS explains: *“We are a headquarter of competencies in all sorts of things. We try to help everybody as well as we can. We always get in touch with specialists if there is something we cannot answer.”* (Board member, DHHS. 2017) This strongly suggests that the opportunism at De Historiske Hotel og Spisesteder is very low. The affiliation is willing to go out of their way and get in contact with specialists to consult their members, which is in sharp contrast to the attitude of Relais & Châteaux and Leading Hotels of the World.

When talking to the member hotels, they reveal that there might be a need for a little more control: *“We wish there were a little bit more things controlled by the chain and more guidelines laid by them.”* (Hotel Manager, rural DHHS hotel, Norway. 2017). Hotel Manager at the suburb DHHS hotel emphasized: *“To get something from De Historiske Hotel og Spisesteder you must contribute. You have to join the package deals and be proactive to make yourself interesting otherwise you disappear.”* (CEO, suburb DHHS hotel, Norway. 2017)

Conclusively, the analysis suggests that the opportunism is highest at Leading Hotels of the World, lower at Relais & Châteaux and lowest at De Historiske Hotel og Spisesteder, which corresponds to the transaction-specific investment level and costs associated with memberships in the affiliations.

## 4. Discussion

The discussion starts off by section *Reflecting on Costs and Gains* with the aim of discussing the cost and gains and assessing the profit opportunities in the three hotel affiliation chains. The following section is a discussion of the strategic fit between hotels and affiliation chains based on the last hypothesis formulated in the theoretical framework section: *H7: The strategic fit between the hotel and hotel affiliation, the gains from economies of scale and threat from opportunism are relevant to consider when choosing a hotel affiliation chain.* Lastly, the ability to generalize the findings will be discussed.

### 4.1. Reflecting on Costs and Gains

This section will discuss the costs and gains with the aim of later on discussing the profitability.

The profit opportunities will be simply explained by an illustrative profit equation. Naturally, if the gains of a membership are greater than the costs, then the membership is profitable for the hotel. It is important to note that the gains listed in Figure 17 are not only revenue enhancing gains, but also gains that lead to a cost reduction. The Figure is therefore just to illustrate how the costs and the gains affect the profitability of the membership and summarize the findings of the analysis:

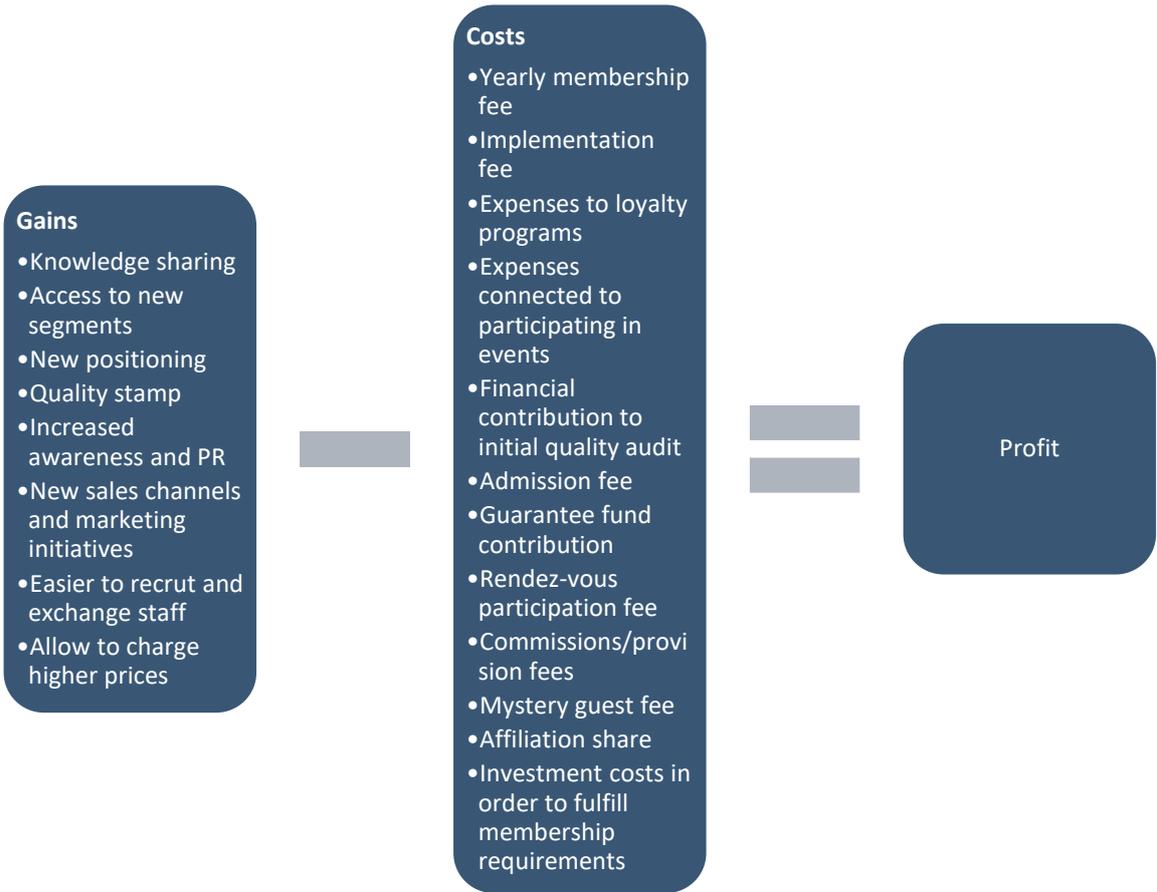


Figure 17: Profit Equation, own making.

## Costs

The analysis of costs in section 3.3 *Membership Costs* did take the transaction-specific investments into account. This discussion on the other hand, revolves around the process of prioritizing, which criteria to live up to and the additional costs that follow the membership besides application fees and the membership cost as well as discuss.

In the analysis it becomes clear that the demands to the hotels are many. The interesting part is how to determine which criteria to live up. The city LHW hotel in the Nordics explains how they prioritize the costs the membership requires: “... Especially when considering staffing, Leading requires that there’s always a person at the door to open it for you. But we have one person at the door, and when he is driving guests or carrying luggage he is not at the door. So we choose to lack on those demands. So if the quality control comes, and he’s not there, we don’t get points awarded for it... It’s very tough international standards... It’s hard to find staffing for it and very expensive in Norway” (Hotel Manager, city LHW hotel, Nordics. 2017)

The Hotel Manager elaborates on many other aspects where they do not fulfill the criteria for Leading Hotels of the World. To the city LHW hotel it is a rough cost-benefit analysis that determines what criteria to fulfill to save costs but still allow them to live up to the required 85% of the membership requirements.

CEO of the R&C hotel in Northern Europe shares the perspectives of the Hotel Manager of the city LHW hotel in the Nordics and reveals where the R&C hotel in Northern Europe is lacking on the facilities: “One cannot be the best at everything. We are not there yet when it comes to conferences, they are taking place at a very high level nowadays.” (CEO, R&C hotel, Northern Europe. 2017) Apparently, the hotels perceive the criteria as something they choose to live up to or lack on. This questions the effect of the criteria - the affiliations use them for steering and ensuring the quality of their members and present a portfolio of certain standards. But with the perspectives from the hotel managers, it indicates that the criteria to some extent do not necessarily lead the quality of the hotels in all cases. On the other hand, this explains why there is a minimum criteria level the hotel has to live up to, but still points to the fact that the effect of the criteria is decreasing if the hotels do their own cost benefit analysis of what to live up to and what to lack on.

The rural DHHS hotel felt the same pressure when they were a Relais & Châteaux member: “With Relais & Châteaux it was challenging to run the restaurant.” (Hotel Manager, rural DHHS hotel, Norway. 2017) At the rural DHHS hotel they assessed that they could not live up to the challenge of running the restaurant at that level, which ultimately meant the criteria were too much for the rural DHHS hotel.

It becomes clear, that hotels must assess where to invest and where to lack on the demands from the affiliation chains in order to avoid too high transaction-specific investments.

In addition to this, the perspective that is needed is the fact that it can be really challenging to figure out on beforehand where to lack and where to invest - and to which level. The CEO compared it to the process of getting a Michelin star; it is a struggle to figure out which criteria are most important and to know when the necessary level has been reached. For hotel managers who has no prior experience with affiliation chains, it can take years to qualify for a membership, which ultimately must be taken into account as well when assessing the total costs.

Turning to additional costs, an expense that did not show in the analysis of the membership costs are expenses related to staffing. When the interviewed hotels reflected on their main cost drivers, staff was always mentioned to be one of the largest expenses for hotels operating in the luxury segment. The analysis showed that it is hard to find staff with a high skill level. To find the right staff is one thing, but to keep the staff at the required level is expensive.

This was the case for Kameha Grand Hotel in Bonn, Germany. The manager explains to MosPitality.com that one of the main reasons for terminating the membership with Leading Hotels of the World was: *“The constant regulation of keeping high standards. These resulted in a great amount of stress for the management, as well as the staff. Staff had to be trained on a constant basis in order to be up to date on the newest innovations. This resulted not only in stress and regular training courses for the employees, but in additional costs for the hotel.”* (MosPitality, 2015).

The analysis primarily looked at what have to be done to fulfill the membership requirements. But most hotels have to invest time and increase staffing to reach the membership requirements. The necessary changes to reach a higher service and quality level are costly. Many of these costs can be viewed as one-time investments, such as refurbishment of the rooms, however the hotels have to expect maintenance costs to sustain the high quality level.

Conclusively, the individual hotel must assess where to invest and where to lack when preparing for a membership, and not only consider the direct costs of the membership, but also other expenses it might cause, such as increased staffing and maintenance expenses.

#### **4.1.1. Gains**

Nine gains were identified in the analysis. The analysis shows that all three affiliations offer the nine gains, however to different degrees. The gains have been challenging to differentiate from each other and categorize. Furthermore, it has proven difficult to make the hotel managers address more specifically what it is exactly they gain from the objectively highly expensive memberships.

Everybody in the industry, that the authors have been in contact with, use the same top of mind expressions when talking about the gains: Increased quality and service standards, brand value and the ability to target international segments experience. But when they have to elaborate on the gains, it becomes highly difficult.

The question that arises is: How come all these superior luxury hotels are members of hotel affiliation chains with their well-educated owners and managers if returns are not quantifiable? Turning to the theoretical framework, it becomes clear that the difficulty to express what exactly the gains are could be based on the assumptions of the Resource-Based View. Recall that the assumption of a sustainable competitive advantage is based on three assumptions with causal ambiguity being one of them. The causal ambiguity means that the hotel managers would not be aware of what the connection between the affiliation chain membership and the gains from it would be, because it is a source to their sustained competitive advantage.

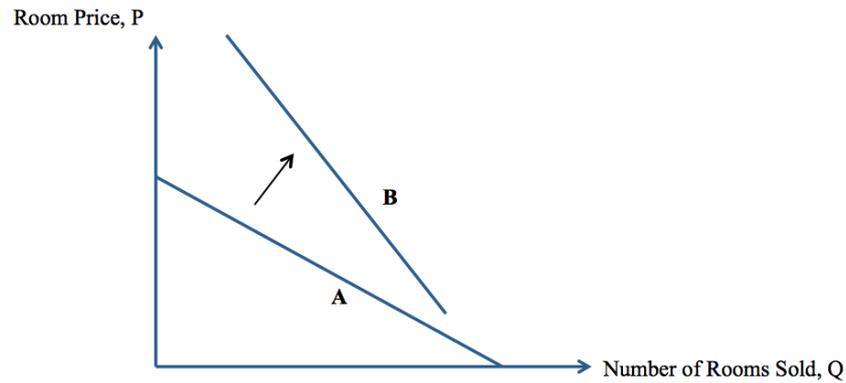
Throughout the interviews, it became clear the hotels would most definitely not like to terminate their membership even though they could not quantify what they gained from it. If the hotels were able to more explicitly explain the causal link and thereby possibly quantify the gains, the assumption of a knowledge balance would be violated and the competitive advantage would no longer be sustainable. This assumption helps explain the question that was raised in the previous paragraph.

Having said this, one must also bear in mind one of the other reasons for a sustainable competitive advantage, which is obtaining the resource through unique historical conditions. This could hold true for members such as the city LHW hotel that has been a member of Leading Hotels of the World since the 1970ies or the R&C hotel in the UK that became a member of Relais & Châteaux in 1950ies. Having become a member under certain historical conditions is ensuring that the competitive advantage is sustainable and this might even have occurred without the owners being aware of it. This would mean that the assumption of causal ambiguity and unique historical conditions would both be in play and ensure the sustainability to an even higher degree.

Turning to economic theory on supply and demand, it becomes clear that a risk of increasing the price as proposed as a gain, lies in the risk of decreasing demand. The room revenue is a function of the room price and the number of rooms sold. The demand curve A in Graph 3 on the following page, shows that when the price increases demand decreases. However, it can be argued that the high-end segment the hotels get access to via an affiliation is willing to pay more, and are less price sensitive. Hence the demand curve shifts outwards and is steeper, as seen on curve B. An increase in price will therefore not have as big an effect on the demand. (Kemp, 1998)

The revenue management theories referred to in *Theoretical Framework* argues that it is important to consider the guests' price sensitivity. This will allow the hotel to segment the customers hereafter and achieve efficient revenue management. The hotels should therefore consider by how much they can increase prices before it will negatively affect the demand of rooms. Moreover, revenue management theory also argued that only hotels living up to a certain quality standard are able to exercise the potential premium price point.

Conclusively, this discussion emphasizes how important it is for a hotel considering joining an affiliation to do extensive research on their needs, current position, and desired position. The hotel then has to match the needs with the gains that can be obtained in the specific affiliations and bear in mind that the gains play out differently depending on the hotel's existing capabilities and resources.



**Graph 3: Demand Curve, own making.**

The design LHW hotel in Germany did exactly this: *“What we did was a detailed market analysis of our city ... we found out that we need the international travelers to be able to charge high prices.”* (Sales and Marketing Manager, design LHW hotel, Germany. 2017) They wanted to position themselves in the luxury segment, however the market analysis showed that it could be hard to charge high prices if the hotel only reached the German market. Therefore, it was crucial for the hotel’s ability to charge high prices to join a global affiliation. Based on this, they assessed that Leading Hotels of the World best met its needs. (ibid.)

#### 4.1.2. Profit Opportunities

The discussion of the costs and gains of a membership winds up in the question: Is it worth it? The authors have been successful in finding the specific costs for two of the affiliation chains. When asking the hotels how they perceive the profitability of the membership, they find it hard to answer: *“As long as we don’t ask the question ‘where did you hear about us?’ it is hard to quantify the gains. We don’t get many booking directly from Relais & Châteaux, but the guests know about Relais & Châteaux and then books directly [through the R&C hotel in Northern Europe] because they have seen us via Relais & Châteaux.”* (CEO, R&C hotel, Northern Europe. 2017)

The Hotel Manager from the city LHW hotel adds: *“It’s very expensive. It’s hard to put a finger on everything that we get back. But yes, I would say that it’s expensive. I think it’s expensive compared to what we get back”* (Hotel Manager, city LHW hotel, Nordics. 2017). The Hotel Manager revealed that the hotel is still a member of Leading Hotels of the World because of the access to an international luxury segment. The hotel has been a member since 1970ies. Therefore, it seems like the gains overshadow the costs, because the hotels get access to something that they would never get anywhere else. The return on the membership is evidently hard to estimate, but the hotels still consider the value to offset the costs.

The Director of the Industry Association confirms how a hotel needs to consider the different aspects of the costs and the gains when joining an affiliation. According to the Director every hotel should ask themselves: *“What is my average [room] price? What is my variable costs? How many additional rooms will it take? Which price does it take? Is it realistic?”* (Director, Industry Association. 2017). The answers to these questions should end in a NPV

analysis, where the hotels assess which room prices they can charge to cover the transaction-specific investments and the costs of the membership.

To estimate the room price the hotels have to evaluate how much they will gain from the membership. The Director argues that a membership with an affiliation chain can never be supported from an economic perspective. She uses Leading Hotels of the World as an example. *“Hotels spend many millions. From a pure economic perspective it can never be earned back. So if you make a profitability calculation, then this is just love to the industry. The pride and the opportunity to be in the top tier league. It’s nice if it’s profitable, however there are many other places you can invest your money and get higher returns.”* (ibid.)

How profitable a membership with an affiliation chain is, is also discussed by the Hotel Manager of the Quality Hotel in Norway. He argues that a hotel like the city LHW hotel pays too much compared to what they gain from it. He further explains that he believes that: *“If they [the city LHW hotel] choose to become a member of our [Nordic Choice Hotels] non-brand portfolio they would get increased revenue growth and a significant reduction of costs.”* (General Manager, Quality Hotel. 2017)

However, he also argues that a hotel would never be able to stay completely independent because of the high costs. However, he ends the argument with: *“Hotels with a different concept that does not fit into a [franchise] chain will not gain anything. These hotels are often members of affiliation chains such as De Historiske Hotel og Spisesteder.”* (ibid)

To sum it all up, if the costs exceed the gains the profitability will be negatively affected, which can be explained by either:

- The economies of scale are not large enough,
- The affiliation’s services and activities are not important enough for the hotel or not relevant for the hotel, or
- The transaction costs exceeds the gains.

The following section will look into economies of scale and which services and activities that could fit what kind of hotel to ensure the strategic fit and thus positively affect the profitability.

#### **4.2. Finding the Strategic Fit Between Hotels and Affiliation Chains**

Summarized, the analysis and discussion of the cost, gains, and the opportunity of profit makes it clear that each hotel has to assess what it wants from a membership. The costs are high and the gains are hard to estimate, and it is therefore important to find the affiliation with the overall best strategic fit with the hotel. Hotel Manager from the rural DHHS hotel explains that: *“Relais & Châteaux didn’t give us the national network we wanted or the purchasing agreements, which made it hard to stand alone. The match with De Historiske Hotel og Spisesteder is better for us than Relais & Châteaux. We would rather lower our quality to match the customer’s needs and to get a better economy.”* (Hotel Manager, rural DHHS hotel, Norway. 2017)

Economies of scale have been found in the affiliation chains and it lowers the proportion of fixed costs as explained in the *Theoretical Framework*. This is highly interesting and is something that should be kept in mind when discussing the pros and cons of a membership. Furthermore, it was indicated in the analysis that the lowest degree of opportunism is present in the affiliation chain with the lowest transaction-specific investment, and the affiliation with the highest transaction-specific investment has the highest degree of opportunism. Combining this indication with the hypothesis: *H7: The strategic fit between the hotel and hotel affiliation, the gains from economies of scale and threat from opportunism are relevant to consider when choosing a hotel affiliation chain*, the following section explores the discussion of opportunism versus gains for each of the affiliation chains to indicate what could be a strategic fit.

#### **4.2.1. Leading Hotels of the World**

The results of the research shows that Leading Hotels of the World fits those hotels that seek international customers who are willing to pay for high quality standards and services. Most member hotels are located in capital cities or well-known cities, and the hotels most often have significantly more than 100 rooms.

The affiliation is for hotels pursuing a luxury quality stamp, and strives to be among the best hotels in the world and has positioned its members as superior luxury hotels. The costs connected to the affiliation are high. The hotels applying for a membership with Leading Hotels of the World are therefore recommended to carefully study their financial position as they commit to a minimum of a five year long membership.

In order to determine the strategic fit, the hotel must consider the threat of opportunism. An opportunistic affiliation chain like Leading Hotels of the World will nevertheless do less for its members, because they have already invested to be a part of the affiliation. The large investment and the five-year contract make it less likely that a member hotel will leave the affiliation and that leads to the affiliation behaving in an opportunistic manner.

On the other hand, Leading Hotels of the World evidently has many benefits to it, and using the city LHW hotel as an example, it is clear that even though the hotel does not feel like a priority member, it is still overall a satisfied member.

#### **4.2.2. Relais & Châteaux**

Relais & Châteaux fits smaller hotels that are unique in their own way and have strong locally grounded values. Relais & Châteaux position their members as homey escapes with gourmet experiences. The affiliation is a strategic match for those hotels that pursue the international luxury segment, and particularly people that care about gourmet dining. As for Leading Hotels of the World, Relais & Châteaux is an expensive affiliation to become a member of. Applicants should therefore assess whether the affiliation is the right match and if the hotels are able to pay the high fees.

At Relais & Châteaux the relationships between the chefs are strong, which could make it beneficial for hotels with advanced or ambitious restaurants to leverage the network between the chefs.

Relais & Châteaux works opportunistic in a less explicit way than Leading Hotels of the World. They make the members feel like they are a part of a smaller affiliation with little opportunism, yet the communication is not user-friendly. This indicates that opportunism is present to some degree. By not adjusting their communication in order to better communicate with their members, they also indicate that the members have already invested highly to become a part of Relais & Châteaux and therefore the affiliation is not as observant to pleasing its members on all aspects.

#### **4.2.3. De Historiske Hotel og Spisesteder**

De Historiske Hotel og Spisesteder fits well for those hotels that wish to mainly operate on the Norwegian market. Hotels that have a historical aspect or a story they want to promote will match the identity of the affiliation well. They help position its members as historical Norwegian quality hotels. The affiliation is good for hotels that need help to target the Norwegian business segment. Additionally, the affiliation is good for hotels that needs negotiation power towards the OTA's, purchasing agreements, booking systems, and help with other parts of the supply chains. The membership costs should be calculated before choosing the affiliation, however the cost level has not changed in the last 12 years and is significantly lower than for the other affiliation chains.

De Historiske Hotel og Spisesteder could be valuable for hotels interested in discussing and sharing knowledge on a more operational level. Operational knowledge sharing could be preferable for those hotels that lack experience or skills on an operational level, and desire to expand their knowledge within this field.

The member hotels strongly indicate that De Historiske Hotel og Spisesteder works hard to satisfy its members, yet it also becomes clear that the downside to non-opportunistic behavior might be that the criteria for member hotels are lowered. The member hotels were wishing for more strict guidelines from the affiliation that could ensure a common quality standard among the members.

Lastly, the ability to set higher prices is an important gain for hotels across all affiliation chains since room prices are one of the main sources of revenue as explained in section *Pricing of Hotel Rooms*. The hotels' assessment of which affiliation that allows to charge the highest price is significant for the revenue stream of the hotels.

Conclusively, it is important for the hotels to determine the balance between opportunism and gains. The affiliation chains that take high transaction-specific investments and act opportunistic might not be for hotels that demand a lot of attention from the affiliation chain. These hotels fit better with less opportunistic affiliation chains that will go out of their way to assist their members. Depending on the individuality and confidence in their own ways, the hotel must take opportunism into account when choosing an affiliation chain.

### **4.3. Analytic Generalizations**

Having analyzed affiliation chains and the interviewed hotels, the last remaining question is how relevant it is for other hotels. The interviewed hotels serve as mini cases within their own context. According to Flyvbjerg (2006), the conventional understanding of case studies points to the fact that examining single examples of a phenomenon cannot provide reliable information in a broader context.

But this conventional understanding has been repeatedly challenged by especially Yin (2004, 2014), Block (2003) and Flyvbjerg (2006) among others. Flyvbjerg (2006) adds that the conventional understanding is so oversimplified that it is grossly misleading and points to his five misunderstandings towards case studies. The misunderstandings are that 1) general theoretical knowledge is more valuable than concrete and practical one, 2) generalizations based on case studies are not possible, 3) case studies cannot be used for hypotheses testing and theory building, 4) there is a bias towards verification and lastly, 5) it is difficult to develop general propositions and theories.

When looking into how the generalization of this report can be assessed, it is important to clarify that the generalizations are not statistical and based on a large sample size like the conventional understanding perceives to be the main way of generalizing. The generalization of case studies is analytical and based on an analysis and discussion what to consider when applying for a hotel affiliation chain. (Yin, 2014)

When discussing how to generalize the findings, different modes can be used and combined. The mode of reasoning is abductive and points to naturalistic generalization by moving from cases to a case. (Block, 2003) This means that the interviews and observations done of the affiliations' member hotels serve as mini-cases. By combining the cases with the theoretical framework it strongly indicates generalization through synthesizing as well. Synthesizing generalizes by combining the findings and the theoretical framework. (ibid)

Therefore, the research theory points to the fact that by synthesizing the findings and the theoretical framework leads to the ability to generalize in a broader context. The broader context is defined as when other European hotels consider applying for a hotel affiliation chain. The analysis and discussion indicates that they should consider the cost structure, the nine types of gains, the threat of opportunism and the overall profitability of the membership.

## 5. Conclusion

This report has sought to explore what a hotel needs to consider when choosing a hotel affiliation chain in a European context. The problem formulation has been investigated by answering the five research questions, which will be presented one by one.

*How is the situation in the hotel industry today, and what are the value drivers in the hotel industry for individual luxury hotels?* The hotel industry is growing with an expected CAGR of 3,29% towards 2020. The function of hotels is changing into a place where guests spend time in the common areas. The market for luxury hotels is increasing and customers are more willing to spend money on luxury. In Norway, hotels with special concepts experience a growth. Further, the analysis indicated that the main value drivers for luxury hotels are quality, service and brand affiliation.

*What kind of investments and which costs does it take to be a member of the hotel affiliation chains?* The analysis and discussion made it clear that a membership comes with high transaction-specific investments and membership costs. The affiliations vary both in type of cost structure and on how great the transaction-specific investments are. Leading Hotels of the World charge a membership fee of 1-2% of gross room revenue. The cost structure for Relais & Châteaux and De Historiske Hotel og Spisesteder is a fixed cost dependent on the hotel's number of rooms.

*What kind of gains can potentially be realized as a member of the hotel affiliation chains?* The findings indicated nine potential gains from a membership. The gains were: Knowledge sharing, access to new segments, new positioning, quality stamp, increased awareness and PR, new sales channels and marketing, increased negotiation power, easier to recruit and exchange staff, and ability to charge higher prices. Leading Hotels of the World and Relais & Châteaux are similar in many ways and both good at gaining access to new segments. Nevertheless, Leading Hotels of the World offers more of the gain new sales channels and marketing initiatives. On the other hand, Relais & Châteaux is better at recruiting and exchanging staff. Lastly, De Historiske Hotel og Spisesteder has an advantage when it comes to negotiation power. Furthermore, the realization of the gains depends on the resources and capabilities of each hotel, meaning that not every hotel will experience the same benefits from every gain or affiliation chain.

*What is the degree of opportunism in the hotel affiliation chains?* The findings indicate that the degree of opportunism increases when transaction-specific investments increase. Moreover, the high transaction-specific investments are led by the demanding membership requirements from the affiliation chains. The findings indicated that the degree of opportunism is highest for Leading Hotels of the World and lowest for De Historiske Hotel og Spisesteder.

*How do the costs compare to the gains of the hotel affiliation chain memberships?* The results indicate that the costs are high and gains are hard to quantify. Despite the fact that the industry considers an affiliation chain membership to be unprofitable, the interviewed hotels consider the value of the gains to be worth the high costs. Hence, they argue that it is possible to shift the demand curve outwards by differentiating themselves and

thereby cover the membership costs and investments. Causal ambiguity might be the reason the memberships are not understood as a source of sustainable competitive advantage.

Summing up all the research questions to answer the problem formulation of what to consider when choosing a hotel affiliation chain. The hotels have to consider the transaction-specific investments and the membership costs. Then they have to analyze if the potential gains from the affiliations can be realized with the resources and capabilities they possess. Lastly, they have to consider the threat of opportunism when making a large investment in order to ensure a fair relation where the affiliation does not take advantage of the hotel.

## 6. Further Research

This section builds on the authors' reflections around the next step for the report. The aim of the suggestions for the further research is to improve the relevancy and the importance of the topic. The literature on affiliation chains is very limited and not recently published, which is why any contributions within the topic will strengthen the area significantly.

Three topics kept reappearing in the empirical data: Issue of recruiting, diminishing effect of star ratings and negotiations with OTAs. The hotels have problems with attracting and maintaining staff. For further research it would be highly relevant for the industry to dig deeper into this area by using theories and practices from the field of human resource management. In addition, it became clear that the hotels did not relate to their official star rating and considered it outdated. It is therefore interesting to ask the question: Can the quality stamp from affiliation chains replace the star rating system? If this holds true it could point towards affiliation chains as an even more important navigation factor than ever, which is an interesting opportunity in itself to explore. At the same time, the hotels discuss great difficulties in terms of negotiating with OTAs such as booking.com.

This report has delimited itself from researching other affiliation chains or other types of ownership. The list of affiliation chains presented in the report is not exhaustive. Hence, it would be interesting to see if other affiliation chains can offer the same gains or the same costs as described in the report. Some of the big hotel groups have luxury brands or non-brand portfolios. The brand Fairmont is an example of AccorHotels' luxury brand portfolio, or the Starwood and Marriott International's Tribute portfolio, which is a collection of independent hotels. For a Norwegian option, Nordic Choice Hotels has a non-brand portfolio as well, which could be relevant to look into if the delimitation had not been to consider hotel affiliation chains only. (Lhg.com 2017; Starwoodhotels.com, 2017; General Manager, Quality Hotel. 2017)

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