



Journal of Geography, Politics and Society

2016, 6(4), 72–76

DOI 10.4467/24512249JG.16.031.5818

MODERN STRATEGIES OF HIGHLY COMPETITIVE ORGANIZATION OF HOTEL CHAINS

Ihor Pandyak

Tourism Department, Faculty of Geography, Ivan Franko National University of Lviv, Doroshenko 41, 79000 Lviv, Ukraine,
e-mail: pandyakig@ukr.net

Citation

Pandyak I., 2016, Modern strategies of highly competitive organization of hotel chains, *Journal of Geography, Politics and Society*, 6(4), 72–76.

Abstract

Analyzed were the ways of interpreting key terms of the hotel industry, it was found that the degree of their definition accuracy is connected with the level of development of the industry. The main assets and their role were identified in the formation of competitive advantages of hotel enterprises. The human potential of the hotel business is the main source of competitive advantage and generation of economic rent. The peculiarities of competition within hotel chains in the target market were investigated. It was shown that network organization of hotel business plays a decisive role in the creation, development and control of competencies. Identified and analyzed were the main types and organizational structure of the hotel chains.

Key words

hotel chain, hotel services, brand, international hotel operators.

1. Introduction

An important feature of modern organization of hotel industry is its extremely high fragmentation. The industry is noted for developed diversified structure of hotel types as to specialization, categories, forms of the consolidated business. The global hotel industry fragmentation, its development in Ukraine reflects the nature of the business, namely, orientation to the complex structure of demand and high adaptive competitiveness of the business in the market.

The phenomenon of the hotel forms organization is the most topical and insufficiently studied in the modern theory and practice of the hotel industry.

The primary active form of organization of the hotel business in the past 40 years has been the establishment of hotel chains as a peculiar symbol of global changes in the market of hotel facilities competition. The interest shown in specific hotel chains and the strategy of their development is due to several reasons. First, this form of organization is extremely rapidly developing, the share of investment capital turnover is constantly increasing, especially in economically developed countries. The activity of the hotel industry is a kind of indicator of population welfare and the state of economy. Second,

the formation and development of hotel chains, especially international, reflects the globalization of the economy, industrial infrastructure, the entry of multinational companies into regional markets and, at the same time, the expansion of market share of the business. Third, the chainwide form of organization of hotel business is characterized by the highest potential of competition of generated intangible assets in its structure – intellectual potential.

For theoretical interpretation of the economic-institutional phenomenon such as the hotel chain, you first need to identify the definition of the term “hotel” at the level of resource provision and identify the key intangible assets for the development of sustainable competitive advantages and formation of highly consolidated forms of hotel business.

2. Evolution and definition of the concept of “hotel”, the features of the organization of hotel companies

The key term of the hotel industry “hotel” is differently interpreted in the literary sources. At the legal and regulatory level, it is an enterprise of any form of incorporation and form of ownership, consisting of six rooms and providing hotel services for temporary accommodation with mandatory other kinds of hotel service” (Закон України “Про туризм”, 1995), “a house with furnished rooms for short stay of guests” (Браймер, 1995, p. 18), “this is a building (complex of buildings) with a complex 24-hour technological process in which clients are guaranteed the provision of rooms (hotel beds), as well as additional services aimed at comfortable, convenient and safe consumption of the hotel product” (Кабушкин, Бондаренко, 2003, p. 48), “the company that provides outside people a range of services, the primary ones among which (complexing) are equally accommodation services and meals” (Кабушкин, Бондаренко, 2003, p. 26).

The comparative analysis of the definition of “hotel” in Ukrainian and post-Soviet sources finds its constricted nature, attention is primarily being focused on commercial and legal functions and in a dominant sense, the technologically functional purpose of the enterprises is emphasized. The bias of such approaches is maintained and transmitted spontaneously, despite the change in the economic system and the almost complete change of ownership from the state to individual private forms of entrepreneurship. The multiplicative nature of market forms of organization of the hotel industry has been actively manifested in the last 10–15

years in Ukraine, in particular in the consolidated forms – hotel chains, and reflects the fact of creating sustainable competitive advantages in the hotel business. In addition to the understudied practical aspects of the organization of the hotel business forms, there is a need to adjust conceptual frameworks, in particular the concepts of “hotel”, “hotel chain” and other derivative terms.

In the countries with developed conceptual basis for the development of the hotel industry (primarily the USA and Europe), the conceptual framework includes more adequately substantiated content of the key concepts. (Mehmetoglu, Altinay, 2006). In particular, the Italian scholar G. Rispoli defines the term of “hotel” as “the place (building) which ensures the production, supply and provision of accommodation services and support services to individuals who normally live outside the place of this residence” (Rispoli, 1996, p. 121). “Hotel enterprise” is defined by the author as an organization that focuses on making a profit and which manages one or more business units (commercial hotels).

In modern theories of the organization of hotel enterprises, focused on the study of factors and mechanisms of formation of competitive advantages, dominates the resource concept (Foss (ed.), 1997). According to this concept, the high fragmentation of hotel enterprises is the consequence of their adaptability to the environment, primarily determined by human resource, organizational skills of managers of the company. Human potential is the main factor, it is a source of competitive advantages of the hotel and income generation. Professional management develops the strategy of the enterprise development, it explains at the operational level the causal relationships in the business process, creates a performance culture, introduces technological or managerial know-how, thus forming appropriate characteristics to the individual hotel, group of enterprises, business philosophy.

For extremely dynamic sphere of activity, which is the hotel industry, it is important to develop mechanisms to protect the strategies embodied in the management innovations from probable copying by competitors.

The development of any type of enterprise is characterized by a combination of seven key assets: human, material, financial, technological, geographic location, organization, image. Each of the assets is important at a specific functional stage; however, the human, organizational and image assets play the key role in the creation of competitive advantages. These types of assets, due to their intangible nature, are difficult to identify and

measure by quantitative and qualitative indicators (Chen, Dimou, 2005, p. 1732).

The assessment of the use of organizational resources (selected development strategy, corporate culture, personnel management, quality control, etc.) is identified in the functional activities of the hotel as well as in the combination of each pre-specified function (Rispoli, 1996). According to the logic above, we can summarize:

the potentialities of hotels involve an effective diversification, particularly in general management, operations management, marketing, distribution, financial management, but first and foremost, they are determined by human and organizational assets of the enterprise;

- in marketing research, a company's image is of particular importance;
- material and human assets of the hotel form the basis for high quality of operating activities;
- hotel location greatly affects the hotel profits and distribution of potential services.

Each hotel enterprise generates its appropriate combination of assets that are necessary for meaningful competition. In one company, a competitive advantage can be formed on the basis of one asset, in others – on the complex combination of several assets. Organizational capabilities play a key role in the formation of effective relationships between resources and their combination in the accommodation facilities. In contemporary strategic management theory, it is the organizational capabilities that are defined as an intangible asset, which is the most difficult to borrow and imitate and is therefore the most reliable source of sustainable competitive advantage (Wiertz et al., 2004).

The hotel industry is formed from a relatively large enterprises which are characterized by the complex activity that is generated from the production, supply and provision of accommodation services and other additional related services. The efficiency of competitive solutions in the hotel industry depends significantly on the chosen model of the asset management, the temptation of quick and substantial economic effect should be balanced by the required quality and uniqueness of the provided services.

Hotel chains formed of enterprises located in different countries are united by common brand. Today, this form of organization of hotel business has become mainstream throughout the world. Most international hotel chains are global companies that attract the investors' capital in different countries, international transactions creating the main source of their profits. The priority strategy of many international hotel chains is global expansion, the

maximum coverage of the strategically important regions. However, the hotel chain is a dynamic brand which, within a certain region, absorbs and reflects in its activities the elements of local culture, local economic characteristics, maximally adapted to the regional characteristics of the market business development (Lovelock, Yip, 1996, p. 66).

3. Organization and types of structure of international hotel chains

The hotel network is unification of hotel companies and related forms of organization of economic activity in other sectors of the economy into a long-term, mutually beneficial system with characteristics of strategic management distinct from other similar networking enterprises with the aim of gaining maximum economic benefits. In hotel chains, mutually beneficial joint actions are clearly shown and are reflected in marketing, common system of information interaction reflected in a single reservation system, as well as the globally distributed network brand, which ultimately leads to strengthening the competitive position of the hotel chain and each enterprise in particular. The unification of hotels into a hotel chain provides, first of all, for the transfer of organizational competences to one another, which is eventually accompanied by creation of key factors of the hotel chain competitiveness and formation of rent (Чернышев, 2000; Филипповский, Шмарова, 2003; Чудновский, Жукова, 2006).

A distinguishing feature of the hotel chain forms of the organization of hotel business is activity in the high-class segment: 4-5 star hotels, and the need for each enterprise to comply with high standards of service quality. The advantage of the hotel chain organization of business is the ability to create, develop and control required competencies among the members.

Experts of the hotel business market, regarding the criteria for the organizational structure of hotel chains, differentiate two main types. The first type is a functional technical network, it forms the internal level, the basis of management. At this level occur processes of information exchange, interaction between hotels of the same brand. The second type is the external network, the level which includes all the partners of the chain. This level also includes partners of other brands within the association of hotel chain brands. In particular, the internal functional network of the hotel chain *Radisson SAS* is formed from the hotels under the *Radisson SAS* brand, while the network of external interaction consists of the

Rezidor SAS partners. The *Rezidor SAS* hotel chain, in turn, is part of the network merging *SAS Airlines* "which is a parent" hotel chain of portfolio-managed hotel brands *Park Inn*, *Radisson SAS*, *Country Inn* and other brands, each represented by its own concepts of development, the categorization system, the target client groups.

In the structure of the hotel chain stands out the core, the central enterprise with the function of organization of the entire network, which deals with developing the total marketing concept, establishing mechanisms of dissemination of the brand culture, support of the hotel chain brand and proposal standards (Fuchs et al., 2000).

The structure of the central core of the hotel chain often includes the company-developer with which the central hotel office interacts on issues of strategic development. The company-developer performs the functions of finding new markets, expansion of hotel chains, the search and purchase of real estate according to specific criteria, deals with reconstruction, construction of new hotels for the hotel chain, etc.; thus, the partnership with the company-developer is effected within the spectrum of issues in the property sector (Смирнова, 2005; Галасюк, 2012).

Another important aspect in the organization of activities of the hotel central office is provision of automated information exchange within the hotels of the chain in the matters of operational management. The information exchange system is provided by using the product of advanced information technologies in the hotel business, it exercises control over the reception and accommodation of guests in hotels, coordinates and optimizes the work of all personnel, provides automated managerial and financial exchange, ensures centralized network planning and easy access to all major global distribution systems.

An important element in the organization of the chain brand central hotel office is development of strategic competitive advantages of the hotel chain: components of external and internal marketing, material (tangible) and intangible components of services. The success of the organizational competence of the hotel chain is only provided by rational combination of each of these components (Fuchs et al., 2000).

Some hotel chains are formed with dual central office. In such hotel chains, the highest level of management is formed with participation of the entire hotel association the structure of which incorporates the given hotel chain. The hotel association is based on the well-known brand which is a guarantee of high quality services of the hotel chains that are

included in this hotel association. Hotel associations develop standards and bring together the individual hotel chains and independent hotels, ensuring a high organizational competence. The second level of the central office is the hotel corporation itself which provides coordination of hotels in a certain region of the world.

Building hotel chains in dual-level associations is a modern tool to gain competitive advantage. Each association is built according to appropriate concepts and unites in its structure only hotels with the appropriate brand and concept.

Individual hotel chains in the structure of the association unites enterprises in different countries and with different organizational forms: whether it is management contract, franchising, total ownership of the central hotel office of a hotel in the hotel chain, etc. The choice of organizational form is determined by economic effect and depends on location, category, hotel capacity (bedspace). In addition to hotel premises, the structure of the hotel chain may include providers of integrated logistics services, consulting companies, financial intermediaries, providers of related services, companies to support electronic reservation systems, etc. Taking into account the high quality and significant volume of services in hotel chains, the structure of suppliers can be particularly extensive. The interaction of the individual hotel and supplier in the hotel chain can be regarded as a kind of source of managerial competence which takes into account the local level of organization, the value of which strengthens the overall brand.

4. Conclusions

Thus, the monopolization of the market of hotel services by hotel chains in the regions with well-developed hotel business in the second half of the twentieth century and different organizational manifestations in their build demonstrates competitive advantages of the consolidated forms of the hotel business organization. The hotels within a hotel chain can make more efficient use of the environmental opportunities and internal resources of hotel chains in shaping managerial competences that are important in creating a high quality hotel product.

References:

Foss N.J. (ed.), 1997, *Resources, Firms and Strategies*, Oxford University Press, Oxford.

- Fuchs P.H., Mifflin K.E, Miller D., Whitney J.O., 2000, Strategic Integration: Competing in the Age of Capabilities, *California Management Review*, 42(3), 118–147.
- Lovelock C.H., Yip G.S., 1996, Developing Global Strategies for Service Businesses, *California Management Review*, 38(2), 64–86.
- Rispoli M., 1996, Competitive Analysis and Competence-Based Strategies in the Hotel Industry, [in:] R. Sanchez, A. Heene, H. Thomas (eds.), *Dynamics of Competence Based Competition*, Elsevier, Oxford, 119–137.
- Браймер Р.А. 1995, *Основы управления в индустрии гостеприимства*, Аспект Пресс, Москва.
- Кабушкин Н.И., Бондаренко Г.А., 2003, *Менеджмент гостиниц и ресторанов: Учебник для студ. спец. „Экономика и управление социально-культурной сферой“ вузов*, ООО „Новое знание“, Минск.
- Про туризм*, 1995, Закон України від 15 верес. 1995 р. No №325/95-ВР, <http://zakon2.rada.gov.ua/laws/show/324/95-%D0%B2%D1%80> [09.09.2016].
- Chen J.J., Dimou I., 2005, Expansion Strategy of International Hotel Firms, *Journal of Business Research*, 58(12), 1730–1740.
- Lashley C., 2000, In Search of Hospitality: Towards a Theoretical Framework, *Hospitality Management*, 19, 3–15.
- Martorell Cunill O., 2006, *The Growth Strategies of Hotel Chains: Best Business Practices by Leading Companies*, The Haworth Hospitality Press, New York.
- Mehmetoglu M., Altinay L., 2006, Examination of Grounded Theory Analysis With an Application to Hospitality Research, *International Journal of Hospitality Management*, 25(1), 12–33.
- Rezidor SAS Hospitality философия успеха, 2006, *Гостиничный и ресторанный бизнес*, 1, 8–12.
- Wiertz C., Ruyter K., Keen C., Streukens S., 2004, Cooperating for Service Excellence in Multichannel Systems. An Empirical Assessment, *Journal of Business Research*, 57, 424–436.
- Волков А., 2000, Forte Hotel Group: лучшая гостиничная цепь Европы, *Пять звезд*, 5, 13–15.
- Галасюк К.А., 2012, Готельні ланцюги в сучасній індустрії гостинності, *Науковий існик ОНЕУ*, 21(137), 127–135, http://tourlib.net/statti_ukr/galasjuk17.htm [29.08.2016]
- Смирнова М., 2005, Формирование гостиничной сети: концепция, методы, практика, *Гостиничное дело*, Ноябрь, 25–30.
- Трофимова И., 2006, Мировой рейтинг гостиничных цепей, *Отель*, 2(78), 28–34.
- Филипповский Е.Е., Шмарова Л.В., 2003, *Экономика и организация гостиничного хозяйства*, Финансы и статистика, Москва.
- Чернышев, А.В., 2000, *Гостиничная индустрия: проблемы теории и практики технологии управления*, ООО «Агентство рекламы «Товарищ», Москва.
- Чудновский А.Д., Жукова М.А., 2006, *Информационные технологии управления в туризме: учебное пособие*, КНОРУС, Москва.