

Partner Selection Criteria of Independent Hotel Operators in Thailand

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Abstracts

This research project aims to explore partner selection criteria of independent hotel operators in Thailand, which expects the benefits for hotel operators and hotel owners to use as a guideline for creating mutual satisfied hotel management contract and long term successful business relationship. The participants are seven independent hotel operators in Thailand. Qualitative method was used by using semi-structured in-depth interview as a data collection approach and the data were thematically analyzed.

Findings show that objective factors of hotel operator in selecting its partners mostly have similarity with the previous studies which consist of profile of owner, the business forecast and the level of management fee, location and specification of the property, and market coverage. Findings also reveal new objective factors which are owner's hotel business knowledge, owner's investment purpose, stage of the property, and period of management contract. Attitudes and perceptions of owner toward business vision of the hotel management company is the subjective factor as same as previous studies while impression during business discussion and relationship are found as a new subjective factor.

Keywords: Hotel management contract / hotel independent operator / partner selection

Introduction and statement of problem

The continually increasing number of the tourist's arrival in Thailand has been affected in more investment in tourism industry. Also, nowadays travellers expect the unique experience during their stay which traditional 5-star chain hotels cannot provide to them. This is an opportunity for new investors who interested in small to medium sized hotel investment with unique concept of style and design, and personalized service. Some hotel owners might manage the business by themselves, however, some owners that do not have time, knowledge and experience in operating the hotel might consider for hotel management company to help them.

It is difficult for small to medium sized hotel to be managed by chain hotel operator because the return or profit big hotel chain can receive from small-medium sized hotel is not worth to their operating cost. Also chain hotel operators will have their own standard and some limitation that might not be able to be flexible to the small-medium sized hotel owner preference. With these reasons, there is an opportunity for independent operating company. Management contract is a business model that many hotel management operators applied nowadays as it is a fastest way and less risk to expand the market. The companies not taking risk in owning the cost of investment, instead by return receiving the

management fee. As management contract is a business concept that most of the hotel business nowadays applied, it is important to study the best practice how to apply this concept to make the business run smoothly and create good long-term relationship between owner and operator. One of the critical processes of applying management contract is partner selection. As a hotel operator, the hotel owners and the property need to be well-selected to ensure that the property can bring expected return to the management company and will have long term agreement with potential in the market. Whenever the property managed is success, it creates strong track record of reputation and create good business portfolio to the hotel operator.

With the reasons above, there are valid reasons to study partner selection criteria of independent hotel operators in Thailand, also with the reason that there is still no research focused on this topic.

Research Objectives

The main objective of this study is to explore partner selection criteria of independent hotel operators in Thailand.

Scope of research

Hotel operator or hotel management company will be focus only independent operating company in Thailand which might own by local Thai or foreigners. Hotel owner is Developer-Owner who is a business entity that owns a hotel.

Literature reviews

1. Definition and adoption of hotel management contracts

According to Eyster (1988), management contract is a written agreement between owner and operator of a hotel. The owner provides land, building and working capital and the operator provides full service of operating and managing the hotel and get management fee as a return.

Rushmore (2002) stated that a management contract is an agreement between hotel management company and a hotel property owner. The management company will take responsibility for managing hotel and its facilities while the property owner takes responsibility for working capital, operating expenses and debt service. In return, the management company will be paid for a fee for its services and the owner will receive net income.

Rapid growth of hotel business industry and the strong competition among hotel operators to expand their business contributed in using more management contract as it is a fastest way and less risk to expand the market.

Management contracts help hotel owners who lack of knowledge and experience in hotel industry to make an investment, manage their property and maximize the return (Detlefsen, 2013). As management operators, the advantages are to rapidly help chain expansion with low cost of investment; meanwhile, hotel management operators will receive basic management fee and incentive fee as much as

the business runs well. No depreciation expense, as hotel operator is not property's owner, is also the benefit. Unlike franchise relationship that hotel operators can only provide brand identification without involving in operation, management contract allow hotel operator maintain their service and quality (Rushmore, 2002).

2. Hotel operators/Hotel management company

According to Eyster (1988), hotel operators can categorized into two types which are chain operating company and independent operating company. Chain operating company is a company provides operating and managing the property and using its trademark and reservations system, while, independent operating company provides operating and managing the property without using its trademark and reservations system.

In addition, Detlefsen (2013) divided hotel management companies into two types: brand operators and independent operators. Brand operators, which most common among large or full-service hotels, provide managing and operating service with their brand. However, there might be some properties that both brand-managed and under franchising managed by independent operators or the owners themselves. Independent operators, which most common among small and mid-sized hotels, provide managing and operating service in a broad range of hotel brands.

3. The advantage of independent operator

Two advantages of independent operator provided by Rushmore (2002) are flexibility in negotiations and individual attention.

Chain operators mostly will have size requirement of the property under their management as their organizational structure and the return that might not be worth if operate small-sized property. Also, as a chain companies have strong brand recognition and a full of experience resources, they will have strong bargaining position to the property's owner. In comparison, independent operators, which generally smaller and less formal than chain operator, are less strict in requirement and more flexibility in negotiation.

As independent operator often smaller than chain operator, the benefit is that they can provide individual attention to the property and to the owner. This advantage will be suit best for unique properties such as small-sized property or property that has unique concept or has specific target market.

Detlefsen & Glodz (2013) mentioned about Termination Clauses that brand operators tend to be stricter than independent operators in protecting themselves against termination by the owner because they have an additional interest in protecting the brand's interests.

The hotel owner managed by brand operating company might also take risk of longer initial contract terms than independent operator as it's more costly in brand conversion.

4. Hotel owners

Hotel owner's definition from Eyster (1988) has two types of owner: Developer-Owner and Owner-in-Foreclosure. Developer-Owner is a business entity that owns the hotel while Owner-in-Foreclosure is a business entity acting as a lender to a developer-owner. Owner-in-Foreclosure usually is commercial bank or saving-and-loan association.

5. Partner selection

Selecting partner is one of the key issues that affect the hotel management contract and the relationship between hotel owner and hotel management company. Right partner selection will be resulted in a success of mutual hotel management agreement.

Okumus, Altinay and Chathoth (2010) cited that the inappropriateness of partner selection can be resulted in management conflicts, slow decision-making processes, and a lack of communication. It may also effect in reducing of the profit and might obstruct the operation. Therefore, it is important to be well-selective the matching partners and develop trust, flexibility, and commitment to each other before and after the partnership formation.

In the study of Mendleson and Polonsky in 1995 (as cited in Okumus, Altinay, & Chathoth, 2010) has proposed three steps of partner selection strategic alliance. Firstly is to establish an alliance objective in order to create the mutual understanding goals that need to be achieved for the alliance. Secondly, as different alliance strategies require different partner's specific characteristics and abilities so the partner has to be well-selected in order to get the right one that can really contribute to the alliance. Lastly is to identify the appropriate partner that can surely help the company's objectives success.

According to Geringer's typology of partner selection concerning strategic alliances (as cited in Panvisavas, 2009), there are two types of criteria used which are task-related and partner-related. Task-related criteria refers to know-how and resources required by the partner to achieve the desired outcome, for example, technical knowledge, experience of management, access to marketing and distribution system. This task-related can be considered as objective factor as it can be defined by the capabilities of the partner. While, partner-related criteria is more concerned with the overall efficacy of the inter-organizational relationship, for example, compatibility between the partner's management team, the corporate culture of the partners, and a partner's organizational size or structure. The partner-related criteria can be considered as subjective factor concerned on how both parties can work together.

There is not much research on partner selection criteria of the hotel management company. However, based on Rainford (1994) and Trice (1992) (as cited in Panvisavas, 2009) from the motivation of hotel management company, the criteria might be considered that it is included of location and specification of the hotel (number of room, age, design, etc.), profile of the owner (kind of business, business track record), possibility of management fee/revenue gained, none or minimal financial investment required, and the market coverage provided. The study of Panvisavas (2009) also reveals that the objective factors of hotel management companies in selecting partners are profile of owner, the business forecast

and the level of management fee, and location of the project. The subjective factors are attitudes and perceptions of owner toward business vision of the hotel management company.

Another similar research concerning about the partner selection criteria is the study of Ivanova (2014) which focuses on the chains' requirements towards hotels in Bulgaria. The results show that the requirements hotel chain put towards their potential partners are on task-related criteria which are hotel's location and its accessibility, the characteristics and condition of the property and the possibility to adapt it to chain's requirements.

In summary, from the previous studies, partner selection criteria of hotel management company can be identified as objective factors and subjective factors, according to Geringer's typology, as below table.

Summary of partner selection criteria of hotel management company	
Task-related criteria (Objective factors)	<ul style="list-style-type: none"> • Profile of owner (business track record, financial strength) • The business forecast and the level of management fee • Location of the project and its accessibility • Specification of the hotel • Characteristics and condition of the property and the possibility to adapt it to chain's requirements • None or minimal financial investment required • Market coverage
Partner-related criteria (Subjective factors)	<ul style="list-style-type: none"> • Attitudes and perceptions of owner toward business vision of the hotel management company

Source: based on Panvisavas (2009) and Ivanova (2014)

Research methodology

Qualitative method was used to find in-depth insight information of independent hotel operator's partner selection criteria. Semi-structured interview approach is used as a data collection method to gain a deeper understanding. Because of accessibility restriction and limitation in the number of independent hotel operator in Thailand, the data were collected from seven CEO of independent hotel operators in Thailand who a main key person of the company making decision on hotel owner/partner selection. The interview was taken at the participant's most convenient place and time, with an average of 60 - 90 minutes per participant. The interview questions are open-ended questions and focus on the criteria hotel operators used to select their partners. Collected data was transcribed and analyzed by using content analysis, also with cross-analysis with reviewed literatures.

Research findings

Findings are illustrated by classified into two main categories which are objective factors or any tangible issues and subjective factors or any intangible issues.

1. Objective factors

Ten issues that were highlighted as objective factors are owner's profile or background (career background, business track record, financial status), owner's hotel business knowledge, owner's investment purpose, property's location, specification of the hotel (design, number of room), stage of the property, market coverage, period of management contract, business forecast, and possible level of management fee gain.

Owner's profile or owner's background in aspect of career background, business track record and financial status was mentioned.

"I need to know the background of the owner in order to understand their perspective. Career background can change the perspective of the people" (Participant 2)

"Profile of the owner is very important as we screen our customer. Most of our owners are business owner who do many business. If no name, we will not accept as they might not understand how to do the business and it might create problem later." (Participant 6)

Financial status of the owner for making an investment was also emphasized that it is important. Even though this criterion is not a main concern for some participants, it is better to have this information.

"It is important to know and it is not difficult to check." (Participant 6)

"We can check with the bank for the financial status of the owner in order to pre-screen. Then, we will ask the owner later, if they tell the truth, normally we will accept to work with them. However, most of the owners who are not telling the truth, we will not accept to manage." (Participant 5)

"Financial status is good to know but it is not necessary. It depends on how much information the owner tells me but I will not dig into deep detail." (Participant 7)

Owner's hotel business knowledge is also taken to consideration in order to create smooth working environment.

"The owner should understand nature of hotel business where the revenue comes from." (Participant 2)

"Having knowledge in hotel business is important for the owner. They should understand that hotel business is a long term business investment. If they do not have any knowledge, we will educate the owner and this is a job of hotel management company as well." (Participant 6)

Additionally, owner's investment purpose is also examined.

"I have concern to see the purpose in hotel investment however sometimes we do not know if it is in the case that owner might change his/her mind later. Most of the owners do this business because of prestige and to be heritage for their child." (Participant 6)

"Some owners just want to invest for asset management, invest in hotel and sell at higher

price, while some owners would like to build a sustainable business for their kids. Even though I prefer to select the owners who build sustainable business but I also do for asset management as well.” (Participant 3)

“Either to run a hotel as an investment or to give as heritage, normally the owner will tell me, or I will ask them. However, no matter what is their purpose, I just consider whether there is business potential.” (Participant 7)

Property’s location was mentioned that it is one of the selection criteria.

“We must also select the location. I most prefer the location that has business potential but no one build the business there much.” (Participant 4)

“The hotel must be in good location.” (Participant 6)

In additional, specification of the hotel such as design and number of room were also emphasized.

“The hotel must be in good construction structure and has good facilities.” (Participant 6)

“Design and specification also has impact. Room inventory might not affect much but the design will be considered.” (Participant 2)

“The hotel must have room inventory in minimum 40-50 rooms. If the number of room is too less, it is not worth to manage.” (Participant 7)

Stage of the property was also an important criterion that can help the operator determined the difficulty in managing. Stage of the hotel can be since startup the business concept and planning, under construction, already open and run the operation, or opened for long time and in renovation process.

“I prefer startup business so I can think of the whole concept since the very beginning. The best is that the owner comes to consult with us since the very beginning whether to build a new hotel or renovate the old one. Sometimes the owner did not do the good feasibility, so once they decide by themselves it does not work.” (Participant 4)

“I prefer to manage the property since the beginning step as most of the owners do not have know-how to do hotel business, and they just do what they want but it does not work to the market.” (Participant 7)

Market coverage was also cited that having the hotels in the same area or in many different locations might create business advantage and disadvantage to the operator.

“Actually it is not concern but if can choose the good wide variety of the location, it is good as it creates like a network. However, it might create difficulty in managing.” (Participant 2)

However, the hotel operators also consider about business ethics if they have to manage many properties in the same area.

“We will not manage a few properties that located in the same area.” (Participant 2)

“If there are two hotels in the same location with same market target, I can pick to manage only one. However, if they have different target market, I can take both.” (Participant 3)

Period of management contract was also another concerned criteria while some can also be flexible depends on the preference of the owners.

“The investment plan must be at least 5 years, if less than 5 years we will decline as it is not worth.” (Participant 2)

“We don’t have minimum limit how long of management contract. It depends on the owner, mostly must be 5 years. However, if owner negotiate just 2 years, it can be flexible.” (Participant 6)

Having business forecast or business potential to sell the product to the market is an important factor. The business feasibility has to show the result that the business can make a profit and worth for an investment.

“Finally, the most important thing, even we have good relationship with the owner, it really depends on the business potential whether the product is sellable to the market.” (Participant 1)

“No matter what is the financial status of the owner or what is the purpose of the owner for having a hotel investment, as long as we see that the business has potential to sell and to grow, we will manage the hotel.” (Participant 4)

Finally, as hotel management company get business return from the management fee so the possible level of management fee gained was one factor effected on partner selection process.

“Management fee gained has impact in making decision, however, the fee structure is flexible depends on the difficulty in managing the property.” (Participant 6)

Table 1: Summary of hotel management companies’ partner selection criteria: objective factors

Hotel management companies’ partner selection criteria: objective factors
<ul style="list-style-type: none"> ● Owner’s profile or background (career background, business track record, financial status) ● Owner’s hotel business knowledge ● Owner’s investment purpose ● Property’s location ● Specification of the hotel (design, number of room) ● Stage of the property (pre-opening, under construction, operating, renovating) ● Market coverage ● Period of management contract ● Business forecast ● Possible level of management fee gain

2. Subjective factors

The result shows two subjective factors which are owner’s perception towards hotel management company, and impression during business discussion and relationship.

A participant cited that if the owners have the right perception towards management company and understand the concept of management company, it can help in creating a co-operative environment.

“The owners have to understand the concept of hotel management company what we did.

Some owners strict too much with the management fee that they have to pay for us, but actually they should not. They should see the profit after deduct all operation expense and the management fee. They should see at the bottom line. If the owners understand the concept, it will be easier to work together. If they think that we are their expense, it does not work. They have to think that we are their revenue.” (Participant 4)

Another subjective factor claimed by almost every participant that it is necessary to have for their partner selection is an impression during business discussion and having good relationship. Both parties have to have the feeling that their chemistry are match, meaning in a way that understandable, sincerity and trust were existed in their business conversation.

“I need to know the owner’s heart, understand their vision and ethics. It is like we are going to getting married with someone.” (Participant 3)

“In the end I will consider the relationship as the primary concern whether we understand each other and ready to go together for the future.” (Participant 2)

“Understand each other is the most important thing. We see whether we have matched chemical.” (Participant 5)

“The criteria in selection, we see especially good relationship with the owner and having matched chemical.” (Participant 6)

However, even though in the end of the negotiation of signing the contract is not successful, the hotel operator is still willing to keep good relationship with the owner.

“In the end if we decline to manage the property, at least we are both getting to know each other and keep good relationship as a business connection.” (Participant 7)

Table 2: Summary of hotel management companies’ partner selection criteria: subjective factors

Hotel management companies’ partner selection criteria: subjective factors
<ul style="list-style-type: none"> ● Owner’s perception towards hotel management company ● Impression during business discussion and relationship

Discussion and conclusion

Findings show that objective factors or task-related criteria of hotel operator in selecting its partners mostly have similarity with the previous studies which consist of profile of owner (career background, business track record, financial status), the business forecast and the level of management fee, location of the project and its accessibility, specification of the property (design, number of room), and market coverage. In contrast, the possibility to adapt to chain’s requirements, and none or minimal financial investment required factors are not found in the findings. In the other way, findings reveal new objective factors which are owner’s hotel business knowledge, owner’s investment purpose, stage of the property, and period of management contract.

Regarding of subjective factors or partner-related criteria, attitudes and perceptions of owner toward business vision of the hotel management company is the subjective factors as same as previous studies while impression during business discussion and relationship are a new subjective factor finding. In conclusion, the partner selection criteria of independent hotel operators in Thailand are generally the same as previous studies for both objective and subjective factors. However, as this research studied only independent hotel operator and the previous researches studied with hotel chain operator so it can be concluded that the differences and new findings are because of the different type of hotel operating company. Independent hotel operator might does not have as many as specific requirements that hotel owner or property need to adapt to as chain operator does. None or minimal financial investment required also is not criteria of independent operator as the operator understands that small to medium sized hotel does not have finance as strong as the large one. Moreover, owner's hotel business knowledge, owner's investment purpose, stage of the property, period of management contract, and impression during business discussion and relationship are issues that independent operators provide concern more than chain operators.

Recommendations

As this study was focused only partner selection criteria of independent hotel operators in Thailand, further research could also study on the partner selection criteria of hotel owners. Moreover, deep detail can be studied on the perception of both parties what are the criteria they think another party selected them. Also, the topic can be explored more on the differences of the partner selection criteria of independent hotel operators and chain operators in other cultural contexts.

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